

# City Networks Limited

Report and Accounts  
for the year ended

30<sup>th</sup> June 2009

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COMPANIES HOUSE

Company number 2027256

**CITY NETWORKS LIMITED****Directors**

P F A Nash  
R Hill  
M J W Dutton  
A M Herrtage  
A F Howlin  
P C Little  
M J W Potter  
J A Zimmerman

Non-executive chairman  
Chief executive officer  
  
Non-executive director  
  
Non-executive director

**Company secretary**

M J W Potter

**Auditors**

Rees Pollock  
35 New Bridge Street  
London  
EC4V 6BW

**Bankers**

HSBC Bank plc  
126 High Road  
Ilford  
Essex  
IG1 1DA

**Solicitors**

Teacher Stern  
37-41 Bedford Row  
London  
WC1R 4JH

**Registered office**

386 Salisbury House  
London Wall  
London  
EC2M 5UP

## **CHIEF EXECUTIVE'S REPORT**

### **Business review**

I am pleased to report that, despite difficult market conditions, we continued our strong growth for the third consecutive year. Overall turnover and operating profit are up over 16%. Worthy of special note, new licence sales are up by over 60% on the previous year. All branches have contributed to the growth, with the Europe, Middle East and Africa region making the greatest contribution.

We attribute success in these difficult times to three factors: our position in the market as a leading provider of process control and operational risk systems, the success of two new products coming from our research and development programme, our broad customer base and commitment to excellent customer service.

### **Product development**

We have just installed our new automated fax processing software in a global hub for a leading Australian bank. We have seen encouraging interest in this product and expect to see sales growth over the coming year.

This year we will launch a successor to our successful Reconciliations software, providing a single upgrade path for our existing Reconciliations and Enterprise reconciliations software and positioning the company for increased sales in this sector.

### **Our results**

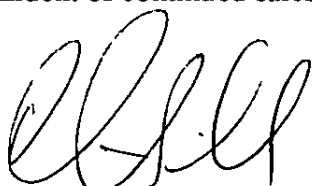
Turnover was £14.7m, 16.3% up on 2008 and operating profits were £2.62m, 17.6% ahead of the previous year.

Cash generation from operations was excellent and by the year end, we had built substantially on our reserves.

The Board is recommending a dividend payment of £0.23p per ordinary share.

### **Future prospects**

We have continued to invest heavily in the development of our product base which we now consider to be stronger than ever. Our sales pipeline is at record levels and we remain confident of continued sales growth despite difficult market conditions.



Richard Hill  
Chief Executive Officer

12<sup>th</sup> October 2009

**CITY NETWORKS LIMITED****DIRECTORS' REPORT**

The directors present their report and accounts for the year ended 30<sup>th</sup> June 2009

**Review of the business and future developments**

The group's principal activity during the year was the provision of computer software and services to the financial market place. The review of the business and future developments is included in the chief executive's report.

**Results and dividends**

The group operating profit for the year ended 30<sup>th</sup> June 2009 was £2,624,000 (2008 £2,231,000)

The group reported a profit on ordinary activities after taxation for the year of £1,994,000 (2008 £1,788,000)

The directors recommend a dividend for the year of £0.23p per share, £238,000 (2008 £0.19p per share, 2008 £195,000)

**Overseas activities**

The City Networks Limited group includes subsidiaries which are incorporated in the United States, Singapore, Hong Kong and Japan together with branches in Australia and South Africa. Further details are given in note 8 to the accounts.

**Financial risk management objectives and policies**

The group is exposed to credit risk on its trade debtors and cash balances.

Trade debt is monitored on a monthly basis by local management.

Cash balances are placed on a short-term basis with institutions that the group board has approved with a view to maximising interest having regard to the security of the investment.

**Directors' and officers' insurance**

The company maintains directors' and officers' insurance which provides an indemnity against liabilities incurred by the directors and officers in connection with claims made by third parties against the directors or officers in their capacity as directors and officers.

**Research and development**

Expenditure on developing the group's software products was £2,122,000 (2008 £2,064,000)

# CITY NETWORKS LIMITED

## DIRECTORS' REPORT

(continued)

### Directors and their interests

The directors who served during the year and their beneficial interests in the share capital of the company were as follows

	At 30 <sup>th</sup> June 2009 Ordinary shares of 1p	At 30 <sup>th</sup> June 2009 Options over ordinary shares of 1p	At 30 <sup>th</sup> June 2008 or date of later appointment Ordinary shares of 1p	At 30 <sup>th</sup> June 2008 or date of later appointment Options over ordinary shares of 1p
R Hill	709,100	—	709,100	—
P F A Nash	9,836	—	9,836	—
M J W Dutton	28,070	26,226	28,070	26,226
A M Herrtage	10,668	—	10,668	—
A F Howlin	28,039	26,226	28,039	26,226
P C Little	10,000	4,000	10,000	4,000
M J W Potter	13,196	35,143	13,196	35,143
J A Zimmerman	30,953	20,181	30,953	20,181

During the year ended 30<sup>th</sup> June 2009 none of the directors had any material interest in any material transaction in relation to the group's business

### Charitable and political donations

The group made charitable donations amounting to £1,801 (2008 £996) during the year

### Employee involvement

During the year the policy of providing employees with information about the group has been continued and employees have been encouraged to present their suggestions and views on the group's performance. Employees participate directly in the success of the business through incentive plans.

### Auditors

Each of the persons who is a director at the date of approval of this annual report confirms that

- So far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- The director has taken all steps that he or she ought to have taken as a director to make himself or herself aware of any relevant audit information and to establish that the auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006

**CITY NETWORKS LIMITED****DIRECTORS' REPORT**

(continued)

**Auditors (continued)**

Rees Pollock have expressed their willingness to be re-appointed for another term and appropriate arrangements have been put in place for them to be re-appointed in the absence of an Annual General Meeting

BY ORDER OF THE BOARD



M J W Potter  
Company secretary

12<sup>th</sup> October 2009

**CITY NETWORKS LIMITED****STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The Directors are responsible for preparing the Directors' Report and the accounts in accordance with applicable law and regulations

Company law requires the directors to prepare accounts for each financial year. Under that law the directors have elected to prepare the group and parent company accounts 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 accounts unless they are satisfied they give a true and fair view of the state of the affairs of the company and of the group and of the profit or loss of the group for that year.

In preparing these accounts, the directors are required to

- Select suitable accounting policies, as described on pages 11 to 13, and then apply them consistently,
- Make judgements and accounting estimates that are reasonable and prudent,
- State whether applicable UK Accounting Standards have been followed,
- Prepare the accounts on the going concern basis unless it is inappropriate to presume the company will continue in business.

The directors are responsible for keeping adequate 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 the group and to enable them to ensure that the accounts 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.

**REES POLLOCK***Chartered Accountants*

35 New Bridge Street  
London EC4V 6BW  
Telephone 020 7778 7200  
Fax 020 7329 6408  
[www.reespollock.co.uk](http://www.reespollock.co.uk)

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CITY NETWORKS LIMITED**

We have audited the financial statements of City Networks Limited for the year ended 30<sup>th</sup> June 2009 on pages 8 to 23. 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 Section 495 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 auditors report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of directors and auditors**

As explained more fully in the Directors' Responsibilities Statement on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

**Scope of the audit of the financial statements**

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

**Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the Company's and Group's affairs as at 30<sup>th</sup> June 2009 and of the group's profit for the year then ended,
- 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 information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Matters on which we are required to report by exception**

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

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

**J Munday (Senior statutory auditor)**

for and on behalf of Rees Pollock, Statutory Auditor

12 October 2009



**CITY NETWORKS LIMITED**  
**GROUP PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED 30<sup>th</sup> JUNE 2009**

	Notes	2009 £'000	2008 £'000
<b>Turnover</b>	1(c)	14,730	12,662
Operating expenses		<u>(12,106)</u>	<u>(10,431)</u>
<b>Operating profit</b>	2	2,624	2,231
Share of loss of associate	9	(32)	(37)
Interest receivable		219	216
Interest payable	4	<u>–</u>	<u>(1)</u>
<b>Profit on ordinary activities before tax</b>		2,811	2,409
Tax on ordinary activities	5	<u>(817)</u>	<u>(621)</u>
<b>Profit on ordinary activities after taxation</b>		<u>1,994</u>	<u>1,788</u>

**GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**

	2009 £'000	2008 £'000
Profit for the financial year attributable to members of the parent company	1,994	1,788
Foreign currency transaction differences	<u>(89)</u>	<u>(28)</u>
<b>Total recognised gains and losses relating to the year</b>	<u>1,905</u>	<u>1,760</u>

There is no difference between the results as shown above and the results on an unmodified historical cost basis

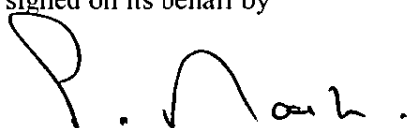
The results for the year reflect the continuing activities of the group

## CITY NETWORKS LIMITED

BALANCE SHEET AT 30<sup>th</sup> JUNE 2009

	Notes	The Group		The Company	
		2009 £'000	2008 £'000	2009 £'000	2008 £'000
<b>Fixed assets</b>					
Tangible assets	7	588	321	559	289
Investment in subsidiary undertakings	8	—	—	140	140
Investment in associate undertaking	9	181	213	250	250
		<u>769</u>	<u>534</u>	<u>949</u>	<u>679</u>
<b>Current assets</b>					
Debtors	10	2,071	2,466	1,530	1,918
Cash at bank and in hand		<u>6,432</u>	<u>4,214</u>	<u>5,102</u>	<u>3,410</u>
		<u>8,503</u>	<u>6,680</u>	<u>6,632</u>	<u>5,328</u>
<b>Creditors: amounts falling due within one year</b>	11	<u>(5,483)</u>	<u>(5,167)</u>	<u>(7,442)</u>	<u>(6,043)</u>
<b>Net current assets/(liabilities)</b>		<u>3,020</u>	<u>1,513</u>	<u>(810)</u>	<u>(715)</u>
<b>Total assets less current liabilities</b>		<u>3,789</u>	<u>2,047</u>	<u>139</u>	<u>(36)</u>
<b>Capital and reserves</b>					
Called up share capital	12	13	13	13	13
Capital redemption reserve	13	13	13	13	13
Other reserve	13	(4,033)	(4,033)	(4,033)	(4,033)
Own shares	13	(3,089)	(3,089)	(3,089)	(3,089)
Profit and loss account	13	<u>10,885</u>	<u>9,143</u>	<u>7,235</u>	<u>7,060</u>
<b>Equity shareholders' funds</b>	13	<u>3,789</u>	<u>2,047</u>	<u>139</u>	<u>(36)</u>

The accounts on pages 8 to 23 were approved on behalf of the board of directors on 12 October 2009 and are signed on its behalf by



P Nash  
Director

The notes on pages 11 to 23 form part of these accounts

**CITY NETWORKS LIMITED****CONSOLIDATED CASH FLOW STATEMENT  
FOR THE YEAR ENDED 30<sup>th</sup> JUNE 2009**

	<b>Notes</b>	<b>2009 £'000</b>	<b>2008 £'000</b>
<b>Net cash inflow from operating activities</b>	<b>17</b>	3,684	2,836
<b>Returns on investments and servicing of finance</b>			
Interest received		219	216
Interest paid		—	(1)
Net cash inflow from returns on investment and servicing of finance		219	215
<b>Taxation</b>		(973)	(490)
<b>Capital expenditure and financial investment</b>			
Payments to acquire tangible fixed assets		(428)	(212)
Investment in associate		—	(250)
Net cash outflow from capital expenditure and financial investment		(428)	(462)
<b>Equity dividends paid</b>		(195)	(126)
Net cash inflow before financing		2,307	1,973
<b>Financing</b>			
Exercise of options and sale of shares		—	410
<b>Increase in cash in the year</b>	<b>18</b>	<b>2,307</b>	<b>2,383</b>

The notes on pages 11 to 23 form part of these accounts

**CITY NETWORKS LIMITED****NOTES TO THE ACCOUNTS AT 30<sup>th</sup> JUNE 2009****1. Accounting policies**

A summary of the principal accounting policies, which have been applied consistently, is set out below

**(a) Basis of preparation**

The accounts are prepared under the historical cost convention and in accordance with applicable Accounting Standards in the United Kingdom

**(b) Basis of consolidation**

The group accounts consolidate the accounts of City Networks Limited and all its subsidiary undertakings made up to 30<sup>th</sup> June each year. No profit and loss account is presented for City Networks Limited as provided by s 408 of the Companies Act 2006

In the group financial statements investments in associates are accounted for using the equity method. The consolidated profit and loss account includes the share of the group's share of associates' profits less losses while the group's share of the net assets of the associates is shown in the consolidated balance sheet. Goodwill arising on the acquisition of associates, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised as part of the carrying value of investments in associates in the consolidated balance sheet. The goodwill is written off on a straight-line basis over its useful economic life, which the directors assess to be twenty years. No amortisation is charged in the year of acquisition.

The carrying value of goodwill arising on the acquisition of associates is reviewed for impairment where events or changes in circumstances indicate that the carrying value may not be recoverable.

**(c) Turnover**

Revenue on the sale of software rights is recognised as turnover when the installation of the related system is complete and accepted by the client. Prior to completion, deposits paid or payable by customers are treated as deferred income.

Revenue in respect of maintenance contracts is recognised on a straight-line basis over the life of the contract. Unrecognised revenue is included in deferred income.

No segmental analysis has been provided as, in the opinion of the directors, its disclosure would be seriously prejudicial to the interests of the company.

**(d) Research and development**

Research expenditure is written off as incurred. Development expenditure is also written off as incurred, except where the directors are satisfied as to the technical, commercial and financial viability of individual projects. In such cases, the identifiable expenditure is deferred and amortised over the period during which the Group is expected to benefit, being seven years, commencing from the date that the product is available for sale. Provision is made for any impairment.

**CITY NETWORKS LIMITED****NOTES TO THE ACCOUNTS AT 30<sup>th</sup> JUNE 2009****1 Accounting policies (continued)****(e) Foreign currencies***Company*

Transactions in foreign currencies during the year are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

*Group*

The results for the year of overseas subsidiary undertakings are translated into sterling at average rates for the year. Exchange differences arising on the translation into sterling at year-end rates of the opening net assets and results of overseas subsidiary undertakings are reported in the statement of total recognised gains and losses and taken to reserves. All other exchange differences are taken to the profit and loss account.

**(f) Share based payments**

The group has awarded share options to certain employees. These share-based payments have been measured at fair value at the date of grant and the fair value has been expensed on a straight-line basis over the vesting period allowing for an estimated number of leavers in each year. Fair value has been estimated using the Black Scholes option-pricing model, taking into account the exercise price of the option, an estimated market price for the shares, risk-free interest rates at the date of grant and the expected volatility of the company's share price over the life of the option.

**(g) Dividends**

Interim and final dividends are recognised in the year in which they are paid. Approval of the report and accounts by the board of directors will, in the absence of an Annual General Meeting, be approval of the payment of any dividend.

**(h) Tangible fixed assets**

All tangible fixed assets are reported at original cost less aggregate depreciation. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost of each asset evenly over its expected useful life as follows:

Software – third party products	–	over 3 years
Software – capitalised development	–	over 7 years
Plant and machinery	–	over 3 years
Furniture and fittings	–	over 3 years
Refurbishment	–	over 5 years

**CITY NETWORKS LIMITED****NOTES TO THE ACCOUNTS AT 30<sup>th</sup> JUNE 2009****1. Accounting policies (continued)****(i) Taxation**

The charge for taxation is based on the results for the year and takes into account deferred taxation. Deferred tax is provided in full, without discounting, on all timing differences except those expressly excluded by FRS 19. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recoverable.

**(j) Pensions**

The company operates two defined contribution pension schemes. Contributions to these schemes are charged to the profit and loss account as they become payable in accordance with the rules of the schemes.

**(k) Investments in subsidiary undertakings**

In the company balance sheet, investments in subsidiary and associated undertakings are carried at historical cost less provision for permanent diminution in value.

**(l) Leasing commitments**

Rentals payable under operating leases are charged in the profit and loss account on a straight-line basis over the lease term.

**2. Operating profit**

This is stated after charging

	<b>2009</b>	<b>The Group</b>
	<b>£'000</b>	<b>2008</b>
		<b>£'000</b>
Research and development expenditure written off	2,122	2,064
Auditors' remuneration (see below)	79	71
Depreciation of owned fixed assets	161	157
Operating lease rentals – land and buildings	742	677
Share based payments	32	22
Goodwill amortisation	14	–

## CITY NETWORKS LIMITED

NOTES TO THE ACCOUNTS AT 30<sup>th</sup> JUNE 2009

## 2. Operating profit (continued)

	2009 £'000	The Group 2008 £'000
Directors' remuneration		
Aggregate emoluments	877	821
Company pension contributions to money purchase schemes	40	40
	<hr/>	<hr/>
Highest paid director		
Aggregate emoluments	174	166
Company pension contributions to money purchase schemes	20	21
	<hr/>	<hr/>
Retirement benefits are accruing to the five UK-based executive directors under money purchase pension schemes. No directors exercised any share options during the year (2008: 1).		
No emoluments were waived during this or the previous year.		
Auditors' remuneration		
Fees payable to the company's auditors for the audit of the company's annual accounts	24	24
Fees payable to the company's auditors for other services to the group		
– tax services	4	2
– other services	–	5
	<hr/>	<hr/>
	28	31
	<hr/>	<hr/>
Fees payable to audit firms unconnected with the company's auditors for other services to the group		
– the audit of the company's subsidiaries pursuant to legislation	31	29
– taxation services	12	10
– other services	8	1
	<hr/>	<hr/>
	51	40
	<hr/>	<hr/>
Aggregate consolidated auditors' remuneration	79	71
	<hr/>	<hr/>

**CITY NETWORKS LIMITED****NOTES TO THE ACCOUNTS AT 30<sup>th</sup> JUNE 2009****3. Staff costs**

	<b>2009</b>	<b>The Group</b>
	<b>£'000</b>	<b>2008</b>
		<b>£'000</b>
Salaries	6,939	6,151
Social security costs	658	595
Other pension costs	428	225
	<hr/>	<hr/>
	8,025	6,971
	<hr/>	<hr/>

The average number of employees during the year was as follows

United Kingdom	98	89
United States	12	10
Singapore	11	13
Australia	5	4
Hong Kong	5	5
Japan	6	6
	<hr/>	<hr/>
	137	127
	<hr/>	<hr/>

**4. Interest payable**

	<b>2009</b>	<b>The Group</b>
	<b>£'000</b>	<b>2008</b>
		<b>£'000</b>
Bank interest	—	1
	<hr/>	<hr/>



## CITY NETWORKS LIMITED

NOTES TO THE ACCOUNTS AT 30<sup>th</sup> JUNE 2009

## 5. Tax on profit on ordinary activities

## (a) Analysis of the tax charge for the year on the profit on ordinary activities

	2009 £'000	The Group 2008 £'000
Current tax		
UK corporation tax on profit for the year	252	281
Foreign tax		
Foreign tax on profit for the year	565	390
Tax overprovided in previous years	—	(50)
	<hr/>	<hr/>
Current tax charge	817	621

## (b) Factors affecting tax charge for the year

The tax assessed for the year is greater than that expected at the standard rate of UK corporation tax of 28%. The differences are explained below

	2009 £'000	The Group 2008 £'000
Profit on ordinary activities before tax	2,811	2,409
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28% (2008 30%)	787	723
Expenses not deductible for tax purposes	(15)	(33)
Tax over provided in prior years	(48)	(50)
Profits taxed at rates other than the UK standard rate	93	(19)
	<hr/>	<hr/>
Current tax charge 5(a)	817	621

The Group taxes its profits primarily in the United Kingdom. Therefore the tax rate used for tax on ordinary activities is the standard rate of UK corporation tax, currently 28%. The Group's overseas tax rates are the same or higher than those in the UK.

## 6. Dividend

	2009 £'000	The Group 2008 £'000
<i>Amounts recognised as distributions to equity holders in the period</i>		
Final dividend for the year ended 30 June 2008 of 19 pence (2007 13 pence) per share	195	126
	<hr/>	<hr/>
<i>Recommended dividends not recognised as a liability</i>		
Proposed final dividend for the year ended 30 June 2009 of 23 pence (2008 19 pence) per share	238	195

Dividends in respect of those shares held by the ESOP trust will be waived

## CITY NETWORKS LIMITED

NOTES TO THE ACCOUNTS AT 30<sup>th</sup> JUNE 2009

## 7. Tangible fixed assets

Group	Software £'000	Plant & machinery £'000	Furniture & fittings £'000	Refurbishment £'000	Total £'000
Cost					
At 1 <sup>st</sup> July 2008	518	749	234	236	1,737
Exchange	4	65	15	—	84
Additions	354	65	9	—	428
At 30 <sup>th</sup> June 2009	876	879	258	236	2,249
Depreciation					
At 1 <sup>st</sup> July 2008	369	678	207	162	1,416
Exchange	4	65	15	—	84
Provided in the year	40	64	10	47	161
At 30 <sup>th</sup> June 2009	413	807	232	209	1,661
Net book value					
At 30 <sup>th</sup> June 2009	463	72	26	27	588
At 30 <sup>th</sup> June 2008	149	71	27	74	321

Company	Software £'000	Plant & machinery £'000	Furniture & fittings £'000	Refurbishment £'000	Total £'000
Cost					
At 1 <sup>st</sup> July 2008	493	475	160	236	1,364
Additions	349	50	7	—	406
At 30 <sup>th</sup> June 2009	842	525	167	236	1,770
Depreciation					
At 1 <sup>st</sup> July 2008	352	413	148	162	1,075
Provided in the year	37	47	6	46	136
At 30 <sup>th</sup> June 2009	389	460	154	208	1,211
Net book value					
At 30 <sup>th</sup> June 2009	453	65	13	28	559
At 30 <sup>th</sup> June 2008	141	62	12	74	289

## CITY NETWORKS LIMITED

NOTES TO THE ACCOUNTS AT 30<sup>th</sup> JUNE 2009

## 8. Investments in subsidiary undertakings

		The Company	
		2009	2008
		£'000	£'000
Cost of subsidiary undertakings		140	140

Name of subsidiary	Activity	Country of incorporation	% Owned
City Networks (Europe) Limited	Dormant	United Kingdom	100
City Networks (Trustees) Limited	Dormant	United Kingdom	100
City Networks Inc	Computer software	United States	100
CityNet Software (Asia) Pte Limited	Computer software	Singapore	100
City Networks (China) Limited	Computer software	Hong Kong	100
City Networks (Japan) Co Limited	Computer software	Japan	100

All the above subsidiary undertakings have share capital consisting solely of ordinary shares

## 9. Investment in associate undertaking

	Goodwill £'000	The Group Share of net assets £'000	Total £'000
At 1 <sup>st</sup> July 2008	271	(58)	213
Amortisation	(14)	—	(14)
Share of net losses for the year	—	(18)	(18)
At 30 <sup>th</sup> June 2009	257	(76)	181

	The Company Cost £'000
At 1 <sup>st</sup> July 2008 and 30 <sup>th</sup> June 2009	250

The company holds 25% of the issued ordinary share capital of Message Automation Limited, a company incorporated in the United Kingdom. The Group's share of the position and results of Message Automation Limited was

	2009 £'000	2008 £'000
Turnover	164	232
Loss before tax	(18)	(37)
Fixed assets	1	1
Current assets	38	27
Liabilities due within one year	53	25

## CITY NETWORKS LIMITED

NOTES TO THE ACCOUNTS AT 30<sup>th</sup> JUNE 2009

## 10. Debtors

	2009 £'000	The Group 2008 £'000	2009 £'000	The Company 2008 £'000
Trade debtors	1,420	1,823	1,091	1,408
Other debtors and prepayments	651	643	439	510
	<u>2,071</u>	<u>2,466</u>	<u>1,530</u>	<u>1,918</u>

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

	2009 £'000	The Group 2008 £'000	2009 £'000	The Company 2008 £'000
Trade creditors	392	585	389	583
Corporation tax	490	646	247	402
Other taxes and social security costs	216	344	189	277
Other creditors and accruals	1,010	763	786	566
Deferred income	3,375	2,829	2,491	1,505
Amounts due to group companies	–	–	3,340	2,710
	<u>5,483</u>	<u>5,167</u>	<u>7,442</u>	<u>6,043</u>

## 12. Called up share capital

All shares are ordinary shares with a nominal value of 1p

The company	Number 2009	Nominal value 2009 £'000	Number 2008	Nominal value 2008 £'000
Authorised	<u>50,000,000</u>	<u>500</u>	<u>50,000,000</u>	<u>500</u>
Allotted, called up and fully paid	<u>1,311,361</u>	<u>13</u>	<u>1,311,361</u>	<u>13</u>

Details of options over issued share capital are given in note 14

## CITY NETWORKS LIMITED

NOTES TO THE ACCOUNTS AT 30<sup>th</sup> JUNE 2009

## 13. Reconciliation of shareholders' funds and movements on reserves

## a. The Group

	Share capital £'000	Capital redemption reserve £'000	Other reserve £'000	Own shares reserve £'000	Profit and loss account £'000	Total £'000
At 1 <sup>st</sup> July 2008	13	13	(4,033)	(3,089)	9,143	2,047
Profit for the year	—	—	—	—	1,994	1,994
Equity dividends paid (note 6)	—	—	—	—	(195)	(195)
Share based payments	—	—	—	—	32	32
Exchange difference	—	—	—	—	(89)	(89)
At 30 <sup>th</sup> June 2009	13	13	(4,033)	(3,089)	10 885	3,789

	Share capital £'000	Capital redemption reserve £'000	Other reserve £'000	Own shares reserve £'000	Profit and loss account £'000	Total £'000
At 1 <sup>st</sup> July 2007	13	13	(4,033)	(3,499)	7,487	(19)
Profit for the year	—	—	—	—	1,788	1,788
Equity dividends paid (note 6)	—	—	—	—	(126)	(126)
Share based payments	—	—	—	—	22	22
Exercise of options and sale of shares	—	—	—	410	—	410
Exchange difference	—	—	—	—	(28)	(28)
At 30 <sup>th</sup> June 2008	13	13	(4,033)	(3,089)	9,143	2,047

## b. The Company

	Share capital £'000	Capital redemption reserve £'000	Other reserve £'000	Own shares reserve £'000	Profit and loss account £'000	Total £'000
At 1 <sup>st</sup> July 2008	13	13	(4,033)	(3,089)	7,060	(36)
Profit for the year	—	—	—	—	338	338
Equity dividends paid (note 6)	—	—	—	—	(195)	(195)
Share based payments	—	—	—	—	32	32
At 30 <sup>th</sup> June 2009	13	13	(4 033)	(3 089)	7,235	139

	Share capital £'000	Capital redemption reserve £'000	Other reserve £'000	Own shares reserve £'000	Profit and loss account £'000	Total £'000
At 1 <sup>st</sup> July 2007	13	13	(4 033)	(3,499)	6,386	(1,120)
Profit for the year	—	—	—	—	778	778
Equity dividends paid (note 6)	—	—	—	—	(126)	(126)
Share based payments	—	—	—	—	22	22
Exercise of options and sales of shares	—	—	—	410	—	410
At 30 <sup>th</sup> June 2008	13	13	(4,033)	(3,089)	7,060	(36)

The profit dealt with in the accounts of the parent company is £338,000 (2008 £778,000)

The other reserve represents the excess payment from capital over distributable reserves resulting from the MBO which took place in 2001

## CITY NETWORKS LIMITED

NOTES TO THE ACCOUNTS AT 30<sup>th</sup> JUNE 2009

## 14. Own shares reserve

	2009 £'000	The Group 2008 £'000	2009 £'000	The Company 2008 £'000
Cost of shares	3,089	3,089	3,089	3,089

The group's own shares reserve represents shares held in City Networks Limited by Praxis Trustees Limited as trustee for City Networks Limited ESOP trust

The Employee Share Ownership Plan ("the ESOP") owns ordinary shares of 1p each in the company, some of which are subject to options as follows

Dates exercisable	Exercise price	No of shares at 1 <sup>st</sup> July 2008	Options granted	Options exercised	Cancellations	No of shares at 30 <sup>th</sup> June 2009
May 2005 – May 2011	£4 00	56,384	–	–	–	56,384
February 2006 – February 2012	£5 50	37,000	–	–	–	37,000
September 2007 – September 2013	£5 50	45,000	–	–	–	45,000
December 2008 – December 2014	£6 00	14,000	–	–	–	14,000
September 2009 – September 2015	£5 50	34,000	–	–	(12,000)	22,000
March 2012 – March 2018	£5 75	64,851	–	–	–	64,851
April 2012 – April 2018	£5 75	24,241	–	–	–	24,241
Not under option	–	3,010	–	–	12,000	15,010
At 30 <sup>th</sup> June 2009		278,486	–	–	–	278,486

Dates exercisable	Exercise price	No of shares at 1 <sup>st</sup> July 2007	Options granted	Options exercised	Cancellations/sold	No of shares at 30 <sup>th</sup> June 2008
May 2005 – May 2011	£4 00	102,761	–	(1,970)	(44,407)	56,384
February 2006 – February 2012	£5 50	37,000	–	–	–	37,000
January 2007 – January 2013	£5 50	1,433	–	(1,433)	–	–
September 2007 – September 2013	£5 50	46,433	–	(1,433)	–	45,000
December 2008 – December 2014	£6 00	14,000	–	–	–	14,000
September 2009 – September 2015	£5 50	34,000	–	–	–	34,000
March 2012 – March 2018	£5 75	–	64,851	–	–	64,851
April 2012 – April 2018	£5 75	–	24,241	–	–	24,241
Not under option	–	109,049	(89,092)	–	(16,947)	3,010
At 30 <sup>th</sup> June 2008		344,676	–	(4,836)	(61,354)	278,486

All expenses incurred by the scheme are settled directly by the company and are charged in the accounts as incurred. The total equity settled share based payment was £32,000 (2008 £22,000)

**CITY NETWORKS LIMITED****NOTES TO THE ACCOUNTS AT 30<sup>th</sup> JUNE 2009****14. Own shares reserve (continued)**

No options (2008 89,092) were granted during the year. For options granted during 2008 the fair value was approximately £1.38. This was calculated using the Black Scholes option pricing model. The principal assumptions used were:

Vesting period	–	4 years
Option life	–	10 years
Expected life	–	5 years
Volatility	–	30%
Risk free rate	–	4.2% - 4.7% depending on the date of the award

**15. Other financial commitments**

At 30<sup>th</sup> June 2009 the group had annual commitments under non-cancellable operating leases on buildings which expire over the periods set out below:

	<b>2009</b> <b>£'000</b>	<b>2008</b> <b>£'000</b>
Within one year	394	323
Within two to five years	110	134
After more than five years	84	–
	<u>588</u>	<u>457</u>

**16. Pension commitments**

The company operates defined contribution pension schemes for its directors and employees. The assets of the schemes are held separately from those of the company in independently administered funds.

**17. Reconciliation of operating profit to operating cash flows**

	<b>2009</b> <b>£'000</b>	<b>2008</b> <b>£'000</b>
Operating profit	2,624	2,231
Depreciation	161	157
Share based payments	32	22
Increase in debtors	395	(549)
Increase in creditors	472	975
Net cash inflow from operating activities	<u>3,684</u>	<u>2,836</u>

**CITY NETWORKS LIMITED****NOTES TO THE ACCOUNTS AT 30<sup>th</sup> JUNE 2009****18. Reconciliation of net cash flow to movement in net debt**

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Increase in cash in the year	2,307	2,383
Exchange differences	(89)	(28)
Opening cash balance	4,214	1,859
	<hr/>	<hr/>
Closing cash balance	6,432	4,214
	<hr/>	<hr/>

**19. Ultimate controlling party**

The directors are of the opinion that R Hill, a director, is the ultimate controlling party as the majority shareholder