gresham computing plc

annual financial report 2009

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

Directors

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

Secretary

R Grubb

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E Sepkes

Chairman

Eric, 60, is an exceptionally well known figure in the global banking community, for many years having been right at the heart of international payments, cash management and trade finance. Eric completed 38 years with Citigroup where he held various management positions, including Operations and Treasury and Cash Management, and most recently held a senior strategic role in Global Transaction Services. Eric has been involved in Payment Infrastructures since 1985, when he was responsible for managing Citibank's entry into CHAPS (Clearing House Automatic Payment System) where he was director for 12 years and Chairman for 3 years. He was Chairman and Deputy Chairman of the Euro Banking Association between 1994 and 2005. He was the founder and coordinator of the European Payments Group (formerly Heathrow Group) and was a member of both APACS (the UK trade association for payments and for those institutions that deliver payment services to customers) and the European Council. Latterly he was a member of APACS Senior Sponsors Committee for Faster Payments in the UK.

M Royde

Non-Executive Director and Chairman of Audit and Remuneration Committees

Max, 38, is a Partner at Kestrel Partners LLP, a smaller company fund management business, having previously been at KBC Peel Hunt, the mid-cap broker, for over 10 years where he latterly held the position as Managing Director responsible for the firm's technology franchise.

AJS Walton-Green

Chief Executive

Andrew, aged 46, joined the group as Chief Executive in April 2000 and has played a key role in the transformation of the group since that time. Prior to joining the group, Andrew spent 10 years in consulting and senior management positions as a Chartered Accountant: first with Ernst & Young, then as Director for e-business activities with Deloitte & Touche.

CM Errington

Finance Director

Chris, aged 44, joined Gresham in February 2004 as Company Secretary. He was appointed Finance Director in April 2004. Chris qualified as a Chartered Accountant with Ernst & Young and brings to the group considerable technical knowledge and management experience.

CHAIRMAN'S STATEMENT

We emerged far stronger and well prepared for market from what was a difficult 2009 for Gresham.

Whilst the global economy continued on its uncertain track through 2009 and into 2010, demand from bank and financial institution customers and Q1 2010 performance gives us a sense of optimism for 2010. However, we have based our future business strategy on the cautious assumption that any economic recovery will be slow to materialise.

We successfully completed a major cost reduction exercise whilst preserving our ability to service customers and grow the business in core areas. At the same time, we have restructured our balance sheet and written down certain assets based on our more cautious views on growth in the current economy. The result of this restructuring is now clear to see in 2010, where we have delivered a small profit in the first quarter and grown cash balances.

In August 2009, Ted Aves stepped down from the board after nearly 10 years as a non-executive and Max Royde joined us in his place. I would like to thank Ted for his commitment and contribution to the company over many years whilst at the same time welcoming Max to the board.

Today we also announce that Andrew Walton-Green has resigned as chief executive officer and director of Gresham Computing plc with effect from 28 April 2010. The Board thanks Andrew for all his work at Gresham and wishes him every success for the future. Chris Errington, our Finance Director, will be acting CEO while we search for a replacement.

I would like to thank all the Gresham staff around the world for their continued hard work and commitment and look forward to working together to now deliver on our market opportunity.

We now have a strong platform from which to grow our real-time financial solutions business and the company is in a stronger position. Early signs in 2010 encourage me to believe that the banks and financial institutions are re-entering a procurement phase and I look forward to improved results and growth in 2010 and beyond.

Eric Sepkes
Chairman
28 April 2010

Gresham Computing plc is a specialist provider of real-time financial solutions. Our strategy is to grow annuity revenues from real-time financial solutions to build on existing annuity revenues from our more established products. The Board is confident that the potential revenue growth from these real-time financial solutions is material.

The Board completed a major restructuring in 2009 designed to improve focus on real-time financial solutions and bring costs in line with visible revenues. The restructuring is now complete and has reduced our cost base going into 2010 by over £2.6m per annum, without compromising our ability to deliver core solutions in real-time financial solutions. We also sold two non-core businesses to increase our focus.

Over the past few years we have invested in developing a small number of highly functional and innovative solutions for the real-time financial solutions market based around our core banking and integration technologies in addition to developing relationships with our software partners. The group also has an existing strong core of products and services that generate substantial revenues with good visibility. These changes made in 2009 have created a stable platform from which to build new annuity revenues in real-time financial solutions. The close alignment of our cost base to existing recurring revenue streams significantly reduces the new revenues we now have to win each year just to cover existing costs.

The results for 2009 show a significant loss, reflecting the period of transition as we restructured the business. However, as a result of the restructuring, trading performance improved towards the end of 2009 and improved more dramatically in the first quarter of 2010. We delivered a small profit before tax from £1.9m of revenues in Q1 2010, a result significantly ahead of 2009 trading. We also saw cash balances increase by £0.3m in Q1 2010 and some specific examples of growth in our real-time financial solutions business.

Our outlook for 2010 trading is optimistic but we remain cautious in the current economic environment.

Real-time financial solutions

Our focus is on growing real-time financial solutions business, including:

- Clareti Cash Reporting. A technology that accepts multiple types of payment information generated by banks and corporates, normalises the data and passes it on for use by banks or corporates to manage both risk and cash situations. An embodiment of the technology is the Clareti Cash Reporting Service ("CCRS"), which provides banks with access to real-time information about payments enabling them to better control liquidity and risk;
- Clareti Supply Chain Financing. A technology that accepts supply chain information from a corporate and presents that information to its suppliers which allows that supplier to take early payment of the invoices presented; and
- Clareti Banking. A well established core banking system with over 30 financial institution customers. The software is proven and we believe has growth potential outside of the existing Caribbean market.

Supporting these solutions is our system integration and implementation abilities developed over the past 20 years and representing one of our core competencies. These skills are essential in the real-time financial solutions market, where we work with both our own product and that of partners to deliver innovative solutions.

The combined underlying revenue from the above activities was about £5m in 2009, 40% of which was annuity maintenance income.

We have a number of banks that use CCRS on a daily basis and their use has increased during 2009. Going into 2010, we are working with these banks to expand their use of CCRS further as well as seeking to add new customers.

The major contract with a global banking group, announced in April 2009, for payment gateway and a cash reporting solution has not progressed further than a framework agreement at present, although we continue to work with our partner to progress this relationship in 2010.

During 2009, we saw much interest in our Supply Chain Financing solution both from banks seeking a hosted solution for their customers and from individual corporate customers looking to deploy a hosted or in-house solution to their own supply chain. We took on a more central role in the deployment and management of the hosted solution to customers of a major bank in Australia. In March 2010, we signed contracts to deploy our first corporate customer solution to a major company in the UK which will provide a local case study for such deployments.

In the Caribbean, we continue to work with customers to provide core banking technology both on an in-house and also an outsourced, centrally hosted, basis. Work commenced in late 2009 on the deployment of our banking solution in the Bahamas

and this together with strong demand for services from existing customers has driven a strong performance in Q1 2010. In 2009, we began looking at new markets for our Banking solution and are currently working with a partner in EMEA to secure our first deployment of this technology outside of our traditional Caribbean market.

In 2008, we commenced a major project to implement a partner's treasury management solution in Australia. The project has progressed slower than hoped leading to additional irrecoverable costs on the project in 2009. However, we now expect to complete the implementation in 2010.

In 2004, we combined a partner's cash management technology with our own integration technology to create an integrated cash management solution for a major UK bank. The solution is currently available to corporate customers of the bank on either an integrated (i.e. locally installed) basis or a hosted basis, through the bank's own internet banking system. We made good progress with this solution in 2009 and have seen good annuity income growth from the Software as a Service model in Q1 2010. We also renewed and extended our partnership with our technology partner, as explained further below.

Real-time financial solutions also include revenues for 2009 as follows: £1.3m VME software (75% of which is annuity income), £1.0m IT staff placement and £0.3m Gresham Software Labs Pty Ltd. The IT staff placement business was restructured in early 2009 and is not expected to form a significant element of group revenues from 2010 onwards. Gresham Software Labs was sold in August 2009.

Our VME software business generates strong and reliable cashflows with the software embedded in large organisations. Our VME utility software is installed at most of the large users of the Fujitsu VME platform in the UK, including the largest user which is the UK government. The VME market is mature, well defined and stable, with Fujitsu committed to supporting the VME platform until at least 2020. We generate license revenues when customers upgrade or change their use of our software but the majority of revenues are from software maintenance.

The total revenue from real-time financial solutions as described above was £7.6m in 2009.

Storage

Entering 2009, we were still investing in our new Storage Director ("SD") business which operated alongside our established EDT software business. In October 2009, we sold the SD business to focus on EDT, realising a very significant change in business profitability as a result of an associated 70% reduction in headcount.

Our EDT storage software business generates strong and reliable cashflows and the software is embedded in large organisations. Revenues from this business in 2009 were £2.3m, 75% of which is annuity maintenance income. EDT storage software is installed at over 125 larger customers globally. The market for this product has remained relatively resilient over the past few years despite its maturity and the availability of substitute products. Whilst we do makes sales to new customers, our license and maintenance revenues tend to be derived from existing customers.

The Market

The market for real-time financial solutions has changed in the last two years, with customers adopting a more cautious approach to new expenditure in light of the current economic environment and more stringent purchasing conditions imposed upon them. There is now a far greater focus on payback period and return on investment together with a driver for less up-front payments and more 'Software as a Service' arrangements. Our solutions score well in these areas, although lead times to order remain protracted.

Existing customers for our software and real-time financial solutions have invariably already critically reviewed their need for technology and especially the ongoing costs of maintenance. Since our software and solutions deliver high value to customers and are often deployed in mission critical situations there are strong drivers for customers to keep them deployed. As a result, we have not experienced a major impact on maintenance renewal rates or values in 2009, nor going into 2010. In fact, the return of inflation will lead to a small amount of growth in software maintenance in 2010 compared to a relatively stagnant 2009.

The first quarter of 2010 saw a number of markets for our solutions re-opening after a long period of uncertainty. We are seeing more interest in real-time solutions and recently the availability of budgets to purchase risk mitigating, cash controlling and profit enhancing solutions. We made good progress with sales in a number of areas during Q1 2010 and we are now cautiously optimistic about further growth, whilst remaining realistic and wary of long lead times.

Customers

Our strategy is to build long term annuity revenues from existing and new customers to increase the visibility of revenues going into future years, with a particular focus on real-time financial solutions.

Gresham has a loyal and diversified customer base with a number of our key software customers having now been on maintenance with Gresham for over 30 years. Even our more typical relationships are in the 5 to 20 year range, which is relatively long lived compared to our competitors. Typical contract periods for software maintenance are in the 1 year to 5 year band, with a weighting towards the 1 to 2 year period. Banking contracts for a deployed solution tend to be in the 4 to 10 year band. Our general experience over the years is one of automatic contract renewal at the end of the term and this has not been significantly affected by the economic downturn either in 2009 or so far in 2010.

Technology Partners

In April 2010, we renewed and extended our partnership with our provider of cash management technology for a major UK bank. The extended contract expands the parties' substantial commitment to customer service and provides an improved platform from which to meet customer growth aspirations in 2010 and beyond.

Financial Review

Revenue in 2009 was £9.9m compared to £13.9m in the prior year, with revenue reducing by £4.0m predominantly because of a planned reduction in the IT staff placement business (£1.8m), the change associated with our cash reporting business (£1.0m and as per note 26 to these financial statements), not repeating a major implementation contract in 2009 (£0.5m) and the impact of business disposals (£0.6m).

We have a strong recurring revenue base from past sales of software and ongoing professional services generating approximately £6.0m of revenue per annum going into 2010. We have good visibility over a further £2m of revenues from delivery of professional services to the existing customer base, based on a prudent assessment of historic trends. When the reduced cost base is taken into account, we are now capable of delivering much improved results from the existing installed base, without growth from new solutions and customers. New sales will therefore have a far more visible impact on trading than was previously the case.

The following table provides an analysis of trading for 2009, identifying the various costs associated with transitioning the business in line with our strategy:

	(Loss)/Profit after tax		Adjusted EBITDA	
	2009	2008	2009	2008
	£'000	£'000	£'000	£'000
Trading	(2,363)	(383)	(1,535)	506
Restructuring costs	(1,139)	(150)	(1,139)	(150)
Asset impairments	(2,826)	(36)	0	0
Profit/(Loss) on disposal of businesses	(1,036)	599	(1,036)	599
	(7,364)	30	(3,710)	955

The result for the year has been significantly affected by the one off costs associated with restructuring and disposals. These costs were associated with a 30% reduction in headcount, restructuring partner relationships, losses on the sale of non-core businesses and the impairment of intangible assets in light of the changes in the business and the market. The one off costs associated with these changes totalled £4.9m, comprising: £1.1m headcount and other restructuring costs, £2.8m non-cash asset impairment charge and a £1.0m net non-cash loss on disposal of businesses. The restructuring also led to disruption of activities in the second half of 2009 that impacted trading adversely.

The North American real-time financial solutions business grew revenues slightly after taking into account the disposal of Redstone in 2008 and exchange rates. After adjusting for the disposal profit on Redstone in 2008 and restructuring costs in 2009, the result was broadly the same as that for 2008.

The Asia Pacific real-time financial solutions business saw revenues decline after adjusting for the disposal of GSL and exchange rates because of the impact of a large software implementation sale in 2008 that did not repeat in 2009. After adjusting for the disposal profit on GSL and restructuring costs in 2009, the result was slightly behind that from 2008 primarily because of the large 2008 sale that did not repeat in 2009.

The EMEA real-time financial solutions business includes revenues in respect of our IT placement business, where we saw a reduction of £1.8m in revenues 2009 on 2008, in line with our strategy to move away from this high volume low margin business. The revenues associated with the arrangement with Cable & Wireless (as described in note 26 to these financial statements) reduced as expected by £1m. The remainder of the business saw a number of ups and downs but overall was just behind revenue in the prior year. After adjusting for the impact of the revenue changes discussed above and restructuring costs in EMEA, the result was behind that from 2008.

The storage solutions business saw revenues remain relatively flat, experiencing only a small reduction in 2009 compared to the prior year at constant exchange rates. After adjusting for the loss on disposal of SD, the business showed an improved performance compared to 2008 primarily because of the significant impact that the restructuring had on this business towards the end of the year.

Working capital

The restructuring had a significant impact on working capital. Initially, the impact was negative arising from the reduction in headcount balanced to an extent by cash inflows from the disposal of businesses in the same period. Entering 2010, the impact has been very positive since we now have a significantly lower cost base beneath a more stable cash generative platform. The net cash inflow in Q1 2010 is really the measure of how much our business has changed.

In 2010, we are contracted to receive a further £0.4m cash inflow arising from the disposal of our Storage Director business in October 2009. We also have a number of other significant one off cash inflows arising from both non-trading, such as tax, and trading, where we expect to collect some long term contract debtor balances deferred into 2010.

A proposed placing of new shares will supplement existing working capital providing further stability to the group as we look to grow our real-time financial solutions business, as discussed further below.

Asset impairment charge

The total asset impairment charge for 2009 is £2.8m comprising a significant non-cash impairment of intangible fixed assets. This charge reflects our cautious view as to the timing and value of future revenues associated with the assets, although not our underlying belief in the potential value of assets themselves.

Foreign exchange

The weakness of the pound continued to have a significant impact on our reported results; increasing the real net cost of restructuring our North American businesses in 2009. In 2010, we are currently benefitting from the weakness of the pound since our restructured North American EDT software business has become a net generator of US$, which we exchange into pounds and hedge as appropriate.

Our business plans assume more conservative exchange rates than those experienced in Q1 2010.

Taxation

The tax credit of £0.3m in the year relates to our claim for research and development tax relief in the UK together with a claim for repayment of foreign tax payments on account. We expect repayment of the research and development tax credit in 2010, although recovery of the foreign tax repayment may take a little longer.

Disposal of businesses

As part of our restructuring plans in 2009 we exited a number of non-core businesses to fund the restructuring and to increase focus on core business. During 2009 we completed two such disposals.

In August 2009, we sold our wholly owned subsidiary Gresham Software Labs Pty Ltd ("GSL") to comForte GmbH for £0.4m in cash, all of which was received in 2009. GSL sells software and support into the HP NonStop market globally.

In October 2009, we sold our SD business to Tributary Systems Inc, an existing SD sales partner, for £0.8m in cash; £0.3m of which was received in 2009 with the remainder due to be received by mid 2010. Whilst our investment in the SD product continued to show signs of great promise, with customer growth, the Board decided that the group could not continue to focus attention and resources across such a wide range of diverse activities but rather should focus investment on the real-time financial solutions market. The risk associated with delivery of SD sales is now with the buyer and we will instead receive a share of their success up to US$1.8m over 5 years dependent on performance; none of which is recognised in these Financial Statements.

Further information concerning these disposals can be found at note 16 to the Financial Statements.

Disposal of property

In May 2009, we sold and leased back our head office in Southampton generating a net £0.8m of cash. The sale followed a decision taken by the Board in 2008 to increase the group's liquidity by converting illiquid assets to liquid assets. The company has entered into an agreement with the purchaser to lease the office back for a ten year period, with a 5 year break option. Further information concerning this disposal can be found at note 12 to the Financial Statements.

Board composition

In August 2009, Max Royde joined the Board as Non-executive director and Ted Aves stepped down from his role as Non-executive director.

Andrew Walton-Green has resigned as Chief Executive Officer and director of Gresham Computing plc with effect from 28 April 2010, after the Board has approved these financial statements. The Board thanks Andrew for all his work at Gresham and wishes him every success for the future.

The Group will shortly commence a process to recruit a new Chief Executive Officer. In the meantime, Chris Errington, Finance Director, will take on the role of interim Chief Executive Officer. Rob Grubb, Company Secretary and Group Financial Controller, will take on the role of interim Finance Director.

Proposed placing of new shares

We are today announcing a proposed placing of 5,285,089 new Ordinary Shares at a price of 15.75 pence per share with institutional and other investors in order to raise £0.8m (net of expenses). The funds raised will be used to strengthen the company's balance sheet, fund ongoing capital requirements and to fund expansion of the business.

The proposed placing is subject to shareholder approval at the Annual General Meeting of the company scheduled to be held in June 2010 where a resolution will be proposed that the directors be empowered to disapply pre-emption rights in relation to the allotment of new shares in connection with the placing of up to 10% of the issued ordinary share capital of the company (existing authorities being 5%). The AGM notice together with a circular providing more detail on these proposals will be posted to shareholders together with the Annual Financial Report shortly.

Outlook

The major restructuring undertaken in 2009 has had a very positive impact on the financial position and results of the company. In Q1 2010, we saw solid performances from our software businesses together with progress in the real-time solutions business, especially as regards growth in the cash management solution sold by a major UK bank and most recently in supply chain finance.

In March 2010, we signed an agreement to provide a major UK company with our supply chain finance technology deployed on a partner's hosted platform. Once live we will receive a transaction fee for use of the platform, subject to payment of a minimum fee per month. This builds upon our existing experience of deployments in Australia.

Despite signs that trading conditions in our chosen markets are improving, like many companies in our position, we remain cautious as to outlook. We have modified our business plan in anticipation of a relatively slow recovery from economic recession. It is unlikely that lengthened sales lead times will improve in the short term, but we have been encouraged by progress in 2010 so far.

We are now confident that the restructuring completed in 2009 and customer interest in our solutions will see us delivering significantly improved trading in 2010 from a stronger and more visible financial base, building on the result from the first quarter.

Chris Errington
Finance Director
28 April 2010

Registered Number 1072032

The directors present their report and the group financial statements for the year ended 31 December 2009.

Results and dividends

The group loss for the year, after taxation, amounted to £7,364,000 (2008: profit £30,000). The directors do not recommend a final ordinary dividend, which leaves the loss of £7,364,000 to be deducted from reserves. No dividends are recommended and none were paid in the prior year.

Principal activities

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

Business review and future developments

The Chairman's Statement and Operational Review on pages 3 to 8 of this report cover the directors' review of business performance, including a view on development and its position at the year end, using performance indicators employed by the directors in monitoring the business. The statements also include an indication of likely future developments in the business of the group.

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

Financial instruments

Treasury policies

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

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

Where appropriate, the group enters into derivative transactions, specifically through forward currency contracts. The purpose is to manage the currency risks arising from the group's operations. It is and has been throughout 2009 and 2008 the group's policy that no trading in derivatives shall be undertaken.

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

Financial position

Capital management

Capital comprises the working capital of the group as set out in the notes to the group financial statements with the key element being cash and cash equivalents totalling £745,000 for the year ended 31 December 2009.

The primary objective of the group's capital management is to ensure that it maintains sufficient funds in order to support its business and maximise shareholder value. The group manages its capital structure and makes adjustments to it, in light of changes in economic conditions as is discussed in note 21. To maintain or adjust the capital structure, the group may issue new shares subject always to the rules governing such new issues. During the year ended 31 December 2009, extra emphasis was placed on the group's capital management objectives, policies and processes. Due to the increased perceived risks in credit and liquidity associated with the current wider economic environment, the group has focused on converting illiquid assets, such as the assets of Gresham Software Labs Pty Ltd, Storage Director and the freehold property, to liquid assets and ultimately cash. No changes were made in the objectives, policies or processes during the year ended 31 December 2009.

Distributions

No dividends were paid or proposed during the year.

Going concern

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

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

After making enquiries, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Market landscape and risks

Market landscape

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

The financial services markets are large and remain in a post 'credit crunch' state of transition, driven principally by technology and the need to service customers differently in an ever more regulated and customer demand led environment. Whilst there are strong drivers for market change, such as regulatory pressure and customer demand, the pace of change is typically slower in the financial services market. However, once a decision to change has been made it tends to be followed through with more vigour than other markets. The result is long lived embedded technology that remains part of the market infrastructure for extended periods of time. Financial institutions are looking for trusted vendors that can offer solutions targeted at the changes they are facing, such as cash reporting and the use of real-time financial information. During 2008, the financial institution market suffered a number of serious blows, which, at extremes, drew into question their very ability to survive primarily as a result of liquidity issues arising from the much discussed credit crunch. Uncertainty continued into 2009 with lengthened buying cycles and caution in any buyer's mind. Attention has been heavily focussed on return on investment, often with the need to demonstrate year one positive returns. Regulation of financial institutions in the area of liquidity management now seems likely and we believe this will be a positive factor for the group since such regulation invariably shortens buying cycles.

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

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

Market risks

The credit crunch

Almost without exception, global markets have been severely affected by the credit crunch and great uncertainty remains in most markets despite the early signs of recovery moving into 2010. We continue to work with our customers to solve their problems in innovative and different ways so as to provide alternative solutions in a difficult market. Exactly what the long term impact of the credit crunch on the group's activities will be is hard to predict but we continue to adapt our business behaviours accordingly. We hold a pessimistic view that the economy may dive into a secondary recession and have modelled our business and attitudes accordingly. The market changes in cash management and liquidity arising from the credit crunch present the group with new and enhanced opportunity and we are seeing more interest in these solutions generally. Increased

regulation of liquidity compliance in the financial institution market would be positive for the group since it will assist in driving demand and shortening purchasing cycles.

Long lead time and timing of deals

Our target markets are dominated by truly global large organisations seeking enterprise class solutions to often mission critical issues. For example, a bank seeking to embed the use of real-time data for the first time will normally do so having carefully considered the knock-on impact that such a change will have across the whole business before proceeding. As a result, the timing of a decision to buy new technology is often difficult to predict and is predicated on the momentum of change in a particular customer, or arising from a regulatory compliance requirement. This uncertainty over decision making can impact the forecasting of revenue recognition in the financial statements, with deals falling in one period or the other dependent on customer specific issues. Gresham works closely with organisations and seeks to become a trusted provider because such status tends to bring more clarity to the buying process and reduces, but does not eliminate, the uncertainty over timing of orders. The credit crunch introduces further uncertainty into this equation, which we seek to mitigate through open discussion with customers and delivery of value based solutions addressing the core issues of cash and liquidity management. Whilst the markets appear to be easing in 2010, we remain cautious as to outlook.

Global markets

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

Highly competitive and dominated by giants

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

Foreign exchange

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

Principal risks and uncertainties

Liquidity

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

Regulation

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

People

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

Technology

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

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

Significant relationships

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

Research and development

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

Events since the statement of financial position date

Andrew Walton-Green has expressed an intention to resign as Chief Executive Officer and director of Gresham Computing plc with effect from 28 April 2010, after the Board has approved these financial statements. The Board thanks Andrew for all his work at Gresham and wishes him every success for the future.

Employees

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

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

Disabled employees

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

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

Environmental considerations

The directors consider that because of the nature of the activities of the group it does not have a significant impact on the environment in which it operates. However, the group recognises the importance of environmental responsibility and seeks, wherever possible, to reduce its environmental impact through focus on areas that it can control such as energy saving, recycling and appropriate disposal of old computer equipment and mobile phones.

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

Directors and their interests

The directors at 31 December 2009 and their interests in the share capital of the company (all beneficially held, other than with respect to options to acquire ordinary shares which are detailed in the analysis of options included in the report on directors' remuneration), are as follows:

	Ordinary shares of 5 pence each	
	31 December 2009	1 January 2009
CM Errington	2,268	2,268
M Royde	42,472	—
E Sepkes	88,000	88,000
AJS Walton-Green	966,313	792,813

J E Aves resigned as a director effective 28 August 2009.

M Royde was appointed a director on 28 August 2009. On appointment, M Royde had a beneficial interest in 42,472 shares.

There have been no further changes in the directors' interests disclosed above from 31 December 2009 to 28 April 2010.

Directors' liabilities

The company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out section 234 of the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report.

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

Major interests in shares

The company has been notified of the following interests representing 3% or more of the issued ordinary share capital of the company as at 26 April 2010:

	Number	Percentage Held
Gartmore Investment Management plc	12,170,518	23.03%
JO Hambro Capital Management Limited	6,400,750	12.11%
The Valentina Discretionary Trust	3,880,491	7.34%
SW Purchase	3,797,139	7.18%
MA Green	3,273,290	6.19%
Herald Investment Trust plc	2,804,100	5.31%
UBS AG London	2,668,905	5.05%
Aberdeen Asset Managers Limited	1,629,358	3.08%
Strathclyde Pension Fund *	1,601,707	3.03%

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

Supplier payment policy and practice

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

At 31 December 2009, the group had an average of 49 days purchases owed to trade creditors.

Charitable donations

No donations were made in 2009. During the prior year, the group made a donation of £2,000 to Just a Drop, an international registered charity (1100505) that aims to provide clean, safe water and sanitation where it is most needed in the world . The donation was made as part of an initiative at SIBOS in Vienna to raise interest in the group and its chosen charity, rather than providing 'giveaways' at the show.

Special business at the annual general meeting

The special business to be conducted at the AGM covers the following:

Directors' authority to allot shares and the partial disapplication of pre-emption rights

Resolutions will be proposed to renew the authorities given to the directors to allot and grant rights over the un-issued share capital up to a maximum nominal amount of £880,847 representing one-third of the issued ordinary share capital.

Resolutions will also be proposed to renew and extend the authorities given to the directors to allot and grant rights over shares for cash up to a maximum nominal amount of £264,254, representing 10% of the issued ordinary share capital, without first making a *pro rata* offer to all existing shareholders. The proposed extension of authorities to 10% will be explained in a circular to accompany the notice of AGM. The company has consulted with major shareholders regarding this change and they are supportive.

The company announces with these results a proposed placing of 5.3 million new Ordinary Shares with institutional and other investors in order to raise £0.8 million (net of expenses). This proposed placing is subject to the passing of the above AGM special resolution for the directors to allot and grant rights over shares for cash up to a maximum nominal amount of £264,254, representing 10% of the issued ordinary share capital, without first making a *pro rata* offer to all existing shareholders. The funds raised will be used to strengthen the company's balance sheet, fund ongoing capital requirements and to fund expansion of the business.

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

Additional information for shareholders

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

At 31 December 2009, the company's issued share capital comprised:

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

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

Ordinary shares

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

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

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

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

Significant interests
Directors' interests in the share capital of the company are shown in the table on page 13. Major interests (i.e. those >3%) of which the company has been notified are shown on page 13.

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

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

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

Power of directors to issue or buy back shares
The directors are currently authorised to allot and grant rights over the un-issued share capital up to a maximum nominal amount of £880,847 representing one-third of the issued ordinary share capital and to allot and grant rights over shares for cash up to a maximum nominal amount of £132,126, representing 5% of the issued ordinary share capital, without first making a *pro rata* offer to all existing shareholders. A resolution will be put to shareholders at the upcoming AGM of the company to increase the 5% maximum to 10%.

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

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

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

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

Responsibility statements under the disclosure and transparency rules
The directors confirm that to the best of their knowledge:

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

By order of the board

R Grubb
Company Secretary
28 April 2010

The company is committed to meeting high standards of corporate governance and as such the board acknowledges its contribution to achieving management accountability, improving risk management and ultimately to creating shareholder value. This statement explains how the company has applied the main and supporting principles of corporate governance and describes the company's compliance with the provisions set out in Section 1 of the Combined Code on Corporate Governance published by the Financial Reporting Council in June 2008 and appended to the Listing Rules.

Statement by the directors on compliance with the Combined Code

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

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

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

The Board and its committees

Board composition and independence

The board currently comprises the chairman, chief executive, finance director and one non-executive director, Max Royde, who the board considers is independent based on the reasons set out below.

Ted Aves (non-executive director) left the company in August 2009.

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

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

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

The board has reviewed the independence of M Royde, including an assessment of his overall character and approach, and concluded based on the following guiding principles that he was independent throughout the year. He has not been a previous employee of the group, does not participate in the share option scheme, is not a member of the company's pension scheme, has no close family ties with the group's advisers, directors or senior employees, holds no cross directorships linking him with other directors, does not represent significant shareholders and has served on the board for less than nine years. M Royde previously held a material business relationship with the group, through his employment at KBC Peel Hunt, the company's broker which the company considers does not impair his independence. The company consulted with major shareholders prior to the appointment of M Royde to ensure that these shareholders did not hold a strong contrary view on independence.

M Royde has a nominal shareholding in the company, which the board considers appropriate without compromising independence. He receives a director's fee for his duties as a director, which is paid to Kestrel Partners LLP, a company in which he holds an ownership interest. The board considers M Royde to be independent.

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

Up until October 2009, the finance director also held the post of company secretary. The board considers that, given the size of the group and resources available, the dual role of the company secretary is acceptable subject to safeguards. In October 2009, R Grubb was appointed as company secretary; he is not a director of the company. The appointment and removal of the company secretary is a matter for the board as a whole.

Operation of the board

The board is responsible to shareholders for the proper management of the group. A statement of the directors' responsibilities in respect of the financial statements is set out on page 26 and a statement on going concern is given on page 10.

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

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

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

Where directors have concerns which cannot be resolved about the running of the company or a proposed action, these concerns are recorded in board minutes. On resignation, a non-executive director provides a written statement to the chairman for circulation to the board if there any such concerns.

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

Audit committee

The audit committee comprised Ted Aves (Chairman) until his resignation as a director effective 28 August 2009 and M Royde (Chairman) since his appointment as a director on 28 August 2009. Ted Aves and Max Royde were in the opinion of the board independent directors during their membership of the audit committee. The audit committee comprises only independent non-executive directors, as required by provision C.3.1 of the Combined Code.

Two of the three audit committee meetings were attended by the lead external audit partner. The role and responsibilities of the audit committee are set out in terms of reference available on request from the company secretary and are described in more detail in the Report of the audit committee on page 19.

Remuneration committee

During the period, the remuneration committee comprised Ted Aves (Chairman) until his resignation as a director effective 28 August 2009 and M Royde (Chairman) since his appointment as a director on 28 August 2009. Ted Aves and Max Royde were in the opinion of the board independent directors during their membership of the remuneration committee.

Where appropriate, the committee seeks independent advice from remuneration consultants and also consults with the chairman of the board. The committee is responsible for setting remuneration for all executive directors and the chairman appointed by the company, including pension rights and provision for compensation payments. The committee also recommends and monitors the level and structure of remuneration for senior management. The remuneration of non-executive directors is a matter for the executive members of the board, within limits set in the Articles of Association. The remuneration committee consults with the chief executive concerning the remuneration of other executive directors. Further details of the role and responsibilities of the remuneration committee and its activities during the year are given in the report on directors' remuneration on pages 22 to 25.

Appointment to the board

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

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

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

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

Meetings and attendance

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

	Board	Audit Committee	Remuneration Committee
Number of meetings held	10	3	1
Number of meetings attended:			
JE Aves[1]	7	2	1
CM Errington[3]	10	3	1
M Royde[2]	3	1	—
E Sepkes[3]	10	2	—
AJS Walton-Green[3]	10	2	1

[1] to resignation 28 August 2009
[2] from appointment as a director 28 August 2009
[3] in attendance at Audit and Remuneration Committees by invitation

Induction, training and performance evaluation

Induction and training

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

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

Evaluation of the board's performance

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

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

Retirement and re-election

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

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

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

The directors subject to election at the forthcoming AGM are: C Errington and M Royde.

Report of the audit committee

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

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

The work of the committee in discharging its responsibilities includes:

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

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

The committee seeks to maintain auditor objectivity and independence by reviewing and controlling the manner in which non-audit services are awarded to the auditor on at least an annual basis. The company has a rigorous policy designed to ensure that the auditors' independence is not compromised by their undertaking inappropriate non-audit work. All significant non-audit work, and any work of a non-compliance consultancy nature, commissioned from the external auditors requires audit committee approval.

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

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

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

Relations with shareholders

Dialogue with institutional shareholders

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

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

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

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

Constructive use of the AGM

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

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

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

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

Accountability and audit

Financial reporting

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

Management and specialists within the Finance Department are responsible for ensuring the appropriate maintenance of financial records and processes that ensure all financial information is relevant, reliable, in accordance with the applicable laws and regulations, and distributed both internally and externally in a timely manner. A review of the consolidation and financial statements is completed by management to ensure that the financial position and results of the group are appropriately reflected. All financial information published by the group is subject to the approval of the Audit Committee.

Going concern

The directors are required to report that the business is a going concern, with supporting assumptions and qualifications as necessary. The directors have concluded that the business is a going concern as further explained in the Directors' Report on page 10.

Internal control

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

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

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

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

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

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

Control environment

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

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

Information not subject to audit

Remuneration committee and advisers

The remuneration committee is chaired by M Royde.

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

Remuneration policy

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

Executive remuneration package:

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

Basic salary and benefits:

Salary and benefits are reviewed annually. Directors received no increase in basic salary for the 2009 calendar year. Benefits principally comprise private healthcare and death in service insurance. From November 2009, the three executive directors waived an element of base salary. The waiver is only repayable on achievement of, and from, profits generated by the business.

Share options:

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

Performance related bonuses:

The committee establishes the objectives which must be met for each financial year if a cash bonus is to be paid. The committee believes that any incentive compensation awarded should be tied to the interests of the company's shareholders and that the principal measure of those interests is the profitability of the group. The annual bonus plan generally allows for incentive payments of up to 100% of basic salary dependent on the achievement of profitability targets set at the beginning of the year; only in truly exceptional circumstances would the payment be higher than this and then only in the presence of a very significant level of group profitability. No such bonus payments were made for the year ended 31 December 2009 or 2008.

Pensions:

The company makes contributions to defined contribution schemes, usually calculated as a percentage of base salary, for which rates are individually set. From November 2009, two executive directors waived an element of company pension contribution. The waiver is only repayable on achievement of, and from, profits generated by the business.

Fees:

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

Service contracts:

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

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

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

Service contracts

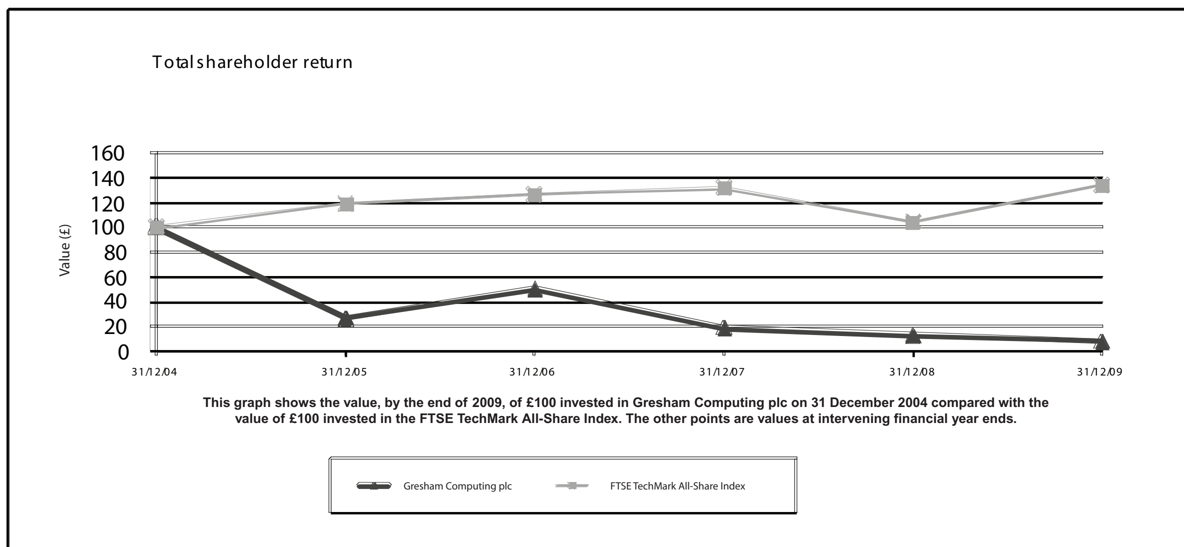
AJS Walton-Green has a service agreement dated 15 June 2005, which is terminable by 12 months' rolling notice from either side. CM Errington has a service agreement dated 11 January 2005, which is terminable by 12 months' rolling notice from either side. E Sepkes has a service agreement dated 29 April 2008, which is terminable by 12 months' rolling notice from either side.

M Royde has a letter of appointment dated 28 August 2009, due for renewal in two years time. The services of M Royde are provided and invoiced by Kestrel Partners LLP, a company in which he has an ownership interest.

Performance graph

The graph below shows the total shareholder return for each of the last five financial years in terms of the change in value (with dividends reinvested) of an initial investment of £100 on 31 December 2004 in a holding of the company's shares against the corresponding total shareholder return in a hypothetical holding of shares in the FTSE TechMark All-Share index.

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



This graph shows the value, by the end of 2009, of £100 invested in Gresham Computing plc on 31 December 2004 compared with the value of £100 invested in the FTSE TechMark All-Share Index. The other points are values at intervening financial year ends.

Information subject to audit

Directors' remuneration

The remuneration of the directors is as follows:

	Basic salary and fees £	Benefits in kind £	Performance related bonus £	Total 2009 £	Total 2008 £
Executive directors:					
CM Errington[1]	148,000	1,823	—	149,823	151,825
R Glenn[2]	—	—	—	—	12,104
E Sepkes[3]	111,667	701	—	112,368	82,752
AJS Walton-Green[4]	187,667	2,069	—	189,736	194,010
Non-executive directors:					
JE Aves[5]	20,000	—	—	20,000	30,000
AM Howarth[6]	—	—	—	—	5,000
M Royde[7]	10,000	—	—	10,000	—
	477,334	4,593	—	481,927	475,691

[1] waived £1,000 per month of salary entitlement from November 2009 for a period of 12 months
[2] resigned 31 January 2008
[3] waived £4,167 per month of salary entitlement from November 2009 for a period of 12 months
[4] waived £2,167 per month of salary entitlement from November 2009 to March 2010
[5] resigned 28 August 2009
[6] resigned 28 April 2008, waived £5,000 of salary entitlement from March 2008 to his resignation
[7] appointed 28 August 2009

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

Pension entitlements

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

	2009 £	2008 £
CM Errington[1]	6,250	7,500
R Glenn[2]	—	583
E Sepkes[3]	6,000	3,500
AJS Walton-Green[4]	20,000	24,000
	32,250	35,583

[1] waived £625 per month of company pension contribution entitlement from November 2009 for a period of 12 months
[2] resigned 31 January 2008
[3] appointed 29 April 2008
[4] waived £2,000 per month of company pension contribution entitlement from November 2009 to March 2010

Interests in options

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

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

	Options at 1 January 2009	Granted/ (lapsed) in the year	Exercised	Options at 31 December 2009	Date of grant	Exercise price	Date first exercisable	Expiry date
CM Errington	111,111[P*]	—	—	111,111	22.10.07	115p	23.10.10	23.10.17
	111,111[P*]	—	—	111,111	22.10.07	115p	23.10.11	23.10.17
	277,778[P*]	—	—	277,778	22.10.07	115p	23.10.12	23.10.17
	500,000	—	—	500,000				
E Sepkes[1]	88,889[P*]	—	—	88,889	29.04.08	62.25p	30.04.11	30.04.18
	88,889[P*]	—	—	88,889	29.04.08	62.25p	30.04.12	30.04.18
	222,222[P*]	—	—	222,222	29.04.08	62.25p	30.04.13	30.04.18
	400,000	—	—	400,000				
AJS Walton-Green	557,897[E*]	—	—	557,897	25.07.00	36p	28.07.03	27.07.10
	166,667[P*]	—	—	166,667	22.10.07	115p	23.10.10	23.10.17
	166,667[P*]	—	—	166,667	22.10.07	115p	23.10.11	23.10.17
	416,666[P*]	—	—	416,666	22.10.07	115p	23.10.12	23.10.17
	1,307,897	—	—	1,307,897				

[E] denotes options granted under Executive Scheme 1998
[P] denotes awards granted under the EOP 2007 scheme
* denotes options over which the executive has agreed to pay any employer's national insurance arising from the exercise of the options.

The closing market price of the company's shares on 31 December 2009 was 23 pence. During the year, the closing price per ordinary share ranged from 23 pence to 53 pence.

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

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

On behalf of the board

M Royde
Chairman of the Remuneration Committee
28 April 2010

Statement of directors' responsibilities in relation to the group financial statements

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

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

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and enable them to ensure that the group financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

We have audited the group financial statements of Gresham Computing plc for the year ended 31 December 2009 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cashflows and the related notes 1 to 30. 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.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 26, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the group 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 (APB's) Ethical Standards for Auditors.

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 loss 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 and Article 4 of the IAS Regulation.

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 group financial statements; and
- the information given in the Corporate Governance Statement set out on pages 16 to 21 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures 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:

Under the Companies Act 2006 we are required 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.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 10, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Other matter

We have reported separately on the parent company financial statements of Gresham Computing plc for the year ended 31 December 2009 and on the information in the Directors' Remuneration Report that is described as having been audited.

Kevin Harkin
(Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Southampton
28 April 2010

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2009

	Notes	31 December 2009 £'000	31 December 2008 £'000
Revenue	3,4,26	9,886	13,894
Cost of goods sold		(5,474)	(7,623)
Gross profit		4,412	6,271
Administrative expenses		(11,076)	(7,090)
Trading loss	5	(6,664)	(819)
Loss on disposal of fixed assets		(8)	—
Profit on disposal of subsidiary undertaking	16	132	599
(Loss) on disposal of business	16	(1,168)	—
Finance revenue	3,8	10	71
Finance costs	8	(21)	(2)
Loss before taxation		(7,719)	(151)
Taxation	9	355	181
Attributable to equity holders of the parent	24	(7,364)	30
Earnings/(loss) per share (total and continuing)			
Basic (loss)/earnings per share – pence	10	(13.93)	0.06
Diluted (loss)/earnings per share – pence	10	(13.93)	0.06

	31 December 2009 £'000	31 December 2008 £'000
Attributable (loss)/profit for the year	(7,364)	30
Other comprehensive income		
Exchange differences on translation of foreign operations	35	358
Exchange differences transferred to income statement on disposal of subsidiary undertakings	39	(107)
	74	251
Total comprehensive (loss)/income for the year	(7,290)	281

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2009

	Notes	31 December 2009 £'000	31 December 2008 £'000
Assets			
Non-current assets			
Property, plant and equipment	12	235	652
Intangible assets	13	1,757	6,810
		1,992	7,462
Current assets			
Trade and other receivables	17	3,140	3,239
Inventories	15	—	20
Income tax receivable	17	340	281
Cash and cash equivalents	18	745	1,214
		4,225	4,754
Assets held for sale	12	—	860
Total Assets		6,217	13,076
Equity and Liabilities			
Equity attributable to equity holders of the parent			
Called up equity share capital	22	2,643	2,643
Share premium account	24	12,614	12,564
Other reserves	24	1,039	1,039
Foreign currency translation reserve	24	261	187
Retained earnings	24	(15,783)	(8,576)
	24	774	7,857
Non-current liabilities			
Deferred income	19	313	278
Financial liabilities	19	—	59
Provisions	19	586	160
		899	497
Current liabilities			
Trade and other payables	19	4,449	4,572
Financial liabilities	19	17	28
Income tax payable	19	2	122
Provisions	19	76	—
		4,544	4,722
Total liabilities		5,443	5,219
Total Equity and Liabilities		6,217	13,076

On behalf of the board

CM Errington
28 April 2010

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital £'000	Share premium £'000	Other reserves £'000	Currency translation £'000	Retained earnings £'000	Total £'000
At 1 January 2008	2,643	12,564	1,039	(64)	(8,761)	7,421
Attributable loss for the period	—	—	—	—	30	30
Other comprehensive income	—	—	—	251	—	251
Total comprehensive income/(expense)	—	—	—	251	30	281
Share based payment	—	—	—	—	155	155
At 31 December 2008	2,643	12,564	1,039	187	(8,576)	7,857
Attributable loss for the period	—	—	—	—	(7,364)	(7,364)
Other comprehensive income	—	—	—	74	—	74
Total comprehensive income/(expense)	—	—	—	74	(7,364)	(7,290)
Reclaim of VAT on previous share issues costs	—	50	—	—	—	50
Share based payment	—	—	—	—	157	157
At 31 December 2009	2,643	12,614	1,039	261	(15,783)	774

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2009

	Notes	31 December 2009 £'000	31 December 2008 £'000
Cash flows from operating activities			
Loss before taxation		(7,719)	(151)
Depreciation, amortisation and impairment	5	3,841	1,020
Share based payment expense	7,23	157	155
Decrease/(Increase) in inventories		20	(20)
Decrease in trade and other receivables		604	385
Increase/(Decrease) in trade and other payables		170	(1,295)
Movement in provisions	19	494	(40)
Loss on revaluation of foreign exchange instrument		17	—
Loss on disposal of fixed assets		8	—
(Gain)/loss on disposal of subsidiary undertakings	16	(132)	(599)
(Gain)/loss on disposal of businesses	16	1,168	—
Net finance (cost)/income	8	11	(89)
Cash outflow from operations		(1,361)	(634)
Net income taxes received		211	362
Net cash outflow from operating activities		(1,150)	(272)
Cash flows from investing activities			
Interest received	8	10	91
Disposal of fixed assets		1	—
Disposal of subsidiary undertakings	16	391	409
Disposal of businesses	16	269	—
Disposal of assets held for sale	12	766	—
Purchase of property, plant and equipment	12	(161)	(213)
Payments to acquire intangible fixed assets	13	(550)	(1,212)
Net cash generated from/(used in) investing activities		726	(925)
Cash flows from financing activities			
Interest paid	8	(13)	(2)
Repayment of capital element of finance leases	25	(14)	(2)
Net cash used in financing activities		(27)	(4)
Net decrease in cash and cash equivalents	25	(451)	(1,201)
Cash and cash equivalents at beginning of year	25	1,214	2,300
Exchange adjustments	25	(18)	115
Cash and cash equivalents at end of year	25	745	1,214

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

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

The financial statements of Gresham Computing plc and its subsidiaries (the "group") for the year ended 31 December 2009 were authorised for issue by the board of directors on 28 April 2010 and the statement of financial position was signed on the board's behalf by CM Errington.

The group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union as they apply to the financial statements of the group for the year ended 31 December 2009.

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

2. Accounting policies

Basis of preparation

The group's financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union as they apply to the financial statements of the group for the year ended 31 December 2009 and applied in accordance with the Companies Act 2006. The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2009.

The group's financial statements have been prepared on a historical cost basis, except for derivative financial instruments that have been measured at fair value.

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

Judgements and key sources of estimation uncertainty

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

Estimates and assumptions

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

Revenue and profit recognition

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

Impairment of goodwill and development costs

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

2. Accounting policies (continued)

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Share-based payments

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

Basis of consolidation

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

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

Foreign currency translation

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

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

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

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

Goodwill

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

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

2. Accounting policies (continued)

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

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

Intangible assets

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

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

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

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

Research and development costs

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

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

Property, plant and equipment

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

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

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

2. Accounting policies (continued)

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

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

Leases

Group as a lessee

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

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

Group as a lessor

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

Impairment of assets

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

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

Provisions

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

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

2. Accounting policies (continued)

Financial assets

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

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

Loans and receivables

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

Financial assets at fair value through profit or loss

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

Available-for-sale financial assets

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

Impairment of financial assets

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

Assets carried at amortised cost

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

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

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

2. Accounting policies (continued)

Inventories

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

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

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

Trade and other receivables

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

Amounts recoverable on contracts

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

Cash and cash equivalents

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

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

Income taxes

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

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

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

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

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

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

2. Accounting policies (continued)

Derecognition of financial assets and liabilities

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

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

Derivative financial instruments and hedging

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

Fair value of derivative financial instruments is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Pensions

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

Revenue recognition

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

Software licenses

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

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

Rendering of services

Revenue and profits from the provision of professional services, such as implementation, development, training and consultancy, are recognised on a percentage-of-completion basis, as costs incurred relate to total costs for the contract, when the outcome of a contract can be estimated reliably. Determining whether a contract's outcome can be estimated reliably, requires management to exercise judgement, whilst calculation of the contract's profit requires estimates of the total contract costs to completion. Cost estimates and judgements are continually reviewed and updated as determined by events or circumstances.

Solution sales

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

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

Subscriptions and maintenance

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

2. Accounting policies (continued)

Interest income

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

Rental income

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

Share-based payments

Equity-settled transactions

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

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

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

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

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

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

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

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

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

Changes in accounting policy

The accounting policies adopted are consistent with those of the previous financial year.

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

- IAS 23 – Borrowing Costs
- IAS 32 and IAS 1 Amendment – Puttable Financial Instruments and Obligations Arising on Liquidation
- IFRS 1 and IAS 27 Amendment – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
- IFRS 2 Amendment – Vesting Conditions and Cancellations
- IFRIC 15 – Agreements for the Construction of Real Estate
- 2008 Improvements to IFRSs

2. Accounting policies (continued)

The adoption of these pronouncements has not impacted the classification or measurement of the group's assets and liabilities, nor has it resulted in any additional disclosure.

In addition, the following new standards have been adopted and are effective for the current year and have resulted in new, amended disclosure:

- IAS1 – Presentation of Financial Statements
- IFRS 8 – Operating Segments
- IFRS 7 – Improving Disclosures about Financial Instruments

New standards and interpretations not applied

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

Standard or interpretation	Title	Effective from
IAS 27	Consolidated and Separate Financial Statements (revised)	1 July 2009
IAS 39	Amendment – Eligible Hedged Items	1 July 2009
IFRS 3	Business Combinations (revised)	1 July 2009
IFRIC 17	Distributions of Non-Cash Assets to Owners	1 July 2009
IFRIC 18	Transfer of Assets from Customers	1 July 2009
		Effective for periods ending on or after
IFRIC 9 and IAS 39	Amendments to IFRIC 9 and IAS 39 – Embedded derivatives	30 June 2009
		Effective from
IFRS 2	Amendment to IFRS 2 – Group Cash-settled Share-based Payment Transactions	1 January 2010
IFRS 1	Amendment to IFRS 1 – Additional Exemptions for First-time Adopters	1 January 2010
IAS 32	Amendment to IAS 32 – Classification of Rights Issues	1 February 2010
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	1 July 2010
IFRS 1	Amendment to IFRS 1 – Limited exemption from additional IFRS 7 disclosures	1 July 2010
IAS 24	Amendment to IAS 24 – Disclosure requirements for government-related entities and definition of a related party	1 January 2011
IFRIC 14	Amendment – Prepayments of a Minimum Funding Requirement	1 January 2011
IFRS 9	Financial Instruments – Classification and measurement	1 January 2013
Annual improvements	Improvements to IFRSs (April 2009)	Various
Annual improvements	Improvements to IFRSs (May 2008)	effective dates

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

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

3. Revenue

Revenue disclosed in the income statement is analysed as follows:

	2009 £'000	2008 £'000
Rendering of services	9,886	13,894
Finance revenue	10	71
	9,896	13,965

4. Segment information

The group has adopted IFRS 8 Operating Segments in the current year. The adoption of this pronouncement has resulted in changes in the segmental disclosures which reflect the analysis presented on a monthly basis to the chief operating decision maker of the business, the Chief Executive Officer and the Board of Directors.

In addition split of revenues and Non-current assets by UK and overseas have been included as they are specifically required by IFRS 8 Operating Segments.

For management purposes, the group is organised into four reportable segments as follows:

- EMEA – Real Time Financial Solutions
- North America – Real Time Financial Solutions
- Asia Pacific – Real Time Financial Solutions
- Enterprise Storage Solutions

The real time financial solutions segments are suppliers of solutions predominantly to the finance and banking markets. Included within the real time financial solutions segments are the group's IT staff placement business. The storage solutions segment is a supplier of solutions predominantly to the enterprise level storage market.

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

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

The results of Gresham Software Labs Pty Limited, a subsidiary of the group disposed of on 27 August 2009 (see note 16), consolidated by the group prior to the disposal are included in the Asia Pacific – Real Time Financial Solutions segment shown in the following analysis for 2009.

The results of Storage Director, a business of the group disposed of on 16 October 2009 (see note 16), consolidated by the group prior to the disposal are included in the Enterprise Storage Solutions segment shown in the following analysis for 2009.

The assets held for sale at 31 December 2008 of £860,000 were disposed of during the year (note 12). These assets were included as unallocated assets in the segment information for 2008. The loss arising on disposal of these assets at the time of disposal was £5,000, which is included within loss on disposal of fixed assets in the consolidated Income Statement for 2009.

4. Segment information (continued)

Year Ended 31 December 2009

	North America RTFS £000	Asia Pacific RTFS £000	EMEA RTFS £000	Enterprise Storage solutions £000	Adjustments, central & eliminations £000	Consolidated £000
Revenue						
External customer	1,256	1,925	4,398	2,307	—	9,886
Inter-segment	383	425	8	680	(1,496)	—
Total revenue	1,639	2,350	4,406	2,987	(1,496)	9,886
Segment profit/(loss)	30	(374)	(2,097)	(1,042)	(3,881)	(7,364)
Segment assets	253	1,820	852	1,421	1,871	6,217

Year Ended 31 December 2008

	North America RTFS £000	Asia Pacific RTFS £000	EMEA RTFS £000	Enterprise Storage solutions £000	Adjustments, central & eliminations £000	Consolidated £000
Revenue						
External customer	1,463	2,542	7,471	2,419	—	13,894
Inter-segment	23	543	8	809	(1,383)	—
Total revenue	1,485	3,085	7,479	3,228	(1,383)	13,894
Segment profit/(loss)	1,204	156	571	(1,228)	(673)	30
Segment assets	442	2,135	4,384	1,005	5,110	13,076

Included in the Real Time Financial Solutions business segments are:

- EMEA – £998,000 (2008: £2,790,000) of revenue in respect of the IT staff placement business;
- EMEA – £2,796,000 charge (2008: £nil) in respect of impaired development costs capitalised (see note 13);
- Asia Pacific – £249,000 (2008: £347,000) of revenue in respect of Gresham Software Labs Pty Limited, which was disposed of on 27 August 2009;
- North America – £nil (2008: £344,000) of revenue in respect of Redstone Software Inc, which was disposed of on 2 September 2008; and

Included in the Storage Solutions business segment is:

- £158,000 (2008: £279,000) of revenue in respect of the Storage Director business, which was disposed of on 16 October 2009.

Segment profit/(loss) represent segment profit before tax, prior to adjustments for reallocation of share option charges and prior to capitalisation and amortisation of development costs.

Adjustments, central & eliminations

Adjustments, central & eliminations to segment profit/(loss) represent central management functions of £1,153,000 (2008: £1,347,000), including the Board of Directors, group finance, HR, IT and marketing in addition to adjustment made to reflect share option charges of £157,000 (2008: £155,000), capitalisation of development costs of £550,000 (2008: £1,350,000) and amortisation and impairment of capitalised development costs of £3,476,000 (2008: £702,000) and taxation credit of £355,000 (2008: £181,000).

Adjustments, central & eliminations to segment assets represent certain property, plant and equipment, including those classified as assets held for sale, of £nil (2008: £860,000), capitalised development costs of £786,000 (2008: £2,755,000), cash of £745,000 (2008: £1,214,000), and taxation of £340,000 (2008: £281,000).

4. Segment information (continued)

Geographic information

	2009 £'000	2008 £'000
Revenues from external customers (by destination)		
UK	5,313	7,471
Overseas	4,573	6,423
	9,886	13,894

	£'000	£'000
Non-current assets		
UK	918	3,559
Overseas	1,074	3,903
	1,992	7,462

Non-current assets consist of tangible and intangible fixed assets.

5. Group trading loss

This is stated after charging/(crediting):

	2009 £'000	2008 £'000
Research and development costs written off	581	716
Impairment of deferred development costs recognised in administrative expenses	2,826	—
Amortisation of deferred development costs recognised in administrative expenses	650	702
Total research and development costs	4,057	1,418
Depreciation of property, plant and equipment	360	279
Impairment of property, plant and equipment	—	36
Amortisation of intangible assets (excluding development costs)	5	3
Total depreciation and amortisation expense	365	318
Net foreign currency differences – losses/(gains)	128	(299)
Loss on revaluation of derivative financial instruments	17	—
Operating lease payments		
Minimum lease payments	485	564
Sublease payments	—	(53)
	485	511
(Decrease)/increase in provision for impairment of trade receivables recognised in administrative expenses	(2)	31

During the year ended 31 December 2009, the group restructured a number of business lines with the aim of significantly reducing the cost base and increasing focus. The associated one off restructuring cost arising from this exercise totalled approximately £1,139,000 in 2009 and is included within administrative expenses (2008: £150,000).

6. Auditors' remuneration

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

	2009 £'000	2008 £'000
Audit of the group financial statements	25	25
Other fees to auditors – auditing the accounts of subsidiaries	57	65

7. Staff costs and directors' emoluments

(a) Staff costs

	2009 £'000	2008 £'000
Wages and salaries	5,776	6,719
Social security costs	481	746
Other pension costs	240	292
	6,497	7,757

Included in wages and salaries is a total expense of share-based payments of £157,000 (2008: £155,000 expense) all of which arises from transactions accounted for as equity-settled share-based payment transactions.

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

	2009	2008
Management	14	20
Administration	18	20
Technical	68	82
	100	122

(b) Directors' emoluments

	2009 £'000	2008 £'000
Directors' emoluments including pension contributions	514	511
Number of directors accruing benefits under defined contribution schemes	3	3

8. Finance costs/revenue

Finance costs	2009 £'000	2008 £'000
Other bank charges	13	2
Finance charge on provisions	8	—
Total finance costs	21	2
Finance revenue		
Bank interest receivable	10	54
Profit on derecognition of SQS warrants	—	17
Total finance revenue	10	71

SQS warrants

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

The warrants were exercised in 2008 and the resulting equity instruments immediately sold in the market at their fair value giving rise to a profit on derecognition of £17,000 above the recorded fair value, which was reported in finance revenue.

9. Taxation

(a) Tax on loss on ordinary activities

Tax (credited)/charged in the income statement

	2009 £'000	2008 £'000
Current income tax		
UK Corporation tax credit	(263)	(281)
Foreign Corporation tax charge	1	66
Foreign with-holding tax charge	13	34
	(249)	(181)
Amounts over provided in previous years – UK	(7)	—
Amounts over provided in previous years – Overseas	(99)	—
Total current income tax	(355)	(181)
Total credit in the income statement	(355)	(181)

(b) Reconciliation of the total tax charge

The tax credit in the income statement for the year is lower than the standard rate of corporation tax in the UK of 28% (2008 – 28.5%). The differences are reconciled below:

	2009 £'000	2008 £'000
Loss before taxation	(7,719)	(151)
Accounting loss multiplied by the UK standard rate of corporation tax of 28%	(2,161)	(43)
R&D tax credit – current year	(263)	(280)
R&D tax credit – prior year	(7)	—
Losses surrendered for R&D tax credit – current year	526	527
R&D enhanced relief	(224)	(204)
Utilisation of losses against profit on disposal of overseas businesses	(292)	—
Difference between accounting/tax treatment of disposal	(153)	—
Movement on unrecognised temporary differences	541	(383)
Movement on unprovided fixed asset temporary differences	37	—
Expenses not deductible for tax purposes	—	50
Temporary difference on share based payments	43	40
Income not taxable	—	(136)
Overseas tax	(85)	99
Increase in losses carried forward not recognised	1,683	149
Total tax credit reported in the income statement	(355)	(181)

(c) Unrecognised tax losses

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

(d) Temporary differences associated with group investments

At 31 December 2009, there was no recognised deferred tax liability (2008: Nil) for taxes that would be payable on the un-remitted earnings of certain of the group's subsidiaries, as the group has determined that undistributed profits of its subsidiaries will not be distributed in the foreseeable future.

The temporary differences associated with investments in subsidiaries for which deferred tax liability has not been recognised aggregate to £nil (2008: £nil).

(e) Deferred tax

Recognised deferred tax

No deferred tax has been recognised in either the group statement of financial position or group income statement (2008: £nil).

9. Taxation (continued)

Unrecognised potential deferred tax assets

The deferred tax not recognised in the group statement of financial position is as follows:

	2009 £'000	2008 £'000
Depreciation in advance of capital allowances	121	98
Share-based payments temporary differences	96	51
Other temporary differences	765	225
Tax losses	5,186	3,790
Unrecognised deferred tax asset	6,168	4,164
Gross temporary differences unrecognised	3,507	1,336
Gross tax losses unrecognised	18,522	13,536
Gross deferred tax asset unrecognised	22,029	14,871

10. (Loss)/Earnings per ordinary share

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

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

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

	2009 £'000	2008 £'000
(Loss)/earnings attributable to equity holders of the parent	(7,364)	30

	2009	2008
Basic weighted average number of shares	52,850,890	52,850,890
Dilutive potential ordinary shares:		
Employee share options	—	—
Diluted weighted average number of shares	52,850,890	52,850,890
Basic (loss)/earnings per share – pence	(13.93)	0.06
Diluted (loss)/earnings per share – pence	(13.93)	0.06

The employee share options are not dilutive because in 2009 and 2008 they were 'out-of-the-money'. There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

11. Dividends paid and proposed

No dividends were declared or paid during the year and no dividends are proposed for approval at the AGM (2008: None).

12. Property, plant and equipment

31 December 2008

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

31 December 2009

	Fixtures and fittings £'000	Plant and equipment £'000	Total £'000
Cost:			
At 1 January 2009	566	2,837	3,403
Reclassification	408	(408)	—
Additions	97	64	161
Disposals	(523)	(33)	(556)
Disposal of businesses (note 16)	(13)	(516)	(529)
Exchange adjustment	3	(141)	(138)
At 31 December 2009	538	1,803	2,341
Depreciation and impairment:			
At 1 January 2009	(555)	(2,196)	(2,751)
Reclassification	(346)	346	—
Charge for year	(58)	(302)	(360)
Disposals	519	28	547
Disposal of businesses (note 16)	9	330	339
Exchange adjustment	1	118	119
At 31 December 2009	(430)	(1,676)	(2,106)
Net carrying amount:			
At 31 December 2009	108	127	235
At 1 January 2009	11	641	652

Assets held under finance leases

The carrying value of plant and equipment held under finance leases and hire purchase contracts at 31 December 2009 was £nil (2008: £90,000). Additions during the year include £nil (2008: £92,000) of plant and equipment held under finance leases and hire purchase. Disposals during the year includes £84,000 (2008: £nil) of plant and equipment held under finance lease. Depreciation during the year includes £9,000 (2008: £2,000) of plant and equipment held under finance leases and hire purchase.

12. Property, plant and equipment (continued)

Assets held for sale

In May 2009, the group completed the disposal of its freehold property, subsequently leased back under an operating lease (see note 20). The loss arising on disposal of this asset at the time of disposal was £5,000, which is included within loss on disposal of fixed assets in the consolidated Income Statement for 2009. The net cash proceeds associated with this disposal were £766,000. A further £90,000 of cash consideration was retained by the acquirer and is held by them as a refundable rent deposit.

13. Intangible assets

31 December 2008

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

31 December 2009

	Development costs £'000	Patents and licences £'000	Goodwill £'000	Total £'000
Cost:				
At 1 January 2009	6,924	891	1,172	8,987
Additions	550	—	—	550
Disposal of businesses (note 16)	(2,530)	—	(340)	(2,870)
Exchange adjustment	—	—	132	132
At 31 December 2009	4,944	891	964	6,799
Amortisation and impairment:				
At 1 January 2009	(1,298)	(879)	—	(2,177)
Charge for year	(650)	(5)	—	(655)
Impairment charge for year	(2,826)	—	—	(2,826)
Disposal of businesses (note 16)	616	—	—	616
Exchange adjustment	—	—	—	—
At 31 December 2009	(4,158)	(884)	—	(5,042)
Net carrying amount:				
At 31 December 2009	786	7	964	1,757
At 1 January 2009	5,626	12	1,172	6,810

13. Intangible assets (continued)

Development costs

Development costs are internally generated and are capitalised at cost. These intangible assets have been assessed as having a finite life and are amortised on a straight line basis over their useful lives. These costs are amortised over their useful economic lives of 2 to 10 years (2008: 2 to 10 years). These assets are tested for impairment where an indicator of impairment arises and annually prior to them being made available for use. The recoverable amounts of the intangible assets were calculated on a value in use basis using discount rates of 12% (2008: 12%). During the year the following impairment charges were recognised:

- an impairment charge of £30,000 (2008: £nil) was recognised in connection with development costs associated with our Storage Director product, which was subsequently disposed of on 16 October 2009 (see note 16).
- an impairment charge of £2,486,000 was recognised in connection with development costs associated with our Clareti Cash Reporting product as a result of more cautious growth assumptions and our experience with customers and prospective customers; and
- an impairment charge of £310,000 was recognised in connection with development costs associated with our Clareti Banking Virtual Accounts product, as a result of our decision to focus on selling a partner's product in the market which had the knock on effect of reducing our growth and income assumptions relating to this developed product.

Patents and licences

Patents and licences are the third party costs incurred in seeking and obtaining protection for certain of the group's products and services. These intangible assets have been assessed as having a finite life and are being amortised evenly over their useful economic life, to a maximum of 10 years. Patents have a remaining life of 6 years and licences have no life remaining (and are fully written down).

14. Impairment of goodwill and intangibles

Goodwill

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

Asia Pacific real-time financial solutions cash-generating unit

The recoverable amount of this CGU has been determined based on a value in use calculation. To calculate this, cash flow projections are based on financial budgets approved by the board and take account of a 5 year period. The discount rate applied to cash flow projections is 12% (2008: 12%) and cash flows beyond the 5 year period are extrapolated using a 4% growth rate (2008: 1%) that is a prudent approximation to the long term average growth rate for the real-time financial solutions market. The change in rates applicable to 2009 reflects changes in the relevant economy.

Carrying amount of goodwill

	2009 £'000	2008 £'000
Asia Pacific real-time financial solutions CGU	964	1,172

Key assumptions used in the value in use calculations

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

The calculation of value in use is most sensitive to assumptions around:
G*ross margins*, based on average values achieved in the three years preceding the start of the budget period;
Growth rates, based on internally estimated growth rates for the market and the business offerings; and
Discount rate, based on the pre tax weighted average cost of capital of the CGU.

Sensitivity to changes in assumptions

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

14. Impairment of goodwill and intangibles (continued)

Development costs (finite life)

Development costs are reviewed for impairment on an annual basis prior to being made available for use or sooner where an indicator of impairment exists. The following table summarises the net book value of development costs:

	2009 £'000	2008 £'000
Asia Pacific real time financial solutions	—	27
EMEA real time financial solutions	786	3,465
Storage	—	2,134
Net book value	786	5,626

The total value of development costs not yet available for use at 31 December 2009 is £nil (2008: £69,000).

The recoverable amount of development costs allocated to CGUs has been determined based on a value in use assessment and the cashflows generated. In determining the recoverable amount the most recent budgets approved by the board have been used as a basis for estimating future cash flows.

Key assumptions used in the value in use calculations

Where the development costs relate to products or solutions that will be sold in an existing known market past experience is used as a guide to the level of sales achievable, growth rates and associated margins. Where the development costs relate to products or solutions that will be sold into a new or emerging market past experience with similar products or solutions is combined with relevant information from external market sources, such as competitor pricing and discussions with potential customers, in arriving at the level of sales achievable, growth rates and associated margins. The recoverable amount of development costs has been considered over only a 5 year period taking into account the relatively fast moving nature of the markets in which the products and solutions will be deployed. Growth rates in excess of 2.4% (2008:5%) are considered achievable once the product or solution is established in a market over a 5 year period. Discount rates of 12% (2008: 12%) based on the pre tax weighted average cost of capital of the cash generating unit is expected to apply in respect of future cash flows.

Sensitivity to changes in key assumptions

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

15. Inventories and financial assets

Inventories

	2009 £'000	2008 £'000
Goods for resale	—	20
	—	20

16. Investments

Details of group undertakings

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

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

[1] held by a subsidiary undertaking

Disposal of Gresham Software Labs Pty Limited

On 27 August 2009, Gresham disposed of its 100% equity share interest in Gresham Software Labs Pty Ltd ("GSL") to comForte GmbH for a total consideration of £460,000. The consideration was satisfied as to £235,000 in cash on completion and £225,000 on 31 December 2009.

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

Assets and liabilities disposed of other than cash

	£'000
Intangible fixed assets	340
Tangible fixed assets	100
Current assets	48
Current liabilities	(80)
Non-current liabilities	(73)
Deferred income	(116)
Total assets and (liabilities) disposed of other than cash and cash equivalents	219

Cash and cash equivalents relating to the disposal

	£'000
Disposal consideration discharged by means of cash	460
Cash and cash equivalents in company on disposal	(7)
Net cash inflow from disposal of subsidiary undertaking	453
Costs relating to the disposal	(62)
Net cash inflow from disposal of subsidiary undertaking after costs	391

Profit on disposal

	£'000
Total consideration	453
Net assets (excluding cash) disposed	(219)
	234
Costs relating to the disposal	(62)
Deferred cumulative foreign exchange transferred from equity	(40)
Net profit on disposal of Gresham Software Labs Pty Ltd	132

16. Investments (continued)

Disposal of Storage Director business

On 16 October 2009, Gresham disposed of its Storage Director business to Tributary Systems Inc. The fixed consideration for the disposal was £831,000, payable in cash. £346,000 was received prior to 31 December 2009, less disposal costs incurred of £77,000. Deferred consideration of £485,000 is payable as follows: £364,000 is due on or before 30 June 2010 and £121,000 is due on or before 31 December 2010. There are no performance conditions attached to payment of the deferred element of the fixed consideration.

In addition, contingent cash consideration is payable by the purchaser based on a minority share of future sales related to the Storage Director business, up to a maximum contingent cash consideration of a further US$1.8m over the five year period from completion. The contingent consideration of US$1.8m has not been included in the calculation of profits or total cash consideration arising on the transaction. Any contingent consideration will be accounted for in the year in which it becomes receivable.

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

Assets and liabilities disposed of other than cash

	£'000
Intangible fixed assets	1,914
Tangible fixed assets	90
Current assets	15
Deferred income	(97)
Total assets and (liabilities) disposed of other than cash and cash equivalents	1,922

Cash and cash equivalents relating to the disposal

	£'000
Disposal consideration discharged by means of cash	831
Cash and cash equivalents in business on disposal	—
Net cash inflow from disposal of subsidiary undertaking	831
Costs relating to the disposal	(77)
Net cash inflow from disposal of subsidiary undertaking after costs	754
Deferred consideration (note 17)	(485)
Net cash inflow for 2009	269

Loss on disposal

	£'000
Total consideration	831
Net assets (excluding cash) disposed	(1,922)
	(1,091)
Costs relating to the disposal	(77)
Net loss on disposal of Storage Director business	(1,168)

Disposal of Redstone Software Inc

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

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

16. Investments (continued)

Assets and liabilities disposed of other than cash

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

Cash and cash equivalents relating to the disposal

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

Profit on disposal

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

17. Trade and other receivables

	2009 £'000	2008 £'000
Trade receivables	1,482	2,495
Provision for impairment	(22)	(97)
Trade receivables – net	1,460	2,398
Prepayments and accrued income	880	643
Deferred consideration (note 16)	496	—
Amounts recoverable on contracts	304	198
	3,140	3,239
Income tax receivable	340	281

The following table provides disclosure of contracts in progress at the statement of financial position date:

	2009 £'000	2008 £'000
Contracts in progress at the Statement of Financial Position date		
Contract costs incurred plus recognised profits less recognised losses to date	799	964
Less: progress billings	(495)	(766)
	304	198
Recognised as:		
Amounts recoverable on contracts	304	198

17. Trade and other receivables (continued)

Trade receivables are denominated in the following currencies:

	2009 £'000	2008 £'000
Sterling	445	849
Euro	436	125
US Dollar	303	836
Canadian Dollar	10	37
Australian Dollar	81	378
Malaysian Ringgit	185	173
	1,460	2,398

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

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

	2009 £'000	2008 £'000
At 1 January	97	90
Charge for the year	12	95
Amounts written off	(64)	(24)
Unused amounts reversed	(14)	(64)
Disposal of subsidiary undertaking	(9)	—
At 31 December	22	97

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

	Total £'000	Neither past due nor impaired £'000	Past due but not impaired < 30 days £'000	30 – 60 days £'000	60 – 90 days £'000	90 –120 days £'000	>120 days £'000
2009	1,460	955	375	64	5	58	3
2008	2,398	1,617	435	187	111	8	40

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

18. Cash and short term deposits

	2009 £'000	2008 £'000
Cash at bank and in hand	745	1,214

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

At 31 December 2009, the group had £nil (2008: £nil) of un-drawn committed borrowing facilities.

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

19. Trade, other payables, provisions and financial liabilities

Trade and other payables

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

	2009 £'000	2008 £'000
Current		
Trade payables	834	610
Other payables	1,481	1,346
Deferred income	2,134	2,616
	4,449	4,572

	2009 £'000	2008 £'000
Income tax payable	2	122

	2009 £'000	2008 £'000
Non-current		
Deferred income	313	278
	313	278

Provisions	Partnership provisions £'000	Property provisions £'000	Total provisions £'000
At 1 January 2009			
— Current	—	—	—
— Non-current	—	160	160
	—	160	160
Finance charge	—	8	8
Further amounts provided during the year	135	359	494
At 31 December 2009			
— Current	—	76	76
— Non-current	135	451	586
	135	527	662

Partnership provision

The partnership provision relates to payments that are contractually payable to software partners contingent on future minimum performance over the next three years. The provision has been discounted using a rate of 5% which the directors consider to be the relevant pre-tax risk based rate applicable to the liability.

Property provisions

The restructuring provision relates to a rationalisation of the group's property portfolio and the resulting lease liabilities, comprising end of lease dilapidation costs and empty property costs. The provision has been discounted using a rate of 5% which the directors consider to be the relevant pre-tax risk based rate applicable to the liability.

Financial liabilities

	2009 £'000	2008 £'000
Current		
Foreign currency derivative	17	—
Current obligations under finance leases (note 20)	—	28
	17	28
Non-current		
Non-current obligations under finance leases (note 20)	—	59

20. Obligations under leases

Obligations under finance leases

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

	2009 £'000	2008 £'000
Future minimum payments due:		
Not later than one year	—	35
After one but not more than five years	—	65
	—	100
Less finance charges allocated to future periods	—	(13)
Present value of minimum lease payments	—	87
The present value of minimum lease payments is analysed as follows:		
Not later than one year	—	28
After one year but not more than five years	—	59
	—	87

Operating lease agreements where the group is lessee

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

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

	Land and buildings 2009 £'000	Other 2009 £'000	Total 2009 £'000	Land and buildings 2008 £'000	Other 2008 £'000	Total 2008 £'000
Not later than one year	324	24	348	336	45	381
After one but not more than five years	732	2	734	634	30	664
	1,056	26	1,082	970	75	1,045

21. Financial instruments

Objectives, policies and strategies

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

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

Risk management

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

Credit management

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

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

21. Financial instruments (continued)

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

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

Interest rate risk

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

Capital risk

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

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

Financial liabilities – by maturity

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

	Less than 1 year £'000	Between 1 to 2 years £'000	Between 2 to 5 years £'000
Year ended 31 December 2009			
Foreign exchange derivative	613	—	—
Finance leases	—	—	—
Provisions	76	101	586
	689	101	586
Year ended 31 December 2008			
Finance leases	35	35	30
Provisions	—	—	200
	35	35	230

All current liabilities are expected to fall due within one year of the statement of financial position date at their carrying amount.

Liquidity risk

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

- Trade receivables. A significant element of the group's liquidity is tied up in working capital, which primarily comprises trade receivables. The settlement risk associated with these assets comprises both credit risk (the risk that the counterparty will not settle at all) and liquidity risk (the risk that the counterparty will not settle on time).
- Fixed assets. A significant element of the group's liquidity is tied up in tangible fixed assets. For those assets required in the business for day to day operations the group considers the use of finance lease arrangements to reduce the amount of liquidity tied up in such assets. The group keeps its investment in fixed assets under review and actively considers converting such assets to more liquid assets. During 2008, a decision was taken to increase liquidity by selling Redstone Software Inc (a subsidiary). During 2009 liquidity was further improved with the selling and leaseback of our head-office freehold property, disposal of Gresham Software Labs Pty limited (a subsidiary) and Storage Director (a wholly owned business).
- Currency risk. This risk is discussed below.

21. Financial instruments (continued)

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

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

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

Fair values of financial assets and liabilities

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

Year ended 31 December 2009	Note	Loans and receivables £'000	Fair value through profit and loss £'000	Amortised cost £'000	Total carrying amount £'000
Financial assets					
Trade receivables		1,460	—	—	1,460
Accrued income		329	—	—	329
Deferred consideration		496	—	—	496
Amounts recoverable on contract		304	—	—	304
Cash and cash equivalents		745	—	—	745
		3,334	—	—	3,334
Financial liabilities					
Trade payables		—	—	(834)	(834)
Other payables		—	—	(465)	(465)
Provisions		—	—	(662)	(662)
Foreign exchange instrument		—	(17)	—	(17)
		—	(17)	(1,961)	(1,978)

Year ended 31 December 2008	Note	Loans and receivables £'000	Fair value through profit and loss £'000	Amortised cost £'000	Total carrying amount £'000
Financial assets					
Trade receivables		2,398	—	—	2,398
Accrued income		445	—	—	445
Amounts recoverable on contract		198	—	—	198
Cash and cash equivalents		1,214	—	—	1,214
		4,255	—	—	4,255
Financial liabilities					
Trade payables		—	—	(663)	(663)
Other payables		—	—	(584)	(584)
Provisions		—	—	(160)	(160)
Finance leases		—	—	(87)	(87)
		—	—	(1,494)	(1,494)

21. Financial instruments (continued)

Fair value hierarchy

The group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- *Level 1*: quoted (unadjusted) prices in active markets for identical assets or liabilities
- *Level 2*: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
- *Level 3*: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As at 31 December 2009, the group held a foreign exchange instrument that had been measured at fair value using Level 2 techniques.

Financial liabilities relate to derivative financial instruments which have a negative fair value. Fair value is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

Currency risk

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

Currency exposure arises through intra-group loans and trading balances throughout all group locations. Natural hedging is employed, to the extent possible, to minimise net exposures, however where significant exposures arise outside of intra-group trading, it is group policy to enter in to formal hedging arrangements where these can be shown to be effective. At 31 December 2009, the group had the following outstanding forward currency contracts in respect of deferred proceeds from the disposals of businesses during the year (2008: none):

		rate	Asset/(Liability)
Sell US$600,000	06 Jul 10	£/US$ 1.65	(8)
Sell €275,000	07 Jan 10	£/€ 1.1413	(5)
Buy €275,000	07 Jan 10	£/€ 1.0974	(4)
			(17)

The unrealised loss arising on this instrument has been recognised in the income statement and the fair-value of the financial liability is shown in the statement of financial position.

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

Sensitivities

The following table details the group's sensitivities to a change in sterling exchange rates against the respective foreign currencies. The sensitivities represent management's assessment of the effect on monetary assets of the possible changes in foreign exchange rates, which for 2009 and 2008 take account of the potential fluctuations seen in the most recent periods. The sensitivity analysis of the group's exposure to foreign currency risk at the year end has been determined based on the assumption that the change is effective throughout the financial year and all other variables remain constant. The impact of translating the net assets of foreign operations into sterling is excluded from the sensitivity analysis.

21. Financial instruments (continued)

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

2009	Increase/Decrease in exchange rates	Effect on profit before tax £'000
Euro	+20%	(86)
	-20%	129
Australian Dollar	+20%	(22)
	-20%	33
US Dollar	+20%	(83)
	-20%	125
Canadian Dollar	+20%	(5)
	-20%	7
Malaysian Ringhit	+20%	(34)
	-20%	51

2008		£'000
Euro	+20%	(31)
	-20%	47
Australian Dollar	+20%	(75)
	-20%	112
US Dollar	+20%	(182)
	-20%	273
Canadian Dollar	+20%	(13)
	-20%	20
Malaysian Ringhit	+20%	(30)
	-20%	44

The group has no material exposure to interest rate sensitivities.

22. Authorised and issued share capital

Authorised

	2009 Number	2009 £	2008 Number	2008 £
Ordinary shares of 5 pence each	65,000,000	3,250,000	65,000,000	3,250,000
Preference shares of 20 pence each	2,750,000	550,000	2,750,000	550,000
	67,750,000	3,800,000	67,750,000	3,800,000

Ordinary shares allotted, called up and fully paid

	Number	Nominal value £'000
At 1 January 2008 and 31 December 2008	52,850,890	2,643
At 1 January 2009 and 31 December 2009	52,850,890	2,643

There are no preference shares in issue (2008: none).

An explanation of the group's capital management process and objectives is set out in the discussion of capital management on page 9 in the Directors' report and capital risk disclosures in note 21.

23. Share-based payments

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

Executive Option Plan 2007 ("EOP")

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

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

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

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

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

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

Basic awards

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

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

Bonus awards

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

General

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

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

23. Share-based payments (continued)

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

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

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

At 31 December 2009, 16 participants held awards under this scheme (2008: 25).

Executive Scheme 1998

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

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

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

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

At 31 December 2009, 5 participants held options under this scheme (2008: 7). No further options will be granted in respect of this scheme.

Outstanding options to subscribe for ordinary shares of 5p at 31 December 2009, including those noted in the Directors' Remuneration Report are as follows:

	Note	2009 Number	2009 WAEP	2008 Number	2008 WAEP
Executive scheme 1998 (options)					
Outstanding at 1 January	1	600,397	45	779,314	56
Forfeited		(12,500)	83	(178,917)	86
Outstanding at 31 December	1	587,897	45	600,397	45
Exercisable at 31 December		587,897	45	600,397	45
Weighted average remaining contractual life (years)		0.68		1.78	
EOP 2007 scheme (awards)					
Outstanding at 1 January	2	3,944,999	106	4,359,999	115
Granted during the year		0	0	715,000	64
Forfeited		(1,207,500)	114	(1,130,000)	115
Outstanding at 31 December	2	2,737,499	102	3,944,999	106
Exercisable at 31 December		0	0	0	0
Weighted average remaining contractual life (years)		7.94		8.92	

23. Share-based payments (continued)

WAEP: Weighted Average Exercise Price (Pence per share)

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

Note 1: Included within this number of options are options over 562,897 (2008: 562,897) shares (Executive Scheme 1998) that have not been accounted for in accordance with IFRS 2 as the options were granted on or before 7 November 2002. These options have not been subsequently modified and therefore do not need to be accounted for in accordance with IFRS 2.

Note 2: No awards were granted in 2009 under the EOP 2007 scheme (2008: 715,000). The weighted average fair value of options granted during 2008 was 54 pence.

Outstanding options and awards to subscribe for ordinary shares of 5p at 31 December 2009, including those noted in the Directors' Remuneration Report showing the range of exercise prices and dates are as follows:

	Number of share options	Date of grant	Exercise price £	Date first exercisable	Expiry date	Cash receivable if exercised £
Executive Scheme 1998	5,000	09-Feb-00	0.460	10-Feb-03	09-Feb-10	2,300
	557,897	25-Jul-00	0.360	28-Jul-03	27-Jul-10	200,843
	5,000	22-Apr-03	0.700	23-Apr-06	22-Apr-13	3,500
	20,000	28-May-04	2.695	29-May-07	28-May-14	53,900
	587,897					260,543
EOP 2007	2,067,500	22-Oct-07	1.1500	23-Oct-10	23-Oct-17	See note
	625,000	29-Apr-08	0.6225	30-Apr-11	30-Apr-18	See note
	45,000	04-Jun-08	0.7000	05-Jun-11	05-Jun-18	See note
	2,737,500					

The cash receivable on exercise of the EOP 2007 awards depends on the market price at the date of exercise which is used in calculating the actual number of shares to be issued to satisfy the award. The award holder is then required to pay 5 pence for every share issued under this scheme. The maximum cash receivable if all awards were exercised is £136,875 (2008: £197,000), which is calculated on the assumption that one share is issued at par to satisfy each award.

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

	Number of share options	Date of grant	Exercise price £	Date first exercisable	Expiry date	Cash receivable if exercised £
Executive Scheme 1998	5,000	09-Feb-00	0.460	10-Feb-03	09-Feb-10	2,300
	557,897	25-Jul-00	0.360	28-Jul-03	27-Jul-10	200,843
	7,500	22-Apr-03	0.700	23-Apr-06	22-Apr-13	5,250
	20,000	28-May-04	2.695	29-May-07	28-May-14	53,900
	10,000	30-Sep-05	0.860	01-Oct-08	30-Sep-15	8,600
	600,397					270,893
EOP 2007	3,229,999	22-Oct-07	1.1500	23-Oct-10	23-Oct-17	See note
	625,000	29-Apr-08	0.6225	30-Apr-11	30-Apr-18	See note
	45,000	04-Jun-08	0.7000	05-Jun-11	05-Jun-18	See note
	45,000	29-Aug-08	0.8000	30-Aug-11	30-Aug-18	See note
	3,944,999					

23. Share-based payments (continued)

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

Executive scheme 1998

The fair value of equity-settled share options granted is estimated as at the date of grant using a Black Scholes model, taking into account the terms and conditions upon which the options were granted. No options were granted in 2009 or 2008.

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

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

EOP 2007

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

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

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

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

	2009 £'000	2008 £'000
Expense recognised in respect of share-based payments	157	155

24. Reconciliation of movements in equity

	Share capital £'000	Share premium £'000	Other reserves £'000	Currency translation £'000	Retained earnings £'000	Total £'000
At 1 January 2008	2,643	12,564	1,039	(64)	(8,761)	7,421
Attributable profit for the period	—	—	—	—	30	30
Exchange differences on translation of foreign operations	—	—	—	358	—	358
Exchange differences on disposal/closure of foreign operations	—	—	—	(107)	—	(107)
Share based payment	—	—	—	—	155	155
At 31 December 2008	2,643	12,564	1,039	187	(8,576)	7,857
Attributable loss for the period	—	—	—	—	(7,364)	(7,364)
Exchange differences on translation of foreign operations	—	—	—	35	—	35
Exchange differences on disposal/closure of foreign operations	—	—	—	39	—	39
Reclaim of VAT on previous share issues costs	—	50	—	—	—	50
Share based payment	—	—	—	—	157	157
At 31 December 2009	2,643	12,614	1,039	261	(15,783)	774

Share capital

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

Share premium

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

Other reserves

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

Currency translation reserves

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

Retained earnings

The cumulative amount of goodwill written off to reserves at 31 December 2009 and 2008 is £7,326,000. Goodwill previously written off to reserves will remain so written off.

25. Additional cash flow information

Analysis of group net funds

	1 January 2009 £'000	Cash flows £'000	Exchange differences £'000	Non-cash movements £'000	31 December 2009 £'000
Cash and cash equivalents	1,214	(451)	(18)	—	745
Finance leases	(87)	14	(11)	84	—
	1,127	(437)	(29)	84	745

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

26. Change of arrangement with Cable & Wireless

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

During the period, the revenue recognised in the income statement in respect of this arrangement totaled £343,000 (2008: £1,373,000).

27. Post statement of financial position event

Post statement of financial position events are disclosed in the Directors' Report under that heading.

28. Capital commitments

At 31 December 2009, amounts contracted for but not provided in the financial statements for the acquisition of property, plant and equipment amounted to £nil (2008: £nil).

29. Contingent liabilities and contingent assets

Contingent liabilities

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

Contingent assets

The Group has an un-recognised contingent asset of US$1.8m arising on the disposal of the Storage Director business as described further in Note 16.

30. Related party transactions

Key management personnel are defined for the purpose of these financial statements as the main board directors and information concerning the remuneration of these directors can be found in the Remuneration Report. The share-based payments charge arising in respect of main board directors in 2009 was £65,000 (2008: £48,000).

The services of M Royde, non-executive director, are provided and invoiced by Kestrel Partners LLP, a company in which he has an ownership interest. During the year ended 31 December 2009, the company was charged £10,000 by Kestrel Partners LLP (2008: £nil), £2,500 of which (2008: £nil) remained unpaid at the year end. The total value of transactions with Kestrel Partners LLP in respect of the provision of M Royde's services is shown in the Directors' Remuneration Report.

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

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those financial statements, the directors are required to:

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

The directors are responsible for keeping proper accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

We have audited the parent company financial statements of Gresham Computing plc for the year ended 31 December 2009 which comprise the Parent Company Balance Sheet and the related notes 1 to 15. 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).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 68, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the parent company 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 (APB's) Ethical Standards for Auditors.

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 parent 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 parent company 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 matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent company 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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited 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.

Other matter

We have reported separately on the group financial statements of Gresham Computing plc for the year ended 31 December 2009.

Kevin Harkin
(Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Southampton
28 April 2010

COMPANY BALANCE SHEET

AT 31 DECEMBER 2009

	Notes	31 December 2009 £'000	31 December 2008 £'000
Fixed assets			
Investments	5	9,041	19,094
		9,041	19,094
Current assets			
Debtors	6	11,476	10,327
Cash at bank and in hand		384	522
		11,860	10,849
Creditors: amounts falling due within one year	7	5,477	4,663
Net current assets		6,383	6,186
Total assets less current liabilities		15,424	25,280
Capital and reserves			
Called up share capital	9	2,643	2,643
Share premium account	10	12,614	12,564
Special reserve	10	313	313
Merger reserve	10	6,609	6,609
Profit and loss account	10	(6,755)	3,151
Shareholders' funds – equity interests	10	15,424	25,280

On behalf of the board

CM Errington
28 April 2010

1. Accounting policies

Basis of preparation

The parent company financial statements of Gresham Computing plc (the "company") are presented, as required by the Companies Act 2006, and were approved for issue on 28 April 2010.

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

No profit and loss account is presented by the company as permitted by Section 408 of the Companies Act 2006.

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

Investments

Investments are recorded at cost less provision for impairment.

Financial assets

Financial assets at fair value through profit or loss

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

Impairment of financial assets

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

Assets carried at amortised cost

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

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

Other receivables

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

Taxation

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

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

1. Accounting policies (continued)

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

Foreign currencies

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

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

Financial instruments

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

Fair value of derivative financial instruments is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Related party transactions

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

Leasing commitments

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

Classification of shares as debt or equity

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

(i) there is no contractual obligation to deliver cash or other financial assets or to exchange financial assets or liabilities on terms that may be unfavourable; and

(ii) the instrument is a non-derivative that contains no contractual obligations to deliver a variable number of shares or is a derivative that will be settled only by the company exchanging a fixed amount of cash or other assets for a fixed number of the company's own equity instruments.

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

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

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

Share-based payments – Equity-settled transactions

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

1. Accounting policies (continued)

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

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

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

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

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

2. Auditors' remuneration

	2009 £'000	2008 £'000
Audit of the financial statements		
Audit services – parent	10	10
	10	10
Additional information		
Audit services – group	15	15
Audit services – subsidiaries	57	65
	72	80

3. Directors' remuneration

Information concerning directors' remuneration and gains on exercise of share options can be found in the Directors' remuneration report on pages 22 to 25 and in note 7 to the group financial statements.

4. Dividends paid and proposed

No dividends were declared or paid during the year and no dividends are proposed for approval at the AGM (2008: None).

5. Investments

	Subsidaries 2009 £'000	Subsidaries 2008 £'000
Cost:		
At 1 January	23,237	23,089
Capital contirbution (FRS 20 share based payments expense)	157	155
Disposal of Redstone Software Inc.	—	(7)
At 31 December	23,394	23,237
Impairment provisions:		
At 1 January	4,143	4,143
Impairment charge	10,210	—
At 31 December	14,353	4,143
Net book value:		
At 31 December	9,041	19,094

Following the business restructuring undertaken in 2009, associated impairments to assets and changes to future growth and cash flow assumptions, an impairment charge of £10.2m has been recorded during the year ended 31 December 2009.

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

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

[1] held by a subsidiary undertaking

6. Debtors

	2009 £'000	2008 £'000
Amounts owed by subsidiary undertakings	11,442	10,320
Prepayments and accrued income	34	7
	11,476	10,327

7. Creditors: amounts falling due within one year

	2009 £'000	2008 £'000
Amounts owed to subsidiary undertakings	4,995	4,441
Trade creditors	122	30
Other creditors and accruals	343	192
Financial Liabilities	17	—
	5,477	4,663

Financial liabilities relate to Derivative financial instruments which have a negative fair value. Fair value is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

8. Deferred tax

The company has an unrecognised deferred tax asset as follows:

	2009 £'000	2008 £'000
Tax losses	162	202

9. Share capital

Authorised share capital	2009 Number	2009 £	2008 Number	2008 £
Ordinary shares of 5 pence each	65,000,000	3,250,000	65,000,000	3,250,000
Preference shares of 20 pence each	2,750,000	550,000	2,750,000	550,000
	67,750,000	3,800,000	67,750,000	3,800,000

Ordinary shares allotted, called up and fully paid	Number	Nominal value £'000
At 1 January 2008 and 31 December 2008	52,850,890	2,643
At 1 January 2009 and 31 December 2009	52,850,890	2,643

There are no preference shares in issue (2008: none).

10. Reconciliation of movements in shareholders' funds

	Share Capital £'000	Share Premium £'000	Sprecial reserve £'000	Merger reserve £'000	Profit and loss account £'000	Total £'000
At 1 January 2008	2,643	12,564	313	6,609	3,231	25,360
Share based payments expense	—	—	—	—	155	155
Retained loss for the year	—	—	—	—	(235)	(235)
At 31 December 2008	2,643	12,564	313	6,609	3,151	25,280
Share based payments expense	—	—	—	—	157	157
Reclaim of VAT on previous share issue costs	—	50	—	—	—	50
Retained loss for the year	—	—	—	—	(10,063)	(10,063)
At 31 December 2009	2,643	12,614	313	6,609	(6,755)	15,424

Share capital

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

Share premium

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

Other reserves

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

11. Other financial commitments

At 31 December 2009 the company had annual commitments under non-cancellable operating leases as set out below:

	Land and buildings 2009 £'000	Land and buildings 2008 £'000
Operating leases which expire:		
Within one year	—	—
Within two to five years	203	113
	203	113

12. Capital commitments

At 31 December 2009, company amounts contracted for but not provided in the financial statements for the acquisition of property, plant and equipment amounted to £nil (2008: £nil).

13. Contingent liabilities

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

14. Share-based payments

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

Executive Option Plan 2007 ("EOP")

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

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

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

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

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

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

14. Share-based payments (continued)

Basic awards

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

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

Bonus awards

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

General

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

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

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

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

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

At 31 December 2009, 16 participants held awards under this scheme (2008: 25).

Executive Scheme 1998

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

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

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

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

At 31 December 2009, 5 participants held options under this scheme (2008: 7). No further options will be granted in respect of this scheme.

14. Share-based payments (continued)

Outstanding options to subscribe for ordinary shares of 5p at 31 December 2009, including those noted in the Directors' Remuneration Report are as follows:

	Note	2009 Number	2009 WAEP	2008 Number	2008 WAEP
Executive scheme 1998 (options)					
Outstanding at 1 January	1	600,397	45	779,314	56
Forfeited		(12,500)	83	(178,917)	86
Outstanding at 31 December	1	587,897	45	600,397	45
Exercisable at 31 December		587,897	45	600,397	45
Weighted average remaining contractual life (years)		0.68		1.78	
EOP 2007 scheme (awards)					
Outstanding at 1 January	2	3,944,999	106	4,359,999	115
Granted during the year		0	0	715,000	64
Forfeited		(1,207,500)	114	(1,130,000)	115
Outstanding at 31 December	2	2,737,499	102	3,944,999	106
Exercisable at 31 December		0	0	0	0
Weighted average remaining contractual life (years)		7.94		8.92	

WAEP: Weighted Average Exercise Price (Pence per share)

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

Note 1: Included within this number of options are options over 562,897 (2008: 562,897) shares (Executive Scheme 1998) that have not been accounted for in accordance with FRS 20 as the options were granted on or before 7 November 2002. These options have not been subsequently modified and therefore do not need to be accounted for in accordance with FRS 20.

Note 2: No awards were granted in 2009 under the EOP 2007 scheme (2008: 715,000). The weighted average fair value of options granted during 2008 was 54 pence.

Outstanding options and awards to subscribe for ordinary shares of 5p at 31 December 2009, including those noted in the Directors' Remuneration Report showing the range of exercise prices and dates are as follows:

	Number of share options	Date of grant	Exercise price £	Date first exercisable	Expiry date	Cash receivable if exercised £
Executive Scheme 1998	5,000	9-Feb-00	0.460	10-Feb-03	9-Feb-10	2,300
	557,897	25-Jul-00	0.360	28-Jul-03	27-Jul-10	200,843
	5,000	22-Apr-03	0.700	23-Apr-06	22-Apr-13	3,500
	20,000	28-May-04	2.695	29-May-07	28-May-14	53,900
	587,897					260,543
EOP 2007	2,067,500	22-Oct-07	1.1500	23-Oct-10	23-Oct-17	See note
	625,000	29-Apr-08	0.6225	30-Apr-11	30-Apr-18	See note
	45,000	4-Jun-08	0.7000	5-Jun-11	5-Jun-18	See note
	2,737,500					

The cash receivable on exercise of the EOP 2007 awards depends on the market price at the date of exercise which is used in calculating the actual number of shares to be issued to satisfy the award. The award holder is then required to pay 5 pence for every share issued under this scheme. The maximum cash receivable if all awards were exercised is £136,875 (2008: £197,000), which is calculated on the assumption that one share is issued at par to satisfy each award.

14. Share-based payments (continued)

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

	Number of share options	Date of grant	Exercise price £	Date first exercisable	Expiry date	Cash receivable if exercised £
Executive Scheme 1998	5,000	9-Feb-00	0.460	10-Feb-03	9-Feb-10	2,300
	557,897	25-Jul-00	0.360	28-Jul-03	27-Jul-10	200,843
	7,500	22-Apr-03	0.700	23-Apr-06	22-Apr-13	5,250
	20,000	28-May-04	2.695	29-May-07	28-May-14	53,900
	10,000	30-Sep-05	0.860	1-Oct-08	30-Sep-15	8,600
	600,397					270,893
EOP 2007	3,229,999	22-Oct-07	1.1500	23-Oct-10	23-Oct-17	See note
	625,000	29-Apr-08	0.6225	30-Apr-11	30-Apr-18	See note
	45,000	4-Jun-08	0.7000	5-Jun-11	5-Jun-18	See note
	45,000	29-Aug-08	0.8000	30-Aug-11	30-Aug-18	See note
	3,944,999					

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

Executive Scheme 1998

The fair value of equity-settled share options granted is estimated as at the date of grant using a Black Scholes model, taking into account the terms and conditions upon which the options were granted. No options were granted in 2009 or 2008.

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

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

14. Share-based payments (continued)

EOP 2007

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

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

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

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

15. Related party transactions

The services of M Royde, non-executive director, are provided and invoiced by Kestrel Partners LLP, a company in which he has an ownership interest. During the year ended 31 December 2009, the company was charged £10,000 by Kestrel Partners LLP (2008: £nil), £2,500 of which (2008: £nil) remained unpaid at the year end. The total value of transactions with Kestrel Partners LLP in respect of the provision of M Royde’s services is shown in the Directors’ Remuneration Report.

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