Matica PLC

Annual Report & Accounts 2009

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DIRECTORS AND ADVISERS

Directors	Sandro Camilleri, Chief Executive Officer Stefano Camilleri , Non-Executive Director Lukas Franz Metzler, Non-Executive Director
Secretary	*Jonathan Bradley-Hoare* 31 Harley Street LondonW1G 9QS
Registered office	31 Harley Street London W1G 9QS
Auditors	*Nexia Smith & Williamson* Chartered Accountants 25 Moorgate London EC2R 6AY
Solicitors	*Pinsent Masons LLP* City Point One Ropemaker Street London EC2Y 9AH
Registrars	*Capita Registrars* The Registry 34 Beckenham Road Beckenham - Kent BR3 4TU
Company's registered number	6001053

CHIEF EXECUTIVE OFFICER'S STATEMENT

HIGHLIGHTS

- Matica faced the worst financial crisis ever
- Revenues for the 12 months to December 2009 decreased by 42%, to €8 4 m (2008 €14 6 m)
- Net loss of €6,701,000 (2008 profit €427,000)
- Cash outflow from operations of €853,000 (2009 inflow €881,000)
- Closing the office in Austria and reducing our operation in USA and Europe
- Assumed 100% ownership of Matica Americas on 31 March 2009, providing a strong base for the Company to expand in the US, Canadian and Latin American markets
- New products/system developed which are expected to be introduced to markets in mid 2010
- On 12 March 2010 the EGM approved the delisting of the Company

CHIEF EXECUTIVE OFFICER'S STATEMENT

Due to the economic crisis and resulting impact on investment spending in our industries, the turnover of our company has declined by 42%

Particularly in USA, Middle East, and Western Europe most of the customers put back the purchasing of systems for issuing cards until September 2009, when the worldwide economy finally showed the first signs of recovery

As a direct consequence of the economic crisis, we recorded significant decreases in revenue, profitability and operating cash flow The revenue decrease was mainly driven by the absence of new contract wins globally, particularly through decreased sales of our medium sized machines and central card issuance systems In order to "react" to this situation our management successfully reduced our operating cost by more than €550,000, compared with 2008, closed our Austrian office and reduced staff in most of our departments

At the end of the year, we also restructured our sales force in order to establish a presence in several new markets This expansion has resulted in the hiring of 4 new sales persons, each one in charge of a specific area in order to benefit from the expected growth from emerging markets as well as the first positive economic "signals" from western countries

As reported in our press release last March 2009, we purchased the remaining 50% of Matica Americas from our U S partner This operation, which opened in July 2008, is intended to provide a complete range of services including sales, service, parts, supplies and customer support to its end-customers and distributors in the US, Canada and Latin America

The Company also continued its efforts and investment in the development of new products and markets to better serve our customers worldwide New products developed during the year, are expected to be launched by mid 2010 These products include a new central issuing system and applications for the decentralized banking issuance of financial cards

Importantly, credit and debit card use continues to increase, particularly in emerging markets, this, together with the growing trend for banks to produce cards from regional rather than central bases, is driving demand for applications for the issuance of financial cards Technical innovations are also key to increase demand such as the global migration from magnetic strips to smart cards, further helped by continued concerns over security and safety

Financial Review

Consolidated revenue for the 12 months ended 31 December 2009 was €8 4 million, a decrease of 42% compared on 2008 This was mainly driven by the economic crisis with particular reference to Europe and the Americas markets Loss from operations was €6 3 million, which is a significant decrease against the reported profit from operations of €1 3 million in 2008

Loss before tax was €6 7 million, which is a significant decrease on the reported profit before tax of €1 1 million in 2008

The losses registered in 2009 were due for the main part, to write-off of assets for an amount of €3 7 million, related to some devaluations decided by the Board of Directors, as well as the impairment of some assets booked in the Group

The Group gross profit decreased by 45 9% to €4 1 million (2008 €7 7 million), and EBITDA (including the result from Matica Americas) was negative €5 4 million (2008 EBITDA of €2 1)

This was a result of the general economic crisis in revenues, that the Company has partly offset by a reduction of the Company's overall manufacturing and operating costs for raw material there was a decrease of 39% to €4 3 million (2008 €6 9 million) and for other operating expenses there was a decrease of 7% to €2 5 million (2008 €2 6 million)

Corporate Matters

On 12 March 2010 our shareholders passed a resolution approving the delisting of the company's shares from the AIM market

Outlook

For the full 2010 we expect the challenging market situation to continue We believe that our business will only recover slightly, but the cost saving measures we have instituted will limit the negative impact of the global economic crisis on our company results The aim of our management for 2010 is to generate positive earnings, but due to instability of the international economies and markets, it is currently hard to predict business trends with any confidence

We are confident that the underlying strength of Matica's markets, combined with the internal action we are taking, will put Matica in a position to get out of the current difficult economic environment and return to profitability in 2010 The market demand continues to be driven by the growth in the use of credit and debit cards, particularly in emerging markets, the migration of these cards from a magnetic strip to smart cards and the continued concerns over security and safety worldwide - with particular reference to ID applications

We believe that Matica is well positioned to benefit from a worldwide trend for banks to decentralise their card issuance With our expertise in the global card personalisation market and innovative product offerings which are tailored to meet our customers' needs, we believe that the long- term outlook remains positive for Matica

Sandro Camilleri
Chief Executive Officer
25 June 2010

DIRECTORS' REPORT

The directors present their report and the financial statements for the period ended 31 December 2009

Registered number

The Company is incorporated and domiciled in Great Britain and is registered in England and Wales with Company Registration Number 06001053

Principal activities

The Group manufactures and distributes card personalisation systems, used for a wide range of plastic cards including credit and debit cards, smart cards, identification cards, security cards, SIM cards for mobile telephones, pre-paid telephone cards, membership cards, loyalty cards, electronic payment cards, patient cards, insurance cards and gift cards The Group also produces a range of metal plate embossing systems for the personalisation of items such as vehicle identification number plates, military dog tags and industrial products

Business review

A review of the business of the Group is set out in the Chief Executive Officer's statement on pages 3 to 5

Financial risk management

Details of the group's financial instruments and its policies with regard to financial risk management are given in note 35 to the financial statements

Results for the year and dividends

The loss for the year after taxation attributable to the equity holders of the Company was €6,701,000 (2008 profit €427,000)

Post balance sheet events

By a special resolution passed on 12 March 2010 the shareholders approved the cancellation of the admission of the Company's shares to trading on the AIM market Subsequently the Company's shares have been admitted to the matched bargain facility operated by J P Jenkins, a trading division of Rivington Street Corporate Finance Limited

Directors

The directors of the company who served during the period were

Sandro Camilleri
Christopher Henry Bruce Honeyborne
Lukas Franz Metzler
Emmanuel John Olympitis (resigned 18 June 2010)
Gary Holland
Veraje Anjargolian

On 27 January 2010 Veraje Anjargolian resigned as a director and on 23 March 2010 Christopher Honeyborne and Gary Holland resigned as directors

On 24 March Stefano Camilleri was appointed a director

DIRECTORS' REPORT (continued)

Disclosure of information to the auditors

In the case of each person who was a director at the time this report was approved

- so far as that director was aware there was no relevant available information of which the company's auditors were unaware, and
- that director had taken all steps that the director ought to have taken as a director to make himself or herself aware of any relevant audit information and to establish that the company's auditors were aware of that information

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

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 85 (2008 75) days purchases owed to trade creditors

Auditors

A resolution to re-appoint the auditors, Nexia Smith & Williamson, will be proposed at the next Annual General Meeting

Approved by the board of directors
and signed on behalf of the board

Sandro Camilleri
Director
25 June 2010

Corporate Governance Statement for the year ended 31 December 2009

Internal Financial control

The Directors are responsible for ensuring that the Group maintains a system of internal financial control to provide them with reasonable assurance regarding the reliability of financial information used within the business and that the assets are safeguarded

There are inherent limitations in any system of internal financial control and accordingly, even the most effective system can provide only reasonable, but not absolute, assurance with respect to the preparation of the financial information and the safeguarding of assets

The internal financial control system will be subject to regular review

Going concern statement

The Directors have reviewed the Group financial position up to the date of approval of the financial statements and its prospects The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and the Directors are satisfied that it is appropriate to produce the required financial statements on a going concern basis

Statement of Directors' Responsibilities

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 applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006 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 group and of the profit or loss of the group for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and accounting estimates that are reasonable and prudent,
- state that the financial statements comply with IFRSs as adopted by the European Union,

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 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

On behalf of the Board

Sandro Camilleri
25 June 2010

Nexia Smith & Williamson

INDEPENDENT AUDITORS' REPORT TO SHAREHOLDERS OF MATICA PLC

We have audited the financial statements of Matica plc for the year ended 31 December 2009 which comprise the Consolidated and Company Statements of Comprehensive Income, the Consolidated and Company Balance Sheets, the Consolidated and Company Statements of Cash Flow, the Consolidated and Company Statements of Changes in Equity and the related notes 1 to 36 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 and as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006

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 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 set out on page 8, 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 (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the APB's website at www frc org uk/apb/scope/UKNP

Opinion on financial statements
In our opinion

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2009 and of the group's loss for the year then ended,
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Nexia Smith & Williamson

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 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

Andrew Bond
Senior Statutory Auditor, for and on behalf of
Nexia Smith & Williamson
Statutory Auditor
Chartered Accountants

25 Moorgate
London
EC2R 6AY

Date 29/6/10

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2009

	Note	2009 €'000	2008 €'000
Continuing operations			
Revenue	2	8,415	14,610
Raw materials and consumables used		(4,258)	(6,923)
Gross profit		4,157	7,687
Other operating income	2	134	132
Staff costs	7	(3,423)	(2,870)
Other operating expenses		(2,461)	(2,645)
Other gains and (losses)	4	(3,772)	-
Depreciation and amortisation		(906)	(995)
(Loss)/profit from operations	3	(6,271)	1,309
Loss from joint venture	16	(112)	(129)
Finance costs	8	(135)	(123)
Finance income	8	48	22
(Loss)/profit from continuing operations before tax		(6,470)	1,079
Income tax	9	(231)	(652)
(Loss)/profit from continuing operations for the period		**(6,701)**	**427**
Other comprehensive income:			
Exchange differences arising from translation of foreign operations		80	(100)
Total comprehensive income attributable to owners of the parent		**(6,621)**	**327**
Earnings per share:			
Basic (loss)/earnings per share	10	(€0 565)	€0 042
Fully diluted (loss)/earnings per share	10	(€0 565)	€0 039

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2009

	Share capital €'000	Share premium €'000	Merger reserve €'000	Other reserves €'000	Retained earnings €'000	Total equity €'000
Balance at 31 December 2007	744	3,362	6,586	192	(2,079)	8,805
Profit for the year	-	-	-	-	427	427
Exchange rate translation adjustment	-	-	-	(100)	-	(100)
Total recognised income and expense	-	-	-	(100)	427	327
Transfer to other reserves	-	-	-	37	(37)	-
Cost of share based payments	-	-	-	69	-	69
Balance at 31 December 2008	744	3,362	6,586	198	(1,689)	9,201
Loss for the year	-	-	-	-	(6,701)	(6,701)
Exchange rate translation adjustment	-	-	-	80	-	80
Total recognised income and expense	-	-	-	80	(6,701)	(6,621)
Issues of equity share capital	1,133	1,180	-	-	-	2,313
Costs of equity issues	-	(92)	-	-	-	(92)
Shares to be issued by subsidiary	-	-	-	752	-	752
Cost of share based payments	-	-	-	57	-	57
Balance at 31 December 2009	1,877	4,450	6,586	1,087	(8,390)	5,610

CONSOLIDATED BALANCE SHEET as at 31 December 2009

	Note	2009 €'000	2008 €'000
Non - current assets			
Goodwill	11	3,378	5,018
Intangible fixed assets	13	2,877	4,127
Property, plant and equipment	12	240	333
Deferred tax receivables	26	77	153
Investment in joint venture	16	-	35
Other investments	17	1,307	-
Total non-current assets		7,879	9,666
Current assets			
Inventory	18	2,505	3,239
Trade and other receivables	19	2,441	2,233
Cash and cash equivalents	21	1,999	1,387
Total current assets		6,945	6,859
Current liabilities			
Financial liabilities - borrowings	23	1,404	649
Trade and other payables	24	4,015	4,448
Total current liabilities		5,419	5,097
Net current assets		**1,526**	**1,762**
Non-current liabilities			
Financial liabilities - borrowings	23	2,719	1,726
Deferred tax liabilities	26	642	501
Other non current liabilities	27	434	-
Total non-current liabilities		3,795	2,227
Net assets		**5,610**	**9,201**
Equity			
Share capital	28	1,877	744
Share premium account		4,450	3,362
Merger reserve		6,586	6,586
Other reserves	29	1,087	198
Retained losses		(8,390)	(1,689)
Total equity		**5,610**	**9,201**

The financial statements were approved by the Board of Directors on 25 June 2010 and were signed on its behalf by

Sandro Camilleri

CONSOLIDATED STATEMENT OF CASH FLOWS for the year ended 31 December 2009

	Notes	2009 €'000	2008 €'000
Net cash (outflow)/inflow from operating activities	30	(1,337)	881
Investing activities			
Additions to property, plant and equipment		(15)	(57)
Additions to intangible fixed assets		(707)	(908)
Cash acquired on acquisition of subsidiary		8	-
Investment in joint venture		(80)	(164)
Purchase of other investments		(1,307)	-
Disposal of property, plant and equipment		-	12
Interest received		48	22
Net cash used in investment activities		(2,053)	(1,095)
Financing activities			
Proceeds from share issues		1,646	-
Share issue expenses		(92)	-
Equity loan to subsidiary (see note 29)		752	-
Increase/(decrease) in short term borrowings		519	(707)
Increase in long term borrowings		1,750	1,500
Repayments of long term borrowings		(521)	(412)
Interest paid		(135)	(123)
Net cash from financing activities		3,919	258
Net increase in cash and cash equivalents		529	44
Effect of foreign exchange rate changes		83	(113)
Cash and cash equivalents at beginning of the year		1,387	1,456
Cash and cash equivalents at the end of the year		1,999	1,387

COMPANY STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2009

	Note	2009 €'000	2008 €'000
Loss for the period		(5,352)	(587)
Other comprehensive income:			
Exchange differences arising on translation of foreign operations		(419)	(113)
Total comprehensive income for the year attributable to owners of the parent		(5,771)	(700)

COMPANY BALANCE SHEET as at 31 December 2009

	Notes	2009 €'000	2008 €'000
Non - current assets			
Investment in subsidiaries	14	4,805	8,531
Total non-current assets		4,805	8,531
Current assets			
Trade and other receivables	20	1,779	951
Cash and cash equivalents	22	734	65
Total current assets		2,513	1,016
Current liabilities			
Trade and other payables	25	1,430	166
Total current liabilities		1,430	166
Net current assets		**1,083**	**850**
Net assets		**5,888**	**9,381**
Equity			
Share capital	28	1,877	744
Share premium account		4,450	3,362
Merger reserve		6,467	6,467
Share option reserve		157	100
Exchange translation reserve		(611)	(192)
Retained losses		(6,452)	(1,100)
		5,888	**9,381**

The financial statements were approved by the Board of Directors on 25 June 2010 and were signed on its behalf by

Sandro Camilleri

COMPANY STATEMENT OF CHANGES IN EQUITY
for the period ended 31 December 2009

	Share Capital	Share premium	Merger reserve	Share option reserve	Exchange translation reserve	Retained earnings	Total equity
	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Balance at 31 December 2007	744	3,362	6,467	31	(79)	(513)	10,012
Loss for the period	-	-	-	-	-	(587)	(587)
Exchange rate translation adjustment	-	-	-	-	(113)	-	(113)
Total recognised loss for the year	-	-	-	-	(113)	(587)	(700)
Cost of share based payments	-	-	-	69	-	-	69
Balance at 31 December 2008	744	3,362	6,467	100	(192)	(1,100)	9,381
Loss for the period	-	-	-	-	-	(5,352)	(5,352)
Exchange rate translation adjustment	-	-	-	-	(419)	-	(419)
Total recognised loss for the year	-	-	-	-	(419)	(5,352)	(5,771)
Issues of equity share capital	1,133	1,180	-	-	-	-	2,313
Costs of equity share issues	-	(92)	-	-	-	-	(92)
Cost of share based payments	-	-	-	57	-	-	57
Balance at 31 December 2009	1,877	4,450	6,467	157	(611)	(6,452)	5,888

COMPANY STATEMENT OF CASH FLOWS for the period ended 31 December 2009

		2009 €'000	2008 €'000
Net cash outflow from operating activities	31	**(866)**	**(625)**
Investing activities			
Interest received		-	14
Net cash from investment activities		**-**	**14**
Financing activities			
Proceeds from share issues		1,646	-
Costs of share issues		(92)	-
Net cash from financing		**1,554**	**-**
Net increase/(decrease) in cash and cash equivalents		**688**	**(611)**
Effect of foreign exchange rate changes		(19)	(113)
Cash and cash equivalents at the beginning of the year		65	789
Cash and cash equivalents at the end of the year		**734**	**65**

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies

The principal accounting policies are summarised below They have all been applied consistently throughout the period covered by these financial statements

Basis of preparation

The financial information has been prepared in accordance with International Financial Reporting Standards ("IFRS") The financial statements have been prepared in accordance with IFRS as adopted by the European Union applied in accordance with the provisions of the Companies Act 2006

The financial information is presented in Euro being the currency of the primary economic environment in which the Group operates although the functional currency of the parent company is currently sterling

The financial statements have been prepared under the historical cost convention, and on a going concern basis

Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with generally accepted accounting practice requires management to make estimates and judgements that affect the reported amounts of assets and liabilities as well as the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period

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

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value During the year goodwill totalling €2,084,000 was written off in connection with the proposed disposal of Digicard Engineering Gmbh and the winding up of Matica Asia Pacific Pte Ltd and the carrying value of goodwill at the balance sheet date was €3,378,000 (2008 €5,018,000)

Share based payments

In determining the fair value of equity settled share based payments and the related charge to the income statement the Group makes assumptions about future events and market conditions In particular judgements must be made as to the likely number of shares that will vest and the fair value of each award granted The fair value is determined using a valuation model which is dependent on further estimates including the Group's future dividend policy, employee turnover, the timing with which options will be exercised and the future volatility in the price of the Group's shares Such assumptions are based on publicly available information and reflect market expectations and advice taken from qualified personnel Different assumptions about these factors to those made by the Group could materially affect the reported value of share based payments

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 Accounting policies (continued)

Intangible assets

Intangible assets are treated in accordance with the stated policy Determining the amounts to be amortised requires management to make judgements on the useful economic lives of the assets Management have assessed the useful lives as being between 2 and 10 years

New standards and interpretations

At the date of approval of these financial statements the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet mandatorily effective

		Effective for accounting periods beginning on or after:
IAS 7	Classification of expenditures on unrecognised assets	1 January 2010
IAS 17	Classification of leases of land and buildings	1 January 2010
IAS 24	Related Party Disclosures	1 January 2011
IAS 32	Financial instruments Presentation - Classification of Rights Issues	1 February 2010
IAS 36	Unit of accounting for goodwill impairment test	1 January 2010
IAS 38 (amendment)	Intangible assets	1 July 2009
IFRS 2	Scope of IFRS 2 and IFRS 3 (revised)	1 July 2009
IFRS 8 (amendment)	Disclosure of information about segment assets	1 January 2010
IFRS 9	Financial Instruments	1 January 2013
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	1 July 2010

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 **Accounting policies (continued)**

In addition the following standards and interpretations have been issued that are not applicable to the Company

		Effective for accounting periods beginning on or after
IAS 1	Current/non-current classification of convertible instruments	1 January 2010
IAS 27 (revision)	Consolidated and separate financial statements	1 July 2009
IAS 32	Financial instruments Presentation - Classification of Rights Issues	1 February 2010
IAS 39 (revision)	Financial instruments recognition and measurement	1 July 2009
IFRS 3 (revision)	Business combinations	1 July 2009
IFRS 5 (amendment)	Non- current assets held for sale and discontinued operations	1 January 2010
IFRIC 17	Distribution of non-cash assets to owners	1 July 2009
IFRIC 18	Transfers of assets from customers	1 July 2009

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 Accounting policies (continued)

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

Basis of consolidation

The Group financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) prepared to 31 December each year Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal as appropriate

Where necessary adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group

All intra-group transactions and balances are eliminated on consolidation

Joint ventures

At the end of March 2009 the Group acquired the remaining 50% of Matica Americas LLC which up to that point was accounted for as a joint venture using the equity method of accounting Under the equity method, the income statement reflects the Group's share of results of the joint venture Where there has been a charge recognised directly in the joint venture's equity, the Group recognises its share of any charges

With effect from 1 April 2009 the results, assets and liabilities of Matica Americas LLC have been accounted for as a subsidiary undertaking

Business combinations and goodwill

On acquisition the assets and liabilities and contingent liabilities of subsidiaries are measured at their fair values at the date of acquisition. Any excess of cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i e discount on acquisition) is credited to profit and loss in the period of acquisition Where an investment was previously equity accounted for as a joint venture and the business combination occurs in stages any previous adjustments to the ownership interests in respect of attributable earnings/losses are reversed against retained earnings at the date that a controlling interest is obtained (so that the carrying amounts of those ownership interests are restated to cost) Goodwill arising on consolidation is recognised as an asset and reviewed for impairment at least annually Any impairment is recognised immediately in profit or loss and is not subsequently reversed

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 Accounting policies (continued)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business net of discounts VAT and other sales related taxes

Sales of goods are recognised when goods are delivered and title has passed
Revenue arising from the sale of services is recognised when and to the extent that the Group obtains the right to consideration in exchange for the performance of its contractual obligations as follows

- Maintenance and assistance services are recognized when they are performed
- Machine rentals are recognised on a straight line basis over the contractual term

Foreign currency

Transactions in foreign currency are recorded at the rates of exchange prevailing on the dates of the transactions At each balance sheet date monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Exchange gains and losses on short-term foreign currency borrowings and deposits are included within finance costs

Exchange gains and losses on foreign currency borrowings and deposits are included within finance income and finance costs respectively Exchange differences on all other transactions are recognised within operating profit

For group companies whose functional currency is not Euro, the assets and liabilities are translated into Euro at the rates of exchange ruling at the financial year end The results of these companies are translated at the average rate of exchange during the financial year Differences arising from the translation of the opening net investment in subsidiary companies are taken to reserves

Taxation

The tax expense represents the sum of the tax currently payable and any deferred tax

The tax currently payable is based on the taxable profit for the year Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible The Company's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the balance sheet date

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 Accounting policies (continued)

Taxation (continued)

temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised Deferred tax is charged or credited to profit or loss except when it relates to items charged or credited to other comprehensive income in which case the deferred tax is also dealt with in other comprehensive income

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current assets and liabilities on a net basis

Share based payments

The cost of share-based employee compensation arrangements whereby employees receive remuneration in the form of shares or share options is recognised as an employee benefit expense in the income statement.

The total expense to be apportioned over the vesting period of the benefit is determined by reference to the fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The assumptions underlying the number of awards expected to vest are subsequently adjusted for the effects of non market-based vesting to reflect the conditions prevailing at the balance sheet date Fair value is measured by the use of the Black-Scholes model The expected life used in the model has been adjusted based on management's best estimate for the effects of the non-transferability exercise restrictions and behavioural considerations

Acquired intangible assets

Intangible assets acquired separately or as part of a business combination are capitalised at cost and fair value as at the date of acquisition, respectively Intangible assets are subsequently amortised on a straight-line basis over the expected period that benefits will accrue to the Group

Patents	over 10 years
Client lists	over 10 years
Software	over 5 years

Development costs

Internally generated development expenditure is capitalised as an intangible asset only if all the following criteria are met:

- the asset can be identified,
- it is probable that the asset will generate future economic benefits,
- the fair value of the asset can be measured reliably

Capitalised development expenditure is amortised on a straight-line basis over the period of expected future sales of the resulting products, which has been assessed as between 3 and 5 years

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 Accounting policies (continued)

Plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss

Depreciation is charged so as to write off the cost of assets over their estimated useful lives using the straight-line method on the following bases

Leasehold Improvements	over remainder of lease (5 years)
Plant and Machinery	10%
Furniture and Office equipment	10% to 25%

Investments in subsidiaries

Investments in subsidiaries are stated at cost less provision for any impairment.

Inventories

Inventories are stated at the lower of cost and net realisable value Cost comprises direct materials and where applicable direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition Cost is calculated using the weighted average method Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing selling and distribution.

Operating leases

Payments made under operating leases are charged to the statement of comprehensive income on a straight line basis over the period of the lease

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when the Group becomes a party to the contractual provisions of the instrument

Investments

All investments which the Group holds are classified as held to maturity investments, with fixed or determinable payments and fixed maturity dates, which the Group has a positive intent and ability to hold to maturity Held to maturity investments are recorded at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis

Trade and other receivables

Trade and other receivables are measured at initial recognition at fair value and are subsequently measured at amortised cost using the effective interest method A provision is established when there is objective evidence that the Group will not be able to collect all amounts due The amount of any provision is recognised in the statement of comprehensive income

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 Accounting policies (continued)

Financial instruments (continued)

Cash and cash equivalents
Cash and cash equivalents comprise cash held by the Group and short term-term bank deposits with an original maturity of three months or less

Impairment of financial assets
Financial assets are assessed for indicators of impairment at each balance sheet date Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the original recognition of the financial asset the estimated future cash flows of the investment have been impacted For loans and receivables the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectable it is written off against the allowance account Subsequent recoveries of amounts previously written off are credited against the allowance account Changes in the carrying amount of the allowance account are recognised in profit or loss 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 through the profit or loss to the extent the carrying amount of the investment at the date he impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised

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

Financial liabilities and equity instruments
Financial liabilities and equity instruments issued by the Group are classified in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities Equity instruments issued by the company are recorded at the proceeds received net of direct issue costs

Interest bearing bank loans, overdrafts and other loans
Interest bearing bank loans, overdrafts and other loans are initially measured at fair value, net of direct issue costs They are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, over a shorter period

NOTES TO THE FINANCIAL STATEMENTS (continued)

2 Revenue

	2009	2008
	€'000	€'000
An analysis of the Group's revenue is as follows		
Sale of goods	8,218	14,175
Rendering of services	197	424
Equipment rental	-	11
	8,415	14,610
Other operating income		
Profit on disposal of fixed assets	-	1
Miscellaneous income	84	13
Net gain on foreign currency differences	50	118
	134	132

As permitted by section 408 of the Companies Act 2006 individual the Company has elected not to present its own income statement and related notes The loss dealt with in the financial statements of the parent Company was €5,352,000 (2007 €587,000)

3 (Loss)/profit from operations is stated after charging

	2009	2008
	€'000	€'000
Cost of inventories recognised as an expense	4,258	6,923
Depreciation of property plant and equipment	130	128
Amortisation of intangibles	776	867
Operating lease rentals	340	351

4 Other gains and (losses)

	2009	2008
	€'000	€'000
Impairment of investment in Digicard Engineering Gmbh	(2,067)	-
Closure costs of Digicard head office	(524)	
Impairment of value of client lists	(1,181)	-
	(3,772)	-

NOTES TO THE FINANCIAL STATEMENTS (continued)

5 Auditors remuneration

	2009 €'000	2008 €'000
Fees payable to the Group's auditor		
for the audit of the Group's annual accounts	24	26
for other services supplied pursuant to legislation	-	-
for other services	5	7
Fees payable to associates for the auditing of accounts of associates of the Company and not recharged	59	41

6 Geographical analysis

The Group currently operates in one business area namely design, manufacture and marketing of card personalisation systems and card mailing systems for customers around the world in a range of industries The Group's manufacturing facility and main distribution operations are located in Italy There is also a sales and distribution office in the USA, and a sales office in Asia

Sales revenue by destination	2009 €'000	2008 €'000
Europe	3,983	6,830
Middle East and Africa	3,126	4,510
Asia Pacific	788	996
Americas	518	2,274
	8,415	14,610

Operating (loss)/profit by location		
Europe	(5,400)	1,323
Americas	(199)	-
Asia	(1,102)	(14)
	(6,701)	1,309

Assets, liabilities and capital expenditure by location			
Total Assets	Europe	14,576	16,513
	Americas	247	-
	Asia	1	12
		14,824	16,525
Total liabilities	Europe	9,031	7,242
	Americas	183	-
	Asia	-	82
		9,214	7,324
Capital expenditure	Europe	744	978
	Americas	-	-
	Asia	-	-
		744	978

NOTES TO THE FINANCIAL STATEMENTS (continued)

7 Staff costs

The average number of persons, including executive directors, was

	2009 Number	2008 Number
Manufacturing	24	31
Selling and distribution	11	9
Administration	9	10
Project consultants	3	4
Executive Directors	3	1
	50	55

	2009 €'000	2008 €'000
Staff costs for the above persons were		
Wages and salaries	2,994	2,385
Social security costs	429	485
	3,423	2,870

Directors' emoluments	2009 €'000	2008 €'000
Total remuneration paid to directors	1,207	549
Total emoluments of highest paid director	856	425

NOTES TO THE FINANCIAL STATEMENTS (continued)

7 Staff costs (continued)

Share based incentives

Details of Directors share options are as follows

	At 31 Dec 2007	Lapsed	Cancelled	Granted	At 31 Dec 2008
Sandro Camilleri	[A]900,372	-	-	-	[A]900,372
Christopher Honeyborne	[B]16,772	-	-	-	[B]16,772
Lukas Metzler	[B]16,772	-	-	-	[B]16,772
Emmanuel Olympitis	[B]16,772	-	-	-	[B]16,772

[A] Options are exercisable at 40 5p per share and include 200,372 options granted to Sandro Camilleri's wife One third are exercisable at any time after 23 June 2009, one third are exercisable at any time after 23 June 2010 and the remaining one third are exercisable at any time after 23 June 2011 At the date of grant they had a contractual life of ten years.

[B] Options are exercisable at 100p per share Half the options are exercisable on 10 April 2009 and half on 10 April 2010 provided that the increase in basic earnings per share for the years 2008 and 2009 exceeds the increase in RPI by at least 4% At the date of grant they had a contractual life of ten years

8 Finance costs and finance income

	2009 €'000	2008 €'000
Interest payable on bank loans and overdrafts	117	122
Other interest payable	18	1
	135	123
Bank interest receivable	-	22
Other interest receivable	48	-
	48	22

NOTES TO THE FINANCIAL STATEMENTS (continued)

9 Taxation

	2009 €'000	2008 €'000
Current tax	48	352
Deferred tax	183	300
Total tax expense for the period	**231**	**652**

The difference between the total tax expense shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit/(loss) before tax is as follows

	2009 €'000	2008 €'000
(Loss)/Profit before taxation	(6,470)	1,079
Tax on (loss)/profit on ordinary activities at the UK standard rate of 28% (2008 28%)	(1,811)	302
Effects of		
Expenses not allowable for taxation	450	55
Regional taxes (IRAP)	31	112
Unutilised tax losses - UK	847	164
Overseas tax rates	2	(11)
Overseas tax losses utilised	(13)	(11)
Unutilised tax losses	725	41
Total tax expense for the period	**231**	**652**

NOTES TO THE FINANCIAL STATEMENTS (continued)

10 Earnings per share	2009	2008
	€'000	€'000
Earnings		
Earnings for the purposes of basic and diluted earnings per share being net profit attributable to equity shareholders	(6,701)	427
Number of shares	*Number*	*Number*
Weighted average number of ordinary shares for the purposes of basic earnings per share	11,864,714	10,062,816
Potential dilutive effect of outstanding options	N/A	907,856
Weighted average number of ordinary shares for the purposes of diluted earnings per share	11,864,714	10,970,672

The total number of outstanding share options is disclosed in note 34

As the group had negative earnings for the year in 2009 the number of shares used for the calculation of diluted earnings per share is the same as that used for basic earnings per share

11 Goodwill	2009	2008
	€'000	€'000
Cost and net book amount		
At 1 January	5,018	5,018
Acquisition of 50% of Matica Americas	444	-
Write off Digicard	(2,067)	-
Write off Matica Asia	(17)	-
At 31 December	3,378	5,018

Goodwill is allocated to cash generating units The recoverable amount of each unit is determined based on business-in-use calculations The key assumptions for the value-in-use calculation are those regarding discount rates and growth rates as well as expected changes to costs and selling prices Management have estimated the discount rate based on the weighted average cost of capital Changes in selling prices and direct costs are based on past experience and expectations of future change in the markets These calculations use cash flow projections based on financial budgets approved by management looking forward up to five years. Cash flows are extrapolated using estimated growth rates beyond the budget period The key assumptions for the value-in-use calculations are

- a real growth rate of 2% which has been used to extrapolate cash flows beyond the budget period, and
- a WACC rate of 14 8% applied to the cash flow projection

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. Property, plant and equipment

	Leasehold Improvements €'000	Plant and Machinery €'000	Furniture and office equipment €'000	Total €'000
Cost				
At 1 January 2008	275	130	516	921
Additions	-	14	43	57
Disposals	-	(77)	(8)	(85)
At 31 December 2008	275	67	551	893
Acquisition of subsidiary	-	-	22	22
Additions	-	-	15	15
At 31 December 2009	275	67	588	930
Depreciation				
At 1 January 2008	(116)	(115)	(275)	(506)
Charge for the year	(53)	(3)	(72)	(128)
On disposals	-	69	5	74
At 31 December 2008	(169)	(49)	(342)	(560)
Charge for the year	(53)	(3)	(74)	(130)
At 31 December 2009	(222)	(52)	(416)	(690)
Net book amount				
At 31 December 2009	53	15	172	240
At 31 December 2008	106	18	209	333

NOTES TO THE FINANCIAL STATEMENTS (continued)

13. Intangible fixed assets

	Development Costs	Patents	Clients List	Other	Total
	€'000	€'000	€'000	€'000	€'000
Cost					
At 1 January 2008	2,774	1,350	1,688	100	5,912
Exchange differences	-	16	-	-	16
Additions	853	-	-	55	908
Disposals	-	-	-	-	-
At 31 December 2008	3,627	1,366	1,688	155	6,836
Additions	682	7		17	707
At 31 December 2009	4,309	1,373	1,688	172	7,543
Depreciation					
At 1 January 2008	(1,454)	(135)	(169)	(81)	(1,839)
Exchange differences	-	(3)	-	-	(3)
Charge for the year	(544)	(138)	(169)	(16)	(867)
At 31 December 2008	(1,998)	(276)	(338)	(97)	(2,709)
Charge for the year	(421)	(123)	(169)	(63)	(776)
Impairment	-	-	(1,181)	-	(1,181)
At 31 December 2009	(2,419)	(399)	(1,688)	(160)	(4,666)
Net book amount					
At 31 December 2009	1,891	974	-	12	2,877
At 31 December 2008	1,629	1,090	1,350	58	4,127

NOTES TO THE FINANCIAL STATEMENTS (continued)

14 Company investment in subsidiaries

Cost and net book amount	2009 €'000	2008 €'000
At 1 January	8,531	8,531
Impairment of investment in Matica Swiss AG	(2,067)	-
Impairment of investment in Matica Asia Pacific Pte Ltd	(1,659)	-
At 31 December	4,805	8,531

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

Name of company	*Nature of business*	*Country of Incorporation*	*% voting rights and shares held*
Matica Swiss AG	Sub -Holding	Switzerland	100%
Matica System S r l *	Manufacturing and Trading	Italy	100%
Digicard Engineering Gmbh*	Engineering	Austria	100%
Matica Asia Pacific Pte Ltd	Sub -Holding	Singapore	100%
Matica China Ltd*	Trading	China	100%
Matica Americas LLC*	Trading	USA	100%

Companies marked with * are indirectly held subsidiaries of Matica plc, all the others are directly held

15 Acquisition of subsidiary

On 31 March 2009 the Group acquired the remaining 50% of Matica Americas LLC for a consideration of US$800,000 (€601,000) to be paid in 6 annual instalments commencing 30 April 2010 The transaction has been accounted for by the purchase method of accounting and the total consideration has been discounted, using an annual rate of 5%, to give a present value of €533,000

	€'000
Book and fair values of net assets acquired	
Property, plant and equipment	22
Inventories	171
Trade and other receivables	24
Cash balances	8
Trade and other payables	(185)
	40
Cash introduced by vendor following completion	49
Goodwill	444
Exchange difference	3
	536
Satisfied by	
Amount transferred from investment in joint venture	3
Deferred consideration	533
	536

16 **Investment in joint ventures**

	2009	2008
	€'000	€'000
Carrying amount		
At 1 January	35	-
Additions	80	164
Share of losses	(112)	(129)
	3	35
Transfer to acquisition costs on obtaining controlling interest in Matica Americas LLC	(3)	-
At 31 December	-	35

In July 2008 the Group entered into a joint venture arrangement, and acquired a 50% equity interest in Matica Americas LLC, which was set up for the purpose of the joint venture At the end of March 2009 the Group acquired the remaining 50% of Matica Americas (see note 15 for further details)

17 **Other investments**

	2009	2008
	€'000	€'000
Carrying amount		
At 1 January	-	-
Additions	1,307	-
At 31 December	1,307	-

In March 2009 the Group acquired a 5 year 4% bond for €1,000,000, as security for a 5 year loan of £1,750,000, and in December 2009 the Group acquired another 5 year 4%bond for €300,000 to support a 5 year equity line of finance to the Group of €750,000 These bonds are shown in the accounts and accounted for at amortised cost as at 31 December 2009, which is also their fair value

18 **Inventories - Group**

	2009	2008
	€'000	€'000
Raw materials and consumables	1,140	1,391
Work in progress	172	271
Finished goods	1,193	1,577
	2,505	3,239

NOTES TO THE FINANCIAL STATEMENTS (continued)

19 Trade and other receivables - Group

	2009 €'000	2008 €'000
Trade receivables	1,273	1,774
Other debtors	1,109	349
Prepayments and accrued income	59	110
	2,441	2,233

Trade receivables and other debtors constitute the only financial assets, other than cash, within the category "Loans and receivables" as defined by IAS 39

Trade receivables are non-interest bearing and generally have a 30 – 90 day term Due to their short maturities the fair value of trade and other receivables approximates their book value

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables mentioned above

A provision for impairment of trade receivables is established when there is no objective evidence that the group will be able to collect all amounts due according to the original terms

The group considers factors such as default or delinquency in payment, significant financial difficulties of the debtor and the probability that the debtor will enter bankruptcy in deciding whether the trade receivable is impaired

Provisions for impairment of trade receivables - Group	2009 €'000	2008 €'000
As at 1 January	106	219
Charge for the year	48	91
Amounts written off net of recoveries	(106)	(204)
As at 31 December	48	106

As at 31 December 2009 trade receivables of €48,000 were impaired (2008 €106,000)

As at 31 December 2009 trade receivables of €125,000 (2008. €566,000) were past due but not impaired The ageing analysis of these trade receivables is as follows:

	2009 €'000	2008 €'000
2 to 5 months past due	1	381
6 to 8 months past due	37	14
Over 8 months past due	87	171
	125	566

NOTES TO THE FINANCIAL STATEMENTS (continued)

20 Trade and other receivables - Company

	2009 €'000	2008 €'000
Amounts owed by group undertakings	1,104	903
Other debtors	671	1
Prepayments and accrued income	4	47
	1,779	951

Based on prior experience and an assessment of the current economic environment the directors did not consider any impairment provision is required against the above assets and consider that the carrying amount of the Company's trade and other receivables approximates their fair value

21 Cash and cash equivalents - Group

	2009 €'000	2008 €'000
Cash at bank and in hand	1,999	1,387
Short term bank deposits	-	-
	1,999	1,387

The directors consider that the carrying amount of these assets approximates to their fair value The credit risk on liquid funds is limited because the counter-parties are banks with high credit ratings The cash balances detailed above represent the Group's maximum exposure to credit risk

The Group's cash and cash equivalents earned interest at fixed and variable rates which averaged 4% during the year (2008 5%) An increase or decrease of 1% in the average interest rate on the Group's cash deposits would have no significant effect on the result for the year or on the value of the Group's equity

22 Cash and cash equivalents - Company

	2009 €'000	2008 €'000
Cash at bank and in hand	734	65
Short term bank deposits	-	-
	734	65

The directors consider that the carrying amount of these assets approximates to their fair value The credit risk on liquid funds is limited because the counter-party is a bank with a high credit rating

NOTES TO THE FINANCIAL STATEMENTS (continued)

23a Financial liabilities - borrowings - Group

	2009	2008
	€'000	€'000
Short-term borrowings		
Bank loans	1,113	457
Other loans	291	192
	1,404	649
Long-term borrowings		
Bank loans	2,431	1,246
Other loans	288	480
	2,719	1,726

23b Financial liabilities - borrowings - Group

The table below analyses the group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date The amounts disclosed in the table are the contractual undiscounted cash flows, so they include the relevant interest payable, and therefore do not reconcile to the amounts disclosed on the balance sheet for borrowings

		2009	2008
		€'000	€'000
In the first year	Borrowings	1,404	649
	Trade and other payables	3,599	4,074
In the second year	Borrowings	988	663
	Other payables	72	-
In the third to fifth years inclusive	Borrowings	1,867	-
	Other payables	430	1,149
		8,360	6,534

The directors consider that the carrying amount of the bank loans approximates to their fair value as interest is charged at a market rate, which is reviewed on an annual basis These loans are secured on the group's trade receivables

In March 2010 the Group entered into a new loan for €1,750,000 with Banca Intermobiliare, repayable over 5 years The loan is partly secured by an investment of €1,000,000 in a 4% bond with the bank which matures in March 2014

The loan designated as "other loans" is unsecured, repayable over 4 years and bears interest at ½% over Euribor The directors consider that its carrying amount approximates to its fair value

An increase or decrease of 1% in the average interest rate on the Group's borrowings would have no significant effect on the result for the year or on the value of the Group's equity

NOTES TO THE FINANCIAL STATEMENTS (continued)

24 Trade and other payables - Group

	2009 €'000	2008 €'000
Trade payables	1,907	3,009
Other payables	1,588	1,065
Advance payments from customers	104	-
Accruals and deferred income	47	40
Other taxes and social security payable	369	334
	4,015	4,448

25 Trade and other payables - Company

	2009 €'000	2008 €'000
Trade payables	103	142
Amounts owed to Group undertakings	970	-
Other payables	333	1
Accruals and deferred income	24	23
	1,430	166

The directors consider that the carrying amount of trade and other payables approximates to their fair value

26 Deferred tax - Group

	2009 €'000	2008 €'000
Deferred tax asset:		
Short term timing differences	77	75
Unrelieved losses carried forward	-	78
	77	153
Deferred tax liability		
Development costs	592	485
Exchange rate	4	16
Other	46	-
	642	501

Deferred tax assets of €1,160,000 (2008 €320,000) in respect of the unrelieved losses of Matica plc and €1,850,000 (2008 €790,000) in respect of the Group have not been recognised as there is uncertainty as to whether they will be utilised Unrelieved losses carried forward, for which no deferred tax asset has been recognised total approximately €7,500,000

NOTES TO THE FINANCIAL STATEMENTS (continued)

27 Other non-current liabilities

	2009	2008
	€'000	€'000
Deferred consideration	434	-
	434	-

Deferred consideration is in respect of the acquisition of Matica Americas LLC The total consideration is €601,000, payable in 6 annual instalments commencing 30 April 2010 €99,000 of the consideration has been included in current liabilities, the balance has been adjusted to present value using a discount rate of 5%

28 Called up share capital

	2009	2008
	€'000	€'000
Authorised:		
Matica PLC		
60,000,000 ordinary shares of £0 05	4,437	4,437
Allotted called up and fully paid:		
Matica PLC		
30,176,667 ordinary shares of £0 05	1,877	744

On 30 November 2009, 11,565,851 shares were issued at £0 10 for cash as a result of a rights issue (total proceeds €1,302,000)

On 15 December 2009, 8,548,000 shares were issued at £0 105 for cash as a result of a private placing (total proceeds €1,011,000)

29 Other reserves Group

	Share option reserve	Equity reserve	Exchange conversion reserve	Statutory reserve(1)	Total
	€'000	€'000	€'000	€'000	€'000
At 1 January 2008	31	-	65	96	192
Exchange translation difference	-	-	(100)	-	(100)
Transfer from retained earnings	-	-	-	37	37
Cost of share based payments	69	-	-	-	69
At 31 December 2008	100	-	(35)	133	198
Exchange translation difference	-	-	80	-	80
Shares to be issued in subsidiary in respect of loan(2)	-	752	-	-	752
Cost of share based payments	57	-	-	-	57
At 31 December 2009	157	752	45	133	1,087

(1)It is a legal requirement that companies registered in Italy should provide out of profits for 20% of their paid up share capital and this amount is credited to the Statutory Reserve

(2)During the year a subsidiary was in receipt of a loan for €750,000 guaranteed by a director, Sandro Camilleri who is meeting the cost of the repayments The periodic repayments of the loan will convert into equity in the subsidiary

NOTES TO THE FINANCIAL STATEMENTS (continued)

30 Cash (used in)/generated from operations - Group

	2009 €'000	2008 €'000
(Loss)/profit from operations	(6,271)	1,309
Adjustments for		
Depreciation	130	128
Amortisation	776	867
Impairment of goodwill	2,084	-
Impairment of intangible assets	1,181	-
Gain on disposal of property, plant and equipment	-	(1)
Share based payments	57	69
Operating cash flows before movements in working capital	**(2,043)**	**2,372**
Decrease/(Increase) in trade and other receivables	347	(217)
Decrease/(Increase) in inventory	905	(780)
(Decrease) in trade and other payables	(532)	(145)
Taxes paid	(14)	(349)
Net cash (outflow)/inflow from operating activities	**(1,337)**	**881**

31 Cash used in operations - Company

	2009 €'000	2008 €'000
Loss from operations	(5,352)	(601)
Adjustments for		
Impairment of investment in subsidiaries	3,326	-
Cost of share-based payments	57	69
Operating cash flows before movements in working capital	**(1,969)**	**(532)**
(Increase)/decrease in trade and other receivables	(161)	415
Increase/(decrease) in trade and other payables	1,264	(508)
Net cash (outflow) from operating activities	(866)	(625)

NOTES TO THE FINANCIAL STATEMENTS (continued)

32 Operating lease commitments - Group

At the year end date the Group has lease agreements in respect of properties and equipment for which the payments extend over a number of years

	2009	2008
Due	€'000	€'000
Within one year	498	307
Within two to five years	130	582
After five years	5	5
	633	894

33 Related party transactions

Key management are those persons having authority and responsibility for planning, controlling and directing the activities of the Group In the opinion of the Board, the Group's key management are the directors of Matica plc and the directors and senior management of the main operating companies of the Group The Information regarding their compensation is given below in aggregate for each category specified in IAS 24 *Related Party Disclosures*

	Group		Company	
	2009	2008	2009	2008
	€'000	€'000	€'000	€'000
Short-term employee benefits	1,207	627	845	373
Share based payments	82	69	82	69
	1,289	696	927	442

The Group is in receipt of a loan from K R Energy, a shareholder in the Group, of €960,000, which is repayable in 20 quarterly instalments plus interest calculated at ½% over Euribor At 31 December 2009 the balance of the loan outstanding was €579,000 (2008 - €672,000)

The Company has outstanding balances with its subsidiaries The amounts owed by and to subsidiaries are disclosed in the balance sheet. These balances are unsecured and there is no interest charged on them

During the year no management fees were charged by the Company to its subsidiaries In the previous year the Company charged management fees to its subsidiaries totalling €350,000 In 2009 the Company was charged administrative fees of €30,000 (2008 €20,000) by a subsidiary

During the year the Group was in receipt of a loan of €750,000, which is guaranteed by a director, Sandro Camilleri, who is meeting the cost of the loan repayments The periodic repayments of the loan will convert into equity in the subsidiary

At 31 December a director, Sandro Camilleri, owed the Company €575,000 in respect of shares subscribed for in the share placing in December 2009 The amount was settled in January 2010

NOTES TO THE FINANCIAL STATEMENTS (continued)

34 Share based payments

The Group has a Share Option Plan for executive directors and senior management and there are Individual Option Agreements with Non-executive directors

Details of the share options outstanding during the year are shown below The exercise price of options is denominated in pounds sterling, therefore all references to values and prices of options are expressed in pounds sterling

	2009 Number of share options			2008 Number of share options		
	Share Option Plan	Individual Option Agreements	Weighted average exercise price	Share Option Plan	Individual Option Agreements	Weighted average exercise price
Outstanding at the beginning of the year	1,249,372	50,314	£0 420	748,706	75,471	£0 420
Granted during the year	-	-		1,249,372	-	
Forfeited during the year	-	-		(356,527)	(25,157)	
Exercised during the year	-	-		-	-	
Lapsed during the year	-	-		(392,179)	-	
Outstanding at the end of the year	1,249,372	50,314	£0 420	1,249,372	50,314	£0 420
Exercisable at the end of the year	416,457	-		-	-	

On 23 June 2008 all the options granted under the Share Option Plan, which had not previously lapsed, were cancelled and new options were granted constituting a modification under IFRS 2 One third of these options are exercisable at any time after 23 June 2009, one third are exercisable at any time after 23 June 2010 and the remaining one third are exercisable at any time after 23 June 2011 At the date of grant they had a contractual life of ten years

The options outstanding are exercisable at prices in the range £0 405 to £1 00

The value of the options granted in 2008 was measured by the use of the Black-Scholes pricing model The inputs into the model were as follows

Options exercisable on	23 June 2009	23 June 2010	23 June 2011
Share price at grant date	£0 405	£0 405	£0 405
Exercise price	£0 405	£0 405	£0.405
Volatility	36 7%	36 7%	36 7%
Expected life	4½ years	5 years	5½ years
Risk free rate	5%	5%	5%
Expected dividend yield	0%	0%	0%

The Group recognised total expenses of €57,000 (2008 €69,000) related to equity-settled share-based payment transactions in 2009

NOTES TO THE FINANCIAL STATEMENTS (continued)

35 Financial instruments

The Group's financial instruments comprise cash and cash equivalents bank loans and overdrafts and items such as trade payables and trade receivables which arise directly from its operations The main purpose of these financial instruments is to raise finance for the Group's operations

The accounting policies for financial instruments have been applied to the line items below

	2009 €'000	2008 €'000
Group		
Loans and receivables		
Trade and other receivables	2,355	2,123
Cash and cash equivalents	1,999	1,387
Held to maturity investments		
Fixed interest bonds	1,307	-
	5,661	3,510
Company		
Loans and receivables		
Trade and other receivables	1,775	904
Cash and cash equivalents	734	65
	2,509	969

	Financial liabilities at amortised cost 2009 €'000	2008 €'000
Group		
Trade and other payables	3,599	4,074
Other financial liabilities - borrowings	4,123	2,375
	7,722	6,449
Company		
Trade and other payables – trade payables	1,405	143
Other financial liabilities - borrowings	-	-
	1,405	143

Risk management

The Group's operations expose it to a variety of financial risks that include the effects of changes in credit risk liquidity risk and interest rate risk The Group has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the Group by monitoring levels of debt finance and the related finance costs

Given the size of the Group the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the board The policies set by the board of directors are implemented by the company's finance department.

NOTES TO THE FINANCIAL STATEMENTS (continued)

35 Financial instruments (continued)

Credit risk

The Group has implemented policies that require appropriate credit checks on potential customers before sales are made The amount of exposure to any individual counterparty is subject to a limit which is reassessed annually by the board

The credit risk in relation to cash and cash equivalents is dealt with in note 21 and note 22

Liquidity risk

The Group actively maintains a mixture of long-term and short-term debt finance that is designed to ensure it has sufficient available funds for operations and planned expansions (see note 23(b)) The current economic environment leads to increased risk

Interest rate risk

The Group has both interest bearing assets and interest bearing liabilities Interest bearing assets include only cash balances which earn interest at variable rates The Group's current policy is to maintain debt at variable rates The directors will revisit the appropriateness of this policy should there be significant changes in market conditions or the Group's operations change in size or nature

The Group has not entered into derivatives transactions and has not traded in financial instruments during the period under review

The potential effect of interest rate changes is referred to and details of the Group's interest bearing assets are disclosed in note 21, and details of the terms of the Group's borrowings are disclosed in note 23

Foreign currency exchange rate risk

The Group is exposed to foreign currency exchange rate risk as a result of liquid funds which are held in pounds sterling and the trade payables of the Company During the year the Group did not enter into any arrangements to hedge this risk, as the directors' did not consider the exposure to be significant given the short term nature of the balances The Group will review this policy as appropriate in the future

As at 31 December 2008, if the euro had weakened or strengthened by 10% against sterling with all other variables held constant, neither the Group's post-tax profit nor its equity would have been materially affected

36 Post balance sheet events

By a special resolution passed on 12 March 2010 the shareholders approved the cancellation of the admission of the Company's shares to trading on the AIM market. Subsequently the Company's shares have been admitted to the matched bargain facility operated by J P Jenkins, a trading division of Rivington Street Corporate Finance Limited