

The directors present their annual report together with the financial statements and auditor's report for the year ended 31 December 2010. The Report on corporate governance set out on pages 46 to 49 forms part of this report.

## PRINCIPAL ACTIVITIES

The principal activities of the Group are providing mobile computer hardware, integration services and product support and maintenance to customers for their enterprise systems. The subsidiary undertakings principally affecting the profits and net assets of the Group in the year are listed in note 16 to the financial statements.

## BUSINESS REVIEW

The Company is required by the Companies Act to set out a fair review of the business of the Group during the reporting period (including an analysis of the position of the Group at the end of the reporting period and the principal risks and uncertainties facing the business). Details of this review are contained in this "Directors' Report" and the following sections of the "Annual Report and Accounts":

- > Chairman's Statement - pages 4 to 6
- > Chief Executive Officer's Review - pages 10 to 13
- > Operational Review - pages 20 to 36
- > Key Performance Indicators - page 37
- > Corporate Social Responsibility Report - pages 43 to 45

Each of these sections is deemed to be part of this Directors' Report.

## RESULTS AND DIVIDENDS

The audited financial statements for the year ended 31 December 2010 are set out on pages 59 to 90. The profit after tax from continuing operations was £2.7 million (2009 - loss of £7.8 million). The directors recommend a final dividend of 2.7p per ordinary share (2009 - second interim dividend 2.6p) to be paid, subject to shareholder approval, on 13 May 2011 to shareholders on the register on 15 April 2011. Together with the interim dividend of 1.3p per share paid on 17 September 2010, this makes a total dividend for the year of 4.0p (2009 - 3.8p) per share.

## RESEARCH AND DEVELOPMENT

The directors consider that research and development is vital to the Group's success in the future. Research and development expenditure - which includes the costs of the Group's engineering staff, as well as approval costs and external contracts for specialist engineering such as design for manufacture - of £8.6 million (2009 - £8.4 million) was charged to the income statement. As reported in the 'Financial Review' on page 26, the development costs of the modular platform, which forms the basis of a number of new and replacement products over the coming years, together with those other development projects identified on page 26, have been capitalised under the requirements of IAS 38 "Intangible Assets". The amount capitalised in 2010 was £8.4 million. The Board monitors major development projects during product development and after launch.

## DIRECTORS

Full biographical details of the directors during the year ended 31 December 2010 and at the date of this report are set out on pages 38 and 39. The Company announced on 4 November 2010 that Fraser Park would be leaving the Company on 31 March 2011. The Company announced on 2 February 2011 that Adrian Colman would be joining the Company as CFO during April 2011. Toby Redshaw joined the Board as a non-executive Director on 10 May 2010 and a resolution proposing his re-election will be put to the forthcoming AGM. In accordance with the Company's Articles of Association, Ross Graham and John Hawkins will retire by rotation and will seek re-election to the Board at the forthcoming AGM.

In appointing or replacing directors, the Company is governed by its Articles of Association, the Combined Code, the Companies Acts and related legislation. The Articles themselves may be amended by special resolution of the shareholders. The powers of directors are described in the Main Board Terms of Reference, copies of which are available on request, and the Report on Corporate Governance on pages 46 to 49, which is incorporated by reference into this Directors' Report.

## DIRECTORS' CONFLICTS OF INTEREST

Procedures are in place to ensure compliance with the directors' conflict of interest duties set out in the Companies Act 2006. The Company complied with these procedures during the year ended 31 December 2010 and the Board believes that these procedures operate effectively. No new conflict or potential conflict matters were approved during the year.

## SHARE CAPITAL AND SUBSTANTIAL SHAREHOLDERS

Details of the authorised and issued share capital, together with details of the movements in the Company's issued share capital during the year are shown in note 26. The Company has one class of ordinary shares which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Company.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

At the Annual General Meeting ("AGM") held on 7 May 2010, shareholders approved a resolution giving the Company authority to purchase up to 14,053,989 Ordinary Shares. No shares were purchased during the year under this authority which will expire at the forthcoming AGM. Accordingly, at the 2011 AGM the directors will be seeking to renew the authority to make market purchases of up to a maximum of 10% of the issued share capital of the Company. At the present time the Company has no plans to exercise this authority.

The issued share capital was increased by 175,895 Ordinary Shares during the year as a result of the issue of 175,895 new Ordinary Shares on the exercise of share options under the Company's share plans. At 31 December 2010 the issued Ordinary Share Capital totalled 140,748,422 shares (2009 - 140,572,827 shares).

No person has any special rights of control over the company's share capital and all issued shares are fully paid.

As at 3 March 2011, the Company has been notified of the following interests in its Ordinary Shares of 15p each, excluding directors' interests, which represent 3% or more of the issued Ordinary Share Capital:

	Number of shares held	% of shares in issue
Fidelity Investments (UK)	14,038,685	9.97
Schroder Investment Mgt	11,962,385	8.50
Sterling Strategic Value Ltd	11,521,484	8.19
David Potter Esq	9,072,972	6.45
J O Hambro Capital Mgt	8,044,288	5.72
UBS Global Asset Mgt	7,047,368	5.01
Aviva Investors	6,379,004	4.53
Legal & General Inv Mgt	6,073,472	4.32
M & G Investment Mgt	4,850,534	3.45

#### DIRECTORS' INTERESTS

The directors' interests in the Ordinary Shares of the Company at 31 December 2010 and details of directors' share options are detailed in the 'Directors' Remuneration Report' on pages 50 to 55.

#### DIRECTORS' AND OFFICERS' INSURANCE

The Company maintains insurance cover for all directors and officers of Group companies against liability which may be incurred by them whilst acting as directors and officers. The Company has provided qualifying third-party deeds of indemnity for the benefit of each director who held office during the 2010 financial year and these remain in force at the date of this report.

#### CHARITABLE AND POLITICAL DONATIONS

No contributions have been made to political parties. Donations are made to charities close to our facilities or to which the Group has some connection, for example, through the voluntary work of an employee. The total charitable donations in 2010 were £16,000 (2009 - £22,000).

#### CHANGE OF CONTROL PROVISIONS

There are a limited number of agreements that take effect, alter or terminate upon a change of control of the company including employees' share plans and supply contracts. None of these are considered to have a significant effect in terms of their likely impact on the business of the group as a whole as, in the case of supply contracts, there are adequate notice periods before termination can be effected and alternatives for supply exist. Furthermore, the directors are not aware of any agreements between the company and its directors or employees that provide for compensation for loss of office or employment that occurs because of a takeover bid.

#### SUPPLIER PAYMENT POLICY

The Group's policy for supplier payment is set out in the Operational Review on page 29.

#### EMPLOYMENT POLICIES AND EMPLOYEE RELATIONS

Our employment policies are developed to reflect local legal, cultural and employment requirements. We aim to be recognised as an employer of choice and therefore seek to maintain high standards and good employee relations wherever we operate.

##### Diversity

Our objective is to create a supportive culture in which all employees can develop their skills, advance their careers and maximise their potential. No one will be discriminated against on the grounds of gender, marital status, family status, sexual orientation, religious beliefs, age, disability, race or culture. Psion will comply with any local laws related to non-discrimination in the workplace. The Group does not tolerate any sexual, physical or mental harassment. The Group does not employ underage staff.

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

##### Employee engagement

The Group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them and the performance of the Group through regular email communications from the Chief Executive Officer, formal and informal meetings, and through the Group intranet. Furthermore, communication and feedback on Group strategy and objectives is undertaken on the Group's open collaborative community IngenuityWorking.com. All employees, including directors, have access to this website and are encouraged to participate in discussions on all matters relating to the business. A comprehensive all-employee survey is conducted annually to obtain employees' views on a wide range of matters affecting their current and future interests, the results of which are summarised below. 82% of group employees participated in the survey.

- > Overall job satisfaction increased by 13 percentage points to 65%;
- > Overall organisation satisfaction with the Group's strategic direction increased by 23 percentage points to 69%;
- > Staff morale was reviewed by surveying employee perceptions of Psion as an employer with scoring on the underlying questions ranging from 59% to 79%, in line with external benchmarks;

## EMPLOYMENT POLICIES AND EMPLOYEE RELATIONS (CONTINUED)

### Employee engagement (continued)

- > 68% of employees provided a favourable assessment of the Group's efforts to disseminate information and communicate effectively with staff, an increase of 34 percentage points over the 2009 survey results; and
- > Favourable progress was also seen on a range of other dimensions.

### Development and training

We are committed to helping people reach their full potential through ongoing training and development. Employees have access to a range of learning and development programmes including online learning programmes, local training events and other development programmes.

In 2010, we concentrated specifically on the area of management training and, through a series of internal face to face coaching sessions and training courses, we have provided training to our managers in areas such as basic leadership skills, performance management, managing discipline and effective communication.

### Performance, reward and recognition

Annual performance dialogues are mandatory to enable each employee to receive a performance rating which is the basis for development planning and reward decisions. We reward employees based on their performance, potential and contribution to the success of the business. We want to ensure that our people feel their efforts are recognised. We aim to provide competitive and fair rates of pay and benefits.

We monitor employee views of the compensation packages we offer through our annual employee survey and through regular dialogue with staff.

### Health, safety and well being

The Company is committed to ensuring that our people can do their work safely, and believe all incidents and injuries are preventable. We also aim to help employees balance work and family commitments, manage stress and have a healthy lifestyle.

## AUDITOR AND DISCLOSURE OF INFORMATION TO AUDITOR

Deloitte LLP has expressed its willingness to continue in office as auditor and a resolution to reappoint Deloitte LLP will be proposed at the forthcoming AGM. The Audit Committee confirms that it has conducted an assessment of the external auditor and determined that adequate policies and safeguards are in place to ensure that their independence and objectivity has not been impaired.

Each of the directors at the date of approval of this report confirms that:

- i) So far as the director is aware there is no relevant information of which the Company's auditor is unaware.
- ii) The director has taken all steps he is obliged to as a director to make himself aware of any relevant audit information, and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418(2) of the Companies Act 2006.

## ANNUAL GENERAL MEETING ("AGM")

The AGM is to be held at 45 Moorfields, London, EC2Y 9AE on 6 May 2011 at 10am. The Notice of Meeting is contained in the circular accompanying this Annual Report, together with an explanation of the resolutions to be considered at the meeting.

## GOING CONCERN

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the 'Operational Review' on pages 20 to 36. The financial position of the Group, its cash flows and liquidity position are described in the 'Operational Review'. In addition notes 19 and 21 to the financial statements include details of policies and processes for managing the Group's capital, use of financial instruments and exposures to credit risk, treasury risk and market risks.

The Group has £36.9 million of cash, a strong balance sheet, and its rigorous approach to operations and working capital management will continue to provide sufficient sources of liquidity to fund its business risks. As a consequence, the directors believe that the Group is well placed to manage its business risks successfully despite the current economic outlook, which remains uncertain.

After reviewing the forecast cash flow and working capital requirements for the period until March 2012 (including the most up-to-date information available on the dispute in Japan at the time of approving the annual report and consolidated accounts as disclosed in note 31), the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

By order of the Board

**Lynne Sanderson**  
Company Secretary

3 March 2011