Craneware plc
(“Craneware” or the “Company”)
FINAL RESULTS

7 September 2009 - Craneware plc, (AIM: CRW.L) a leader in financial improvement software solutions for the US healthcare market, is pleased to announce results for the year ended 30 June 2009.

Financial Highlights

- Record levels of contracted sales in the year totaling $43.2m (FY08: $25.7m), 68% up on the previous year, contributing to:
  - 23% increase in revenues to $23.0m (FY08: $18.7m)
  - 51% increase in future revenues under contract to $60.1m (FY08:$39.9m)
- Profit before share based payments, depreciation and amortisation increased 29% to $5.8m (FY08: $4.5m)
- Profit before taxation increased by 40% to $5.9m (FY08: $4.2m).
- Cash position increased 24% to $26.1m (FY08 $21.1m)
- Basic EPS increased to $0.18 (FY08: $0.14) and diluted to $0.17 (FY08: $0.13)
- Final dividend proposed of 2.9p (4.77 cents) per share giving a total dividend for the year of 4.7p (7.43 cents) per share (FY08: 3.1p (4.96 cents) per share)

Operational Highlights

- New products lines contributed $10.1m (23%) to total contracted sales during the year
- Extended market reach through partnership deals with Premier, Amerinet and Perot
- Signed significant reseller agreement with McKesson Corporation post year-end
- Accelerated investment in sales and marketing activities
- Proposed US Healthcare reforms trend towards increased regulation and new market opportunities

Keith Neilson, CEO of Craneware commented, “The US healthcare system is currently undergoing an unprecedented level of change and public scrutiny. This, combined with the global economic downturn means healthcare organisations are experiencing extraordinary levels of fiscal and legislative pressure. Craneware continues to invest in the development and deployment of software to help manage these pressures and we believe that our market leading position and reputation within the industry, combined with our strong business fundamentals, leaves us well positioned to serve this growing market demand.”

“The signing of a significant value added reseller agreement with McKesson Corporation, the world’s largest healthcare services company, at the start of this new fiscal year has given us an excellent start to the year. The agreement, sees McKesson integrate Craneware’s Chargemaster Toolkit® software with their next generation hospital information system (HIS), Horizon Enterprise Revenue Management™ as part of their ongoing legacy system replacement and upgrading programme. This new agreement combined with a growing Craneware sales pipeline and the launch of further product by the end of the current year, gives us confidence that we are on track to continue our history of significant growth in the year ahead.”

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Keith Neilson, CEO	Jonathan Marren	Caroline Evans-Jones
Craig Preston, CFO	Richard Kauffer	Fiona Conroy

About Craneware

Founded in 1999, Craneware has headquarters in Livingston, Scotland, with offices in Florida, Arizona and Kansas, employing over 100 staff. Craneware is a recognised leader of solutions that improve the financial performance of US healthcare organisations. Craneware partners with healthcare organisations to improve returns, increase productivity and manage risk, driving better financial and operational performance using market-driven revenue management solutions. By enhancing revenue capture processes, Craneware solutions allow those organisations to optimise reimbursement, improve operational efficiency, and support compliance. For further information please visit www.craneware.com.

Chairman’s Statement

These past twelve months have been another remarkable year in the development of Craneware. Against a backdrop of a global economic downturn, Craneware has delivered both revenue and profit growth of over 20%, achieving greater than $5 million in operating profit one year ahead of market expectations.

This success has been achieved as a result of our commitment to our customers and our understanding of the growing pressures and complex issues they are currently facing. The US healthcare system is potentially on the verge of one of the biggest changes in its history and we are focused on providing our customers, the healthcare organisations, with the tools they require to manage this change. We help them run fiscally successful operations whilst managing risk and complying with increasing levels of legislation, enabling them to focus on their primary objective of patient care.

This year has seen the first full year contribution from our newly launched Patient Charge Estimator and Pharmacy ChargeLink products and we have been pleased by the positive market response to these innovative tools. This has resulted in a $10.1m contribution from new products lines to total contracted revenues in the year. We now look forward to the launch of the next product in our Supply Management family; Supplies ChargeLink.

We have continued to extend our market reach during the year, signing new channel partnership agreements with Premier Purchasing Partners, the largest healthcare alliance in the U.S., and Amerinet, a leading national healthcare group purchasing organisation. Since the year end, we have further expanded our channel partnerships by signing a new agreement with McKesson, the world’s largest healthcare services company.

This extended market reach, broadening product set and growing customer base, supported by high levels of revenue visibility give the Board confidence in continuing our many years of successful growth. We continue to explore opportunities for growth via acquisition in line with our M&A strategy.

I would like to thank all of the Craneware staff on both sides of the Atlantic for their continued hard work and commitment and look forward to working together to capitalise on our growing market opportunity.

George Elliott
Chairman
4 September 2009

Operational Review

With the U.S. healthcare market undergoing an unprecedented level of scrutiny and potential upheaval, Craneware remains focused on the delivery of superior levels of support to our customers. Fundamental to our success has been the belief that our customers are our strongest advocates and through providing them with high levels of support we have, in turn, experienced growing demand for our broadening product set. This has been evidenced by the continued high level of customer renewals and the increased value and length of our average contract.

These factors, combined with accelerated investment in sales and marketing, have resulted in a record year of sales for Craneware, with over $43m in new contracts being secured in the year, 68% year on year growth. Our annuity revenue recognition policy means that the majority of the new sales secured in the year will flow through into revenue in future years, giving us every confidence in our continued future success.

The Market

With hospitals facing relentless pressure from demographic shifts, regulatory change, and financial uncertainty, Craneware solutions drive stronger financial and operational performance through more informed, more responsive revenue integrity management.

The regulatory framework in the U.S. healthcare industry continues to be the key driver behind the uptake of our core Revenue Cycle software family. Whilst there remains uncertainty as to the final format of President Obama's Healthcare Reform Plan, it is likely that the outcome could see more of the 40 million currently uninsured Americans become eligible for the State and federally funded healthcare programmes. This will add in both volume and complexity to an already highly regulated billing process with which hospitals are required to comply in order to recoup patient treatment costs, fuelling demand for our software.

Additionally, while these issues are being debated, U.S. hospitals continue to be affected by the wider economic downturn and fiscal pressures. Drug costs are rising, patient revenue is dropping and balance sheets have been impacted by the decreasing value of other investments. Hospital CFOs are therefore seeking areas for process improvement and enhanced operational efficiencies whilst delivering high levels of patient care within a competitive marketplace. Our newly launched Strategic Pricing and Supply Management product families have received excellent customer feedback in these areas, delivering immediate and easily identifiable return on investment.

We have also seen favourable movement in the competitive landscape during the year, with 3M dropping their competitive product in our marketplace due to internal restructuring. We continue to be the leader in our fields in terms of hospital numbers and customer reviews.

Sales and Marketing

We have established a growing reputation within the broader financial performance improvement market at the Board level within hospitals. As highlighted at the time of our Interim Results in February, we have accelerated investment into our sales and marketing activities with a view to driving forward sales in our core and new product families. We have increased our sales team with the addition of new product managers whilst increasing our marketing team with the addition of product marketing managers.

We have been pleased by the sales performance over the year, which delivered a record $43.2m, representing a 68% increase on last year.

We believe the opportunity for further cross-sales from our enlarged product set to be significant, with 23% of the total contracted sales signed within the year coming from our new product lines, proving the products suitably address market needs. With less than 10% of our current hospital base having more than two products we expect to see this momentum maintained in the coming years as we continue with our cross-sell marketing initiatives. The average annualised contract value has increased in the year to $34,891 (2008: $23,306) reflecting the increased number of products now being sold. The average length of new contracts also continues to increase, now standing at over 5.3 years (FY08: 4.4 years) adding to our significant revenue under contract.

Product Development

Building on the success of Patient Charge Estimator and Pharmacy ChargeLink in the current financial year, this coming year will see the launch of the next piece of our Supply Management family; Supplies ChargeLink. This application establishes and maintains a connection between the hospital's supply purchase history and its charge description master (CDM), enabling the hospital to optimise reimbursement by ensuring accurate pricing, coding and billing of chargeable supplies, targeting what we believe to be a green-field site. The Beta product was demonstrated at the Healthcare Financial Management Association (HFMA) Conference in June 2009 and was extremely well-received. We are therefore on track for the general release of the product before the end of the current calendar year.

Following the release of Supplies ChargeLink, we will focus our new product development within our Strategic Pricing family of products with the development of a Pricing Analysis product. The Strategic Pricing family of products allows hospitals to address the complex issue of pricing within their marketplace. Setting pricing within a hospital has become increasingly important as a management strategy to combat eroding margins resulting from increases in cost and payment inadequacies. By setting an effective pricing strategy, a hospital can quickly increase profits with confidence. The Pricing Analysis product will allow a hospital to analyse the effect of applying specific strategies and their effects on profitability. The Pricing Analysis product is anticipated to contribute towards revenue by the end of calendar 2010.

During the year, the Company's flagship product, Chargemaster Toolkit®, was once again awarded the number one position in its category by the prestigious industry research house KLAS in the U.S., reaffirming Craneware's market leading position for the third year in a row.

Customers

As stated earlier, our customers are a fundamental focus for Craneware. We were therefore delighted by the high scores given for our customer service and personnel in the KLAS market research described above. 63% of the respondents ranking Craneware as their "Best Software Vendor" and 100% of respondents ranking Craneware as their "Best or one of their Best Software Vendors."

Over 1,000 hospital facilities across 48 States are now utilising one or more of our software products. We continue to sign up a broad range of customers in terms of size from small community hospitals to large healthcare networks.

For customers coming to the end of their multi-year contracts, renewal rates remain in line with the high levels achieved in previous years, and we are pleased to report that the trend for longer-term contracts has continued, with our average multi-year contract length increasing to over 5 years. This commitment from our customers, including a number of 7 year contracts or longer, is testimony to our products' ability to provide return on investment, tangible cost savings and regulatory compliance for hospitals across the U.S.

Channel Partners

We have extended our market reach during the year with the signing of several new partnership agreements with some of the leading participants in the U.S. healthcare industry. We expect to continue to utilise these partnerships as lead generators, supporting our future growth.

In April 2009 we signed a new 3 year agreement with Premier Purchasing Partners, the largest healthcare alliance in the U.S., enabling the sale of Craneware solutions, including Patient Charge Estimator and Pharmacy ChargeLink, to the group purchasing organisation's 2,100 members and client hospitals, and more than 54,000 other healthcare providers.

In June 2009 we announced our inclusion in the Amerinet Alliance for Financial Efficiency, a collaboration between Amerinet, a leading national healthcare group, Perot Systems, worldwide provider of information technology services and business solutions and Craneware for the co-marketing of our revenue cycle management solutions.

Since the year end, we have signed a third party agreement with McKesson the world's largest healthcare services company, who will integrate Craneware's Chargemaster Toolkit® software with McKesson's next generation hospital information system (HIS), Horizon Enterprise Revenue Management™ as part of their ongoing legacy system replacement and upgrading programme. By integrating the two solutions, McKesson and Craneware are delivering a synchronised approach to achieving revenue integrity, which aids hospitals in improving their financial performance.

Board Changes

We were delighted to welcome Ron Verni onto the Board of the Company in April 2009 as a non-executive director. Ron brings with him extensive experience in running highly successful, rapidly growing, international software companies through his time with Sage Software, Inc and Peachtree Software Inc. amongst others. We are delighted he has agreed to join our team and look forward to working with him as we seek to capitalise on our strong position in the U.S. healthcare market.

Financial Review

Craneware has delivered another year of strengthened financial performance.

The total value of contracts signed during the year increased by over 68%, to $43.2m (FY08: $25.7m) underpinning a 23% increase in revenue, which was recognised in the year, to $23.0m (FY08: $18.7m).

As a result of our annuity revenue recognition model, the majority of the benefit derived from these new contract wins and renewals has been to increase our visibility over future revenues and our confidence in future performance.

We now have visibility over $60.1m of contracted revenue that will be recognised in future years. This is an increase of $20.2m during this year and is in addition to the $23.0m of revenue that has been recognised through the Income Statement. Of this future revenue under contract we have already invoiced $11.1m which is recorded as deferred income in the balance sheet, the remaining $49.0m to be invoiced in subsequent years.

Of the future revenue under contract the directors consider that $20.7m will be recognised during FY10 with a further $15.3m and $11.2m respectively to be recognised in FY11 and FY12. In addition, assuming as has happened in the year, the total monetary value of renewed contracts is at least equal to the total monetary value of contracts that were due to renew, $2.8m revenues will be recognised from renewal activity during FY10, with a further $6.2m and $9.8m respectively in FY11 and FY12 relating to contracts due for renewal from 1 July 2009 through these years.

As previously stated, for customers coming to the end of their multi-year contracts, the Company's renewal rate remains within the high levels achieved in previous years. This combined with increased upsell and cross selling to the renewing hospital base, has resulted in the total monetary value of the current year renewals increasing by 114% as compared to the original annuity value to the Company.

Net operating expenses have risen to $16.3m (FY08: $14.1m) due to the increased investment in product management and marketing in the year together with the full year effect of the investments made in FY08 in the areas of customer support and sales infrastructure. However, as a proportion of revenues, net operating expenses have reduced to 71% from 76% in FY08.

As a result of all these factors, profit before share based payments, depreciation, and amortisation has increased 29% to $5.8m (FY08: $4.5m).

Total expenditure on research and development in the year was $3.0m (FY08: $2.6m) after capitalisation of $0.6m of cost in respect of Supplies ChargeLink (Total amount capitalised in FY08 $0.5m). We continue to amortise R&D expenditure capitalised in prior years for Patient Charge Estimator and Pharmacy ChargeLink.

Under IFRS 2 "Share-Based Payments" the Group's earnings have now reflected most of the charge relating to share options which existed at IPO, as a result the share based payment charge in the year reduced to $0.1m (FY08: $0.6m).

Profit before tax increased to $5.9m (FY08: $4.2m), whilst profit after tax increased to $4.4m (FY08: $3.3m).

Following the increase in trade receivables reported in the interim report, the second half of the year has seen a return to normal levels, at $4.4m (FY08: $3.8m) of which over 70% is either within payment terms or not yet due for payment. Due to our advance annual billing model ahead of revenue recognition and our continued focus on the collection of receivables, we reported a net working capital inflow during the year. This has allowed cash generated from operations to increase to $7.4m (FY08: $5.0m).

As a result, cash balances have increased to $26.1m as at 30 June 2009 (FY08: $21.1m) after paying $1.9m in dividends to shareholders during the year.

With the reporting currency (and cash reserves) of the Company being in US dollars, we have benefited from a strengthening US dollar during the year on our UK purchases including the salary costs of our UK based employees. We entered the current financial year with an exchange rate of $1.9906:£1 which has strengthened resulting in an average conversion rate for the Company during the reporting period of $1.6142:£1. As highlighted at the time of our Interim Results, we have taken advantage of the potentially short term benefits of the strengthening US Dollar to accelerate our investment in the areas of Product Management and Marketing.

Dividend

Basic and diluted earnings per share were $0.18 (FY08: $0.14) and $0.17 (FY08: $0.13) respectively and the Board recommends a final dividend of 2.9p (4.77 cents) per share giving a total dividend for the year of 4.7p (7.43 cents) per share (2008: 3.1p (4.96 cents) per share). Subject to confirmation at the Annual General Meeting, the final dividend will be paid on 8 December to shareholders on the register as at 6 November.

Outlook

Craneware continues to invest in the development and deployment of its software to help address the opportunities created by the unprecedented level of change and public scrutiny facing the US healthcare system as well as the extraordinary levels of fiscal and legislative pressure healthcare organisations are experiencing as a result of the global economic downturn.

The Channel Partner agreements we now have in place, including the new McKesson agreement signed since the year end, confirms our belief in our market leading position and reputation within the industry. The long term foundations these agreements provide combined with our strong business fundamentals and customer base, leaves us well positioned to serve the growing market demand.

Keith Neilson
Chief Executive Officer
4 September 2009

Craig Preston
Chief Financial Officer
4 September 2009

Craneware plc
Consolidated Income Statement
For the year ended 30 June 2009

	Notes	2009 $'000	2008 $'000
Revenue		**22,993**	18,676
Cost of sales		**(1,381)**	(954)
Gross profit		**21,612**	17,722
Net operating expenses	3	**(16,262)**	(14,141)
Operating profit		**5,350**	3,581
Analysed as:			
Profit before share based payments, depreciation and amortisation		**5,812**	4,516
Share based payments		**(82)**	(634)
Depreciation of plant and equipment		**(204)**	(183)
Amortisation of intangible assets		**(176)**	(118)
Finance income		**520**	607
Profit before taxation		**5,870**	4,188
Tax charge on profit on ordinary activities	4	**(1,422)**	(899)
Profit for the year		**4,448**	3,289

The results relate to continuing operations.

Earnings per share for the period attributable to equity holders

	Notes	2009	2008
Basic ($ per share)	6a	**0.177**	0.137
Diluted ($ per share)	6b	**0.170**	0.130

Craneware plc
Statement of Changes in Equity for the year ended 30 June 2009

Group	Share Capital $'000	Share Premium Account $'000	Other Reserves $'000	Retained Earnings $'000	Total $'000
At 1 July 2007	1	1,823	2,477	(550)	3,751
Share split	386	(386)	-	-	-
Allotment pursuant to IPO	14	(14)	-	-	-
Share-based payments	-	-	564	557	1,121
New shares issued in the year	86	7,852	-	-	7,938
Options exercised	22	(22)	-	-	-
Retained profit for the year	-	-	-	3,289	3,289
At 30 June 2008	509	9,253	3,041	3,296	16,099
Share-based payments	-	-	82	(37)	45
Options exercised	3	(3)	-	-	-
Retained profit for the year	-	-	-	4,448	4,448
Dividends (Note 5)	-	-	-	(1,917)	(1,917)
At 30 June 2009	**512**	**9,250**	**3,123**	**5,790**	**18,675**
Company					
At 30 June 2007	1	1,823	1,793	(430)	3,187
Share split	386	(386)	-	-	-
Allotment pursuant to IPO	14	(14)	-	-	-
Share-based payments	-	-	402	61	463
New shares issued in the year	86	7,852	-	-	7,938
Options exercised	22	(22)	-	-	-
Retained profit for the year	-	-	-	2,560	2,560
At 30 June 2008	509	9,253	2,195	2,191	14,148
Share-based payments	-	-	31	38	69
Options exercised	3	(3)	-	-	-
Retained profit for the year	-	-	-	4,117	4,117
Dividends (Note 5)	-	-	-	(1,917)	(1,917)
At 30 June 2009	**512**	**9,250**	**2,226**	**4,429**	**16,417**

Craneware plc
Consolidated Balance Sheet
As at 30 June 2009

	Notes	2009 $'000	2008 $'000
ASSETS			
Non-Current Assets			
Plant and equipment		**345**	415
Intangible assets	7	**1,206**	794
Deferred Tax		**718**	1,075
Trade and other receivables		**25**	75
		2,294	2,359
Current Assets			
Trade and other receivables		**5,187**	4,685
Cash and cash equivalents		**26,169**	21,112
		31,356	25,797
Total Assets		**33,650**	28,156
EQUITY AND LIABILITIES			
Non-Current Liabilities			
Deferred income		**124**	444
		124	444
Current Liabilities			
Deferred income		**10,964**	9,853
Trade and other payables		**3,887**	1,760
		14,851	11,613
Total Liabilities		**14,975**	12,057
Equity			
Called up share capital	8	**512**	509
Share premium account		**9,250**	9,253
Other reserves		**3,123**	3,041
Retained earnings		**5,790**	3,296
Total Equity		**18,675**	16,099
Total Equity and Liabilities		**33,650**	28,156

Craneware plc
Cashflow Statement
For the year ended 30 June 2009

	Notes	2009 $'000	2008 $'000
Cash flows from operating activities			
Cash generated from operations	9	**7,378**	4,987
Interest received		**520**	607
Tax paid		**(202)**	(1,495)
Net cash from operating activities		**7,696**	4,099
Cash flows from investing activities			
Purchase of plant and equipment		**(134)**	(111)
Capitalised intangible assets		**(588)**	(478)
Net cash used in investing activities		**(722)**	(589)
Cash flows from financing activities			
Dividends paid to company shareholders	5	**(1,917)**	-
Net IPO proceeds		**-**	7,938
Net cash (used)/from financing activities		**(1,917)**	7,938
Net increase in cash and cash equivalents		**5,057**	11,448
Cash and cash equivalents at the start of the year		**21,112**	9,664
Cash and cash equivalents at the end of the year		**26,169**	21,112

General Information

Craneware plc (the Company) is a public limited company incorporated in Scotland. The Company has a primary listing on the AIM stock exchange.

Basis of preparation

The financial statements are prepared in accordance with International Financial Reporting Standards, as adopted by the European Union (IFRS), IFRIC interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historic cost convention. A summary of the more important accounting policies is set out below, together with an explanation of where changes have been made to previous policies on the adoption of new accounting standards in the year, if applicable.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

The Company and its subsidiary undertaking are referred to in this report as the Group.

1. Selected principal accounting policies

The principal accounting policies adopted in the preparation of these accounts are set out below. These policies have been consistently applied, unless otherwise stated.

Reporting currency

The Directors consider that as the Group's revenues are primarily denominated in US dollars the principal functional currency is the US dollar. The Group's financial statements are therefore prepared in US dollars.

Currency Translation

Transactions denominated in foreign currencies are translated into US dollars at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities expressed in foreign currencies are translated into US dollars at rates of exchange ruling at the balance sheet date ($1.6452/£1). Exchange gains or losses arising upon subsequent settlement of the transactions and from translation at the balance sheet date, are included within the related category of expense where separately identifiable, or in general and administrative expenses.

Revenue recognition

The Group follows the principles of IAS 18, "Revenue Recognition", in determining appropriate revenue recognition policies. In principle revenue is recognised to the extent that it is probable that the economic benefits associated with the transaction will flow into the Group.

Revenue comprises the value of software license sales, installation, training, maintenance and support services, and consulting engagements. Revenue is recognised when (i) persuasive evidence of an arrangement exists; (ii) delivery has occurred or services have been rendered; (iii) the sales price has been fixed and determinable; and (iv) collectability is reasonably assured.

For software arrangements with multiple elements, revenue is recognised dependent on whether vendor-specific objective evidence ("VSOE") of fair value exists for each of the elements. VSOE is determined by reference to sales to external customers made on a stand-alone basis. Where there is no VSOE revenue is recognised rateably over the full term of each contract.

Revenue from standard license products which are not modified to meet the specific requirements of each customer is recognised when the risks and rewards of ownership of the product are transferred to the customer.

Revenue from installation and training is recognised as services are provided, and from consulting engagements when all obligations under the consulting agreement have been fulfilled.

Software sub licensed to third parties is recognised in accordance with the underlying contractual agreements. Where separate services are delivered, revenue is recognised on delivery of the service.

The excess of amounts invoiced and future invoicing over revenue recognised, is included in deferred Income. If the amount of revenue recognised exceeds the amounts invoiced the excess amount is included within accounts receivable.

Intangible Assets – Research and Development Expenditure

Expenditure associated with developing and maintaining the Group's software products are recognised as incurred. Where, however, new product development projects are technically feasible, production and sale is intended, a market exists, expenditure can be measured reliably, and sufficient resources are available to complete such projects, development expenditure is capitalised until initial commercialisation of the product, and thereafter amortised on a straight-line basis over its estimated useful life. Staff costs and specific third party costs involved with the development of the software are included within amounts capitalised.

Impairment Tests

The Group considers whether there is any indication that non-current assets are impaired on an annual basis. If there is such an indication, the Group carries out an impairment test by measuring the assets' recoverable amount, which is the higher of the assets' fair value less costs to sell and their value in use. If the recoverable amount is less than the carrying amount an impairment loss is recognised.

Taxation

The charge for taxation is based on the profit for the period and takes into account deferred taxation. Taxation is computed using the liability method. Under this method, deferred tax assets and liabilities are determined based on temporary differences between the financial reporting and tax bases of assets and liabilities and are measured using enacted rates and laws that will be in effect when the differences are expected to reverse. The deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will arise against which the temporary differences will be utilised.

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

In the UK and the US, the Group is entitled to a tax deduction for amounts treated as compensation on exercise of certain employee share options under each jurisdiction's tax rules. As explained under "Share-based payments" below, a compensation expense is recorded in the Group's income statement over the period from the grant date to the vesting date of the relevant options. As there is a temporary difference between the accounting and tax bases a deferred tax asset is recorded. The deferred tax asset arising is calculated by comparing the estimated amount of tax deduction to be obtained in the future (based on the Company's share price at the balance sheet date) with the cumulative amount of the compensation expense recorded in the income statement. If the amount of estimated future tax deduction exceeds the cumulative amount of the remuneration expense at the statutory rate, the excess is recorded directly in equity against retained earnings.

Cash and Cash Equivalents

Cash and cash equivalents include cash in hand, deposits held with banks and short term highly liquid investments. For the purpose of the cash flow statement, cash and cash equivalents comprise of cash on hand, deposits held with banks and short term high liquid investments.

Share-Based Payments

The Group grants share options to certain employees. In accordance with IFRS 2, "Share-Based Payments" equity-settled share-based payments are measured at fair value at the date of grant. Fair value is measured by use of the Black-Scholes pricing model as appropriately amended. The fair value determined at the date of grant of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the number of shares that will eventually vest.

The share-based payments charge is included in net operating expenses and is also included in 'Other reserves'.

2. Critical accounting estimates and judgements

The preparation of financial statements in accordance with generally accepted accounting principles requires the directors to make critical accounting estimates and judgements that affect the amounts reported in the financial statements and accompanying notes. The estimates and assumptions that have a significant risk of causing material adjustment to the carrying value of assets and liabilities within the next financial year are discussed below:-

- **Provision for impairment of trade receivables**: - the Group assesses trade receivables for impairment which requires the directors to estimate the likelihood of payment forfeiture by customers.

- **Revenue recognition**: - the Group assesses the economic benefit that will flow from future milestone payments in relation to sub-licensing partnership arrangements. This requires the directors to estimate the likelihood of the Group, its partners, and sub-licensees meeting their respective commercial milestones and commitments.

- **Capitalisation of development expenditure: -** the Group capitalises development costs provided the conditions laid out below have been met. Consequently the directors require to continually assess the commercial potential of each product in development and its useful life following launch.

- **Provisions for income taxes: -** the Group is subject to tax in the UK and US and this requires the directors to regularly assess the applicability of its transfer pricing policy.

- **Share-based payments: -** the Group requires to make a charge to reflect the value of share-based equity-settled payments in the period. At each grant of options and balance sheet date, the directors are required to consider whether there has been a change in the fair value of share options due to factors including number of expected participants.

3. Net operating expenses

	2009	2008
	$'000	$'000
Sales and marketing expenses	**6,110**	4,857
Client servicing	**4,017**	3,359
Research and development	**2,960**	2,623
Administrative expenses	**2,662**	2,319
Share-based payments	**82**	634
Depreciation of plant and equipment	**204**	183
Amortisation of intangible assets	**176**	118
Exchange loss	**51**	48
Net operating expenses	**16,262**	14,141

4. Tax on profit on ordinary activities

	2009	2008
	$'000	$'000
Profit on ordinary activities before tax	**5,870**	4,188
Current tax		
Corporation tax on profits of the year	**1,620**	701
Foreign exchange on taxation in the year	**24**	-
Adjustments for prior years	**(543)**	(8)
Total current tax charge	**1,101**	693
Deferred tax		
Origination & reversal of timing differences	**122**	206
Adjustments for prior years	**199**	-
Total deferred tax charge	**321**	206
Tax on profit on ordinary activities	**1,422**	899

The difference between the current tax charge on ordinary activities for the year, reported in the income statement, and the current tax charge that would result from applying a relevant standard rate of tax to the profit on ordinary activities before tax, is explained as follows:

Profit on ordinary activities at the UK tax rate 28% (2008: 29.5%)	**1,644**	1,235
Effects of		
Adjustment in respect of prior years		
Current tax	**(543)**	(8)
Deferred tax	**199**	31
State tax	**43**	49
Additional US tax on profits/(losses) 34% (2008: 34%)	**51**	(40)
Foreign Exchange	**24**	-
Expenses not deductible for tax purposes	**17**	79
Non-taxable income	**-**	(61)
Tax deduction on share plan charges	**(13)**	(375)
Adjustment to rate at which deferred tax will unwind	**-**	(11)
Total tax charge	**1,422**	899

5. Dividends
The dividends paid during the year were as follows:-

	2009	2008
	$'000	$'000
Final dividend, re 30 June 2008 - 4.96 cents (3.1 pence)/share	**1,172**	-
Interim dividend, re 30 June 2009 - 2.66 cents (1.8 pence)/share	**745**	-
Total dividends paid to company shareholders in the year	**1,917**	-

The proposed final dividend is subject to approval by the shareholders at the Annual General Meeting and has not been included as a liability in these accounts.

6. Earnings per share

a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of shares in issue during the year.

	2009	2008
Profit attributable to equity holders of the Company ($'000)	**4,448**	3,289
Weighted average number of ordinary shares in issue (thousands)	**25,187**	23,964
Basic earnings per share ($ per share)	**0.177**	0.137

b) Diluted

For diluted earnings per share, the weighted average number of ordinary shares calculated above is adjusted to assume conversion of all dilutive potential ordinary shares. The Group has one category of dilutive potential ordinary shares, being those share options granted to directors and employees under the share option scheme (Note 9).

	2009	2008
Profit attributable to equity holders of the Company ($'000)	**4,448**	3,289
Weighted average number of ordinary shares in issue (thousands)	**25,187**	23,964
Adjustment for:		
- Share options (thousands)	**1,007**	1,408
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**26,194**	25,372
Diluted earnings per share ($ per share)	**0.170**	0.130

7. Intangible assets

	In Process R & D $'000	Computer Software $'000	**Total $'000**
Cost			
At 1 July 2008	1,317	252	**1,569**
Additions	569	19	**588**
At 30 June 2009	1,886	271	**2,157**
Amortisation			
At 1 July 2008	599	176	**775**
Charge for the year	126	50	**176**
At 30 June 2009	725	226	**951**
NBV at 30 June 2009	**1,161**	**45**	**1,206**
Cost			
At 1 July 2007	867	224	**1,091**
Additions	450	28	**478**
At 30 June 2008	1,317	252	**1,569**
Amortisation			
At 1 July 2007	536	121	**657**
Charge for the year	63	55	**118**
At 30 June 2008	599	176	**775**
NBV at 30 June 2008	**718**	**76**	**794**

8. Called up share capital

Authorised

	2009 Number	**$'000**	2008 Number	$'000
Equity share capital				
Ordinary shares of 1p each	**50,000,000**	**1,014**	50,000,000	1,014

Allotted called-up and fully paid

	2009 Number	**$'000**	2008 Number	$'000
Equity share capital				
Ordinary shares of 1p each	**25,297,750**	**512**	25,109,950	509

The movement in share capital during the year is represented as follows:

- 187,800 Ordinary Share options were exercised in the year.

9. Cash flow generated from operating activities

Reconciliation of profit before tax to net cash inflow from operating activities

	2009	2008
	$'000	$'000
Profit before tax	**5,870**	4,188
Finance income	**(520)**	(607)
Depreciation on plant and equipment	**204**	183
Amortisation on intangible assets	**176**	118
Share-based payments	**82**	634
Less US employer tax on exercise of options	**-**	(58)
Less related professional fees	**-**	(12)
Movements in working capital:		
Decrease in inventory	**-**	8
Increase in trade and other receivables	**(452)**	(669)
Increase in trade and other payables	**2,018**	1,202
Cash generated from operations	**7,378**	4,987