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gresham computing plc

annual report 2006

Gresham
real-time financial solutions

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DIRECTORS AND ADVISERS

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

Directors

A M Howarth	Non-Executive Chairman
J E Aves	Non-Executive Director
A J S Walton-Green	Chief Executive Officer
S W Purchase	Commercial Director
R Glenn	Sales and Marketing Director
C M Errington	Finance Director

Secretary

C M Errington

Registered Office

Sopwith House
Brook Avenue
Warsash
Southampton
SO31 9ZA

Broker and Financial Adviser

KBC Peel Hunt
111 Old Broad Street
London
EC2N 1PH

Auditors

Ernst & Young LLP
Wessex House
19 Threefield Lane
Southampton
SO14 3QB

Solicitors

Blake Lapthorn Tarlo Lyons
New Court 1 Barnes Wallis Road
Segensworth East
Fareham
Hampshire
PO15 5UA

Registrars

Lloyds TSB Registrars
Registrar's Department
The Causeway
Worthing
West Sussex
BN99 6DA

Bankers

HSBC Bank plc
165 High Street
Southampton
SO14 2NZ

Financial PR

Financial Dynamics
Holborn Gate
26 Southampton Buildings
London
WC2A 1PB

A M Howarth*Non-Executive Chairman*

Alan, aged 61, was appointed to the board in August 2003 and was appointed Chairman in May 2004, following the Annual General Meeting. He has spent over 20 years as a management consultant advising major private and public organisations on strategic and operational improvement. Alan was formerly Managing Director of Compass Management Consulting Limited and prior to that a partner with Ernst & Young. Additional non-executive directorships include Highams Systems Services Group plc and various interests in public bodies and smaller private concerns.

J E Aves*Non-Executive Director and Chairman of Audit and Remuneration Committees*

Ted, aged 71, was appointed to the board in June 2001 and is the group's senior independent non-executive director. He also serves as Chairman of the audit and remuneration committees. Ted has extensive experience in advising organisations on corporate marketing and strategic direction. He was previously Chairman of the consulting division of ECM and Vice-Chairman of Benton & Bowles.

A J S Walton-Green*Chief Executive*

Andrew, aged 43, joined the group as Chief Executive in April 2000 and has played a key role in the transformation of the group since that time. Prior to joining the group, Andrew spent 10 years in consulting and senior management positions as a Chartered Accountant, first with Ernst & Young, then as Director for e-business activities with Deloitte & Touche.

S W Purchase*Commercial Director*

Steve, aged 54, has been a mainstay of the group since he joined Gresham as a Programmer in 1973. He became Commercial Director in 1982. Steve's considerable technical knowledge and pragmatic approach continue to play a major role in the direction of Gresham's product and strategic development.

C M Errington*Finance Director*

Chris, aged 41, joined Gresham in February 2004 as Company Secretary. He was appointed Finance Director in April 2004. Chris brings to the group considerable technical knowledge and management experience. He has over 13 years of experience as a Chartered Accountant, most recently with BDO Stoy Hayward and before that with Ernst & Young, where his focus was with fast growth and listed companies in the technology sector.

R Glenn*Sales and Marketing Director*

Rob, aged 41, joined Gresham in May 2006 having spent the previous 17 years in the enterprise software industry working in various senior management, sales and technical roles. Prior to joining Gresham he worked at Tibco Software Inc as RVP for UK, Ireland, Middle East and North Africa. Prior to the acquisition of Staffware Plc by Tibco Software Inc, Rob was Managing Director of Staffware UK, Ireland, Eastern Europe and India operations. His responsibilities included sales, alliances, marketing and professional services. Rob has also worked in sales, management and technical roles for companies including SD-Scicon, EDS, ViewStar and Mosaix.

Gresham is a specialist in real-time financial and storage solutions. Today we provide our products and solutions to more than 500 businesses around the world including nearly a quarter of the Fortune 500.

We pride ourselves in offering innovative business solutions backed by enterprise class technology. The dedication of our staff ensures superb delivery and support of our customers globally. As a result, in our 35th year since incorporation, we have a well-deserved reputation for innovation, technical excellence and reliability, borne of a strong service culture.

As a group, we have high aspirations. I am pleased to report that we are making solid progress towards realising our ambitions.

Overview of the year

2006 can be characterised as a year of increased focus and of growth. Perhaps the most visible result of this increased focus has been the successful re-branding of our product suite under the 'Clareti' brand name. The Clareti brand now forms a solid platform on which we can continue to improve our efficiency in bringing Gresham's innovative solutions to market.

Real-time financial solutions

In April 2006, Gresham took on the leading sales and technical support roles for the Clareti Cash Reporting Service ("CCRS"), previously known as Real Time Nostro. CCRS is a global solution to SWIFTNet Cash Reporting that provides a single, consolidated view of multi-currency cash positions. Through close cooperation with Cable & Wireless and our joint customers, the major banks, we have effected a smooth transition of operational responsibilities to enable us to lead this global initiative. Cable & Wireless continue to provide secure hosting and a global telecommunications infrastructure.

We currently have 22 major banks that have agreed to provide data to the service, the latest being The Bank of New York. Today, 14 of these banks provide near real-time data to our hub. The increase in the number of live provider banks who are populating our database with multi-currency payment information clearly increases the value of the hub service to both new and existing users. We currently have 5 major banks that have agreed to receive data as a live data feed and 5 for the browser. The browser is an effective tool to gain near real-time visibility of an individual transaction, a single customer, a bank's position in a single currency, a single correspondent or a real-time status report on its global multi-currency multi-correspondent position. The service is used to monitor both what *has happened* as well as what *is expected to happen* providing alerts and reports to manage exceptions as they occur. As a result, the service is proving a valuable tool for management and investigations in global cash management. While the live data feed is more expensive than our browser

service, the benefits of aggregated, normalised data being fed into a bank's core systems enables intraday reconciliation. This in turn enables all of a bank's core processes to be enabled to extract the maximum value from this data.

Our strategy has been to expand our service offering of real-time intraday cash management into the corporate market, providing national data as well as international data. We therefore offer a range of Clareti solutions to enable our banking customers to provide intraday/real-time payment information to their customers. We are pleased to announce that in December 2006 we signed a new agreement to provide a hosted solution for a major global bank to provide intraday cash management services to their UK corporate customers. The service is expected to go live in 2007 and be rolled out to the bank's key customers over time, with the bank acting as the sales channel.

As well as providing cash reporting technology to understand what *has happened*, we have developed a simple and effective cash reporting solution that provides vital information about what *will happen* in the future. This patent pending solution combines Gresham cash reporting and payables financing technology and enables a supplier to see payments that it will receive from a buyer in the future, information that is of immense value to a business. The payables financing technology module then enables a supplier to take early payment from a buyer with a financial institution funding the gap between early payment and the actual payment from the buyer. Unlocking the financial supply chain represents a huge market opportunity both for Gresham and the wider market. We are currently engaged in a number of exciting opportunities with this technology combination in Europe and Asia.

I am pleased to announce today the launch of our combined cash reporting and payables financing service, which is available to both banks and companies. The service will be securely hosted by Cable & Wireless, who will also be the launch customer. Together we will enable their major suppliers to have 'Clareti' around the financial supply chain.

Once payment data enters the corporate environment, it typically needs to be managed. For the largest companies in the world, this necessitates the use of cash management software, reconciliation software and treasury management software. Gresham has some but not all of the software required to deliver a complete solution. As a result we have chosen to work with major partners to ensure we are able to provide a best of breed solution to some of the largest banks and corporate groups in the world. We are very pleased to act as a key integration partner for Wall Street Systems in Asia Pacific where we are building upon our credentials established from successfully implementing global cash management solutions for Khazanah Nasional and Petronas, the regions largest and most influential organisations.

All banks are under pressure to reduce payment costs. In Europe, the Single European Payments Area initiative and Target 2 are key drivers for cost reduction, greater visibility and control. However, there are also significant opportunities for banks that can deliver fully integrated payment solutions to enhance customer value through "netting" or re-routing of high value payments through low cost mechanisms. Through years of experience in this area and in particular the core banking technology now developed and implemented with some of the largest banks in the world for the CCRS initiative, we are now able to provide a fully integrated and configurable payments hub which enables a bank to leverage its existing payment silos to deliver real-time payment solutions.

Batch processing and legacy systems are still prevalent in most parts of the financial services market place. Whilst much of what we do today is focused on real-time financial solutions and modern technology, we have a real advantage from our ability to unite legacy and modern systems using know-how and technology developed over many years. Gresham is currently working with some of the largest financial institutions in the world to unlock the value from these systems with world class enterprise solutions spanning integration, internet banking, automated lending decisions and delivery of real-time stock exchange data to a PC or a mobile device.

Storage solutions

Our storage software currently resides in some of the largest data centres in the world providing a key link between the business and its tape storage silos. Since we first came to market with a product around 10 years ago, we now have over 4300 installations of Claret VTL in hundreds of customers around the world, 70 of which are Fortune 500 companies. Claret VTL dynamically manages tape drives and works in a TSM/StorageTek, TSM/IBM and TSM/ADIC environment. TSM is a high-end enterprise back-up product from IBM used by many of the largest companies in the world.

As a result, Claret VTL remains a strong feature of our storage business, both in terms of maintenance revenues and new license sales. Our interaction with truly global customers ensures that we remain at the leading edge of enterprise storage and as a result we are recognised by our customers as experts in our field. From this deep understanding of the market and enterprise customer requirements, we developed our new flagship storage product Claret VTL (Virtual Tape Library), launched in mid 2006.

Emerging VTL solutions provide companies with the ability to more efficiently manage their data storage requirements. By creating a "virtual tape" on a disk, open systems and mainframe systems perform their normal back-up operations and instead of backing up to tape they are fooled into backing up to multiple disk arrays. This enables very fast back-up times. However, since disk is considerably more expensive

than tape as a storage media and arguably less resilient, the largest data users globally still then want to move the data to tape. Claret VTL was developed to enable back up to tape via disk and as a result is the only virtual tape system that can address each of these concerns with a single solution. Integrating seamlessly into existing environments, Claret VTL will work with any back up application, any tape drive or media type. Superior management and support features ensure business continuance, while letting you control the storage enterprise. In addition, Claret VTL is flexible enough to scale from the enterprise level down to the small business.

The capabilities of our Claret VTL solution were put to the test in mid 2006 when we came second to EMC in an external analysts assessment of the VTL disk market. We beat 11 other competing solutions in the VTL disk storage market without even demonstrating our key benefit of then actually writing data to tape.

We secured our first OEM partner for Claret VTL in mid 2006 and anticipate securing further OEM deals in 2007. We also started making direct approaches to customers supported by our enhanced sales and marketing resources. The solution is now live in the market with a growing customer base.

In February 2007, we completed the restructuring of our small French data back-up business and this business is now in maintenance mode.

Financial Results

Group revenues were up 4% to £14.52m (2005: £13.98m) generating a loss of £0.37m after tax (2005: loss £1.10m) with cash at year end of £3.56m (2005: £1.97m).

EMEA revenues grew 6% to £8.82m (2005: £8.33m) from an overall net increase in sales of real-time financial solutions after taking into account reductions in our IT staff placement business and French storage business. Profitability in EMEA improved significantly with growth in the real-time financial solutions business and reduced losses from our French storage business driving this change.

North American revenues grew 2% to £3.94m (2005: £3.87m) from sales of our new VTL storage solution and growth in our real-time financial solutions business. Overall we increased costs in the second half as we added new management, sales and marketing resources in this region.

Asia Pacific revenues remained relatively static year on year as we completed a major cash management integration project and saw further pipeline sales delayed to 2007 and from weakening of the A\$ against the £. This coupled, with a planned increase in sales and marketing cost base, resulted in a small reduction in profitability taking the region to an £81k loss (2005: £96k profit).

CHAIRMAN'S STATEMENT

Revenue from real-time financial solutions grew 9% to £11.82m (2005 £10.81m) notwithstanding a £0.48m reduction in revenue from our IT staff placement business

Revenue from storage solutions fell 15% to £2.70m (2005 £3.17m), arising primarily from a planned restructuring of our French storage business and a general weakening of the US\$

People and Technology

Two of Gresham's greatest assets are its people and technology

In 2006, we significantly increased our investment in senior management, sales, pre sales and marketing people. As well as strengthening the main Board with the appointment of a group sales and marketing director, we hired proven country leaders in EMEA and North America, both of whom brought strong sales backgrounds in our chosen markets. We intend to further strengthen the team in 2007, taking into account market opportunities. I welcome those that have chosen to join us at this exciting time and look forward to working with them in the future.

Our staff numbers however remained relatively static year on year taking into account the reduction from restructuring our French operations and new recruitment activity.

Gresham creates enterprise-class software based solutions, with Claret Cash Reporting and more recently Claret VTL exemplifying our abilities. Software development is only half the work and we are now placing much greater emphasis on taking these solutions to market and becoming sales and marketing led. We continue to invest in technology that adds significant value in our chosen markets and during 2006 we launched a number of new technologies to support organic growth.

The Board

In May, we underlined our focus on becoming sales and marketing led with the creation of a new role and appointment to the Board of Rob Glenn as group sales and marketing director. Rob is an experienced sales professional and this new position was created to drive our sales and marketing efforts globally.

In June, Dean Osman stepped down from the Board after 8 years and took up a new operational role in Gresham EMEA to drive our real-time financial solutions business in this key market.

Strategy

Our strategy is to grow the business organically by focusing on real-time financial solutions and storage solutions, whilst controlling costs. In support of this strategy, we opened an

office in Kuala Lumpur to support our work with Wall Street Systems in Asia Pacific and more recently opened an office in New York to step up our North American real-time financial solutions business in what is the largest market in the world for our solutions.

We will continue to work with partners to bring solutions to existing and new customers and extend our reach globally. Where appropriate, we will seek acquisitions to accelerate our growth in the real-time financial solutions market.

Over the past six months, we have engaged heavily with analysts, customers, suppliers and the market generally to verify our position and propositions. The markets for real-time financial solutions and storage solutions are very large and we believe that Gresham technology is well placed to satisfy both existing and growing demand in both. We have strengthened our businesses with the addition of new people and increased our sales and marketing capabilities to achieve growth based on meeting the needs of our customers.

Outlook

We have invested heavily over the last few years to build an innovative range of products in the payments, cash management and storage markets.

Our current investment is in getting our products to market. We will continue to invest in high calibre sales, pre-sales and marketing resources to service our global markets and at present, we are making this investment ahead of revenues. We are also investing in key geographies and have recently opened new offices in New York and Kuala Lumpur.

Our solutions are intended to deliver short, medium and long-term returns in the real-time financial and storage solutions markets. Our new storage product, mobile real-time data solutions, integration and cash management solutions all afford short-term revenue opportunities, complementing the existing revenues from our legacy products.

Our payment and cash reporting services and solutions for both the banking and corporate markets are already delivering revenues. We would expect these to grow considerably over the medium to long-term. The addition of supply chain financing to this portfolio we believe will add substantially to our medium and long-term prospects and we anticipate making significant progress on this strategic initiative this year.

Alan Howarth
Chairman
26 March 2007



The directors present their report and the group financial statements for the year ended 31 December 2006

Results and dividends

The group loss for the year, after taxation, amounted to £374,000 (2005 loss £1,101,000). The directors do not recommend a final ordinary dividend, which leaves the loss of £374,000 to be deducted from reserves. No dividends were recommended or paid in the prior year.

Business review and principal activities

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

The Chairman's Statement on pages 3 to 5 of this report covers the Directors' review of business performance, including a view on development and its position at the year end, using performance indicators employed by the Directors in monitoring the business. The statement also includes an indication of likely future developments in the business of the company.

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

Market

Market landscape

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

The financial services markets are large and in a state of transition, driven principally by technology and the need to service customers differently in an ever more regulated and customer demand led environment. Whilst there are strong drivers for market change, such as regulatory pressure and customer demand, the pace of change is typically slower in the financial services market. However, once a decision to change has been made it tends to be followed through with more vigour than other markets. The result is long lived embedded technology that remains part of the market infrastructure for extended periods of time. Financial institutions are looking for trusted vendors that can offer solutions targeted at the changes they are facing, such as cash reporting and the use of real-time financial information. Gresham is well placed to deliver against this changing market landscape with its suite of Claret Real-Time Financial Solutions with the aim of becoming an embedded long-lived part of the market for an extended period of time.

The global storage market remains buoyant as organisations deal with the storage requirements for ever increasing volumes of data, in particular management of storage growth, continuous data protection and mitigating risks associated with removable storage, often with resources that are shrinking. Whilst the market continues to make increasing use of disk based storage, notably the rise of Virtual Tape, the deep storage medium of choice for global CTOs remains real tape. Gresham has already moved with the market and created a leading VTL solution addressing this growing market segment and, significantly, our VTL technology addresses the two key market requirements of utilising disk for fast access and tape for deep storage. Research from Taneja Group indicates that the VTL market is set to grow from \$400m to \$1bn in the next 4 years and Gresham is well placed to capitalise on this market dynamic.

Market risks

Long lead time and timing of deals

Our target markets are dominated by truly global large organisations seeking enterprise class solutions to often mission critical issues. For example, a bank seeking to embed the use of real-time data for the first time will normally do so having carefully considered the knock-on impact that such a change will have across the whole business before proceeding. As a result, the timing of a decision to buy new technology is often difficult to predict and predicated on the momentum of change in a particular customer. This uncertainty over decision making can impact the forecasting of revenue recognition in the financial statements, with deals falling in one period or the other dependent on customer specific issues. Gresham works closely with organisations and seeks to become a trusted provider because such status tends to bring more clarity to the buying process and reduces, but does not eliminate, the uncertainty over timing of orders.

Global markets

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

Highly competitive and dominated by giants

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

Foreign exchange

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

Principal risks and uncertainties

Regulation

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

People

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

Technology

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

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

Research and development

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

Directors and their interests

The directors at 31 December 2006 and their interests in the share capital of the company (all beneficially held), at dates shown or date of appointment if later, other than with respect to options to acquire shares (which are disclosed in the Directors' Remuneration Report) were as follows

	Ordinary shares of 5 pence each	
	31 December 2006	1 January 2006
J E Aves	10,000	10,000
C M Errington	—	—
R Glenn	—	—
A M Howarth	3,200	3,200
S W Purchase	3,797,139	4,047,139
A J S Walton-Green	665,695	540,695

R Glenn was appointed on 23 May 2006 and had no shareholding at that date

D Osman resigned as a director on 30 June 2006 at which date his shareholding was 100,528 ordinary shares of 5 pence each. His shareholding at 1 January 2006 was 100,528

There have been no further changes in the directors' interests shown above from 31 December 2006 to 20 March 2007

Having reached the age of 70, J E Aves is required to seek reappointment at each Annual General Meeting and, being eligible, offers himself for re-election. C M Errington, A M Howarth and A J S Walton-Green retire by rotation at the Annual General Meeting and, being eligible, offer themselves for re-election. R Glenn was appointed during the year and stands for election at this the first Annual General Meeting since his appointment.

Third party indemnity provisions for the benefit of directors

The Directors of the Company have been indemnified against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act. Such qualifying third party indemnity provision was in force during the year and continues to be in force as at the date of this report. Directors and Officers' liability insurance with an indemnity limit of £10 million has been purchased in order to minimise the potential impact of such proceedings.

Substantial shareholdings

As at 20 March 2007 the company had been notified of the following voting rights in the ordinary share capital of the company

	Number	
	Held	Percentage
Gartmore Investment Management plc	8,701,267	17.3%
JO Hambro Capital Management Limited	5,895,750	11.7%
The Valentina Discretionary Trust	3,880,491	7.7%
M A Green	3,273,290	6.5%
The Northwestern Mutual Life Insurance Company	1,999,680	4.0%
Herald Investment Trust plc	1,895,000	3.8%
Aberdeen Asset Managers Limited	1,629,358	3.2%
Strathclyde Pension Fund *	2,274,346	4.5%
Barclays PLC	1,539,700	3.1%

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

No other person, other than the directors, has reported a control over the voting rights of 3% or more of the issued ordinary share capital.

Supplier payment policy

The company has due regard to the payment terms of its suppliers and, whilst not following a specific code, generally settles all undisputed accounts at the due date for payment. At 31 December 2006 the group's creditor days were 45 (2005 42)

Disabled employees

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

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

Environmental considerations

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

The company brand was refreshed during the year and the resulting surplus materials were recycled wherever possible. Marketing collateral carrying the old Gresham logo was donated to a Kenyan orphanage for children affected or infected with AIDS.

Financial risk management

The group finances its activities with a combination of finance leases and cash and short-term deposits, as disclosed in note 21. Other financial assets and liabilities, such as trade receivables and trade payables, arise directly from the group's operating activities. Where considered appropriate, the group also enters into forward currency contracts to manage the currency risks arising from the group's operations. The group does not trade in financial instruments.

Foreign currency risk

The group has invested in operations outside the United Kingdom and also buys and sells goods and services denominated in currencies other than sterling. As a result the value of the group's non-sterling revenues, purchases, financial assets and liabilities and cash flows can be affected significantly by movements in exchange rates in general and in US Dollar, Euro, Canadian Dollar, Malaysian Ringgit and Australian Dollar rates in particular.

The group's transactional currency exposures arise from sales or purchases by an operating unit in currencies other than its functional currency. Where considered appropriate, the foreign currency risk arising on contracted future receipts in foreign currencies is mitigated using standard forward rate contracts taken out with the group's bankers. These contracts provide protection against currency depreciation, whilst also allowing the group to share in some of the upside of significant currency appreciations.

At 31 December 2005, the group had taken out a financial instrument with its bankers to sell \$200,000 of foreign currency arising on sales for which firm commitments existed at the balance sheet date. This financial instrument was settled in January 2006 and no such financial instruments were employed during 2006.

Interest rate risks

The group has cash deposits and no bank borrowings. The group does not currently employ financial instruments to hedge the risk of variation in the bank base rates, as the majority of the group's funds are in the form of major currency, variable rate short term deposits.

Liquidity risk

The group seeks to ensure that it has sufficient long term funding and, as appropriate, committed bank facilities in place to meet the requirements of the group. Excess cash is invested with banks on a short term basis with no penalty for early repayment.

Credit risk

The principal credit risks arise from non-payment by customers and through investment of surplus cash. Individual exposures are monitored with customers to ensure that the group's exposure to bad debts is not significant. Terms for deferral of significant payments are granted only to customers who demonstrate an appropriate payment history and financial standing. Surplus cash deposits are made with banks that have a sufficiently high credit rating.

Share capital

Resolutions will be proposed at the Annual General Meeting to renew the authorities given to the directors to allot and grant rights over the un-issued share capital up to a maximum nominal amount of £839,181 representing one-third of the issued ordinary share capital and to allot and grant rights over shares for cash up to a maximum nominal amount of £125,877, representing 5% of the issued ordinary share capital, without first making a pro rata offer to all existing shareholders.

Going concern

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

Auditors*Statement as to disclosure of information to auditors*

In the case of each of the persons who are directors at the time when this report is approved under section 234A, the following applies:

- So far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware, and
- The directors have taken all the steps that ought to have been taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Annual General Meeting

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

By order of the board



C M Errington
Company Secretary
26 March 2007

CORPORATE GOVERNANCE STATEMENT

Statement by the Directors on compliance with the Combined Code

The board endorses the ideals and the ethos behind the Combined Code on Corporate Governance (the "Code") issued in July 2003. This statement describes how the company applies the principles of the Code and the company's compliance with the specific provisions of the Code.

The company has been in compliance with the provisions of the Combined Code for the year with the exception of the following:

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

The board

The company is headed by a board of directors, collectively responsible for the success of the company. The board currently comprises an independent non-executive chairman (A M Howarth), a senior independent non-executive director (J E Aves), the chief executive (A J S Walton-Green) and three further executive directors (C M Errington, R Glenn and S W Purchase).

The board is responsible for overall management of the company, directing and supervising its affairs within a framework of prudent and effective controls which enable risk to be assessed and managed. The board sets the company's strategic aims, ensuring that appropriate financial and human resources are in place to meet its objectives, and for reviewing management performance.

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

The board normally meets once a month to review matters such as financial performance, current trading, key business initiatives and risks, strategy, budget and business plans. Presentations are made to the board on regular occasions by the executive directors and operational management.

The board has a schedule of matters specifically reserved to it for decision. This schedule includes, among other matters, the establishment of the company's overall strategic direction and strategic plans for the major business units, approval of budgets, financial objectives and policies, approval of significant capital expenditure, approval of acquisitions and disposals, approval of the company's financial statements and published reports, appointment of advisors, the establishment of the company's systems of internal control and risk management and the appointment of key senior executives. The board has delegated some of its responsibilities to an executive operational board, audit and remuneration committees.

The executive operational board assists in developing and implementing the company's strategic direction and ensuring its resources are well managed. The operational board normally meets once a month and has a range of responsibilities, which include:

- reviewing operational performance and taking actions to enhance or improve performance,
- implementing agreed strategies and board decisions,
- monitoring the performance of employees and assigning appropriate resources,
- identifying and discussing risk and taking appropriate action to control risk, and
- recommending actions to the board on matters reserved for the board as a whole.

Proceedings of operational meetings are reported to the Board.

Attendance at meetings

The following table summarises the attendance of board members at board and committee meetings during the year

	Board	Operational Board	Audit Committee	Remuneration Committee
Number of meetings held	11	9	3	2
Number of meetings attended				
J E Aves	11	—	3	2
C M Errington ¹	11	9	3	1
R Glenn ²	6	5	—	—
A M Howarth	10	—	3	2
D Osman ³	6	6	—	—
S W Purchase	11	7	—	—
A J S Walton-Green ¹	11	9	2	2

¹ in attendance at Audit and Remuneration Committees by invitation

² from date of appointment 23 May 2006

³ to date of resignation on 30 June 2006

Chairman and chief executive

The roles of the chairman and executive management, led by the chief executive, are separated and clearly defined

- the non-executive chairman, A M Howarth, is responsible for leadership of the board, ensuring effectiveness in all aspects of its role, setting the board's agenda and conducting board meetings, and ensuring effective communication with shareholders and the conduct of shareholder meetings, and
- executive management led by the chief executive, A J S Walton-Green, has been delegated responsibility by the board for the day-to-day management of the company within the control and authority framework set up by the board. The levels of authority for management are periodically reviewed by the board and are documented. The chief executive is assisted in managing the business by the other executive directors through an operational board

The division of responsibility between the chairman and chief executive is clearly established, set out in writing and agreed by the board

Board balance and independence

The board includes a balance of executive and non-executive directors such that no individual or small group of individuals can dominate the board's decision taking. The size of the board and balance of skills is considered appropriate for the requirements of the business. No one other than the committee chairman and members is entitled to be present at a meeting of the audit or remuneration committee, but others may attend at the invitation of the committee

As a smaller company, Code provision A3.2 requires the company to have at least two independent non-executive directors. The board considers that J E Aves and A M Howarth are independent, and the reasons for this decision are set out below

The board has reviewed the independence of J E Aves and A M Howarth, including an assessment of their overall character and approach, and concluded based on the following guiding principles that they were both independent throughout the year. They have not been previous employees of the group, have had no material business relationships with the group, do not participate in the share option scheme, are not members of the company's pension scheme, have no close family ties with the company's advisers, directors or senior employees, hold no cross directorships linking them with other directors, do not represent significant shareholders and have served on the board for less than nine years. Both have nominal shareholdings in the company, which the board considers appropriate without compromising independence

J E Aves receives a director's fee for his duties as a director and additionally receives fees for the provision of independent marketing services to the company, comprising advice and clarification on marketing matters as they affect the company and monitoring of the company's interaction with customers at a senior relationship level. The marketing role is one of an independent sounding board for the executive team on marketing strategy and customer relationships. His terms of

CORPORATE GOVERNANCE STATEMENT

appointment also provide for the payment of further fixed sums per additional day spent on company business where authorised in advance by the board. During the year, he was paid an additional £5,000 in respect of corporate governance work performed in his capacity as senior non-executive director. The board considers J E Aves to be independent.

A M Howarth currently receives no additional remuneration other than a director's fee, although his terms of appointment provide for the payment of further fixed sums per additional day spent on company business where authorised in advance by the board. Notwithstanding his role as the company's non-executive chairman, the board has concluded, based on careful consideration of factors including his overall character and approach, that A M Howarth is independent for the purposes of the Code.

The board keeps the assessment of non-executive independence under regular review, taking into account changes in circumstances and factors likely to compromise independence.

Appointment to the board

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

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

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

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

Information and professional development

The board is supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties. The chairman is responsible for ensuring that the directors receive accurate, timely and clear information which is provided by operational management and enhanced or clarified where necessary.

All directors receive induction on joining the board and the chairman ensures that directors continually update their skills and knowledge and familiarity with the company required to undertake their role both on the board and on board committees. The company provides the necessary resources for developing and updating its directors' knowledge and capabilities.

Under the direction of the chairman, the company secretary's responsibilities include ensuring good information flows within the board and its committees and between senior management and non-executive directors, as well as facilitating induction and assisting with professional development as required. The company secretary is responsible for advising the board, through the chairman, on all governance matters and for ensuring that board procedures are complied with and applicable rules and regulations followed. The board considers that, given the size of the company and resources available, the current dual role of the company secretary, who is also an executive director, is acceptable subject to the following safeguards. The effectiveness of this arrangement is monitored and reviewed annually to ensure that the independence of the company secretary as regards corporate governance responsibilities is not compromised. The appointment and removal of the company secretary is a matter for the board as a whole.

The directors have access to independent professional advice at the company's expense where they judge it necessary to discharge their responsibilities as directors. Committees are also provided with sufficient resources to undertake their duties.

During the year, directors attended various seminars and conferences held by industry and professional bodies covering topics such as business strategy, emerging industry trends, executive remuneration, financial reporting, corporate governance, corporate taxation and market regulation. In addition, board meetings regularly include sessions on recent developments in governance and other relevant corporate matters.

Performance evaluation

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

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

Re-election

All directors are submitted for re-election at regular intervals, subject to continued satisfactory performance. The board keeps under review the need for refreshing of the board and takes appropriate action.

All directors are subject to election by shareholders at the first annual general meeting after their appointment, and to re-election thereafter at three yearly intervals. Non-executive directors are appointed for specified terms subject to re-election and to Companies Act provisions relating to the removal of a director.

The chairman has formally reviewed the performance of J E Aves, who is seeking re-election as a non-executive director, and satisfied himself that his performance continues to be effective and that he continues to demonstrate commitment to the role.

Accountability and audit

Financial reporting

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

Internal control

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

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

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

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

CORPORATE GOVERNANCE STATEMENT

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

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

Control environment

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

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

Audit committee and auditors

The board has established formal and transparent arrangements for considering how they should apply the financial reporting and internal control principles and maintaining an appropriate relationship with the company's auditors

The board has established an audit committee currently consisting of two independent non-executive directors, J E Aves (Chairman) and A M Howarth. The board has satisfied itself that A M Howarth has recent and relevant financial experience. Notwithstanding his role as the company's non-executive chairman the board has concluded, based on careful consideration of factors including his overall character and approach, that A M Howarth is independent for the purposes of the Code provision C3.1 regarding his membership of the audit committee.

The committee has written terms of reference setting out its main roles and responsibilities which were reviewed and updated during the year. These terms of reference are available from the company secretary on request.

The work of the committee in discharging its responsibilities includes

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

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

met with the auditors and management to discuss the adoption of International Financial Reporting Standards and reviewed the impact of adoption on the financial statements

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

The committee formally reviews the independence of the external auditors on an annual basis and has undertaken its annual review of the nature and amount of non-audit work undertaken by the external auditors and satisfied itself that there is no effect on their independence. The non-audit services provided in the year, as set out in the notes to the financial statements, related to compliance services, which the committee considers is appropriate in the circumstances. No consultancy services of a non-compliance nature were purchased from the external auditors during the year.

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

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

Relations with shareholders

Dialogue with institutional shareholders

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

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

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

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

Constructive use of the AGM

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

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

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

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

DIRECTORS' REMUNERATION REPORT

Introduction

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 which amended the Companies Act 1985. The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the board has applied the Principles of Good Governance relating to directors' remuneration. As required by the Regulations, a resolution to approve the report will be proposed at the Annual General Meeting of the company at which the financial statements are to be approved.

The regulations require the independent auditors to report to the Company's members on part of the Directors' Remuneration Report and to state whether, in their opinion, that part of the report has been properly prepared in accordance with the Companies Act 1985 (as amended by the regulation). This report has therefore been divided into separate sections for audited and unaudited information.

Unaudited information Remuneration Committee

The board has established a remuneration committee currently consisting of two independent non-executive directors, J E Aves (chairman) and A M Howarth. Notwithstanding his role as the company's non-executive chairman the board has concluded, based on careful consideration of factors including his overall character and approach, that A M Howarth is independent for the purposes of the Code provision B2.1 regarding his membership of the remuneration committee.

The committee has written terms of reference setting out its main roles and responsibilities which were reviewed and updated during the year. These terms of reference are available from the company secretary on request.

During the year under review, the committee appointed Kepler Associates to provide advice on the structure and form of compensation packages.

Remuneration policy for current and future years

The committee decides a compensation package for each director, which is designed to attract, motivate and retain directors of the highest calibre.

The pay and benefits of executive directors are selected from

- Basic salary,
- Annual bonus,
- Share options,
- Pension contributions made to defined contribution schemes, usually calculated as a percentage of base salary, for which rates are individually set, and
- Other benefits are provided in the form of company medical insurance and holiday entitlement in line with normal industry practice.

Basic salary

An executive director's basic salary is set by the committee to reflect the director's experience, responsibility and market conditions. The basic salary is reviewed annually and on changes of an individual's position or responsibility level. In deciding appropriate levels the committee takes account of the remuneration paid by other comparable companies of a similar size and in similar market sectors.

Annual bonus payments

The committee establishes the objectives which must be met for each financial year if a cash bonus is to be paid. The committee believes that any incentive compensation awarded should be tied to the interests of the company's shareholders and that the principal measure of those interests is the profitability of the group. The annual bonus plan generally allows for incentive payments of up to 100% of basic salary dependent on the achievement of profitability targets set at the beginning of the year. No such bonus payments were made for the year ended 31 December 2006 or 2005.

Share options

Directors are eligible to participate in the company's executive share option schemes. The committee is responsible for supervising the executive share option schemes and the grant of options under its terms. Options may only be granted at an exercise price of not less than the average of the mid-market price of ordinary shares on the day prior to the date of grant. The exercise conditions for options granted under the executive share option schemes are growth in the group's reported earnings per share in excess of the increase in the retail price index plus five per cent per annum on average over a three year period. Un-approved executive share options may also be subject to additional individual performance criteria designed to reward performance and enhance shareholder return.

The conditions are based on earnings per share to align the objectives of management and shareholders, as this is considered to be a suitable measure of shareholder return.

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

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

Directors are also entitled to participate in the group's Savings Related Option scheme where options are granted to all eligible employees at a discount of 20% to the average mid-market price three days before invitations to join the scheme are issued.

Service contracts

It is the company's policy to offer director service contracts terminable with 12 months' rolling notice from either side. Compensation for loss of office is considered on a case by case basis and in accordance with any service agreement requirements.

A J S Walton-Green and S W Purchase have service agreements dated 1 August 2000, which are terminable by 12 months' rolling notice from either side. C M Errington has a service agreement dated 1 August 2004, which is terminable by 12 months' rolling notice from either side. R Glenn has a service agreement dated 23 May 2006, which is terminable by 12 months' rolling notice from either side.

A M Howarth has a letter of appointment dated 17 May 2006 due for renewal by 16 May 2008. J E Aves has a letter of appointment dated 26 April 2006 due for renewal by 25 April 2007.

Non-executive directors

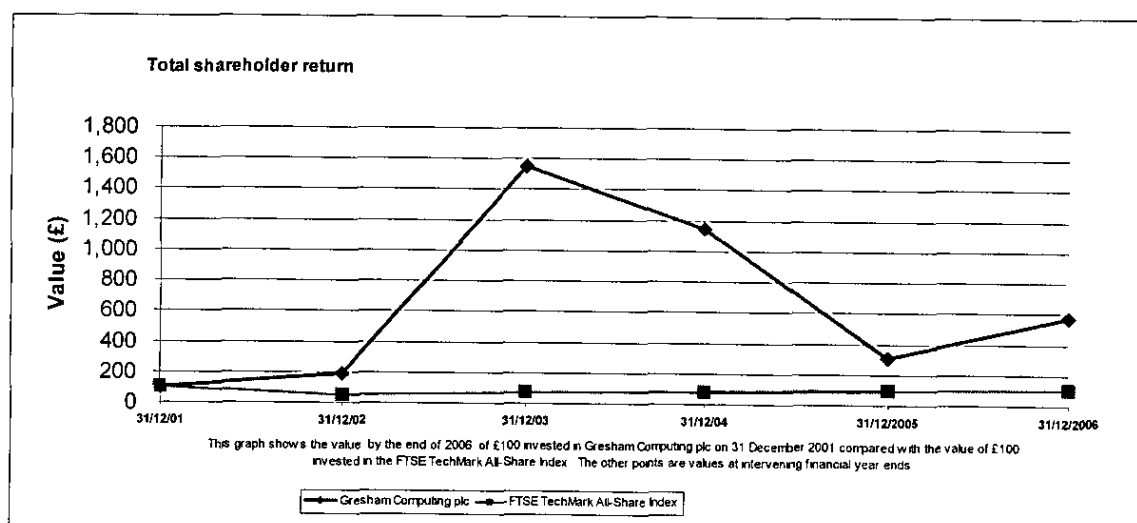
The level of non-executive directors' remuneration is determined by the executive directors after considering the fee levels in comparable businesses. A basic fee is set for normal duties and supplementary fees are paid for any additional duties at fixed day rates. Non-executive directors are appointed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

DIRECTORS' REMUNERATION REPORT

Performance graph

The graph below shows the total shareholder return for each of the last five financial years in terms of the change in value (with dividends reinvested) of an initial investment of £100 on 31 December 2001 in a holding of the company's shares against the corresponding total shareholder return in a hypothetical holding of shares in the FTSE TechMark All-Share index

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



Audited Information Directors' emoluments

	Basic Salary/ Fees £	Benefits in kind £	Performance related bonus £	Compensation for loss of office £	2006 Total emoluments £	2005 Total emoluments £
<i>Executive</i>						
C M Errington	136,250	3,973	—	—	140,223	95,443
R Glenn ¹	85,436	1,216	—	—	86,652	—
D Osman ^{2,3}	71,500	2,311	—	30,000	103,811	135,091
S W Purchase ⁴	154,500	4,966	—	—	159,466	132,591
A J S Walton-Green	192,000	4,966	—	—	196,966	185,091
<i>Non-executive</i>						
J E Aves ⁵	35,000	—	—	—	35,000	28,800
A M Howarth	30,000	—	—	—	30,000	28,500
	704,686	17,432	—	30,000	752,118	605,516

¹ from date of appointment 23 May 2006

² at the option of the director, waived £10,250 of 2005 basic salary and waived £3,000 to 31 March 2006

³ to date of resignation 30 June 2006

⁴ at the option of the director, waived £22,500 of 2005 basic salary and waived £7,500 to 31 March 2006

⁵ £15,000 of which was paid to J E Aves Associates (2005 £17,550)

Benefits in kind comprise private medical insurance

Directors' pension entitlements

Four directors were members of defined contribution schemes. Contributions paid by the company in respect of the directors were as follows

	2006 £	2005 £
C M Errington	6,812	4,750
R Glenn ¹	3,500	—
D Osman ²	9,937	16,437
S W Purchase	20,250	15,750
A J S Walton-Green	23,280	20,528
	63,779	57,465

¹ from date of appointment 23 May 2006

² to date of resignation 30 June 2006

Directors' share options

Details of options for directors who served during the year are as follows

	Options at 1 January 2006	Granted/ (cancelled) in the year	Options at 31 December 2006	Date of grant	Exercise price	Date first exercisable	Expiry date	Date exercised	Market price at exercise
C M Errington	—	—	—	—	—	—	—	—	—
R Glenn	—	—	—	—	—	—	—	—	—
S W Purchase	—	—	—	—	—	—	—	—	—
A J S Walton-Green	557,897 [£]	—	557,897	25 07 00	36p	28 07 03	27 07 10	—	—
	250,000 [£]	—	(250,000)	17 07 01	25p	18 07 01	17 07 06	16 06 06	105p
	807,897	—	(250,000)	557,897					

[£] denotes options granted under Executive share option schemes

[£] denotes options granted by S J Green over shares beneficially held by him (no performance conditions)

denotes options over which the executive has agreed to pay any employer's national insurance arising from the exercise of the options

The closing market price of the company's shares on 31 December 2006 was 148 pence. During the year, the closing price per ordinary share ranged from 78 pence to 152 pence.

Gains made on the exercise of director share options are disclosed in note 7.

Approval

This report was approved by the board of directors and is signed on its behalf by



J E Aves
26 March 2007

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Statement of directors' responsibilities in relation to the financial statements

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

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

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and enable them to ensure that the financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

We have audited the group financial statements of Gresham Computing plc for the year ended 31 December 2006 which comprise Group Income Statement, Group Statement of Recognised Income and Expense, Group Balance Sheet, Group Cashflow Statement and the related notes 1 to 30. These group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of Gresham Computing plc for the year ended 31 December 2006 and on the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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

The directors' responsibilities for preparing the Annual Report and the group financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the group financial statements give a true and fair view and whether the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding director's remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2003 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited group financial statements. The other information comprises only Directors' Report, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the group financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the group financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the group financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the group financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the group financial statements.

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2006 and of its loss for the year then ended,
- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation, and
- the information given in the directors' report is consistent with the group financial statements.

Ernst & Young LLP

Ernst & Young LLP
Registered auditor
Southampton
26 March 2007

Ernst & Young LLP

GROUP INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2006

		31 December 2006 £'000	31 December 2005 £'000
	Notes		
Revenue	3,4,26	14,522	13,982
Cost of goods sold		(6,928)	(7,205)
Gross profit		7,594	6,777
Administrative expenses		(8,124)	(8,133)
Trading loss	5	(530)	(1,356)
Finance revenue	3,8	132	124
Finance costs	8	(16)	(14)
Loss before taxation		(414)	(1,246)
Taxation	9	40	145
Attributable to equity holders of the parent	24	(374)	(1,101)
Loss per share (total and continuing)			
Basic loss per share — pence	10	(0 74)	(2 20)
Diluted loss per share — pence	10	(0 74)	(2 20)

	2006 £'000	2005 £'000
Exchange differences on translation of foreign operations	(103)	—
Net expense recognised directly in equity	(103)	—
Attributable loss for the period	(374)	(1,101)
Total recognised income and expense for the period	(477)	(1,101)

GROUP BALANCE SHEET

AT 31 DECEMBER 2006

		31 December 2006 £'000	31 December 2005 £'000
	Notes		
Assets			
Non-current assets			
Property, plant and equipment	12	1,195	1,271
Intangible assets	13	5,879	1,879
		7,074	3,150
Current assets			
Trade and other receivables	16	3,543	8,175
Income tax receivable	16	305	252
Other financial assets	15	32	40
Cash and cash equivalents	17	3,557	1,973
		7,437	10,440
Total Assets		14,511	13,590
Equity and Liabilities			
Equity attributable to equity holders of the parent			
Called up equity share capital	22	2,518	2,513
Share premium account	24	10,037	10,009
Other reserves	24	1,039	1,039
Foreign currency translation reserve	24	(132)	(29)
Retained earnings	24	(6,383)	(5,973)
	24	7,079	7,559
Non-current liabilities			
Financial liabilities	19	—	21
Deferred income	18	1,562	680
Current liabilities			
Financial liabilities	19	—	43
Income tax payable	18	121	109
Trade and other payables	18	5,749	5,178
Total liabilities		7,432	6,031
Total Equity and Liabilities		14,511	13,590

On behalf of the Board



C M Errington
26 March 2007

A J S Walton-Green
26 March 2007

	Notes	2006 £'000	2005 £'000
Cash flows from operating activities			
Trading loss		(530)	(1,356)
Depreciation, amortisation and impairment	5	481	586
Share based payment (credit)/expense	23	(36)	42
Decrease/(Increase) in trade and other receivables		1,321	(1,424)
Increase in trade and other payables		1,441	976
Cash inflow/(outflow) from operations		2,677	(1,176)
Net income taxes received		—	431
Net cash inflow/(outflow) from operating activities		2,677	(745)
Cash flows from investing activities			
Interest received	8	132	84
Repayment of convertible bonds		—	400
Purchase of property, plant and equipment	12	(180)	(155)
Disposal of property, plant and equipment	12	—	4
Payments to acquire intangible fixed assets	13,25	(956)	(709)
Net cash used in investing activities		(1,004)	(376)
Cash flows from financing activities			
Proceeds from issue of ordinary share capital	22	33	140
Share issue costs	24	—	(10)
Interest paid	8	(8)	(14)
Decrease in obligations under finance leases	25	(59)	(65)
Net cash (used in)/generated by financing activities		(34)	51
Net increase/(decrease) in cash and cash equivalents	25	1,639	(1,070)
Cash and cash equivalents at beginning of period	25	1,973	3,016
Exchange adjustments	25	(55)	27
Cash and cash equivalents at end of period	25	3,557	1,973

1 Authorisation of financial statements

The group financial statements of Gresham Computing plc (the 'group') for the year ended 31 December 2006 were authorised for issue by the board of the directors on 26 March 2007 and the balance sheets were signed on the board's behalf by A J S Walton-Green and C M Errington. Gresham Computing plc is a public limited company incorporated and domiciled in England & Wales. The company's ordinary shares are traded on the London Stock Exchange.

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

2. Accounting policies

Basis of preparation

The group's financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU as they apply to the financial statements of the group for the year ended 31 December 2006 applied in accordance with the provisions of the Companies Act 2006. The group financial statements are presented in £ Sterling and all values are rounded to the nearest thousand pounds (£'000) except when otherwise indicated.

Basis of consolidation

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

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

Critical accounting estimates and judgements

The preparation of financial statements requires management to make estimates and assumptions which impact the reported amounts of assets and liabilities and the reported amount of revenues and expenses during the reporting period. The critical judgements and key sources of estimation uncertainty that have been made in preparing the consolidated financial statements are detailed below. These judgements involve assumptions or estimates in respect of future events which can vary from what is anticipated.

Revenue and profit recognition

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

Impairment of goodwill and development costs

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

2 Accounting policies (continued)

Property, plant and equipment

Property, plant and equipment is stated at cost less depreciation and provision for impairment where appropriate. Freehold land is not depreciated. Freehold buildings are depreciated down to their residual value on a straight-line basis at 2% per annum. Fixtures and fittings are depreciated on a straight-line basis over the term of the underlying buildings lease. Plant and equipment is depreciated on a straight-line basis over lives ranging between 1 and 10 years to write down the assets to their residual value based on current prices for an asset of the age the plant and equipment is expected to be at the end of its useful life. Residual values and useful lives are reviewed on an annual basis.

Intangible assets

Purchased intangibles, including purchased patents, know-how, trademarks, licences and distribution rights are capitalised at cost and amortised on a straight line basis over their estimated useful lives. The amortisation of those intangibles acquired as part of a business combination is presented within administrative expenses. The estimated useful life of these intangible assets ranges between 3 and 10 years depending on their nature.

The group considers that the regulatory, technical and market uncertainties inherent in the development of new products and technologies means that internal development costs should not be capitalised as intangible fixed assets until commercial viability of a project is demonstrable and appropriate resource is in place to launch the product. Research and development expenditure prior to this point in time is expensed as incurred. An intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, the following can be demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale,
- the intention to complete the intangible asset and use or sell it,
- the ability to use or sell the intangible asset,
- how the intangible asset will generate probable future economic benefits,
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset, and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Development intangible assets have lives ranging from 5 to 20 years depending on their nature.

Amortisation charges in respect of intangible assets are included in administrative expenses.

Goodwill

Goodwill recognised prior to the date of transition to IFRS on 1 January 2004 is stated at net book value as at this date. Goodwill recognised subsequent to 1 January 2004, representing the excess of purchase consideration over net fair value of identifiable assets, liabilities and contingent liabilities acquired, is capitalised. After initial recognition, goodwill is stated at cost less any accumulated impairment losses, with the carrying value being reviewed for impairment, at least annually and whenever events or changes in circumstances indicate that the carrying value may be impaired.

The determination of whether or not goodwill has been impaired requires an estimate to be made of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation includes estimates about the future financial performance of cash generating units, including management's estimates of long term operating margins and long term growth rates.

For the purpose of impairment testing, goodwill is allocated to the related cash-generating units monitored by management, at business segment level or statutory company level as the case may be. Where the recoverable amount of the cash-generating unit is less than its carrying amount, including goodwill, an impairment loss is recognised in the income statement. Any impairment of goodwill charged to the income statement cannot be reversed by subsequent accounting policies.

The carrying amount of goodwill allocated to a cash-generating unit is taken into account when determining the gain or loss on disposal of the unit, or of an operation within it. Goodwill arising on acquisitions prior to 1 November 1998 remains set off directly against reserves even if the related investment becomes impaired or the business is disposed of.

2. Accounting policies (continued)

IFRS 3 'Business Combinations' has not been retrospectively applied to combinations before the date of transition to IFRS

Impairment of assets

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

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

Financial assets

Financial assets in the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or as available-for-sale financial assets, as appropriate. The group determines the classification of its financial assets at initial recognition and re-evaluates this designation at each financial year-end. When financial assets are recognised initially, they are measured at fair value, being the transaction price plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

Financial assets at fair value through profit or loss

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

Loans and receivables

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

Impairment of financial assets

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

Assets carried at amortised cost

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

2. Accounting policies (continued)

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

Trade and other receivables

Trade receivables, which generally have 30-60 day terms, are recognised and carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, receivables are carried at amortised cost. Provision is made when there is objective evidence that the group will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

Amounts recoverable on contracts

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

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash on hand and demand deposits with banks.

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

Derivative financial instruments

The group uses derivative financial instruments such as forward currency contracts to hedge its risks associated with foreign currency. From 1 January 2004, such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

Revenue recognition

Revenue comprises sales of products and services to third parties at amounts invoiced net of trade discounts and rebates, excluding sales taxes, when the significant risks and rewards of ownership of the products and services have passed to the buyer and can be reliably measured and reasonably assured of recoverability.

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

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

Revenue from the provision of professional services, such as implementation, training and consultancy, is recognised as the services are performed.

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

Larger contracts for the delivery of solutions with multiple elements, typically involving licence, professional services and maintenance, are unbundled and revenue is recognised based on the accounting policy applicable to each constituent part.

Revenue is recognised on long-term contracts as that proportion of the total contract value which costs incurred to date bear to total expected costs for that contract. Profit is recognised on long-term contracts, if the final outcome can be assessed with reasonable certainty, by including in the income statement revenue and related costs as contract activity progresses.

2. Accounting policies (continued)

Interest income is recognised as interest accrues using the effective rate of interest method

Rental income arising from sub-letting premises held under operating leases is accounted for on a straight-line basis over the lease term

Foreign currency translation

The presentational and functional currency of Gresham Computing plc is £ Sterling. Balance sheet items of overseas companies are translated into £ Sterling at the year-end rates of exchange. Income statement items and the cash flows of overseas subsidiary undertakings are translated at the average rates for the year.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Transactions in foreign currencies are initially recorded in the functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date.

The following are recorded as movements in the currency translation reserves: exchange differences on the translation at closing rates of exchange of overseas opening net assets and the differences arising between the translation of profits at average and closing exchange rates. On the disposal of a foreign subsidiary, the deferred cumulative amount recognised in equity, within the currency translation reserve, relating to that particular subsidiary is recognised in the income statement.

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

Income taxes

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

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

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

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

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

Pensions and other post-retirement benefits

The group operates defined contribution pension schemes and contributions are recognised in the income statement in the period in which they become payable.

2. Accounting policies (continued)

Share-based payments

The group operates executive and employee share schemes. For all grants of share options, the fair value as at the date of grant is calculated using an option pricing model and the corresponding expense is recognised over the vesting period. The cumulative expense recognised at each reporting date reflects the extent to which the vesting period has expired and the number of awards that, in the opinion of the directors, will vest. The expense is recognised as a staff cost and the associated credit entry is made against equity.

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

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

Leases — Lessee

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the group. All other leases are classified as operating leases.

Assets held under finance leases are capitalised as property, plant or equipment and depreciated accordingly. The capital element of future lease payments is included in borrowings and interest is charged to the income statement on an effective interest basis over the term of the lease.

Rentals payable under operating leases are charged to income on a straight line basis over the term of the relevant lease. Lease incentives are recognised on a straight line basis over the lease term.

New standards and interpretations not applied

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

International Accounting Standards (IAS/IFRSs)		Effective date
IFRS 7	Financial Instruments Disclosures	1 January 2007
IFRS 8	Operating Segments	1 January 2009
IAS 1	Amendment — Presentation of Financial Statements	1 January 2007
International Financial Reporting Interpretations Committee (IFRIC)		
IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies	1 March 2006
IFRIC 8	Scope of IFRS 2	1 May 2006
IFRIC 9	Reassessment of Embedded Derivatives	1 June 2006
IFRIC 10	Interim Financial Reporting and Impairment	1 November 2006
IFRIC 11	IFRS 2 — Group and Treasury Share Transactions	1 March 2007
IFRIC 12	Service Concession Arrangements	1 January 2008

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.

Upon adoption of IFRS 7, the group will have to disclose additional information about its financial instruments, their significance and the nature and extent of risks that they give rise to. More specifically the group will need to disclose the fair value of its financial instruments and its risk exposure in greater detail. There will be no effect on reported income or net assets.

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2006

3 Revenue

Revenue disclosed in the income statement is analysed as follows

	2006	2005
	£'000	£'000
Sale of goods and services	14,522	13,982
Finance revenue	132	124
	14,654	14,106

Sale of goods and services includes £393,000 of contract revenue recognised in the period (2005 nil)

4. Segment information

Prior year adjustment and restatement of segment information comparatives

In October 2006, the group announced the launch of its Clareti Real-Time Financial Solutions and Clareti Storage Solutions. On the same date, the group began to re-organise such that reporting of results and operations was on a geographic basis with a managing director responsible for and reporting on each country. From 1 January 2007, results have been reported to the board based on a primary geographic segment.

Taking into account the requirements of IAS 14 in the context of the changes described above, the directors consider that the dominant source and nature of risk and return is now geographic based and have revised the segments disclosed in these financial statements accordingly.

Specifically, in these financial statements the primary segment has been changed from business segment to geographic segment and the secondary segment has been changed from geographic segment to business segment. In addition, the business segments themselves have been revised such that Real-Time Financial Solutions and Storage Solutions have replaced Enterprise Solutions and Enterprise Storage.

The identification of segments is part of the segment accounting policy and accordingly the change has been accounted for and disclosed in accordance with IAS 8 as a prior year adjustment with restatement of comparative segment information.

Segments

The primary segment reporting format is determined to be geographic segments as the group's risks and rates of return are affected predominantly by differences in geography. Secondary segment information is reported by business segment. The operating businesses are organised and managed separately according to geography, with each segment representing a strategic business unit that offers the Clareti range of solutions to market.

The group's geographic segments are based on the location of the group's assets. Sales to external customers disclosed in geographic segments are based on the geographic location of its customers and destination. The geographic segments relate primarily to operations in the following countries: Asia Pacific, Australia and Malaysia, EMEA, UK and Northern Europe, North America, United States of America, Canada and the Caribbean.

The real time financial solutions segment is a supplier of solutions predominantly to the finance and banking markets. Included within the real time financial solutions segment is the group's IT staff placement business and, because this business contributes significant revenues, certain additional information concerning the results of this business have been provided to aid understanding of the overall segment results. The storage solutions segment is a supplier of solutions predominantly to the enterprise level storage market.

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

4. Segment information (continued)

Primary reporting format — Geographic segments

The information previously reported in respect of the year ended 31 December 2005 has been restated as detailed above

The following tables present revenue and profit/loss and certain asset and liability information regarding the group's geographical segments for the years ended 31 December 2006 and 2005 (as restated), all of which are continuing

Revenue by source

	Year ended 31 December 2006			Year ended 31 December 2005		
	Segment	Inter-	Sales to	Segment	Inter-	Sales to
	revenue	segment	external	revenue	segment	external
	£'000	sales	customers	£'000	sales	customers
Asia Pacific	2,384	(613)	1,771	2,269	(488)	1,781
EMEA	8,869	(54)	8,815	8,337	(4)	8,333
North America	3,936	—	3,936	3,874	(6)	3,868
	15,189	(667)	14,522	14,480	(498)	13,982

Revenue by destination

	2006	2005
	£'000	£'000
Asia Pacific	3,104	2,571
EMEA	9,817	9,910
North America	1,601	1,501
	14,522	13,982

Result by segment

	Year ended 31 December 2006				Year ended 31 December 2005			
	Asia	North	Total	£'000	Asia	North	Total	£'000
	Pacific	America			Pacific	America		
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Segment result	(81)	95	711	725	96	(1,101)	808	(197)
Unallocated expenses			(1,255)				(1,159)	
Trading loss			(530)				(1,356)	
Net finance revenue			116				110	
Loss before income tax			(414)				(1,246)	
Income tax credit			40				145	
Net loss for the year			(374)				(1,101)	

Assets by segment

	Year ended 31 December 2006				Year ended 31 December 2005			
	Asia	North	Total	£'000	Asia	North	Total	£'000
	Pacific	America			Pacific	America		
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Segment assets	1,438	5,943	2,166	9,547	1,843	7,277	1,384	10,504
Unallocated assets			4,964				3,086	
Total assets			14,511				13,590	
Segment liabilities	(342)	(5,219)	(1,536)	(7,097)	(621)	(3,725)	(1,584)	(5,930)
Unallocated liabilities			(335)				(101)	
Total liabilities			(7,432)				(6,031)	

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2006

4 Segment information (continued)

Other segment information

	Year ended 31 December 2006				Year ended 31 December 2005			
	Asia Pacific £'000	EMEA £'000	North America £'000	Total £'000	Asia Pacific £'000	EMEA £'000	North America £'000	Total £'000
Capital expenditure								
Tangible assets	14	65	101	180	5	90	52	147
Intangible assets	—	380	576	956	78	352	479	909
	14	445	677	1,136	83	442	531	1,056
Depreciation	12	186	42	240	25	213	42	280
Amortisation	15	185	13	213	7	84	—	91
Impairment losses	—	28	—	28	—	215	—	215

Unallocated assets and liabilities comprise certain property, plant and equipment, cash and taxation

Secondary reporting format — Business segments

The information previously reported in respect of the year ended 31 December 2005 has been restated as detailed above

The following tables present revenue, expenditure and certain asset information regarding the group's business segments for the years ended 31 December 2006 and 2005 (as restated)

Revenue by business segment	2006 £'000	2005 £'000
Real Time Financial Solutions	11,823	10,812
Storage Solutions	2,699	3,170
	14,522	13,982

Included in the Real Time Financial Solutions business segment is £3,411,000 of revenue in respect of the IT staff placement business (2005 £3,892,000)

Other information

	Year ended 31 December 2006			Year ended 31 December 2005		
	Real Time Financial Solutions £'000	Storage £'000	Total £'000	Real Time Financial Solutions £'000	Storage £'000	Total £'000
Assets by business segment						
Segment assets	7,849	1,698	9,547	9,402	1,102	10,504
Unallocated assets			4,964			3,086
Total assets			14,511			13,590
Capital expenditure						
Tangible assets	88	92	180	79	68	147
Intangible assets	475	481	956	430	479	909
	563	573	1,136	509	547	1,056

Unallocated assets and liabilities comprise certain property, plant and equipment, cash and taxation

5. Trading loss

Trading loss is revenue less cost of goods sold and administrative expenses. This is stated after charging/(crediting)

	2006 £'000	2005 £'000
Research and development expenditure written off	789	900
Depreciation of property, plant and equipment	240	280
Amortisation of intangible assets	213	91
Impairment of intangible assets	28	215
Total amortisation and depreciation expense	481	586
Foreign exchange losses/(gains)	42	(82)
Operating lease payments	689	661
Sub lease rentals receivable	(225)	(225)

6. Auditors' remuneration

	2006 £'000	2005 £'000
Audit of the financial statements		
Audit services — parent	20	18
Audit services — subsidiaries	59	59
	79	77
Other services		
Taxation compliance services — parent	—	1
Taxation compliance services — subsidiaries	—	29
IFRS transition work — parent	10	17
	10	47
	89	124

7. Staff costs and directors' emoluments

a) Staff costs

	2006 £'000	2005 £'000
Wages and salaries	6,798	7,032
Social security costs	870	943
Other pension costs	310	307
	7,978	8,282

Included in wages and salaries is a total credit in respect of share-based payments of £36,000 (2005 £42,000 expense) all of which arises from transactions accounted for as equity-settled share-based payment transactions

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2006

7. Staff costs and directors' emoluments (continued)

The average monthly number of staff employed under contracts of service during the year was

	2006	2005
Management	21	22
Administration	20	23
Technical	95	100
	136	145

b) Directors' emoluments

	2006 £'000	2005 £'000
Directors' emoluments	722	606
Compensation for loss of office	30	—
Directors' pension contributions	64	57
	816	663
Number of directors accruing benefits under a defined contribution scheme	4	4
Number of directors who exercised share options	1	3

	2006 £'000	2005 £'000
Aggregate gains made by directors on the exercise of share options ¹		
A J S Walton-Green	200	6
D Osman ²	—	39
S Purchase	—	11
	200	56

¹ Notional gain calculated as the difference between the option exercise price and the market price at the date of exercise

² To date of resignation on 30 June 2006

8. Finance costs/revenue

	2006 £'000	2005 £'000
Finance costs		
Finance charges payable under finance leases	6	11
Other bank charges	2	3
SQS warrants	8	—
Total finance costs	16	14
Finance revenue		
Bank interest receivable	132	84
SQS warrants	—	40
Total finance revenue	132	124

9 Taxation

a) Tax on loss on ordinary activities

Tax (credited)/charged in the income statement

	2006 £'000	2005 £'000
Current income tax		
UK Corporation tax credit	(90)	(100)
Foreign Corporation tax charge	12	—
Foreign withholding tax charge	50	89
	(28)	(11)
Amounts over provided in previous years	(12)	(134)
Total current income tax	(40)	(145)
Deferred tax	—	—
Tax credit in the income statement	(40)	(145)

b) Reconciliation of the total tax charge

The tax credit in the income statement for the year is lower than the standard rate of corporation tax in the UK of 30% (2005 — 30%). The differences are reconciled below

	2006 £'000	2005 £'000
Accounting loss before tax	(414)	(1,246)
At UK standard rate of corporation tax of 30% (2005 30%)	(124)	(374)
Expenses not deductible for tax purposes	18	99
Tax relief on share based payments	(21)	(166)
Increase in losses carried forwards	363	788
R&D tax credit	(90)	(100)
Utilisation of losses	(13)	(113)
Movement on unrecognised temporary differences	(222)	(241)
Withholding tax written off	53	89
Other	9	7
R&D tax credit prior periods	—	(134)
Other adjustments in respect of prior periods	(13)	—
Total tax credit reported in the income statement	(40)	(145)

c) Unrecognised tax losses

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

d) Temporary differences associated with group investments

At 31 December 2006, there was no recognised deferred tax liability (2005 Nil) for taxes that would be payable on the un-remitted earnings of certain of the group's subsidiaries, as the group has determined that undistributed profits of its subsidiaries will not be distributed in the foreseeable future.

The temporary differences associated with investments in subsidiaries for which deferred tax liability has not been recognised aggregate to £nil (2005 £nil).

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2006

9. Taxation (continued)

e) Deferred tax

Recognised deferred tax

There is no deferred tax included in either the group balance sheet or group income statement (2005 £nil)

Unrecognised potential deferred tax assets

The deferred tax not recognised in the group balance sheet is as follows

	2006 £'000	2005 £'000
Depreciation in advance of capital allowances	118	190
Share-based payments temporary differences	224	99
Other temporary differences	797	145
Tax losses	3,453	3,127
Unrecognised deferred tax asset	4,592	3,561
Gross tax losses unrecognised	11,510	10,423

10. Loss per ordinary share

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

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

The following reflects the loss and share data used in the basic and diluted loss per share computations

	2006 £'000	2005 £'000
Net loss attributable to equity holders of the parent	(374)	(1,101)
	2006	2005
Basic weighted average number of shares	50,293,800	49,945,603
Dilutive potential ordinary shares		
Employee share options	—	—
Diluted weighted average number of shares	50,293,800	49,945,603
Basic loss per share — pence	(0 74)	(2 20)
Diluted loss per share — pence	(0 74)	(2 20)

The employee share options are not dilutive because they would reduce the loss per share in both years

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements

11. Dividends paid and proposed

No dividends were declared or paid during the year and no dividends are proposed for approval at the AGM (2005 None)

12. Property, plant and equipment

31 December 2006

	Land and buildings £'000	Fixtures and fittings £'000	Plant and equipment £'000	Total £'000
Cost				
At 1 January 2006	1,298	651	3,740	5,689
Additions	—	6	174	180
Disposals	—	(118)	(1,602)	(1,720)
Exchange adjustment	—	(8)	(122)	(130)
At 31 December 2006	1,298	531	2,190	4,019
Depreciation				
At 1 January 2006	(402)	(618)	(3,398)	(4,418)
Charge for year	—	(13)	(227)	(240)
Disposals	—	118	1,602	1,720
Exchange adjustment	—	6	108	114
At 31 December 2006	(402)	(507)	(1,915)	(2,824)
Net carrying amount				
At 31 December 2006	896	24	275	1,195
At 1 January 2006	896	33	342	1,271

31 December 2005

	Land and buildings £'000	Fixtures and fittings £'000	Plant and equipment £'000	Total £'000
Cost				
At 1 January 2005	1,298	644	3,511	5,453
Additions	—	—	147	147
Disposals	—	—	(9)	(9)
Exchange adjustment	—	7	91	98
At 31 December 2005	1,298	651	3,740	5,689
Depreciation				
At 1 January 2005	(402)	(594)	(3,057)	(4,053)
Charge for year	—	(17)	(263)	(280)
Disposals	—	—	4	4
Exchange adjustment	—	(7)	(82)	(89)
At 31 December 2005	(402)	(618)	(3,398)	(4,418)
Net carrying amount				
At 31 December 2005	896	33	342	1,271
At 1 January 2005	896	50	454	1,400

Assets held under finance leases

The carrying value of plant and equipment held under finance leases and hire purchase contracts at 31 December 2006 was £nil (2005 £59,000). Additions during the year include £nil (2005 £23,000) of plant and equipment held under finance leases and hire purchase.

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AT 31 DECEMBER 2006

13 Intangible assets

31 December 2006

	Development costs £'000	Patents and licences £'000	Goodwill £'000	Total £'000
Cost				
At 1 January 2006	705	1,145	1,052	2,902
Additions	954	2	—	956
Reclassification	3,338	—	—	3,338
Disposals	—	—	—	—
Exchange adjustment	(4)	(4)	(48)	(56)
At 31 December 2006	4,993	1,143	1,004	7,140
Amortisation				
At 1 January 2006	(7)	(1,016)	—	(1,023)
Charge for year	(138)	(75)	—	(213)
Impairment charge	—	(28)	—	(28)
Disposals	—	—	—	—
Exchange adjustment	—	3	—	3
At 31 December 2006	(145)	(1,116)	—	(1,261)
Net carrying amount				
At 31 December 2006	4,848	27	1,004	5,879
At 1 January 2006	698	129	1,052	1,879

31 December 2005

	Development costs £'000	Patents and licences £'000	Goodwill £'000	Total £'000
Cost				
At 1 January 2005	—	949	1,016	1,965
Additions	705	—	—	705
Acquisitions	—	204	—	204
Disposals	—	—	—	—
Exchange adjustment	—	(8)	36	28
At 31 December 2005	705	1,145	1,052	2,902
Amortisation				
At 1 January 2005	—	(720)	—	(720)
Charge for year	(7)	(84)	—	(91)
Impairment charge	—	(215)	—	(215)
Disposals	—	—	—	—
Exchange adjustment	—	3	—	3
At 31 December 2005	(7)	(1,016)	—	(1,023)
Net carrying amount				
At 31 December 2005	698	129	1,052	1,879
At 1 January 2005	—	229	1,016	1,245

Development costs

Development costs are internally generated and are capitalised at cost. These intangible assets have been assessed as having a finite life and are amortised on a straight line basis over their useful lives. These assets are tested for impairment where an indicator of impairment arises and annually prior to them being made available for use.

13. Intangible assets (continued)

Reclassification

As a consequence of the new arrangement agreed with Cable & Wireless in April 2006, further described in note 26, it was considered more appropriate to reclassify the costs relating to the development of the cash reporting software application from contract receivables to intangible assets. £3.3m of costs previously reported in the balance sheet as contract costs within current assets (£3.2m at 31 December 2005) have been reclassified as development costs and included within intangible assets. These costs are being amortised over their useful life against associated revenues subject to a minimum charge based on the straight line amortisation of such costs over a maximum life of 20 years.

Patents and licences

Patents and licences are the third party costs incurred in seeking and obtaining protection for certain of the group's products and services. These intangible assets have been assessed as having a finite life and are being amortised evenly over their useful economic life, to a maximum of 10 years. Patents have a remaining life of 8 years and licences a remaining life of 1 year.

Goodwill

Goodwill was purchased as part of a business combination and is subject to annual impairment testing.

14 Impairment of goodwill and intangibles

Goodwill

Goodwill acquired through business combinations has been allocated to one individual cash-generating unit ("CGU"), the lowest level at which goodwill is monitored for internal management purposes, for impairment testing. This represents a change to the method used in 2005, when two individual CGUs were considered, which arises because of the changes in segments and reporting that took place in the year as described in note 4.

Asia Pacific real-time financial solutions cash-generating unit

The recoverable amount of this CGU has been determined based on a value in use calculation. To calculate this, cash flow projections are based on financial budgets approved by the board and take account of a 5 year period. The discount rate applied to cash flow projections is 7% (2005: 7%) and cash flows beyond the 5 year period are extrapolated using a 7% growth rate (2005: 5%) that is a prudent approximation to the long term average growth rate for the real-time financial solutions market.

Carrying amount of goodwill

	2006 £'000	2005 £'000
Asia Pacific real-time financial solutions CGU	1,004	1,052

Key assumptions used in the value in use calculations

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

The calculation of value in use is most sensitive to assumptions around:

Gross margins, based on average values achieved in the three years preceding the start of the budget period,

Growth rates, based on internally estimated growth rates for the market and the business offerings, and

Discount rate, based on the pre-tax weighted average cost of capital of the CGU.

Sensitivity to changes in assumptions

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

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AT 31 DECEMBER 2006

14. Impairment of goodwill and intangibles (continued)

Development costs

Development costs have a net book value of £4,848,000 (2005 £698,000) and are allocated to individual cash-generating units, being the lowest level at which these intangible assets are monitored for internal management purposes, for impairment testing on an annual basis prior to being made available for use or sooner where an indicator of impairment exists. The following table summarises the net book value of development costs across both primary and secondary segments

	Real-time financial £'000	Storage £'000	Total 2006 £'000	Real-time financial £'000	Storage £'000	Total 2005 £'000
Asia Pacific	52	—	52	71	—	71
EMEA	3,755	—	3,755	149	—	149
North America	90	951	1,041	—	478	478
Net book value	3,897	951	4,848	220	478	698

The total value of development costs not yet available for use at 31 December 2006 is £238,000 (2005 £627,000) and relates to one CGU in the EMEA real-time financial solutions segment. The recoverable amount of development costs allocated to CGUs has been determined based on a value in use assessment and the cashflows generated. In determining the recoverable amount the most recent budgets approved by the board have been used as a basis for estimating future cash flows.

Key assumptions used in the value in use calculations

Where the development costs relate to products or solutions that will be sold in an existing known market past experience is used as a guide to the level of sales achievable, growth rates and associated margins. Where the development costs relate to products or solutions that will be sold into a new or emerging market past experience with similar products or solutions is combined with relevant information from external market sources, such as competitor pricing and discussions with potential customers, in arriving at the level of sales achievable, growth rates and associated margins. The recoverable amount of development costs has been considered over only a 5 year period taking into account the relatively fast moving nature of the markets in which the products and solutions will be deployed. Growth rates in excess of 10% are considered achievable once the product or solution is established in a market, over a 5 year period, but prior to this growth rates will be higher because the starting point is a zero base of sales. Discount rates of 7% based on the pre tax weighted average cost of capital of the cash generating units are expected to apply in respect of future cash flows.

The calculation of value in use for both units is most sensitive to assumptions around the timing and quantum of sales arising from the intangible when made available for use and therefore the recoverable amount is highly sensitive to levels of future sales falling below expectations and budgets.

Sensitivity to changes in assumptions

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

Impairment of patents and licenses

The following impairment charges have been made in respect of patents and licenses

	2006 £'000	2005 £'000
Gresham SA	28	100
Real Time Secure Communications	—	115
	28	215

14. Impairment of goodwill and intangibles (continued)

Gresham SA is a subsidiary operating in the EMEA Storage Solutions segment and the impairments relate to a write-down of intangible software licenses to their value in use. The 2006 write down reflects a further reduction in trading prospects for this entity and taken with the impairment made in 2005, takes the carrying value of this asset to nil. The write down takes account of zero growth rates and a cost of capital of 7%.

The Real Time Secure Communications impairment charge was made in 2005 and reflected a reduction in the carrying value of certain elements of that asset arising from a change in customer requirements. The write down takes account of less than 5% growth rates and a cost of capital of 7%. This business operates in the EMEA Real-Time Financial Solutions segment.

15. Other financial assets

	2006 £'000	2005 £'000
Financial assets — current		
SQS warrants (see Note 21)	32	40
	32	40

16 Trade and other receivables

	2006 £'000	2005 £'000
Trade receivables	2,078	4,064
Prepayments and accrued income	1,272	933
Amounts recoverable on contracts	193	3,178
	3,543	8,175
Income tax receivable	305	252

The following table provides disclosure of contracts in progress at the balance sheet date.

	2006 £'000	2005 £'000
Contracts in progress at the balance sheet date		
Contract costs incurred plus recognised profits less recognised losses to date	393	3,178
Less progress billings	(200)	—
	193	3,178
Recognised as		
Amounts due from customers included in trade and other receivables (above)	193	3,178

During the year, the contract costs brought forward from 2005 were reclassified as described in Note 13.

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AT 31 DECEMBER 2006

17. Cash and cash equivalents

	2006 £'000	2005 £'000
Cash at bank and in hand	3,557	1,973
	3,557	1,973

Cash at bank earns interest at floating rates based on daily bank deposit rates. There is no difference between the book value and fair value of cash and cash equivalents.

18. Trade and other payables

	2006 £'000	2005 £'000
Current		
Trade payables	784	964
Other payables	1,866	1,871
Deferred income	3,099	2,343
	5,749	5,178
Income tax payable	121	109
	2006 £'000	2005 £'000
Non-current		
Deferred income	1,562	680
	1,562	680

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

19. Financial liabilities

	Effective interest rate	Maturity	2006 £'000	2005 £'000
Current				
Obligations under finance leases	8%	2006	—	38
Foreign currency contracts held for trading			—	5
			—	43
Non-current				
Obligations under finance leases	8%	2006	—	21

20. Obligations under leases and hire purchase contracts

Obligations under finance leases and hire purchase contracts

The group has finance leases in respect of computer equipment, included in plant and machinery. Future minimum lease payments under finance leases together with present value of the net minimum lease payments are as follows:

	2006 £'000	2005 £'000
Future minimum payments due		
Not later than one year	—	41
After one year but not more than five years	—	24
	—	65
Less finance charges allocated to future periods	—	(6)
Present value of minimum lease payments	—	59
The present value of minimum lease payments is analysed as follows		
Not later than one year	—	38
After one year but not more than five years	—	21
	—	59

Obligations under operating lease agreements

The group has entered into commercial leases on certain properties and items of machinery. These leases typically have an average duration of between 3 and 10 years at inception. There are no restrictions placed upon the lessee by entering into these leases.

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

	Land and buildings 2006 £'000	Other 2006 £'000	Total 2006 £'000	Land and buildings 2005 £'000	Other 2005 £'000	Total 2005 £'000
Not later than one year	535	30	565	549	28	577
After one but not more than five years	399	31	430	615	8	623
	934	61	995	1,164	36	1,200

A group company has sublet space in certain leasehold properties and the future minimum sublease payments expected to be received under non-cancellable sublease agreements as at 31 December is as follows:

	Land and buildings 2006 £'000	Land and buildings 2005 £'000
Not later than one year	173	225
After one but not more than five years	53	226
	226	451

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AT 31 DECEMBER 2006

21 Financial instruments

An explanation of the group's financial instrument risk management objectives, policies and strategies are set out in the discussion of treasury policies on pages 6 to 10 in the Directors' Report

Interest rate risk profile of financial assets and liabilities

The interest rate profile of the financial assets and liabilities of the group as at 31 December is as follows

	Within 1 year £'000	2006 1 - 2 years £'000	Total £'000	Within 1 year £'000	2005 1 - 2 years £'000	Total £'000
Fixed rate						
Obligations under finance lease contracts	—	—	—	(38)	(21)	(59)
Floating rate						
Cash	3,557	—	3,557	1,973	—	1,973

Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. Interest on financial instruments classified as floating rate is re-priced at intervals of less than one year. The other financial instruments of the group that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

Credit risk

There are no significant concentrations of credit risk within the group. The maximum credit risk exposure relating to financial assets is represented by carrying value as at the balance sheet date.

Fair values of financial assets and financial liabilities

Set out below is a comparison by category of carrying amounts and fair values of all of the group's financial instruments that are carried in the financial statements.

	Book value		Fair value	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Financial assets				
Cash	3,557	1,973	3,557	1,973
SQS warrants	32	40	32	40
Financial liabilities				
Interest-bearing loans and borrowings				
Finance lease obligations	—	(59)	—	(59)
Forward currency contracts held for trading	—	(5)	—	(5)

SQS warrants

The company holds warrants over 52,800 Software Quality Systems AG ("SQS") ordinary shares, which were issued in 2005. The warrants ("SQS warrants") have an exercise price of £1.90 and are exercisable at any time in the period 12 August 2005 to 31 July 2008.

21 Financial instruments (continued)

The fair value of the SQS warrants has been calculated as at the year end date using a Black Scholes model. The following table lists the inputs to the model:

Risk free interest rate	4%
Expected share price volatility	60%
Expected life of warrants (years)	1.5

The expected life of the warrants has been estimated and is not necessarily indicative of the period to exercise. The expected volatility is an estimate of the underlying volatility of similar equity instruments taking into account the nature of business conducted, which may also not necessarily be the actual outcome. No other features of the conversion rights were incorporated into the measurement of fair value.

Finance lease obligations

The fair value of finance lease obligations is not materially different to the book value due to the relatively low value involved and short periods of lease.

Forward currency contracts held for trading

The fair value of this financial instrument has been calculated by reference to forward exchange rates for contracts of a similar maturity profile at the year end.

Foreign currency risk

At 31 December 2006, the group held no forward exchange contracts. At 31 December 2005, the group had one forward exchange contract to mitigate the foreign currency risk of a contracted sales receipt of US Dollars due in January 2006. The loss on this instrument at 31 December 2005 has been recognised in the income statement. The terms of the forward contracts were as follows:

Forward contracts to hedge contracted sales receipts	Maturity	Exchange rate	Fair value £'000 Asset/(Liability)	
			£'000	
Sell US\$200,000	31-Jan-06	£/US\$ 1.79		(5)

Borrowing facilities

The balance of undrawn committed borrowing facilities available to the group for future operating activities and to settle capital commitments in respect of which all conditions precedent had been met at 31 December 2006 was £nil (2005 £nil).

22. Authorised and issued share capital

Authorised share capital

	2006		2005	
	Number	£	Number	£
Ordinary shares of 5 pence each	65,000,000	3,250,000	65,000,000	3,250,000
Preference shares of 20 pence each	2,750,000	550,000	2,750,000	550,000
	67,750,000	3,800,000	67,750,000	3,800,000

Ordinary shares issued and fully paid

	Number	Nominal Consideration	
		value £'000	received £'000
At 1 January 2005	49,590,788	2,479	—
Issued in respect of IPR purchase by subsidiary	63,492	3	200
Issued for cash on exercise of share options	615,529	31	140
At 1 January 2006	50,269,809	2,513	—
Issued for cash on exercise of share options	81,081	5	33
At 31 December 2006	50,350,890	2,518	

There are no preference shares in issue (2005 none)

22. Authorised and issued share capital (continued)

Further to an acquisition made in February 2005, deferred consideration of £300,000 is payable in cash or shares, at the option of company, dependent on the achievement of certain financial targets in respect of the business transferred within a 5 year period from acquisition. No further payments have been made in respect of this acquisition to the date of these financial statements and no contingent consideration, in the form of shares or cash, has been recognised because in the opinion of the directors it is not probable that such additional payments will be made.

23 Share-based payments

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

Executive Share Option Schemes

All executive share options granted after 18 August 1998 are granted under the Gresham Computing 1998 Executive Share Option Scheme. Approved options under this scheme are only exercisable if, on average, over a three year period the group's earnings per share increase by five per cent per annum above the retail price index. Any un-approved options granted under this scheme may also be subject to additional individual performance criteria.

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

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

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

At 31 December 2006, 13 participants held options under these schemes (2005: 16).

All Employee Savings Related Share Option Schemes

The group also operated a Savings Related Option Scheme (Save As You Earn — SAYE) for eligible employees. Under the SAYE scheme, eligible employees may enter into an Inland Revenue approved savings contract with a building society for three years, whereby shares may be acquired with payments made under the contract. The option price is the average market price for the three days prior to invitations being issued to join the scheme discounted by 20 per cent.

At 31 December 2006 there were no participants in the SAYE scheme (2005: nil).

23. Share-based payments (continued)

Outstanding options to subscribe for ordinary shares of 5p at 31 December 2006, including those noted in the Directors' Remuneration Report are as follows

	Note	2006 Number	2006 WAEP	2005 Number	2005 WAEP
Executive Share Option Scheme					
Outstanding at 1 January	1	957,893	67	1,017,897	56
Granted during the year		—	—	109,996	117
Exercised	2	(83,581)	38	(150,000)	27
Forfeited		(89,998)	198	(20,000)	78
Outstanding at 31 December	1	784,314	55	957,893	65
Exercisable at 31 December		724,316	50	772,897	42
Weighted average remaining contractual life (years)		3.98		5.09	
SAYE Scheme					
Outstanding at 1 January	1	—	—	465,529	22
Granted during the year		—	—	—	—
Exercised	2	—	—	(465,529)	22
Forfeited		—	—	—	—
Outstanding at 31 December	1	—	—	—	—
Exercisable at 31 December		—	—	—	—
Weighted average remaining contractual life (years)		—		—	

WAEP Weighted Average Exercise Price (Pence per share)

All share options were granted with an exercise price equal to the share price at the date of grant and therefore the weighted average share price for option grants is the same as the weighted average exercise price ('WAEP'). No price is payable on award of share options.

Note 1 Included within this number of options are options over 691,816 (2005 772,897) shares (Executive Share Option Scheme) and options over nil (2005 nil) shares (SAYE Scheme) that have not been recognised in accordance with IFRS 2 as the options were granted on or before 7 November 2002. These options have not been subsequently modified and therefore do not need to be accounted for in accordance with IFRS 2.

Note 2 The weighted average share price at the date of exercise for the options exercised is Executive share option schemes 121 pence (2005 128 pence) and SAYE schemes for 2005 111 pence.

No options were granted in 2006. The weighted average fair value of options granted during 2005 was 117 pence.

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AT 31 DECEMBER 2006

23 Share-based payments (continued)

Outstanding options to subscribe for ordinary shares of 5p at 31 December 2006, including those noted in the Directors' Remuneration Report showing the range of exercise prices and dates are as follows

	Number of share options	Date of grant	Exercise price £	Date first exercisable	Expiry date	Cash receivable if exercised £
Executive Share Option Schemes						
	43,919	17-Feb-99	1 420	18-Feb-02	17-Feb-09	62,365
	10,000	9-Feb-00	0 460	10-Feb-03	9-Feb-10	4,600
	637,897	25-Jul-00	0 360	28-Jul-03	27-Jul-10	229,643
	12,500	22-Apr-03	0 700	23-Apr-06	22-Apr-13	8,750
	20,000	28-May-04	3 225	29-May-07	28-May-14	64,500
	49,998	22-Jun-05	1 200	23-Jun-08	22-Jun-15	59,998
	10,000	30-Sep-05	0 860	1-Oct-08	30-Sep-15	8,600
	784,314					438,456

Outstanding options to subscribe for ordinary shares of 5p at 31 December 2005, including those noted in the Directors' Remuneration Report showing the range of exercise prices and dates are as follows

	Number of share options	Date of grant	Exercise price £	Date first exercisable	Expiry date	Cash receivable if exercised £
Executive Share Option Schemes						
	81,081	21-Jan-98	0 370	22-Jan-01	21-Jan-08	30,000
	43,919	17-Feb-99	1 420	18-Feb-02	17-Feb-09	62,365
	10,000	9-Feb-00	0 460	10-Feb-03	9-Feb-10	4,600
	637,897	25-Jul-00	0 360	28-Jul-03	27-Jul-10	229,643
	15,000	22-Apr-03	0 700	23-Apr-06	22-Apr-13	10,500
	40,000	28-May-03	2 695	29-May-06	28-May-13	107,800
	20,000	28-May-04	3 225	29-May-07	28-May-14	64,500
	99,996	22-Jun-05	1 200	23-Jun-08	22-Jun-15	119,995
	10,000	30-Sep-05	0 860	1-Oct-08	30-Sep-15	8,600
	957,893					638,003

The fair value of equity-settled share options granted is estimated as at the date of grant using a Black Scholes model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the years ended 31 December

	2006	2005
Risk free interest rate	4%	4%
Expected share price volatility	90%	90%
Expected life of options (years)	3	3
Dividend yield	—	—

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

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

23 Share-based payments (continued)

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

	2006 £'000	2005 £'000
(Income)/expense recognised in respect of share-based payments	(36)	42

In 2006, the number of leavers whose options subsequently lapsed prior to vesting was significantly higher than that factored into the valuation giving rise to a net credit for the year

24. Reconciliation of movements in equity

	Share capital £'000	Share premium £'000	Other reserves £'000	Currency translation reserves £'000	Retained earnings £'000	Total £'000
At 1 January 2005	2,479	9,713	1,039	(29)	(4,914)	8,288
Exchange differences on translation of foreign operations	—	—	—	—	—	—
Share based payment expense	—	—	—	—	42	42
Issue of shares	34	306	—	—	—	340
Share issue costs	—	(10)	—	—	—	(10)
Attributable loss for the period	—	—	—	—	(1,101)	(1,101)
At 31 December 2005	2,513	10,009	1,039	(29)	(5,973)	7,559
Exchange differences on translation of foreign operations	—	—	—	(103)	—	(103)
Share based payment income	—	—	—	—	(36)	(36)
Issue of shares	5	28	—	—	—	33
Share issue costs	—	—	—	—	—	—
Attributable loss for the period	—	—	—	—	(374)	(374)
At 31 December 2006	2,518	10,037	1,039	(132)	(6,383)	7,079

Share capital

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

Share premium

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

Other reserves

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

Currency translation reserves

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

Retained earnings

The cumulative amount of goodwill written off to reserves at 31 December 2006 and 2005 is £7,326,000. Goodwill previously written off to reserves will remain so written off.

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2006

25 Additional cash flow information

Analysis of group net funds

	1 January 2006 £'000	Cash flows £'000	Exchange differences £'000	Non cash movements £'000	31 December 2006 £'000
Cash and cash equivalents	1,973	1,639	(55)	—	3,557
Finance leases	(59)	59	—	—	—
	1,914	1,698	(55)	—	3,557

	1 January 2005 £'000	Cash flows £'000	Exchange differences £'000	Non cash movements £'000	31 December 2005 £'000
Cash and cash equivalents	3,016	(1,070)	27	—	1,973
Finance leases	(101)	65	—	(23)	(59)
	2,915	(1,005)	27	(23)	1,914

The purchase by the group of Intellectual Property Rights in 2005 involved the issue of shares to the value of £200,000 with no resulting cash flow movement

26. Change of arrangement with Cable & Wireless

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

During the period, the revenue recognised in the income statement in respect of this arrangement totalled £916,000, with no impact on the comparative figures.

The payments noted above led to an operating cash receipt during the period of £2.9m.

27. Post balance sheet event

In February 2007, the group opened an office in New York as a hub to serve the needs of Gresham's global banking customers and to support the company's strategic expansion around the full suite of Gresham's real-time financial solutions.

28 Capital commitments

At 31 December 2006, amounts contracted for but not provided in the financial statements for the acquisition of property, plant and equipment amounted to £nil (2005: £nil).

29. Contingent liabilities

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

30. Related party transactions

Key management personnel are defined for the purpose of these financial statements as the main board directors and information concerning the remuneration of these directors can be found in the Remuneration Report. No share based payments charge arises in respect of any main board director (2005: £nil).

**THE FOLLOWING NOTES
RELATE TO THE COMPANY ONLY**

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and United Kingdom Generally Accepted Accounting Practice

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

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

The directors are responsible for keeping proper accounting records that 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 1985. 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.

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GRESHAM COMPUTING PLC

We have audited the parent company financial statements of Gresham Computing plc for the year ended 31 December 2006 which comprise the Balance Sheet and the related notes 1 to 14. These parent company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

We have reported separately on the group financial statements of Gresham Computing plc for the year ended 31 December 2006.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the parent company financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent company financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the parent company directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent company financial statements. The other information comprises only the Directors' Report, the Corporate Governance statement, the unaudited part of the Directors' Remuneration Report and the Chairman's Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent company financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the parent company financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006,
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the parent company financial statements.

Ernst & Young LLP

Ernst & Young LLP
Registered auditor
Southampton
26 March 2007

Ernst & Young LLP

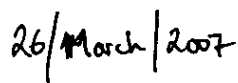
		31 December 2006 £'000	31 December 2005 £'000
	Notes		
Fixed assets			
Investments	5	18,904	18,904
		18,904	18,904
Current assets			
Debtors	6	4,210	3,285
Cash at bank and in hand		1,952	1,040
		6,162	4,325
Creditors amounts falling due within one year	7	2,142	127
Net current assets		4,020	4,198
Total assets less current liabilities		22,924	23,102
Capital and reserves			
Called up share capital	9	2,518	2,513
Share premium account	10	10,037	10,009
Special reserve	10	313	313
Merger reserve	10	6,609	6,609
Profit and loss account	10	3,447	3,658
Shareholders' funds — equity interests	10	22,924	23,102

On behalf of the board



C M Errington

A Walton-Green



1. Accounting policies

Accounting convention

The financial statements are prepared under the historical cost convention as modified for financial instruments that are measured at fair value. The financial statements are prepared in accordance with applicable accounting standards in the United Kingdom. No profit and loss account is presented for the company as provided by section 230 of the Companies Act 1985. The company's result for the year is shown in note 10.

Investments

Investments are recorded at cost less provision for impairment.

Financial assets

Financial assets at fair value through profit or loss

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

Taxation

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

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

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

Foreign currencies

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

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

Financial instruments

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

Related party transactions

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

Leasing commitments

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

2. Auditors' remuneration

		2006 £'000	2005 £'000
Audit of the financial statements	Audit services — parent	20	18
Other services	Taxation compliance services	—	1
IFRS transition work		10	17
		30	36
Additional information			
Audit services — subsidiaries		59	59

3. Directors' remuneration

Information concerning directors' remuneration and gains on exercise of share options can be found in the Directors' remuneration report on pages 17 to 20 and in Note 7 to the group financial statements

4. Dividends paid and proposed

No dividends were declared or paid during the year and no dividends are proposed for approval at the AGM (2005 None)

5. Investments

	Subsidiaries 2006 £'000	Subsidiaries 2005 £'000
Cost		
At 1 January	23,047	18,047
Additions	—	5,000
At 31 December	23,047	23,047
Impairment provisions		
At 1 January	(4,143)	(4,143)
Impairment charge in year	—	—
At 31 December	(4,143)	(4,143)
Net book value		
At 31 December	18,904	18,904

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2006

5. Investments (continued)

The company holds equity in the following principal subsidiary undertakings

Name of undertaking	Country of incorporation	Holding	Proportion held	Nature of business
Gresham Computer Services Limited	England	Ordinary shares	100%	Software products and solutions
Gresham Consultancy Services Limited	England	Ordinary shares	100%	Specialist contract staff and placements
Gresham Financial Systems Limited	England	Ordinary shares	100%	Solutions for finance and banking
Online Financial Systems Inc	Canada	Ordinary shares	100%	Software products and solutions
Gresham Enterprise Storage Inc	USA	Ordinary shares	100%	Storage software products and solutions
Gresham SA*	France	Ordinary shares	100%	Storage software products and solutions
Redstone Software Inc	USA	Ordinary shares	92%	Software products and solutions
Gresham Computing Pty Limited	Australia	Ordinary shares	100%	Solutions for finance and banking
Gresham Software Labs Pty Limited*	Australia	Ordinary shares	100%	Software products and solutions
Gresham Computing Sdn Bhd*	Malaysia	Ordinary shares	100%	Solutions for finance and banking

* 100% held indirectly through an intermediate holding company

6. Debtors

	2006 £'000	2005 £'000
Amounts owed by subsidiary undertakings	4,165	3,232
Prepayments and accrued income	13	13
SQS warrants	32	40
	4,210	3,285

7. Creditors, amounts falling due within one year

	2006 £'000	2005 £'000
Amounts owed to subsidiary undertakings	2,001	—
Trade creditors	35	36
Other creditors and accruals	106	86
Forward currency contracts	—	5
	2,142	127

8. Deferred tax

The company has an unrecognised deferred tax asset at a 30% tax rate as follows

	2006 £'000	2005 £'000
Tax losses	125	65

9. Share capital

Authorised share capital	2006		2005	
	Number	£	Number	£
Ordinary shares of 5 pence each	65,000,000	3,250,000	65,000,000	3,250,000
Preference shares of 20 pence each	2,750,000	550,000	2,750,000	550,000
	67,750,000	3,800,000	67,750,000	3,800,000

Ordinary shares issued and fully paid	Number	Nominal Consideration	
		value £'000	received £'000
At 1 January 2005	49,590,788	2,479	—
Issued in respect of IPR purchase by subsidiary	63,492	3	200
Issued for cash on exercise of share options	615,529	31	140
At 1 January 2006	50,269,809	2,513	—
Issued for cash on exercise of share options	81,081	5	33
At 31 December 2006	50,350,890	2,518	—

There are no preference shares in issue (2005 none)

10 Reconciliation of shareholders' funds and movements on reserves

	Share capital £'000	Share premium £'000	Special reserve £'000	Merger reserve £'000	Profit and loss account £'000	Total £'000
At 1 January 2005	2,479	9,713	313	6,609	3,833	22,947
Issue of ordinary shares	34	306	—	—	—	340
Share issue costs	—	(10)	—	—	—	(10)
Retained loss for the year	—	—	—	—	(175)	(175)
At 31 December 2005	2,513	10,009	313	6,609	3,658	23,102
Issue of ordinary shares	5	28	—	—	—	33
Share issue costs	—	—	—	—	—	—
Retained loss for the year	—	—	—	—	(211)	(211)
At 31 December 2006	2,518	10,037	313	6,609	3,447	22,924

Share capital

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

Share premium

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

Other reserves

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

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2006

10 Reconciliation of shareholders' funds and movements on reserves (continued)

Share options

Outstanding options to subscribe for ordinary shares of 5p at 31 December 2006 showing the range of exercise prices and dates are as follows

	Number of share options	Date of grant	Exercise price £'000	Date first exercisable	Expiry date	Cash receivable if exercised £'000
Executive Share Option Schemes						
	43,919	17 Feb 1999	1 420	18 Feb 2002	17 Feb 2009	62,365
	10,000	9 Feb 2000	0 460	10 Feb 2003	9 Feb 2010	4,600
	637,897	25 Jul 2000	0 360	28 Jul 2003	27 Jul 2010	229,643
	12,500	22 Apr 2003	0 700	23 Apr 2006	22 Apr 2013	8,750
	20,000	28 May 2004	3 225	29 May 2007	28 May 2014	64,500
	49,998	22 Jun 2005	1 200	23 Jun 2008	22 Jun 2015	59,998
	10,000	30 Sept 2005	0 860	1 Oct 2008	30 Sep 2015	8,600
	784,314					438,456

Further information concerning share based payments can be found in note 23 to the group financial statements

11. Other financial commitments

At 31 December 2006 the company had annual commitments under non-cancellable operating leases as set out below

	Land and buildings 2006 £'000	Land and buildings 2005 £'000
Operating leases which expire		
Within one year	103	—
Within two to five years	185	340
	288	340

12 Capital commitments

At 31 December 2006, company amounts contracted for but not provided in the financial statements for the acquisition of property, plant and equipment amounted to £nil (2005 £nil)

13. Contingent liabilities

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

14. Financial instruments

The company has taken the exemption available in FRS 25 'Financial Instruments Disclosure and Presentation' from disclosing the parent company financial instruments information, as the consolidated entity has complied with the disclosure requirements of IAS 32 in note 21 to the group financial statements

Further information concerning the SQS warrants shown in note 6 to these financial statements can also be found in note 21 to the group financial statements



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