



**Patsystems Plc** was established in 1994 as one of the original independent software vendors to provide a complete suite of modular products to support the electronic trading of futures and options. Today we enable over 10,000 traders to transact in the global derivatives market every month with extensive market connectivity spanning from Latin America to Japan.

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# **Patsystems Plc**

**Providing high-performance electronic trading solutions with global market connectivity, complete end-to-end exchange solutions and comprehensive risk management tools.**



# Highlights

# 09

## Financial Highlights

- Revenue increased by 13% to £22.1 million (2008: £19.6 million)
- Adjusted pre-tax profit grew by 7% to £3.9 million (2008: £3.7 million)\*
- Cash flow from operating activities of £4.3 million (2008: £3.6 million)
- Cash balances at the year end of £8.9 million (2008: £5.9 million)
- Proposed full year dividend increased by 17% to 0.425p per share (2008: 0.363p per share)

\*Adjusted for share option costs, marking to market of derivatives used to hedge cash flows and amortisation of intangibles other than internally developed software.

## Operational Highlights

- Trading systems most successful year to date despite collapse of Lehman Brothers Inc
- Billable Pro-Mark trading screen user numbers increased to 723 (2008: 571)
- Major installations for Indonesian Commodity and Derivatives Exchange and TurkDEX

### Richard Last, Chairman, of Patsystems, commented:

"2009 has underlined the strength and robust nature of the Patsystems offering and business model. In a year dominated by economic uncertainty and in the wake of the collapse of a major client, the Company has delivered double digit turnover growth, strong profit improvement and outstanding cash generation.

The Company begins the current year with a strong sales pipeline, a number of well qualified and well progressed sales prospects to new customers and the opportunity for continued growth from our existing customer base.

The management team deserve great credit for the stewardship of the Company in such turbulent times and the proposed increase in dividend is in recognition of an excellent trading performance and of our confidence in the future."

# At a Glance

We deliver tailored solutions, built from modular components, to enhance derivatives trading performance and trade processing. Our solutions range from plug-and-play modules that address specific issues, to complete high-performance trading systems with extensive global access to derivatives exchanges and clearers. We work in partnership with our customers to deliver robust systems that align with their business strategies – and have done since our foundation in 1994. Leading banks, trading houses, hedge funds and professional traders in the futures industry rely on us to exploit the benefits of electronic trading in derivatives, FX, energy and other asset classes.

## 1

### Trading solutions

Front-end systems and FIX connectivity to enable trading across all the major futures exchanges and liquidity pools.

#### Customers:

- 43 customers globally
- Customers include some of the largest global futures clearing merchants such as Morgan Stanley, Citigroup, Newedge, and MF Global.

#### Products:

Pro-Mark  
J-Trader  
IQ-Trader  
Trading API

## 2

### Risk solutions

Platform independent pre- and post-trade risk management across all asset classes in real-time.

#### Customers:

- 11 customers globally
- JP Morgan and Deutsche Bank with global licences.

#### Products:

Risk Informer  
Risk Alert

## 3

### Exchange solutions

End-to-end exchange system automates all steps in the trade cycle, from front to back office.

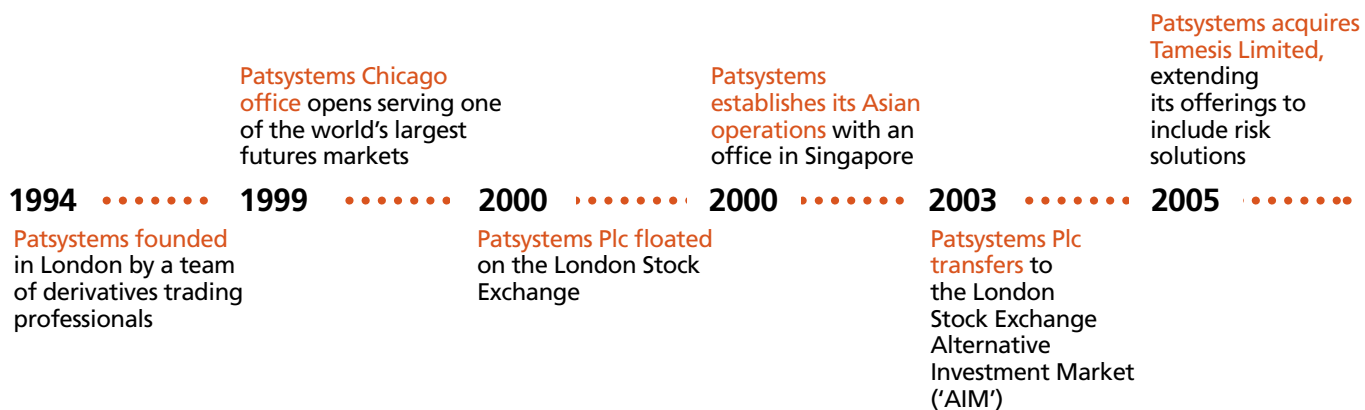
#### Customers:

- 7 customers globally
- Turkish Derivatives Exchange (TurkDEX) and Indonesian Commodity and Derivatives Exchange (ICDX) signed in 2009.

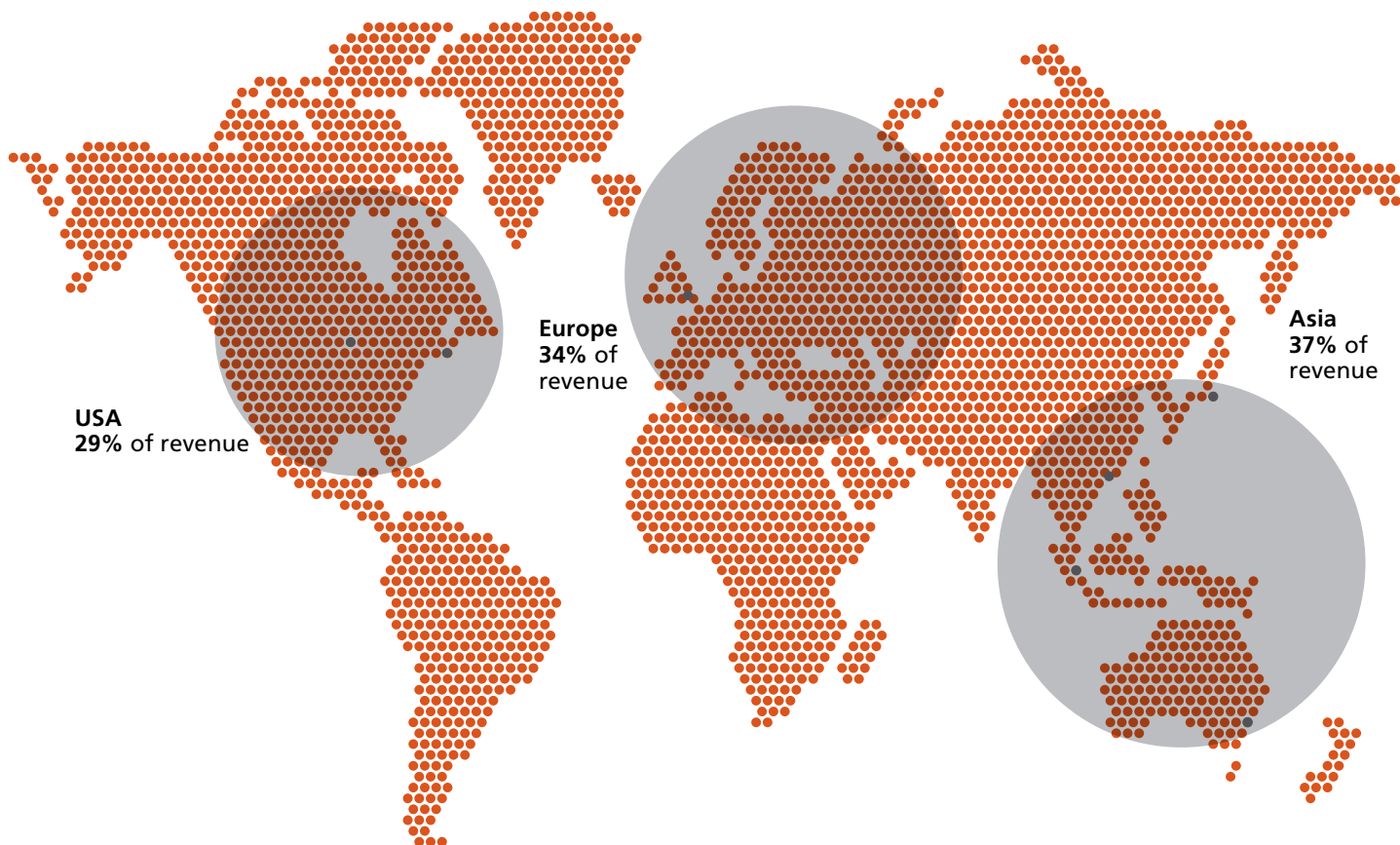
#### Products:

Patsystems  
Matching Engine  
J-Clear

# Our Achievements



# Our markets



## Chairman's Statement



**During 2009 Patsystems demonstrated the inherent strength of its business model despite it being a tough year for the global financial business community. The robustness of the Patsystems revenue model, the spread of revenue across a breadth of complimentary product offerings and the exposure to opportunities across the globe meant Patsystems' business was resilient during a difficult market period. With turnover growth of 13% and adjusted profit growth of 7% the business has performed well during 2009 and is well placed for further growth in 2010. I am particularly pleased by the increase in turnover of our Asia Pacific business of 47% to £7.6 million.**

Cash flows from operating activities amounted to £4.3 million compared to £3.6 million in 2008, an increase of 21% and we expect this level of cash generation to continue in the forthcoming year. The year end cash balance stood at £8.9 million (2008: £5.9 million) and the business remains debt free.

### Financial Results

Adjusted pre-tax profit (being profit before tax after adjusting for share option costs, marking to market of derivatives used to hedge cash flows and amortisation of intangibles other than internally developed software) for the full year ended 31 December 2009 increased to £3.9 million compared to £3.7 million in 2008. Adjusted pre-tax profit is the definition of profit used by most analysts to measure the performance of the Company.

Diluted Earnings Per Share ('EPS') on this basis, and excluding the impact of deferred tax, grew to 2.0p per share from 1.9p per share last year. Details of these calculations are set out in the Earnings per Share section of the Finance Director's Review on page 11.

Pre-tax profit for the full year ended 31 December 2009 was £4.5 million compared to £2.1 million in 2008. Fully diluted EPS was 1.8p per share (2008: 0.3p).

Turnover for the year amounted to £22.1 million (2008: £19.6 million) of which £13.2 million (2008: £12.9 million) is an annuity revenue flow that derives from a combination of the provision of trading screens and market access on a 'software-as-a-service' ('Saas') rental model. When combined with revenue from the support and maintenance of our order routing technology, this means 82% of the turnover is on a recurring annual basis (2008: 87%).

Geographical diversity of our business provides significant resilience as well as access to greater growth opportunities. Revenues from the Asia Pacific region have grown robustly in 2009 amounting to £7.6 million.

### Dividend

The continued payment and growth in the level of the dividend is an important goal of the business.

Following the dividend of 0.237p per share, approved by shareholders at the Annual General Meeting on 28 April 2009, relating to the results for 2008, the Board declared an interim dividend of 0.145p, payable in September 2009, based on the interim results for the year.

# Strong foundations &

Patsystems has demonstrated excellent cash generation and profits resilience and we expect this to continue in 2010 and beyond. As a result of this, together with our strong year end cash position, the Board is declaring the payment of a second interim dividend of 0.28p based on the results for 2009 as a whole, bringing the total dividend for the year to 0.425p per share, compared to a total of 0.363p for 2008. This gives a year on year growth of 17% in our dividend and the dividend cover remains strong at four times.

The second interim dividend will be paid on 19 March 2010 to shareholders on the register as at 19 February 2010.

#### Board, Management and Staff

On behalf of the Non-Executive Directors I would like to thank the Executive Directors, the senior management team and all the Patsystems staff for all their hard work and dedication during a challenging year.

On behalf of the Board I would like to congratulate Sean Barry on his appointment as Head of North America in October 2009, replacing Patrick Kenny who served the business admirably over many years. Sean has strengthened the North American sales team and reinvigorated the sales pipeline in a challenging North American market as well as developing opportunities in South America.

On a personal note I should also like to thank Steve Sparke and John Priestley for their support during the year. Their commitment and dedication to the business has been greatly appreciated.

#### Customers and Shareholders

I am also grateful for the ongoing support of our customers. Many of our customer relationships have strengthened over the recent years with our responsibilities extending to include new solutions that ultimately help their business succeed.

I would also like to thank our shareholders for their continued support during what have been testing economic and market conditions.

#### Future

In 2010 Patsystems is expecting that the sales focus in the USA and Europe will be on the implementation of risk systems and the provision of hosted services.

In the Asian and emerging market areas our focus will be on trading system implementations, extending market connectivity and the provision of end-to-end solutions for commodity futures exchanges. With offices in Singapore, Hong Kong, Tokyo and Sydney, a software development centre established in Beijing during summer 2009 and an investment in our communications technology across Asia in 2009; the infrastructure is in place to support our growth plans in the Asia region.

Opportunities have already been developed in Indonesia, Malaysia and Korea and further exciting prospects are expected in 2010. Additionally, Patsystems has been developing opportunities in Brazil and Malaysia, which will contribute to our expected growth in 2010.

Patsystems commences 2010 with a strong sales pipeline, a number of well qualified and well progressed sales prospects to new customers and the opportunity for continued growth from our existing customer base.

#### Richard Last

Chairman, Non-Executive Director  
8 February 2010

**“In a year dominated by economic uncertainty and in the wake of the collapse of a major client, the Company has delivered double digit turnover growth.”**

global reach

# Chief Executive's Report

**The sales opportunities that had been progressing during the closing months of 2008 were converted into contracted sales in 2009. I am particularly delighted by the exchange system sales to the Indonesian Commodity and Derivatives Exchange and also the Turkish Derivatives Exchange, the first trading system sales in Brazil, Malaysia and Korea and the risk system sales to JP Morgan and Prudential Bache.**

We have seen sales success for all of our product offerings, and in many cases the sales success has been for a combination of our products to deliver an end-to-end solution to support our customers' business growth plans.

## Trading Systems and Market Connectivity

The trading systems business delivered 8% growth in revenues over 2008 and was the most successful year to date with annual sales of £17.6 million. This success was despite the collapse of Lehman Brothers Inc and the resulting loss of £0.8 million revenue contribution that we would have expected from this customer in 2009.

During the year new and existing customers installed trading systems in Brazil, Korea, Malaysia, Singapore and Tokyo.

One of Patsystems' key differentiators from our competitors is the breadth of market connectivity we offer. In 2009 BM&F (Brazil), Bursa Malaysia, EDX (London), SAFEX (South Africa), SICOM (Singapore), SMX (Singapore) and Taiwan Futures Exchange were all added as market connections.

Patsystems' trading system continues to differentiate itself in the market place in three key areas:

- The ability to distribute the J-Trader trading screen product easily and at low cost across the internet;
- The capability of Patsystems' published connection protocol which means that third parties can write to the Patsystems trading system once, but be connected to all of our available market connectivity;
- The depth of functionality within the Pro-Mark professional trading tool and its market leading spreading functionality.

Pro-Mark has continued its successful growth in 2009 with the number of billable users rising from 571 at the start of the year to 723 at the end of December 2009.

Our replacement order management system, Global Trading, has been subject to extensive validation in 2009 with its performance and capabilities tested extensively across our full range of exchanges, products and volumes. The product has been delivered into a customer for testing and will be deployed into our hosted environment and initial customer sites in 2010.

## Exchange Systems

2009 has seen the resurgence of sales in our exchange systems business. It is our opinion that Patsystems has a unique proposition in the global market place with our ability to provide exchange matching, clearing, trading and risk capability as an integrated package and this year's success reflects that.

We believe that there are opportunities across the globe for smaller or newly established commodity or financial futures exchanges that want a complete end-to-end technology solution and wish to source this from a single supplier.

The Indonesian Commodity and Derivatives Exchange has adopted the Patsystems trading system and exchange matching products to fulfil its vision of enabling market participants to trade regional commodity products such as crude palm oil, coal, natural gas, cocoa, coffee and tin within the Asian time zone. The market will be fully operational early in 2010 in a project that commenced in summer 2009.

The Turkish Derivatives Exchange ('TurkDEX') has contracted to install the complete suite of Patsystems' products and will be allowing Takasbank, their clearing house access to the Risk Informer product to benefit their clearing services. TurkDEX has experienced substantial business growth over the last five years and in 2009 was ranked the world's 22nd largest futures exchange by volume, with ambitions for further growth. TurkDEX selected Patsystems after an extensive global selection process because they were confident that Patsystems' technology would ensure the exchange achieves its future growth plans.

# 723

billable users of Pro-Mark

The TurkDEX project commenced in autumn 2009 and the exchange will go live with the complete product suite late in 2010.

The only disappointment in 2009 was the news that the Tokyo Grain Exchange would be curtailing its business activities due to adverse trading conditions in Japan and the impact of legislative changes. This reduced our anticipated revenue from the Tokyo Grain Exchange by £0.1 million in 2009 and with a resulting impact in future years.

Revenue from the exchange systems business was £3.0 million for the year compared to £1.5 million in 2008.

#### Risk Systems

Risk Informer is our market leading risk product for providing real-time risk margin information on client, exchange or product positions regardless of asset class.

The portfolio of blue chip customers using the Risk Informer product has grown in 2009 with both JP Morgan and Prudential Bache purchasing the product. Risk Informer was licensed as part of the TurkDEX project but the product will not be installed until 2010 which is consequently when that revenue will be recognised.

## Growth Strategy

- Increase the level of technology spend at existing and new customer sites
- Continue to extend the breadth of commodity types and markets supported by the trading systems
- Extend geographical coverage to emerging growth markets
- Continue to develop technology solutions both as components and single solutions



## Chief Executive's Report *continued*



Risk Informer has consistently been selected ahead of other competitors' products because of its proven scalability, ease of integration and powerful analytical tools.

We have concluded that the pre-trade risk capabilities within our recently developed product, Risk Alert, would be more valuable if they were integrated into a single risk offering spanning pre- and post-trade activity. This project will be progressed in 2010.

Revenue from our risk systems was £1.5 million compared to £1.7 million in 2008. (This does not include the contribution from the TurkDEX sale which will be recognised in 2010.)

### Geographical Review

#### Asia Pacific

The Asia Pacific region has had an excellent year, both in terms of growing business with existing clients and winning new business. Business with existing clients grew by 26% and new wins in the region included the sale of our Exchange and Trading System to the Indonesian Commodity and Derivatives Exchange and sales of Trading Systems in Korea, Malaysia and Tokyo. Sales in Asia Pacific account for 37% (2008: 27%) of Group revenues.

#### Europe

The European region has continued to grow during 2009 despite the prevailing economic climate. Revenues from existing clients grew by 5% and new wins included the sale of our Exchange, Trading and Risk Systems to TurkDEX and our Risk System to JP Morgan. Sales in Europe account for 34% (2008: 35%) of Group revenues.

#### North America

The North America region has performed well against the backdrop of the prevailing economic climate and the loss of one of its major customers – Lehman Brothers Inc. In 2008 Lehman Brothers contributed revenue of £0.8 million against almost nothing in 2009. Revenue from existing clients was broadly neutral compared to 2008. New wins in the region included the sale and installation of Risk Informer to Prudential Bache. Sales in North America account for 29% (2008: 38%) of Group revenues.

#### Staff

Overall staff numbers have marginally increased with 162 employees at 31 December 2009 compared to 156 on 1 January 2009.

During the year five staff have taken the opportunity to seek personal development by way of secondment or permanent transfers between our offices.

During 2009 we moved some of our support operations from our office in Singapore to Sydney to take advantage of a greater availability of multi-lingual staff. To support our continued and anticipated growth in Asia we have established a development centre in Beijing. There are now 19 staff working in Beijing, primarily developing market connectivity for the Asia region and providing additional resources whilst staff in London work on major projects such as that for the Turkish Derivatives Exchange.

#### Business Strategy

Patsystems' business objective is to be the external partner of choice for investment banks, futures clearing merchants, and exchanges for the provision of electronic trading, trade matching and risk management technology.

# +26%

growth in business with existing clients in Asia

# Robust solutions &

The organic growth strategy of the business has four components:

- Increase the level of technology spend at existing and new customers from the existing Patsystems products
- Continue to extend the breadth of commodity types and markets supported by the trading systems by both building connectivity and providing matching technology directly to exchanges
- Extend geographical coverage to emerging growth markets
- Continue to develop technology solutions both as components and single solutions

Patsystems has demonstrated progress in all areas of the growth strategy during 2009.

The acquisition strategy is to identify and acquire businesses that provide complimentary technology and where shareholder value can be created by selling that technology through the Patsystems global sales organisation.

### Business Objectives and Outlook

Our key objectives for 2010 are as follows:

- Solidify our position as the premier provider of risk margin systems within the world's top global banks
- Extend our sales penetration in new countries with additional sales in Malaysia, Indonesia and Brazil
- Deliver hosted services to new and existing customers within all the regions we operate
- Continue the 2009 sales success for our exchange system offering

Trading subsequent to the year end has progressed in line with our expectations and we remain confident of fulfilling our growth aspirations across all areas of the business.

**David Webber**  
Chief Executive  
8 February 2010

# 1

## Indonesian Commodity and Derivatives Exchange ('ICDX')

After an extensive global selection process, the Indonesian Commodity and Derivatives Exchange ('ICDX') selected Patsystems to provide an integrated exchange, trading and risk management solution. The solution will consist of a complete exchange system with straight through processing, matching, clearing and settlement capabilities, supported by the Patsystems Matching Engine. The solution will also include Patsystems' trading software with internet-deployable front-end platforms, J-Trader and Pro-Mark, along with Patsystems' pre-trade risk management. The selection by ICDX illustrates the breadth of Patsystems' capabilities, with flexible solutions that can be used independently, or in this case, integrated into one comprehensive Straight-Through-Processing System.



regional expertise

## Finance Director's Review



**As Richard and David have already reported this has been another successful year both in terms of the level of adjusted profit and the amount of cash generated.**

**Adjusted profit increased to £3.9 million from £3.7 million in 2008 and operating cash flow also improved by 21% to £4.3 million from £3.6 million in the prior year. As a result of the net cash increase of £3.0 million the Group ended the year with a cash balance of £8.9 million.**

Adjusted profit is a measure used by the analysts that cover the Group. Adjusted profit removes volatile non-cash items to show an underlying level of profitability that enables the results for the business to be compared on a consistent basis for each accounting period.

The adjustments made to the reported pre-tax profit on ordinary activities are to add back the charge or credit for; (i) share option costs; (ii) the marking-to-market of derivatives that are used to hedge overseas foreign currency cash flows; and (iii) amortisation of intangibles other than those charges for internally developed software. The table in the Earnings per Share section below details the adjustments made to operating profit in both this and the prior year.

### Revenue

Total Group revenue grew by £2.5 million (13%) to £22.1 million from £19.6 million last year.

### Trading Systems

Trading systems revenue grew from £16.4 million in 2008 to £17.6 million in 2009; an increase of 8%.

### Exchange Systems

Exchange systems revenue doubled to £3.0 million from £1.5 million in 2008.

### Risk Systems

Revenue from the Risk Systems business was £1.5 million compared to £1.7 million in 2008. As discussed in the Chief Executive's report this excludes the TurkDEX Risk Informer sale, which will be delivered and recognised in 2010.

### Operating Expenses

Operating expenses were in line with 2008 at £17.2 million. Included within operating expenses is a net foreign exchange credit of £0.6 million in 2009 and a net charge of £0.2 million in 2008. Therefore the underlying increase in operating expenses is £0.8 million.

Staff costs increased by £0.9 million as a result of the addition of new staff, less time being capitalised into development projects and the costs of establishing a new Chinese Development Centre in the second half of the year.

At 31 December 2009 the Group had 162 permanent staff (2008: 156), 3 contractors (2008: 3) and 17 staff in the Chinese Development Centre.

In addition to the increase in staff costs, property costs increased by £0.2 million primarily due to the relocation and associated costs of moving the London office from the Cottons Centre to Riverside House.

The above cost increases were offset by a reduction in the amortisation of capitalised development costs and of intangibles of £0.3 million.

### Profit on Ordinary Activities Before Taxation

The profit on ordinary activities before taxation was £4.5 million (2008: £2.1 million).



### Taxation

The Group has tax losses carried forward of £18.0 million and will not be paying tax on its profits in most taxation jurisdictions for a number of years. Small amounts of withholding tax may or may not arise from time to time depending on the geographical locations of customers with whom the Group does business.

The current tax charge shown on the face of the income statement of £0.25 million comprises a corporation tax charge in Japan of £0.22 million, a minimum tax payment in the US of £0.02 million and withholding tax of £0.01 million. The deferred taxation charge of £0.87 million arises largely in respect of the use of trading losses in the year.

### Retained Profit for the Year

Retained profit for the year rose to £3.4 million (2008: £0.6 million).

### Earnings Per Share

Basic EPS has risen to 1.9p from 0.3p and diluted EPS has risen to 1.8p from 0.3p last year.

The Board monitors the Company's EPS performance by reference to adjusted pre-tax profit less current tax. Deferred tax is excluded from this measure because of its potential volatility. The adjusted EPS calculations on this basis are as follows:

	2009	2008
Profit for the year attributable to equity holders of the Company	<b>£3,362,000</b>	£616,000
Taxation	<b>£1,124,000</b>	£1,450,000
Profit on ordinary activities before taxation	<b>£4,486,000</b>	£2,066,000
Share option costs	<b>£261,000</b>	£329,000
Movement in fair value of hedging instruments	<b>(£1,029,000)</b>	£883,000
Amortisation of intangibles	<b>£203,000</b>	£391,000
Pre-tax adjusted profit on ordinary activities	<b>£3,921,000</b>	£3,669,000
Current Taxation	<b>(£249,000)</b>	(£152,000)
Post-tax Adjusted Profit	<b>£3,672,000</b>	£3,517,000
Weighted average number of shares	<b>180,628,990</b>	178,982,340
Effect of dilutive share options	<b>1,628,191</b>	4,462,772
	<b>182,257,181</b>	183,445,112
Adjusted EPS	<b>2.03p</b>	1.96p
	<b>+3.6%</b>	
Adjusted diluted EPS	<b>2.01p</b>	1.92p
	<b>+4.7%</b>	

### Intangible and Tangible Fixed Assets

#### Goodwill

Goodwill remains unchanged from 2008 at £3.3 million. The majority of this balance (£3.0 million) relates to the acquisition of Tamesis in 2005. As previously discussed Risk Systems continue to be a key element of our business.

#### Intangible Assets

During the year the Group expended £0.7 million on intangible assets (2008: £0.9 million). This spend included £0.6 million of capitalised development costs in respect of new products that will generate revenues in future years. These costs will be amortised over three to five years from the date of completion. The amortisation period reflects the expected life of the particular asset capitalised.

#### Property Plant and Equipment

During the year the Group purchased fixed assets totalling £0.6 million (2008: £0.13 million). Of the total additions approximately £0.2 million was in connection with the move of our London office and £0.15 million for computer equipment in connection with establishing a hosted service in Japan.

#### Current Assets

##### Trade Receivables

Trade receivables have decreased by £1.8 million to £2.6 million from £4.4 million, which is mainly due to the timing of large sales around the prior year end. During the year the Group has not suffered any significant bad debt write-offs.

## Finance Director's Review *continued*

Prepayments and accrued income have remained relatively constant compared to the prior year at £2.3 million. (2008: £2.2 million).

### *Financial Assets/Liabilities – Derivative Financial Instruments*

Financial assets represent the “marked-to-market” value of derivatives used to hedge the Group currency exposures. The derivatives used are forward contracts and currency options. These derivatives are marked-to-market monthly and the resulting “profit or loss” is taken to the income statement. In the current year a total credit of £1.0 million was credited to the income statement. (2008: £0.9 million charge).

### **Current Liabilities**

The key movement within current liabilities relates to a decrease in deferred income of £2.0 million. This is primarily due to the change in timing of billing of two large customers from annually in advance to monthly and quarterly billing.

Other elements of current liabilities have fluctuated only slightly compared to 2008, with year end balance of trade payables at £0.4 million (2008: £0.3 million), other tax and social security of £0.6 million (2008: £0.7 million) and accruals £1.5 million (2008: £1.5 million).

### **Cash and Treasury**

Cash and cash equivalents increased to £8.9 million from £5.9 million in 2008.

The Group generated net cash inflows from operating activities of £4.3 million (2008: £3.6 million). £1.3 million (2008: £1.0 million) was invested in intangible and tangible assets, with dividends of £0.7 million (2008: £0.6 million) being paid during the year.

The Group is exposed to foreign currency risk on sales, purchases and cash balances that are denominated in a currency other than Sterling. The principal currency giving rise to this risk is the US Dollar. In order to smooth the impact of significant movements in exchange rates the Group has a policy to carry forward cover for 75% of US\$/£ net anticipated exposure for 12 months forward. That level of cover is in place and is comprised of a mixture of forward contracts and options. The average US\$/£ exchange rate used in the 2009 income statement was 1.57 (2008: 1.84). The average rate of the hedges in place for 2010 is 1.60. The year end US\$/£ exchange rate was 1.59 (2008: 1.44).

### **Business Risks**

The principal business risks remain the same as in the prior year and these are detailed below.

### **Competition**

The Group operates in a growing but competitive market. There are three major software suppliers in the global electronic trading systems market for futures and options, of which Patsystems is one. There are many smaller companies who supply screens but not market connectivity. In such a market there is always a risk that customers could move to other competitors and there is always downward pressure on margins. Patsystems mitigates this risk by supporting its brands with appropriate marketing activity and by consistently extending its market connectivity as well as improving its software, customer support and customer care.

### **Bad Debts**

The deterioration of the global economic climate that began in 2008 has continued into 2009, albeit at a lesser pace. This has seen the financial services sector suffer a particularly difficult time. As the majority of our clients are financial services organisations the Group considers there is a risk that a client could experience financial difficulties and not to be able to pay its debts as they fall due. In order to mitigate this risk Patsystems reviews all client accounts on a monthly basis and takes appropriate action to keep accounts within payment terms.

**“Patsystems continues to be highly cash generative with an operating cash flow increase of 21%.”**



### Customer Consolidation

Consolidation within the financial services industry has occurred over the past few years and further consolidation remains a risk. Where consolidation takes place the risk to the Group's business is typically to the revenues associated with market connectivity and support and maintenance. We mitigate this risk by actively adding new customers, products and asset categories to our portfolio.

However, with products such as our Risk offerings and our Exchange Systems playing an integral role in the Group's future growth expectations and the significant revenues from these opportunities being non-recurring in nature, the propensity for organisations to defer technology investments during tougher economic climates is a risk to our business.

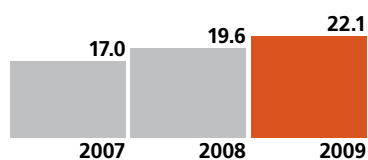
### Revenue Profile

82% of Patsystems' revenue is recurring in nature and, in stark contrast to many technology companies, this gives a level of guarantee for a minimum level of operating profit for the business on an annual basis.

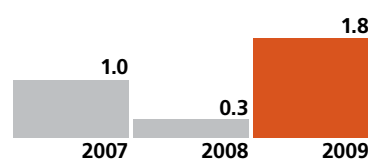
It is currently too early for us to assess to what extent, or if at all, the economic conditions will improve into 2010 and how this will impact client purchasing decisions. We however enter 2010 with a strong sales pipeline across all regions of our business and are hopeful of converting these into 2010 revenue.

## Key Performance Indicators

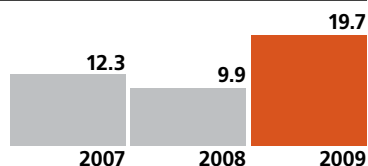
### Revenue (£m)



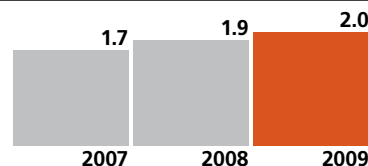
### Diluted EPS (pence)



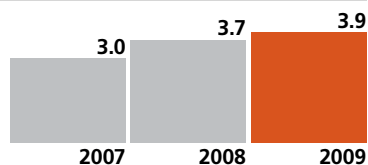
### Operating profit as a percentage of sales



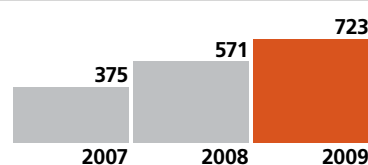
### Diluted adjusted EPS (pence)



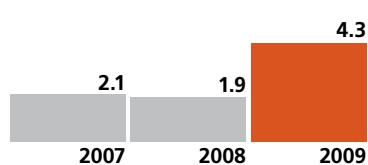
### Adjusted pre-tax profit (£m)



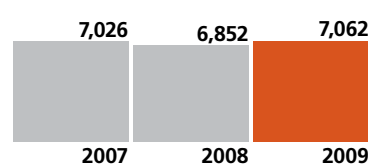
### Pro-Mark Screens deployed at year end



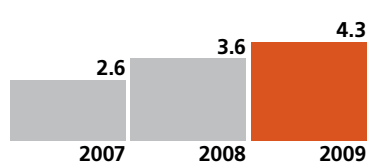
### Operating profit



### Average number of active users during the year



### Operating cash flow (£m)

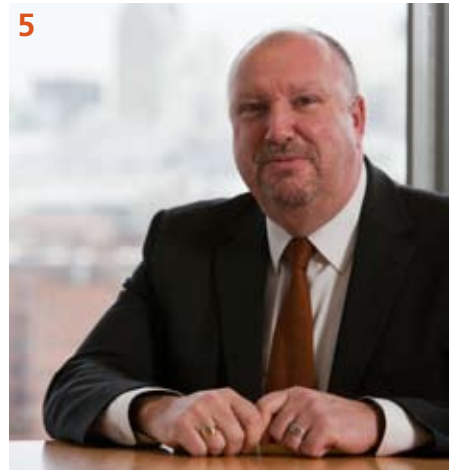
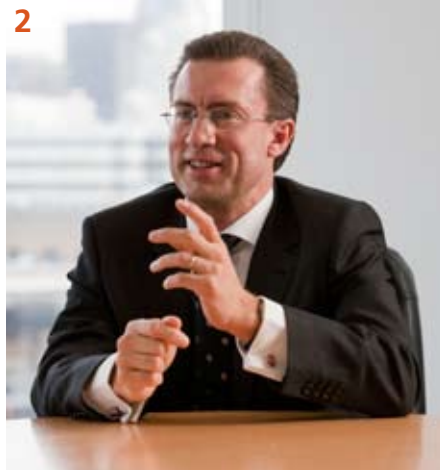


Martin Thorneycroft

Finance Director

8 February 2010

# Our Board



**1. Richard Last – Chairman,  
Non-Executive Director**  
Age 52

Richard is Chairman and Non-Executive Director of AIM listed Knowledge Technology Solutions plc, a financial software business and a Non-Executive Director of The British Smaller Companies OCT plc, The British Smaller Technology Companies VCT 2 plc, where he is also Chairman, both of which are listed on the London Stock Exchange. He is also a Non-Executive Director of AIM listed companies Lighthouse Group plc and Corero plc and Director of a number of private companies including Sphinx CST Limited, APD Communications and CSE Global UK Limited; both IT companies. Richard, a Fellow of the Institute of Chartered Accountants, holds a BA (Hons) from Sheffield University.

**2. David Webber – Chief Executive**  
Age 44

David was appointed Chief Executive of Patsystems in January 2006. He was formerly Chief Executive of AttentiV Systems Group, where his business leadership saw the Company through significant expansion by both organic growth and acquisition. He led the management buyout, subsequent AIM flotation of the business and was retained as Chief Executive when AttentiV Systems Group plc was acquired by TietoEnator in May 2005. David, a member of the Institute of Chartered Accountants since 1989, holds a BSc (Economics) from the London School of Economics.

**3. Martin Thorneycroft – Finance  
Director**  
Age 48

Martin joined Patsystems as Finance Director in July 2004. He was previously Finance Director of Profile Media Group plc. Martin, a member of the Institute of Chartered Accountants having qualified with Ernst and Young in 1986, holds a B. Com. from Birmingham University.

**4. John Priestley – Non-Executive  
Director, Chairman Of The Audit  
Committee**  
Age 60

John has over 30 years' experience in the software and services sector and in 2003 concluded a 13 year career with British Telecommunications as Director of Business Development for Syntegra. Previously, he was a Director of Kapiti and a Divisional Director with Hoskyns.

**5. Steve Sparke – Non-Executive  
Director, Chairman Of The  
Remuneration And Nomination  
Committee**  
Age 51

Steve has had a 29 year career in the City spanning interest rate trading and futures and options broking and is currently Chairman of the Futures and Options Association. He was Global Head of UBS Exchange Traded Derivatives business until April 2006 and has driven a number of the technology-led changes within the FCM industry. Steve was a Non-Executive Director of Euronext.Liffe and chaired the Exchange's Audit and Risk Committee until November 2007. Currently Steve holds the position of Group Chief Operating Officer of Marex Financial Limited. Steve graduated with a law degree from Nottingham University in 1979.

# Directors' Report

The Directors present their report for Patsystems Plc and the audited financial statements for the year ended 31 December 2009.

## Principal Activities

The principal activities of the Group are the development, distribution and support of software enabling:

- the electronic trading of financial products on global trading exchanges
- real time trade capture, valuation and risk management for the structured finance market

## Results and Dividends

The profit on ordinary activities attributable to shareholders after taxation amounted to £3,362,000. (2008: £616,000).

The proposed dividend for the year is detailed in the Chairman's Statement on page 5.

## Review of Business and Future Developments

The Directors are pleased with the Group's performance during the year and its position at 31 December 2009. The Directors are confident that performance will continue to improve in 2010 and beyond.

The review section of this report contains a detailed assessment of the business and future projects.

Reviews of the risks faced by the business are detailed in the Chief Executive's Report and the Finance Director's Review. The Finance Director's Review also details the Key Performance Indicators ('KPIs') for the year.

## Proceeds from Share Issues During the Year

£682,000 was received in proceeds from the exercise of share options during the year ended 31 December 2009 (2008: £86,000).

## Substantial Shareholdings

On 3 February 2010, the following holdings of 3% or more of the issued share capital of Patsystems Plc were known to the Company:

Beneficial owner, as notified to the Company	Number of shares	%
ION Trading UK Limited	52,851,191	28.52
Brewin Dolphin Limited	14,170,175	7.65
First Clearing L.L.C.	12,687,500	6.85
Herald Investment Management Ltd	12,000,000	6.47
Sedaf Holdings SA	10,389,600	5.61
Cazenove Capital Management Limited	6,333,416	3.42

## Directors

The Directors of the Company, together with those who served during the year, are as follows:

### Executive Directors

D Webber  
M Thorneycroft

### Non-Executive Directors

R Last  
J Priestley  
S Sparke

## Directors and their interests

Ordinary shares of 1p each in Patsystems Plc	3 February 2010	31 December 2009	31 December 2008
D Webber	875,000	875,000	825,000
M Thorneycroft	68,000	68,000	40,000
R Last	786,886	786,886	786,886
J Priestley	91,017	91,017	91,017
S Sparke	250,000	250,000	250,000

# Directors' Report

continued

Details of the Directors who have an interest in share options are disclosed in the Remuneration report.

Save as disclosed in this report and note 28, there were no other contracts subsisting during or at the end of the financial year in which a Director of the Company is or was materially interested.

## Employee Involvement

The Directors recognise the importance of employee involvement established by good communications and working relationships. The decentralised nature of the Group's activities necessitates that the practical application of this policy is the responsibility of local management in a manner appropriate to their circumstances.

## Employment Policies

The Group is committed to the terms of the Codes of Practice for the elimination of all or any discrimination and to the promotion of equality of opportunities in employment.

It is Group policy to afford equal opportunities to all employees and job applicants. No employee or job applicant is less favourably treated than another on the grounds of their sex, sexual orientation, age, marital status, religion, race, nationality, ethnic or national origin, colour or disability and all appointments and promotions are determined solely by merit.

It is also Group policy to encourage and assist in the employment, training, re-training and career development of disabled persons where possible, having regard to their suitability for a particular vacancy and the nature of the Group's activities. In the event that employees become disabled during employment the Group will where possible continue their employment and arrange appropriate training.

Responsibility for monitoring the effective working of these policies is vested in Martin Thorneycroft, the Finance Director.

## Financial Instruments and Financial Risk Management

The Group's activities expose it to a variety of financial risks and it has developed and operates an overall risk management programme that recognises the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Financial risk management is under the control of the Finance Director and is carried out centrally for the Group in compliance with policies approved and monitored by the full Board. The Board regularly reviews the effectiveness of these policies examining specific areas including foreign exchange risk, interest rate risk, credit risk and the extent to which financial instruments are being used to hedge certain risk exposures.

Details of the Group's exposures to market, credit and liquidity risks are set out in note 3 to the financial statements.

## Research and Development

During the year the Company continued to invest in research and development ('R&D'). All expenditure, whether incurred through internal staff costs or through third party suppliers, relating to R&D that satisfies the criteria for capitalisation under IAS 38, 'Intangible assets', is capitalised. Otherwise it is written off to the income statement in the period incurred.

## Creditor Payment Policy

Given the international nature of the Group's operations, there is no standard code for the Group in respect of payments to suppliers. Operating subsidiaries are responsible for agreeing terms and conditions for their business transactions when orders for goods and services are placed, ensuring that suppliers are aware of the terms of payment and including the relevant terms in contracts where appropriate. These arrangements are adhered to provided that suppliers meet their contractual commitments.

Creditor days have not been calculated for the Company as it is an investment holding company.

## Charitable and Political Donations

The Group made charitable contributions of £2,409 during the year (2008: £500). The current year donations were made to Alzheimers Association, The Manna Society, East Anglian Air Ambulance, The Tiltas Trust and St Raphael's Hospice. No political donations were made in 2009 or 2008.

## Disclosure of Information to Auditors

For each of the persons who were Directors at the time this report was prepared, the following applies:

- So far as the Directors are aware, there is no relevant information of which the Company's auditors are unaware; and
- The Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

## Disclosure and Transparency Rules ('DTR')

The Company has complied with the DTR so far as they are applicable to AIM listed companies.

## Annual General Meeting

The Notice convening the Annual General Meeting ('AGM') together with the proposed resolutions is being sent to shareholders. The AGM will be held on 27 April 2010.

# Directors' Report

continued

## Statement of Directors' Responsibilities

Company law requires the Directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Company and the Group, as at the end of the year, and of the profit or loss of the Group for the year. In preparing those financial statements, the Directors are required to:

1. Select suitable accounting policies and then apply them consistently;
2. Make judgements and estimates that are reasonable and prudent;
3. State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
4. Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors confirm that the financial statements comply with the above requirements.

The Directors are responsible for the maintenance and integrity of the Patsystems website. Information published on the internet is accessible in many countries with different legal requirements. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors are responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006 (as amended from time to time). The Directors are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

For and on behalf of the Board of Patsystems Plc.



**Martin Thorneycroft**

Company Secretary  
8 February 2010

**Registered office:** Riverside House, 2A Southwark Bridge Road,  
London SE1 9HA

# Statement of Corporate Governance

The following statement of corporate governance reflects the position of the Group as at 31 December 2009.

The Board is responsible for the Group's corporate governance policy and recognises the importance of high standards of integrity, and consistently seeks to apply the principles set out in the Combined Code on Corporate Governance (the 'Code') to the extent that they are appropriate for, and applicable to, a company of Patsystems' size quoted on the Alternative Investment Market ('AIM').

## Directors

Details of the dates of appointment and resignation of Directors within the year are shown in the Directors' Report. All Directors are subject to re-election within a three-year period. The roles of the Chairman and Chief Executive are separate and have been so throughout the year.

The Non-Executive Directors are considered to be 'independent' within the definition contained in the Code.

The Non-Executive Directors meet, without the presence of the Executive Directors, whenever it is appropriate for them to do so.

All the Directors have access to the advice of the Company Secretary and may, in furtherance of their duties, take independent legal and financial advice at the Company's expense. They also have access to the minutes of the Board, in which any concerns expressed by them regarding matters pertaining to the Group are recorded.

While there is no formal process, the performance and effectiveness of each Director, including the Non-Executive Directors, is assessed on an on-going basis by the other members of the Board.

## Board Meetings

The Board generally meets monthly and at such other times as required, and receives regular reports on a wide range of key issues including operational performance, risk management and corporate strategy.

The Board's accountability is demonstrated by the adoption of a formal schedule of matters specifically reserved to the Board for its decision concerning all key areas across the Group's activities, thereby ensuring that all major decisions affecting the Group are taken at Board level. All the Directors are free to bring any matter to the attention of the Board, at any time.

## Committees

The Audit Committee and the combined Remuneration and Nominations Committee meet at least twice a year.

### Audit Committee

The Audit Committee is chaired by John Priestley and comprises all the Non-Executive Directors. The external auditors, together with the Finance Director and other financial staff are invited to attend these meetings as and when required.

In accordance with its terms of reference the principal function of this committee is to determine the appropriateness of accounting policies to be used in the Group's annual results. In addition the Committee is responsible for monitoring the independence of the Group auditors, assessing the Group's audit arrangements and the Group's system of internal controls, and reviewing the half-yearly and annual results before publication.

### Remuneration and Nominations Committee

The Remuneration and Nominations Committee comprises all the Non-Executive Directors and is chaired by Steve Sparke.

In accordance with its terms of reference the Committee determines the level and make-up of remuneration (including bonuses and options) of the Executive Directors and certain senior management. This also includes formulation of remuneration policy throughout the Group, embracing both share options and bonuses.

The Committee also evaluates the balance of skills, knowledge and experience on the Board and considers all new Board appointments and re-appointments against this evaluation.

The Report of the Board on Directors' Remuneration and on Group Remuneration Policy giving details of Company policy and individual Directors' remuneration is set out on pages 21 to 23. The remuneration arrangements of the Non-Executive Directors are determined by the Board as a whole.

The notice period provisions contained in the Directors' service agreements are summarised on page 22 of these accounts.

### Executive Management Committee

The Executive Management Committee (the 'EMC'), under the Chairmanship of the Chief Executive, or in his absence the Finance Director, meets monthly and is responsible for the day-to-day running of the Group. The members of the EMC are the two Executive Directors of the Company, together with the five key business heads who are not Directors.

### Relations with Shareholders

The Board welcomes the views of shareholders.

The AGM is used as an opportunity to communicate with shareholders. All shareholders are encouraged to attend the Company's AGM, in order to take advantage of the opportunity to ask questions of the Directors.

Shareholders may also contact the Company in writing or via its website, which is regularly updated. Additional information is supplied through the circulation of the Interim Report and the Annual Report and Accounts. During the year the Company issued a series of announcements to the Stock Exchange. The Chief Executive, Finance Director and the Chairman from time to time meet individual and institutional shareholders and provide such information as is permissible in order to facilitate a better understanding of the Group's business and operations.

# Statement of Corporate Governance

continued

## Internal Control

The Board of Directors has overall responsibility both for the Group's system of internal controls, which includes internal financial controls and for reviewing their effectiveness. The Directors recognise that no system of internal control can provide absolute assurance. The Group's systems are designed to manage the risk of failure to achieve business objectives and therefore can only provide the Directors with reasonable assurance against material misstatement or loss.

The key elements of the Group's internal control system, which have been operational for the whole of the financial year, are as follows:

- **Management Structure**

The Board has overall responsibility for the Group and there is a formal schedule of matters specifically reserved for decision by the Board. Each Executive Director has been given responsibility for specific aspects of the Group's affairs. Reporting to the Chief Executive, is the EMC which is responsible for the day to day running of the Group's affairs.

- **Monitoring Systems used by the Board**

The Board receives regular reports on the financial and business performance of the Group. The Board is regularly advised through these reports on the working capital position and financial performance relative to the Group's approved budget.

- **Internal Audit**

The Board reviews from time to time the need for an Internal Audit function and remains of the opinion that the systems of internal financial control are appropriate to the Group's present activities and that such a function is unnecessary.

## Going Concern

The Directors have 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 financial statements.

## Compliance Statement

Corporate Governance procedures are subject to regular review by the Board. Throughout the year the Directors believe that the Group has complied with the provisions as set out in Section 1 of the Code, to the extent that they are appropriate for, and applicable to, a company of Patsystems' size quoted on AIM.

For and on behalf of the Board of Patsystems Plc.

## Martin Thorneycroft

Company Secretary  
8 February 2010

# Report of the Board on Directors' Remuneration and on Group Remuneration Policy

## Remuneration Committee

The Remuneration Committee, which comprises all of, and only, Non-Executive Directors, determines Group remuneration policy and the remuneration (including bonuses and options) of Executive Directors and certain other senior management.

## Policy on Group Remuneration

The Company's policy is to set the remuneration of senior executives (including Executive Directors) at a level to attract and retain executives of appropriate ability and experience to manage the affairs of the Company. This approach contains costs, improves employee benefits and increases the Company's competitiveness in the market for scarce skills. In formulating its remuneration policy, the Remuneration Committee is mindful of the competitive pressures inherent in a sector that straddles both the software and financial services industries. It is the Company's policy that a significant element of total remuneration is related to the financial performance of the Company. Remuneration is reviewed annually.

## The Remuneration Package

The remuneration package comprises base salary and benefits, pension contributions, annual bonus and long term incentive arrangements. All senior employees of the Group (including the Executive Directors) are remunerated using the policy described below.

### Base Salary and Benefits

Base salary takes into account the performance of the individual and information from independent sources on market levels of remuneration. The Executive Directors' basic salaries are reviewed by the Committee prior to the beginning of each year. The Executive Directors are also entitled to private medical, death in service, critical illness and permanent health insurance and subsidised health club membership.

### Pension Contributions

The Group operates a defined contribution pension scheme for eligible UK employees. Neither of the Executive Directors are members of this scheme; the Executive Directors receive a Company contribution to their individual pension arrangements.

### Annual Bonuses

Bonus scheme arrangements are in place for all members of staff, including the Executive Directors. Bonuses for the Executive Directors are linked to the performance of the Group and staff bonuses are based on individual performance

## Long-term Incentives

### Share Options

The Group operates two share option plans – an Enterprise Management Incentive Share Option Scheme ('EMI') and a standard unapproved share option scheme. All senior staff, including the Executive Directors participate in both schemes.

Options awarded under the first of three main grants vested in full in 2006. 76% of the options awarded under the second and third grants have currently vested and the remaining 24% of these options will vest on 8 February 2010.

The Company has also made a number of special awards under both schemes to Directors and senior employees which will vest in between one and three years from the date of grant subject to certain performance conditions.

### Cash-Based Long-Term Incentive Scheme

During 2007 the Group introduced a new cash-based long-term incentive scheme ('the Cash Scheme'). The maximum conditional award allowable under the three year Cash Scheme is 100% of salary with each award vesting no earlier than the third anniversary from date of grant and vesting being subject to achievement of performance conditions and continued employment ('the Awards'). When the Awards to the Directors vest, they will be expected to use 50% of the net of tax amount to purchase the Company's shares in the open market until such time as a total personal shareholding has been achieved which is equivalent to 100% of base salary. In the event of a change of control (eg a takeover) the Awards will vest provided the Remuneration Committee is satisfied that it is fair and reasonable for them to do so (eg. that the terms of a takeover implicitly reflect prospective performance on a scale that would have resulted in full vesting).

The performance conditions attached to the Awards require adjusted fully diluted pre-deferred tax EPS growth from the 2006 financial year to the 2009 financial year of between 10% compound per annum to 30% compound per annum for between 30% and 100% of the Award to vest. The Awards vest on a straight line basis between minimum and maximum thresholds. The scheme is expected to vest in full during the first half of 2010.

### Share-Based Long-Term Incentive Scheme

It is the Remuneration Committee's intention to introduce a new scheme from 1 January 2010. The Scheme will be open to the Executive Directors and senior staff.

An annual award of shares will be made to participants on an individual basis up to a maximum award of 50% of basic salary. The actual level of award will be determined on the growth in EPS in the previous year. No award will be made if EPS (calculated on an adjusted profit basis as detailed in the Finance Director's review) growth is less than 5%. The maximum award will be granted if EPS growth reaches 20%, with a pro rata award being granted between 5% and 20%. Once granted the shares will vest four years from date of grant provided the individual is still employed by the Company, and compound annual EPS growth over the relevant period is at least 10%. If the compound annual EPS growth is less than 10% then the award will lapse.

# Report of the Board on Directors' Remuneration and on Group Remuneration Policy *continued*

## DIRECTORS' EMOLUMENTS

	Salary/fees £	Bonus £	Benefits in kind £	Total 2009 £	Total 2008 £
<b>Executive Directors</b>					
D Webber	250,000	150,000	5,039	405,039	467,077
M Thorneycroft	158,000	94,800	3,899	256,699	293,912
<b>Non-Executive Directors</b>					
R Last	45,000	–	–	45,000	40,842
J Priestley	30,000	–	–	30,000	30,000
S Sparke	30,900	–	–	30,900	30,900
S Millman*	–	–	–	–	24,590
	<b>513,900</b>	<b>244,800</b>	<b>8,938</b>	<b>767,638</b>	<b>887,321</b>

\* S Millman resigned on 17 April 2008

## Pensions

The Group operates a defined contribution pension scheme for eligible UK employees. The Executive Directors that served during the year were not members of this scheme. The following contributions to their private pensions were charged to the income statement:

	2009 £	2008 £
D Webber	25,960	24,600
M Thorneycroft	16,407	15,509
	<b>42,367</b>	<b>40,109</b>

## Directors' contractual terms

	D Webber	M Thorneycroft	R Last	J Priestley	S Sparke
Date appointed	03-Jan-06	05-Jul-04	17-Feb-03	01-Jan-07	29-Sept-06
Service contract*	Yes	Yes	No	No	No
Notice period					
– by Company	12 months	6 months	3 months	3 months	3 months
– by Director	12 months	6 months	3 months	3 months	3 months
Benefits	Death in service	Death in service	–	–	–
Pension	10%	10%	–	–	–

\* All the Non-Executive Directors are engaged under 'letters of appointment'.

In the event that an offer for the entire issued share capital of Patsystems Plc becomes wholly unconditional, the Executive and Non-Executive Directors are entitled to 12 months notice.

## Directors' share options

	Scheme type	Exercise price	Outstanding options at 31 December 2008	Exercised during the year	Outstanding options at 31 December 2009	Exercise date	Expiry date
D Webber	EMI	13.75p	727,272	(727,272)	–	Note 1	14-Feb-16
	Unapproved	13.75p	3,272,728	(3,272,728)	–	Note 2	14-Feb-16
	Unapproved	29.00p	1,000,000	–	1,000,000	Note 3	19-Apr-17
			5,000,000	(4,000,000)	1,000,000		
M Thorneycroft	EMI	15.25p	655,737	–	655,737	Note 4	30-Jul-14
	Unapproved	15.25p	344,263	–	344,263	Note 5	30-Jul-14
	Unapproved	18.00p	500,000	–	500,000	Note 5	17-Mar-15
			1,500,000	–	1,500,000		

The IFRS 2 charge to the income statement in relation to these options was £69,000.

**Note 1:** These options were granted under a special award of the Enterprise Management Incentive ('EMI') Scheme. These options were exercised on the 22 December 2009. The aggregate on the gain made on these options was £52,727.

**Note 2:** These options were granted under special awards of Part B (Inland Revenue Unapproved) of the Patsystems Plc 2003 Share Option Scheme. These options were exercised on the 22 December 2009. The aggregate on the gain made on these options was £237,273.

**Note 3:** These options were granted under special awards of Part B (Inland Revenue Unapproved) of the Patsystems Plc 2003 Share Option Scheme. These options can be exercised after a period of three years after the date of grant but subject to the Group achieving growth in adjusted fully diluted pre-deferred tax EPS from the 2006 financial year to the 2009 financial year of 10% compound per annum.

**Note 4:** Options were granted under the second and third awards of the EMI Scheme. 76% of the options awarded under the second and third grants have currently vested and the remaining 24% of these options will vest on 8 February 2010.

**Note 5:** These options were granted under the second and third awards of Part B (Inland Revenue Unapproved) of the Patsystems Plc 2003 Share Option Scheme. These options all vested in 2008.

The mid-market price of the Company's shares at the end of the financial year was 22p, and the range of market prices during the year was 13p to 26p.

#### Directors' Awards under the Cash-Based Long-Term Incentive Scheme

	Date of Award	Maximum of Award £	Vesting date
D Webber	19.04.07	130,000	31.03.10
M Thorneycroft	19.04.07	85,000	31.03.10

The performance conditions attached to the Awards require adjusted fully diluted pre-deferred tax EPS growth from the 2006 financial year to the 2009 financial year of between 10% compound per annum to 30% compound per annum for between 30% and 100% of the Award to vest. The Awards vest on a straight line basis between minimum and maximum thresholds. Further details on the Awards are given on page 21.

The charge to the income statement for the year ended 31 December 2009 in relation to these Awards was £92,000.

#### Steve Sparke

Chairman, Remuneration Committee  
8 February 2010

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# Financial Statements

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# Independent Auditors' Report to the Members of Patsystems Plc

We have audited the Group financial statements of Patsystems Plc for the year ended 31 December 2009 which comprise the primary financial statements such as the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement and the accounting policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union.

## Respective Responsibilities of Directors and Auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 18, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Sections 495 and 496 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

## Opinion on Financial Statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2009 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Opinion on Other Matter Prescribed by the Companies Act 2006

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

## Matters on Which we are Required to Report by Exception

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

- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

## Other Matter

We have reported separately on the Parent Company financial statements of Patsystems Plc for the year ended 31 December 2009.



## Nigel Reynolds

(Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors London  
8 February 2010

## Consolidated Income Statement

for the year ended 31 December 2009

	Notes	2009 £'000	2008 £'000
<b>Revenue</b>	4	<b>22,097</b>	19,627
Cost of sales		<b>(555)</b>	(485)
<b>Gross profit</b>		<b>21,542</b>	19,142
Operating expenses		<b>(17,196)</b>	(17,203)
<b>Operating profit</b>	5	<b>4,346</b>	1,939
Finance income	7	<b>140</b>	127
<b>Profit on ordinary activities before taxation</b>		<b>4,486</b>	2,066
Current taxation charge		<b>(249)</b>	(152)
Deferred taxation charge		<b>(875)</b>	(1,298)
Taxation – total	8	<b>(1,124)</b>	(1,450)
<b>Profit for the year attributable to equity holders of the Company</b>		<b>3,362</b>	616
Earnings per ordinary share	10		
– basic		<b>1.9p</b>	0.3p
– diluted		<b>1.8p</b>	0.3p

The income statement has been prepared on the basis that all operations are continuing operations.

## Consolidated Statement of Comprehensive Income

for the year ended 31 December 2009

	2009 £'000	2008 £'000
<b>Profit for the year</b>	<b>3,362</b>	616
<b>Other comprehensive income:</b>		
Foreign exchange adjustment on foreign currency net investments	<b>(162)</b>	628
<b>Total comprehensive income for the year</b>	<b>3,200</b>	1,244

# Consolidated Balance Sheet

at 31 December 2009

	Notes	2009 £'000	2008 £'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Goodwill	12	3,251	3,251
Intangible assets	13	3,426	3,527
Property, plant and equipment	14	689	516
Deferred tax assets	15	4,945	5,877
Trade and other receivables	17	326	519
		<b>12,637</b>	13,690
<b>Current assets</b>			
Inventories	16	1	3
Trade and other receivables	17	5,006	6,476
Financial assets – derivative financial instruments	27	176	–
Income tax		8	3
Cash and cash equivalents	18	8,896	5,929
		<b>14,087</b>	12,411
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	19	(2,793)	(4,923)
Financial liabilities – derivative financial instruments	27	–	(853)
Current income tax liabilities		(98)	–
Provisions	20	(317)	(82)
		<b>(3,208)</b>	(5,858)
<b>Net current assets</b>			
		<b>10,879</b>	6,553
<b>Non-current liabilities</b>			
Trade and other payables	19	–	(50)
Provisions	20	(8)	(139)
		<b>(8)</b>	(189)
<b>Net assets</b>			
		<b>23,508</b>	20,054
<b>EQUITY</b>			
<b>Capital and reserves attributable to equity holders of the Company</b>			
Share capital	22	1,853	1,795
Share premium account	24	4,493	3,869
Other reserves	24	20,862	20,862
Retained earnings	24	(3,700)	(6,472)
<b>Total equity</b>	25	<b>23,508</b>	20,054

The financial statements on pages 26 to 52 were approved by the Board of Directors on 8 February 2010.



**David Webber**  
Chief Executive Officer



**Martin Thorneycroft**  
Finance Director

# Consolidated Statement of Changes in Equity

for the year ended 31 December 2009

	Share Capital £'000	Share Premium Account £'000	Other Reserves £'000	Retained Earnings £'000	£'000
At 1 January 2009	1,795	3,869	20,862	(6,472)	20,054
Profit for the year	–	–	–	3,362	3,362
Other comprehensive income:					
– Foreign exchange movement	–	–	–	(162)	(162)
Total comprehensive income for the period	–	–	–	3,200	3,200
Shares issued in the year	58	624	–	–	682
Dividends paid	–	–	–	(689)	(689)
Share compensation expense	–	–	–	261	261
<b>At 31 December 2009</b>	<b>1,853</b>	<b>4,493</b>	<b>20,862</b>	<b>(3,700)</b>	<b>23,508</b>

Of the other reserve at 31 December 2009 £20,812,000 relates to a merger reserve.

	Share Capital £'000	Share Premium Account £'000	Other Reserves £'000	Retained Earnings £'000	£'000
At 1 January 2008	1,775	3,792	20,570	(7,443)	18,694
Profit for the year	–	–	–	616	616
Other comprehensive income:					
– Foreign exchange movement	–	–	–	628	628
Total comprehensive income for the period	–	–	–	1,244	1,244
Shares issued in the year	20	77	292	–	389
Dividends paid	–	–	–	(602)	(602)
Share compensation expense	–	–	–	329	329
At 31 December 2008	1,795	3,869	20,862	(6,472)	20,054

Of the other reserve at 31 December 2008 £20,812,000 relates to a merger reserve.

# Consolidated Cash Flow Statement

for the year ended 31 December 2009

	2009 £'000	2008 £'000
<b>Cash flows from operating activities</b>		
Cash flows from operations	4,292	3,556
Interest received	140	127
Tax paid	(149)	(135)
Net cash flows from operating activities	4,283	3,548
<b>Cash from investing activities</b>		
Purchase of intangible assets	(653)	(864)
Purchase of property, plant and equipment	(596)	(126)
Net cash flows used in investing activities	(1,249)	(990)
<b>Cash flows from financing activities</b>		
Net proceeds from issue of ordinary share capital	682	86
Dividends paid to Company's shareholders	(689)	(602)
Net cash flows used in financing activities	(7)	(516)
<b>Net increase in cash and cash equivalents</b>	3,027	2,042
Cash and cash equivalents at beginning of the period	5,929	3,191
Effect of exchange rates on cash and cash equivalents	(60)	696
<b>Cash and cash equivalents at end of the period</b>	8,896	5,929

## Reconciliation of net profit to net cash flows from operating activities

	2009 £'000	2008 £'000
Net profit	3,362	616
Tax	1,124	1,450
Depreciation of property, plant and equipment	419	409
Amortisation of intangible assets	753	1,014
Share compensation expense	261	329
Finance income	(140)	(127)
Decrease in inventories	2	9
Decrease/(increase) in trade and other receivables	1,123	(1,487)
(Increase)/decrease in financial assets and liabilities	(1,029)	883
(Decrease)/increase in trade and other payables	(1,687)	368
Increase in provisions	104	92
<b>Cash flows from operating activities</b>	4,292	3,556

# Notes to the Financial Statements

## 1. Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 1.1 Accounting Convention and Basis of Preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRIC interpretations endorsed by the European Union (EU) and with those parts of the Companies Act 1985/2006 applicable to companies reporting under IFRS.

The results and net assets of subsidiary undertakings acquired are included in the consolidated income statement and consolidated balance sheet using the acquisition method of accounting from the effective date of acquisition.

These consolidated financial statements have been prepared under the historical cost convention, with the exception of financial instruments which are stated in accordance with IAS 39 Financial Instruments: Recognition and Measurement.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 2.

### Standards, Amendments and Interpretations Effective in 2009

- IFRS 7 'Financial instruments – Disclosures' (amendment) – effective 1 January 2009. The amendment requires enhanced disclosures about fair value measurement and liquidity risk.
- IAS 1 (revised). 'Presentation of financial statements' – effective 1 January 2009. The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income.
- IFRS 2 (amendment), 'Share-based payment' (effective 1 January 2009) deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions.

The above amendments do not have a material impact on the Group or Company's financial statements.

### Standards, Amendments and Interpretations to Existing Standards that are not yet Effective and have not been Adopted Early by the Group

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2010 or later periods, but the Group has not early adopted them:

- IFRS 3 (revised), 'Business combinations' (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply IFRS 3 (revised) prospectively to all business combinations from 1 January 2010.

The following amendments are not expected to have a material impact on the Group or Company's financial statements:

- IFRS 2 (amendments), 'Group cash-settled share-based payment transaction (effective from 1 January 2010'. In addition to incorporating IFRIC 8, 'Scope of IFRS 2', and IFRIC 11, 'IFRS 2 - Group and treasury share transactions', the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation.
- IFRS 5 (amendment), 'Non-current assets held for sale and discontinued operations'. The amendment provides clarification that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. The Group and Company will apply IFRS 5 (amendment) from 1 January 2010.
- IFRIC 17, 'Distribution of non-cash assets to owners' (effective on or after 1 July 2009). This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends.
- IAS 27 (revised), 'Consolidated and separate financial statements', (effective from 1 July 2009).

- IAS 38 (amendment), 'Intangible Assets'. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives.
- IAS 1 (amendment), 'Presentation of financial statements'. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The Group and Company will apply IAS 1 (amendment) from 1 January 2010.

## 1.2 Foreign Currency Translation

### Functional and Presentation Currency

Items included in the financial statements of each of the Group entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The consolidated financial statements are presented in Pounds Sterling, which is the parent Company's functional and presentation currency.

### Transactions and Balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

### Group Companies

The results and financial position of all Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates; and
- all resulting exchange differences are recognised in reserves.

## 1.3 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. The carrying value of capitalised goodwill is also reviewed if events or changes in circumstances indicate a potential impairment. Any impairment is charged to the income statement. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

## 1.4 Intangible Assets

Computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. The software acquired in the Tamesis acquisition was capitalised at fair value. These costs are amortised over their estimated useful lives (three years). Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

## 1.5 Impairment of Assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment and whenever events or changes in circumstance indicate that the carrying value may not be recoverable. Assets that are subject to amortisation are tested for impairment whenever events or changes in circumstance indicate that the carrying value may not be recoverable. An impairment loss is recognised for the amount by which the assets carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

## 1.6 Research and Development

Research expenditure is recognised as an expense as incurred. Costs directly attributable to development are capitalised as intangible assets when it is probable that the development will provide economic benefits, considering its commercial and technical feasibility, resources are available for the development and costs can be measured reliably. Other development expenditures are recognised as costs when incurred. Capitalised product development is amortised from completion of development over periods of between three and five years.

## 1.7 Property, Plant and Equipment

Property, plant and equipment is shown at cost less subsequent depreciation. Cost includes expenditure that is directly attributable to the acquisition of the items.

# Notes to the Financial Statements

continued

## 1. Accounting Policies continued

### 1.7 Property, Plant and Equipment continued

Depreciation on assets is calculated using the straight-line method to reduce the cost of each asset to its estimated residual value over its estimated useful life, as follows:

Leasehold improvements – over the period of the lease  
Plant and equipment – over 3 years  
Office furniture, fixtures and fittings – over 4 years

### 1.8 Current and Deferred Income Taxes

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries in which the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. The deferred income tax is not accounted for on the initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax balances are not discounted.

### 1.9 Inventories

Inventories are stated at the lower of cost and net realisable value.

### 1.10 Financial Assets

The Group classifies its financial assets between 'assets at fair value through profit or loss' and 'loans and receivables'. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

Purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Gains or losses arising from changes in the fair value of the financial assets are presented in the income statement in the period in which they arise.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a Group of financial assets is impaired. Impairment testing of trade receivables is described in note 1.12.

### 1.11 Accounting for Derivative Financial Instruments and Hedging Activities

The Group enters into forward currency contracts and options in order to hedge against the cash flow risk of foreign currency exchange rate movements. Derivatives are initially recognised at fair value on the date the contract is entered into and subsequently re-measured in future periods at their fair value. The movement in fair values is taken to the income statement.

The fair value of forward contracts is determined using forward exchange market rates at the balance sheet date.

### **1.12 Trade Receivables**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due under the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments are considered indicators that the trade receivable may be impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within 'operating expenses'. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'operating expenses' in the income statement.

### **1.13 Cash and Cash Equivalents**

Cash and cash equivalents includes cash in hand, cash in transit, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts.

Cash in transit represents the net amount of monies due to Group companies that have been paid to independent clearing agents and are pending release by overseas withholding tax authorities.

### **1.14 Trade Payables**

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### **1.15 Leases**

Costs in respect of operating leases are charged to the income statement on a straight line basis over the lease term.

### **1.16 Provisions**

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. This relates to provisions including dilapidations and long term share incentive schemes.

### **1.17 Segment Reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors.

### **1.18 Revenue Recognition**

Revenue comprises the fair value of the sale of goods and services, net of value added tax. Revenue is recognised as follows:

- Non-refundable installation income, consultancy and software development projects: revenue is taken to the income statement in line with the performance of the work.
- Monthly end user or lot charges, monthly maintenance and income on any rentals – these are credited to the income statement in the period in which the service is provided.
- Income from perpetual licences – this is recognised in the income statement when the Company has fulfilled all of its obligations in accordance with the terms for acceptance set out in the customer contracts and the Company has reasonable assurance over the collectability of the debt.
- Revenue relating to development projects is recognised using the percentage of completion method, based primarily on contract costs incurred to date, compared to estimated overall contract costs.

### **1.19 Employee Benefits**

#### **Pension Obligations**

The Group operates a defined contribution scheme which is open to UK and US employees.

The Group pays contributions to publicly or privately administered pension insurance schemes on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

# Notes to the Financial Statements

continued

## 1. Accounting Policies continued

### 1.19 Employee Benefits continued

#### Termination Benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

#### Share-Based Benefits

The Group operates two share options schemes; the Enterprise Management Incentive Scheme and the 2003 Share Option Scheme (Inland Revenue unapproved).

The fair value of options is recognised as an employee benefit expense with a corresponding increase in reserves over the vesting period. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised. A detailed explanation of how the fair values have been derived can be seen in note 23.

#### Cash-Based Long-Term Incentive Benefits

The Group has introduced a cash-based long-term incentive scheme ('the Cash Scheme') in 2007 and awards were granted to the Executive Directors and to certain senior and key employees. These awards are conditional upon the rate of growth in fully diluted pre-deferred tax EPS over the period from 31 December 2006 to 31 December 2009. The cost of these awards has been estimated based on projected EPS growth and is recognised as an employee benefit expense on a straight line basis over the period from grant to March 2010.

#### Other Benefits

UK employees are also entitled to private medical, death in service insurance, critical illness and long term sickness insurance and subsidised health club membership. The costs of providing these benefits are recognised as employee benefit expense as they fall due.

This year the Group has introduced a flexible benefits scheme that enables employees to tailor their total remuneration packages to meet their own individual lifestyle and family requirements.

### 1.20 Dividend Distributions

Final dividend distributions to the Company's shareholders are recognised as liabilities in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders. Interim dividend distributions to the Company's shareholders are recognised as liabilities in the Group's financial statements when paid.

## 2. Critical Accounting Estimates and Judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

- IRFS 2 share based payment charge and the provision for the cash-based long term incentive scheme, where judgement has been applied as to the number of awards expected to vest.
- Capitalisation of research and development costs.
- Impairment reviews for intangible assets.
- Development projects, where the percentage completion method is used. This requires the Group to estimate the development performed to date as a proportion of the total development to be performed. Another uncertainty is the expected total profit.
- Deferred tax, see note 15.

### 3. Financial risk management

The Group's activities expose it to a variety of financial risks and it has developed and operates an overall risk management programme that recognises the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Financial risk management is under the control of the Finance Director and is carried out centrally for the Group in compliance with policies approved and monitored by the full Board. The Board regularly reviews the effectiveness of these policies examining specific areas including foreign exchange risk, interest rate risk, credit risk and the extent to which financial instruments are being used to hedge certain risk exposures.

#### 3.1 Market Risk

The principal market risk to which the Group is exposed is foreign currency risk on sales, purchases and cash balances that are denominated in a currency other than Sterling. The principal currency giving rise to this risk is the US Dollar. Patsystems' policy is to carry forward cover for 75% of US\$/£ net anticipated exposure for 12 months forward. Forward cover is achieved through a mixture of forward contracts and options. This policy has remained unchanged throughout both 2009 and 2008 although the level of cover and the exposure to risks on other foreign currencies are kept under regular review.

The average US\$/£ exchange rate used in the 2009 income statement was 1.57 (2008: 1.84). The average rate of the hedges in place at 31 December 2009 for 2010 was 1.60 (2008 for 2009: 1.77). The fair value of these hedges is recognised as a financial asset of £176,000 (2008: liability £853,000) on the Group balance sheet at the year end.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. This exposure is minimised by a Group policy requiring individual subsidiaries to remit any surplus funds to the Parent Company to facilitate central management as set out above and to enable each individual subsidiary to match remaining assets and liabilities denominated in their specific functional currencies.

During the year ended 31 December 2009 the US\$/£ exchange rate fluctuated between 1.42 and 1.65 (2008 between 1.45 and 1.99). At 31 December 2009, if the US\$ had weakened/strengthened by 20% against the £ with all other variables held constant, post tax profit for the year would have been £630,000 (2008: £647,000) lower/higher, mainly as a result of foreign exchange gains/losses on translation of US\$ denominated trade receivables.

The Group is also exposed to interest rate risks on the fair values of the hedging instruments that it holds and on the cash flows arising from any interest bearing cash deposits. These assets are regularly realised to settle trade and other payables as part of the Group's management of its liquidity risks. The Group has no material borrowings and accordingly, exposures to interest rate risks are not regarded as significant.

#### 3.2 Credit Risk

Credit risk arises from cash and cash equivalents and from credit exposures to the Group's customers, including outstanding receivables and committed transactions. Credit risk is managed centrally with regular reports of exposures reviewed by the Board. The Group does not set individual credit limits but will seek to ensure that counterparties enter into legally enforceable contracts that include settlement terms that demonstrate the counterparties' commitment to the transaction and minimise this risk exposure.

The Board does not assess the credit quality of financial assets by reference to external credit ratings, but will regularly examine the ageing of financial assets and individual counterparty historic default rates. An aged analysis of trade receivables at 31 December 2009 is set out in note 17.

#### 3.3 Liquidity Risk

The Group has no borrowings or committed credit lines and its liquidity management policy is carried out at a local level and involves projecting cash flows in major currencies and considering the levels of liquid assets necessary to meet these. Requirements are overseen by the Board with Group levels of cash and cash equivalents reviewed on a monthly basis. A maturity analysis of trade and other payables is shown in note 19.

#### 3.4 Capital Risk Management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. Consistent with others in the industry and of its size, the Group believes that an optimum capital structure is currently achieved entirely through equity and with no net debt. Total equity at 31 December 2009 was £23,508,000 (2008: £20,054,000).

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or raise future funds through debt.

# Notes to the Financial Statements

continued

## 4. Segmental Analysis

The Chief Operating Decision Maker is the Board of Directors. The Board reviews the Company's internal reporting in order to assess performance of the business. Management has determined the operating segments based on the reports reviewed by the Board.

The Board considers the business from a geographic perspective, monitoring performance by Europe, America and Asia Pacific.

The Group operates in one product line, that of the supply of software to financial institutions.

The Board assesses the performance of the business based on a measure of adjusted profit. Adjusted profit is defined as 'profit before tax after adjusting for share option costs, marking-to-market of derivatives used to hedge cash flows and amortisation of intangibles other than internally developed software.' A reconciliation of adjusted profit to profit before tax is detailed below:

2009	Europe £'000	North America £'000	Asia Pacific £'000	Total £'000
Revenue from external customers	7,788	6,745	7,564	<b>22,097</b>
Revenue by destination	7,518	6,353	8,226	<b>22,097</b>
Adjusted profit	2,515	391	1,015	<b>3,921</b>
Depreciation and amortisation	1,065	31	76	<b>1,172</b>
Finance income	130	7	3	<b>140</b>
Taxation expense	829	16	279	<b>1,124</b>
Total assets	21,953	1,569	3,202	<b>26,724</b>
Total liabilities	(2,035)	(211)	(970)	<b>(3,216)</b>

2008	Europe £'000	North America £'000	Asia Pacific £'000	Total £'000
Revenue from external customers	6,873	7,591	5,163	19,627
Revenue by destination	6,932	7,301	5,394	19,627
Adjusted profit	2,499	872	298	3,669
Depreciation and amortisation	1,349	27	47	1,423
Finance income	97	18	12	127
Taxation expense	413	496	541	1,450
Total assets	19,488	4,202	2,411	26,101
Total liabilities	(3,666)	(1,727)	(654)	(6,047)

A reconciliation of adjusted profit to profit on ordinary activities before tax is provided as follows:

	2009 £'000	2008 £'000
<b>Adjusted profit for reportable segments</b>	<b>3,921</b>	3,669
Share compensation expense	<b>(261)</b>	(329)
Movement in fair value of hedging instruments	<b>1,029</b>	(883)
Amortisation of intangibles	<b>(203)</b>	(391)
Finance income	<b>(140)</b>	(127)
<b>Operating profit</b>	<b>4,346</b>	1,939
Finance income	<b>140</b>	127
<b>Profit on ordinary activities before tax</b>	<b>4,486</b>	2,066

The amounts provided to management with respect to total assets and total liabilities are measured in a manner consistent with that of the financial statements. The assets are allocated based on the operations of the segment and the physical location of the asset and the liabilities are allocated based on the operations of the segment.

The total of non-current assets other than deferred tax assets located in Europe is £7,428,000 (2008: £7,654,000), and the total of these non-current assets located in other regions is £264,000 (2008: £159,000).

Revenue from two customers accounts for more than 10% of total revenue, with revenue of £3,574,000 and £2,560,000 respectively (2008: £3,601,000 and £3,758,000). These revenues are attributable to all segments.

## 5. Operating Profit

	2009 £'000	2008 £'000
<b>Operating profit is stated after charging/(crediting):</b>		
Staff costs	<b>12,310</b>	11,518
Share compensation expense	<b>261</b>	329
Total staff costs	<b>12,571</b>	11,847
Less: wages and salaries capitalised in accordance with IAS 38	<b>(377)</b>	(587)
	<b>12,194</b>	11,260
Depreciation:		
– owned tangible assets	<b>419</b>	409
Amortisation:		
– capitalised development costs	<b>550</b>	623
– other intangible assets	<b>203</b>	391
– total intangible assets	<b>753</b>	1,014
Operating lease costs:		
– plant and machinery	<b>32</b>	39
– other	<b>540</b>	438
– total operating lease costs	<b>572</b>	477
Foreign exchange (gain)/loss:		
– movement in fair value of hedging instruments	<b>(1,029)</b>	883
– other exchange gains and losses	<b>455</b>	(678)
– total foreign exchange (gain)/loss	<b>(574)</b>	205

Services provided by the Group's auditor and network firms

	2009 £'000	2008 £'000
Fees payable to the Group's auditor for the audit of the Group's annual accounts	<b>35</b>	33
Fees payable to the Group's auditor and its associates for other services:		
– the audit of the Group's subsidiaries pursuant to legislation	<b>51</b>	55
– tax services	<b>41</b>	60
– human resource services	–	6
All other services	<b>33</b>	8
	<b>160</b>	162

## 6. Staff Costs

Staff costs (including Directors' emoluments) during the year amounted to:

	2009 £'000	2008 £'000
Wages and salaries	<b>10,458</b>	9,898
Share compensation expense	<b>261</b>	329
Social security costs	<b>1,146</b>	928
Pension costs	<b>706</b>	692
	<b>12,571</b>	11,847

Included in the above wages and salaries is £377,000 (2008: £587,000) in relation to development costs that were capitalised in accordance with IAS 38.

# Notes to the Financial Statements

continued

## 6. Staff Costs continued

The average monthly number of persons (including Directors) employed by the Group during the year, in full time equivalents, was:

	2009 number	2008 number
Sales, account management and marketing	21	21
Customer operations, testing and technical	73	70
Development and product development	48	44
Finance, administration and board	20	18
	<b>162</b>	<b>153</b>

Details of the emoluments of the Directors are contained in the Report of the Board on Directors' Remuneration and Group Remuneration Policy on page 22, under the heading 'Directors' Emoluments'.

Details of key management remuneration are shown in note 28.

## 7. Finance income

	2009 £'000	2008 £'000
Bank interest receivable	78	95
Interest receivable on the fair value of long term receivables	37	32
Other interest	25	–
	<b>140</b>	<b>127</b>

Other interest relates to the interest received on the return of a rental deposit from the Cottons Centre premises, occupied until September 2009 and interest on an office rental deposit in the United States.

## 8. Tax on profit on ordinary activities

	2009 £'000	2008 £'000
<b>United Kingdom</b>		
Withholding tax	12	12
<b>Foreign tax</b>		
Corporation Tax – current year	177	46
Corporation Tax – in relation to prior year	60	94
<b>Total current tax</b>	<b>249</b>	<b>152</b>
<b>Deferred tax</b>		
Movement in deferred tax (note 15)	875	1,298
<b>Taxation charge</b>	<b>1,124</b>	<b>1,450</b>

## 8. Tax on Profit on Ordinary Activities continued

The tax for the year is different from that which would result from applying the standard rate of Corporation Tax in the UK (28%) (2008: 28.5%). The differences are explained below:

	2009 £'000	2008 £'000
Profit on ordinary activities before tax	4,486	2,066
Profit on ordinary activities multiplied by standard rate of Corporation Tax in the UK of 28% (2008: 28.5%)	1,256	589
<b>Effects of:</b>		
Expenses not deductible for tax purposes	(77)	15
Amortisation of intangibles not deductible	–	50
Effect of differing tax rates on overseas earnings	(88)	111
Withholding tax	12	12
Adjustments in respect of prior years – Corporation Tax	60	94
Adjustments in respect of prior years – deferred tax	(46)	752
Recognition of deferred tax assets	–	(233)
Tax losses for which no deferred tax asset has been recognised	7	64
Remeasurement of deferred tax on change of UK rate	–	(4)
<b>Taxation charge</b>	<b>1,124</b>	<b>1,450</b>

From 1 April 2008 the UK Corporation Tax rate changed from 30% to 28%.

### Factors that May Affect Future Tax Charges

The Group has unrelieved tax losses of £18,128,000 (2008: £21,230,000) that are available for offset against future taxable profits in their respective territories. A deferred tax asset amounting to £155,831 (2008: £165,000) has not been recognised in respect of these losses as their future recovery is uncertain.

## 9. Parent Company Accounts

The Parent Company accounts are set out in pages 53 to 60.

## 10. Earnings Per Ordinary Share

In accordance with IAS 33, the calculation of earnings per ordinary share is based upon:

### (a) Basic Earnings Per Share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year:

	2009	2008
Profit for the year attributable to equity holders of the Company	£3,362,000	£616,000
Weighted average number of shares	180,628,990	178,982,340
Basic earnings per share	1.9p	0.3p

### (b) Diluted Earnings Per Share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversions of all dilutive potential ordinary shares.

The Group has one category of dilutive potential ordinary shares: share options.

For share options a calculation is performed to determine the number of shares that could have been acquired at fair value (determined as the average annual market price of the Group's shares) based on the monetary value of the subscription rights attached to the outstanding options.

The number of shares calculated above is compared with the number of shares that would have been issued assuming the exercise of the share options.

# Notes to the Financial Statements

continued

## 10. Earnings Per Ordinary Share continued

	2009	2008
Profit for the year attributable to equity holders of the Company	<b>£3,362,000</b>	£616,000
Weighted average number of shares	<b>180,628,990</b>	178,982,340
Effect of dilutive share options	<b>1,628,191</b>	4,462,772
	<b>182,257,181</b>	183,445,112
Diluted earnings per share	<b>1.8p</b>	0.3p

## 11. Principal Subsidiaries

The principal investments in subsidiary undertakings held by the Parent Company are as follows:

1. A 100% investment in respect of voting rights and nominal value in Patsystems Holdings Limited, a company incorporated in England and Wales.

The historical cost of the investment in the shares of Patsystems Holdings Limited is £11,180,000. Under the Scheme of Arrangement the subsidiary undertaking returned capital to the Company amounting to £9,865,000, and the cost of the investment has been reduced accordingly to reflect this.

The following subsidiary undertakings are wholly owned by Patsystems Holdings Limited in respect of voting rights and nominal value of issued shares and perform the sale and support of electronic trading systems:

Patsystems (UK) Ltd	– incorporated in England and Wales
Patsystems (NA) LLC	– incorporated in United States
Patsystems Pte Ltd	– incorporated in Singapore
Patsystems Pty Ltd	– incorporated in Australia
Patsystems GmbH	– incorporated in Germany

The following subsidiary is wholly owned by Patsystems Holdings Limited in respect of voting rights and nominal value of issued shares and acts as a holding company:

Professional Automated Trading Systems BV (incorporated in The Netherlands).

Professional Automated Trading Systems BV owns 100% of voting rights and nominal value of issued shares in Patsystems (Japan) KK (incorporated in Japan), which performs the sale and support of electronic trading systems.

Patsystems (Japan) KK owns 100% of voting rights and nominal value of issued shares in Patsystems (Ireland) Ltd (incorporated in the Republic of Ireland), which acts as a holding company.

2. A 100% investment in Tamesis Limited, a company incorporated in England and Wales that develops, distributes and supports software enabling real time trade capture, valuation and risk management for the structured finance market.

All subsidiaries are included in the consolidation.

## 12. Goodwill

	2009 £'000	2008 £'000
<b>Cost and net book value</b>		
At 1 January	<b>3,251</b>	3,237
Additions	–	14
At 31 December	<b>3,251</b>	3,251

The goodwill is all held in Europe.

### Impairment Review

The recoverable amount for the cash generating unit has been measured based on a value in use calculation. The calculations use pre-tax profits based on budgets approved by management for the year 2010. Cash flows beyond this are based on a growth rate of 2.25%. A pre-tax discount rate of 10% has been applied to the calculations.

As the value in use is greater than the carrying value there is no impairment in the period and the carrying value of goodwill represents the excess of the cost of acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition.

### 13. Intangible Assets

2009	Software licences £'000	Acquired software £'000	Capitalised development £'000	Total £'000
<b>Cost</b>				
At 1 January 2009	678	898	4,294	5,870
Additions	43	–	610	653
Disposals	(144)	–	–	(144)
Foreign exchange	(5)	–	–	(5)
At 31 December 2009	<b>572</b>	<b>898</b>	<b>4,904</b>	<b>6,374</b>
<b>Amortisation</b>				
At 1 January 2009	(408)	(898)	(1,037)	(2,343)
Charge for the year	(203)	–	(550)	(753)
Disposals	144	–	–	144
Foreign exchange	4	–	–	4
At 31 December 2009	<b>(463)</b>	<b>(898)</b>	<b>(1,587)</b>	<b>(2,948)</b>
<b>Net book value</b>				
At 31 December 2009	<b>109</b>	<b>–</b>	<b>3,317</b>	<b>3,426</b>
At 31 December 2008	270	–	3,257	3,527
<b>2008</b>				
2008	Software licences £'000	Acquired software £'000	Capitalised development £'000	Total £'000
<b>Cost</b>				
At 1 January 2008	1,273	898	3,483	5,654
Additions	53	–	811	864
Disposals	(674)	–	–	(674)
Foreign exchange	26	–	–	26
At 31 December 2008	678	898	4,294	5,870
<b>Amortisation</b>				
At 1 January 2008	(843)	(723)	(414)	(1,980)
Charge for the year	(216)	(175)	(623)	(1,014)
Disposals	674	–	–	674
Foreign exchange	(23)	–	–	(23)
At 31 December 2008	<b>(408)</b>	<b>(898)</b>	<b>(1,037)</b>	<b>(2,343)</b>
<b>Net book value</b>				
At 31 December 2008	270	–	3,257	3,527
At 31 December 2007	430	175	3,069	3,674

# Notes to the Financial Statements

continued

## 14. Property, Plant and Equipment

2009	Leasehold improvements £'000	Plant and equipment £'000	Office furniture fixtures and fittings £'000	Total £'000
<b>Cost</b>				
At 1 January 2009	564	1,301	111	1,976
Additions	110	455	31	596
Disposals	(509)	(667)	(11)	(1,187)
Foreign exchange	(7)	(35)	(3)	(45)
At 31 December 2009	<b>158</b>	<b>1,054</b>	<b>128</b>	<b>1,340</b>
<b>Depreciation</b>				
At 1 January 2009	(451)	(956)	(53)	(1,460)
Charge for the year	(110)	(265)	(44)	(419)
Disposals	509	667	11	1,187
Foreign exchange	6	35	–	41
At 31 December 2009	<b>(46)</b>	<b>(519)</b>	<b>(86)</b>	<b>(651)</b>
<b>Net book value</b>				
At 31 December 2009	<b>112</b>	<b>535</b>	<b>42</b>	<b>689</b>
At 31 December 2008	113	345	58	516
<b>2008</b>				
<b>Cost</b>				
At 1 January 2008	539	3,135	495	4,169
Additions	–	109	17	126
Disposals	–	(2,222)	(459)	(2,681)
Foreign exchange	25	279	58	362
At 31 December 2008	564	1,301	111	1,976
<b>Depreciation</b>				
At 1 January 2008	(332)	(2,644)	(441)	(3,417)
Charge for the year	(101)	(285)	(23)	(409)
Disposals	–	2,222	459	2,681
Foreign exchange	(18)	(249)	(48)	(315)
At 31 December 2008	(451)	(956)	(53)	(1,460)
<b>Net book value</b>				
At 31 December 2008	113	345	58	516
At 31 December 2007	207	491	54	752

## 15. Deferred Tax Assets

2009	Trading losses £'000	Capital allowances £'000	Share options £'000	Other timing differences £'000	Total £'000
At 1 January 2009	5,706	(171)	41	301	5,877
Utilisation of losses against current year profits	(762)	–	–	–	(762)
Adjustments in respect of prior years	46	–	–	–	46
Credits/(charges) arising in the year	–	71	29	(259)	(159)
(Charged)/credited to income statement	(716)	71	29	(259)	(875)
Foreign exchange	(57)	–	–	–	(57)
At 31 December 2009	<b>4,933</b>	<b>(100)</b>	<b>70</b>	<b>42</b>	<b>4,945</b>

2008	Trading losses £'000	Capital allowances £'000	Share options £'000	Other timing differences £'000	Total £'000
At 1 January 2008	6,665	(169)	123	54	6,673
Additional deferred tax assets in respect of Group companies that have become profitable	233	–	–	–	233
Utilisation of losses against current year profits	(942)	–	–	–	(942)
Adjustments in respect of prior years	(752)	–	–	–	(752)
(Charges)/credits arising in the year	–	(2)	(82)	247	163
(Charged)/credited to income statement	(1,461)	(2)	(82)	247	(1,298)
Foreign exchange	502	–	–	–	502
At 31 December 2008	5,706	(171)	41	301	5,877

Deferred tax assets in respect of Group companies' unrelieved trading losses are recognised when the specific Company's business has become profitable and to the extent that it is probable there will be future trading profits to utilise such losses.

## 16. Inventories

	2009 £'000	2008 £'000
Goods for resale	1	3

## 17. Trade and Other Receivables

	2009 £'000	2008 £'000
Trade receivables	2,737	4,538
Less: provision for impairment of receivables	(107)	(134)
Trade receivables – net	2,630	4,404
Other receivables	392	351
Prepayments and accrued income	2,310	2,240
	5,332	6,995
Less non-current portion – accrued income	(326)	(519)
<b>Current portion</b>	<b>5,006</b>	<b>6,476</b>

# Notes to the Financial Statements

continued

## 17. Trade and Other Receivables continued

Non-current receivables are due as follows:

	2009 £'000	2008 £'000
Within between one and two years	84	193
Within between two and five years	225	239
After more than five but less than ten years	17	87
<b>Non-current receivables</b>	<b>326</b>	<b>519</b>

The carrying values less impairment provisions of trade and other receivables approximate their fair values.

The effective interest rates on non-current receivables were between the range of 1–6% (2008: 3–6%).

The ageing of trade receivables is as follows:

2009	Not past due £'000	Up to 3 months £'000	3 to 6 months £'000	Over 6 months £'000	Total £'000
Fully performing	1,870	–	–	–	1,870
Past due but not impaired	–	737	22	1	760
Impaired and provided for	–	11	52	44	107
	<b>1,870</b>	<b>748</b>	<b>74</b>	<b>45</b>	<b>2,737</b>
Percentage	<b>68%</b>	<b>27%</b>	<b>3%</b>	<b>2%</b>	<b>100%</b>

2008	Not past due £'000	Up to 3 months £'000	3 to 6 months £'000	Over 6 months £'000	Total £'000
Fully performing	3,522	–	–	–	3,522
Past due but not impaired	–	659	223	–	882
Impaired and provided for	–	–	10	124	134
	<b>3,522</b>	<b>659</b>	<b>233</b>	<b>124</b>	<b>4,538</b>
Percentage	<b>78%</b>	<b>14%</b>	<b>5%</b>	<b>3%</b>	<b>100%</b>

Trade receivables that are less than three months past due are not considered impaired. As of 31 December 2009, trade receivables of £760,000 (2008: £882,000) were past due but not impaired. These relate to a number of independent customers for whom there is no indication of financial difficulties or recent history of default. The Group is in contact with these customers and obtained assurances from which it believes that the amounts receivable will be collected in full with no additional cost to the Group.

Provisions for the portion of individually impaired trade receivables assessed to be irrecoverable at 31 December 2009 totalled £107,000 (2008: £134,000). These relate to customers where there are indications of financial difficulties or disputes that are unlikely to be resolved without further costs to the Group.

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	2009 £'000	2008 £'000
UK Pound	2,080	2,118
US Dollar	2,470	4,116
Singapore Dollar	363	300
Japanese Yen	334	272
Australian Dollar	46	130
Other currencies	39	59
<b>Total</b>	<b>5,332</b>	<b>6,995</b>

Movements on the Group provision for impairment of trade receivables are as follows:

	2009 £'000	2008 £'000
At 1 January	134	83
Provision for receivables impairment	60	60
Receivables written off during the year as uncollectible	(17)	(19)
Unused amounts reversed	(67)	–
Foreign exchange	(3)	10
<b>At 31 December</b>	<b>107</b>	<b>134</b>

The creation and release of provisions for impaired receivables has been included in 'operating expenses' in the income statement. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The Group does not hold any collateral as security.

## 18. Cash and Cash Equivalents

	2009 £'000	2008 £'000
Cash at bank and on hand	3,294	4,649
Short-term deposits	5,602	1,280
	<b>8,896</b>	<b>5,929</b>

The credit quality of the Group's financial assets represented by cash and cash equivalents is not assessed by reference to external credit ratings but is regularly reviewed by the Board. Monies are held with international banking organisations and, where appropriate, with well established local bankers that are able to provide the levels of security, accessibility and service to meet local needs.

The interest rates on interest bearing short-term deposits are floating rates. All financial assets represented by cash and cash equivalents mature within one year.

The carrying values of cash and cash equivalents approximate their fair values.

The carrying amounts of the Group's cash and cash equivalents are denominated in the following currencies:

	2009 £'000	2008 £'000
UK Pound	6,879	3,762
US Dollar	1,215	1,230
Singapore Dollar	233	200
Japanese Yen	367	248
Australian Dollar	116	389
Other currencies	86	100
<b>Total</b>	<b>8,896</b>	<b>5,929</b>

Subsequent to the year end the Group put in place a guarantee of the value of \$800,000 in respect of one of its ongoing contracts.

# Notes to the Financial Statements

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## 19. Trade and Other Payables

	2009 £'000	2008 £'000
<b>Current liabilities</b>		
Trade payables	418	290
Other tax and social security	562	721
Other creditors	15	58
Accruals	1,535	1,573
Deferred income	263	2,281
	<b>2,793</b>	4,923
<b>Non-current liabilities</b>		
Deferred income	–	50
	<b>2,793</b>	4,973

None of the payables are secured.

All trade and other payables mature within one year.

The carrying amounts of the Group's trade and other payables are denominated in the following currencies:

	2009 £'000	2008 £'000
UK Pound	1,652	2,326
US Dollar	534	2,112
Singapore Dollar	281	247
Japanese Yen	233	224
Australian Dollar	38	35
Other currencies	55	29
<b>Total</b>	<b>2,793</b>	4,973

The carrying amounts of the Group's trade and other payables approximate their fair values.

The Group's intercompany receivables and payables, which are eliminated on consolidation, are recorded in the books of the local entities in the following currencies:

	2009 £'000	2009 £'000	2008 £'000	2008 £'000
	Receivables	Payables	Receivables	Payables
UK Pound	21,278	(38,229)	23,316	(38,829)
US Dollar	–	(3,834)	–	(5,181)
Singapore Dollar	1,307	(2,613)	502	(1,967)
Japanese Yen	1,712	(1,807)	1,056	(937)
Australian Dollar	224	(576)	–	(683)
Other currencies	171	(2,109)	185	(1,938)
	<b>24,692</b>	<b>(49,168)</b>	25,059	(49,535)

The difference between the intercompany receivables and payable of £24,476,000 relates to provision made against intercompany receivables in prior years.

## 20. Provisions

	At 1 January 2009 £'000	Utilised in year £'000	Movement in year £'000	At 31 December 2009 £'000
<i>No later than one year</i>				
Cash-based long term incentive scheme	139	–	178	<b>317</b>
<i>Later than one year and no later than five years</i>				
Dilapidations provision	82	(104)	30	<b>8</b>
	<b>221</b>	<b>(104)</b>	<b>208</b>	<b>325</b>

The dilapidations provision is in respect of work to be carried out at the end of the lease on property. The provision in respect of the Cotton's Centre was discharged in September 2009 (£104,000) at the end of the lease, and a new provision for Riverside House (£8,000) was established and this is due to expire in 2014.

The cash-based long term incentive scheme is described in the Remuneration Report. It is due to expire in 2010.

## 21. Commitments Under Operating Leases

The Group leases various offices and plant and machinery under non-cancellable operating lease arrangements. The leases have varying terms, escalation clauses and renewal rights.

The lease expenditure charged to the income statement during the year is disclosed in note 5.

The future minimum lease payments under non-cancellable operating leases are as follows:

	Land and Buildings		Plant and Machinery		Total	
	2009	2008	2009	2008	2009	2008
No later than one year	<b>368</b>	452	<b>30</b>	34	<b>398</b>	486
Later than one year and no later than five years	<b>1,269</b>	351	<b>55</b>	87	<b>1,324</b>	438
Later than five years	–	–	–	15	–	15
	<b>1,637</b>	803	<b>85</b>	136	<b>1,722</b>	939

## 22. Called Up Equity Share Capital

	2009 £'000	2008 £'000
<b>Authorised</b>		
<i>Ordinary shares of 1p each</i>		
At 1 January and 31 December – 250,000,000 shares	<b>2,500</b>	2,500
<i>Deferred shares of 1p each</i>		
At 1 January and 31 December – 2 shares	–	–
<i>Redeemable preference shares of £1 each</i>		
At 1 January and 31 December – 49,998 shares	<b>50</b>	50
<b>Allotted, called up and fully paid</b>		
<i>Ordinary shares of 1p each</i>		
At 1 January – 179,537,301 shares	<b>1,795</b>	1,775
Allotted as consideration for acquisition of Tamesis Limited	–	11
Allotted under share option schemes – 5,793,392	<b>58</b>	9
At 31 December – 185,330,693 shares	<b>1,853</b>	1,795

The 1p ordinary shares are listed on the AIM market. They have one voting right per share.

*Deferred shares of 1p each*

At 1 January and 31 December – 2 shares	–	–
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# Notes to the Financial Statements

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## 23. Share Option Schemes

The following options to purchase 1p Ordinary shares in Patsystems Plc were granted, exercised, lapsed and outstanding during the year:

Exercise price in pence	Outstanding at 1 January 2009	Granted in year	Exercised in year	Lapsed in year	Outstanding at 31 December 2009	Exercisable at 31 December 2009	Effective dates
5.08p	1,185,500	–	(582,500)	(45,000)	558,000	558,000	Note a
9.50p	97,500	–	(7,500)	–	90,000	90,000	Note a
13.75p	727,272	–	(727,272)	–	–	–	Note e
14.25p	497,153	–	(82,800)	(10,800)	403,553	403,553	Note b
14.50p	496,951	–	–	–	496,951	496,951	Note b
15.25p	775,737	–	–	–	775,737	775,737	Note b
15.58p	1,346,900	–	(437,400)	(239,100)	670,400	670,400	Note b
17.50p	90,000	–	(45,600)	(14,400)	30,000	30,000	Note b
27.75p	250,000	–	–	–	250,000	–	Note g
29.00p	444,827	–	–	–	444,827	–	Note g
	5,911,840	–	(1,883,072)	(309,300)	3,719,468	3,024,641	
1.00p	582,525	–	(582,525)	–	–	–	Note i
13.75p	3,272,728	–	(3,272,728)	–	–	–	Note f
14.25p	254,494	–	(40,667)	(34,684)	179,143	179,143	Note c
14.50p	83,089	–	–	–	83,089	83,089	Note c
15.25p	404,263	–	–	(60,000)	344,263	344,263	Note d
15.58p	670,400	–	(14,400)	(60,300)	595,700	595,700	Note c
18.00p	500,000	–	–	–	500,000	500,000	Note d
27.75p	1,000,000	–	–	–	1,000,000	–	Note h
29.00p	1,655,173	–	–	–	1,655,173	–	Note h
	8,422,672	–	(3,910,320)	(154,984)	4,357,368	1,702,195	
<b>Total all schemes</b>	<b>14,334,512</b>	<b>–</b>	<b>(5,793,392)</b>	<b>(464,284)</b>	<b>8,076,836</b>	<b>4,726,836</b>	

**Note a:** These options were granted under the initial award of the Enterprise Management Incentive ('EMI') Scheme. These options are now 100% exercisable.

**Note b:** Options were granted under the second and third awards of the EMI Scheme. 76% of the options awarded under the second and third grants have currently vested and the remaining 24% of these options will vest on 8 February 2010.

**Note c:** These options were granted under the second and third awards of Part B (Inland Revenue Unapproved) of the Patsystems Plc 2003 Share Option Scheme. The vesting status is the same as note b, with the exception of 34,540 unapproved options with an exercisable price of 14.50p which all vested in 2008.

**Note d:** These options were granted under the second and third awards of Part B (Inland Revenue Unapproved) of the Patsystems Plc 2003 Share Option Scheme. 844,263 of these options became fully vested in 2008 following approval from the Remuneration Committee, the remaining options are subject to the same vesting status as note b.

**Note e:** These options were granted under a special award of the EMI Scheme. These options were exercised on the 22 December 2009. The aggregate on the gain made on these options was £52,727.

**Note f:** These options were granted under a special award of Part B (Inland Revenue Unapproved) of the Patsystems Plc 2003 Share Option Scheme. These options were exercised on the 22 December 2009. The aggregate on the gain made on these options was £237,273.

**Note g:** These options were granted under a special award of the EMI Scheme. These options can be exercised after a period of three years after the date of the grant but subject to achieving Company performance targets.

**Note h:** These options were granted under a special award of Part B (Inland Revenue Unapproved) of the Patsystems Plc 2003 Share Option Scheme, exercise conditions are as per note g.

**Note i:** These options were granted under a special award of Part B (Inland Revenue Unapproved) of the Patsystems Plc 2003 Share Option Scheme. These options were exercised on 17 March 2009.

The weighted average fair value per share at the measurement date of options granted during the year was nil p (2008: nil p).

The weighted average share price at the date of grant of options granted during the year was nil p (2008: nil p).

For the options that were exercised during the year, the weighted average share price at the date of exercise was 21p (2008: 23p).

The weighted average remaining contractual life of options outstanding at the year end is 5.7 years (2008: 6.7 years).

The total fair value that was charged to the income statement in relation to the share options was £261,000 (2008: £329,000), all of which related to equity settled share based payment transactions.

The fair values of the options have been calculated using the Binomial Model. The model takes into account the following factors in determining the fair value of an option:

**(a) Share Price and Exercise Price**

Share prices are closing share prices as at the date of grant. Exercise prices are listed in the above schedule.

**(b) Expected Term of the Options**

It is assumed that the expected life of the options under consideration is five years.

**(c) Volatility**

Volatility of the Company's share price has been calculated as the annualised standard deviation of daily continuously compounded returns on the Company's stock, derived from the Company's historical share prices, adjusted for splits, over five years back from each date of grant.

**(d) Risk-Free Interest Rate**

The risk-free rates of interest are assumed to be the yield to maturity on a UK Gilt Strip with the term to maturity equal to the expected life of the option.

**(e) Dividends**

The valuations take account of the expected future dividend yield at the date of each grant.

The table below sets out the volatilities, risk-free interest rates and dividend yields applied in each valuation:

Date of grant	Volatility (%)	Risk-free interest rate (%)	Dividend yield (%)
24-Feb-03	77.8009%	4.6922%	0.00%
13-Mar-03	78.3590%	4.7175%	0.00%
30-Jun-03	78.4194%	4.6412%	0.00%
27-Oct-03	79.8321%	5.7891%	0.00%
01-Jan-04	78.6748%	5.4125%	0.00%
30-Jul-04	73.6821%	5.8602%	0.00%
27-Aug-04	71.7764%	5.6660%	0.00%
16-Nov-04	58.9201%	5.2789%	0.00%
04-Feb-05	56.6301%	5.1507%	0.00%
17-Mar-05	52.4971%	5.4148%	0.00%
06-Oct-05	54.9819%	4.7689%	2.00%
23-Nov-05	49.8819%	4.8322%	2.00%
14-Dec-05	50.0097%	4.8764%	2.00%
14-Feb-06	50.1501%	4.7515%	2.00%
19-Apr-07	48.4035%	5.2980%	1.00%
7-Dec-07	30.0527%	4.5550%	1.00%
31-Dec-07	30.9369%	5.6204%	1.00%

# Notes to the Financial Statements

continued

## 24. Share Capital and Reserves

	At 1 January 2009 £'000	Shares issued in the year £'000	Earnings for the year £'000	Dividends paid £'000	Foreign exchange movement £'000	Share compensation expense £'000	At 31 December 2009 £'000
Paid up share capital	1,795	58	–	–	–	–	<b>1,853</b>
Share premium	3,869	624	–	–	–	–	<b>4,493</b>
Other reserves	20,862	–	–	–	–	–	<b>20,862</b>
Retained earnings	(6,472)	–	3,362	(689)	(162)	261	<b>(3,700)</b>
	20,054	682	3,362	(689)	(162)	261	<b>23,508</b>

Of the other reserve at 31 December 2009 £20,812,000 relates to a merger reserve.

	At 1 January 2008 £'000	Shares issued in the year £'000	Earnings for the year £'000	Dividends paid £'000	Foreign exchange movement £'000	Share compensation expense £'000	At 31 December 2008 £'000
Paid up share capital	1,775	20	–	–	–	–	1,795
Share premium	3,792	77	–	–	–	–	3,869
Other reserves	20,570	292	–	–	–	–	20,862
Retained earnings	(7,443)	–	616	(602)	628	329	(6,472)
	18,694	389	616	(602)	628	329	20,054

Of the other reserve at 31 December 2008 £20,812,000 relates to a merger reserve.

### Investments in Own Shares

The Group has an investment in own shares of 71,856 shares (2008: 71,856 shares) as a result of employees leaving the All Employee Share Scheme. The nominal value of these shares is £719 (2008: £719). The market value at 31 December 2009 is £16,000 (2008: £11,000).

## 25. Statement of Changes in Shareholders' Equity

	2009 £'000	2008 £'000
Profit on ordinary activities after taxation	<b>3,362</b>	616
Dividends paid	<b>(689)</b>	(602)
Foreign exchange adjustment	<b>(162)</b>	628
Share compensation expense	<b>261</b>	329
Shares issued in part settlement of the deferred consideration for the 2005 acquisition of Tamesis Limited	–	303
Proceeds from the issue of ordinary share capital	<b>682</b>	86
	<b>3,454</b>	1,360
Shareholders' funds at 1 January	<b>20,054</b>	18,694
Shareholders' funds at 31 December	<b>23,508</b>	20,054

## 26. Dividends

The dividends paid in the year were as follows:

	2009 £'000	2008 £'000
Final dividend in respect of the year ended 31 December 2008 at 0.237p per share (2008: 0.21p)	<b>427</b>	376
Interim dividend at 0.145p per share (2008: 0.126p)	<b>262</b>	226
	<b>689</b>	602

A second interim dividend in respect of the year ended 31 December 2009 of 0.28p per share amounting to a total dividend of £519,000, is to be paid on 19 March 2010. These financial statements do not reflect this dividend payable.

## 27. Financial Instruments

### 27.1 Financial Risk Management

The Group's financial instruments comprise cash and liquid resources, trade and other debtors and creditors arising directly from the operations of the Group and forward exchange contracts. The main risks arising from the Group's financial instruments are interest rate risk and foreign currency risk. The Board reviews and agrees policies for managing each of these risks and they are summarised in note 3 above.

### 27.2 Accounting Policies

The Group's accounting policies for financial instruments are detailed in note 1 above and have been applied to the line items below.

2009	Loans and receivables £'000	Assets at fair value through the profit and loss £'000	Total £'000
<b>Assets as per balance sheet</b>			
Trade and other receivables	5,332	–	5,332
Derivative financial instruments	–	176	176
Income tax	8	–	8
Cash and cash equivalents	8,896	–	8,896
	<b>14,236</b>	<b>176</b>	<b>14,412</b>

2009	Liabilities at fair value through the profit and loss £'000	Other financial liabilities £'000	Total £'000
<b>Liabilities as per balance sheet</b>			
Trade and other payables	2,793	–	2,793
Income tax	–	98	98
Provisions	325	–	325
	<b>3,118</b>	<b>98</b>	<b>3,216</b>

2008	Loans and receivables £'000	Assets at fair value through the profit and loss £'000	Total £'000
<b>Assets as per balance sheet</b>			
Trade and other receivables	6,995	–	6,995
Income tax	3	–	3
Cash and cash equivalents	5,929	–	5,929
	<b>12,927</b>	<b>–</b>	<b>12,927</b>

2008	Liabilities at fair value through the profit and loss £'000	Other financial liabilities £'000	Total £'000
<b>Liabilities as per balance sheet</b>			
Trade and other payables	4,973	–	4,973
Derivative financial instruments	853	–	853
Provisions	221	–	221
	<b>6,047</b>	<b>–</b>	<b>6,047</b>

The Group had no borrowings as at 31 December 2009 or 31 December 2008.

# Notes to the Financial Statements

continued

## 27. Financial Instruments continued

### 27.3 Foreign Currency Exposure

The Group's principal exposure to exchange rate fluctuations arises on the translation of overseas net assets and profits into Sterling for accounting purposes.

Analyses of the Group's financial assets and liabilities denominated in foreign currencies are given in notes 17, 18 and 19.

The Group has a net earnings exposure to the US Dollar together with an exposure to the translation of the balance sheet of its US subsidiary. During the year, the Board authorised the hedging of US Dollar exposures. At 31 December 2009 the Company has the following hedges in place:

#### Forward contracts

Forward contract value	Maturity date	Effective forward rate
\$500,000	29-Jan-10	1.4780
\$500,000	26-Feb-10	1.4255
\$350,000	31-Mar-10	1.3862
\$500,000	30-Apr-10	1.5093

#### Currency options

Forward contract value	Maturity date	Effective forward rate
\$750,000	28-Jun-10	1.7000
\$500,000	28-Jul-10	1.7000
\$600,000	26-Aug-10	1.7000
\$800,000	28-Sep-10	1.7000
\$550,000	26-Oct-10	1.7000

At the year end the fair value of the above contracts is an asset of £176,000 (2008: liability £853,000). The movement in fair values of £1,029,000 (2008: £883,000) has been credited (2008: charged) to the income statement in the year.

## 28. Related Party Transactions

Revenue includes £428,000 (2008: £425,000) in respect of Banca Caboto Spa (London Branch), a member of a group of companies which include CAI (Suisse), a shareholder of the Company. At 31 December 2009 the amount owing to Group companies by Banca Caboto Spa (London Branch) was £78,870 (2008: £ nil).

Revenue also includes £350,000 (2008: £271,000) in respect of Marex Trading Services, a company of which one of the Non-Executive Directors, Steve Sparke, is also a Director. At 31 December 2009 the amount owing to Group companies by Marex Trading Services was £43,341 (2008: £26,000).

### Key Management Remuneration

Details of the remuneration of key management are detailed below:

	2009 £'000	2008 £'000
Salaries and short term employee benefits	1,460	1,660
Share based payments	124	264
	<b>1,584</b>	<b>1,924</b>

# Independent Auditors' Report to the Members of Patsystems Plc

We have audited the financial statements of Patsystems Plc for the year ended 31 December 2009 which comprise the primary statements such as the Balance sheet, the Accounting Policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

## Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 18 the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Sections 495 and 496 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

## Opinion on Financial Statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2009;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Opinion on Other Matter Prescribed by the Companies Act 2006

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

## Matters on Which we Are Required To Report By Exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



## Nigel Reynolds

(Senior Statutory Auditor)

For and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London

8 February 2010

# Company Balance Sheet

at 31 December 2009

	Notes	2009 £'000	2008 £'000
<b>FIXED ASSETS</b>			
Investments	4	1,605	1,605
<b>CURRENT ASSETS</b>			
Debtors	5	6,932	5,918
Cash at bank and in hand		28	5
		6,960	5,923
<b>CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</b>			
	6	(65)	(81)
<b>Net current assets</b>		<b>6,895</b>	5,842
<b>Net assets</b>		<b>8,500</b>	7,447
<b>CAPITAL AND RESERVES</b>			
Share capital	7	1,853	1,795
Share premium account	9	4,493	3,869
Other reserves	9	50	50
Retained earnings	9	2,104	1,733
<b>Total equity</b>	9	<b>8,500</b>	7,447

The financial statements on pages 54 to 60 were approved by the Board of Directors on 8 February 2010.



**David Webber**  
Chief Executive Officer



**Martin Thorneycroft**  
Finance Director

# Notes to the Financial Statements

## 1. Accounting Policies

The financial statements have been prepared on the historical cost basis of accounting and in accordance with applicable accounting standards in the United Kingdom.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 1.1 Investments

Investments in subsidiaries are stated at cost less any provision for impairment. Where an acquisition satisfies the provisions of sections 611 to 616 of the Companies Act 2006, merger relief is available and the investment is stated at nominal value of shares issued plus the value of any other consideration.

### 1.2 Operating Leases

Costs in respect of operating leases are charged to the Profit and Loss Account on a straight line basis over the lease term.

### 1.3 Current and Deferred Income Taxes

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the Balance Sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred taxation is recognised in respect of 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.

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 sufficient taxable profits to utilise carried forward tax losses and against which the reversal of underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the Balance Sheet date. Deferred tax is measured on a non-discounted basis.

### 1.4 Related Party Transactions

Financial Reporting Standard ('FRS') 8, 'Related Party Transactions', requires the disclosure of the details of material transactions between the reporting entity and related parties. The Company has taken advantage of exemptions under FRS 8 not to disclose transactions between Group companies.

### 1.5 Share Based Payments

The Group operates two share options schemes; the Enterprise Management Incentive Scheme and the 2003 Share Option Scheme (Inland Revenue unapproved).

The fair value of options is recognised as an employee benefit expense with a corresponding increase in reserves over the vesting period. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

### 1.6 Cash Flow Statement

The Company is the Parent Company of the Patsystems Plc Group and is included in the consolidated financial statements of Patsystems Plc. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1 (revised 1996).

### 1.7 Dividend Distributions

Final dividend distributions to the Company's shareholders are recognised as liabilities in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders. Interim dividend distributions to the Company's shareholders are recognised as liabilities in the Company's financial statements when paid.

# Notes to the Financial Statements

continued

## 2. Directors and Employees

The Parent Company does not employ any Directors or employees.

## 3. Profit and Loss Account

The profit for the year dealt with in the accounts of the Company was £799,000 (2008: £1,196,000).

The Directors have taken advantage of the exemption available under section 408 of the Companies Act 2006, and have not presented a Profit and Loss Account for the Company alone.

## 4. Investments

	£'000
<b>Investment in subsidiary undertaking</b>	
At 1 January 2009 and 31 December 2009	<b>1,605</b>

The investment in subsidiary undertakings represents:

1. A 100% investment in respect of voting rights and nominal value in Patsystems Holdings Limited, a company incorporated in England and Wales.

The historical cost of the investment in the shares of Patsystems Holdings Limited is £11,180,000. Under the Scheme of Arrangement the subsidiary undertaking returned capital to the Company amounting to £9,865,000, and the cost of the investment has been reduced accordingly to reflect this.

The following subsidiary undertakings were wholly owned by Patsystems Holdings Limited in respect of voting rights and nominal value of issued shares and perform the sale and support of electronic trading systems:

Patsystems (UK) Ltd	– incorporated in England and Wales
Patsystems (NA) LLC	– incorporated in United States
Patsystems Pte Ltd	– incorporated in Singapore
Patsystems Pty Ltd	– incorporated in Australia
Patsystems GmbH	– incorporated in Germany

The following subsidiary is wholly owned by Patsystems Holdings Limited in respect of voting rights and nominal value of issued shares and acted as a holding company:

Professional Automated Trading Systems BV (incorporated in The Netherlands).

Professional Automated Trading Systems BV owns 100% of voting rights and nominal value of issued shares in Patsystems (Japan) KK (incorporated in Japan), which performs the sale and support of electronic trading systems.

Patsystems (Japan) KK owns 100% of voting rights and nominal value of issued shares in Patsystems (Ireland) Ltd (incorporated in the Republic of Ireland), which acts as a holding company.

2. A 100% investment in Tamesis Limited, a company incorporated in England and Wales that develops, distributes and supports software enabling real time trade capture, valuation and risk management for the structured finance market.

## 5. Debtors

	2009 £'000	2008 £'000
Amounts owed by Group undertakings	<b>6,909</b>	5,913
Other debtors	<b>16</b>	2
Prepayments and accrued income	<b>7</b>	3
	<b>6,932</b>	5,918

## 6. Creditors: Amounts Falling Due Within One Year

	2009 £'000	2008 £'000
Trade creditors	1	19
Accruals and deferred income	64	62
	<b>65</b>	81

None of the creditors are secured.

## 7. Called Up Equity Share Capital

	2009 £'000	2008 £'000
<b>Authorised</b>		
<i>Ordinary shares of 1p each</i>		
At 1 January and 31 December – 250,000,000 shares	2,500	2,500
<i>Deferred shares of 1p each</i>		
At 1 January and 31 December – 2 shares	–	–
<i>Redeemable preference shares of £1 each</i>		
At 1 January and 31 December – 49,998 shares	50	50
<b>Allotted, called up and fully paid</b>		
<i>Ordinary shares of 1p each</i>		
At 1 January – 179,537,301 shares	1,795	1,775
Allotted as consideration for acquisition of Tamesis Limited	–	11
Allotted under share option schemes – 5,793,392	58	9
At 31 December – 185,330,693 shares	<b>1,853</b>	1,795

The 1p ordinary shares are listed on the AIM market. They have one voting right per share.

*Deferred shares of 1p each*

At 1 January and 31 December – 2 shares	–	–
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# Notes to the Financial Statements

continued

## 8. Share Option Schemes

The following options to purchase 1p Ordinary shares in Patsystems Plc were granted, exercised, lapsed and outstanding during the year:

Exercise price in pence	Outstanding at 1 January 2009	Granted in year	Exercised in year	Lapsed in year	Outstanding at 31 December 2009	Exercisable at 31 December 2009	Effective dates
5.08p	1,185,500	–	(582,500)	(45,000)	558,000	558,000	Note a
9.50p	97,500	–	(7,500)	–	90,000	90,000	Note a
13.75p	727,272	–	(727,272)	–	–	–	Note e
14.25p	497,153	–	(82,800)	(10,800)	403,553	403,553	Note b
14.50p	496,951	–	–	–	496,951	496,951	Note b
15.25p	775,737	–	–	–	775,737	775,737	Note b
15.58p	1,346,900	–	(437,400)	(239,100)	670,400	670,400	Note b
17.50p	90,000	–	(45,600)	(14,400)	30,000	30,000	Note b
27.75p	250,000	–	–	–	250,000	–	Note g
29.00p	444,827	–	–	–	444,827	–	Note g
	5,911,840	–	(1,883,072)	(309,300)	3,719,468	3,024,641	
1.00p	582,525	–	(582,525)	–	–	–	Note i
13.75p	3,272,728	–	(3,272,728)	–	–	–	Note f
14.25p	254,494	–	(40,667)	(34,684)	179,143	179,143	Note c
14.50p	83,089	–	–	–	83,089	83,089	Note c
15.25p	404,263	–	–	(60,000)	344,263	344,263	Note d
15.58p	670,400	–	(14,400)	(60,300)	595,700	595,700	Note c
18.00p	500,000	–	–	–	500,000	500,000	Note d
27.75p	1,000,000	–	–	–	1,000,000	–	Note h
29.00p	1,655,173	–	–	–	1,655,173	–	Note h
	8,422,672	–	(3,910,320)	(154,984)	4,357,368	1,702,195	
<b>Total all schemes</b>	<b>14,334,512</b>	<b>–</b>	<b>(5,793,392)</b>	<b>(464,284)</b>	<b>8,076,836</b>	<b>4,726,836</b>	

**Note a:** These options were granted under the initial award of the Enterprise Management Incentive ('EMI') Scheme. These options are now 100% exercisable.

**Note b:** Options were granted under the second and third awards of the EMI Scheme. 76% of the options awarded under the second and third grants have currently vested and the remaining 24% of these options will vest on 8 February 2010.

**Note c:** These options were granted under the second and third awards of Part B (Inland Revenue Unapproved) of the Patsystems Plc 2003 Share Option Scheme. The vesting status is the same as note b, with the exception of 34,540 unapproved options with an exercisable price of 14.50p which all vested in 2008.

**Note d:** These options were granted under the second and third awards of Part B (Inland Revenue Unapproved) of the Patsystems Plc 2003 Share Option Scheme. 844,263 of these options became fully vested in 2008 following approval from the Remuneration Committee, the remaining options are subject to the same vesting status as note b.

**Note e:** These options were granted under a special award of the EMI Scheme. These options were exercised on the 22 December 2009. The aggregate on the gain made on these options was £52,727.

**Note f:** These options were granted under a special award of Part B (Inland Revenue Unapproved) of the Patsystems Plc 2003 Share Option Scheme. These options were exercised on the 22 December 2009. The aggregate on the gain made on these options was £237,273.

**Note g:** These options were granted under a special award of the EMI Scheme. These options can be exercised after a period of three years after the date of the grant but subject to achieving Company performance targets.

**Note h:** These options were granted under a special award of Part B (Inland Revenue Unapproved) of the Patsystems Plc 2003 Share Option Scheme, exercise conditions are as per note g.

**Note i:** These options were granted under a special award of Part B (Inland Revenue Unapproved) of the Patsystems Plc 2003 Share Option Scheme. These options were exercised on 17 March 2009.

The weighted average fair value per share at the measurement date of options granted during the year was nil p (2008: nil p).

The weighted average share price at the date of grant of options granted during the year was nil p (2008: nil p).

For the options that were exercised during the year, the weighted average share price at the date of exercise was 21p (2008: 23p).

The weighted average remaining contractual life of options outstanding at the year end is 5.7 years (2008: 6.7 years)

The total fair value that was charged to the income statement in relation to the share options was £261,000 (2008: £329,000), all of which related to equity settled share based payment transactions.

The fair values of the options have been calculated using the Binomial Model. The model takes into account the following factors in determining the fair value of an option:

**(a) Share Price and Exercise Price**

Share prices are closing share prices as at the date of grant. Exercise prices are listed in the above schedule.

**(b) Expected Term of the Options**

It is assumed that the expected life of the options under consideration is five years.

**(c) Volatility**

Volatility of the Company's share price has been calculated as the annualised standard deviation of daily continuously compounded returns on the Company's stock, derived from the Company's historical share prices, adjusted for splits, over five years back from each date of grant.

**(d) Risk-Free Interest Rate**

The risk-free rates of interest are assumed to be the yield to maturity on a UK Gilt Strip with the term to maturity equal to the expected life of the option.

**(e) Dividends**

The valuations take account of the expected future dividend yield at the date of each grant.

The table below sets out the volatilities, risk-free interest rates and dividend yields applied in each valuation:

Date of grant	Volatility (%)	Risk-free interest rate (%)	Dividend yield (%)
24-Feb-03	77.8009%	4.6922%	0.00%
13-Mar-03	78.3590%	4.7175%	0.00%
30-Jun-03	78.4194%	4.6412%	0.00%
27-Oct-03	79.8321%	5.7891%	0.00%
01-Jan-04	78.6748%	5.4125%	0.00%
30-Jul-04	73.6821%	5.8602%	0.00%
27-Aug-04	71.7764%	5.6660%	0.00%
16-Nov-04	58.9201%	5.2789%	0.00%
04-Feb-05	56.6301%	5.1507%	0.00%
17-Mar-05	52.4971%	5.4148%	0.00%
06-Oct-05	54.9819%	4.7689%	2.00%
23-Nov-05	49.8819%	4.8322%	2.00%
14-Dec-05	50.0097%	4.8764%	2.00%
14-Feb-06	50.1501%	4.7515%	2.00%
19-Apr-07	48.4035%	5.2980%	1.00%
7-Dec-07	30.0527%	4.5550%	1.00%
31-Dec-07	30.9369%	5.6204%	1.00%

# Notes to the Financial Statements

continued

## 9. Share Capital and Reserves

	At 1 January 2009 £'000	Shares issued in the year £'000	Earnings for the year £'000	Dividends paid £'000	Share compensation expense £'000	At 31 December 2009 £'000
Paid up share capital	1,795	58	–	–	–	<b>1,853</b>
Share premium	3,869	624	–	–	–	<b>4,493</b>
Other reserves	50	–	–	–	–	<b>50</b>
Retained earnings	1,733	–	799	(689)	261	<b>2,104</b>
	<b>7,447</b>	<b>682</b>	<b>799</b>	<b>(689)</b>	<b>261</b>	<b>8,500</b>

## 10. Dividends

The dividends paid in the year were as follows:

	2009 £'000	2008 £'000
Final dividend in respect of the year ended 31 December 2008 at 0.237p per share (2008: 0.21p)	<b>427</b>	376
Interim dividend at 0.145p per share (2008: 0.126p)	<b>262</b>	226
	<b>689</b>	602

A second interim dividend in respect of the year ended 31 December 2009 of 0.28p per share amounting to a total dividend of £519,000, is to be paid on 19 March 2010. These financial statements do not reflect this dividend payable.

## Directors and Advisers

### Directors

Richard Last	Chairman and Non-Executive Director
David Webber	Chief Executive
Martin Thorneycroft	Finance Director
John Priestley	Non-Executive Director, Chairman of the Audit Committee
Steve Sparke	Non-Executive Director, Chairman of the combined Remuneration and Nominations Committee

### Company Secretary

Martin Thorneycroft

### Advisers

Broker and nominated adviser	Numis Securities
Lawyers	DLA Pipers Vedder Price, Kaufman & Kammholz
Registered auditors	PricewaterhouseCoopers LLP
Principal bankers	Barclays Bank plc
Registrars	Computershare Services plc PO Box 82 The Pavillions Bridgewater Road Bristol BS99 7NH

### Corporate Details

Registered office: Riverside House, 2A Southwark Bridge Road, London SE1 9HA  
 Company number: 4498002  
 Country of incorporation: England and Wales  
 Website: [www.patsystems.com](http://www.patsystems.com)  
 Stock Exchange symbol: pts

# Notes



# Notes



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