

ETHERSTACK LIMITED

Report and Financial Statements

For the year ended 31 December 2010

ETHERSTACK LIMITED

REPORT AND FINANCIAL STATEMENTS 2010

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ETHERSTACK LIMITED

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2010.

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 the Etherstack Group completed the delivery of integrated wireless products for a major US group which contributed significantly to turnover, however the fulfilment of this contract also significantly increased the cost base of the Group. This was a significant event for the Group as this particular product delivery was the first of an Etherstack integrated wireless product which the Group has further orders for fulfilment in 2011. Delivery was achieved against a background of challenging technical specifications. Whilst this delivery 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.

Principally, as a result of this product delivery and the impact it has had on the businesses the group's operations were restructured. Recognising the different elements that now comprise the Group's core competencies, the Group, whilst maintaining its offices in London, Reading, New York, Barcelona, Sydney, Yokohama and, Southern California is now arranged and organised around its technical competencies in Protocols, Networks, RF products and prototype design.

Towards the end of 2010, the Group entered into a further marquee contract with a leading international radio manufacturer. This non-exclusive contract, will be further implemented during 2011 and will provide significant distribution opportunities for certain of the Group's products in major international markets over the coming three – five years, and is a major development in the Group's expansion.

The primary KPI for the Group continues to be revenue; this is monitored closely. Current period consolidated revenue totalled (\$'000) \$17,193 (2009: \$7,828), representing an increase of 120% on 2009.

The rapid increase in turnover has not been without difficulties but as we leave another profitable year behind, we are excited by the number of new opportunities for the various commercial areas of our business.

During 2010, we were able to unlock retained earnings within the Group and paid an interim dividend, made available from cash reserves, of \$2 per ordinary share to those on the share register at 14 June 2010. Our financial position remains strong at 31 December 2010; the consolidated balance sheet had overall net assets of (\$'000) \$4,425 (2009: \$5,953), net current assets totalled (\$'000) \$2,543 (2009: \$4,632) which included cash reserves at the balance sheet date of (\$'000) \$1,724 (2009: \$369).

Our objective for the coming year ahead is to continue to further expand our product base, therefore we have been developing new Intellectual Property ('IP') which will be included in products in 2011. Successfully complete ongoing projects; and 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. Although the group has a small number of customers which inherently increases credit risk, these customers are large international business and are individually financially credit worthy, therefore helping to reduce the exposure to credit risk.

UNDERLYING CURRENCY FOR FINANCIAL STATEMENTS

Whilst the Group is domiciled in the United Kingdom, revenue contracts are invoiced principally in US\$; as such this is the functional and presentational currency. The Group has offices in the United Kingdom, Europe, Australia, Japan and the USA, each operating different local currencies with the individual subsidiaries adopting the local currency as their functional currency.

DIRECTORS' REPORT (CONTINUED)

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.

DIVIDEND

The directors do not recommend the payment of an additional final dividend for the year ending 31 December 2010. An interim dividend of \$2 per share was paid on 14 July 2010 to shareholders registered on 14 June 2010 (2009: \$nil).

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 principal activity and 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.

After making enquiries, 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.

The directors present their annual report and the audited financial statements for the year ended 31 December 2010.

DIRECTORS

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

AUDITOR

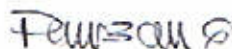
Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Group auditor is 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 Group auditor is 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 auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

By Order of the Board



Paul Barnes FCCA
Director
13 May 2011

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 Group 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 Financial Officer

Paul Martin Barnes

13 May 2011

INDEPENDENT AUDITOR REPORT TO THE MEMBERS OF ETHERSTACK LIMITED

We have audited the financial statements of Etherstack Limited for the year ended 31 December 2010 which comprise the Consolidated Income Statement, Consolidated Statements of Comprehensive Income, the Consolidated and Company Balance Sheets, the Consolidated and Company Cash Flow Statements, the Consolidated and 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 auditor

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 and express an opinion on 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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2010 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.

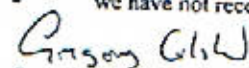
Opinion on other matter prescribed by the Companies Act 2006

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 Auditor
Reading, United Kingdom
13 May 2011

ETHERSTACK LIMITED

CONSOLIDATED INCOME STATEMENT Year Ended 31 December 2010

	Note	31 December 2010 S'000	31 December 2009 S'000
REVENUE	4	17,193	7,828
Cost of sales		(7,997)	(451)
GROSS PROFIT		9,196	7,377
Foreign exchange (losses)/gains		(41)	762
Other administrative expenses		(7,797)	(6,761)
Total administrative expenses		(7,838)	(5,999)
OPERATING PROFIT		1,358	1,378
Investment revenues	10	-	8
Finance costs	11	(26)	-
PROFIT BEFORE TAX	6	1,332	1,386
Tax	12	(275)	(184)
PROFIT FOR THE PERIOD	20	1,057	1,202

All results derive from continuing operations.

ETHERSTACK LIMITED**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**
Year Ended 31 December 2010

	Note	31 December 2010 S'000	31 December 2009 S'000
PROFIT FOR THE PERIOD		1,057	1,202
Exchange differences on translation of foreign operations	20	<u>(296)</u>	<u>(401)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>761</u>	<u>801</u>

ETHERSTACK LIMITED

CONSOLIDATED BALANCE SHEET At 31 December 2010

	Note	2010 S'000	2009 S'000
NON-CURRENT ASSETS			
Intangible assets	13	1,502	936
Property, plant and equipment	15	380	386
		<u>1,882</u>	<u>1,322</u>
CURRENT ASSETS			
Inventories	16	735	83
Trade and other receivables	17	2,716	6,056
Cash and bank balances		1,724	369
		<u>5,175</u>	<u>6,508</u>
TOTAL ASSETS		<u>7,057</u>	<u>7,830</u>
CURRENT LIABILITIES			
Trade and other payables	18	2,421	1,697
Current tax liabilities		211	179
		<u>2,632</u>	<u>1,876</u>
TOTAL LIABILITIES		<u>2,632</u>	<u>1,876</u>
NET CURRENT ASSETS		<u>2,543</u>	<u>4,632</u>
NET ASSETS		<u>4,425</u>	<u>5,953</u>
EQUITY			
Share capital	19	222	222
Share premium account	20	2,799	2,799
Own shares	21	(124)	(62)
Merger reserve	20	(191)	(191)
Share based payment reserve	24	49	47
Retained earnings	20	1,670	3,138
TOTAL EQUITY		<u>4,425</u>	<u>5,953</u>

The financial statements of Etherstack Limited (company registration number 05676080) were approved by the Board of Directors on 13 May 2011.

Signed on behalf of the Board of Directors



Paul Barnes FCCA
Director

ETHERSTACK LIMITED

COMPANY BALANCE SHEET At 31 December 2010

	Note	2010 \$'000	2009 \$'000
NON-CURRENT ASSETS			
Intangible assets	13	432	358
Property, plant and equipment	15	276	278
Investments	14	159	164
		<u>867</u>	<u>800</u>
CURRENT ASSETS			
Inventories		627	-
Trade and other receivables	17	4,151	3,877
Cash and bank balances		858	115
		<u>5,636</u>	<u>3,992</u>
TOTAL ASSETS		<u>6,503</u>	<u>4,792</u>
CURRENT LIABILITIES			
Trade and other payables	18	2,179	697
Current tax liabilities		165	256
		<u>2,344</u>	<u>953</u>
TOTAL LIABILITIES		<u>2,344</u>	<u>953</u>
NET CURRENT ASSETS		<u>3,292</u>	<u>3,039</u>
NET ASSETS		<u>4,159</u>	<u>3,839</u>
EQUITY			
Share capital	19	222	222
Share premium account	20	2,799	2,799
Own shares	21	(124)	(62)
Share-based payment	24	49	47
Retained earnings	20	1,213	833
TOTAL EQUITY		<u>4,159</u>	<u>3,839</u>

The financial statements of Etherstack Limited (company registration number 05676080) were approved by the Board of Directors on 13 May 2011.

Signed on behalf of the Board of Directors

Paul Barnes

Paul Barnes FCCA
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
At 31 December 2010

	Share Capital	Share Premium Account	Own Shares	Merger Reserve	Share Based Payment	Retained Earnings	Total Equity
	S'000	S'000	S'000	S'000	S'000	S'000	S'000
Balance at 1 January 2009	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)
Total comprehensive income for the year	-	-	-	-	-	801	801
Issue of ordinary shares	7	-	-	-	-	-	7
Shares acquired in the period	-	-	(62)	-	-	-	(62)
Decrease in share premium	-	(7)	-	-	-	-	(7)
Share based payment charge	-	-	-	-	17	-	17
Balance at 31 December 2009	222	2,799	(62)	(191)	47	3,138	5,953
Profit for the year	-	-	-	-	-	1,057	1,057
Other comprehensive income for the period	-	-	-	-	-	(296)	(296)
Total comprehensive income for the year	-	-	-	-	-	761	761
Issue of ordinary shares	-	-	-	-	-	-	-
Own shares acquired in the period	-	-	(62)	-	-	-	(62)
Interim Dividend (\$2 per share)	-	-	-	-	-	(2,229)	(2,229)
Share based payment charge	-	-	-	-	2	-	2
Balance at 31 December 2010	222	2,799	(124)	(191)	49	1,670	4,425

ETHERSTACK LIMITED

COMPANY STATEMENT OF CHANGES IN EQUITY At 31 December 2010

	Share Capital	Share Premium Account	Own shares	Share Based Payment	Retained Earnings	Total Equity
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 January 2009	215	2,806	-	30	(234)	2,817
Profit for the year	-	-	-	-	1,242	1,242
Other comprehensive income for the period – exchange gains	-	-	-	-	(175)	(175)
Total comprehensive income for the year	-	-	-	-	1,067	1,067
Issue of ordinary shares	7	-	-	-	-	7
Own shares acquired in the period	-	-	(62)	-	-	(62)
Decrease in share premium	-	(7)	-	-	-	(7)
Share based payment charge	-	-	-	17	-	17
Balance at 31 December 2009	222	2,799	(62)	47	833	3,839
Profit for the year	-	-	-	-	2,723	2,723
Other comprehensive income for the period – exchange gains	-	-	-	-	(114)	(114)
Total comprehensive income for the year	-	-	-	-	2,609	2,609
Etherstack Dividend (\$2 per share)	-	-	-	-	(2,229)	(2,229)
Own shares acquired in the period	-	-	(62)	-	-	(62)
Share based payment charge	-	-	-	2	-	2
Balance at 31 December 2010	222	2,799	(124)	49	1,213	4,159

CONSOLIDATED AND COMPANY CASH FLOW STATEMENT
Year ended 31 December 2010

	Note	Group 2010 \$'000	Group 2009 \$'000	Company 2010 \$'000	Company 2009 \$'000
Net cash from / (used in) operating activities	22	<u>4,527</u>	<u>(1,063)</u>	<u>1,134</u>	<u>(1,248)</u>
Investing activities					
Interest received		-	8	-	-
Purchases of intangible assets		(628)	(52)	(84)	(26)
Purchases of property, plant and equipment		<u>(167)</u>	<u>(324)</u>	<u>(133)</u>	<u>(237)</u>
Net cash used in investing activities		<u>(795)</u>	<u>(368)</u>	<u>(217)</u>	<u>(263)</u>
Financing activities					
Increase of directors' loans		268	-	414	-
Dividend receipt		-	-	1,800	-
Dividend payment		(2,229)	-	(2,229)	-
Purchase of own shares		(62)	-	(62)	-
Proceeds on issue of ordinary shares		-	7	-	7
Net cash (used in)/from financing activities		<u>(2,023)</u>	<u>7</u>	<u>(77)</u>	<u>7</u>
Net increase/(decrease) in cash and cash equivalents		1,709	(1,424)	840	(1,504)
Cash and cash equivalents at beginning of year		369	1,933	115	1,739
Effect of foreign exchange rate changes		<u>(354)</u>	<u>(140)</u>	<u>(97)</u>	<u>(120)</u>
Cash and cash equivalents at end of year		<u>1,724</u>	<u>369</u>	<u>858</u>	<u>115</u>

NOTES TO THE ACCOUNTS

For the year ended 31 December 2010

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 5 and the directors' report.

These financial statements are presented in US\$ 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 separate subsidiary company with the same name as the parent) 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 in 2009.

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 Review of the Business and future prospects within the directors report 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 recognised in the Income Statement on an accruals basis and contractual billings are accrued or deferred as appropriate, exclusive of value added tax. Revenue is derived from operations in the UK, Europe, Australia, the Far East and the USA. Where contract completion is outstanding at the balance sheet date, revenue is recognised, where appropriate, by using the percentage of completion method. Percentage of completion is based on the percentage of work that has been completed measured through time and cost incurred and forecast to complete.

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 any maintenance provided in the majority of cases there is no significant value or cost in these elements and therefore no revenues are deferred.

NOTES TO THE ACCOUNTS (CONTINUED)

For the year ended 31 December 2010

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\$, which is the presentation currency of the consolidated financial statements and for the company. The results of the Parent Company are also presented in US\$.

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.

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.

NOTES TO THE ACCOUNTS (CONTINUED)

For the year ended 31 December 2010

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.

No deferred tax liabilities have been recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, as 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 offset 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 improvements	-	over 5 years or the length of the lease, whichever is shorter
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.

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.

NOTES TO THE ACCOUNTS (CONTINUED)

For the year ended 31 December 2010

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.

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.

Investments in Subsidiaries

Investments are carried at their historic cost, and are reviewed annually impairment. Any impairment losses are booked in the year that they arise.

NOTES TO THE ACCOUNTS (CONTINUED)

For the year ended 31 December 2010

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 and profit of fixed price contracts is recognised on a percentage of completion basis when the outcome of a contract can be estimated reliably. Management makes estimates of the time and cost incurred to date as a percentage of the total cost to be incurred. This involves forecasting future costs which requires estimates and judgements. 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 annually tests 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.

4. REVENUE

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

	2010 S'000	2009 S'000
Technical access & contract fees	17,081	7,790
Grant receipts	112	38
	<u>17,193</u>	<u>7,828</u>

NOTES TO THE ACCOUNTS (CONTINUED)

For the year ended 31 December 2010

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 Group operates and reports as one business segment and is not analysed by management in either separate functions or geographical regions, as due to the nature of the work and complexity of the software, there is a large degree of collaboration across the countries for any given project.

Revenue from external customers by country

	2010 \$'000	2009 \$'000
Country of domicile (UK)	16,923	7,332
United States of America	252	237
Other countries	18	259
	<u>17,193</u>	<u>7,828</u>

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

	2010 \$'000	2009 \$'000
Customer A	12,966	3,214
Customer B	-	1,284
	<u>12,966</u>	<u>4,498</u>

Revenues from customers which do not amount to more than 10% of Group revenue in a particular period are not disclosed.

Non-current assets by country

	2010 \$'000	2009 \$'000
Country of domicile (UK)	699	636
United States of America	64	64
Other countries	1,119	622
	<u>1,882</u>	<u>1,322</u>

6. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

This is shown after charging/(crediting):

	2010 Group \$'000	2009 Group \$'000
Depreciation of property, plant and machinery	169	150
Operating lease costs	314	212
Amortisation of internally generated intangible assets	25	25
Staff costs (see note 8)	4,881	3,791
Loss on disposal of property, plant and equipment	(23)	-
Foreign exchange – third party	216	(265)
Foreign exchange – intercompany	(175)	(535)

NOTES TO THE ACCOUNTS (CONTINUED)
For the year ended 31 December 2010

7. AUDITORS' REMUNERATION

The analysis of auditors' remuneration is as follows:

	2010 S'000	2009 S'000
Fees payable to the Company's auditors for the audit of the Company's annual accounts	77	85
Total audit fees	77	85
- Tax services	-	5
- Other services	-	9
Total non-audit fees	-	14

8. STAFF COSTS

	2010 Group S'000	2010 Company S'000	2009 Group S'000	2009 Company S'000
Wages and salaries	4,449	1,172	3,353	1,015
Social security costs	432	145	438	327
	4,881	1,317	3,791	1,342

	2010 Group Number	2010 Company Number	2009 Group Number	2009 Company Number
Average monthly number of persons employed (including directors)				
Directors	2	2	4	4
Engineering	43	14	46	20
Management, sales & administrative	8	2	7	2
	53	18	57	26

NOTES TO THE ACCOUNTS (CONTINUED)
For the year ended 31 December 2010

9. DIRECTORS' REMUNERATION

	2010 \$'000	2009 \$'000
Emoluments (including pension contributions)	435	334
The number of directors who are:	2010 Number	2009 Number
Members of a money purchase pension scheme	1	2
Remuneration of the highest paid director:	2010 \$'000	2009 \$'000
Emoluments	232	172
Company contributions to money purchase schemes	-	-
	232	172

10. INVESTMENT REVENUE

	2010 Group \$'000	2009 Group \$'000
Bank deposits	-	8

11. FINANCE COSTS

	2010 Group \$'000	2009 Group \$'000
Interest on bank overdrafts and loans	26	-

12. TAX

	2010 \$'000	2009 \$'000
Current tax expense:		
UK corporation tax and income tax	13	-
Foreign tax	262	184
	275	184

Corporation tax is calculated at 28% (2009: 28%) of the estimated taxable profit for the year.

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

NOTES TO THE ACCOUNTS (CONTINUED)
For the year ended 31 December 2010

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

	Year ended 2010 \$'000	Year ended 2010 %	Year ended 2009 \$'000	Year ended 2009 %
Profit before tax on continuing operations	1,327	-	1,386	-
Tax at the UK corporation tax rate of 28% (2009: 28%)	372	28	388	28
Tax effect of expenses that are not deductible in determining taxable profit	34	2	4	-
Tax effect of income not taxable in determining taxable profit	-	-	-	-
Tax effect of utilisation of tax losses not previously recognised	(253)	(16)	(138)	(10)
Effect of capital allowances in excess of depreciation	(35)	(11)	(76)	(5)
Effect of difference in overseas tax rates	10	-	6	-
Prior year adjustment	147	-	-	-
Tax expense and effective tax rate for the year	275	3	184	13

13. INTANGIBLE ASSETS

	Group \$'000	Company \$'000
Cost		
At 1 January 2009	1,064	374
Additions	52	26
Exchange differences	(55)	(42)
At 31 December 2009	1,061	358
Additions	628	84
Exchange differences	(37)	(10)
At 31 December 2010	1,652	432
Accumulated amortisation		
At 1 January 2010	125	-
Charge for the year	25	-
At 31 December 2010	150	-
Carrying amount		
At 31 December 2010	1,502	432
At 31 December 2009	936	358

NOTES TO THE ACCOUNTS (CONTINUED)

For the year ended 31 December 2010

Intangible assets comprise internal and external costs incurred on the development of specific products that meet the criteria under IAS 38 Intangible assets. The amortisation period for development costs incurred on the Group's software development is 5 years or over the estimated delivery model, whichever is shorter. Amortisation does not take place until the asset is fully completed and ready for use. Patents and trademarks are amortised over their estimated useful lives, which is on average 5 years. The underlying core IP is being amortised over ten years.

14. INVESTMENTS

	2010		2009	
	Group S'000	Company S'000	Group S'000	Company S'000
Subsidiary undertakings	-	159	-	164

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.

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

NOTES TO THE ACCOUNTS (CONTINUED)

For the year ended 31 December 2010

15. PROPERTY, PLANT AND EQUIPMENT

Group	Leasehold property S'000	Furniture and equipment S'000	Engineering software S'000	Computer equipment S'000	Total S'000
Cost					
At 1 January 2010	89	132	3	464	688
Additions	8	10	-	149	167
Disposals	-	-	-	(23)	(23)
Exchange differences	-	6	-	11	17
At 31 December 2010	97	148	3	601	849
Accumulated depreciation					
At 1 January 2010	35	87	2	177	301
Charge for the year	22	24	1	122	169
Exchange differences	(1)	(5)	-	5	(1)
At 31 December 2010	56	106	3	304	469
Carrying amount					
At 31 December 2010	41	42	-	297	380
At 31 December 2009	54	45	-	287	386

Company	Leasehold property S'000	Furniture and equipment S'000	Engineering software S'000	Computer equipment S'000	Total S'000
Cost					
At 1 January 2010	55	42	-	276	373
Additions	-	2	-	131	133
Disposals	-	-	-	(23)	(23)
Exchange differences	(15)	(9)	-	36	12
At 31 December 2010	40	35	-	420	495
Accumulated depreciation					
At 1 January 2010	29	22	-	44	95
Charge for the year	8	7	-	88	103
Exchange differences	(7)	(6)	-	34	21
At 31 December 2010	30	23	-	166	219
Carrying amount					
At 31 December 2010	10	12	-	254	276
At 31 December 2009	26	20	-	232	278

NOTES TO THE ACCOUNTS (CONTINUED)

For the year ended 31 December 2010

16. INVENTORIES

	Group 2010 \$'000	Company 2009 \$'000	Group 2009 \$'000	Company 2009 \$'000
Finished goods and work in progress	735	627	83	-

17. TRADE AND OTHER RECEIVABLES

	2010		2009	
	Group \$'000	Company \$'000	Group \$'000	Company \$'000
Trade debtors	739	732	1,298	1,005
Accrued income from contracts in progress	725	373	2,404	1,917
Work in Progress	609	-	-	-
Other debtors	643	484	2,354	1,749
Amounts owed from group undertakings	-	2,562	-	(794)
	2,716	4,151	6,056	3,877

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.

The average credit period taken on sales of goods is 30 days (2009: 51). 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 high 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 against the complexity and nature of the project. There are four customers who each represent more than 5 per cent of the total balance of trade receivables.

Trade receivables disclosed above (see below for aged analysis) include amounts 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 61 days (2009: 36 days).

Ageing of past due but not impaired receivables

	2010 \$'000	2009 \$'000
30-60 days	277	154
60-90 days	2	490
90-120 days	40	154
Total	319	798

NOTES TO THE ACCOUNTS (CONTINUED)

For the year ended 31 December 2010

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

	2010		2009	
	Group S'000	Company S'000	Group S'000	Company S'000
Trade creditors	1,661	1,533	1,101	513
Other creditors	371	251	246	150
Other taxes and social security costs	13	(74)	242	(22)
Directors' loan accounts	376	469	108	56
	<u>2,421</u>	<u>2,179</u>	<u>1,697</u>	<u>697</u>

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 52 days (2009: 53). 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.

19. CALLED UP SHARE CAPITAL

Group	2010 Number	2009 Number
Authorised		
Ordinary shares of £0.10 each	2,500,000	2,500,000
	<u>2,500,000</u>	<u>2,500,000</u>
	2010 S'000	2009 S'000
Called up, allotted and fully paid		
1,117,750 ordinary shares of £0.10 each (2009 – 1,117,750 ordinary shares of £0.10 each)	222	222
	<u>222</u>	<u>222</u>
Company	2010 Number	2009 Number
Authorised		
Ordinary shares of £0.10 each (2009 – £0.10 each)	2,500,000	2,500,000
	<u>2,500,000</u>	<u>2,500,000</u>

ETHERSTACK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

For the year ended 31 December 2010

	2010 \$'000	2009 \$'000
Called up, allotted and fully paid 1,117,750 ordinary shares of £0.10 each (2009: 1,117,750 ordinary shares of £0.10 each)	222	222
	<u>222</u>	<u>222</u>

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

20. RESERVES

Group	Merger reserve \$'000	Share Premium \$'000	Profit & loss \$'000
At 1 January 2010	(191)	2,799	3,138
Profit for the year	-	-	1,057
Loss arising on translation of operations to presentational currency	-	-	(296)
Dividend paid in the year	-	-	(2,229)
At 31 December 2010	<u>(191)</u>	<u>2,799</u>	<u>1,670</u>

Company	Share premium \$'000	Profit and Loss \$'000
At 1 January 2010	2,799	833
Profit for the year	-	2,723
Loss arising on translation of operation to presentational currency	-	(114)
Dividend payable	-	(2,229)
At 31 December 2010	<u>2,799</u>	<u>1,213</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.

21. OWN SHARES

	Own Shares \$'000
Balance at 1 January 2010	62
Acquired in the period	62
Balance at 31 December 2010	<u>124</u>

The own shares reserve represents the cost of shares in Etherstack Ltd purchased by the company. The number of ordinary shares held by the company at 31 December 2010 was 3,033 (2009: 1,400).

NOTES TO THE ACCOUNTS (CONTINUED)

For the year ended 31 December 2010

22. NOTES TO THE CASH FLOW STATEMENT

	Group 2010 S'000	Group 2009 S'000	Company 2010 S'000	Company 2009 S'000
Operating profit	1,358	1,378	940	1,310
Adjustments for:				
Depreciation of property, plant and equipment	169	150	103	34
Amortisation of intangible asset	25	25	-	-
Loss on disposal of fixed assets	23	-	23	-
Foreign exchange	-	(657)	-	(474)
Operating cash flows before movements in working capital	1,575	896	1,066	870
Increase in inventories	(652)	(54)	(627)	-
Decrease/(increase) in receivables	3,340	(2,817)	(274)	(1,508)
Increase/(decrease) in payables	456	912	1,069	(610)
Cash (used) / generated by operations	4,719	(1,063)	1,234	(1,248)
Income taxes paid	(166)	-	(100)	-
Interest paid	(26)	-	-	-
Net cash (used in) / from operating activities	4,527	(1,063)	1,134	(1,248)

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

	2010 Land and buildings S'000	2009 Land and buildings S'000
Minimum lease payments under operating leases Recognised as an expense in the year	314	212

NOTES TO THE ACCOUNTS (CONTINUED)

For the year ended 31 December 2010

At 31 December 2010 the Group had total commitments under non-cancellable operating leases as set out below:

	2010	2009
	Land and buildings \$'000	Land and buildings \$'000
Operating leases which expire		
Within 1 year	314	323
In the second to fifth years inclusive	813	2,438
After five years	-	-
	<u>1,127</u>	<u>2,761</u>

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	2010 Weighted average exercise price (in £)	Number of share Options	2009 Weighted average exercise price (in £)
Outstanding at beginning of period	23,605	15	32,605	15
Granted during the period	730	-	1,000	25
Forfeited during the period	(11,200)	-	(10,000)	6
Exercised during the period	-	-	-	-
Outstanding at the end of the period	<u>13,135</u>		<u>23,605</u>	
Exercisable at the end of the period	<u>13,135</u>		<u>23,605</u>	

No share options were exercised during the period. The options outstanding at 31 December 2010 had a weighted average exercise price of £15, and a weighted average remaining contractual life of 3 years. In 2010, options were granted on 1 and 25 August 2010 (2009: 1 August 2009). The aggregate of the estimated fair values of the options granted on those dates is £1,400 (2009: £85,970). 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:

	2010
Weighted average share price	25
Weighted average exercise price	25
Expected volatility	50%
Expected life	2 years
Risk-free rate	2.5%
Expected dividend yields	<u>0%</u>

NOTES TO THE ACCOUNTS (CONTINUED)

For the year ended 31 December 2010

Expected volatility was determined by calculating the historical volatility of the Group's estimated share price over the previous 3 years. 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 behavioral considerations.

The Group recognized total expenses of \$1,449 and \$10,980 relating to equity-settled share-based payment transactions in 2010 and 2009, respectively.

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 maximizing 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 recognized, 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	
	2010	2009
	\$'000	\$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	3,106	1,901
Financial liabilities		
Amortised cost	2,421	1,697

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.

NOTES TO THE ACCOUNTS (CONTINUED)

For the year ended 31 December 2010

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.

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, who have 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 and services	
	2010	2009	2010	2009
	£'000	£'000	£'000	£'000
Auria Wireless Pty Limited	-	-	235	161
Brad Dolphin	-	-	-	71
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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.

Purchases of goods to related parties were made at the Group's usual list prices. 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).

NOTES TO THE ACCOUNTS (CONTINUED)

For the year ended 31 December 2010

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*.

	2010 \$'000	2009 \$'000
Short-term employee benefits	428	334
Post-employment benefits	7	10
Termination benefits	-	39
Share-based payments	-	3
	<u>435</u>	<u>386</u>

Directors' transactions

Dividends totalling \$1,613,348 (2009: nil) were paid in the year in respect of ordinary shares held by the Company's directors.

27. LOANS TO RELATED PARTIES

	2010 \$'000	2009 \$'000
Auria Wireless Pty Limited	<u>21</u>	<u>19</u>

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 amounting to \$234,532 (2009: \$160,791) 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 arm's length totaling \$nil (2009: \$310,811) were passed and settled.

Mr. Paul Barnes, a director of the Company, is owed \$13,586 by the Group at 31 December 2010 (31 December 2009: \$8,555).

Mr. David Deacon, a director of the Company, is owed \$362,051 by the Group at 31 December 2010 (31 December 2009: \$99,740). During the year the debt owed by Brewbag Limited of \$65,280 was transferred to Mr Deacons account.

NOTES TO THE ACCOUNTS (CONTINUED)

For the year ended 31 December 2010

28. CONTINGENT LIABILITIES

In common with other companies that hold intellectual property rights, from time to time, Etherstack receive, challenges to their rights from third parties. In the current financial year the company has received a legal challenge from a individual claiming partial rights over IP currently used by the Group and hence the related royalties and other income. The Directors believe this claim to be baseless and hence have not provided for any liability in the accounts.

29. ULTIMATE CONTROLLING PARTY

The Ultimate Controlling party is Mr David Deacon. The Group has no immediate parent company.