

**ETHERSTACK LIMITED**

**Report and Financial Statements**

**For the year ended 31 December 2009**

# **ETHERSTACK LIMITED**

## **REPORT AND FINANCIAL STATEMENTS 2009**

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# **ETHERSTACK LIMITED**

## **REPORT AND FINANCIAL STATEMENTS 2009**

### **OFFICERS AND PROFESSIONAL ADVISERS**

#### **DIRECTORS**

David Deacon  
Paul Barnes FCCA  
Peter Stephens  
Nicholas Turner (resigned in 30 November 2009)  
William Goff (resigned in 30 November 2009)

#### **SECRETARY**

Paul Barnes FCCA

#### **REGISTERED OFFICE**

Artists Court  
15 Manette Street  
London W1D 4AP

#### **BANKERS**

HSBC Bank plc  
18a Curzon Street  
London W1J 7LA

#### **SOLICITORS**

Maclay Murray & Spens LLP  
One London Wall  
London EC2Y 5AB

#### **AUDITORS**

Deloitte LLP  
Chartered Accountants  
Reading, United Kingdom

# **ETHERSTACK LIMITED**

## **DIRECTORS' REPORT**

The directors present their annual report and the audited financial statements for the year ended 31 December 2009.

### **PRINCIPAL ACTIVITIES**

The principal activity of the Group throughout the year was wireless software development sales.

### **REVIEW OF THE BUSINESS AND FUTURE PROSPECTS**

During the year to 31 December 2009 the Etherstack Group expanded its engineering facilities by opening an additional office in Reading in the UK. This engineering facility has contributed significantly to the development of a key product implementation which in turn enables the Company to look to new markets and opportunities. The group has continued to maintain its offices in London, New York, Barcelona, Sydney, Yokohama and Southern California.

As the wireless software provider of choice for many manufacturers of products for public safety and homeland security markets in Europe, the Far East and in Continental USA, in 2009 we have been able to combine our resources in partnership with major international partners to extend our commercial reach with a range of new products introduced in the year. Whilst this implementation has not been without difficulties, which have been overcome, this has been a positive experience for the Group and one we hope to build on in future years.

The primary KPI for the Group continues to be revenue; this is monitored closely. Current period consolidated revenue totalled \$7,984,000 (2008: \$7,476,000), representing an increase of 7% on 2008.

As we leave a difficult yet profitable 2009 behind, we are still very conscious of the fragile current world economic position and the impact this has had on our global customer base. We enter 2010 with a strong consolidated balance sheet with overall net assets of \$5,983,000 (2008: \$5,197,000), net current assets totalling \$4,662,000 (2008: \$4,011,000) which include cash reserves at the balance sheet date of \$369,000 (2008: \$1,933,000). We are confident that due to the underlying strength of our customers, continuing market demand in our sector and the quality of our people and products that the Group will maintain its growth and development.

Our objective for the year ahead is to continue to further expand our product base, successfully complete ongoing projects and to further develop and expand our long term customer relationships. Where possible we will also consider opportunities which arise from possible acquisitions and furthering partner product sales channels.

### **FINANCIAL RISK MANAGEMENT AND POLICIES**

The Group's activities expose it to a number of financial risks including exchange rate risk and credit risk.

#### **Exchange rate risk**

The Group has a mixture of contracts for products in various currencies and reports its financial statements in US\$. Management reviews the Group's exposure to currency rate movements on a regular basis and where applicable may use financial instruments to hedge the Group's exposure to such risks.

#### **Credit risk**

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. The Group has a concentration of credit risk to a small number of international customers whose standing and financial credit worthiness reduce the potential credit risk.

### **UNDERLYING CURRENCY FOR FINANCIAL STATEMENTS**

The Group have subsidiaries in the United Kingdom, Europe, Australia, Japan and the USA, each operating in different local currencies. The directors have elected to present the Group's consolidated financial statements in US Dollars.

### **DISABLED EMPLOYEES**

The Group gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person. Where existing employees become disabled, it is the Group's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disabled employees where appropriate.

# ETHERSTACK LIMITED

## DIRECTORS' REPORT (CONTINUED)

### DIVIDEND

The directors do not recommend the payment of a dividend (2008: 5nil).

### ACQUISITION OF THE COMPANY'S OWN SHARES

Further to the shareholders' resolutions of 30 November 2009, the company purchased 1,400 ordinary shares with a nominal value of £14, and representing 0.13% of the company's called up ordinary share capital, for a consideration of \$61,330.

### GOING CONCERN

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the directors' report above. The current economic conditions create uncertainty over the level of demand for the Group's services and the availability of finance through banking facilities.

The Group has considerable financial resources with strong net assets and current assets as noted in the review of business. As a consequence, the directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, we continue to adopt the going concern basis in preparing the annual report and accounts.

### DIRECTORS

The directors who served throughout the period and to the date of signing of this report are noted on page 1.

### AUDITORS

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

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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

Deloitte LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

By Order of the Board



Paul Barnes FCCA  
Director

16 June 2010

# ETHERSTACK LIMITED

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors decided to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the parent company financial statements under IFRSs as adopted by the EU. Under company law the directors must not approve the accounts unless they are satisfied that they 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, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- 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 are 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
- make an assessment of the company's ability to continue as a going concern.

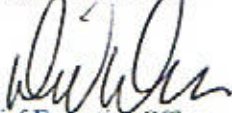
The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the management report, which is incorporated into the directors' report, includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

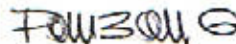
By order of the Board



Chief Executive Officer

David Andrew Deacon

16 June 2010



Chief Financial Officer

Paul Martin Barnes

16 June 2010

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ETHERSTACK LIMITED

We have audited the financial statements of Etherstack Limited for the year ended 31 December 2009 which comprise the Group Income Statement, Group Statement of Comprehensive Income, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statement, the Group and Parent Company Statements of Changes in Equity and the related notes 1 to 29. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditors

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

### Scope of the audit of the financial statements

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

### Opinion on financial statements

In our opinion:

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

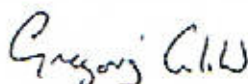
### Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

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

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



Gregory Culshaw (Senior Statutory Auditor)  
for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditors  
Reading, United Kingdom

16 June 2010

**ETHERSTACK LIMITED**

**CONSOLIDATED INCOME STATEMENT**  
**Year Ended 31 December 2009**

	Note	31 December 2009 \$'000	31 December 2008 \$'000 (Restated)
<b>REVENUE</b>	4	7,828	7,476
Cost of sales		<u>(451)</u>	<u>(164)</u>
<b>GROSS PROFIT</b>		7,377	7,312
Foreign exchange gains		762	265
Other administrative expenses		<u>(6,761)</u>	<u>(6,543)</u>
Total administrative expenses		<u>(5,999)</u>	<u>(6,278)</u>
<b>OPERATING PROFIT</b>		1,378	1,034
Investment revenues	10	8	26
Finance costs	11	<u>-</u>	<u>(1)</u>
<b>PROFIT BEFORE TAX</b>	6	1,386	1,059
Tax	12	<u>(184)</u>	<u>(67)</u>
<b>PROFIT FOR THE PERIOD</b>		<u>1,202</u>	<u>992</u>

See note 28 for details of restatement.

All results derive from continuing operations.

**ETHERSTACK LIMITED**

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**Year Ended 31 December 2009**

	Note	31 December 2009 \$'000	31 December 2008 \$'000
<b>PROFIT FOR THE PERIOD</b>		1,202	992
Exchange differences on translation of foreign operations	20	<u>(401)</u>	<u>(1,127)</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<u>801</u>	<u>(135)</u>

**ETHERSTACK LIMITED**

**CONSOLIDATED BALANCE SHEET**

At 31 December 2009

	Note	2009 \$'000	2008 \$'000 (Restated)
<b>NON-CURRENT ASSETS</b>			
Intangible assets	13	936	964
Property, plant and equipment	15	386	212
Investments	14	-	10
		<u>1,321</u>	<u>1,185</u>
<b>CURRENT ASSETS</b>			
Inventories	16	83	29
Trade and other receivables	17	6,056	2,879
Cash and bank balances		369	1,933
		<u>6,508</u>	<u>4,841</u>
<b>TOTAL ASSETS</b>		<u>7,829</u>	<u>6,027</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	18	1,697	641
Current tax liabilities	12	179	189
<b>TOTAL LIABILITIES</b>		<u>1,876</u>	<u>830</u>
<b>NET CURRENT ASSETS</b>		<u>4,632</u>	<u>4,011</u>
<b>NET ASSETS</b>		<u>5,953</u>	<u>5,197</u>
<b>EQUITY</b>			
Share capital	19	222	215
Share premium account	20	2,799	2,806
Own shares	21	(62)	-
Merger reserve	20	(191)	(191)
Share based payment reserve	24	47	30
Retained earnings	20	3,138	2,337
<b>TOTAL EQUITY</b>		<u>5,953</u>	<u>5,197</u>

See note 28 for details of restatement.

The financial statements of Etherstack Limited (company registration number 05676080) were approved by the Board of Directors on 16 June 2010.

Signed on behalf of the Board of Directors



Paul Barnes FCCA  
Director

# ETHERSTACK LIMITED

## COMPANY BALANCE SHEET At 31 December 2009

	Note	2009 \$'000	2008 \$'000
<b>NON-CURRENT ASSETS</b>			
Intangible assets	13	358	374
Property, plant and equipment	15	278	75
Investments	14	164	205
		<u>800</u>	<u>654</u>
<b>CURRENT ASSETS</b>			
Trade and other receivables	17	3,877	1,940
Cash and bank balances		115	1,739
		<u>3,992</u>	<u>3,679</u>
<b>TOTAL ASSETS</b>		<u>4,792</u>	<u>4,333</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	18	697	1,256
Current tax liabilities	12	256	260
		<u>953</u>	<u>1,516</u>
<b>NET CURRENT ASSETS</b>		<u>3,039</u>	<u>2,164</u>
<b>NET ASSETS</b>		<u>3,839</u>	<u>2,817</u>
<b>EQUITY</b>			
Share capital	19	222	215
Share premium account	20	2,799	2,806
Own shares	21	(62)	-
Share based payment	24	47	30
Retained earnings	20	833	(234)
		<u>3,839</u>	<u>2,817</u>

The financial statements of Etherstack Limited (company registration number 05676080) were approved by the Board of Directors on 16 June 2010.

Signed on behalf of the Board of Directors



Paul Barnes FCCA  
Director

**ETHERSTACK LIMITED**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**At 31 December 2009**

	Share Capital	Share Premium Account	Own shares	Merger Reserve	Share Based Payment	Retained Earnings	Total Equity
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Balance at 1 January 2008</b>	215	2,817	-	(191)	15	2,472	5,328
Profit for the year	-	-	-	-	-	992	992
Other comprehensive income for the period	-	-	-	-	-	(1,127)	(1,127)
<b>Total comprehensive income for the year</b>	-	-	-	-	-	(135)	(135)
Decrease in share premium	-	(11)	-	-	-	-	(11)
Share based payment charge	-	-	-	-	15	-	15
<b>Balance at 31 December 2008</b>	215	2,806	-	(191)	30	2,337	5,197
Profit for the year	-	-	-	-	-	1,202	1,202
Other comprehensive income for the period	-	-	-	-	-	(401)	(401)
<b>Total comprehensive income for the year</b>	-	-	-	-	-	801	801
Issue of ordinary shares	7	(7)	-	-	-	-	7
Own shares acquired in the period	-	-	(62)	-	-	-	(62)
Share based payment charge	-	-	-	-	17	-	17
<b>Balance at 31 December 2009</b>	222	2,799	(62)	(191)	47	3,138	5,953

ETHERSTACK LIMITED

COMPANY STATEMENT OF CHANGES IN EQUITY  
At 31 December 2009

	Share Capital	Share Premium Account	Own shares	Share Based Payment	Retained Earnings	Total Equity
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Balance at 1 January 2008</b>	215	2,817	-	15	632	3,679
Profit for the year	-	-	-	-	6	6
Other comprehensive income for the period	-	-	-	-	(872)	(872)
<b>Total comprehensive income for the year</b>	-	-	-	-	(842)	(842)
Decrease in share premium	-	(11)	-	-	-	(11)
Share based payment charge	-	-	-	15	-	15
<b>Balance at 31 December 2008</b>	215	2,806	-	30	(234)	2,817
Profit for the year	-	-	-	-	1,242	1,242
Other comprehensive income for the period	-	-	-	-	(175)	(175)
<b>Total comprehensive income for the year</b>	-	-	-	-	1,067	1,067
Issue of ordinary shares	7	(7)	-	-	-	-
Own shares acquired in the period	-	-	(62)	-	-	(62)
Share based payment charge	-	-	-	17	-	17
<b>Balance at 31 December 2009</b>	222	2,799	(62)	47	833	3,839

**ETHERSTACK LIMITED**

**CONSOLIDATED AND COMPANY CASH FLOW STATEMENT**  
**Year ended 31 December 2009**

	Note	Group 2009 \$'000	Group 2008 \$'000	Company 2009 \$'000	Company 2008 \$'000
Net cash (used in) / from operating activities	22	(1,063)	(607)	(1,248)	147
<b>Investing activities</b>					
Interest received		8	26	-	12
Purchases of intangible assets		(52)	(156)	(26)	(100)
Purchases of property, plant and equipment		(324)	(71)	(237)	(21)
Net cash used in investing activities		(368)	(201)	(263)	(109)
<b>Financing activities</b>					
Repayments of Directors' loans		-	(326)	-	-
Purchase of own shares		-	-	-	-
Proceeds on issue of ordinary shares		7	(11)	7	(11)
Net cash (used in)/from financing activities		7	(337)	7	(11)
Net increase/(decrease) in cash and cash equivalents		(1,424)	69	(1,504)	27
Cash and cash equivalents at beginning of year		1,933	1,887	1,739	1,574
Effect of foreign exchange rate changes		(140)	(23)	(120)	138
Cash and cash equivalents at end of year		369	1,933	115	1,739

# ETHERSTACK LIMITED

## NOTES TO THE ACCOUNTS (CONTINUED)

For the year ended 31 December 2009

### 1. GENERAL INFORMATION

Etherstack Limited is a company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is given on page 1. The nature of the Group's operations and its principal activities are set out in note 6 and the Directors' Report.

These financial statements are presented in US dollars because the Group operates in international markets and the US Dollar provides the most comparable currency for peer companies. Foreign operations are included in accordance with the policies set out in note 2.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### **Basis of accounting**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs). The financial statements have also been prepared in accordance with IFRSs adopted by the European Union and therefore the Group financial statements comply with Article 4 of the EU IAS Regulation.

The financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for the assets. The principal accounting policies adopted are set out below.

#### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of Etherstack Limited a private company incorporated in Japan, have been consolidated with effect from 1 January 2009. Reserves at this date of \$64,000 have been included in the Group Income Statement. Results were not consolidated in the prior year as they were not material to the overall Group position.

#### **Going concern**

The directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in the Business Review on page 2.

The current economic conditions create uncertainty over the level of demand for the Group's services and the availability of finance through banking facilities.

The Group has considerable financial resources with strong net assets and current assets as noted in the principal activity and review of business in the Directors' report on page 2. As a consequence, the directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

#### **Revenue Recognition**

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

#### *Sale of goods*

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and

**NOTES TO THE ACCOUNTS (CONTINUED)**

**For the year ended 31 December 2009**

- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Where fixed price contracts are in place for the sale of goods, revenue is recognised based on the total number of units shipped, having met the conditions identified above, as a percentage of the total number of units to be shipped under the contract.

*Rendering of services*

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract. The stage of completion of the contract is determined as follows:

- installation fees are recognised by reference to the stage of completion of the installation, determined as the proportion of the total time expected to install that has elapsed at the balance sheet date;
- revenue from time and material contracts is recognised at the contractual rates as labour hours are delivered and direct expenses incurred; and
- servicing fees included in the price of products sold are recognised by reference to the proportion of the total cost of providing the service for the product sold, taking into account historical trends.

In some cases the Group provides warranties or free maintenance periods. The directors consider that due to the high degree of pre-delivery testing and the de minimis nature of upgrade provided in the majority of cases there is no significant value or cost in these elements and therefore no revenue is attributed to these services.

**Leasing**

Assets held under finance leases are recognised as assets of the group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the group's general policy on borrowing costs (see below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

**Foreign currencies**

The individual financial statements of each group company are presented in the currency of the primary economic environment in which it operates (its functional currency). The Group have subsidiaries in the United Kingdom, Europe, Australia, Japan and the USA, each operating in its local functional currencies. For the purpose of the consolidated financial statements, the results and financial position of each group company are expressed in US Dollar, which is the presentation currency of the consolidated financial statements and for the company. The results of the parent are also presented in US Dollars.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

## ETHERSTACK LIMITED

### NOTES TO THE ACCOUNTS (CONTINUED)

For the year ended 31 December 2009

Exchange differences are recognised in profit or loss in the period in which they arise. For the purpose of presenting consolidated financial statements, the assets and liabilities of the group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to minority interests as appropriate).

#### Retirement benefit costs

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

#### Taxation

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

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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

#### Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss. Depreciation is recognised so as to write off the cost of assets less their residual values over their useful lives, using the straight-line method, on the following bases:

Leasehold property	-	over 20 years
Computer equipment	-	over 3 years
Engineering software	-	over 5 years
Furniture and equipment	-	over 5 years

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

**NOTES TO THE ACCOUNTS (CONTINUED)**

**For the year ended 31 December 2009**

**Internally-generated intangible assets – research and development expenditure**

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the group's software development is recognised only if all of the following conditions are met:

- an asset is created that can be identified (such as software and new processes);
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

Internally-generated intangible assets are amortised on a straight-line basis over their useful lives. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

**Impairment of tangible and intangible assets excluding goodwill**

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

**Inventories**

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

**Financial instruments**

Financial assets and financial liabilities are recognised in the group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Trade and receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest rate method, less any impairment.

The Group does not enter into any derivative transactions, and does not hold any derivative financial instruments.

**NOTES TO THE ACCOUNTS (CONTINUED)**

**For the year ended 31 December 2009**

**Share-based payments**

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non market-based vesting conditions. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 24.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. At each balance sheet date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

For cash-settled share-based payments, a liability is recognised for the goods or services acquired, measured initially at the fair of the liability. At the balance sheet date until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognised in profit or loss for the year.

**3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the application of the Group's accounting policies, which are described in note 2, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements and estimations that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

**Revenue recognition**

The revenue from fixed price contracts is recognised on a percentage of completion, based on time and cost incurred, or the number of units shipped. Significant judgements are made by management in determining estimates of the total time and cost to be incurred on a contract by contract basis, in order to determine the percentage of completion at the balance sheet date. These estimates are continually revised based on changes in the facts relating to each contract. Any changes in estimates are reflected in that period.

**Estimated impairment of intangible assets, goodwill and property, plant and equipment**

The Group tests annually whether the intangible assets and property, plant and equipment have suffered any impairment, in accordance with the accounting policy stated in note 2. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. The calculation of value in use is based on a discounted cash flow, which requires a number of assumptions including future growth rates, estimated cash flows and discount rates. The cash flow projections were based on a 12-month forecast and extrapolations using a terminal growth rate factor in line with long term market growth rates and discounted at a pre-tax weighted average cost of capital of 10.0%.

**Income tax and other taxes**

The Group is subject to income and other tax in the USA, Japan and other countries. Significant judgement is required in determining the provision for income and other taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional tax will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax provisions in the period in which such determination is made.

Deferred tax assets are recognised relating to tax losses to the extent that it is probable future taxable profits will arise in that jurisdiction.

# ETHERSTACK LIMITED

## NOTES TO THE ACCOUNTS (CONTINUED)

For the year ended 31 December 2009

### 4. REVENUE

An analysis of the group's revenue is as follows:

	2009 \$'000	2008 \$'000
Tech access & contract fees	7,790	7,306
Grant receipts	38	170
	<u>7,828</u>	<u>7,476</u>

### 5. BUSINESS AND GEOGRAPHICAL SEGMENTS

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Managing Director to allocate resources and to assess performance. The Group is operational in geographical locations including the United Kingdom and United States. The information is reported along a singular basis due to the nature of the work and complexity of the software, despite the group structure it is not possible for a company within the group to truly operate on a standalone basis and as such the management review the performance on this singular measure in both a geographical and product based context.

#### Revenue from external customers by country

	2009 \$'000	2008 \$'000
Country of domicile (UK)	7,332	5,913
United States of America	237	394
Other countries	259	1,169
	<u>7,828</u>	<u>7,476</u>

#### Revenues from a single customer amounting to more than 10 percent of group revenue

	2009 \$'000	2008 \$'000
Customer A	3,214	908
Customer B	-	1,130
Customer C	1,284	-
	<u>4,498</u>	<u>2,038</u>

Revenues from these customers which don't amount to more than 10 percent of Group revenue in a particular period are not disclosed. All revenues relate to the North America region.

#### Non-current assets by country

	2009 \$'000	2008 \$'000
Country of domicile (UK)	800	654
United States of America	64	38
Other countries	457	493
	<u>1,321</u>	<u>1,185</u>

# ETHERSTACK LIMITED

## NOTES TO THE ACCOUNTS (CONTINUED)

For the year ended 31 December 2009

### 6. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

This is shown after charging/(crediting):

	2009	2008
	Group \$'000	Group \$'000
Depreciation of property, plant and machinery	150	50
Amortisation of internally generated intangible assets	25	25
Staff costs (see note 8)	3,791	3,001
Loss on disposal of property, plant and equipment	-	17
Foreign exchange – third party	(157)	(265)
Foreign exchange - intercompany	(605)	(535)
	<u>3,791</u>	<u>3,001</u>

### 7. AUDITORS' REMUNERATION

The analysis of auditors' remuneration is as follows:

	2009 \$'000	2008 \$'000
<b>Fees payable to the company's auditors for the audit of the company's annual accounts</b>	85	67
<b>Total audit fees</b>	<u>85</u>	<u>67</u>
- Tax services	5	22
- Other services	9	-
<b>Total non-audit fees</b>	<u>14</u>	<u>22</u>

### 8. STAFF COSTS

	2009 Group \$'000	2009 Company \$'000	2008 Group \$'000	2008 Company \$'000
Wages and salaries	3,353	1,015	2,729	1,285
Social security costs	438	327	272	153
	<u>3,791</u>	<u>1,342</u>	<u>3,001</u>	<u>1,438</u>
	<u>3,791</u>	<u>1,342</u>	<u>3,001</u>	<u>1,438</u>
	2009 Group Number	2009 Company Number	2008 Group Number	2008 Company Number
<b>Average monthly number of persons employed (including directors)</b>				
Directors	4	4	5	5
Engineering	46	20	28	12
Management, sales & administrative	7	2	3	3
	<u>57</u>	<u>26</u>	<u>36</u>	<u>20</u>
	<u>57</u>	<u>26</u>	<u>36</u>	<u>20</u>

# ETHERSTACK LIMITED

## NOTES TO THE ACCOUNTS (CONTINUED)

For the year ended 31 December 2009

### 9. DIRECTORS' REMUNERATION

	2009 \$'000	2008 \$'000
Emoluments (including pension contributions)	334	629
<hr/>		
The number of directors who: Are members of a money purchase pension scheme	2009 Number 2	2008 Number 1
<hr/>		
Remuneration of the highest paid director:	2009 \$'000	2008 \$'000
Emoluments	172	228
Company contributions to money purchase schemes	-	36
	172	264
<hr/>		

On 8 April 2006, the Company granted Mr K Swann, a former director of the Company, options, which were subject to performance criteria, over 30,000 £0.10p ordinary shares. In the year ending 31 December 2009 – options over 10,000 - £0.10p shares were forfeited (31 December 2008 – options over 10,000 - £0.10p shares were vested). Mr Swann left the Company in 2009 forfeiting the balance of the options.

### 10. INVESTMENT REVENUE

	2009 Group \$'000	2008 Group \$'000
Bank deposits	8	26
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### 11. FINANCE COSTS

	2009 Group \$'000	2008 Group \$'000
Interest on bank overdrafts and loans	-	1
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# ETHERSTACK LIMITED

## NOTES TO THE ACCOUNTS (CONTINUED) For the year ended 31 December 2009

### 12. TAX

	2009 \$'000	2008 \$'000
Current tax expense:		
UK corporation tax and income tax	-	100
Foreign tax	184	(33)
	<u>184</u>	<u>67</u>

UK Corporation tax is calculated at 28 per cent (2008: 28 per cent) of the estimated taxable profit for the year.

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The charge for the year can be reconciled to the profit per the income statement as follows:

	Year ended 2009 \$'000	Year ended 2009 %	Year ended 2008 \$'000	Year ended 2008 %
Profit before tax on continuing operations	1,386		1,059	
Tax at the UK corporation tax rate of 28% (2008: 28%)	388	28	297	28
Tax effect of expenses that are not deductible in determining taxable profit	4	-	-	
Tax effect of income not taxable in determining taxable profit	-	-	(117)	(11)
Tax effect of utilisation of tax losses not previously recognised	(138)	(10)	(8)	(1)
Effect of capital allowances in excess of depreciation	(76)	(5)	(1)	-
Effect of difference in overseas tax rates	6	-	(104)	(10)
Tax expense and effective tax rate for the year	<u>184</u>	<u>13</u>	<u>67</u>	<u>6</u>

# ETHERSTACK LIMITED

## NOTES TO THE ACCOUNTS (CONTINUED)

For the year ended 31 December 2009

### 13. INTANGIBLE ASSETS

	Group \$'000	Company \$'000
<b>Cost</b>		
At 1 January 2008	908	274
Additions	156	100
Exchange differences	-	-
	<u>1,064</u>	<u>374</u>
At 31 December 2008		
Additions	52	26
Exchange differences	(55)	(42)
	<u>1,061</u>	<u>358</u>
At 31 December 2009		
<b>Accumulated amortisation</b>		
At 1 January 2008 (restated)	75	-
Charge for the year (restated)	25	-
	<u>100</u>	<u>-</u>
At 31 December 2008 (restated)		
Charge for the year	25	-
	<u>125</u>	<u>-</u>
At 31 December 2009		
<b>Carrying amount</b>		
At 31 December 2009	<u>358</u>	<u>936</u>
At 31 December 2008	<u>374</u>	<u>964</u>

See note 28 for details of restatement.

Intangibles consist of software development costs, patents and trademarks, all of which are amortised over a 5 year period.

# ETHERSTACK LIMITED

## NOTES TO THE ACCOUNTS (CONTINUED)

For the year ended 31 December 2009

### 14. INVESTMENTS

	2009		2008	
	Group \$'000	Company \$'000	Group \$'000	Company \$'000
Subsidiary undertakings	-	164	10	205

The Company's investments at the balance sheet date in the share capital of other companies include the following:

Subsidiary undertakings	Holding	Class of share	Country of incorporation
Etherstack Limited	100%	Ordinary	British Virgin Isles
Indian Pacific Nederland BV *	100%	Ordinary	Netherlands
Etherstack Inc.	100%	Ordinary	USA
Etherstack Proprietary Limited *	100%	Ordinary	Australia
Etherstack Limited **	100%	Ordinary	Japan

\* These companies are owned via another Group entity.

\*\* The results of Etherstack Limited, which was incorporated in Japan in August 2006, have not been included in the consolidated financial statements of the Group for the year ending 31 December 2008 as they were not material to the overall results of the Group. The net assets of Etherstack Limited totalled \$50,325 at 31 December 2008; the profit for the year ended 31 December 2009 totalled \$68,431.

All of the companies in the Group develop and sell wireless software products.

### 15. PROPERTY, PLANT AND EQUIPMENT

Group	Leasehold property \$'000	Furniture and equipment \$'000	Engineering software \$'000	Computer equipment \$'000	Total \$'000
<b>Cost</b>					
At 1 January 2009	70	110	3	176	359
Additions	25	31	-	301	357
Exchange differences	(6)	(9)	-	(12)	(27)
At 31 December 2009	89	132	3	465	688
<b>Accumulated depreciation</b>					
At 1 January 2009	21	47	1	78	147
Charge for the year	14	39	1	96	150
Exchange differences	-	2	-	3	5
At 31 December 2009	36	87	2	177	302
<b>Carrying amount</b>					
At 31 December 2009	53	45	-	287	386
At 31 December 2008	48	64	2	98	212

**ETHERSTACK LIMITED**

**NOTES TO THE ACCOUNTS (CONTINUED)**

For the year ended 31 December 2009

Company	Leasehold property \$'000	Furniture and equipment \$'000	Engineering software \$'000	Computer equipment \$'000	Total \$'000
<b>Cost</b>					
At 1 January 2009	48	30	-	43	121
Additions	1	8	-	227	236
Exchange differences	6	4	-	6	16
At 31 December 2009	55	42	-	276	373
<b>Accumulated depreciation</b>					
At 1 January 2009	17	11	-	18	46
Charge for the year	8	7	-	19	34
Exchange differences	4	4	-	7	15
At 31 December 2009	29	22	-	44	95
<b>Carrying amount</b>					
At 31 December 2009	26	20	-	232	278
At 31 December 2008	31	19	-	25	75

**16. INVENTORIES**

	2009 \$'000	2008 \$'000
Finished goods	83	29
	83	29

**17. TRADE AND OTHER RECEIVABLES**

	2009		2008	
	Group \$'000	Company \$'000	Group \$'000	Company \$'000
Trade debtors	1,298	1,005	776	768
Accrued income from contracts in progress	2,404	1,917	1,740	1,094
Other debtors	2,354	1,749	363	78
Amounts owed from group undertakings	-	(870)	-	-
	6,056	3,800	2,879	1,940

Accrued income represents unbilled fees and licence income derived from services in progress at the end of the period.

Trade receivables disclosed above are classified as loans and receivables and are therefore measured at amortised cost.

**NOTES TO THE ACCOUNTS (CONTINUED)**

**For the year ended 31 December 2009**

The average credit period taken on sales of goods is 51 days. No interest is charged on the receivables for the first 30 days from the date of the invoice. Thereafter, the Group reserves its right to charge interest at various rates on the outstanding balance. The Group recognises, where appropriate an allowance for doubtful debts of 100% against certain receivables over 180 days historical experience has been that receivables that are past due beyond 180 days they tend not to be recoverable.

Due to the nature of the Group's business, potential customers tend to be well funded international companies of high standing and credit rating. Before accepting a new customer, the Group assesses, on an informal basis, the likely credit risk of the potential customer principally by reference to the complexity and nature of the project. There are four customers who represent more than 5 per cent of the total balance of trade receivables.

Trade receivables disclosed above include amounts (see below for aged analysis) which are past due at the reporting date but against which the Group has not recognised an allowance for doubtful receivables because there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral or other credit enhancements over these balances nor does it have a legal right of offset against any amounts owed by the Group to the counterparty. The average age of these receivables is 36 days (2008: 36 days).

Ageing of past due but not impaired receivables

	2009	2008
	\$'000	\$'000
30-60 days	154	4
60-90 days	490	116
90-120 days	154	801
Total	<u>798</u>	<u>921</u>

No provision is made for doubtful debt due to the nature and size of contracts and underlying high quality of customers.

The directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value.

**18. TRADE AND OTHER PAYABLES**

	2009		2008	
	Group \$'000	Company \$'000	Group \$'000	Company \$'000
Trade creditors	1,101	513	57	34
Other creditors	245	150	268	264
Other taxes and social security costs	243	(22)	153	29
Directors' loan accounts	108	56	163	155
Amounts owed to related party undertakings	-	-	-	773
	<u>1,697</u>	<u>697</u>	<u>641</u>	<u>1,255</u>

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 53 days. For most suppliers no interest is charged on the trade payables for the first 45 days from the date of the invoice. Thereafter, interest is charged on the outstanding balances at various interest rates. The Group has financial risk management policies in place to ensure that all payables, unless they are subject to dispute, are paid within the pre-agreed credit terms.

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

# ETHERSTACK LIMITED

## NOTES TO THE ACCOUNTS (CONTINUED) For the year ended 31 December 2009

### 19. CALLED UP SHARE CAPITAL

<b>Group</b>	<b>2009 Number</b>	<b>2008 Number</b>
Authorised Ordinary shares of £0.10 each	2,500,000	2,500,000
	<u>2,500,000</u>	<u>2,500,000</u>
	<b>2009 \$'000</b>	<b>2008 \$'000</b>
Called up, allotted and fully paid 1,117,750 ordinary shares of £0.10 each (2008 – 1,077,750 ordinary shares of £0.10 each)	222	215
	<u>222</u>	<u>215</u>
	<u>222</u>	<u>215</u>
<b>Company</b>	<b>2009 Number</b>	<b>2008 Number</b>
Authorised Ordinary shares of £0.10 each (2007 - £0.10 each)	2,500,000	2,500,000
	<u>2,500,000</u>	<u>2,500,000</u>
	<b>2009 \$'000</b>	<b>2008 \$'000</b>
Called up, allotted and fully paid 1,117,750 ordinary shares of £0.10 each (2008 – 1,077,750 ordinary shares of £0.10 each)	222	215
	<u>222</u>	<u>215</u>
	<u>222</u>	<u>215</u>

During the year ended 31 December 2009, the Group issued an additional 40,000 ordinary shares by way of a bonus issue to certain shareholders under provisions of the share issue made on 14 September 2007

The Company has one class of ordinary shares which carry no right to fixed income.

# ETHERSTACK LIMITED

## NOTES TO THE ACCOUNTS (CONTINUED)

For the year ended 31 December 2009

### 20. RESERVES

<b>Group</b>	<b>Merger reserve \$'000</b>	<b>Share premium \$'000</b>	<b>Profit &amp; loss \$'000</b>
At 1 January 2009	(191)	2,806	2,337
Profit for the year	-	-	1,202
Loss arising on translation of foreign operations	-	-	(401)
Bonus issue	-	(7)	-
At 31 December 2009	<u>(191)</u>	<u>2,799</u>	<u>3,138</u>

<b>Company</b>	<b>Share premium \$'000</b>	<b>Profit &amp; Loss \$'000</b>
At 1 January 2009	2,806	(234)
Profit for the year	-	1,242
Loss arising on translation of foreign operations	-	(175)
Bonus issue	(7)	-
At 31 December 2009	<u>2,799</u>	<u>833</u>

In accordance with s131 of the Companies Act, the ordinary share capital consideration for Etherstack Limited, a company incorporated in the British Virgin Isles, has been shown at nominal value in the company's balance sheet.

During the year ended 31 December 2009, the Group issued an additional 40,000 ordinary shares by way of a bonus issue to certain shareholders under provisions of the share issue made on 14 September 2007.

In the year ending 31 December 2008, the decrease in share premium of \$10,995 is due to the Group revising the estimate of final costs on the contribution to investors 3<sup>rd</sup> party legal costs once those costs were known. These costs are in relation to the share issue made on 14 September 2007.

### 21. OWN SHARES

	<b>Own Shares \$'000</b>
Balance at 1 January 2009	-
Acquired in the period	62
Balance at 31 December 2009	<u>62</u>

The own shares reserve represents the cost of shares in Etherstack Ltd purchased in the market and held by the company. The number of ordinary shares held by the company at 31 December 2009 was 1,400 (2008: nil; 2007: nil).

# ETHERSTACK LIMITED

## NOTES TO THE ACCOUNTS (CONTINUED) For the year ended 31 December 2009

### 22. NOTES TO THE CASH FLOW STATEMENT

	Group 2009 \$'000	Group 2008 \$'000	Company 2009 \$'000	Company 2008 \$'000
Operating profit	1,378	1,034	1,310	487
Adjustments for:				
Depreciation of property, plant and equipment	150	50	34	21
Amortisation of intangible asset	25	25	-	-
Non-cash foreign exchange	(657)	(474)	(474)	(332)
Operating cash flows before movements in working capital	896	635	870	176
Increase in inventories	(54)	(29)	-	-
Decrease/(increase) in receivables	(2,817)	58	(1,508)	12
Increase/(decrease) in payables	922	(9)	(610)	(41)
Cash (used) / generated by operations	(1,063)	655	(1,248)	147
Income taxes paid	-	(47)	-	-
Interest paid	-	(1)	-	-
Net cash (used in) / from operating activities	(1,063)	(607)	(1,248)	147

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less, net of outstanding bank overdrafts. The carrying amount of these assets is approximately equal to their fair value.

### 23. OPERATING LEASE ARRANGEMENTS

	2009 Land and buildings \$'000	2008 Land and buildings \$'000
Minimum lease payments under operating leases Recognised as an expense in the year	212	215

At 31 December 2009 the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2009 Land and buildings \$'000	2008 Land and buildings \$'000
Operating leases which expire		
Within 1 year	323	120
In the second to fifth years inclusive	2,438	232
After five years	-	-
	2,761	352

# ETHERSTACK LIMITED

## NOTES TO THE ACCOUNTS (CONTINUED)

For the year ended 31 December 2009

### 24. SHARE BASED PAYMENTS

The Company has an equity-settled share option scheme for all employees of the Group. Options are exercisable at a price equal to the average quoted market price of the Company's shares on the date of grant. The vesting period is three years. If the options remain unexercised after a period of five years from the date of grant the options expire. Options are forfeited if the employee leaves the Group before the options vest. Details of the share options outstanding during the year are as follows.

	Number of share options	2009 Weighted average exercise price (in £)	Number of share options	2008 Weighted average exercise price (in £)
Outstanding at beginning of period	42,605	£15	42,605	£13
Granted during the period	1,000	£25	-	-
Forfeited during the period	10,000	£6	-	-
Exercised during the period	-	-	-	-
Outstanding at the end of the period	<u>33,605</u>		<u>42,605</u>	
Exercisable at the end of the period	<u>33,605</u>		<u>32,605</u>	

No share options were exercised during the period. The options outstanding at 31 December 2009 had a weighted average exercise price of £15, and a weighted average remaining contractual life of 3 years. In 2009, options were granted on 1 August 2009. The aggregate of the estimated fair values of the options granted on those dates is £85,970. No options were granted in 2008. The aggregate of the estimated fair values of the options granted on those dates is £87,455. The inputs into the Black-Scholes model are as follows:

	2009
Weighted average share price	£25
Weighted average exercise price	£25
Expected volatility	50%
Expected life	3 years
Risk-free rate	2.5%
Expected dividend yields	<u>0%</u>

Expected volatility was determined based on a typical measure for private companies in the industry that Etherstack operates in. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

The group recognised total expenses of £10,980 and £9,444 related to equity-settled share-based payment transactions in 2009 and 2008 respectively.

NOTES TO THE ACCOUNTS (CONTINUED)

For the year ended 31 December 2009

25. FINANCIAL INSTRUMENTS

**Capital risk management**

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders. The Group has no third party debt and has funded itself through share issues and cash generation from the business. The capital structure of the Group consists of cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained profits as disclosed in note 20 and the Statement of Changes in Equity.

**Externally imposed capital requirement**

The Group is not subject to externally imposed capital requirements.

**Significant accounting policies**

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

**Categories of financial instruments**

	Carrying value	
	2009 \$'000	2008 \$'000
<b>Financial assets</b>		
Loans and receivables (including cash and cash equivalents)	1,901	2,709
<b>Financial liabilities</b>		
Amortised cost	1,571	803

**Financial risk management objectives**

The Group's central management monitors and manages the financial risks relating to the operations of the Group through internal risk evaluations which analyse exposure by degree and magnitude of risks. These risks include market risk (including currency risk), credit risk and liquidity risk.

The Group may use derivative financial instruments to hedge these risk exposures. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

**Market risk**

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters. In particular, the Group is exposed to movements in the British Pound, Australian Dollar, Euro, and Japanese Yen against the US Dollar.

**Credit risk management**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group's exposure is continuously monitored.

## ETHERSTACK LIMITED

### NOTES TO THE ACCOUNTS (CONTINUED)

For the year ended 31 December 2009

Trade receivables consist of a number of customers, spread across geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable. The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are connected entities.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

#### Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and banking (cash) facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

#### 26. RELATED PARTY TRANSACTIONS

Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in these financial statements.

##### Trading transactions

During the year, group companies entered into the following transactions with related parties who are not members of the group:

	Sale of goods		Purchase of goods	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Auria Wireless Pty Limited	-	-	161	-
Brad Dolphin	-	-	71	-

No amounts were outstanding at the balance sheet date.

Auria Wireless Pty Limited is a related party of the group because of shareholdings in this entity held by Mr. David Deacon and Mr. Paul Barnes both directors and shareholders of the Company.

Sales of goods to related parties were made at the group's usual list prices. Purchases were made at market price. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

Amounts repayable by Auria Wireless Pty Limited to Etherstack Pty Limited carry interest at savings deposit rates on the outstanding loan balances (see note 25).

##### Remuneration of key management personnel

The remuneration of the directors, who are the key management personnel of the group, is set out below in aggregate for each of the categories specified in IAS 24 *Related Party Disclosures*.

	2009 \$'000	2008 \$'000
Short-term employee benefits	334	629
Post-employment benefits	10	36
Termination benefits	39	-
Share-based payments	3	3
	<u>386</u>	<u>668</u>

# ETHERSTACK LIMITED

## NOTES TO THE ACCOUNTS (CONTINUED)

For the year ended 31 December 2009

### Directors' transactions

Dividends totalling £nil were paid in the year in respect of ordinary shares held by the Company's directors.

### 27. LOANS TO RELATED PARTIES

	2009	2008
	\$'000	\$'000
Auria Wireless Pty Limited	19	14

The Group has provided its associates with short-term loans at rates comparable to the average commercial rate of interest (see note 24).

Transactions with Directors during the period are as follows:

Mr. David Deacon, a director of the company, is also a director of Auria Wireless Pty. Limited, a private company incorporated in Australia. During the year under review, goods and services purchased at arms length totaling US\$160,791 (2008: US\$17,044) were passed and settled through a Group subsidiary undertaking.

Mr. David Deacon and Mr. Paul Barnes, directors of the Company, are beneficial shareholders in Brixlam Trading Company, a private company incorporated in Cyprus. During the year under review, goods and services supplied at arms length totaling \$310,811 (2008: \$365,617) were passed and settled.

Mr. Paul Barnes, a director of the company, is owed \$8,555 by the Group at 31 December 2009 (31 December 2008: \$8,523).

Mr. David Deacon, a director of the company, is owed \$99,740 by the Group at 31 December 2009 (31 December 2008: \$154,849).

### 28. PRIOR YEAR RESTATEMENT

During the year, an error was identified whereby no amortisation had been charged to an intangible asset that was deemed to require amortisation for 31 December 2008 and prior. The intangible asset was held at cost of \$250,000, and hence the adjustment to the brought forward position at 1 January 2008 was to reduce the intangible asset carrying value by \$75,000 against brought forward income statement reserve. This can be seen in the restated opening position pre-IFRS adjustments in note 29. The charge for 2008 of \$25,000 has also been restated in the prior year income statement. The current year income statement includes an appropriate charge.

Additionally, in previous years, no charge was recognised in respect of accounting for share based payment schemes. The brought forward position at 1 January 2008 has been adjusted to recognise the accumulated charge and share based payment reserve, totalling \$14,786, by reducing retained earnings for this amount, and recognising a separate share based payment reserve. The impact on the year ended 31 December 2008 was a charge to the income statement of \$15,000, with the associated credit to the share based payment reserve.

# ETHERSTACK LIMITED

## NOTES TO THE ACCOUNTS (CONTINUED)

For the year ended 31 December 2009

### 29. TRANSITION METHODOLOGY

#### Effective date

The comparative figures for the year ended 31 December 2008 reported in the Group Financial Statements at 31 December 2009 have been restated in accordance with IFRS. The transition date for Etherstack Ltd is 1 January 2008.

#### Transitional exemptions and decisions

The reconciliations in this section set out a summary of the transition to IFRS at the following reporting dates:

- **1 January 2008** – IFRS transitional balance sheet to provide the opening position for reporting financial performance in the year to 31 December 2008.

	UKGAAP 1 January 2008 \$'000 (Restated)	Adjustment \$'000	IFRS 1 January 2008 \$'000
<b>NON-CURRENT ASSETS</b>			
Intangible assets	833,396	-	833,396
Property, plant and equipment	207,405	-	207,405
Investments	10,025	-	10,025
	<u>1,050,826</u>	<u>-</u>	<u>1,050,826</u>
<b>CURRENT ASSETS</b>			
Inventories	-	-	-
Trade and other receivables	3,856,721	-	3,856,721
Cash and bank balances	1,886,398	-	1,886,398
	<u>5,743,119</u>	<u>-</u>	<u>5,734,119</u>
<b>TOTAL ASSETS</b>	<u>6,793,945</u>	<u>-</u>	<u>6,793,945</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	1,279,259	17,914	1,297,173
Current tax liabilities	168,327	-	168,327
<b>TOTAL LIABILITIES</b>	<u>1,447,586</u>	<u>17,914</u>	<u>1,465,500</u>
<b>NET CURRENT ASSETS</b>	<u>4,295,533</u>	<u>(17,914)</u>	<u>4,277,619</u>
<b>NET ASSETS</b>	<u>5,346,359</u>	<u>(17,914)</u>	<u>5,328,445</u>
<b>EQUITY</b>			
Share capital	215,259	-	215,259
Share premium account	2,817,277	-	2,817,277
Merger reserve	(191,175)	-	(191,175)
Share based payment reserve	-	-	-
Retained earnings	2,504,998	(17,914)	2,487,084
<b>TOTAL EQUITY</b>	<u>5,346,359</u>	<u>(17,914)</u>	<u>5,328,445</u>

## **ETHERSTACK LIMITED**

### **NOTES TO THE ACCOUNTS (CONTINUED)**

**For the year ended 31 December 2009**

See note 28 for details of restatement.

Adjustment relates to the requirement under IFRS to accrue for holiday pay at the balance sheet date.

The transition from UK GAAP The transition from UKGAAP to IFRS has not affected the cash flows of the Group, although the cash flow statement is now presented in accordance with IAS 7 "Cash flow statements", hence a number of reclassifications from the UK GAAP format will be evident.