

gresham computing plc

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annual financial report 2008



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Gresham Computing plc  
Registered Number 1072032  
A public limited company incorporated in England and Wales

### Directors

E Sepkes	Chairman
AJS Walton-Green	Chief Executive Officer
CM Errington	Finance Director
JE Aves	Senior Non-Executive Director

### Secretary

C M Errington

### Registered Office

Sopwith House  
Brook Avenue  
Warsash  
Southampton  
SO31 9ZA

### Broker and Financial Adviser

KBC Peel Hunt  
111 Old Broad Street  
London  
EC2N 1PH

### Auditors

Ernst & Young LLP  
Wessex House  
19 Threefield Lane  
Southampton  
SO14 3QB

### Solicitors

Blake Laphorn  
New Kings Court  
Tollgate, Chandlers Ford  
Eastleigh  
Southampton  
SO53 3LG

### Registrars

Equiniti Limited  
Aspect House  
Spencer Road  
Lancing  
West Sussex  
BN99 6DA

### Bankers

HSBC Bank plc  
165 High Street  
Southampton  
SO14 2NZ

**E Sepkes***Chairman*

Eric, 59, is an exceptionally well known figure in the global banking community, for many years having been right at the heart of international payments, cash management and trade finance. Eric completed 38 years with Citigroup where he held various management positions, including Operations and Treasury and Cash Management, and most recently held a senior strategic role in Global Transaction Services. Eric has been involved in Payment Infrastructures since 1985, when he was responsible for managing Citibank's entry into CHAPS (Clearing House Automatic Payment System) where he was director for 12 years and Chairman for 3 years. He was Chairman and Deputy Chairman of the Euro Banking Association between 1994 and 2005. He was the founder and coordinator of the European Payments Group (formerly Heathrow Group) and was a member of both APACS (the UK trade association for payments and for those institutions that deliver payment services to customers) and the European Council. Latterly he was a member of APACS Senior Sponsors Committee for Faster Payments in the UK.

**J E Aves***Non-Executive Director and Chairman of Audit and Remuneration Committees*

Ted, aged 73 was appointed to the board in June 2001 and is the group's senior independent non-executive director. He also serves as Chairman of the audit and remuneration committees. Ted has extensive experience in advising organisations on corporate marketing and strategic direction. He was previously Chairman of the consulting division of ECM and Vice-Chairman of Benton & Bowles.

**A J S Walton-Green***Chief Executive*

Andrew, aged 45, joined the group as Chief Executive in April 2000 and has played a key role in the transformation of the group since that time. Prior to joining the group, Andrew spent 10 years in consulting and senior management positions as a Chartered Accountant: first with Ernst & Young, then as Director for e-business activities with Deloitte & Touche.

**C M Errington***Finance Director*

Chris, aged 43, joined Gresham in February 2004 as Company Secretary. He was appointed Finance Director in April 2004. Chris qualified as a Chartered Accountant with Ernst & Young and brings to the group considerable technical knowledge and management experience.

## Overview of the year

It is now a year since I joined Gresham as Chairman and it is a year that is almost unprecedented in the history of the financial services industry. Just a few months into my new role, the world economy started to tip into recession accompanied by almost daily collapses in major financial institutions. At SIBOS last September, the biggest annual gathering of international banks, which I have attended for many years, it was extraordinary to witness a number of major global banks quite literally disappearing overnight.

It is against this backdrop that I am pleased to report that the group has made significant progress in the last year. We have sold one non-core business and de-risked another; achieved a financial turnaround and traded profitably at an adjusted EBITDA level each quarter from Q2 of 2008 through to Q4 2008.

Operationally, we have strengthened our businesses with the addition of new people and increased our sales and marketing capabilities to achieve growth based on meeting the needs of our customers. The major contract with a global banking group announced earlier this month is testament to our capability in truly global markets and underlines our focus on delivering those core capabilities for the long term. Our focus is on securing new contracts of this type and establishing annuity incomes for the long term in our core markets.

We believe both our storage and core banking solutions are extremely well-positioned to capitalise on current market trends. In this new economy, real-time information about cash is of paramount importance to banks and their customers and Gresham Real-Time Financial Solutions provide the tools that give them that capability. Gresham Storage continues to deliver cost-efficiencies to customers through our ability to streamline, optimise and simplify their environments, enabling them to make better use of limited budgets. We therefore believe the future for the group is a promising one.

## Strategy

Our strategy is to focus on the provision of real-time financial solutions for the global financial services market, and storage solutions for the world's largest organisations. We will be utilising our customer relationships and partners to take these solutions out to the global market place.

The markets for real-time financial solutions and storage solutions are huge and we believe that Gresham technology is well placed to satisfy a significant part of the growing demand for both. Our confidence in our success in these areas is founded on our 40 years' of experience in providing IT applications and solutions to our blue chip customer base.

## Real-time financial solutions

### Cash reporting

One of our key areas of focus this year and moving forward has been on our cash reporting solutions, which we believe address a growing need in the market for increased control and management of cash in order to reduce risk. The Bank of International Settlements issued a report in September 2008 entitled "Principles for Sound Liquidity Risk Management and Supervision". The report highlights the need for the wider banking community to improve the management of their liquidity and risk on an intraday basis. Our cash reporting solution is currently being used by a number of the largest banks in the world to assist them in managing the exposures identified in this report and the recent turmoil in financial markets is resulting in renewed regulatory impetus.

We were delighted to report in April 2009, post year-end, a new contract with a global banking group (the "Bank") for the provision of software, services and support in respect of its cash management, payment gateway and cash reporting capabilities.

This is a strategic deal for Gresham, bringing together many aspects of our technology and know-how in the cash management and payments arena. It represents the culmination of our investment and focus in these core areas and we expect that there will be a string of successes to follow this landmark deal.

The contract has been constructed to enable the Bank to build significant annuity revenues over time by delivering added value services to their Tier 1 customer base in key market sectors. The Bank will use their own range of leading core banking solutions, enhanced by Gresham's capabilities, products and services, to deliver real-time, automated, integrated global solutions. Gresham is expected to be an integral part of the Bank's team, working closely with them to secure new revenues. The Bank and Gresham are working together to deliver solutions to the Bank's core customers, initially focused on Europe, the Middle East and Africa. Gresham's success is closely tied to that of the Bank.

### Supply chain finance

Our patent-pending Supply Chain Finance solution has been designed and built over the last three years, utilising our expertise gained through our cash reporting solutions and capabilities. We believe it is world class both in terms of innovation and performance.

In September, we announced a new strategic partnership with Quadrem, the world's largest global supply chain portal delivering on-demand supply chain services and solutions to improve sourcing, procurement, electronic invoicing and supplier relationship management. Gresham, leveraging Quadrem's on-line community of over 60,000 suppliers, is

able to offer banks the ability to provide both supply chain and supply chain financing capabilities on a global basis. The key is "certainty" when doing business on a global basis; achieving one view of the truth agreed between buyer, supplier and third parties such as banks, shipping agents etc. The supply chain network becomes a robust platform for doing business efficiently and with a high degree of certainty for all parties concerned. Since the announcement of our partnership with Quadrem, we have had strong interest from a number of banks and we are currently pursuing these opportunities.

A major Australian retailer is the third buyer now live on our supply chain financing platform. Average annual financing throughput exceeds US\$1.25bn based on the early phase of platform deployment to buyers and their major suppliers, with plans to roll-out to the wider supplier base of general suppliers already underway. Our financial return increases as the solution becomes more deeply embedded within this general supplier base. Whilst uptake in this area has naturally been affected by the world-wide economic situation, we are confident in the long term prospects for this innovative solution.

### Treasury management

In February 2008, we were pleased to announce a substantial contract win for a treasury management solution with a blue chip customer. This win followed earlier successful implementations at both Petronas and Khazanah in Malaysia, where we continue to deliver enhancements and provide support. The contract contributes to a growing maintenance stream in the region and provides an excellent credential for further work in the region.

### Storage solutions

Gresham Storage Solutions, which counts over 90 of the Global Fortune 500 as customers, has long been a key player in the global storage market, enabling customers to derive maximum benefit from their various storage technologies. We offer a wide range of solutions from writing device drivers for other vendors to streamlining, optimising and simplifying data protection environments with our Clareti Storage Director and Clareti Enterprise DistribuTape products.

Clareti Storage Director is proving to be a winning product. We have successfully developed this solution for key niche markets, the first of which was the HP NonStop market where we have successfully delivered to some of the largest companies in the world.

The second focus is the IBM iSeries market, a much larger niche, and we have now successfully delivered this to first customers, securing a Fortune 500 real estate company as a client with several prospects in banking, oil production and restaurant management in the pipeline. While we are too early in the cycle to predict what share of this market we will win, we believe that we have a very strong proposition for customers who are generally poorly served in this key niche.

We are actively engaging with Tier 1 and Tier 2 resellers and channel partners to enable us to broaden our reach to this key market globally. We are currently also in discussions with hardware manufacturers to facilitate the delivery of this solution as an appliance (hardware and software delivered as a single solution) in volume.

We therefore believe we are very well placed to benefit from the growing global need for increased storage and expect to see growth in this division through 2009 and 2010.

### IT Placement business

The Board took a decision to change the business model applicable to our IT Placement business and as a direct result we significantly reduced overheads and risk in this area. We expect revenues from this part of the group to continue to decrease significantly whilst anticipating an improved return from the new model.

### Financials

During the year we continued to invest in our three core technologies; cash reporting, supply chain finance and backup virtualisation. Alongside this we continue to invest in brand awareness and marketing focused on our core target markets for these technologies.

Group revenues were £13.9m (2007: £13.4m) generating a profit after tax of £0.03m (2007: loss after tax £2.4m) with cash at year end of £1.2m (2007: £2.3m). We report an adjusted EBITDA profit of £1.0m (2007: loss £2.2m), which includes a profit of £0.6m in respect of the disposal of Redstone Software Inc.

The impact of foreign exchange and business disposals (Redstone Software Inc and Gresham SA) on revenues and profits is presented below, at constant exchange rates from prior year:

	Group Revenues		Group Profit/(Loss) after tax		Adjusted EBITDA	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Ongoing business	13,081	12,758	(420)	(2,433)	464	(2,240)
Disposed businesses	344	665	530	13	550	70
Foreign exchange	469	—	(80)	—	(59)	—
	13,894	13,423	30	(2,420)	955	(2,170)

A significant proportion of our revenues are derived from overseas and the impact of translating revenue at constant currency rates with prior year was significant in the year, with revenue increased by £216,000 in Asia Pacific and £253,000 in North America as a result. The impact of a similar foreign currency translation on the income line was far less marked because of the lower values involved, with an overall adverse impact of approximately £80,000.

EMEA revenues were £7.5m (2007: £8.2m) with a decline of £0.6m in non-core and legacy businesses and a £0.1m decline in core as we move from license based sales to annuity based contracts. North American revenues were relatively stable at £3.9m (2007: £4.0m) after taking into account the disposal of Redstone Inc and currency movements. Asia Pacific revenues were £2.5m (2007: £1.3m) which reflects the impact of the significant implementation contract won in early 2008.

Profitability improved across each business segment, with the cost reductions from 2007 and 2008 starting to show. Central overheads were also significantly reduced arising from both changes made in 2007 and additional savings made in 2008.

In September 2008, we disposed of our testing and automation subsidiary Redstone Software Inc, generating a one-off profit of £599,000 and a net cash inflow of £409,000.

Cash at the year end was £1.2m (2007: £2.3m) representing a stable position from H1 2008 through year end to Q1 09. We strengthened our balance sheet with the sale of our freehold property in April 2009 for gross cash proceeds of £875,000. Outside of these more public transactions, we made further progress to focus the group on growth and increase our balance sheet strength. The restructuring of our IT Placement business was completed this month and whilst the new business model has led to a significant decline in the associated revenues, we are now experiencing much improved working capital, profitability and significantly lower credit risk. We have also commenced a programme to significantly reduce the group's working capital more generally in 2009.

*Note: Adjusted EBITDA calculated as Earnings Before Interest, Tax, Depreciation and Amortisation, excluding share option charges.*

### Change to Business Model

As part of our drive to increase revenue visibility and reduce reliance on lumpy licence revenue we have over the last three years begun the introduction of a revenue share model into our banking solutions division. Whilst having a detrimental effect on revenues in the short-term, we believe this will enable the company to benefit more meaningfully from the huge potential we see in these solution areas.

### Outlook

We entered 2009 with a tighter focus on our core businesses, an encouraging order book, closing out a key contract and strengthening our balance sheet in early April 2009. The current economic environment has helped us achieve solid traction with our cash management solutions. Revenues from our core business are expected to grow substantially.

I am pleased to report that business in Q1 2009 was slightly ahead of what was a good Q1 2008, with cash balances remaining stable from the year end and expected to grow. We expect 2009 to be a year of significant progress for the group across its core business.

Eric Sepkes  
Chairman  
21 April 2009

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

## Results and dividends

The group profit for the year, after taxation, amounted to £30,000 (2007: loss £2,420,000). The directors do not recommend a final ordinary dividend, which leaves the profit of £30,000 to be added to reserves. No dividends are recommended and none were paid in the prior year.

## Principal activities

The group's principal activities during the year continued to be the provision of Real Time Financial Solutions and Storage Solutions.

## Business review and future developments

The Chairman's Statement on pages 3 to 5 of this report covers the directors' review of business performance, including a view on development and its position at the year end, using performance indicators employed by the directors in monitoring the business. The statement also includes an indication of likely future developments in the business of the group.

The market, principal risks and uncertainties facing the group are discussed below.

## Financial instruments

### *Treasury policies*

The objective of the treasury team is to manage the group's financial risk; consider and where appropriate secure cost-effective funding for the group's operations and to minimise the adverse effects of fluctuations in the financial markets on the value of the group's financial assets and liabilities, on reported profitability and on the cash flows of the group. The treasury team is accountable through the finance director to the board.

The group finances its activities with cash and short-term deposits, as disclosed in note 18 and 21 to the group financial statements. Other financial assets and liabilities, such as trade debtors and trade creditors, arise directly from the group's operating activities.

Where appropriate, the group enters into derivative transactions, specifically through forward currency contracts. The purpose is to manage the currency risks arising from the group's operations. It is and has been throughout 2008 and 2007 the group's policy that no trading in derivatives shall be undertaken.

Financial instruments give rise to foreign currency, interest rate, credit and liquidity risk. Information on how these risks arise is set out in note 21, as are the objectives, policies and processes agreed by the board for their management and the methods used to measure each risk. Derivative instruments are used where appropriate to change the economic characteristics of financial instruments in accordance with the group's treasury policies.

## Financial position

### *Capital management*

Capital comprises the working capital of the group as set out in the notes to the group financial statements with the key element being cash and cash equivalents totaling £1.2 million for the year ended 31 December 2008.

The primary objective of the group's capital management is to ensure that it maintains sufficient funds in order to support its business and maximise shareholder value. The group manages its capital structure and makes adjustments to it, in light of changes in economic conditions as is discussed in note 21. To maintain or adjust the capital structure, the group may issue new shares subject always to the rules governing such new issues. During the year ended 31 December 2008, extra emphasis was placed on the group's capital management objectives, policies and processes. Due to the increased perceived risks in credit and liquidity associated with the current wider economic environment, the group has focused on converting illiquid assets, such as the assets of Redstone Software Inc and the freehold property, to liquid assets and ultimately cash. No changes were made in the objectives, policies or processes during the year ended 31 December 2007.

### *Distributions*

No dividends were paid or proposed during the year.

### Going concern

The group's business activities, together with the factors likely to affect its future development, performance and position are set out within the Chairman's Statement. In addition, note 21 to the financial statements includes the group's objectives; policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The group has sufficient financial resources together with good relationships with a number of customers and suppliers across different geographic areas and industries. The group also has access to a strong underlying cashflow arising from a long established maintenance business with long standing blue chip customers. The group offers core solutions to market that match well with both bear and bull markets, providing efficiency cost savings and working capital enhancements. As a consequence, the directors believe that the group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries, the directors have a reasonable expectation that the company and the group 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 annual report and financial statements.

### Market landscape and risks

#### Market landscape

Gresham sells solutions into a global market, primarily to large organisations and with a key focus on the financial services sub market segment.

The financial services markets are large and in a state of transition, driven principally by technology and the need to service customers differently in an ever more regulated and customer demand led environment. Whilst there are strong drivers for market change, such as regulatory pressure and customer demand, the pace of change is typically slower in the financial services market. However, once a decision to change has been made it tends to be followed through with more vigour than other markets. The result is long lived embedded technology that remains part of the market infrastructure for extended periods of time. Financial institutions are looking for trusted vendors that can offer solutions targeted at the changes they are facing, such as cash reporting and the use of real-time financial information. During 2008, the financial institution market suffered a number of serious blows, which, at extremes, drew into question their very ability to survive primarily as a result of liquidity issues arising from the much discussed credit crunch. This change to the market has undoubtedly lengthened buying cycles, introduced caution into any buyer's mind and focussed the attention heavily on return on investment, often with the need to demonstrate year one positive returns. The potential regulation of financial institution liquidity management would be a positive factor for the group since such regulation invariably shortens buying cycles.

Gresham remains well placed to deliver against this changing market landscape with its suite of Clareti Real-Time Financial Solutions since they focus primarily on liquidity management. Our solutions are designed to be hosted on an outsourced basis, reducing the initial cost of ownership and increasing speed to market. In addition, we are prepared to earn revenue based on the customer's success with the solution, which is particularly attractive when financial institutions are seeking rapid payback.

The global storage market still has to deal with the storage requirements for ever increasing volumes of data, notwithstanding credit crunch issues arising in recent periods. Issues the market faces include management of storage growth, continuous data protection and mitigating risks associated with removable storage, often with resources that are shrinking. Although, both capital and revenue expenditures have been cut back across most industries because of economic conditions, our core storage offerings continue to appeal to customers since they significantly enhance storage management efficiencies and are designed to enhance the use of existing hardware rather than require replacement.

#### Market risks

##### *The credit crunch*

Almost without exception, global markets have been severely affected by the credit crunch and great uncertainty remains in most markets. We continue to work with our customers to solve their problems in innovative and different ways so as to provide alternative solutions in a difficult market. Exactly what the long term impact of the credit crunch on the group's activities will be is hard to predict but we continue to adapt our business behaviours accordingly. The market changes in cash management and liquidity arising from the credit crunch present the group with new and enhanced opportunity and we are seeing more interest in these solutions generally. Increased regulation of liquidity compliance in the financial institution market would be positive for the group since it will assist in driving demand and shortening purchasing cycles.

*Long lead time and timing of deals*

Our target markets are dominated by truly global large organisations seeking enterprise class solutions to often mission critical issues. For example, a bank seeking to embed the use of real-time data for the first time will normally do so having carefully considered the knock-on impact that such a change will have across the whole business before proceeding. As a result, the timing of a decision to buy new technology is often difficult to predict and is predicated on the momentum of change in a particular customer, or arising from a regulatory compliance requirement. This uncertainty over decision making can impact the forecasting of revenue recognition in the financial statements, with deals falling in one period or the other dependent on customer specific issues. Gresham works closely with organisations and seeks to become a trusted provider because such status tends to bring more clarity to the buying process and reduces, but does not eliminate, the uncertainty over timing of orders. The credit crunch introduces further uncertainty into this equation, which we seek to mitigate through open discussion with customers and delivery of value based solutions addressing the core issues of cash and liquidity management.

*Global markets*

Our customers tend to operate on a global basis and are looking for a seamless service from vendors treating them as one business regardless of location. To service these global markets effectively, Gresham has established operations in key locations to service customers globally and we also work closely with partners, such as HP, Quadrem, Sun StorageTek, Tributary Systems and Wall Street Systems, to extend our global reach further. Through such partnerships and the use of centrally hosted solutions, such as the Clareti Cash Reporting Service, Gresham operates on a truly global basis in servicing customers.

*Highly competitive and dominated by giants*

Our target customers tend to buy solutions and embed them in their businesses for significant periods of time. This coupled with large market size provides significant opportunity for vendors leading to a high level of competition. Vendors in this market tend to be either very large or niche players. Over time, the niche vendors are often absorbed into the larger organisation through acquisition perpetuating the dominant position of key vendors. Gresham adopts a strategy of being a flexible niche player offering expert and innovative solutions to specific market problems to address this market risk, most recently embodied in our storage offering to the niche HP NonStop and IBM iSeries markets.

*Foreign exchange*

Operating globally and especially in the financial services and storage markets often brings with it a requirement to trade in US Dollar, Australian Dollar and Euro. This introduces exchange rate volatility risk which is mitigated where significant through the use of foreign exchange instruments.

## Principal risks and uncertainties

*Liquidity*

In the current economy, liquidity risk is something that all companies are seeking to control because access to cash has become a real driver for business compared with prior years. As a result, Gresham has taken a number of pro-active steps to mitigate and control liquidity risk, which are discussed in note 21.

*Regulation*

The financial services market is highly regulated and this regulation continues to evolve in line with the perceived risks in the market. Regulation is typically effected by government, regulatory bodies and industry bodies. Whilst such regulation is generally good news for a solution provider such as Gresham, it is possible that regulation could lead to a change in the market that limits our ability to continue selling. We keep a close track on regulation and seek to ensure that our solutions evolve slightly ahead of regulation so as to mitigate the risk of a regulator limiting our market potential.

*People*

People are key to Gresham's expertise and ability to deliver on a global basis. Retaining people and allowing them to fulfil their potential is important. Loss of key people could slow our ability to grow the business and we seek to provide rewards and job fulfilment that mitigates this risk.

*Technology*

Gresham is an innovative group that develops valuable technology and there is a risk that such technology will be made redundant through copying, further advances in technology or dominant competitive pressures. We aim to keep our technology updated so as to meet both existing and emerging requirements and remain vigilant to changes in market trends. Whilst we carefully assess whether to address emerging trends with new technology there is a risk that the market will ultimately move in a different direction leaving us with technology that no longer addresses the needs of the market.

Wherever possible we seek to protect our technology through patent applications. We also rely on trade secret, copyright and trademark laws, as well as the confidentiality and other restrictions contained in our respective sales contracts and confidentiality agreements to protect our proprietary rights. These legal protections afford only limited protection.

### Significant relationships

In the opinion of the directors, the group does not have any individually significant relationships which are critical to the success of the group's strategy.

### Research and development

The group actively reviews technical development in its markets with a view to taking advantage of the available opportunities to maintain and improve its competitive position through our own development. The group has continued to invest in product research and development during the year.

### Events since the balance sheet date

On 1 April 2009, the group entered into a new contract with a global banking group (the "Bank") for the provision of software, services and support in respect of its cash management, payment gateway and cash reporting capabilities. The contract has been constructed to enable the Bank to build significant annuity revenues over time by delivering added value services to their Tier 1 customer base in key market sectors. The Bank will use their own range of leading core banking solutions, enhanced by Gresham's capabilities, products and services, to deliver real-time, automated, integrated global solutions. Gresham is expected to be an integral part of the Bank's team, working closely with them to secure new revenues. The Bank and Gresham are working together to deliver solutions to the Bank's core customers, initially focused on Europe, the Middle East and Africa. Gresham's success, measured in revenue streams, is closely tied to those of the Bank. This is a strategic deal for Gresham and brings together many aspects of Gresham's technology and know-how in the cash management and payments arena. It represents the culmination of our investment and focus in these core areas.

On 9 April 2009, the group exchanged contracts for the disposal of its freehold property in Southampton for a cash consideration of £875,000, £87,500 payable on exchange and the balance to be paid on completion (anticipated to be May 2009). The carrying value of the freehold property was £860,000 at the date of this exchange, which taking into account the costs of the transaction gives rise to no profit or loss on disposal. The group has entered into an agreement with the purchaser of the premises to lease it back on completion (anticipated to be May 2009) at a market rent for a ten year period, with a 5 year break option.

### Employees

Each of the group's segments review strategies for retaining staff on an ongoing basis that are appropriate to the local geographic and industry economic climate. These strategies include the provision of competitive terms and conditions, administration of and matched contribution to a defined contribution pension scheme, consideration of family needs, provision of training where required and, in some cases, stock options and bonuses.

Employees are invited to attend regular meetings within individual segments throughout the group, in addition to regular group-wide communications. Performance appraisals are made annually or more frequently if required, to ensure that employees are getting sufficient support from the group (including training needs) in order to satisfactorily complete their job requirements.

### Disabled employees

The group gives full consideration to applications for employment from disabled persons where the candidate's particular aptitudes and abilities are consistent with adequately meeting the requirements of the job. Opportunities are available to disabled employees for training, career development and promotion.

Where existing employees become disabled, it is the group's policy to provide continuing employment wherever practicable in the same or an alternative position and to provide appropriate training to achieve this aim.

### Environmental considerations

The directors consider that because of the nature of the activities of the group it does not have a significant impact on the environment in which it operates. However, the group recognises the importance of environmental responsibility and seeks,

wherever possible, to reduce its environmental impact through focus on areas that it can control such as energy saving, recycling and appropriate disposal of old computer equipment and mobile phones.

We continue to look at ways of controlling our environmental impact.

## Directors and their interests

The directors at 31 December 2008 and their interests in the share capital of the company (all beneficially held, other than with respect to options to acquire ordinary shares which are detailed in the analysis of options included in the report on directors' remuneration), are as follows:

	Ordinary shares of 5 pence each	
	31 December 2008	1 January 2007
E Sepkes	88,000	—
J E Aves	10,000	10,000
C M Errington	2,268	2,268
A J S Walton-Green	792,813	677,513

E Sepkes was appointed a director on 29 April 2008. On appointment, E Sepkes had no interest in the share capital of the company.

R Glenn resigned as a director effective 31 January 2008 and AW Howarth resigned as director 28 April 2008.

On 14 January 2009, AJS Walton-Green purchased an additional 173,500 ordinary shares at 53 pence each taking his total beneficial holding to 966,313 ordinary shares, including 352,990 shares held by his wife and children.

There have been no further changes in the directors' interests disclosed above from 31 December 2008 to 20 April 2009.

## Directors' liabilities

The company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 1985. Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report. A qualifying third party indemnity provision was in force during the year and continues to be in force as at the date of this report.

Directors and Officers' liability insurance with an indemnity limit of £10 million has been purchased in order to minimise the potential impact of proceedings against directors.

## Major interests in shares

The company has been notified of the following interests representing 3% or more of the issued ordinary share capital of the company as at 20 April 2009:

	Number	Percentage Held
Gartmore Investment Management plc	9,204,342	17.42%
J O Hambro Capital Management Limited	6,400,750	12.11%
The Valentina Discretionary Trust	3,880,491	7.34%
S W Purchase	3,797,139	7.18%
M A Green	3,273,290	6.19%
Herald Investment Trust plc	2,804,100	5.31%
UBS AG London	2,668,905	5.05%
Aberdeen Asset Managers Limited	1,629,358	3.08%
Strathclyde Pension Fund *	1,601,707	3.03%

\* Disclosed position is also included within the Gartmore Investment Management plc notification.

## Supplier payment policy and practice

It is the group's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the group and its suppliers, provided that all trading terms and conditions have been complied with.

At 31 December 2008, the group had an average of 56 days purchases owed to trade creditors.

## Charitable donations

During the year, the group made a donation of £2,000 to Just a Drop, an international registered charity (1100505) that aims to provide clean, safe water and sanitation where it is most needed in the world. The donation was made as part of an initiative at SIBOS in Vienna to raise interest in the group and its chosen charity, rather than providing 'giveaways' at the show.

## Special business at the annual general meeting

The special business to be conducted at the AGM covers the directors' authority to allot shares and the partial disapplication of pre-emption rights.

Resolutions will be proposed to renew the authorities given to the directors to allot and grant rights over the un-issued share capital up to a maximum nominal amount of £880,847 representing one-third of the issued ordinary share capital and to allot and grant rights over shares for cash up to a maximum nominal amount of £132,126, representing 5% of the issued ordinary share capital, without first making a pro rata offer to all existing shareholders.

In the opinion of the directors, the passing of these resolutions is in the best interests of the shareholders.

## Additional information for shareholders

The following provides the additional information required for shareholders as a result of the implementation of the Takeovers Directive into UK Law.

At 31 December 2008, the company's issued share capital comprised:

	Number	Nominal value £	% of total Share capital
Ordinary shares of £0.05 each	52,850,890	2,642,545	100%

The company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities and for voting rights.

### *Ordinary shares*

On a show of hands at a general meeting of the company every holder of ordinary shares present in person and entitled to vote shall have one vote and on a poll, every member present in person or by proxy and entitled to vote shall have one vote for every ordinary share held. The notice of the general meeting specifies deadlines for exercising voting rights either by proxy notice or present in person or by proxy in relation to resolutions to be passed at general meeting. All proxy votes are counted and the numbers for, against or withheld in relation to each resolution are announced at the annual general meeting and published on the company's website after the meeting.

There are no restrictions on the transfer of ordinary shares in the company other than:

- certain restrictions may from time to time be imposed by laws and regulations (for example, insider trading laws and market requirements relating to close periods); and
- pursuant to the Listing Rules of the Financial Services Authority whereby certain employees of the company require the approval of the company to deal in the company's securities.

The company's articles of association may only be amended by a special resolution at a general meeting of the shareholders. Directors are reappointed by ordinary resolution at a general meeting of the shareholders. The Board can appoint a director but anyone so appointed must be elected by an ordinary resolution at the next general meeting. Any director who has held office for more than three years since their last appointment must offer themselves up for re-election at the annual general meeting.

*Significant interests*

Directors' interests in the share capital of the company are shown in the table on page 10. Major interests (i.e. those >3%) of which the company has been notified are shown on page 10.

*Change of control*

The group is party to a number of agreements which take effect, alter or terminate upon a change of control of the group following a takeover bid. In general, where such clauses are included they permit the other party to the agreement to terminate on a change of control at their option, subject to continuing to satisfy pre- termination obligations.

In the event of a change of control, if A J S Walton-Green gives notice of termination of his employment within a period of two years following the change then the group shall pay him a sum equal to one year's salary as at the date the notice was given. Furthermore in the event of a change of control, employee share options granted under the Executive Option Plan 2007 will either accelerate vesting, will be rolled-over to the acquiring company's shares or will lapse, depending on the circumstances of the change. Further details are provided in note 23 to the financial statements.

There are no other agreements between the group and its directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) because of a takeover bid.

*Power of directors to issue or buy back shares*

The directors are authorised to allot and grant rights over the un-issued share capital up to a maximum nominal amount of £880,847 representing one-third of the issued ordinary share capital and to allot and grant rights over shares for cash up to a maximum nominal amount of £132,126, representing 5% of the issued ordinary share capital, without first making a pro rata offer to all existing shareholders.

The directors have no existing authorities to buy back shares over and above the authorities conferred by, and subject to, the Companies Act.

**Auditors**

A resolution to re-appoint Ernst & Young LLP as the group's auditor will be put to the forthcoming Annual General Meeting.

**Directors' statement as to disclosure of information to auditors**

The directors who were members of the board at the time of approving the directors' report are listed on page 1. Having made enquiries of fellow directors and of the group's auditors, each of these directors confirms that:

- to the best of each director's knowledge and belief, there is no information (that is, information needed by the group's auditors in connection with preparing their report) of which the group's auditors are unaware; and
- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the group's auditors are aware of that information.

**Responsibility statements under the disclosure and transparency rules**

The directors confirm that to the best of their knowledge:

- The financial statements, prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the company and the undertakings included in the consolidation taken as a whole; and
- The Directors' Report and the Chairman's statement include a fair review of the development and performance of the business and position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the board



C M Errington  
Company Secretary  
21 April 2009

The company is committed to meeting high standards of corporate governance and as such the board acknowledges its contribution to achieving management accountability, improving risk management and ultimately to creating shareholder value. This statement explains how the company has applied the main and supporting principles of corporate governance and describes the company's compliance with the provisions set out in Section 1 of the Combined Code on Corporate Governance published by the Financial Reporting Council in June 2006 and appended to the Listing Rules.

## Statement by the Directors on compliance with the Combined Code

The company has complied with the provisions set out in Section 1 of the Combined Code throughout the year with the exception of the matters referred to below:

Provision A3.2 requires the company to have at least two independent non-executive directors. From April 2008, the company did not comply with this provision. The board is currently reviewing the need for and appointment of a second independent non-executive. The absence of a second independent non-executive director also leads to the company not complying with Provisions C3.1 and B2.1 in respect of the composition of Audit and Remuneration Committees respectively. In addition, since April 2008, the Audit Committee has not included one member with recent and relevant financial experience as also required by provision C3.1.

Provision A4.1 requires the formation of a nomination committee to lead and oversee the application of Code principles as they relate to board and senior management appointments. The company does not have a nomination committee as the board is relatively small and all directors are consulted in reaching a consensual and collective decision over board appointments. The board considers that the input from all directors is important given the size of the company and such input does not disrupt the normal operations of the board. The need for a nomination committee is however kept under review taking into account changes in the company's size, complexity and circumstances.

## The Board and its committees

### Board composition and independence

The board currently comprises the chairman, chief executive, finance director and one non-executive director, J E Aves, who the board considers is independent and the reasons for this decision are set out below.

Rob Glenn (executive director) and Alan Howarth (non-executive chairman) left the company in January 2008 and April 2008 respectively.

Eric Sepkes (executive chairman) joined the company in April 2008 and was considered to be independent on appointment by the directors. The board took into account the views of major shareholders when making this appointment and believes that the candidate was an ideal choice given both his experience in our core market and of chairing other entities. As a result of the direct identification of a suitable candidate, neither an external search consultancy nor open advertising was used in the recruitment process.

The roles of chairman and chief executive are distinct, set out in writing and agreed by the Board. The chairman is responsible for the effectiveness of the board and ensuring communication with shareholders and the chief executive is accountable for the management of the group.

The non-executive directors constructively challenge and assist in the development of strategy. They scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance.

The senior independent director, J E Aves, is available to shareholders if they have concerns which contact through the normal channels of chairman, chief executive or finance director has failed to resolve or for which such contact is inappropriate.

The board has reviewed the independence of J E Aves, including an assessment of his overall character and approach, and concluded based on the following guiding principles that he was independent throughout the year. He has not been a previous employee of the group, had no material business relationships with the group, does not participate in the share option scheme, is not a member of the company's pension scheme, has no close family ties with the group's advisers, directors or senior employees, holds no cross directorships linking him with other directors, does not represent significant shareholders and has served on the board for less than nine years. He has a nominal shareholding in the company, which the board considers appropriate without compromising independence.

J E Aves receives a director's fee for his duties as a director. His terms of appointment also provide for the payment of further fixed sums per additional day spent on group business where authorised in advance by the board. During the year, he was paid no additional fees. The board considers J E Aves to be independent.

The board keeps the assessment of non-executive independence under regular review, taking into account changes in circumstances and factors likely to compromise independence. The board is also reviewing the need for and appointment of a second independent non-executive director.

The board considers that, given the size of the group and resources available, the current dual role of the company secretary, who is also an executive director, is acceptable subject to the following safeguards. The effectiveness of this arrangement is monitored and reviewed annually to ensure that the independence of the company secretary as regards corporate governance responsibilities is not compromised. The appointment and removal of the company secretary is a matter for the board as a whole.

### Operation of the board

The board is responsible to shareholders for the proper management of the group. A statement of the directors' responsibilities in respect of the financial statements is set out on page 23 and a statement on going concern is given on page 7.

The board normally meets once a month and has a formal schedule of matters specifically reserved to it for decision. These include strategic planning, business acquisitions and disposals, authorisation of major capital expenditure and material contractual arrangements, setting policies for the conduct of business and approval of budgets and financial statements. Other matters are delegated to the management board, supported by policies for reporting to the board. Presentations are made to the main board on regular occasions by the executive directors and operational management.

The company secretary is responsible to the board for ensuring that board procedures are followed and that applicable rules and regulations are complied with, and for advising the board, through the chairman on corporate governance matters. The company maintains appropriate insurance cover in respect of legal action against the company's directors, but no cover exists in the event that the director is found to have acted fraudulently or dishonestly.

The chairman and non-executive director are able to meet without executives present prior to each board meeting. The agenda and relevant briefing papers for each board meeting are distributed by the company secretary, usually a week in advance of each board meeting.

The following board committees deal with the specific aspects of the group's affairs. Terms of reference of each committee, explaining its role and the authority delegated to it by the board, are available on request from the company secretary. The committee chairmen report regularly to the whole board and are required to confirm that the committees have sufficient resources to undertake their duties.

### Audit committee

The audit committee comprises J E Aves. In the opinion of the board, the audit committee comprises only independent non-executive directors, as required by provision C.3.1 of the Combined Code.

Two of the three audit committee meetings were attended by the lead external audit partner. The role and responsibilities of the audit committee are set out in terms of reference available on request from the company secretary and are described in more detail in the Report of the audit committee on pages 16 to 17.

### Remuneration committee

The remuneration committee comprises J E Aves (chairman) who is considered by the board to be an independent non-executive director.

Where appropriate, the committee seeks independent advice from remuneration consultants and also consults with the chairman of the board. The committee is responsible for setting remuneration for all executive directors and the chairman appointed by the company, including pension rights and provision for compensation payments. The committee also recommends and monitors the level and structure of remuneration for senior management. The remuneration of non-executive directors is a matter for the executive members of the board, within limits set in the Articles of Association. The remuneration

committee consults with the chief executive concerning the remuneration of other executive directors. Further details of the role and responsibilities of the remuneration committee and its activities during the year are given in the report on directors' remuneration on pages 19 to 22.

## Appointment to the board

Appointments to the board are made on merit and against objective criteria. Care is taken to ensure that appointees have enough time to devote to the job, especially in the case of chairmanships. The board keeps under review, and takes appropriate action, to ensure orderly succession for appointments to the board and to senior management, so as to maintain an appropriate balance of skills and experience within the group and on the board.

The Code provisions require the formation of a nomination committee to lead and oversee the application of Code principles as they relate to board and senior management appointments. The company does not have a nomination committee.

The board considers the other significant commitments of non-executive directors prior to appointment, to ensure that they have sufficient time to meet what is expected of them, and keeps changes to these commitments under review. The terms and conditions of appointment of non-executive directors are available for inspection by any person at the company's registered office during normal business hours and at the AGM (for 15 minutes prior to the meeting and during the meeting).

The board as a whole keeps under review the need for a second independent non-executive director.

## Meetings and attendance

The following table summarises the number of board and committee meetings held during the year and the attendance record of individual directors.

	Board	Audit Committee	Remuneration Committee
Number of meetings held	11	3	4
Number of meetings attended:			
E Sepkes <sup>1 2</sup>	6	2	–
J E Aves	10	3	4
C M Errington <sup>2</sup>	11	3	4
R Glenn <sup>3</sup>	–	–	–
A M Howarth <sup>4</sup>	3	1	1
A J S Walton-Green <sup>2</sup>	11	3	4

<sup>1</sup> from appointment as a director 29 April 2008

<sup>2</sup> in attendance at Audit and Remuneration Committees by invitation

<sup>3</sup> to his resignation 31 January 2008

<sup>4</sup> to his resignation 28 April 2008

## Induction, training and performance evaluation

### Induction and training

New directors receive appropriate induction on their appointment to the board covering the activities of the group and its key business and financial risks, the terms of reference of the board and its committees and the latest financial information about the group.

The chairman ensures that directors update their skills, knowledge and familiarity with the group required to fulfill their roles on the board and on board committees. Ongoing training is provided as necessary and includes updates from the company secretary on changes to the Listing Rules, requirements under the Companies Act and other regulatory matters. Directors may consult with the company secretary at any time on matters related to their role on the board. All directors have access to independent professional advice at the company's expense where they judge it necessary to discharge their duties, with requests for such advice being authorised by the chairman or the company secretary.

### Evaluation of the board's performance

The board has undertaken a formal review encompassing the performance of the board as a whole, its committees and each director. In performing these reviews, criteria that are taken into account include the ability of the director to: take the perspective of creating shareholder value; to contribute to the development of strategy and identification of risks; to provide clarity of direction to management; to be a source of wise counsel; to bring a broad perspective to discussions and an understanding of key issues; to commit the time required to fulfil the role; and to listen to and respect the ideas of fellow directors and management.

The senior non-executive director, J E Aves, is responsible for, and has undertaken, the performance evaluation of the chairman, taking into account the views of the executive directors and the criteria above.

### Retirement and re-election

All directors are subject to election by shareholders after their appointment and to re-election thereafter at intervals of no more than three years.

Non-executive directors are appointed for specified terms, initially two years with the opportunity for renewal by the company thereafter. Recommendation to reappoint a non-executive director for a third term is preceded by a rigorous review by the board and takes into account the need for progressive refreshing of the board. Non-executive directors who have served more than nine years are subject to annual reelection.

The chairman has formally reviewed the performance of J E Aves and satisfied himself that his performance continues to be effective and that he continues to demonstrate commitment to the role.

### Report of the audit committee

The audit committee is responsible for reviewing the group's internal control and risk management systems, and reviewing and monitoring the effectiveness of internal and external audit. Its role includes monitoring the integrity of the group's financial statements and other formal announcements relating to the group's financial performance, reviewing significant financial reporting judgements contained in them.

The audit committee advises the board on the appointment, reappointment and removal of external auditors and approves their remuneration and terms of engagement, including developing and implementing a policy on the provision of non-audit services by the external audit firm. It also reviews and monitors the independence and objectivity of the external auditor.

The work of the committee in discharging its responsibilities includes:

- monitoring the integrity of the financial statements of the company, and any formal announcements relating to the company's financial performance, and reviewing financial reporting judgments contained in them;
- reviewing the company's internal financial controls and reviewing the company's internal control and risk management systems;
- reviewing the company's whistle-blowing arrangements;
- reviewing the need for a separate internal audit function;
- making recommendations to the board, for it to put to shareholders for their approval in general meeting, in relation to the appointment, re-appointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor;
- reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant professional and regulatory requirements;
- developing and implementing policy on engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm; and
- to report to the board, identifying any matters of which it considers that action or improvement is needed and making recommendations as to the steps to be taken.

The committee has met with senior management and the external auditors to review financial reporting at both the half and full year, including discussions as to the scope, materiality, timing and findings of the annual audit.

The committee seeks to maintain auditor objectivity and independence by reviewing and controlling the manner in which non-audit services are awarded to the auditor on at least an annual basis. The company has a rigorous policy designed to ensure

that the auditors' independence is not compromised by their undertaking inappropriate non-audit work. All significant non-audit work, and any work of a non-compliance consultancy nature, commissioned from the external auditors requires audit committee approval.

The committee formally reviews the independence of the external auditors on an annual basis and has undertaken its annual review of the nature and amount of non-audit work undertaken by the external auditors and satisfied itself that there is no effect on their independence. No non-audit services were provided in the year.

During the year, the committee considered the need for a separate internal audit function and concluded that, based on the size of the group, a separate internal audit function is not necessary at this stage, but has instituted a cyclical review of compliance with internal control procedures. The need for an internal audit function is reviewed at least annually.

The committee has reviewed arrangements by which staff of the company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters and concluded that they remain appropriate.

### Relations with shareholders

#### Dialogue with institutional shareholders

The board as a whole is responsible for ensuring that a dialogue is maintained with shareholders based on the mutual understanding of objectives.

The chief executive and finance director, and on occasion the chairman and senior non-executive director, meet with major shareholders on a regular basis, including presentations after the company's preliminary announcement of the year end results and at the half year. Non-executives are offered the opportunity to attend meetings with major shareholders and attend where requested.

The board is kept informed of the views of shareholders at each board meeting through a standing agenda item to receive a report from the chief executive and finance director, together with formal feedback on shareholders' views gathered and supplied by the company's advisors. The views of private and smaller shareholders, typically arising from the AGM or from direct contact with the company, are also communicated to the board on a regular basis.

J E Aves, the senior independent non-executive director, is available to shareholders if they have concerns where contact through the normal channels of chairman, chief executive or finance director has failed to resolve or for which such contact is inappropriate.

#### Constructive use of the AGM

The board uses the Annual General Meeting to communicate with private and institutional investors and welcomes their participation.

All members of the board attended the company's last AGM and the chairman aims to ensure that all members of the board will be available at the forthcoming AGM.

Proxy votes are counted and, except where a poll is called, the level of proxies lodged on each resolution, and the balance for and against the resolution and the number of abstentions, is reported after each resolution has been dealt with on a show of hands at the AGM.

Details of resolutions to be proposed at the AGM can be found in the Notice of the Meeting. A separate resolution is proposed for each substantially separate issue including a separate resolution relating to the report and accounts.

### Accountability and audit

#### Financial reporting

The board is responsible for presenting a balanced and understandable assessment of the company's position and prospects, extending to interim reports and other price-sensitive public reports and reports to regulators as well as to information required to be presented by statutory requirements.

### Internal control

The board is responsible for maintaining a sound system of internal control to safeguard shareholders' investment and the company's assets. The directors acknowledge their ultimate responsibility for ensuring that the group has in place a system of controls, financial and otherwise, that is appropriate to the business environment in which it operates and the risks to which it is exposed.

The board has reviewed the effectiveness of the group's system of internal controls during the year. This review covered all material controls, including financial, operational and compliance controls and risk management systems.

The company's system of internal controls is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss. Action has been taken by the board to enhance financial and other controls during the year. In addition, steps are continuing to be taken to further embed internal control and risk management processes into the operations of the business and to deal with areas of improvement which come to management's and the board's attention.

An embedded ongoing process for identifying, evaluating and managing the significant risks faced by the group has been in place throughout the year and remains in place up to the date of the approval of the financial statements. The process is regularly reviewed by the board and accords with the Internal Control Guidance for directors on the Combined Code produced by the Turnbull working party.

The processes used by the board to review the effectiveness of the system of internal control include:

- review of management reports and reports from the operational board;
- discussions with management on risk areas identified by management and the board;
- review and update of the group's policy and procedures;
- review of external audit plans;
- review of significant issues arising from the external audit;
- results of site visits carried out by members of the board; and
- annual review of the control environment and procedures.

### Control environment

The group operates within a control framework developed and strengthened over a number of years and communicated as appropriate by a series of written procedures. These lay down accounting policies and financial control procedures, in addition to controls of a more operational nature. The key procedures that the directors have established with a view to providing internal control are as follows:

- the establishment of the organisation structure and the delegated responsibilities of operational management;
- the definition of authorisation limits, including matters reserved for the board;
- the establishment of detailed operational budgets for each financial year;
- reporting and monitoring performance against budgets and rolling forecasts;
- the security of physical property and of computer information; and
- detailed financial due-diligence on all acquisitions.

## Information not subject to audit

### Remuneration committee and advisers

The remuneration is chaired by J E Aves (chairman).

The committee makes recommendations to the board, within agreed terms of reference, on an overall remuneration package for executive directors and other senior executives. The chief executive provides advice in relation to the remuneration of other senior executives.

### Remuneration policy

The group's policy on directors' remuneration for the current and subsequent financial years is that the overall remuneration package should be sufficiently competitive to attract, retain and motivate high quality executives capable of achieving the group's objectives and thereby enhancing shareholder value. The package consists of basic salary, benefits, share options, performance related bonuses and pensions, with a significant proportion based on performance and dependent upon the achievement of demanding targets. Consideration is given to pay and employment policies elsewhere in the group, especially when determining annual salary increases.

#### *Executive remuneration package:*

The remuneration committee's policy is to align executive directors' remuneration packages to support the company's business strategy whilst ensuring that rewards are market competitive. The group's share option and bonus arrangements include demanding performance targets based around share price and financial performance respectively. The performance measures are designed to closely align with shareholders' returns over the longer term. The details of individual components of the remuneration package and service contracts are discussed below.

#### *Basic salary and benefits:*

Salary and benefits are reviewed annually. Directors received no increase in basic salary for the 2008 calendar year. Benefits principally comprise private healthcare and death in service insurance.

#### *Share options:*

Share options are awarded by the remuneration committee. Options may only be granted at an exercise price of not less than the average of the mid-market price of ordinary shares on the day prior to the date of grant and, in the case of the EOP 2007 scheme, at a 10 pence premium to this price. Performance conditions are based around achievement of earnings per share increase targets for the old Executive Option schemes and fixed share price targets for the new EOP 2007 scheme. Further information concerning share options can be found in note 23 to the group financial statements.

#### *Performance related bonuses:*

The committee establishes the objectives which must be met for each financial year if a cash bonus is to be paid. The committee believes that any incentive compensation awarded should be tied to the interests of the company's shareholders and that the principal measure of those interests is the profitability of the group. The annual bonus plan generally allows for incentive payments of up to 100% of basic salary dependent on the achievement of profitability targets set at the beginning of the year. No such bonus payments were made for the year ended 31 December 2008 or 2007.

#### *Pensions:*

The company makes contributions to defined contribution schemes, usually calculated as a percentage of base salary, for which rates are individually set.

#### *Fees:*

The level of non-executive directors' remuneration is determined by the executive directors after considering the fee levels in comparable businesses. A basic fee is set for normal duties and supplementary fees are paid for any additional duties at fixed day rates. Non-executive directors are not eligible for pensions, incentives or any similar payments other than normal out of pocket expenses incurred on behalf of the business. Compensation for loss of office is not payable to non-executive directors.

#### *Service contracts:*

It is the company's policy to offer directors service contracts terminable with a maximum of 12 months' rolling notice from either side.

None of the non-executive directors have a service contract. Letters of Appointment provide for an initial period of two years, subject to review.

There are no predetermined special provisions for executive directors with regard to compensation in the event of loss of office. The remuneration committee considers the circumstances of individual cases of early termination and in exceptional circumstances only would recommend compensation payments in excess of the company's contractual obligations.

**Service contracts**

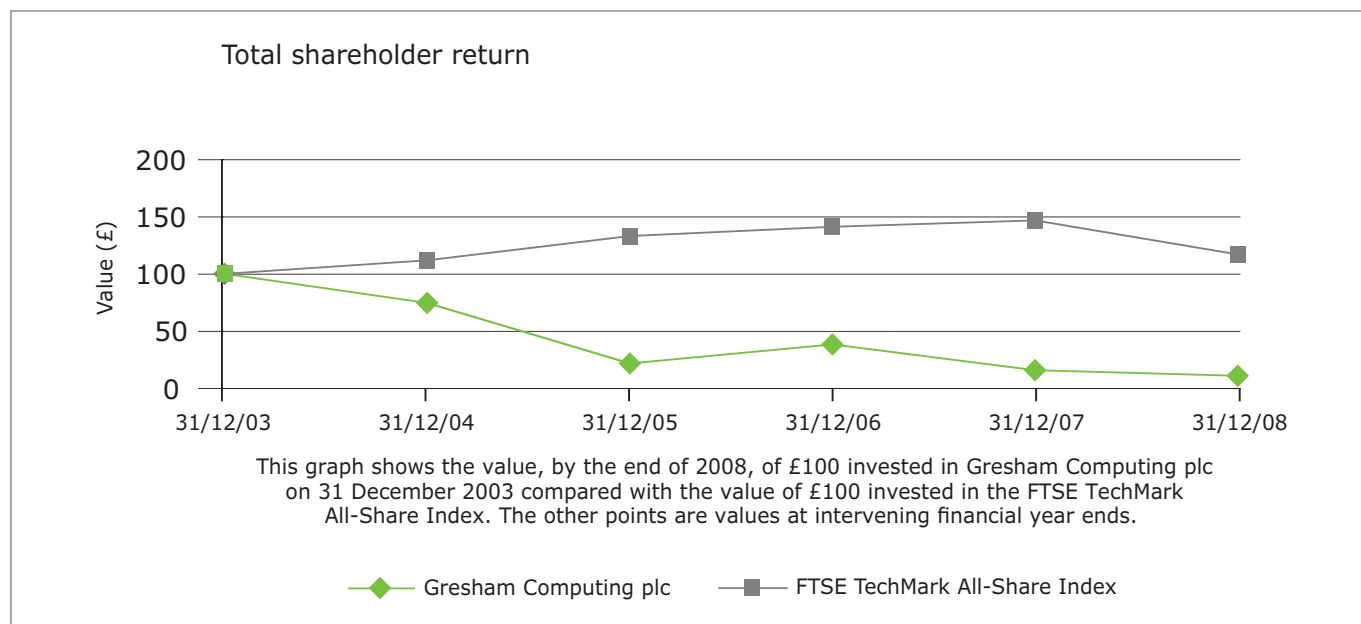
A J S Walton-Green has a service agreement dated 1 August 2000, which is terminable by 12 months' rolling notice from either side. C M Errington has a service agreement dated 1 August 2004, which is terminable by 12 months' rolling notice from either side. E Sepkes has a service agreement dated 29 April 2008, which is terminable by 12 months' rolling notice from either side.

J E Aves has a letter of appointment dated 25 April 2008 due for renewal by 24 April 2010.

**Performance graph**

The graph below shows the total shareholder return for each of the last five financial years in terms of the change in value (with dividends reinvested) of an initial investment of £100 on 31 December 2003 in a holding of the company's shares against the corresponding total shareholder return in a hypothetical holding of shares in the FTSE TechMark All-Share index.

The FTSE TechMark All-Share was selected as it represents a broad equity market index in which the company is a constituent member.



## DIRECTORS' REMUNERATION REPORT

### Information subject to audit Directors' remuneration

The remuneration of the directors is as follows:

	Basic salary and fees £	Benefits in kind £	Performance related bonus £	Total 2008 £	Total 2007 £
<i>Executive directors</i>					
C M Errington	150,000	1,825	—	151,825	152,443
R Glenn <sup>1</sup>	11,767	337	—	12,104	192,006
S W Purchase <sup>2</sup>	—	—	—	—	284,719
E Sepkes <sup>3</sup>	84,200	352	—	82,752	—
A J S Walton-Green	192,000	2,010	—	194,010	195,013
<i>Non-executive directors</i>					
J E Aves	30,000	—	—	30,000	30,000
A M Howarth <sup>4</sup>	5,000	—	—	5,000	30,000
	471,167	4,524	—	475,691	884,181

<sup>1</sup> resigned 31 January 2008

<sup>2</sup> resigned 30 November 2007

<sup>3</sup> appointed 29 April 2008

<sup>4</sup> resigned 28 April 2008, waived £5,000 of salary entitlement from March 2008 to his resignation

The remuneration package of each executive director includes non-cash benefits comprising the provision of private healthcare and death in service insurance.

### Pension contributions

Contributions paid by the company in respect of the directors were as follows:

	2008 £	2007 £
C M Errington	7,500	7,500
R Glenn <sup>1</sup>	583	17,000
S W Purchase <sup>2</sup>	—	18,563
E Sepkes <sup>3</sup>	3,500	—
A J S Walton-Green	24,000	24,000
	35,583	67,063

<sup>1</sup> resigned 31 January 2008, comparative includes £10,000 in respect of compensation for loss of office

<sup>2</sup> resigned 30 November 2007

<sup>3</sup> appointed 29 April 2008

## Interests in options

The group has two share option schemes: the Executive Scheme 1998, from which no further grants will be made, and the Executive Option Plan 2007 by which executive directors and other senior executives are able to subscribe for ordinary shares in the company. Further details concerning the share option schemes in place, including vesting conditions, can be found in note 23 to the group financial statements.

The interests of the directors in share options (under the 1998 and 2007 schemes) were as follows:

	Options at 1 January 2008	Granted/ (lapsed) in the year	Exercised	Options at 31 December 2008	Date of grant	Exercise price	Date first exercisable	Expiry date
C M Errington	111,111 <sup>pa</sup>	—	—	111,111	22.10.07	115p	23.10.10	23.10.17
	111,111 <sup>pa</sup>	—	—	111,111	22.10.07	115p	23.10.11	23.10.17
	277,778 <sup>pa</sup>	—	—	277,778	22.10.07	115p	23.10.12	23.10.17
	500,000	—	—	500,000				
E Sepkes <sup>1</sup>	— <sup>pa</sup>	88,889	—	88,889	29.04.08	62.25p	30.04.11	30.04.18
	— <sup>pa</sup>	88,889	—	88,889	29.04.08	62.25p	30.04.12	30.04.18
	— <sup>pa</sup>	222,222	—	222,222	29.04.08	62.25p	30.04.13	30.04.18
	—	400,000	—	400,000				
A J S Walton-Green	557,897 <sup>ea</sup>	—	—	557,897	25.07.00	36p	28.07.03	27.07.10
	166,667 <sup>pa</sup>	—	—	166,667	22.10.07	115p	23.10.10	23.10.17
	166,667 <sup>pa</sup>	—	—	166,667	22.10.07	115p	23.10.11	23.10.17
	416,666 <sup>pa</sup>	—	—	416,666	22.10.07	115p	23.10.12	23.10.17
	1,307,897	—	—	1,307,897				

<sup>1</sup> appointed 29 April 2008

<sup>ea</sup> denotes options granted under Executive Scheme 1998

<sup>pa</sup> denotes awards granted under the EOP 2007 scheme

<sup>\*</sup> denotes options over which the executive has agreed to pay any employer's national insurance arising from the exercise of the options.

The closing market price of the company's shares on 31 December 2008 was 37 pence. During the year, the closing price per ordinary share ranged from 35 pence to 82 pence.

No gains were made on the exercise of director share options in this or the prior year.

The interests of the directors to subscribe for or acquire ordinary shares have not changed since the year end.

On behalf of the board



J E Aves

Chairman of the remuneration committee

21 April 2009

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

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### Statement of directors' responsibilities in relation to the Group financial statements

The directors are responsible for preparing the Annual Report and the group financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards as adopted by the European Union.

The directors are required to prepare group financial statements for each financial year which present fairly the financial position of the group and the financial performance and cash flows of the group for that period. In preparing those group financial statements the directors are required to:

- select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the group's financial position and financial performance; and
- state that the group has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and enable them to ensure that the group financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the group 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 group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

We have audited the group financial statements of Gresham Computing plc for the year ended 31 December 2008 which comprise Group income statement, the Group balance sheet, the Group cash flow statement, the Group statement of recognised income and expense and the related notes 1 to 30. These group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of Gresham Computing plc for the year ended 31 December 2008 and on 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the group financial statements in accordance with applicable United Kingdom 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 group financial statements 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 group financial statements give a true and fair view and whether the group financial statements have been properly prepared in accordance with the Companies Act 1985 and 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.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding director's 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 other information contained in the Annual Report and consider whether it is consistent with the audited group financial statements. The other information comprises only the directors' report, the unaudited part of the Directors' remuneration report, the Chairman's statement and the Corporate governance statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the group financial statements. Our responsibilities do not extend to any other information.

#### Basis of audit opinion


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

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

#### 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 group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the directors' report is consistent with the group financial statements.



Ernst & Young LLP  
Registered auditor  
Southampton  
21 April 2008

# GROUP INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2008

	Notes	31 December 2008 £'000	31 December 2007 £'000
Revenue	3,4,26	13,894	13,423
Cost of goods sold		(7,623)	(7,192)
Gross profit		6,271	6,231
Administrative expenses		(7,090)	(9,184)
Trading loss	5	(819)	(2,953)
Profit on disposal of subsidiary undertaking	16	599	—
Finance revenue	3,8	71	107
Finance costs	8	(2)	(23)
Loss before taxation		(151)	(2,869)
Taxation	9	181	449
Attributable to equity holders of the parent	24	30	(2,420)
Earnings/(loss) per share (total and continuing)			
Basic earnings/(loss) per share – pence	10	0.06	(4.74)
Diluted earnings/(loss) per share – pence	10	0.06	(4.74)

	31 December 2008 £'000	31 December 2007 £'000
Exchange differences on translation of foreign operations	358	68
Exchange differences transferred to income statement on disposal of subsidiary undertakings	(107)	—
Net income/(expense) recognised directly in equity	251	68
Attributable profit/(loss) for the year	30	(2,420)
Total recognised income/(expense) for the year	281	(2,352)

# GROUP BALANCE SHEET

AT 31 DECEMBER 2008

	Notes	31 December 2008 £'000	31 December 2007 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	12	652	1,327
Intangible assets	13	6,810	6,086
		7,462	7,413
<b>Current assets</b>			
Trade and other receivables	17	3,239	3,650
Inventories	15	20	100
Income tax receivable	17	281	374
Other financial assets	15	—	20
Cash and cash equivalents	18	1,214	2,300
		4,754	6,444
Assets held for sale	12	860	—
<b>Total Assets</b>		<b>13,076</b>	<b>13,857</b>
<b>Equity and Liabilities</b>			
<b>Equity attributable to equity holders of the parent</b>			
Called up equity share capital	22	2,643	2,643
Share premium account	24	12,564	12,564
Other reserves	24	1,039	1,039
Foreign currency translation reserve	24	187	(64)
Retained earnings	24	(8,576)	(8,761)
	24	7,857	7,421
<b>Non-current liabilities</b>			
Deferred income	19	278	715
Financial liabilities	19	59	—
Provisions	19	160	—
		497	715
<b>Current liabilities</b>			
Trade and other payables	19	4,572	5,460
Financial liabilities	19	28	—
Income tax payable	19	122	61
Provisions	19	—	200
		4,722	5,721
<b>Total liabilities</b>		<b>5,219</b>	<b>6,436</b>
<b>Total Equity and Liabilities</b>		<b>13,076</b>	<b>13,857</b>

On behalf of the Board



C M Errington  
21 April 2009



A J S Walton-Green  
21 April 2009

	Notes	31 December 2008 £'000	31 December 2007 £'000
Cash flows from operating activities			
Loss before taxation		(151)	(2,869)
Depreciation, amortisation and impairment	5	1,020	741
Share based payment expense	7,23	155	42
(Decrease)/Increase in inventories		(20)	(100)
(Decrease)/Increase in trade and other receivables		385	(188)
Decrease in trade and other payables		(1,295)	(1,151)
Movement in provisions		(40)	110
Gain on disposal of subsidiary undertakings		(599)	—
Net finance income		(89)	(108)
Cash outflow from operations		(634)	(3,523)
Net income taxes received		362	474
Net cash inflow/(outflow) from operating activities		(272)	(3,049)
Cash flows from investing activities			
Interest received	8	91	107
Disposal of subsidiary undertakings	16	409	—
Purchase of property, plant and equipment	12	(213)	(324)
Payments to acquire intangible fixed assets	13	(1,212)	(662)
Net cash used in investing activities		(925)	(879)
Cash flows from financing activities			
Proceeds from issue of ordinary share capital	22	—	2,750
Share issue costs	24	—	(98)
Interest paid	8	(2)	(11)
Repayment of capital element of finance leases	25	(2)	—
Net cash generated by financing activities		(4)	2,641
Net decrease in cash and cash equivalents	25	(1,201)	(1,287)
Cash and cash equivalents at beginning of period	25	2,300	3,557
Exchange adjustments	25	115	30
Cash and cash equivalents at end of period	25	1,214	2,300

## 1. Authorisation of financial statements and statement of compliance with IFRSs

Gresham Computing plc is a public limited company incorporated and domiciled in England and Wales. The company's ordinary shares are traded on the London Stock Exchange.

The financial statements of Gresham Computing plc and its subsidiaries (the "group") for the year ended 31 December 2008 were authorised for issue by the board of directors on 21 April 2009 and the balance sheet was signed on the board's behalf by A J S Walton-Green and C M Errington.

The group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union as they apply to the financial statements of the group for the year ended 31 December 2008.

The principal accounting policies adopted by the group are set out below.

## 2. Accounting policies

### Basis of preparation

The group's financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union as they apply to the financial statements of the group for the year ended 31 December 2008 and applied in accordance with the Companies Act 1985. The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2008.

The group financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds ("£000") except when otherwise indicated.

### Judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

#### *Estimates and assumptions*

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### *Revenue and profit recognition*

Fixed price contracts are accounted for in accordance with IAS 11 'Construction Contracts'. Revenue and profits are recognised on a percentage-of-completion basis, as costs incurred relate to total costs for the contract, when the outcome of a contract can be estimated reliably. Determining whether a contract's outcome can be estimated reliably, requires management to exercise judgement, whilst calculation of the contract's profit requires estimates of the total contract costs to completion. Cost estimates and judgements are continually reviewed and updated as determined by events or circumstances.

#### *Impairment of goodwill and development costs*

The determination of whether or not these intangible assets have been impaired requires an estimate to be made of the value in use of the cash-generating unit to which the intangible asset has been allocated. The value in use calculation includes estimates about future financial performance of the cash-generating units, including management's estimates of long-term operating margins and long-term growth rates. The carrying amount of these intangibles and the key assumptions used in the calculation of value in use of the cash-generating units to which the intangibles are allocated are disclosed in note 14.

## 2. Accounting policies (continued)

### *Share-based payments*

The group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Judgement is required in determining the most appropriate valuation model for a grant of equity instruments, depending on the terms and conditions of the grant. Management is also required to use judgement in determining the most appropriate inputs to the valuation model including expected life of the option, volatility and dividend yield. The assumptions and models used are disclosed in note 23.

### **Basis of consolidation**

The group financial statements consolidate the financial statements of Gresham Computing plc and the entities it controls (its subsidiaries) drawn up to 31 December each year.

Subsidiaries are consolidated from the date of their acquisition, being the date on which the group obtains control, and continue to be consolidated until the date that such control ceases. Control comprises the power to govern the financial and operating policies of the investee so as to obtain benefit from its activities and is achieved through direct or indirect ownership of voting rights; currently exercisable or convertible potential voting rights; or by way of contractual agreement. The financial statements of subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies. All inter-company balances and transactions, including unrealised profits arising from them, are eliminated.

### **Foreign currency translation**

Transactions in foreign currencies are initially recorded in the functional currency by applying an approximation of the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement, except when hedge accounting is applied and for differences on monetary assets and liabilities that form part of the group's net investment in a foreign operation. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in profit or loss.

The assets and liabilities of foreign operations are translated into sterling at the rate of exchange ruling at the balance sheet date. Income and expenses are translated at weighted average exchange rates for the year. The resulting exchange differences are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

On transition to IFRS from 1 January 2004, the exemption available under IFRS 1 was taken to start the currency translation reserve at nil.

### **Goodwill**

Business combinations on or after 1 January 2004 have been accounted for under IFRS 3 using the purchase method. Any excess of the cost of the business combination over the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities is recognised in the balance sheet as goodwill and is not amortised. To the extent that the net fair value of the acquired entity's identifiable assets, liabilities and contingent liabilities is greater than the cost of the investment, a gain is recognised immediately in the income statement. Goodwill recognised as an asset as at 31 December 2003 is recorded at its carrying amount under UK GAAP and is not amortised. Any goodwill asset arising on the acquisition of equity accounted entities is included within the cost of those entities.

After initial recognition, goodwill is stated at cost less any accumulated impairment losses, with the carrying value being reviewed for impairment, at least annually and whenever events or changes in circumstances indicate that the carrying value may be impaired.

## 2. Accounting policies (continued)

For the purpose of impairment testing, goodwill is allocated to the related cash-generating units monitored by management, usually at geographical segment level or statutory company level as the case may be. Where the recoverable amount of the cash-generating unit is less than its carrying amount, including goodwill, an impairment loss is recognised in the income statement.

The carrying amount of goodwill allocated to a cash-generating unit is taken into account when determining the gain or loss on disposal of the unit, or of an operation within it. Goodwill arising on acquisitions prior to 31 December 1997 remains set off directly against reserves even if the related investment becomes impaired or the business is disposed of.

### Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the income statement in the year in which the expenditure is incurred.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

Purchased intangibles with finite lives, including purchased patents, know-how, trademarks, licences and distribution rights are capitalised at cost and amortised on a straight line basis over their estimated useful lives. The estimated useful life of these intangible assets ranges between 2 and 10 years depending on their nature. Amortisation charges in respect of intangible assets are included in administrative expenses.

### *Research and development costs*

Research costs are expensed as incurred. Development expenditure on an individual project is recognised as an intangible asset when the group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. During the period of development, the asset is tested for impairment annually.

### Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset and includes costs directly attributable to making the asset capable of operating as intended.

Depreciation is provided on all property, plant and equipment, other than freehold land, on a straight-line basis over its expected useful life as follows:

## 2. Accounting policies (continued)

- Freehold buildings at 2% per annum to their residual values.
- Fixtures and fittings over the term of the underlying property lease.
- Plant and equipment over lives ranging between 1 and 10 years to write down the assets to their residual value based on current prices for an asset of the age the plant and equipment is expected to be at the end of its useful life.

The carrying values of property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable, and are written down immediately to their recoverable amount. Useful lives and residual values are reviewed annually and where adjustments are required these are made prospectively.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset is included in the income statement in the period of derecognition.

### Leases

#### *Group as a lessee*

Assets held under finance leases, which transfer to the group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease, with a corresponding liability being recognised for the lower of the fair value of the leased asset and the present value of the minimum lease payments. Lease payments are apportioned between the reduction of the lease liability and finance charges in the income statement so as to achieve a constant rate of interest on the remaining balance of the liability. Assets held under finance leases are depreciated over the shorter of the estimated useful life of the asset and the lease term.

Leases where the lessor retains a significant portion of the risks and benefits of ownership of the asset are classified as operating leases and rentals payable are charged in the income statement on a straight line basis over the lease term.

#### *Group as a lessor*

Where the group has spare capacity in offices held under operating leases and where the head lease permits, the group sub leases space acting in a lessor capacity. The rental income is recognised on a straight line basis over the lease term and shown separately from the group's full obligation under the head operating lease.

### Impairment of assets

The group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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. In determining fair value less costs to sell, an appropriate valuation model is used, these calculations corroborated by valuation multiples, or other available fair value indicators. Impairment losses on continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

## 2. Accounting policies (continued)

### Provisions

A provision is recognised when the group has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect is material, expected future cash flows are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability.

Where the group expects some or all of a provision to be reimbursed, for example under an insurance policy, the reimbursement is recognised as a separate asset but only when recovery is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. Where discounting is used, the increase in the provision due to unwinding the discount is recognised as a finance cost.

### Financial assets

Financial assets are recognised when the group becomes party to the contracts that give rise to them and are classified as financial assets at fair value through profit and loss; loans and receivables; held-to maturity investments; or as available-for-sale financial assets, as appropriate. The group determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end. When financial assets are recognised initially, they are measured at fair value, being the transaction price plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. The group considers whether a contract contains an embedded derivative when the entity first becomes a party to it. The embedded derivatives are separated from the host contract if it is not measured at fair value through profit or loss and when the economic characteristics and risks are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

All regular way purchases and sales of financial assets are recognised on the trade date, being the date that the group commits to purchase or sell the asset. Regular way transactions require delivery of assets within the timeframe generally established by regulation or convention in the market place. The subsequent measurement of financial assets depends on their classification, as follows:

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either fair value through profit and loss or available-for-sale. Such assets are carried at amortised cost using the effective interest method if the time value of money is significant. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

#### *Financial assets at fair value through profit or loss*

Financial assets classified as held for trading and other assets designated as such on inception are included in this category. Financial assets are classified as held for trading if they are acquired for sale in the short term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or as financial guarantee contracts. Assets are carried in the balance sheet at fair value with gains or losses recognised in the income statement.

#### *Available-for-sale financial assets*

Available for sale financial assets are those non-derivative financial assets that are designated as available for sale by the directors, taking into account the stage of any marketing or sales activity to promote an end sale. After initial recognition, available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

### Impairment of financial assets

The group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

## 2. Accounting policies (continued)

### *Assets carried at amortised cost*

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced, through the use of an allowance account. The amount of the loss is recognised in administration costs.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant finance difficulties of the debtor) that the group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as irrecoverable.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition, as follows:

- Raw materials, consumables and goods for resale – purchase cost on a first-in, first-out basis
- Work in progress and finished goods – cost of direct materials and labour plus attributable overheads based on a normal level of activity, excluding borrowing costs

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

### Trade and other receivables

Trade receivables are recognised and carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, receivables are carried at amortised cost. Provision is made when there is objective evidence that the group will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

### Amounts recoverable on contracts

Amounts recoverable on contracts represent revenue recognised to date less amounts invoiced to clients. Full provision is made for known or anticipated project losses.

### Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at banks and in hand and short-term deposits with an original maturity of three months or less.

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

### Income taxes

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;

## 2. Accounting policies (continued)

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

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

The carrying amount of deferred income tax assets is reviewed at each balance sheet date. Deferred income tax assets and liabilities are offset, only if a legally enforcement right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the group to make a single net payment.

Income tax is charged or credited directly to equity if it relates to items that are credited or charged to equity. Otherwise income tax is recognised in the income statement.

### Derecognition of financial assets and liabilities

A financial asset or liability is generally derecognised when the contract that gives rise to it is settled, sold, cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in profit or loss.

### Derivative financial instruments and hedging

The group uses derivative financial instruments such as forward currency contracts to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

### Pensions

Contributions to defined contribution schemes are recognised in the income statement in the period in which they become payable.

### Revenue recognition

Revenue, comprising sales of products and services to third parties, is recognised to the extent that it is probable that the economic benefits will flow to the group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes. The following criteria must also be met before revenue is recognised:

#### *Software licenses*

Revenue on software licences is recognised when all of the following criteria are met:

- Persuasive evidence of an arrangement exists, such as a signed contract or purchase order;
- Delivery has occurred and no future elements to be delivered are essential to the functionality of the delivered element;
- The fee is fixed or determinable; and
- Collectibility is probable.

## 2. Accounting policies (continued)

### *Rendering of services*

Revenue from the provision of professional services, such as implementation, development, training and consultancy, is recognised rateably as the services are performed.

### *Subscriptions and maintenance*

Revenue from subscription and maintenance services is recognised rateably over the period of the contract.

### *Solution sales*

Contracts for the delivery of solutions with multiple elements, typically involving software licences, rendering of services, subscriptions and maintenance, hardware are unbundled where possible and revenue is recognised based on the accounting policy applicable to each constituent part.

Where objective unbundling of a solution is not possible, revenue is recognised as that proportion of the total contract value which costs incurred to date bear to total expected costs for that contract. Profit is recognised on such contracts, if the final outcome can be assessed with reasonable certainty, by including in the income statement revenue and related costs as contract activity progresses.

### *Interest income*

Interest income is recognised as finance revenue as interest accrues using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to its net carrying amount.

### *Rental income*

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease term.

## Share-based payments

### *Equity-settled transactions*

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award.

Fair value of awards with a market condition based performance target is determined by an external valuer using a Monte Carlo simulation pricing model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the company (market conditions).

Fair value of awards with a financial result based performance target is determined by management using the Black Scholes pricing model.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other vesting conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions and of the number of equity instruments that will ultimately vest or, in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity.

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

## 2. Accounting policies (continued)

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the income statement for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the income statement.

The share-based payment expense is recognised as a staff cost and the associated credit entry is made against equity.

The group has taken advantage of the exemption in IFRS 1 in respect of equity-settled awards so as to apply IFRS 2 only to those equity-settled awards granted after 7 November 2002 that had not vested before 1 January 2005.

### Changes in accounting policy

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The following new standards have been adopted and are effective for the current year:

IFRIC 11 'Group Cash-settled Share-based Payment Transactions'. The group did not have any cash-settled share-based payment transactions during the year ended 31 December 2008 (2007: none) therefore the adoption of this pronouncement has not impacted the classification or measurement of the group's assets and liabilities, nor has it resulted in any additional disclosure.

IFRIC 12 'Service Concession Arrangements'. The group did not have any service concession during the year ended 31 December 2008 (2007: none) therefore the adoption of this pronouncement has not impacted the classification or measurement of the group's assets and liabilities, nor has it resulted in any additional disclosure.

IFRIC 14 'IAS19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'. The group did not have a Defined Benefit pension scheme during the year ended 31 December 2008 (2007: none) therefore the adoption of this pronouncement has not impacted the classification or measurement of the group's assets and liabilities, nor has it resulted in any additional disclosure.

### New standards and interpretations not applied

IASB and IFRIC have issued the following relevant standards and interpretations with an effective date after the date of these financial statements:

		Effective date*
IAS 1	Presentation of Financial Statements (revised)	1 January 2009
IAS 23	Amendment – Borrowing Costs	
IAS 32 and IAS 1	Amendment – Puttable Financial Instruments and Obligations Arising on Liquidation	1 January 2009
IFRS 1 and IAS 27	Amendments – Cost of Investment in Separate Financial Statements	1 January 2009
IFRS 2	Amendment to IFRS 2 – Vesting Conditions and Cancellations	1 January 2009
IFRS 8	Operating Segments	1 January 2009
Annual improvements	Improvements to IFRSs	1 January 2009
IFRIC 15	Agreements for the Construction of Real Estate	1 January 2009
IFRS 7	Amendments to IFRS 7 – Improving Disclosures about Financial Instruments	1 January 2009
IAS 27	Consolidated and Separate Financial Statements (revised)	1 July 2009
IAS 39	Amendment – Eligible Hedged Items	1 July 2009
IFRS 3	Business Combinations (revised)	1 July 2009
IFRIC 17	Distribution of Non-Cash Assets to Owners	1 July 2009
IFRIC 18	Transfer of Assets from Customers	1 July 2009
IFRIC 9 and IAS 39	Amendments to IFRIC 9 and IAS 39 – Embedded derivatives	ending on or after 30 June 2009

## 2. Accounting policies (continued)

Whilst the revised IAS 1 will have no impact on the measurement of the group's results or net assets it is likely to result in certain changes in the presentation of the group's financial statements from 2009 onwards. IFRS 8 requires disclosure based on information presented to the board. This is not expected to change the business segments about which information is given. The group has one customer in the real time financial solutions segment that accounted for 11% of group revenues in 2007 and had less than 10% in 2008.

The amendment to IFRS 2 restricts the definition of vesting conditions to include only service conditions (requiring a specified period of service to be completed) and performance conditions (requiring the other party to achieve a personal goal or contribute to achieving a corporate target). All other features are not vesting conditions, and whereas a failure to achieve such a condition was previously regarded as a forfeiture (giving rise to a reversal of amounts previously charged to profit) it must be reflected in the grant date fair value of the award and treated as a cancellation, which results in either an acceleration of the expected charge, or a continuation over the remaining vesting period, depending on whether the condition is under the control of the entity or counterparty. The amendment is mandatory for periods beginning on or after 1 January 2009 and the group is currently assessing its impact on the financial statements, although it is not expected to be material.

The group does not anticipate early adopting the revised IFRS 3 and so will apply it prospectively to all business combinations on or after 1 January 2010. Whilst it is not possible to estimate the outcome of adoption, the key features of the revised IFRS 3 include a requirement for acquisition-related costs to be expensed and not included in the purchase price; and for contingent consideration to be recognised at fair value on the acquisition date (with subsequent changes recognised in the income statement and not as a change to goodwill). The standard also changes the treatment of non-controlling interest (formerly minority interests) with an option to recognise these at full fair value as at the acquisition date and a requirement for previously held non-controlling interests to be fair valued as at the date control is obtained, with gains and losses recognised in the income statement.

IAS 27 revised is effective for annual periods beginning on or after 1 July 2009, with earlier application only permitted when the revised IFRS 3 is applied. The revised standard applies retrospectively with some exceptions. IAS 27 revised no longer restricts the allocation to minority interest of losses incurred by a subsidiary to the amount of the non-controlling equity investment in the subsidiary. A partial disposal of equity interest in a subsidiary that does not result in a loss of control will be accounted for as an equity transaction and will have no impact on goodwill nor will it give rise to any gain or loss. Where there is loss of control of a subsidiary, any retained interest will have to be re-measured to fair value, which will impact the gain or loss recognised on disposal. The group is currently assessing the impact on its financial statements from adopting IAS 27 revised.

The Directors do not anticipate that the adoption of the remaining standards and interpretations will have a material impact on the group's financial statements in the period of initial application.

\* The effective dates stated here are those given in the original IASB/IFRIC standards and interpretations. As the group prepares its financial statements in accordance with IFRS as adopted by the European Union, the application of new standards and interpretations will be subject to their having been endorsed for use in the EU via the EU Endorsement mechanism. In the majority of cases this will result in an effective date consistent with that given in the original standard or interpretation but the need for endorsement restricts the group's discretion to early adopt standards.

## 3. Revenue

Revenue disclosed in the income statement is analysed as follows:

	2008	2007
	£'000	£'000
Rendering of services	13,894	13,423
Finance revenue	71	107
	13,965	13,530

## 4. Segment information

### Segments

The primary segment reporting format is determined to be geographical segments as the group's risks and rates of return are affected predominantly by differences in geography. Secondary segment information is reported by business segment. The operating businesses are organised and managed separately according to geography, with each segment representing a strategic business unit that offers the Clareti range of solutions to market.

The group's geographical segments are based on the location of the group's assets. Sales to external customers disclosed in geographical segments are based on the geographical location of its customers and destination. The geographical segments relate primarily to operations in the following countries: Asia Pacific: Australia and Malaysia; EMEA: UK and Northern Europe; North America: United States of America, Canada and the Caribbean.

The real time financial solutions segment is a supplier of solutions predominantly to the finance and banking markets. Included within the real time financial solutions segment is the group's IT staff placement business and, because this business contributes significant revenues, certain additional information concerning the results of this business have been provided to aid understanding of the overall segment results. The storage solutions segment is a supplier of solutions predominantly to the enterprise level storage market.

Transfer prices between segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment revenue, segment expense and segment result include transfers between business segments. Those transfers are eliminated in consolidation.

The results of Redstone Software Inc, a subsidiary of the group disposed of on 2 September 2008 (see note 16), consolidated by the group prior to the disposal are included in the North America and the Real Time Financial Solutions segments shown in the following analysis.

### Primary reporting format — Geographic segments

The following tables present revenue and profit/loss and certain asset and liability information regarding the group's geographical segments for the years ended 31 December 2008 and 2007, all of which are continuing.

Revenue by source	Year ended 31 December 2008			Year ended 31 December 2007		
	Segment	Inter-	Sales to	Segment	Inter-	Sales to
	revenue	segment	external	revenue	segment	external
	£'000	sales	customers	£'000	sales	customers
	£'000	£'000	£'000	£'000	£'000	£'000
Asia Pacific	3,085	(543)	2,542	2,034	(755)	1,279
EMEA	7,479	(8)	7,471	8,203	(14)	8,189
North America	4,713	(832)	3,881	5,770	(1,815)	3,955
	15,277	(1,383)	13,894	16,007	(2,584)	13,423

Revenue by destination	2008	2007
	£'000	£'000
Asia Pacific	2,491	1,107
EMEA	8,216	9,157
North America	3,187	3,159
	13,894	13,423

## 4. Segment information (continued)

## Result by segment

	Year ended 31 December 2008				Year ended 31 December 2007			
	Asia		North		Asia		North	
	Pacific	EMEA	America	Total	Pacific	EMEA	America	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Segment result	132	678	(371)	439	(555)	(272)	(406)	(1,233)
Unallocated expenses				(1,258)				(1,720)
Trading loss				(819)				(2,953)
Profit on disposal of subsidiary undertaking				599				—
Net finance revenue				69				84
Loss before income tax				(151)				(2,869)
Income tax credit				181				449
Net profit/(loss) for the year				30				(2,420)

## Assets by segment

	Year ended 31 December 2008				Year ended 31 December 2007			
	Asia		North		Asia		North	
	Pacific	EMEA	America	Total	Pacific	EMEA	America	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Segment assets	2,135	4,991	3,594	10,720	1,670	5,684	2,911	10,265
Unallocated assets				2,356				3,592
Total assets				13,076				13,857
Segment liabilities	(352)	(2,506)	(1,938)	(4,796)	(690)	(3,863)	(1,814)	(6,367)
Unallocated liabilities				(423)				(69)
Total liabilities				(5,219)				(6,436)

## Other segment information

	Year ended 31 December 2008				Year ended 31 December 2007			
	Asia		North		Asia		North	
	Pacific	EMEA	America	Total	Pacific	EMEA	America	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Capital expenditure:								
Tangible assets	140	33	132	305	9	42	273	324
Intangible assets	—	325	1,030	1,355	—	121	541	662
	140	358	1,162	1,660	9	163	814	986
Depreciation	18	53	208	279	18	74	111	203
Amortisation	8	424	273	705	15	331	192	538
Impairment losses	—	36	—	36	—	—	—	—

Unallocated assets and liabilities comprise certain property, plant and equipment, cash, finance leases and taxation.

## Secondary reporting format — Business segments

The following tables present revenue, expenditure and certain asset information regarding the group's business segments for the years ended 31 December 2008 and 2007.

#### 4. Segment information (continued)

Revenue by business segment	2008	2007
	£'000	£'000
Real Time Financial Solutions	11,475	10,969
Storage Solutions	2,419	2,454
	13,894	13,423

Included in the Real Time Financial Solutions business segment is:

- £2,790,000 (2007: £2,952,000) of revenue in respect of the IT staff placement business;
- £344,000 (2007: £509,000) of revenue in respect of Redstone Software Inc, which was disposed of on 2 September 2008; and
- £nil (2007: £156,000) of revenue in respect of Gresham SA, which was closed in the year.

#### Other information

	Year ended 31 December 2008			Year ended 31 December 2007		
	Real Time Financial Solutions £'000	Storage £'000	Total £'000	Real Time Financial Solutions £'000	Storage £'000	Total £'000
Assets by business segment						
Segment assets	7,780	2,940	10,720	8,126	2,139	10,265
Unallocated assets			2,356			3,592
Total assets			13,076			13,857
Capital expenditure:						
Tangible assets	173	132	305	69	255	324
Intangible assets	325	1,030	1,355	121	541	662
	498	1,162	1,660	190	796	986

Unallocated assets and liabilities comprise certain property, plant and equipment, cash, finance leases and taxation.

#### 5. Group trading loss

This is stated after charging/(crediting):

	2008	2007
	£'000	£'000
Research and development costs written off	716	900
Amortisation of deferred development costs recognised in administrative expenses	702	517
Total research and development costs	1,418	1,417
Depreciation of property, plant and equipment	279	203
Impairment of property, plant and equipment	36	—
Amortisation of intangible assets (excluding development costs)	3	21
Total depreciation and amortisation expense	318	224
Net foreign currency differences – losses	(299)	(21)
Operating lease payments		
Minimum lease payments	564	637
Sublease payments	(53)	(179)
	511	458
Increase/(decrease) in provision for impairment of trade receivables recognised in administrative expenses	31	(13)

During the year ended 31 December 2008, the group restructured a number of business lines with the aim of significantly reducing the cost base and increasing focus. The associated one off restructuring cost arising from this exercise totalled approximately £150,000 in 2008 and is included within administrative expenses (2007: £700,000).

## 6. Auditors' remuneration

The group paid the following amounts to its auditors in respect of the audit of the financial statements and for other services provided to the group.

	2008 £'000	2007 £'000
Audit of the group financial statements	25	25
Other fees to auditors		
— auditing the accounts of subsidiaries	65	64
— other services pursuant to legislation	—	—
	65	64

## 7. Staff costs and directors' emoluments

### a) Staff costs

	2008 £'000	2007 £'000
Wages and salaries	6,719	7,224
Social security costs	746	815
Other pension costs	292	355
	7,757	8,394

Included in wages and salaries is a total expense of share-based payments of £155,000 (2007: £42,000 expense) all of which arises from transactions accounted for as equity-settled share-based payment transactions.

The average monthly number of employees during the year was made up as follows:

	2008	2007
Management	20	21
Administration	20	22
Technical	82	93
	122	136

### b) Directors' emoluments

	2008 £'000	2007 £'000
Directors' emoluments including pension contributions	511	951
Number of directors accruing benefits under a defined contribution schemes	3	3

## 8. Finance costs/revenue

	2008 £'000	2007 £'000
Finance costs		
Finance charges payable under finance leases	—	—
Other bank charges	2	11
Change in fair value of SQS warrants	—	12
Total finance costs	2	23
Finance revenue		
Bank interest receivable	54	107
Profit on derecognition of SQS warrants	17	—
Total finance revenue	71	107

## 9. Taxation

### a) Tax on loss on ordinary activities

Tax (credited)/charged in the income statement

	2008	2007
	£'000	£'000
Current income tax:		
UK Corporation tax credit	(281)	(184)
Foreign Corporation tax charge	66	37
Foreign withholding tax charge	34	29
	(181)	(118)
Amounts over provided in previous years — UK	—	(357)
Amounts over provided in previous years — Overseas	—	26
Total current income tax	(181)	(449)
Deferred tax	—	—
Tax credit in the income statement	(181)	(449)

### b) Reconciliation of the total tax charge

The tax credit in the income statement for the year is lower than the standard rate of corporation tax in the UK of 28.5% (2007 - 30%). The differences are reconciled below:

	2008	2007
	£'000	£'000
Loss before taxation	(151)	(2,869)
Accounting loss multiplied by the UK standard rate of corporation tax of 28.5% (2007: 30%)	(43)	(861)
Expenses not deductible for tax purposes	50	89
Temporary difference on share based payments	40	73
Increase in losses carried forwards	149	413
R&D tax credit — current year	(280)	(184)
R&D tax credit — prior year	—	(357)
Losses surrendered for R&D tax credit — current year	527	345
Losses surrendered for R&D tax credit — prior year	—	260
R&D enhanced relief	(204)	(115)
Movement on unrecognised temporary differences	(383)	(125)
Income not taxable	(136)	—
Overseas tax	99	19
Other	—	(6)
Total tax credit reported in the income statement	(181)	(449)

#### *Factors that may affect current tax charges*

From 1 April 2008 the Company's rate of corporation tax on profits reduced from 30% to 28% as a result of changes enacted in the Finance Act 2007. The company has used an adjusted rate of 28.5% for the year ended 31 December 2008 to reflect this change.

### c) Unrecognised tax losses

The group has tax losses that are available indefinitely for offset against future taxable profits of the companies in which the losses arose as analysed in (e) below. Deferred tax assets have not been recognised in respect of these losses as they may not be used to offset taxable profits elsewhere in the group and they have arisen in subsidiaries that have been loss-making for some time.

## 9. Taxation (continued)

### d) Temporary differences associated with group investments

At 31 December 2008, there was no recognised deferred tax liability (2007: Nil) for taxes that would be payable on the un-remitted earnings of certain of the group's subsidiaries, as the group has determined that undistributed profits of its subsidiaries will not be distributed in the foreseeable future.

The temporary differences associated with investments in subsidiaries for which deferred tax liability has not been recognised aggregate to £nil (2007: £nil).

### e) Deferred tax

#### *Recognised deferred tax*

There is no deferred tax included in either the group balance sheet or group income statement (2007: £nil).

#### *Unrecognised potential deferred tax assets*

The deferred tax not recognised in the group balance sheet is as follows:

	2008 £'000	2007 £'000
Depreciation in advance of capital allowances	98	65
Share-based payments temporary differences	51	73
Other temporary differences	225	766
Tax losses	3,790	3,518
Unrecognised deferred tax asset	4,164	4,422
Gross tax losses unrecognised	13,535	12,564

## 10. Earnings/(loss) per ordinary share

Basic earnings/(loss) per share amounts are calculated by dividing net profit or loss for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted loss per share amounts are calculated by dividing the net profit or loss attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares except when such dilutive instruments would reduce the loss per share.

The following reflects the earnings/(loss) and share data used in the basic and diluted loss per share computations:

	2008 £'000	2007 £'000
Earnings/(loss) attributable to equity holders of the parent	30	(2,420)
	2008	2007
Basic weighted average number of shares	52,850,890	51,042,671
Dilutive potential ordinary shares:		
Employee share options	—	—
Diluted weighted average number of shares	52,850,890	51,042,671
Basic earnings/(loss) per share — pence	0.06	(4.74)
Diluted earnings/(loss) per share — pence	0.06	(4.74)

The employee share options are not dilutive because in 2007 they would reduce the loss per share and in 2008 they were 'out-of-the-money'. There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2008

## 11. Dividends paid and proposed

No dividends were declared or paid during the year and no dividends are proposed for approval at the AGM (2007: None).

## 12. Property, plant and equipment

31 December 2007

	Land and buildings £'000	Fixtures and fittings £'000	Plant and equipment £'000	Total £'000
Cost:				
At 1 January 2007	1,298	531	2,190	4,019
Additions	—	—	324	324
Disposals	—	—	(514)	(514)
Exchange adjustment	—	3	50	53
At 31 December 2007	1,298	534	2,050	3,882
Depreciation:				
At 1 January 2007	(402)	(507)	(1,915)	(2,824)
Charge for year	—	(16)	(187)	(203)
Disposals	—	—	514	514
Exchange adjustment	—	—	(42)	(42)
At 31 December 2007	(402)	(523)	(1,630)	(2,555)
Net carrying amount:				
At 31 December 2007	896	11	420	1,327
At 1 January 2007	896	24	275	1,195

31 December 2008

	Land and buildings £'000	Fixtures and fittings £'000	Plant and equipment £'000	Total £'000
Cost:				
At 1 January 2008	1,298	534	2,050	3,882
Additions	—	10	295	305
Transfer in from inventories	—	—	100	100
Disposal of subsidiary undertakings (note 16)	—	—	(42)	(42)
Transfer to assets held for sale	(1,298)	—	—	(1,298)
Exchange adjustment	—	22	434	456
At 31 December 2008	—	566	2,837	3,403
Depreciation and impairment:				
At 1 January 2008	(402)	(523)	(1,630)	(2,555)
Charge for year	—	(10)	(269)	(279)
Impairment charge	(36)	—	—	(36)
Disposal of subsidiary undertakings (note 16)	—	—	27	27
Transfer to assets held for sale	438	—	—	438
Exchange adjustment	—	(22)	(324)	(346)
At 31 December 2008	—	(555)	(2,196)	(2,751)
Net carrying amount:				
At 31 December 2008	—	11	641	652
At 1 January 2008	896	11	420	1,327

## 12. Property, plant and equipment (continued)

### *Transfer to non-current assets held for sale*

In the second half of 2008, a decision was taken to sell the freehold property owned by the group. As part of this process the directors obtained a number of indicative asset valuations and in the light of these valuations booked an impairment charge of £36,000 to write down the property to its estimated recoverable value.

In January 2009, the group received a firm offer for the property and heads of terms were exchanged in February 2009. As a result, the property has been transferred from property, plant and equipment at its carrying value to non-current assets held for sale. Contracts for sale were exchanged on this property in April 2009 as noted in the Directors' Report.

### *Assets held under finance leases*

The carrying value of plant and equipment held under finance leases and hire purchase contracts at 31 December 2008 was £90,000 (2007: £nil). Additions during the year include £92,000 (2007: £nil) of plant and equipment held under finance leases and hire purchase. Depreciation during the year includes £2,000 (2007: £nil) of plant and equipment held under finance leases and hire purchase.

## 13. Intangible assets

31 December 2007

	Development costs £'000	Patents and licences £'000	Goodwill £'000	Total £'000
<b>Cost:</b>				
At 1 January 2007	4,993	1,143	1,004	7,140
Additions	658	4	—	662
Exchange adjustment	7	—	78	85
<b>At 31 December 2007</b>	<b>5,658</b>	<b>1,147</b>	<b>1,082</b>	<b>7,887</b>
<b>Amortisation and impairment:</b>				
At 1 January 2007	(145)	(1,116)	—	(1,261)
Charge for year	(517)	(21)	—	(538)
Impairment charge	—	—	—	—
Disposals	—	—	—	—
Exchange adjustment	(2)	—	—	(2)
<b>At 31 December 2007</b>	<b>(664)</b>	<b>(1,137)</b>	<b>—</b>	<b>(1,801)</b>
<b>Net carrying amount:</b>				
At 31 December 2007	4,994	10	1,082	6,086
At 1 January 2007	4,848	27	1,004	5,879

13. Intangible assets (continued)

31 December 2008

	Development costs £'000	Patents and licences £'000	Goodwill £'000	Total £'000
Cost:				
At 1 January 2008	5,658	1,147	1,082	7,887
Additions	1,350	5	—	1,355
Disposals	(95)	(261)	—	(356)
Exchange adjustment	11	—	90	101
At 31 December 2008	6,924	891	1,172	8,987
Amortisation and impairment:				
At 1 January 2008	(664)	(1,137)	—	(1,801)
Charge for year	(702)	(3)	—	(705)
Disposals	82	261	—	343
Exchange adjustment	(14)	—	—	(14)
At 31 December 2008	(1,298)	(879)	—	(2,177)
Net carrying amount:				
At 31 December 2008	5,626	12	1,172	6,810
At 1 January 2008	4,994	10	1,082	6,086

Development costs

Development costs are internally generated and are capitalised at cost. These intangible assets have been assessed as having a finite life and are amortised on a straight line basis over their useful lives. These assets are tested for impairment where an indicator of impairment arises and annually prior to them being made available for use. These costs are amortised over their useful economic lives of 2 to 10 years (2007: 2 to 20 years). The change in estimated useful life from 20 years to 10 years is discussed in note 14.

Patents and licences

Patents and licences are the third party costs incurred in seeking and obtaining protection for certain of the group's products and services. These intangible assets have been assessed as having a finite life and are being amortised evenly over their useful economic life, to a maximum of 10 years. Patents have a remaining life of 7 years and licences have no life remaining (and are fully written down).

Derecognition of intangible assets

The disposal from development costs is associated with the sale of Redstone Software Inc. The loss of £13,000 arising from this derecognition was measured as the difference between the net disposal proceeds and the carrying amount of the asset and was recognised in the income statement as a cost of the Redstone disposal (see note 16).

The disposal from patents and licenses is associated with the closure of Gresham SA and derecognition of the associated fully written down licenses from the accounts. No profit or loss arose on this derecognition.

## 14. Impairment of goodwill and intangibles

### Goodwill

Goodwill acquired through business combinations has been allocated to one individual cash-generating unit ("CGU"), the lowest level at which goodwill is monitored for internal management purposes, for impairment testing.

#### *Asia Pacific real-time financial solutions cash-generating unit*

The recoverable amount of this CGU has been determined based on a value in use calculation. To calculate this, cash flow projections are based on financial budgets approved by the board and take account of a 5 year period. The discount rate applied to cash flow projections is 12% (2007: 7%) and cash flows beyond the 5 year period are extrapolated using a 1% growth rate (2007: 5%) that is a prudent approximation to the long term average growth rate for the real-time financial solutions market. The change in rates applicable to 2008 reflects changes in the relevant economy.

#### *Carrying amount of goodwill*

	2008	2007
	£'000	£'000
Asia Pacific real-time financial solutions CGU	1,172	1,082

#### *Key assumptions used in the value in use calculations*

Key assumptions are made by management based on past experience taking into account external sources of information around gross margins, growth rates and discount rates for similar businesses.

The calculation of value in use is most sensitive to assumptions around:

*Gross margins*, based on average values achieved in the three years preceding the start of the budget period;

*Growth rates*, based on internally estimated growth rates for the market and the business offerings; and

*Discount rate*, based on the pre tax weighted average cost of capital of the CGU.

#### *Sensitivity to changes in assumptions*

There are no reasonably possible changes in the key assumptions which could cause the carrying value of the unit to exceed its recoverable amount.

### Development costs (finite life)

Development costs are allocated to individual cash-generating units, being the lowest level at which these intangible assets are monitored for internal management purposes, for impairment testing on an annual basis prior to being made available for use or sooner where an indicator of impairment exists. The following table summarises the net book value of development costs across both primary and secondary segments:

	Real-time financial £'000	Storage £'000	Total 2008 £'000	Real-time financial £'000	Storage £'000	Total 2007 £'000
Asia Pacific	27	—	27	42	—	42
EMEA	3,465	—	3,465	3,562	—	3,562
North America	—	2,134	2,134	33	1,357	1,390
Net book value	3,492	2,134	5,626	3,637	1,357	4,994

The total value of development costs not yet available for use at 31 December 2008 is £69,000 (2007: £nil), which have been reviewed and are not considered to be impaired. The recoverable amount of development costs allocated to CGUs has been determined based on a value in use assessment and the cashflows generated. In determining the recoverable amount the most recent budgets approved by the board have been used as a basis for estimating future cash flows.

## 14. Impairment of goodwill and intangibles (continued)

### *Key assumptions used in the value in use calculations*

Where the development costs relate to products or solutions that will be sold in an existing known market past experience is used as a guide to the level of sales achievable, growth rates and associated margins. Where the development costs relate to products or solutions that will be sold into a new or emerging market past experience with similar products or solutions is combined with relevant information from external market sources, such as competitor pricing and discussions with potential customers, in arriving at the level of sales achievable, growth rates and associated margins. The recoverable amount of development costs has been considered over only a 5 year period taking into account the relatively fast moving nature of the markets in which the products and solutions will be deployed. Growth rates in excess of 5% (2007:10%) are considered achievable once the product or solution is established in a market over a 5 year period. Discount rates of 12% (2007: 7%) based on the pre tax weighted average cost of capital of the cash generating unit is expected to apply in respect of future cash flows.

The calculation of value in use for both units is most sensitive to assumptions around the timing and quantum of sales arising from the intangible when made available for use and therefore the recoverable amount is highly sensitive to levels of future sales falling below expectations and budgets.

### *Sensitivity to changes in assumptions*

Other than disclosed below the directors believe that no reasonably possible change in any of the above key assumptions would cause the cash generating unit to exceed its recoverable amount.

At 31 December 2008, the date of the Group's annual impairment review, the estimated recoverable amount of the Storage Solutions CGU exceeded its carrying value by £163,000. The table below shows the key assumptions used in the value in use calculation and the amount by which each must change in isolation in order for the estimated recoverable amount to be equal to its carrying value.

	Assumptions used in value in use calculation	Change required for carrying value to equal recoverable amount
Change in year 1 cash flow	n/a	Decrease of 7.0%
Pre-tax discount rate %	12.0%	Increase of 2%
Short term growth rate % (years 1 to 5)	5.0%	Decrease of 3.0%

### *Change to expected useful life*

During the year, the economic life of certain development costs was reviewed in light of the fundamental changes seen in the banking market. The directors consider that the 'credit crunch' introduced a new level of uncertainty into the banking markets requiring a revision to the estimate of useful economic life of related intangible assets down from 20 years, reflecting the previously stable environment, to 10 years, reflecting the new world of banking. The impact of this change in accounting estimate is to increase the amortisation charge in the year, and subsequent years, by £180,000.

## 15. Inventories and financial assets

### Inventories

	2008	2007
	£'000	£'000
Goods for resale	20	100
	20	100

Inventories comprised the third party hardware necessary for deployment of certain Storage solutions. During the year, £100,000 of hardware was derecognised from inventories and recognised as property, plant and equipment where it is being depreciated over its remaining economic life. This treatment better reflects the actual experience of use of these assets within the business as proof of concept machines rather than as machines for resale.

### Other financial assets

	2008	2007
	£'000	£'000
Financial assets — current		
SQS warrants (see Note 21)	—	20
	—	20

## 16. Investments

### Details of group undertakings

Details of the investments in which the group holds 20% or more of the nominal value of any class of share capital are as follows:

Name of subsidiary company	Country of incorporation	Holding (shares)	Proportion of voting rights and shares held	Nature of Business
Gresham Computer Services Limited	England	Ordinary	100%	Real time financial solutions
Gresham Financial Systems Limited	England	Ordinary	100%	Real time financial solutions
Gresham Consultancy Services Limited	England	Ordinary	100%	Real time financial solutions
Gresham Computing Inc	USA	Ordinary	100%	Real time financial solutions
Gresham Enterprise Storage Inc	USA	Ordinary	100%	Storage
Online Financial Services Inc	Canada	Ordinary	100%	Real time financial solutions
Gresham Computing Pty Limited	Australia	Ordinary	100%	Real time financial solutions
Gresham Software Labs Pty Limited <sup>(1)</sup>	Australia	Ordinary	100%	Real time financial solutions
Gresham Computing Sdn Bhd <sup>(1)</sup>	Malaysia	Ordinary	100%	Real time financial solutions

<sup>1</sup> held by a subsidiary undertaking

### Disposal of Redstone Software Inc

On 2 September 2008, Gresham signed and completed an agreement to effect the disposal of Redstone, a company in which Gresham held a 91% equity share interest. Consideration comprised a fixed element of £5,000 for the shares owned by the group and £495,000 in settlement of an intercompany balance with a fellow subsidiary of Redstone ("Fixed Consideration"). In addition, consideration included a variable future payment ("Variable Consideration") for the shares contingent on certain sales made by Redstone in the period from disposal to 31 December 2008. All consideration was paid in cash prior to the end of the period and no further Variable Consideration is anticipated.

## 16. Investments (continued)

The disposal has not been disclosed as a discontinued operation since the business did not represent a separate major line of business.

Assets and liabilities disposed of other than cash

	£'000
Intangible fixed assets	13
Tangible fixed assets	15
Current assets	26
Current liabilities	(11)
Deferred income	(108)
<b>Total assets and (liabilities) disposed of other than cash and cash equivalents</b>	<b>(65)</b>

Cash and cash equivalents relating to the disposal

	£'000
Disposal consideration discharged by means of cash	
Fixed consideration	500
Variable consideration	27
	527
Cash and cash equivalents in Redstone on disposal	(12)
Net cash inflow from disposal of subsidiary undertaking	515
Costs relating to the disposal	(106)
<b>Net cash inflow from disposal of subsidiary undertaking after costs</b>	<b>409</b>

Profit on disposal of Redstone Software Inc

	£'000
Total consideration	515
Net liabilities (excluding cash) disposed	65
	580
Costs relating to the disposal	(106)
Deferred cumulative foreign exchange transferred from equity	125
<b>Net profit on disposal of Redstone</b>	<b>599</b>

### *Closure of Gresham SA*

Gresham SA formed an immaterial part of the group's storage business focused on the French market. The group placed the company into solvent liquidation and the business and its assets were derecognised from the financial statements in the year. Due to the very small size of the business, derecognition had no material impact on the financial statements other than the recognition of an £18,000 loss as a result of transferring the related deferred cumulative foreign exchange difference from equity to administration costs in the income statement.

The closure has not been disclosed as a discontinued operation since the business did not represent a separate major line of business.

## 17. Trade and other receivables

	2008	2007
	£'000	£'000
Trade receivables	2,495	2,475
Provision for impairment	(97)	(90)
Trade receivables — net	2,398	2,385
Prepayments and accrued income	643	1,230
Amounts recoverable on contracts	198	35
	3,239	3,650
Income tax receivable	281	374

The following table provides disclosure of contracts in progress at the balance sheet date:

	2008	2007
	£'000	£'000
Contracts in progress at the balance sheet date		
Contract costs incurred plus recognised profits less recognised losses to date	964	585
Less: progress billings	(766)	(550)
	198	35
Recognised as:		
Amounts recoverable on contracts	198	35

Trade receivables are denominated in the following currencies:

	2008	2007
	£'000	£'000
Sterling	849	1,116
Euro	125	346
US Dollar	836	632
Canadian Dollar	37	172
Australian Dollar	378	96
Other currencies	173	23
	2,398	2,385

There is no significant concentration of trade receivables around major customers in either year. Trade receivables are non-interest bearing and are generally on 30 – 60 days' terms and are shown net of a provision for impairment.

The nominal value of trade receivables that were impaired and fully provided for together with the movements in the provision for impairment of receivables were as follows:

	2008	2007
	£'000	£'000
At 1 January	90	108
Charge for the year	95	—
Amounts written off	(24)	(5)
Unused amounts reversed	(64)	(13)
At 31 December	97	90

## 17. Trade and other receivables (continued)

At 31 December, the analysis of trade receivables that were past due but not impaired is as follows:

	Total £'000	Neither past due nor impaired £'000	Past due but not impaired					120 days £'000
			< 30 days £'000	30 – 60 days £'000	60 – 90 days £'000	90 – 120 days> £'000		
2008	2,398	1,617	435	187	111	8	40	
2007	2,385	1,917	295	108	15	12	38	

The group's customers primarily comprise national and international banks, government bodies and substantial private and public companies. As a result, the credit quality of trade receivables that are neither past due nor impaired has been assessed by the directors to be relatively high, taking account of a low historic experience of bad debts and relatively good ageing profiles.

## 18. Cash and short term deposits

	2008 £'000	2007 £'000
Cash at bank and in hand	1,214	1,300
Short-term deposits	—	1,000
	1,214	2,300

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the group, and earn interest at the respective short-term deposit rates. The fair value of cash and cash equivalents is the same as stated above.

At 31 December 2008, the group had £nil (2007: £500,000) of un-drawn committed borrowing facilities.

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprises cash at bank and in hand and short-term deposits.

## 19. Trade, other payables, provisions and financial liabilities

### Trade and other payables

Trade payables, other payables and deferred income are non-interest bearing.

	2008 £'000	2007 £'000
Current		
Trade payables	610	1,026
Other payables	1,346	1,565
Deferred income	2,616	2,869
	4,572	5,460
Income tax payable	122	61
Non current		
Deferred income	278	715
	278	715

## 19. Trade, other payables and provisions (continued)

Provisions	Restructuring provision £'000
At 1 January 2008	
— Current	200
— Non-current	—
	200
Unused amounts reversed in the year	(40)
At 31 December 2008	
— Current	—
— Non-current	160
	160

**Restructuring**

The restructuring provision relates to a rationalisation of the group's property portfolio and the resulting lease liabilities, which are not expected to crystallise until 2013 (2007: liability was expected to crystallise in 2008 but due to renegotiation of the obligation did not). The provision has been discounted using a rate of 5% which the directors consider to be the relevant pre-tax risk based rate applicable to the liability.

Financial liabilities	2008 £'000	2007 £'000
Current		
Current obligations under finance leases (note 20)	28	—
Non-current		
Non-current obligations under finance leases (note 20)	59	—

## 20. Obligations under leases

**Obligations under finance leases**

The group uses finance leases to acquire items of plant and machinery. The assets in question are being held under lease by the group for substantially all of their useful economic life and as a result the lease is treated as a finance lease. Future minimum lease payments under finance lease contracts are as follows:

	2008 £'000	2007 £'000
Future minimum payments due:		
Not later than one year	35	—
After one but not more than five years	65	—
	100	—
Less finance charges allocated to future periods	(13)	—
Present value of minimum lease payments	87	—
The present value of minimum lease payments is analysed as follows:		
Not later than one year	28	—
After one year but not more than five years	59	—
	87	—

## 20. Obligations under leases (continued)

### Operating lease agreements where the group is lessee

The group has entered into commercial leases on certain properties that have an average duration of between 2 and 5 years. There are no unusual restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases are as follows:

	Land and buildings 2008 £'000	Other 2008 £'000	Total 2008 £'000	Land and buildings 2007 £'000	Other 2007 £'000	Total 2007 £'000
Not later than one year	336	45	381	345	42	387
After one but not more than five years	634	30	664	92	54	146
	970	75	1,045	437	96	533

A group company sublet space in certain leasehold properties and the future minimum sublease payments expected to be received under non-cancellable sublease agreements as at 31 December are as follows:

	Land and buildings 2008 £'000	Land and buildings 2007 £'000
Not later than one year	—	53
After one but not more than five years	—	—
	—	53

## 21. Financial instruments

### Objectives, policies and strategies

The group's objective is to finance the business through management of existing liquidity; focusing on working capital acceleration to cash and converting illiquid assets, such as the assets of Redstone Software Inc and the freehold property, to liquid assets and ultimately cash. Investments in intangible fixed assets, property, plant and equipment have been made with the benefit of Research & Development tax credits taken as cash.

The group's policy towards using financial instruments is to manage credit, liquidity and currency exposure risk without exposing the group to undue risk or speculation. The policy is kept under review by the Directors according to the group's foreign exchange and treasury policy.

### Risk management

The risks arising from the group's operations and financial instruments are explained below.

#### Credit risk

The group monitors exposure to credit risk on an ongoing basis. The risk of financial loss due to a counterparty failure to honour its obligations arises principally in relation to transactions where the group provides solutions and services on deferred terms and where it invests or deposits surplus cash.

Group policies are aimed at minimising such losses, and require that deferred terms are granted only to customers who demonstrate an appropriate payment history and satisfy creditworthiness procedures. Individual exposures are monitored with customers subject to credit limits to ensure that the group's exposure to bad debts is not significant. Solutions and services may be sold on a cash-with-order basis to mitigate credit risk. Bad debt insurance is not carried.

Performance of individual businesses is monitored at both operating unit and group level allowing the early identification of major risks and reducing the likelihood of an unmanaged concentration of credit risk.

## 21. Financial instruments (continued)

Notwithstanding the existing procedures, the group suffered a £65,000 bad debt in late 2008 through exposure to a UK company, with the IT placement customer entering administration even whilst all debt was current. As a direct result, subsequent to the year end, the group is changing its terms of business within the IT placement business to reduce credit risk by introducing a payment versus payment mechanism between contractors and customers. This fundamental change was completed by the end of April 2009.

Cash investments are only allowed in liquid securities with major financial institutions that satisfy specific criteria. The maximum credit risk exposure at the balance sheet date is represented by the carrying value of financial assets and there are no significant concentrations of credit risk.

### Interest rate risk

The group has limited exposure to interest rate risk since it has no bank borrowings and interest receivable on cash deposits does not form a material part of group income.

### Capital risk

The group defines its capital as the group's total equity and manages capital based on the level of net cash held. Its objective when managing capital is to safeguard the group's ability to continue as a going concern in order to provide returns for shareholders, to provide an adequate return to investors based upon the level of risk undertaken, to have available the necessary financial resources to allow the group to invest in areas that may deliver future benefit to investors and maintain sufficient financial resources to mitigate risks and unforeseen events.

In order to maintain or adjust the capital structure the group may issue new shares or sell assets to provide additional capital.

### Financial liabilities – by maturity

The table below summarises the remaining contractual maturity for the group's financial liabilities, based on contractual undiscounted payments:

	Less than 1 year £'000	Between 1 to 2 years £'000	Between 2 to 5 years £'000
Year ended 31 December 2008			
Finance leases	35	35	30
Year ended 31 December 2007	—	—	—

All current liabilities are expected to fall due within one year of the balance sheet date at their carrying amount.

### Liquidity risk

During the year, the subject of liquidity risk management came to the fore within the global economy and affected our primary customer base, the financial institutions, acutely. As a result, the group undertook a thorough review of its liquidity position and controls. The group's liquidity risk falls within the following major categories:

- Trade receivables. A significant element of the group's liquidity is tied up in working capital, which primarily comprises trade receivables. The settlement risk associated with these assets comprises both credit risk (the risk that the counterparty will not settle at all) and liquidity risk (the risk that the counterparty will not settle on time).
- Fixed assets. A significant element of the group's liquidity is tied up in tangible fixed assets. For those assets required in the business for day to day operations the group considers the use of finance lease arrangements to reduce the amount of liquidity tied up in such assets. The group keeps its investment in fixed assets under review and actively considers converting such assets to more liquid assets. During the year, a decision was taken to increase liquidity by selling Redstone Software Inc (a subsidiary) and selling the group's freehold property.

## 21. Financial instruments (continued)

- Intra month liquidity. The group is exposed to significant intra month liquidity demands specifically arising in its IT placement business, where contractors are paid at the end of a month's work and the customer pays Gresham after a longer credit period. After the year end, the group commenced a plan to reduce this risk through the introduction of a payment versus payment arrangement whereby the contractor takes on the settlement risk associated with the customer in full.
- Currency risk. This risk is discussed below.

The group monitors and controls liquidity through the following key controls:

- Daily cash at bank is reported to the executive board
- Cash forecasts are maintained
- Foreign exchange risks are hedged where significant
- Credit control is operated locally with group oversight

Discounts are offered for early payment by customers and finance lease and deferred payment arrangements are considered to retain or improve liquidity.

### Fair values of financial assets and liabilities

Set out below is a comparison by category of the group's financial assets and liabilities that are carried in the financial statements (there is no material difference between the carrying amounts and fair values):

Year ended 31 December 2008	Note	Fair value			Total carrying amount £'000
		Loans and receivables £'000	through profit and loss £'000	Amortised cost £'000	
<b>Financial assets</b>					
Trade receivables		2,398	—	—	2,398
Cash and cash equivalents		1,214	—	—	1,214
		<b>3,612</b>	<b>—</b>	<b>—</b>	<b>3,612</b>
<b>Financial liabilities</b>					
Trade payables		—	—	(663)	(663)
Finance leases		—	—	(87)	(87)
		<b>—</b>	<b>—</b>	<b>(750)</b>	<b>(750)</b>
<b>Year ended 31 December 2007</b>					
Year ended 31 December 2007	Note	Fair value			Total carrying amount £'000
		Loans and receivables and loss £'000	through profit and loss £'000	Amortised cost £'000	
<b>Financial assets</b>					
Trade receivables		2,385	—	—	2,385
Cash and cash equivalents		2,300	—	—	2,300
SQS warrants		—	20	—	20
		<b>4,685</b>	<b>20</b>	<b>—</b>	<b>4,705</b>
<b>Financial liabilities</b>					
Trade payables		—	—	(1,026)	(1,026)
		<b>—</b>	<b>—</b>	<b>(1,026)</b>	<b>(1,026)</b>

### SQS warrants

The group held warrants over 52,800 Software Quality Systems AG ("SQS") ordinary shares, which were issued in 2005. These were treated as financial assets held at fair value through profit or loss (see note 18). The warrants ("SQS warrants") had an exercise price of £1.90 and were exercisable at any time in the period 12 August 2005 to 31 July 2008.

## 21. Financial instruments (continued)

The fair value of the SQS warrants was calculated as at the 2007 year end date using a Black Scholes model. The warrants were exercised in 2008 and the resulting equity instruments immediately sold in the market at their fair value giving rise to a profit on derecognition of £17,000 above the recorded fair value, which is reported in finance revenue.

### Currency risk

The group has exposures to the main currency types: US Dollar, Canadian Dollar, Australian Dollar and Euro rates in particular.

Currency exposure arises through intra-group loans and trading balances throughout all group locations. Natural hedging is employed, to the extent possible, to minimise net exposures, however where significant exposures arise outside of intra-group trading, it is group policy to enter in to formal hedging arrangements where these can be shown to be effective. At 31 December 2008, the group had hedged none (2007: none) of its foreign currency sales for which firm commitments existed at the balance sheet date. Since the year end, the group has entered into one such transaction to hedge the contracted receipt of Euros.

Currency exposures comprise the monetary assets and monetary liabilities of the group that are not denominated in the functional currency of the operating unit involved, other than those borrowings treated as hedges of foreign equity investments. In general all overseas operating units trade and hold assets and liabilities in their functional currency.

### Sensitivities

The following table details the group's sensitivities to a change in sterling exchange rates against the respective foreign currencies. The sensitivities represent management's assessment of the effect on monetary assets of the possible changes in foreign exchange rates, which for 2008 have been amended to take account of the potential fluctuations seen in the most recent periods. The sensitivity analysis of the group's exposure to foreign currency risk at the year end has been determined based on the assumption that the change is effective throughout the financial year and all other variables remain constant. The impact of translating the net assets of foreign operations into sterling is excluded from the sensitivity analysis.

A positive number indicates an increase in profit after taxation and other components of equity where sterling weakens against the respective currencies.

	Increase/Decrease in exchange rates	Effect on profit before tax £'000
<b>2008</b>		
Euro	+20%	(31)
	-20%	47
Australian Dollar	+20%	(75)
	-20%	112
US Dollar	+20%	(182)
	-20%	273
Canadian Dollar	+20%	(13)
	-20%	20
<b>2007</b>		
Euro	+10%	(41)
	-10%	50
Australian Dollar	+10%	(15)
	-10%	19
US Dollar	+10%	(71)
	-10%	87
Canadian Dollar	+10%	(19)
	-10%	24

The group has no material exposure to interest rate sensitivities.

## 22. Authorised and issued share capital

Authorised	2008		2007	
	Number	£	Number	£
Ordinary shares of 5 pence each	65,000,000	3,250,000	65,000,000	3,250,000
Preference shares of 20 pence each	2,750,000	550,000	2,750,000	550,000
	67,750,000	3,800,000	67,750,000	3,800,000

Ordinary shares allotted, called up and fully paid	Number	Nominal	Consideration
		value	received
		£'000	£'000
At 1 January 2007	50,350,890	2,518	—
Issued for cash by way of a placing	2,500,000	125	2,652
At 1 January and 31 December 2008	52,850,890	2,643	—

The consideration received in respect of the placing in 2007 is shown net of £98,000 of share costs.

There are no preference shares in issue (2007: none).

Further to an acquisition made in February 2005, deferred consideration of £300,000 is payable in cash or shares, at the option of group, dependent on the achievement of certain financial targets in respect of the business transferred within a 5 year period from acquisition. No further payments have been made in respect of this acquisition to the date of these financial statements and no contingent consideration, in the form of shares or cash, has been recognised because in the opinion of the directors it is not probable that such additional payments will be made.

An explanation of the group's capital management process and objectives is set out in the discussion of capital management on page 6 in the Directors' report and capital risk disclosures in note 21.

## 23. Share-based payments

The grant of all options and awards is made by the Remuneration Committee and such grants involve equity settlement. In granting executive share options the Remuneration Committee has regard to both the participant's level of responsibility within the group and to individual and group performance.

### Executive Option Plan 2007 ("EOP")

This Plan was approved by shareholders on 29 June 2007 in General Meeting. The Remuneration Committee has restricted participation in the Plan to the group's key executives, including the executive directors, to ensure awards are targeted at those employees best placed to drive achievement of the group's strategic and financial goals.

Awards made under the Plan are structured as stock appreciation rights (SARs) which give a participant the right to benefit from a rise in the market value of shares the subject of an award from date of grant to the relevant vesting date. On exercise, a participant is required to pay the company by way of subscription an amount equal to the aggregate nominal value of the shares to be issued to him.

There are two elements to each SAR award: a Basic award and, for every two Basic awards, a Bonus award, each exercisable on the achievement of the challenging performance targets described further below.

The performance criteria are based on the achievement of fixed target company share prices (target share prices), with a minimum target share price of £2.50 to be achieved before any Basic awards are exercisable and a price of £4.00 to be achieved before Bonus awards are exercisable. Unexercised awards will lapse six years from the date of grant.

An award of SARs entitles the holder to acquire such number of shares as has a value equal to the increase in the market value of the shares subject to the award between the date of grant and the date of vesting. The strike price for each share comprised in an award at date of grant is to be determined by the Committee but will not be less than the average

## 23. Share-based payments (continued)

of the middle-market price of a share, as derived from The London Stock Exchange Daily Official List, on the three dealing days immediately preceding the appropriate date plus a premium of 10 pence for each such share.

An eligible participant will, other than in the case of any adjustments made to reflect a promotion or significant change in responsibilities, receive only one grant of awards under the Plan. The maximum aggregate market value of the Basic component of an award at date of grant to any participant will not exceed an amount being equal to six times basic salary.

### Basic awards

Basic awards will vest, subject to the achievement of target share prices, in one-third increments over each of the third, fourth and fifth years from date of grant respectively (each a Basic Performance Period) as follows:

- one-third at the end of year 3 for achieving a target share price of £2.50;
- one-third at the end of year 4 for achieving a target share price of £3.00; and
- one-third at the end of year 5 for achieving a target share price of £4.00.

### Bonus awards

Bonus awards are granted as to one Bonus award for every two Basic awards and will vest in full, subject to achievement of a target share price of £4.00, at the end of the fifth year from date of grant (the Bonus Performance Period).

### General

When assessing the achievement of target share prices, the company's share price performance will be calculated based on the average middle-market price of a share, as derived from The London Stock Exchange Daily Official List, on the twenty dealing days immediately preceding each of the third, fourth and fifth anniversaries of the date of grant, as appropriate.

Any SARs subject to a Basic or Bonus award which do not become exercisable in full according to performance measured over the relevant Basic or Bonus Performance Period will nevertheless become exercisable to the extent that one or more of the target share prices described above are achieved on average in any consecutive 20 dealing day period from the fifth to the sixth anniversaries of grant. Any SARs subject to a Basic or Bonus award which remain un-exercisable after this second test of the performance conditions will lapse.

In the event of a takeover or proposal for a scheme of arrangement of the company (not being an internal corporate reorganisation), the Committee will accelerate vesting of a participant's Basic and Bonus awards according to a formula which assesses the target share price performance condition as at the date the relevant transaction becomes or is declared wholly unconditional or otherwise completes as if all of the Basic and Bonus Performance Periods had elapsed at that date.

Alternatively, following a takeover awards may, with the agreement of the acquiring company and the consent of the participant, be rolled-over to become awards over the acquiring company's shares. In the absence of roll-over or exercise as above, awards will lapse.

Awards will lapse on cessation of employment other than in the circumstances referred to above or if awards are not exercised within the prescribed periods. Awards will also lapse to the extent that the relevant target share price is not satisfied at the end of the relevant performance periods or on any re-test.

At 31 December 2008, 25 participants held awards under this scheme (2007: 33).

### Executive Scheme 1998

Approved options under this scheme are only exercisable if, on average, over a three year period the group's earnings per share increase by five per cent per annum above the retail price index. Any un-approved options granted under this scheme may also be subject to additional individual performance criteria.

Options are capable of exercise after three years and within ten years of the date of grant.

From 30 July 2004, all new options granted under these executive schemes are only exercisable based on the performance in the first relevant three year period from a fixed point; rolling re-testing is not allowed. For options granted

### 23. Share-based payments (continued)

before this date, rolling re-testing is still permitted in accordance with the terms on which they were issued as approved by shareholders in general meeting.

Vesting continues to be measured based on UK GAAP earnings per share for executive options granted prior to the adoption of IFRS.

At 31 December 2008, 7 participants held options under this scheme (2007: 12). No further options will be granted in respect of this scheme.

Outstanding options to subscribe for ordinary shares of 5p at 31 December 2008, including those noted in the Directors' Remuneration Report are as follows:

	Note	2008 Number	2008 WAEP	2007 Number	2007 WAEP
<b>Executive Scheme 1998 (options)</b>					
Outstanding at 1 January	1	779,314	56	784,314	56
Forfeited		(178,917)	86	(5,000)	46
Outstanding at 31 December	1	600,397	45	779,314	56
Exercisable at 31 December		600,397	45	719,316	51
Weighted average remaining contractual life (years)		1.78		2.98	
<b>EOP 2007 scheme (awards)</b>					
Outstanding at 1 January	2	4,359,999	115	—	—
Granted during the year		715,000	64	4,359,999	115
Forfeited		(1,130,000)	115	—	—
Outstanding at 31 December	2	3,944,999	106	4,359,999	115
Exercisable at 31 December		—	—	—	—
Weighted average remaining contractual life (years)		8.92		9.82	

WAEP: Weighted Average Exercise Price (Pence per share)

All share options and awards were granted with an exercise price per share equal to the share price at the date of grant, or in the case of the EOP 2007 awards at a premium of 10 pence above the share price at the date of grant, and therefore the weighted average share price for option grants is the same as the weighted average exercise price ('WAEP'). No price is payable on award of share options or awards.

Note 1: Included within this number of options are options over 562,897 (2007: 686,816) shares (Executive Scheme 1998) that have not been accounted for in accordance with IFRS 2 as the options were granted on or before 7 November 2002. These options have not been subsequently modified and therefore do not need to be accounted for in accordance with IFRS 2.

Note 2: 715,000 awards were granted in 2008 under the EOP 2007 scheme (2007: 4,359,999). The weighted average fair value of options granted during 2008 was 54 pence (2007: 105 pence).

## 23. Share-based payments (continued)

Outstanding options and awards to subscribe for ordinary shares of 5p at 31 December 2008, including those noted in the Directors' Remuneration Report showing the range of exercise prices and dates are as follows:

	Number of share options	Date of grant	Exercise price £	Date first exercisable	Expiry date	Cash receivable if exercised £
Executive Scheme 1998	5,000	09-Feb-00	0.460	10-Feb-03	09-Feb-10	2,300
	557,897	25-Jul-00	0.360	28-Jul-03	27-Jul-10	200,843
	7,500	22-Apr-03	0.700	23-Apr-06	22-Apr-13	5,250
	20,000	28-May-04	3.225	29-May-07	28-May-14	64,500
	10,000	30-Sep-05	0.860	01-Oct-08	30-Sep-15	8,600
	600,397					281,493
EOP 2007	3,229,999	22-Oct-07	1.1500	23-Oct-10	23-Oct-17	See note
	625,000	29-Apr-08	0.6225	30-Apr-11	30-Apr-18	See note
	45,000	04-Jun-08	0.7000	05-Jun-11	05-Jun-18	See note
	45,000	29-Aug-08	0.8000	30-Aug-11	30-Aug-18	See note
	3,944,999					

The cash receivable on exercise of the EOP 2007 awards depends on the market price at the date of exercise which is used in calculating the actual number of shares to be issued to satisfy the award. The award holder is then required to pay 5 pence for every share issued under this scheme. The maximum cash receivable if all awards were exercised is £197,000 (2007: £218,000), which is calculated on the assumption that one share is issued at par to satisfy each award.

Outstanding options to subscribe for ordinary shares of 5p at 31 December 2007, including those noted in the Directors' Remuneration Report showing the range of exercise prices and dates are as follows:

	Number of share options	Date of grant	Exercise price £	Date first exercisable	Expiry date	Cash receivable if exercised £
Executive Scheme 1998	43,919	17-Feb-99	1.420	18-Feb-02	17-Feb-09	62,365
	5,000	09-Feb-00	0.460	10-Feb-03	09-Feb-10	2,300
	637,897	25-Jul-00	0.360	28-Jul-03	27-Jul-10	229,643
	12,500	22-Apr-03	0.700	23-Apr-06	22-Apr-13	8,750
	20,000	28-May-04	3.225	29-May-07	28-May-14	64,500
	49,998	22-Jun-05	1.200	23-Jun-08	22-Jun-15	59,998
	10,000	30-Sep-05	0.860	01-Oct-08	30-Sep-15	8,600
	779,314					436,156
EOP 2007	4,359,999	22-Oct-07	1.1500	23-Oct-10	23-Oct-17	See note

The fair value of equity-settled share options granted is estimated as at the date of grant as follows:

### *Executive Scheme 1998*

The fair value of equity-settled share options granted is estimated as at the date of grant using a Black Scholes model, taking into account the terms and conditions upon which the options were granted. No options were granted in 2008 or 2007.

In all cases, the exercise price at the date of grant is equal to the market price at the date of grant.

### 23. Share-based payments (continued)

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options granted were incorporated into the measurement of fair value.

#### *EOP 2007*

The fair value of equity-settled share options granted has been estimated as at the date of grant, by an independent remuneration consultant with the relevant skills, with a Monte-Carlo risk-neutral model using a lognormal distribution to simulate thousands of share price outcomes, taking into account the terms and conditions upon which the options were granted. The following table lists the range of inputs to the model used for the grants made:

	2008	2007
Vesting date	Between 3 and 6 years	Between 3 and 6 years
Expiry date	6 years after grant	6 years after grant
Exercise price	£0.62 to £0.80	£1.15
Share price at valuation	£0.59 to £0.66	£1.05
Vested options expected life	The minimum of 1 year after vesting and full term to expiry	The minimum of 1 year after vesting and full term to expiry
Volatility	50% (expected future volatility, based on historical analysis and trend)	50% (expected future volatility, based on historical analysis and trend)
Dividend yield	0%	0%
Risk free rate	4.52% to 5.04% (spot yield on valuation date of 6-year nil-coupon UK government bonds)	4.85% (spot yield on valuation date of 6-year nil-coupon UK government bonds)
Simulations	60,000	60,000
Impact of continued employment conditions	70% attrition rate on average	30% attrition rate on average

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options granted were incorporated into the measurement of fair value.

The expense recognised in the income statement for all equity settled share-based payments in respect of employee services received is as follows:

	2008	2007
	£'000	£'000
Expense recognised in respect of share-based payments	155	42

## 24. Reconciliation of movements in equity

	Share capital £'000	Share premium £'000	Other reserves £'000	Currency translation reserves £'000	Retained earnings £'000	Total £'000
At 1 January 2007	2,518	10,037	1,039	(132)	(6,383)	7,079
Exchange differences on translation of foreign operations	—	—	—	68	—	68
Share based payment	—	—	—	—	42	42
Issue of shares	125	2,625	—	—	—	2,750
Share issue costs	—	(98)	—	—	—	(98)
Attributable loss for the period	—	—	—	—	(2,420)	(2,420)
At 31 December 2007	2,643	12,564	1,039	(64)	(8,761)	7,421
Exchange differences on translation of foreign operations	—	—	—	358	—	358
Share based payment	—	—	—	—	155	155
Exchange differences on disposal/closure of subsidiary undertakings	—	—	—	(107)	—	(107)
Attributable profit for the period	—	—	—	—	30	30
At 31 December 2008	2,643	12,564	1,039	187	(8,576)	7,857

**Share capital**

The balance classified as share capital represents the nominal value arising from the issue of the company's equity share capital, comprising 5 pence ordinary shares.

**Share premium**

The balance classified as share premium represents the premium arising from the issue of the company's equity share capital, comprising 5 pence ordinary shares, net of share issue expenses. There are restrictions on the use of the share premium account. It can only be used for bonus issues, to provide for the premium payable on redemption of debentures or to write off preliminary expenses, or expenses of, or commissions paid on, or discounts allowed on, any issues of shares or debentures of the company.

**Other reserves**

The balance classified as other reserves comprises a special reserve of £313,000 and merger reserve of £726,000. The special reserve arose on the cancellation of deferred ordinary shares in June 1992. The merger reserve arose on issue of shares in respect of acquisitions and mergers in the period 1992 to 1999.

**Currency translation reserves**

The currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

**Retained earnings**

The cumulative amount of goodwill written off to reserves at 31 December 2008 and 2007 is £7,326,000. Goodwill previously written off to reserves will remain so written off.

## 25. Additional cash flow information

### Analysis of group net funds

	1 January 2008 £'000	Cash flows £'000	Exchange differences £'000	Non cash movements £'000	31 December 2008 £'000
Cash and cash equivalents	2,300	(1,201)	115	—	1,214
Finance leases	—	2	—	(89)	(87)
	2,300	(1,199)	115	(89)	1,127

	1 January 2007 £'000	Cash flows £'000	Exchange differences £'000	Non cash movements £'000	31 December 2007 £'000
Cash and cash equivalents	3,557	(1,287)	30	—	2,300
Finance leases	—	—	—	—	—
	3,557	(1,287)	30	—	2,300

## 26. Change of arrangement with Cable & Wireless

As a result of the new arrangement agreed with Cable & Wireless in April 2006, a one off payment of cash was made to Gresham by Cable & Wireless in 2006. In addition, from April 2006 additional fixed quarterly payments are being made to Gresham by Cable & Wireless. The initial one off payment is being deferred in the balance sheet and released on a straight line basis to revenue over a period of 3 years from May 2006 to April 2009 to match the cost of the additional obligations taken on by Gresham under this new agreement. The further fixed quarterly payments, which are paid in advance, are also being deferred in the balance sheet and released on a straight line basis to revenue over the quarters to which they relate.

During the period, the revenue recognised in the income statement in respect of this arrangement totalled £1,373,000 (2007: £1,373,000).

## 27. Post balance sheet event

Post balance sheet events are disclosed in the Directors' Report under that heading.

## 28. Capital commitments

At 31 December 2008, amounts contracted for but not provided in the financial statements for the acquisition of property, plant and equipment amounted to £nil (2007: £nil).

## 29. Contingent liabilities

In the normal course of business, the parent company has issued general guarantees in respect of the contractual obligations of certain subsidiary undertakings from which no liability is expected to arise.

## 30. Related party transactions

Key management personnel are defined for the purpose of these financial statements as the main board directors and information concerning the remuneration of these directors can be found in the Remuneration Report. The share-based payments charge arising in respect of main board directors in 2008 was £48,000 (2007: £36,000).

## Statement of directors' responsibilities in relation to the parent company financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the group and 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 group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GRESHAM COMPUTING PLC

We have audited the parent company financial statements of Gresham Computing plc for the year ended 31 December 2008 which comprise the Balance Sheet and the related notes 1 to 14. These parent company 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.

We have reported separately on the group financial statements of Gresham Computing plc for the year ended 31 December 2008.

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 parent company financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent company 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 parent company financial statements give a true and fair view and whether the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the parent company directors' report is consistent with the financial statements.

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

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent company financial statements. The other information comprises only the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any other information.

## Basis of audit opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent company 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 parent company financial statements and the part of the Directors' Remuneration Report to be audited.

## Opinion

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2008;
- the parent company 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
- the information given in the directors' report is consistent with the parent company financial statements.

*Ernst & Young LLP*

Ernst & Young LLP  
Registered auditor  
Southampton  
21 April 2009

	Notes	31 December 2008 £'000	31 December 2007 £'000
Fixed assets			
Investments	5	19,094	18,946
		19,094	18,946
Current assets			
Debtors	6	10,327	8,689
Cash at bank and in hand		522	996
		10,849	9,685
Creditors: amounts falling due within one year	7	4,663	3,271
Net current assets		6,186	6,414
Total assets less current liabilities		25,280	25,360
Capital and reserves			
Called up share capital	9	2,643	2,643
Share premium account	10	12,564	12,564
Special reserve	10	313	313
Merger reserve	10	6,609	6,609
Profit and loss account	10	3,151	3,231
Shareholders' funds – equity interests	10	25,280	25,360

On behalf of the board



C M Errington  
21 April 2009



A Walton-Green  
21 April 2009

## 1. Accounting policies

### Basis of preparation

The parent company financial statements of Gresham Computing plc (the "company") are presented, as required by the Companies Act 1985, and were approved for issue on 21 April 2009.

The financial statements are prepared under the historical cost convention as modified for financial instruments that are measured at fair value, and are prepared in accordance with applicable accounting standards.

No profit and loss account is presented by the company as permitted by Section 230 of the Companies Act 1985.

The company has taken advantage of the exemption in paragraph 2D of FRS 29 Financial Instruments: Disclosures and has not disclosed information required by that standard, as the group's consolidated financial statements, in which the company is included, provide equivalent disclosures for the group under IFRS 7 Financial Instruments: Disclosures.

The following new standards have been adopted and are effective for the current year:

Abstract 42 which has the effect of implementing IFRIC Interpretation 9 'Reassessment of Embedded Derivatives' in the UK and the Republic of Ireland for entities preparing their financial statements in accordance with UK accounting standards and, in doing so, are applying FRS 26 (IAS 39) 'Financial Instruments: Measurement'. This pronouncement addresses the question of whether it is necessary to reassess the treatment of an embedded derivative throughout the life of a contract if certain events occur after an entity first becomes a party to the contract. It concludes that reassessment is not permitted unless there is a significant change to the terms of the contract.

The company does not have any embedded derivatives in the current year (2007: none) therefore the adoption of this Abstract has not impacted the classification or measurement of the company's assets and liabilities, nor has it resulted in any additional disclosure.

### Investments

Investments are recorded at cost less provision for impairment.

### Financial assets

#### *Financial assets at fair value through profit or loss*

Financial assets classified as held for trading and other assets designated as such on inception are included in this category. Financial assets are classified as held for trading if they are acquired for sale in the short term. Derivatives are also classified as held for trading unless they are designated as hedging instruments. Assets are carried in the balance sheet at fair value with gains or losses on financial assets at fair value through profit or loss recognised in the profit & loss account.

### Impairment of financial assets

The company assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

#### *Assets carried at amortised cost*

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced, with the amount of the loss recognised in administration costs.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the profit and loss account, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

## 1. Accounting policies (continued)

### Other receivables

Where the time value of money is material, other receivables are carried at amortised cost. Provision is made when there is objective evidence that the company will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

### Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements. A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured, on a undiscounted basis, at rates expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date as they apply in the periods in which the timing differences are expected to reverse.

### Foreign currencies

Transactions denominated in foreign currencies are translated at an approximation of the exchange rate ruling on the date of the transaction.

Assets and liabilities denominated in foreign currencies are translated at the exchange rate ruling on the balance sheet date. Resulting exchange gains and losses are taken to the profit and loss account.

### Financial instruments

The company uses forward foreign currency contracts to reduce exposure to movements in foreign exchange rates. Such instruments are stated at fair value. Gains and losses arising from changes in fair value are taken to the profit and loss account in the period.

### Related party transactions

The company has taken advantage of the exemption under FRS 8 from disclosing related party transactions with entities that are part of the Gresham Computing plc group.

### Leasing commitments

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term. Lease incentives are recognised over the shorter of the lease term and the period to the next rent review.

### Classification of shares as debt or equity

An equity instrument is a contract that evidences a residual interest in the assets of an entity after deducting all its liabilities. Accordingly, a financial instrument is treated as equity if:

- (i) there is no contractual obligation to deliver cash or other financial assets or to exchange financial assets or liabilities on terms that may be unfavourable; and
- (ii) the instrument is a non-derivative that contains no contractual obligations to deliver a variable number of shares or is a derivative that will be settled only by the company exchanging a fixed amount of cash or other assets for a fixed number of the company's own equity instruments.

## 1. Accounting policies (continued)

When shares are issued, any component that creates a financial liability of the company is presented as a liability in the balance sheet; measured initially at fair value net of transaction costs and thereafter at amortised cost until extinguished on conversion or redemption. The corresponding dividends relating to the liability component are charged as interest expense in the income statement. The initial fair value of the liability component is determined using a market rate for an equivalent liability without a conversion feature.

The remainder of the proceeds on issue is allocated to the equity component and included in shareholders' equity, net of transaction costs. The carrying amount of the equity component is not re-measured in subsequent years.

Transaction costs are apportioned between the liability and equity components of the shares based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

### Share-based payments – Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised in the company financial statements as a capital contribution to the subsidiaries for whom the employees perform services, with the credit entry being made to reserves, over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award.

Fair value of awards with a market condition based performance target is determined by an external valuer using a Monte Carlo simulation pricing model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the company (market conditions). Fair value of awards with a financial result based performance target is determined by management using the Black Scholes pricing model.

No capital contribution is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other vesting conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions and of the number of equity instruments that will ultimately vest or, in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised as a capital contribution, with a corresponding entry in equity.

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised as a capital contribution over the original vesting period. In addition, an expense is recognised as a capital contribution over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the income statement for the award is recorded as a capital contribution immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as a capital contribution in the balance sheet.

## 2. Auditors' remuneration

	2008 £'000	2007 £'000
Audit of the financial statements		
Audit services — parent	10	10
	10	10
Additional information		
Audit services — group	15	15
Audit services — subsidiaries	65	64
	80	79

## 3. Directors' remuneration

Information concerning directors' remuneration and gains on exercise of share options can be found in the Directors' remuneration report on pages 19 to 22 and in note 7 to the group financial statements.

## 4. Dividends paid and proposed

No dividends were declared or paid during the year and no dividends are proposed for approval at the AGM (2007: None).

## 5. Investments

	Subsidiaries 2008 £'000	Subsidiaries 2007 £'000
Cost:		
At 1 January	23,089	23,047
Capital contribution (FRS 20 share based payments expense)	155	42
Disposal of Redstone Software Inc	(7)	—
At 31 December	23,237	23,089
Impairment provisions:		
At 1 January and 31 December	4,143	4,143
Net book value:		
At 31 December	19,094	18,946

Details of the investments in which the company holds 20% or more of the nominal value of any class of share capital are as follows:

Name of subsidiary company	Country of incorporation	Holding (shares)	Proportion of voting rights and shares held	Nature of business
Gresham Computer Services Limited	England	Ordinary	100%	Real time financial solutions
Gresham Financial Systems Limited	England	Ordinary	100%	Real time financial solutions
Gresham Consultancy Services Limited	England	Ordinary	100%	Real time financial solutions
Gresham Computing Inc	USA	Ordinary	100%	Real time financial solutions
Gresham Enterprise Storage Inc	USA	Ordinary	100%	Storage
Online Financial Services Inc	Canada	Ordinary	100%	Real time financial solutions
Gresham Computing Pty Limited	Australia	Ordinary	100%	Real time financial solutions
Gresham Software Labs Pty Limited <sup>1</sup>	Australia	Ordinary	100%	Real time financial solutions
Gresham Computing Sdn Bhd <sup>1</sup>	Malaysia	Ordinary	100%	Real time financial solutions

<sup>1</sup> held by a subsidiary undertaking

## 5. Investments (continued)

### *Disposal of Redstone Software Inc*

On 2 September 2008, Gresham signed and completed an agreement to effect the disposal of Redstone, a company in which Gresham held a 91% equity share interest. Consideration comprised a fixed element of £5,000 for the shares owned by the company and £495,000 in settlement of an intercompany balance with a fellow subsidiary of Redstone ("Fixed Consideration"). In addition, consideration included a variable future payment ("Variable Consideration") for the shares contingent on certain sales made by Redstone in the period from disposal to 31 December 2008. All consideration was paid prior to the end of the period and no further Variable Consideration is anticipated.

This transaction gave rise to the following loss on disposal of the investment:

	£'000
Consideration in respect of shares held by Company	
Fixed Consideration	5
Variable Consideration	27
Total consideration	32
Less:	
Carrying value of investment	(7)
Costs relating to the disposal	(106)
Loss on disposal of investment	(81)

## 6. Debtors

	2008 £'000	2007 £'000
Amounts owed by subsidiary undertakings	10,320	8,600
Prepayments and accrued income	7	69
SQS warrants	—	20
	10,327	8,689

## 7. Creditors: amounts falling due within one year

	2008 £'000	2007 £'000
Amounts owed to subsidiary undertakings	4,441	3,035
Trade creditors	30	2
Other creditors and accruals	192	234
	4,663	3,271

## 8. Deferred tax

The company has an unrecognised deferred tax asset as follows:

	2008 £'000	2007 £'000
Tax losses	202	174

The UK corporation tax rate decreased from 30% to 28% from 1 April 2008. The deferred tax balance was adjusted in the prior year to reflect that change.

## 9. Share capital

Authorised share capital	2008		2007	
	Number	£	Number	£
Ordinary shares of 5 pence each	65,000,000	3,250,000	65,000,000	3,250,000
Preference shares of 20 pence each	2,750,000	550,000	2,750,000	550,000
	67,750,000	3,800,000	67,750,000	3,800,000

Ordinary shares issued and fully paid	Number	Nominal	Consideration
		value	received
		£'000	£'000
At 1 January 2007	50,350,890	2,518	—
Issued for cash by way of a placing	2,500,000	125	2,652
At 1 January 2008 and 31 December 2008	52,850,890	2,643	—

The consideration received in respect of the placing in 2007 is shown net of £98,000 of share issue costs.

There are no preference shares in issue (2007: none).

## 10. Reconciliation of movements in shareholders' funds

	Share capital	Share premium	Special reserve	Merger reserve	Profit and loss account	Total
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2007	2,518	10,037	313	6,609	3,447	22,924
Issue of ordinary shares	125	2,625	—	—	—	2,750
Share issue costs	—	(98)	—	—	—	(98)
Share based payments expense	—	—	—	—	42	42
Retained loss for the year	—	—	—	—	(258)	(258)
At 31 December 2007	2,643	12,564	313	6,609	3,231	25,360
Share based payments expense	—	—	—	—	155	155
Retained loss for the year	—	—	—	—	(235)	(235)
At 31 December 2008	2,643	12,564	313	6,609	3,151	25,280

### Share capital

The balance classified as share capital represents the nominal value arising from the issue of the company's equity share capital, comprising 5 pence ordinary shares.

### Share premium

The balance classified as share premium represents the premium arising from the issue of the company's equity share capital, comprising 5 pence ordinary shares, net of share issue expenses. There are restrictions on the use of the share premium account. It can only be used for bonus issues, to provide for the premium payable on redemption of debentures or to write off preliminary expenses, or expenses of, or commissions paid on, or discounts allowed on, any issues of shares or debentures of the company.

### Other reserves

The special reserve arose on the cancellation of deferred ordinary shares in June 1992. The merger reserve arose on issue of shares in respect of acquisitions and mergers in the period 1992 to 1999.

## 11. Other financial commitments

At 31 December 2008 the company had annual commitments under non-cancellable operating leases as set out below:

	Land and buildings 2008 £'000	Land and buildings 2007 £'000
Operating leases which expire:		
Within one year	—	123
Within two to five years	113	—
	113	123

## 12. Capital commitments

At 31 December 2008, company amounts contracted for but not provided in the financial statements for the acquisition of property, plant and equipment amounted to £nil (2007: £nil).

## 13. Contingent liabilities

In the normal course of business, the company has issued general guarantees in respect of the contractual obligations of certain subsidiary undertakings.

## 14. Share-based payments

The grant of all options and awards is made by the Remuneration Committee and such grants involve equity settlement. In granting executive share options the Remuneration Committee has regard to both the participant's level of responsibility within the group and to individual and group performance.

### *Executive Option Plan 2007 ("EOP")*

This Plan was approved by shareholders on 29 June 2007 in General Meeting. The Remuneration Committee has restricted participation in the Plan to the company's key executives, including the executive directors, to ensure awards are targeted at those employees best placed to drive achievement of the company's strategic and financial goals.

Awards made under the Plan are structured as stock appreciation rights (SARs) which give a participant the right to benefit from a rise in the market value of shares the subject of an award from date of grant to the relevant vesting date. On exercise, a participant is required to pay the company by way of subscription an amount equal to the aggregate nominal value of the shares to be issued to him.

There are two elements to each SAR award: a Basic award and, for every two Basic awards, a Bonus award, each exercisable on the achievement of the challenging performance targets described further below.

The performance criteria are based on the achievement of fixed target company share prices (target share prices), with a minimum target share price of £2.50 to be achieved before any Basic awards are exercisable and a price of £4.00 to be achieved before Bonus awards are exercisable. Unexercised awards will lapse six years from the date of grant.

An award of SARs entitles the holder to acquire such number of shares as has a value equal to the increase in the market value of the shares subject to the award between the date of grant and the date of vesting. The strike price for each share comprised in an award at date of grant is to be determined by the Committee but will not be less than the average of the middle-market price of a share, as derived from The London Stock Exchange Daily Official List, on the three dealing days immediately preceding the appropriate date plus a premium of 10 pence for each such share.

An eligible participant will, other than in the case of any adjustments made to reflect a promotion or significant change in responsibilities, receive only one grant of awards under the Plan. The maximum aggregate market value of the Basic component of an award at date of grant to any participant will not exceed an amount being equal to six times basic salary.

## 14. Share-based payments (continued)

### *Basic awards*

Basic awards will vest, subject to the achievement of target share prices, in one-third increments over each of the third, fourth and fifth years from date of grant respectively (each a Basic Performance Period) as follows:

- one-third at the end of year 3 for achieving a target share price of £2.50;
- one-third at the end of year 4 for achieving a target share price of £3.00; and
- one-third at the end of year 5 for achieving a target share price of £4.00.

### *Bonus awards*

Bonus awards are granted as to one Bonus award for every two Basic awards and will vest in full, subject to achievement of a target share price of £4.00, at the end of the fifth year from date of grant (the Bonus Performance Period).

### *General*

When assessing the achievement of target share prices, the company's share price performance will be calculated based on the average middle-market price of a share, as derived from The London Stock Exchange Daily Official List, on the twenty dealing days immediately preceding each of the third, fourth and fifth anniversaries of the date of grant, as appropriate.

Any SARs subject to a Basic or Bonus award which do not become exercisable in full according to performance measured over the relevant Basic or Bonus Performance Period will nevertheless become exercisable to the extent that one or more of the target share prices described above are achieved on average in any consecutive 20 dealing day period from the fifth to the sixth anniversaries of grant. Any SARs subject to a Basic or Bonus award which remain un-exercisable after this second test of the performance conditions will lapse.

In the event of a takeover or proposal for a scheme of arrangement of the company (not being an internal corporate reorganisation), the Committee will accelerate vesting of a participant's Basic and Bonus awards according to a formula which assesses the target share price performance condition as at the date the relevant transaction becomes or is declared wholly unconditional or otherwise completes as if all of the Basic and Bonus Performance Periods had elapsed at that date.

Alternatively, following a takeover awards may, with the agreement of the acquiring company and the consent of the participant, be rolled-over to become awards over the acquiring company's shares. In the absence of roll-over or exercise as above, awards will lapse.

Awards will lapse on cessation of employment other than in the circumstances referred to above or if awards are not exercised within the prescribed periods. Awards will also lapse to the extent that the relevant target share price is not satisfied at the end of the relevant performance periods or on any re-test.

At 31 December 2008, 25 participants held awards under this scheme (2007: 33).

### *Executive Scheme 1998*

Approved options under this scheme are only exercisable if, on average, over a three year period the group's earnings per share increase by five per cent per annum above the retail price index. Any un-approved options granted under this scheme may also be subject to additional individual performance criteria.

Options are capable of exercise after three years and within ten years of the date of grant.

From 30 July 2004, all new options granted under these executive schemes are only exercisable based on the performance in the first relevant three year period from a fixed point; rolling re-testing is not allowed. For options granted before this date, rolling re-testing is still permitted in accordance with the terms on which they were issued as approved by shareholders in general meeting.

Vesting continues to be measured based on UK GAAP earnings per share for executive options granted prior to the adoption of IFRS.

## 14. Share-based payments (continued)

At 31 December 2008, 7 participants held options under this scheme (2007: 12). No further options will be granted in respect of this scheme.

Outstanding options to subscribe for ordinary shares of 5p at 31 December 2008, including those noted in the Directors' Remuneration Report are as follows:

	Note	2008 Number	2008 WAEP	2007 Number	2007 WAEP
<b>Executive Scheme 1998 (options)</b>					
Outstanding at 1 January	1	779,314	56	784,314	56
Granted during the year		—	—	—	—
Exercised		—	—	—	—
Forfeited		(178,917)	86	(5,000)	46
Outstanding at 31 December	1	600,397	45	779,314	56
Exercisable at 31 December		600,397	45	719,316	51
Weighted average remaining contractual life (years)		1.78		2.98	
<b>EOP 2007 Scheme (awards)</b>					
Outstanding at 1 January	2	4,359,999	115	—	—
Granted during the year		715,000	64	4,359,999	115
Exercised		—	—	—	—
Forfeited		(1,130,000)	115	—	—
Outstanding at 31 December	2	3,944,999	106	4,359,999	115
Exercisable at 31 December		—	—	—	—
Weighted average remaining contractual life (years)		8.92		9.82	

WAEP: Weighted Average Exercise Price (Pence per share)

All share options and awards were granted with an exercise price per share equal to the share price at the date of grant, or in the case of the EOP 2007 awards at a premium of 10 pence above the share price at the date of grant, and therefore the weighted average share price for option grants is the same as the weighted average exercise price ('WAEP'). No price is payable on award of share options or awards.

Note 1: Included within this number of options are options over 562,897 (2007: 686,816) shares (Executive Scheme 1998) that have not been accounted for in accordance with IFRS 2 as the options were granted on or before 7 November 2002. These options have not been subsequently modified and therefore do not need to be accounted for in accordance with IFRS 2.

Note 2: 715,000 awards were granted in 2008 under the EOP 2007 scheme (2007: 4,359,999). The weighted average fair value of options granted during 2008 was 54 pence (2007: 105 pence).

## 14. Share-based payments (continued)

Outstanding options and awards to subscribe for ordinary shares of 5p at 31 December 2008, including those noted in the Directors' Remuneration Report showing the range of exercise prices and dates are as follows:

	Number of share options	Date of grant	Exercise price £'000	Date first exercisable	Expiry date	Cash receivable if exercised £'000
<b>Executive Scheme 1998</b>						
	5,000	09-Feb-00	0.460	10-Feb-03	09-Feb-10	2,300
	557,897	25-Jul-00	0.360	28-Jul-03	27-Jul-10	200,843
	7,500	22-Apr-03	0.700	23-Apr-06	22-Apr-13	5,250
	20,000	28-May-04	3.225	29-May-07	28-May-14	64,500
	10,000	30-Sep-05	0.860	01-Oct-08	30-Sep-15	8,600
	<b>600,397</b>					<b>281,493</b>
<b>EOP 2007</b>						
	3,229,999	22-Oct-07	1.1500	23-Oct-10	23-Oct-17	See note
	625,000	29-Apr-08	0.6225	30-Apr-11	30-Apr-18	See note
	45,000	04-Jun-08	0.7000	05-Jun-11	05-Jun-18	See note
	45,000	29-Aug-08	0.8000	30-Aug-11	30-Aug-18	See note
	<b>3,944,999</b>					

The cash receivable on exercise of the EOP 2007 awards depends on the market price at the date of exercise which is used in calculating the actual number of shares to be issued to satisfy the award. The award holder is then required to pay 5 pence for every share issued under this scheme. The maximum cash receivable if all awards were exercised is £197,000 (2007: £218,000), which is calculated on the assumption that one share is issued at par to satisfy each award.

Outstanding options to subscribe for ordinary shares of 5p at 31 December 2007, including those noted in the Directors' Remuneration Report showing the range of exercise prices and dates are as follows:

	Number of share options	Date of grant	Exercise price £'000	Date first exercisable	Expiry date	Cash receivable if exercised £'000
<b>Executive Scheme 1998</b>						
	43,919	17-Feb-99	1.420	18-Feb-02	17-Feb-09	62,365
	5,000	09-Feb-00	0.460	10-Feb-03	09-Feb-10	2,300
	637,897	25-Jul-00	0.360	28-Jul-03	27-Jul-10	229,643
	12,500	22-Apr-03	0.700	23-Apr-06	22-Apr-13	8,750
	20,000	28-May-04	3.225	29-May-07	28-May-14	64,500
	49,998	22-Jun-05	1.200	23-Jun-08	22-Jun-15	59,998
	10,000	30-Sep-05	0.860	01-Oct-08	30-Sep-15	8,600
	<b>779,314</b>					<b>436,156</b>
<b>EOP 2007</b>						
	4,359,999	22-Oct-07	1.1500	23-Oct-10	23-Oct-17	See note

The fair value of equity-settled share options granted is estimated as at the date of grant as follows:

### *Executive Scheme 1998*

The fair value of equity-settled share options granted is estimated as at the date of grant using a Black Scholes model, taking into account the terms and conditions upon which the options were granted. No options were granted in 2008 or 2007.

In all cases, the exercise price at the date of grant is equal to the market price at the date of grant.

## 14. Share-based payments (continued)

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options granted were incorporated into the measurement of fair value.

### *EOP 2007*

The fair value of equity-settled share options granted has been estimated as at the date of grant, by an independent remuneration consultant with the relevant skills, with a Monte-Carlo risk-neutral model using a lognormal distribution to simulate thousands of share price outcomes, taking into account the terms and conditions upon which the options were granted. The following table lists the range of inputs to the model used for the grants made:

	2008	2007
Vesting date	Between 3 and 6 years	Between 3 and 6 years
Expiry date	6 years after grant	6 years after grant
Exercise price	£0.62 to £0.80	£1.15
Share price at valuation	£0.59 to £0.66	£1.05
Vested options expected life	The minimum of 1 year after vesting and full term to expiry	The minimum of 1 year after vesting and full term to expiry
Volatility	50% (expected future volatility, based on historical analysis and trend)	50% (expected future volatility, based on historical analysis and trend)
Dividend yield	0%	0%
Risk free rate	4.52% to 5.04% (spot yield on valuation date of 6-year nil-coupon UK government bonds)	4.85% (spot yield on valuation date of 6-year nil-coupon UK government bonds)
Simulations	60,000	60,000
Impact of continued employment conditions	70% attrition rate on average	30% attrition rate on average

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options granted were incorporated into the measurement of fair value.

The resulting expense is recorded in the company financial statements as a capital contribution to the subsidiaries for whom the employees perform services with the credit entry being made to reserves.



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