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**CONTACTS:** David Webber, Chief Executive  
Martin Thorneycroft, Finance Director  
**Patsystems Plc** 020 7940 0490

Graham Herring / Josh Royston  
**Threadneedle Communications** 020 7653 9844

Mark Percy  
**Seymour Pierce** 020 7107 8000

## **PATSYSTEMS PLC**

### **RESULTS FOR THE SIX MONTHS AND THE PERIOD ENDED 30 JUNE 2008**

#### **Financial Highlights**

- Turnover up 6% to £8.3m (H1 2007: £7.8m) with recurring revenue 96% of turnover (H1 2007: 92%)
- Adjusted pre-tax profit\* of £413k (H1 2007: £980k) despite sales wins slipping to the second half
- Net cash inflow from operating activities for the period was £977k compared to £767k in the first half of 2007 with the cash balance at 30 June 2008 of £3.4m (£2.9m at 30 June 2007)
- Improved interim dividend declared of 0.126p per share (H1 2007: 0.12p), reflecting strong cash generation and confidence from recurring revenue base

#### **Operational Highlights**

- The newly formed Hong Kong Mercantile Exchange has selected Patsystems to provide trading and risk management technology
- Investment in Asia has paid dividends during the period with Ascot Financial Services, Guotai Junan Futures and GK Goh all selecting the Patsystems trading system to fulfil their business growth ambitions
- GH Financials Limited and Royal Bank of Canada Capital Markets Corporation have both adopted Risk Informer for risk management of their global futures trading businesses
- Patsystems Pro-Mark named “Technology Product of the year” at the Futures & Options Weekly (FOW) 2008 awards ceremony
- Billable Pro-Mark trading screen user numbers have risen to 500 at the end of the period from 375 at the start of 2008

\* 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

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

**“Patsystems has delivered a solid first half performance considering the well documented challenges within our market place. The fundamental strength of the business has been demonstrated by both the revenue growth and the level of cash generation.**

**As highlighted in our June trading update, sales wins have crystallised later in the year than we had envisaged. However, the sales success that we have achieved in the last two months, as well as the strong order pipeline, means that we remain confident of achieving current market expectations.”**

## **Commentary**

### **Introduction**

Earlier in the year it was necessary to revise market expectations for the full year in light of the delay we had experienced in the closure of new business opportunities. However as we indicated at the time of that announcement the pipeline of sales opportunities was strong and that we expected to announce a number of new sales ahead of publishing our interim accounts. I am delighted to report that we have made five announcements in June and July reflecting sales success in all the geographies in which we operate and across both trading and risk systems.

One of the fundamental strengths of Patsystems is the high level of recurring revenue the business model generates and for the first half of 2008 recurring revenue was 96% of the total. The significant level of recurring revenue within the business means that even when new business sales growth slows the overall revenue growth remains positive.

The solidity of the business is further demonstrated by strong cash generation and it is particularly pleasing to have increased cash and cash equivalents after maintaining capital expenditure investment and making the payment of the final dividend for 2007.

The Board is pleased to declare an interim dividend of 0.126p; to be paid on 26 September 2008 to shareholders on the register as at 29 August 2008.

### **Revenue**

Revenue for the first six months of 2008 was £8.3m (H1 2007 - £7.8m), an increase of 6%.

Revenue generated from trading systems was in line with our market expectations and accounted for £7.2m of total revenue which was an increase of 7.5% on 2007.

Risk systems revenue amounted to £0.3m (H1 2007 - £0.4m.) This was lower than anticipated as new business sales have taken longer to conclude than expected. New business sales announced in the last two months will contribute to Risk Informer revenues in the second half of the year.

As envisaged, revenue generated from exchange systems was constant and accounted for the remaining £0.7m (H1 2007 - £0.7m).

### **Costs**

Cost of sales was £0.20m for the first six months of 2008 against £0.16m for the corresponding period in 2007.

Operating expenses for the first half of 2008 were £8.2m (H1 2007: £7.1m). A significant component of this increase is the planned growth in staff costs of £866k and the growth in amortisation of intangible assets to £576k from £310k in H1 2007. The increase in staff costs is due to a combination of salary increases, new head count and the Long Term Incentive Plan (LTIP).

Within operating expenses in the first half was approximately £548k of third party contractor costs to support the development effort on a number of product streams, these costs have now been significantly reduced and the second half of the year will see the benefit of the cost savings.

### **Operating Loss / Profit**

The Group made an operating loss before interest and taxation of £166k for the first half of 2008 compared to a profit of £580k in H1 2007.

### **Taxation**

The taxation charge for the period of £249k comprises £149k in relation to the movement in the deferred tax asset and £100k corporation tax, primarily in Asia.

### **Cash**

The Group has a cash balance of £3.4m at 30 June 2008 and no borrowings.

Cash of £977k was generated from operating activities during the period compared to £767k in H1 2007.

As a result of the Company's hedging programme the average exchange rate used to convert US Dollar cash flows remitted to the UK during the period was 1.95. The Group's hedging policy is to carry forward cover for 75% of the US\$/£ net anticipated exposure for 12 months forward.

### **Trading systems**

#### **New installations**

After a slow start to the year there have been five new opportunities announced in the last two months.

It is a tremendous opportunity for the business, and a testament to the capability of our technology, that Patsystems has been selected as a key technology partner for the recently announced Hong Kong Mercantile Exchange ("HKMEx"). HKMEx is a new commodities exchange in Hong Kong which will open in 2009 with its first contract being for a US dollar-denominated fuel oil contract for physical delivery in China.

The initial financial supporters of the exchange are blue chip organisations and our inclusion is further justification of our expansion into, and our increased focus upon, the Asian market.

We are also pleased to have added the following as customers: Advantage Futures in the USA, {OCBC in Singapore} and GK Goh, Ascot Financial Services and Guotai Junan Futures in Hong Kong.

#### **Trading screens**

Pro-Mark user numbers have risen from 375 billable users at the start of 2008 to 500 at 30 June 2008 and we are delighted that the impact Pro-Mark has made on the market has been reflected by its award of the prestigious "Technology Product of the Year" by Futures and Options Week magazine, the industry's premier publication.

The adoption of Pro-Mark has continued to be primarily by traders new to Patsystems and it has continued to make in-roads on the existing customer bases of our major competitors.

Since the period end we have also launched Pro-Mark 5.0. This release contains functionality to support a number of our major investment bank customers convert their professional traders using J-Trader, to the more advanced Pro-Mark tool.

#### **Global Trading**

The Global Trading software provides those organisations that require a single global view of their derivatives trading activity across all jurisdictions with a resilient, low latency and extendable solution.

Macquarie Bank Limited has taken delivery of Global Trading and is in the process of testing the system.

We expect Global Trading to start contributing to revenue in 2009.

### **Risk Systems**

The revenue from the sale of risk systems was lower in the first half of 2008 than we had planned due to customer project decisions taking longer to conclude.

However, in addition to the sale to Royal Bank of Canada Capital Markets Corporation in March, Risk Informer projects with GH Financials Limited and the Hong Kong Mercantile Exchange were announced in June. These three initiatives will benefit the revenue in the second half of the year.

Risk Monitor is a low latency, pre-trade risk management system designed to monitor proposed trades across a range of markets ahead of the exchange and, if necessary, prevent, restrict or provide alerts in respect of individual electronic trades.

The first two beta implementations of Risk Monitor will be held through the autumn of 2008 and we expect the product to commence its contribution to revenue in 2009.

### **Exchange systems**

As we had anticipated, our exchange systems business in Asia contributed a consistent level with the corresponding period in 2007.

Some new business opportunities do exist in Asia for our exchange systems business but, as stated previously, the decision time scales on these are typically rather lengthy.

### **Business objectives and outlook**

Our key objectives for the second half of 2008 are to continue the growth of the Pro-Mark installed user base, extend our user communities for Risk Informer and establish user communities for Global Trading.

We have established new agency distribution relationships in the Middle East and Eastern Europe but these are unlikely to contribute to growth until 2009.

We have been actively reviewing opportunities in the market to add complementary products and services to our existing business and believe that the economic downturn provides an opportunity to grow the business by way of acquisition.

The sales pipeline of opportunities is healthy for both the risk and trading system products and the closure of sales opportunities over the last two months demonstrates the robust nature of the business, even in a challenging economic period.

We remain confident that the business will fulfill our revised targets for 2008 and that the opportunities for ongoing business growth for 2009 and beyond remain positive.

**David Webber**  
**Chief Executive**

**Consolidated Income Statement**

		<b>6 months ended</b>	6 months ended	Year ended
		<b>30-Jun</b>	30-Jun	31-Dec
	Notes	<b>2008</b>	2007	2007
		<b>£'000</b>	£'000	£'000
		<b>Unaudited</b>	Unaudited	Audited
<b>Revenue</b>		<b>8,255</b>	7,811	16,962
Cost of sales		<b>(204)</b>	(156)	(336)
<b>Gross profit</b>		<b>8,051</b>	7,655	16,626
Operating expenses	4	<b>(8,217)</b>	(7,075)	(14,539)
<b>Operating (loss) / profit</b>		<b>(166)</b>	580	2,087
Interest receivable and similar income		<b>62</b>	59	101
<b>(Loss) / profit on ordinary activities before taxation</b>		<b>(104)</b>	639	2,188
Taxation		<b>(249)</b>	(200)	(344)
<b>(Loss) / profit for the period</b>		<b>(353)</b>	439	1,844
<b>(Loss) / earnings per ordinary share</b>	5			
- basic		<b>(0.2p)</b>	0.3p	1.1p
- diluted		<b>(0.2p)</b>	0.2p	1.0p

**Consolidated Statement of Recognised Income and Expense**

		<b>6 months ended</b>	6 months ended	Year ended
		<b>30-Jun</b>	30-Jun	31-Dec
		<b>2008</b>	2007	2007
		<b>£'000</b>	£'000	£'000
		<b>Unaudited</b>	Unaudited	Audited
(Loss) / profit for the period		<b>(353)</b>	439	1,844
Foreign exchange adjustment on foreign currency net investments		<b>142</b>	2	144
<b>Total recognised (losses) /gains</b>		<b>(211)</b>	441	1,988

**Consolidated Balance Sheet**

	Notes	30-Jun 2008 £'000 Unaudited	30-Jun 2007 £'000 Unaudited	31-Dec 2007 £'000 Audited
<b>ASSETS</b>				
<b>Non-current assets</b>				
Goodwill		3,251	3,055	3,237
Intangible assets		3,565	2,882	3,674
Property, plant and equipment		649	655	752
Deferred tax assets		6,554	6,829	6,673
Trade and other receivables	6	300	-	371
		<b>14,319</b>	13,421	14,707
<b>Current assets</b>				
Inventories		35	185	12
Trade and other receivables	6	3,584	3,174	4,366
Financial assets – derivative financial instruments		-	98	30
Income tax		33	-	40
Cash and cash equivalents		3,401	2,866	3,191
		<b>7,053</b>	6,323	7,639
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Trade and other payables	7	(2,591)	(2,325)	(3,240)
Current income tax liabilities		-	(50)	(20)
Contingent consideration		-	(3,450)	(290)
		<b>(2,591)</b>	(5,825)	(3,550)
<b>Net current assets</b>		<b>4,462</b>	498	4,089
<b>Non-current liabilities</b>				
Trade and other payables	7	-	-	(44)
Provisions		(70)	(46)	(58)
<b>Net assets</b>		<b>18,711</b>	13,873	18,694
<b>SHAREHOLDERS' EQUITY</b>				
<b>Capital and reserves</b>				
Share capital		1,793	1,650	1,775
Share premium account		7,372	3,784	7,014
Other reserves		17,348	17,348	17,348
Retained earnings		(7,802)	(8,909)	(7,443)
<b>Total shareholders' equity</b>	8	<b>18,711</b>	13,873	18,694

## Consolidated Cash Flow Statement

	<b>6 months ended</b>	6 months ended	Year ended
	<b>30-Jun</b>	30-Jun	31-Dec
	<b>2008</b>	2007	2007
	<b>£'000</b>	£'000	£'000
	<b>Unaudited</b>	Unaudited	Audited
<b>Cash flows from operating activities</b>			
Cash flows from operations	<b>1,028</b>	814	2,647
Interest received	<b>62</b>	59	101
Tax paid	<b>(113)</b>	(106)	(157)
Net cash flows from operating activities	<b>977</b>	767	2,591
<b>Cash from investing activities</b>			
Purchase of intangible assets	<b>(469)</b>	(656)	(1,792)
Purchase of property, plant and equipment	<b>(101)</b>	(113)	(423)
Net cash flows used in investing activities	<b>(570)</b>	(769)	(2,215)
<b>Cash flows from financing activities</b>			
Net proceeds from issue of ordinary share capital	<b>73</b>	102	112
Dividends paid	<b>(376)</b>	(495)	(693)
Net cash flows used in financing activities	<b>(303)</b>	(393)	(581)
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>104</b>	(395)	(205)
Cash and cash equivalents at beginning of the period	<b>3,191</b>	3,251	3,251
Effect of exchange rates	<b>106</b>	10	145
<b>Cash and cash equivalents at end of the period</b>	<b>3,401</b>	2,866	3,191

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

	<b>6 months ended</b>	6 months ended	Year ended
	<b>30-Jun</b>	30-Jun	31-Dec
	<b>2008</b>	2007	2007
	<b>£'000</b>	£'000	£'000
	<b>Unaudited</b>	Unaudited	Audited
Net (loss) / profit	<b>(353)</b>	439	1,844
Tax	<b>249</b>	200	344
Depreciation of property, plant and equipment	<b>209</b>	209	425
Amortisation of intangible assets	<b>578</b>	310	668
Share compensation expense	<b>228</b>	93	210
Interest income	<b>(62)</b>	(59)	(101)
(Increase) / decrease in inventories	<b>(23)</b>	3	176
Decrease / (increase) in trade and other receivables	<b>853</b>	847	(716)
Decrease in financial assets and liabilities	<b>30</b>	29	97
Decrease in trade and other payables	<b>(693)</b>	(1,269)	(324)
Increase in provisions	<b>12</b>	12	24
<b>Cash flows from operating activities</b>	<b>1,028</b>	814	2,647

**Material non-cash transactions**

During the period the Company issued 1,092,240 ordinary shares of 1p each with a market value of £303,100 in final settlement of the consideration for the acquisition of Tamesis Limited. These transactions do not have an effect on the cash flows of the Group.

**Notes to the Financial Statements**

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**1. Approval of results**

The financial statements for the six months ended 30 June 2008 were approved by the Board of Directors on 5 August 2008.

These financial statements do not constitute statutory accounts within the meaning of the Companies Act 1985 and are neither reviewed nor audited.

**2. Summary of significant accounting policies**

**(a) Basis of preparation**

The financial information for the six months ended 30 June 2008 have been prepared in accordance with International Financial Reporting Standards and the accounting policies adopted in the preparation of the accounts for the year ended 31 December 2007 and those expected to apply for the year ended 31 December 2008 for Patsystems Plc, which are set out in the Company's annual report.

The Group has chosen not to adopt IAS 34 'Interim Financial Reporting' in preparing the interim consolidated financial statements and therefore they are not in full compliance with IFRS.

The financial information for the year ended 31 December 2007 has been extracted from the statutory accounts which have been delivered to the Registrar of Companies and on which the auditors gave an unqualified opinion.

The Income Statement has been prepared on the basis that all operations are continuing operations.

This consolidated interim financial information has 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'.

**(b) Consolidation**

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.

## RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2008

## 3. Segmental analysis

The primary analysis used by management in monitoring the Group's risks and returns is by geographical segments. The segmental analysis by region is presented below:

	<b>6 months ended</b>	6 months ended	Year ended
	<b>30-Jun</b>	30-Jun	31-Dec
	<b>2008</b>	2007	2007
	<b>£'000</b>	£'000	£'000
	<b>Unaudited</b>	Unaudited	Audited
	<b>£'000</b>	£'000	£'000
<b>Analysis of Turnover by origin</b>			
Europe	3,144	3,146	7,542
USA	3,256	3,030	6,219
Asia Pacific	1,855	1,635	3,219
	<b>8,255</b>	<b>7,811</b>	<b>16,962</b>
<b>Analysis of Turnover by destination</b>			
Europe	2,752	3,006	6,822
USA	3,256	3,030	6,219
Asia Pacific	2,247	1,775	3,921
	<b>8,255</b>	<b>7,811</b>	<b>16,962</b>
<b>Analysis of (loss) / profit before tax</b>			
Europe	(271)	537	2,006
USA	(33)	67	84
Asia Pacific	200	35	98
	<b>(104)</b>	<b>639</b>	<b>2,188</b>
<b>Analysis of net assets</b>			
Europe	15,353	10,175	14,341
USA	1,459	2,527	2,620
Asia Pacific	1,899	1,171	1,733
	<b>18,711</b>	<b>13,873</b>	<b>18,694</b>

## 4. Operating expenses and group operating (loss) / profit

	<b>6 months ended</b>	6 months ended	Year ended
	<b>30-Jun</b>	30-Jun	31-Dec-07
	<b>2008</b>	2007	£'000
	<b>£'000</b>	£'000	Audited
	<b>Unaudited</b>	Unaudited	
<b>Comprises:</b>			
<b>Depreciation and amortisation</b>			
Depreciation of tangible fixed assets	209	209	425
Amortisation of intangible assets	259	218	483
Amortisation of capitalised development costs	317	92	185
	<b>785</b>	<b>519</b>	<b>1,093</b>
<b>Foreign exchange (gain)/ loss</b>			
Movement in fair value of hedging instruments	30	30	97
Other exchange gains and losses	(98)	(21)	(87)
	<b>(68)</b>	<b>9</b>	<b>10</b>
<b>Share compensation expenses</b>	<b>228</b>	<b>93</b>	<b>210</b>
<b>Other operating expenses</b>	<b>7,272</b>	<b>6,454</b>	<b>13,226</b>
<b>Total operating expenses</b>	<b>8,217</b>	<b>7,075</b>	<b>14,539</b>

## 5. (Loss) / earnings per Ordinary Share

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

	<b>6 months ended</b>	6 months ended	Year ended
	<b>30-Jun</b>	30-Jun	31-Dec-07
	<b>2008</b>	2007	£'000
	<b>£'000</b>	£'000	Audited
	<b>Unaudited</b>	Unaudited	
(Loss) / profit on ordinary activities: (£000's)			
- basic	<b>(353)</b>	439	1,844
<hr/>			
Weighted average number of shares:			
- basic	<b>178,594,000</b>	164,670,000	168,090,000
- diluted	<b>193,294,000</b>	192,209,000	185,244,000

## 6. Trade and other receivables

	<b>At 30 June</b>	At 30 June	At 31 December
	<b>2008</b>	2007	2007
	<b>£'000</b>	£'000	£'000
	<b>Unaudited</b>	Unaudited	Audited
Trade receivables	<b>1,584</b>	1,473	2,715
Other receivables	<b>343</b>	341	327
Prepayments and accrued income	<b>1,957</b>	1,360	1,695
	<b>3,884</b>	3,174	4,737
Non-current portion – accrued income	<b>(300)</b>	-	(371)
	<b>3,584</b>	3,174	4,366

## 7. Trade and other payables

	<b>At 30 June</b>	At 30 June	At 31 December
	<b>2008</b>	2007	2007
	<b>£'000</b>	£'000	£'000
	<b>Unaudited</b>	Unaudited	Audited
Trade payables	<b>491</b>	334	316
Other tax and social security	<b>384</b>	418	350
Accruals	<b>759</b>	740	1,187
Deferred income	<b>957</b>	833	1,387
	<b>2,591</b>	2,325	3,240
Non-current liabilities – deferred income	-	-	44
	<b>2,591</b>	2,325	3,284

**8. Capital and reserves**

	Share Capital	Share Premium Account	Other Reserves	Retained Earnings	
	£'000	£'000	£'000	£'000	£'000
At 1 January 2008	1,775	7,014	17,348	(7,443)	<b>18,694</b>
Shares issued in the period	18	358	-	-	<b>376</b>
Loss for the period	-	-	-	(353)	<b>(353)</b>
Foreign exchange movement	-	-	-	142	<b>142</b>
Dividends paid	-	-	-	(376)	<b>(376)</b>
Share compensation expense	-	-	-	228	<b>228</b>
<b>At 30 June 2008</b>	<b>1,793</b>	<b>7,372</b>	<b>17,348</b>	<b>(7,802)</b>	<b>18,711</b>

**9. Copies of this statement**

Copies of this statement are available from the Company Secretary at the Company's registered office at Cottons Centre, Hay's Lane, London SE1 2QP, or from the investor relations section of the Company's website at [www.patsystems.com](http://www.patsystems.com)