

Registered Number: 5281474

# **PrismTech Holdings Limited**

## **Annual Report**

**Period ended 31 March 2006**



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## **Company Information**

<b>Directors</b>	David C Cairns, MBA, FCMA, FSA Scot, the Baron of Finavon Stephen J Jennis, BSc Keith R Steele, BSc
<b>Secretary</b>	Phil Wright, BA, ACA
<b>Registered office</b>	PrismTech House 5 <sup>th</sup> Avenue Business Park Team Valley Gateshead Tyne & Wear NE11 0NG
<b>Registered number</b>	5281474
<b>Auditors</b>	RSM Robson Rhodes LLP St George House 40 Great George Street Leeds LS1 3DQ
<b>Bankers</b>	Lloyds TSB Bank plc 102 Grey Street Newcastle Upon Tyne NE99 1SL
<b>Solicitors</b>	Eversheds LLP Central Square South Orchard Street Newcastle Upon Tyne NE1 3XX

## Report of the Directors

The directors present their report and the financial statements for the period ended 31 March 2006.

### Principal activities

PrismTech is an acknowledged leader in the supply of computer software developer productivity tools and middleware solutions ranging from wide-scale integration to embedded real-time systems, supporting applications from Net-Centric Mission Systems, to Operations Support Systems, to Software-Defined Radio. The Group boasts an impressive list of Fortune 500 and multinational customers worldwide, operating primarily in the Telecommunications, Data Communications, Defence and Aerospace sectors.

PrismTech is a privately held Group with its US operations based in Boston Massachusetts and Saddlebrook New Jersey, and European operations based in the UK, Germany, France and Holland.

### Incorporation

PrismTech Holdings Limited was incorporated on 9 November 2004.

### Share Capital

During the year the Company issued 2,765,790 'A' ordinary shares of 0.1p each and 6,849,100 ordinary shares of 0.1p each for a total consideration of £9,615.

### Business review and future developments

Trading commenced on 17 February 2005, the date on which the Company acquired the entire share capital of PrismTech Limited following a management buy-out by the PrismTech management team supported by the then non-executive Chairman, David Cairns and venture capitalist investor ACT.

David Cairns, who has substantial international experience growing high technology businesses through to IPO and beyond, joined PrismTech Holdings Limited as full-time executive Chairman on 1 January 2006.

The Group's strategic objective is to position itself for rapid growth based on the take-up of new technologies in target markets. PrismTech specializes in emerging information technologies such as: model-driven development tools, domain-specific languages, real-time middleware, component frameworks, interoperability standards and domain common services. These technologies are applied to produce differentiated Commercial Off The Shelf (COTS) products and professional services which deliver superior developer productivity, systems performance and outsourcing options for prime contractors and Original Equipment Manufacturers: primarily in telecommunications, data communications, defence and federal/national government markets. The Group is leveraging the 'early-adopter' military markets to develop and refine innovative products which can then be more widely exploited in commercial markets. A good example of this 'strategy in action' is in the emerging market for enabling technologies for deploying Software Defined Radio (SDR).

#### *Software Defined Radio*

PrismTech's SDR team is headed by Dominick Paniscotti and is based in Saddlebrook, New Jersey, USA. All of PrismTech's SDR team members are well respected within the SDR community and have been involved in the design and development of SDR's since 1998. Dominick and Jerry Bickle, formerly from Raytheon (who joined PrismTech during 2005), are two of the original and principal software architects of the Joint Tactical Radio Systems (JTRS) Software Communications Architecture (SCA) on which a \$10 billion US military SDR acquisition program is based.

During the period, and in support of its SDR strategic objectives, the Group invested significantly in support of SDR market entry and to develop a complete 'first-to-market' COTS product and service solution for SDR (platform and waveform) developers, the Spectra suite. The first Spectra products were released to market in early 2006 and therefore did not significantly impact revenues for this period. With the availability of the Spectra products the Group will refocus its SDR marketing from market education and awareness to exploitation. Investment in our SDR product offering will also be accelerated during the coming year as we seek to extend our technology lead and also to adapt the initial 'military market' products for entry into the commercial telecommunications base station and handset arenas. Software radio is, by definition, waveform independent, thus our enabling tools are applicable to cellular (3G and beyond), Wi-fi (e.g. 802.11x), WAN (e.g. WiMAX/802.16x), SATCOM (e.g. GPS), PAN (e.g. Bluetooth), and other radio markets. Also convergence of these different wireless technologies (e.g. multi-band, multi-mode handsets) plays to the strengths of software radio.

## Report of the Directors (continued)

### Business review and future developments (continued)

The Group's investment in SDR technology has been funded by continuing success in its horizontal middleware business. Additionally, this core technology has underpinned its research in the SDR space.

The fusion and synergy of PrismTech's renowned middleware expertise with application domain expertise (e.g. in SDR) provides a unique value proposition. The directors believe that this will reap rewards for the Group, in SDR and other application domains, as we position our underlying horizontal technologies for clear competitive advantage (and thus high margin potential) in selected application domains within vertical markets.

#### Middleware

The Group's middleware product portfolio encompasses both software developer productivity tools and middleware for applications ranging from wide-scale 'enterprise' integration to embedded real-time systems. The Group specializes in providing middleware solutions for applications based on industry standard middleware (CORBA, J2EE and Web Services) and its developer tools are at the forefront of new Model Driven Design (MDD) techniques. Keith Steele, the Group's CEO, was re-elected to the board of the Object Management Group (OMG) during 2005 reflecting recognition of the Group's investment and competence in distributed computing standards.

During the period PrismTech invested heavily in its horizontal middleware portfolio in two emerging and complementary technology areas; Real Time Java and the Data Distribution Service (DDS):

- The Java platform is ideally suited to many of the needs facing the real-time community, but until now, has offered no support for real-time functionality. The new Real-time Specification for Java (RTSJ) extends the benefits of Java to the real-time community. IBM and Sun Microsystems have created commercial implementations of the RTSJ providing real-time implementations that meet the stringent needs of real-time developers while continuing to offer all of the other advantages of the Java programming language. PrismTech enhances the capability of RTSJ by providing distributed computing capability through CORBA. PrismTech provides this technology to the US Navy's DD(X) new destroyer program with some of the initial development funding having been provided by Raytheon. In the course of these evaluations PrismTech acquired TopGraphx, a Paris based software company partly to secure key Real-Time Java technologies. The acquisition of TopGraphx was completed on October 17 2005.
- Data Distribution for Mission-Critical Systems is now emerging as a major middleware market. The requirement is emerging because developers of net-centric systems need to have real-time availability of information from multiple distributed sources based on strict Quality of Service (QoS) criteria which is fundamental to acceptable system performance. In order to expedite market entry at the end of the period the Group recruited a team of experienced C4I practitioners; mission-critical systems domain experts, to develop the 'OpenSplice' DDS middleware and tools suite. OpenSplice is based on proven software deployed in over 15 armed services worldwide.

#### Market Activity

The early adopter market for PrismTech's advanced SDR and middleware products is Defence, with the Telecommunications sector to follow.

Our US defense business is growing rapidly based on programs such as JTRS and DDX, for example. To complement activity in US markets and in order to bid and work on projects that require access to classified information in the USA, the Group plans to bring its New Jersey facility under a Special Security arrangement (SSA) with the US Department of Defense's (DoD) Defense Security Service (DSS) thus formalizing its capability to provide software and services directly to highly-classified DoD programs.

In looking ahead, the Group anticipates that it will be able to build on major design wins achieved in 2005/06, as well as exploiting the opportunities presented by the availability of new products and services derived from our new SDR and middleware products, which should produce increased revenues in 2006/07, particularly in defence with SDR, mission systems, avionics and command and control systems applications.

As a result, the Group anticipates that growth will accelerate significantly in 2006/07, and that it will operate profitably despite continuing R&D investments allowing it to support both ongoing innovation and the success of its customers

## Report of the Directors (continued)

### Financial results

Market conditions improved during the year with spending in the Telecommunications sector recovering from previously low levels and the Group experienced strong demand from the US Defence sector.

Revenues for the period were £6.779m with an operating loss of £0.504m which included significant expenditure on SDR development that has been expensed in the period. Billable orders for the period were around £3.418m higher than revenues. The difference between revenues and billable orders highlights the current nature of our middleware product mix, a major element of which is a commercial support offering around Open Source software products, where revenue is recognised over the period of the support contract. The period end deferred revenue of £3.418m will positively impact the P&L over time as the support contracts unwind. Additionally the product mix is expected to change over the coming year as new licensed products such as Spectra and OpenSplice DDS are released to market with a beneficial impact on margins.

As a result of new product introductions and improving market conditions, the Group is planning for increased revenues and profitable performance as it exploits its competitive advantage. The Group also anticipates that cash flow should be more than sufficient to fund planned activities in the coming year.

The Group loss for the period after taxation amounted to £589,999. The directors do not recommend the payment of a dividend.

### Financial risk management

The Group's operations expose it to a variety of financial risks including the effects of changes in interest rates on debt, foreign currency exchange rates, credit risk and liquidity risk.

Much of the business and operations of the Group are conducted in US dollars and euros and as such there are exchange risks associated with translation into £ sterling for reporting purposes. Other than this, the Group does not have material exposures in any of the areas identified above and, consequently does not use derivative instruments to manage these exposures.

The Group's principal financial instruments comprise sterling, euro and US dollar cash and bank deposits, other loans and obligations under finance leases together with trade debtors and trade creditors that arise directly from its operations.

The main risks arising from the Group's financial instruments can be analyzed as follows:

#### Foreign currency risk

The Group is exposed in its trading operations to the risk of changes in foreign currency exchange rates. As the Group both buys and sells goods within Europe and the US the overall risk is not significant. The main foreign currencies in which the Group operates are the euro and the US dollar.

#### Credit risk

The Group's principal financial assets are bank balances, cash, and trade debtors, which represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group's credit risk is primarily attributable to its trade debtors. Credit risk is managed by monitoring the aggregate amount and duration of exposure to any one customer depending upon their credit rating. The amounts presented in the balance sheet are net of allowances for doubtful debts, estimated by the Group's management based on prior experience and their assessment of the current economic environment.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

#### Liquidity risk

The Group's policy has been to ensure continuity of funding through acquiring an element of the Group's fixed assets under finance leases, and arranging funding for operations via medium-term loans and additional revolving credit facilities to aid short-term flexibility.

## Report of the Directors (continued)

### Cash flow interest rate risk

Interest bearing assets comprise cash and bank deposits, all of which earn interest at a fixed rate. The Group's policy is to maintain borrowings at fixed rates to fix the amount of future interest cash flows. The directors monitor the overall level of borrowings and interest costs to limit any adverse effects on financial performance of the Group.

### Directors and their interests

The current directors are listed on page 1. The London Law Services Limited was appointed as a director on 8 November 2004 and resigned as director on 9 November 2004. Keith R Steele was appointed as director on 9 November 2004. David C Cairns and Stephen J Jennis were appointed on 17 February 2005.

The directors at 31 March 2006 and their interests in the share capital of the Company were as follows:

	Ordinary shares of 0.1p each
David C Cairns	2,700,000
Stephen J Jennis	753,295
Keith R Steele	2,332,260

The directors have no other disclosable interests under the Companies Act 1985 in the shares of the Company or any other group company.

Group insurance policies indemnify directors and officers against liability when acting for the Group.

### Statement of directors' responsibilities for the financial statements

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

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

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group will continue in business.

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

### Disclosure of information to auditors

At the date of making this report each of the Company's directors, as set out on page 1, confirm the following:

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

## **Report of the Directors (continued)**

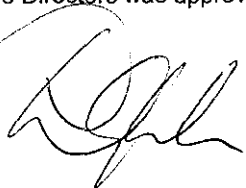
### **Auditors**

Deloitte & Touche LLP resigned as auditors on 6 January 2006. RSM Robson Rhodes LLP were appointed as auditors on 26 January 2006. A resolution to reappoint RSM Robson Rhodes LLP as auditors will be proposed at the forthcoming Annual General Meeting.

### **Approval**

The Report of the Directors was approved by the Board on 27 October 2006 and signed on its behalf by:

Phil Wright  
Secretary

A handwritten signature in black ink, appearing to be 'P. Wright', written over a faint circular stamp.



## Independent Auditors' Report to the Shareholders of PrismTech Holdings Limited

We have audited the financial statements on pages 8 to 24. These financial statements have been prepared under the accounting policies set out there in.

This report is made solely to the Company's shareholders, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's shareholders 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 shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the statement of directors' responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We report to you whether in our opinion the information given in the Report of the Directors is consistent with the financial statements.

### Basis of audit opinion

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

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

### Opinion

In our opinion:

- The financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the Group and Company as at 31 March 2006 and of the Group's loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.
- The information given in the Report of the Directors is consistent with the financial statements.

*RSM Robson Rhodes LLP*

RSM Robson Rhodes LLP  
Chartered Accountants and Registered Auditors  
Leeds, England

*7 November 2006*

**Consolidated Profit and Loss Account**  
for the period ended 31 March 2006

	Note	Period from 17 February 2005 to 31 March 2006 £
Turnover: acquisitions	2	6,778,812
Cost of sales		(2,034,777)
<b>Gross profit</b>		<b>4,744,035</b>
Administrative expenses		(5,247,993)
<b>Operating loss: acquisitions</b>	5	<b>(503,958)</b>
Interest receivable and similar income		20,678
Interest payable and similar charges	6	(106,719)
<b>Loss on ordinary activities before taxation</b>		<b>(589,999)</b>
Taxation on loss on ordinary activities	7	-
<b>Loss on ordinary activities after taxation</b>	16	<b>(589,999)</b>

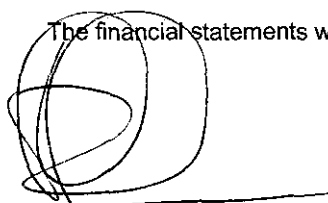
**Consolidated Statement of Total Recognised Gains and Losses**  
for the period ended 31 March 2006

	Period from 17 February 2005 to 31 March 2006 £
Loss for the period	(589,999)
Exchange losses taken direct to reserves	(120,956)
<b>Total recognised losses</b>	<b>(710,995)</b>

**Consolidated Balance Sheet**  
at 31 March 2006

	Note	2006 £
<b>Fixed assets</b>		
Intangible assets	8	1,857,720
Tangible assets	9	209,275
		<u>2,066,995</u>
<b>Current assets</b>		
Debtors	12	2,929,065
Cash at bank and in hand		339,905
		<u>3,268,970</u>
<b>Creditors: amounts falling due within one year</b>	13	<u>(5,884,435)</u>
<b>Net current liabilities</b>		<u>(2,615,465)</u>
<b>Total assets less current liabilities</b>		(548,470)
<b>Creditors: amounts falling due after more than one year</b>	14	<u>(153,259)</u>
<b>Net liabilities</b>		<u>(701,729)</u>
<b>Capital and reserves</b>		
Called up share capital	15	9,615
Other reserves	16	(121,345)
Profit and loss account	16	<u>(589,999)</u>
<b>Equity shareholders' deficit</b>	17	<u>(701,729)</u>

The financial statements were approved by the Board on 27 October 2006 and signed on its behalf by:

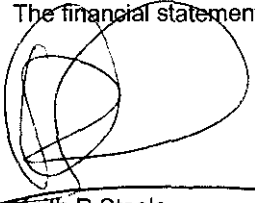


Keith R Steele  
Director

**Company Balance Sheet**  
at 31 March 2006

	Note	2006 £
<b>Fixed assets</b>		
Investments	11	<u>20,260</u>
<b>Current assets</b>		
Debtors	12	749,724
<b>Creditors: amounts falling due within one year</b>	13	<u>(828,764)</u>
<b>Net current liabilities</b>		<u>(79,040)</u>
<b>Total assets less current liabilities</b>		(58,780)
<b>Creditors: amounts falling due after more than one year</b>	14	<u>-</u>
<b>Net liabilities</b>		<u>(58,780)</u>
<b>Capital and reserves</b>		
Called up share capital	15	9,615
Profit and loss account	16	<u>(68,395)</u>
<b>Equity shareholders' deficit</b>	17	<u>(58,780)</u>

The financial statements were approved by the Board on 27 October 2006 and signed on its behalf by:

  
Keith R Steele  
Director

**Consolidated Cash Flow Statement**  
for the period ended 31 March 2006

	Note	Period from 17 February 2005 to 31 March 2006 £
<b>Net cash inflow from operating activities</b>	19a	<u>351,964</u>
<b>Returns on investments and servicing of finance</b>		
Interest received		29,011
Interest paid		(104,138)
Interest element of finance lease rental payments		<u>(5,190)</u>
		<u>(80,317)</u>
<b>Taxation</b>		<u>-</u>
<b>Capital expenditure</b>		
Payments to acquire tangible fixed assets		(88,243)
Payments to acquire intangible fixed assets		<u>(25,320)</u>
		<u>(113,563)</u>
<b>Acquisitions and disposals</b>		
Purchase of subsidiary undertaking		(68,655)
Cash acquired with subsidiary undertaking		<u>728,894</u>
		<u>660,239</u>
<b>Net cash inflow before financing</b>		<u>818,323</u>
<b>Financing</b>		
Issue of ordinary share capital		9,615
Repayment of capital element of finance lease rentals		(4,285)
New loans		881,098
Repayment of loans		<u>(1,364,846)</u>
<b>Net cash flow from financing</b>		<u>(478,418)</u>
<b>Increase in cash</b>	19b	<u>339,905</u>

## Notes to the Financial Statements

for the period ended 31 March 2006

### 1. ACCOUNTING POLICIES

#### **Basis of accounting**

These financial statements have been prepared on the going concern basis, under the historical cost convention and in accordance with the Companies Act 1985 and applicable accounting standards. The principal accounting policies are set out below.

As permitted by section 230 of the Companies Act 1985, the profit and loss account of the Parent Company has not been separately presented in the financial statements.

#### **Basis of consolidation**

The Group accounts consolidate the financial statements of PrismTech Holdings Limited and its subsidiary undertakings for the year ended 31 March each year. The acquisition method has been used for consolidation.

#### **Going Concern**

Since the recent MBO the business has traded in line with expectations. Given the level of cash within the business at the end of the year and anticipated future results, the directors consider it appropriate to prepare the accounts on the going concern basis.

#### **Revenue recognition**

Turnover represents the amounts invoices to third parties after deduction of credit notes, trade discounts, sales tax and value added tax. The Group derives revenue from software licences, support agreements and other related products and services. Support agreements include telephone support and software maintenance.

The Group recognises the revenue allocated to software licences and specified upgrades upon shipment of the software product, when there are no significant vendor obligations remaining, when the fee is fixed and determinable and when collectability is considered probable.

Revenue allocated to support agreements is recognised on a straight-line basis over the term of the agreement. Revenue not recognised in the profit and loss account under this policy is classified as deferred income in the balance sheet.

Revenue allocated to other related products and services is recognised as the products are shipped or services are provided.

#### **Goodwill**

On the acquisition of a business fair values are attributed to the net assets acquired. Where the cost of acquisition exceeds the fair values attributed to such net assets, the difference is treated as purchased goodwill and is capitalised in the Group balance sheet in the year of acquisition.

Purchased goodwill is amortised over the directors' estimate of its useful economic life, which is between 7 and 20 years.

#### **Tangible fixed assets**

The cost of fixed assets is their purchase cost, together with any incidental costs of acquisition.

Depreciation is provided on a straight-line basis at rates which are estimated to reduce the assets concerned from cost to estimated residual value by the end of their expected useful economic lives which are considered to be:

Computer hardware and software	25% straight line
Office equipment	14% straight line
Fixtures and fittings	14% straight line

Assets are reviewed for impairment if there is an indication that impairment has occurred. Where there is evidence of impairment, fixed assets are written down to their recoverable amount. Any such write down is charged to operating profit.

## Notes to the Financial Statements

for the period ended 31 March 2006

### 1. ACCOUNTING POLICIES (CONTINUED)

#### Investments

Investments in subsidiaries are stated at cost less provision for impairment where necessary to reduce book value to recoverable amount. Cost is purchase price plus acquisition expenses.

#### Finance and operating leases

Fixed assets acquired under finance leases are recorded in the balance sheet as tangible fixed assets at their equivalent capital value and are depreciated over the useful lives of the assets. The related lease obligations are included in the balance sheet at the present value of future payments. Finance costs for lease assets are charged to the profit and loss account so as to give a constant periodic rate of charge on the remaining capital balances outstanding at the end of each accounting period.

Costs in respect of operating leases are charged to the profit and loss account on a straight-line basis over the lease term.

#### Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Assets and liabilities denominated in foreign currencies are retranslated at the rates of exchange ruling at the balance sheet date. *The financial statements of overseas subsidiaries are translated at the rate of exchange ruling at the balance sheet date.* The exchange difference arising on retranslation of opening net assets is taken directly to reserves. All other exchange differences are taken to the profit and loss account.

#### Research and development

Expenditure on research and development is written off to the profit and loss account in the period in which it is incurred.

#### Grants

Grants of a capital nature are treated as deferred income and are released to the profit and loss account over the expected useful life of the relevant assets in equal instalments. Grants of a revenue nature are included in other operating income in the period to which they relate.

#### Deferred taxation

Deferred tax is provided, except as noted below, on timing differences that have arisen but not reversed by the balance sheet date, where the timing differences result in an obligation to pay more tax, or a right to pay less tax, in the future. Timing differences arise because of differences between the treatment of certain items for accounting and taxation purposes.

In accordance with FRS19 deferred tax is not provided on timing differences arising from gains on the sale of non-monetary assets, where on the basis of all available evidence it is more likely than not that the taxable gain will be rolled over into replacement assets.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Deferred tax is measured at the tax rates that are expected to apply in the periods when the timing differences are expected to reverse, based on tax rates and law enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

Where law or accounting standards require gains and losses to be recognised in the statement of total recognised gains and losses, the related taxation is also taken directly to the statement of total recognised gains and losses in due course.

#### Pensions

The Group operates a group personal pension (defined contribution) scheme and an executive scheme (defined contribution). The assets of the schemes are invested and managed independently of the finances of the Group. The contributions due for the year are charged to the profit and loss account.

**Notes to the Financial Statements**  
for the period ended 31 March 2006

**2. TURNOVER**

Turnover relates to one class of business and is analysed as follows:

	<b>Group Period ended 31 March 2006 £</b>
United Kingdom	89,145
Europe (excluding United Kingdom)	3,689,949
Rest of the world	2,999,718
	<hr/> 6,778,812 <hr/>

**3. DIRECTORS' EMOLUMENTS**

	<b>Group Period ended 31 March 2006 £</b>
Emoluments	269,131
Contributions to money purchase pension schemes	20,500
	<hr/> 289,631 <hr/>
<b>In respect of the highest paid director:</b>	
Emoluments	120,812
Contributions to money purchase pension schemes	11,500
	<hr/> 132,312 <hr/>

There are two directors accruing retirement benefits under money purchase pension schemes.

**4. EMPLOYEE INFORMATION**

The average monthly number of persons (including executive directors), employed by the Group during the period was:

	<b>Group Period ended 31 March 2006 No</b>
Development	47
Sales and marketing	19
Administration	8
	<hr/> 74 <hr/>
<b>Staff costs (for the above persons)</b>	
Wages and salaries	4,038,103
Social security costs	432,992
Pension contributions	112,284
	<hr/> 4,583,379 <hr/>



**Notes to the Financial Statements**  
for the period ended 31 March 2006

**5. OPERATING LOSS**

	Group Period ended 31 March 2006 £
<b>Operating loss is stated after charging:</b>	
Depreciation	
Tangible fixed assets- owned	82,120
Tangible fixed assets - held under finance leases	7,146
Goodwill amortisation	217,170
Exchange losses on translation of inter group balances	54,749
Loss on disposal of tangible fixed assets	1,468
Auditors' remuneration for:	
Audit services	12,000
Other services	3,800
Operating leases:	
Property	301,499
Hire of plant and machinery	11,331
Research and development costs	1,980,901

**6. INTEREST PAYABLE AND SIMILAR CHARGES**

	Group Period ended 31 March 2006 £
Hire purchase finance interest	5,406
Loan interest	101,313
	<u>106,719</u>

**7. TAX ON LOSS ON ORDINARY ACTIVITIES**

	Group Period ended 31 March 2006 £
<b>Analysis of charge in period</b>	
UK corporation tax on loss of the period	-
<b>Total current tax</b>	-
<b>Deferred tax</b>	
Origination and reversal of timing differences	-
<b>Total deferred tax</b>	-
<b>Tax on loss on ordinary activities</b>	<u>-</u>

## Notes to the Financial Statements

for the period ended 31 March 2006

### 7. TAX ON LOSS ON ORDINARY ACTIVITIES (CONTINUED)

#### Current tax reconciliation

The tax assessed is lower than the standard rate of corporation tax in the UK of 30%. The differences are explained below:

	Group Period ended 31 March 2006 £
Loss on ordinary activities before tax	(589,999)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30%	(177,000)
<i>Effects of:</i>	
Expenses not deductible for tax purposes	(12,266)
Tax losses not utilised	205,544
Other short term timing differences	(12,397)
Capital allowances in excess of depreciation	(3,881)
<b>Current tax charge for period</b>	<b>-</b>

#### Factors that may affect future tax charges

At 31 March 2006 the Group has an unprovided deferred tax asset of approximately £2.4 million, comprising mainly surplus tax losses as detailed below. It is not considered prudent to recognise the asset at the period end.

At 31 March 2006 the Group has gross surplus tax losses of approximately £7.9 million, the majority of which are within PrismTech Limited (£2.8 million) and PrismTech Corporation (£4.3 million), a wholly owned subsidiary of PrismTech Limited.

### 8. INTANGIBLE FIXED ASSETS

	Goodwill £
<b>Cost</b>	
At 9 November 2004	-
Subsidiary acquisition	2,049,570
Acquisition	25,320
	<hr/>
At 31 March 2006	2,074,890
	<hr/>
<b>Amortisation</b>	
At 9 November 2004	-
Charged in the period	217,170
	<hr/>
At 31 March 2006	217,170
	<hr/>
<b>Net book value</b>	
At 31 March 2006	1,857,720
	<hr/>

## Notes to the Financial Statements

for the period ended 31 March 2006

### 8. INTANGIBLE FIXED ASSETS (CONTINUED)

Goodwill arising on the acquisition of PrismTech Limited and TopGraphx is being amortised over 10 years, being the directors' estimate of its useful economic life.

The goodwill acquired in the year related to the purchase of know-how from two former staff. This was written off in full in the year of purchase.

### 9. TANGIBLE FIXED ASSETS

Group	Computer hardware and software £	Office equipment £	Fixtures and fittings £	Total £
<b>Cost or valuation</b>				
At 9 November 2004	-	-	-	-
Subsidiary acquisition	883,299	69,324	44,212	996,835
Additions	92,313	2,114	3,513	97,940
Disposals	(27,980)	-	-	(27,980)
Foreign exchange differences	15,508	740	612	16,860
At 31 March 2006	<u>963,140</u>	<u>72,178</u>	<u>48,337</u>	<u>1,083,655</u>
<b>Depreciation</b>				
At 9 November 2004	-	-	-	-
Subsidiary acquisition	732,886	46,518	19,856	799,260
Charged in period	72,971	9,584	6,711	89,266
Disposals	(26,512)	-	-	(26,512)
Foreign exchange differences	11,818	295	253	12,366
At 31 March 2006	<u>791,163</u>	<u>56,397</u>	<u>26,820</u>	<u>874,380</u>
<b>Net book value</b>				
At 31 March 2006	<u>171,977</u>	<u>15,781</u>	<u>21,517</u>	<u>209,275</u>

The net book value of £209,275 above includes an amount of £33,080 in respect of assets held under hire purchase finance.

Capital expenditure that has been contracted for but has not been provided for in the financial statements was £9,500 as at 31 March 2006.

## Notes to the Financial Statements

for the period ended 31 March 2006

### 10. ACQUISITION OF SUBSIDIARY UNDERTAKING

On 17 February 2005, PrismTech Holdings Limited acquired 100% of the issued share capital of PrismTech Limited.

PrismTech Limited acquired 100% of the issued share capital of TopGraphX on 11 October 2005.

Provisional fair values of the assets and liabilities included in the accounts are detailed below:

	PrismTech Limited Book and Fair Value £	TopGraphX Book Value £	TopGraphX Provisional Fair Value Adjustment £	TopGraphX Provisional Fair Value £	Total Provisional Fair Value £
Tangible fixed assets	187,262	424,492	(414,179)	10,313	197,575
Debtors	870,000	76,090	-	76,090	946,090
Cash at bank and in hand	719,000	9,894	-	9,894	728,894
Loans	(1,361,000)	(90,710)	-	(90,710)	(1,451,710)
Creditors	(1,863,675)	(192,428)	-	(192,428)	(2,056,103)
	(1,448,413)	227,338	(414,179)	(186,841)	(1,635,254)
Goodwill	1,468,673			580,897	2,049,570
Consideration	20,260			394,056	414,316
<b>Consideration comprised:</b>					
Cash consideration	20,260			30,646	50,906
Deferred consideration	-			345,661	345,661
Acquisition expenses	-			17,749	17,749
	20,260			394,056	414,316

The deferred consideration on the TopGraphX acquisition comprises contingent consideration and fixed payments of £17,442 payable on 11 July 2006, £45,350 payable on 11 October 2006 and £45,350 payable on 11 October 2008. The contingent consideration of £237,519 is payable over a 4 year period based on a percentage of licence sales of the TopGraphX product range.

No fair value adjustments were deemed to be necessary on the purchase of PrismTech Limited. The fair values of the net assets acquired in TopGraphX have been adjusted to align accounting policies with the Group.

# Notes to the Financial Statements

for the period ended 31 March 2006

## 10. ACQUISITION OF SUBSIDIARY UNDERTAKING (CONTINUED)

### Pre-acquisition performance of PrismTech Limited and TopGraphX

Summarised consolidated profit and loss account	PrismTech Limited 1 April 2004 to 17 February 2005 £	TopGraphX 1 January 2005 to 11 October 2005 £
Turnover	4,310,664	294,361
Cost of sales	(714,728)	(138,707)
Gross profit	3,595,936	155,654
Administrative expenses	(3,479,990)	(50,918)
Operating profit	115,946	104,736
Net interest payable	(352,574)	(13,012)
(Loss)/ profit on ordinary activities before taxation	(236,628)	91,724
Taxation	-	-
(Loss)/ profit on ordinary activities after taxation	(236,628)	91,724
Year ended	31 March 2004 £	31 December 2004 £
(Loss) on ordinary activities after taxation	(980,545)	(64,913)

There were no recognised gains and losses other than the (loss)/ profit for the financial period.

# Notes to the Financial Statements

for the period ended 31 March 2006

## 11. INVESTMENTS

Company	Subsidiary undertakings £
<b>Acquisition</b>	
Cost and net book value as at 31 March 2006	20,260

The investments in subsidiary undertakings relate to the acquisition of the entire ordinary share capital of PrismTech Limited on 17 February 2005. Interests in Group undertakings comprise:

Name of undertaking and nature of its business	Country of incorporation and operation	Description of shares held	Proportion of nominal shares held by	
			Group	Company
PrismTech Limited	UK	Ordinary	100%	100%
		Deferred	100%	100%
		Preference	100%	100%
PrismTech GMBH	Germany	Ordinary	100%	-
PrismTech Corporation	USA	Ordinary	100%	-
PrismTech SARL	France	Ordinary	100%	-

PrismTech Limited is the immediate parent undertaking of PrismTech GMBH, PrismTech Corporation and PrismTech SARL. The principal activities of the Group during the period were the supply of computer software developer productivity tools and middleware solutions.

## 12. DEBTORS

	Group 2006 £	Company 2006 £
Trade debtors	2,655,470	-
Other debtors	74,428	-
Amounts due from group undertakings	-	749,724
Prepayments and accrued income	199,167	-
	<u>2,929,065</u>	<u>749,724</u>

## 13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group 2006 £	Company 2006 £
Other loans	940,962	828,764
Obligations under hire purchase finance	21,175	-
Total debt	962,137	828,764
Trade creditors	346,846	-
Other taxation and social security	160,748	-
Other creditors	414,221	-
Accruals	582,584	-
Deferred income	3,417,899	-
	<u>5,884,435</u>	<u>828,764</u>

**Notes to the Financial Statements**

for the period ended 31 March 2006

**13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR (CONTINUED)**

On 17 February 2005 the Company entered into a loan agreement with David Cairns, the loan being used to provide a loan to PrismTech Limited to enable it to repay loan capital and interest prior to the completion of the management buy out. The unsecured loan is repayable on demand and bears interest at a rate of 4% above Barclays Bank base rate. The amount due at 31 March 2006 was £828,764.

Other loans also includes an unsecured loan from the North East Investment Fund of £43,315. This loan is repayable in 57 equal monthly instalments commencing 30 April 2002. The loan bears interest at 1.5% per annum over LIBOR.

**14. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR**

	Group 2006 £	Company 2006 £
Other creditors	142,203	-
Obligations under hire purchase finance repayable between one and two years	11,056	-
	<hr/> 153,259 <hr/>	<hr/> - <hr/>

**15. CALLED-UP SHARE CAPITAL**

	2006 £
<b>Authorised</b>	
2,765,790 'A' ordinary shares of 0.1p each	2,766
7,880,200 ordinary shares of 0.1p each	7,880
	<hr/> 10,646 <hr/>
<b>Allotted, called up and fully paid</b>	
2,765,790 'A' ordinary shares of 0.1p each	2,766
6,849,100 ordinary shares 0.1p each	6,849
	<hr/> 9,615 <hr/>

The ordinary and 'A' ordinary shares have the same rights and rank pari passu in all respects as if they together constituted the same class of share save that the 'A' ordinary shares carry a preferential return on capital. The preferential return varies dependant on the proceeds of any disposal or flotation of the business.

There are 480,200 share warrants in issue over ordinary shares of 0.1p each. These are exercisable on the sale or flotation of the company in the period ending 17 February 2010 at a price of £0.01 per warrant share.

# Notes to the Financial Statements

for the period ended 31 March 2006

## 16. RESERVES

	Other Reserves £	Profit and Loss Account £
<b>Group</b>		
Loss for the period	-	(589,999)
Foreign exchange translation differences	(120,956)	-
Employee Share Option Trust reserve	(389)	-
	<u>(121,345)</u>	<u>(589,999)</u>
At 31 March 2006		

The Employee Share Option Trust owns 389,100 ordinary shares of 0.1p each in the share capital of PrismTech Holdings Limited. In accordance with FRS 25 the investment in own shares is shown as a deduction from equity.

	Profit and Loss Account £
<b>Company</b>	
Loss for the period	(68,395)
At 31 March 2006	<u>(68,395)</u>

## 17. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' DEFICIT

	Group £	Company £
Total recognised losses for the period	(589,999)	(68,395)
Share capital issued and fully paid	9,615	9,615
Foreign exchange translation differences	(120,956)	-
Employee Share Option Trust reserve	(389)	-
	<u>(701,729)</u>	<u>(58,780)</u>
Closing shareholders' deficit		

## 18. FINANCIAL COMMITMENTS

At 31 March 2006, the Group and Company had annual commitments under non-cancellable operating leases expiring as follows:

	Equipment	
	Group 2006 £	Company 2006 £
<i>Leases which expire:</i>		
Within one year	6,717	-
Between one and two years	3,164	-
Between two and five years	4,659	-
	<u>14,540</u>	<u>-</u>



# Notes to the Financial Statements

for the period ended 31 March 2006

## 18. FINANCIAL COMMITMENTS (CONTINUED)

At 31 March 2006, the Group and Company had annual commitments under non-cancellable operating leases expiring as follows:

	Property	
	Group 2006 £	Company 2006 £
Leases which expire:		
Within one year	32,358	-
Between one and two years	23,323	-
Between two and five years	72,125	-
After five years	184,727	-
	<u>312,532</u>	<u>-</u>

## 19. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### (a) Reconciliation of operating profit to net cash inflow from operating activities:

	2006 £
Operating loss	(503,958)
Depreciation	89,267
Amortisation of goodwill	217,170
Loss on disposal	1,468
Exchange difference	(125,840)
Increase in debtors	(1,982,975)
Increase in creditors	2,656,832
Net cash inflow from operating activities	<u>351,964</u>

### (b) Reconciliation of net cash flow to movement in net debt:

	2006 £
<b>Increase in cash</b>	339,905
Cash inflow from increase in debt and lease finance	<u>488,033</u>
	827,938
<b>Decrease in net debt from cash flow</b>	
Loan acquired with subsidiary	(1,451,710)
Inception of finance leases	<u>(9,515)</u>
<b>Increase in net debt</b>	(633,287)
<b>Opening net debt</b>	-
<b>Closing net debt</b>	<u>(633,287)</u>

## Notes to the Financial Statements

for the period ended 31 March 2006

### 19. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

#### (c) Analysis of changes in net debt:

	Inception of finance leases	Acquisition of subsidiary excluding cash	Cash flow	At 31 March 2006
	£	£	£	£
Cash at bank and in hand	-	-	339,905	339,905
Finance lease	(9,515)	(27,000)	4,285	(32,230)
Loans	-	(1,424,710)	483,748	(940,962)
	<u>(9,515)</u>	<u>(1,451,710)</u>	<u>827,938</u>	<u>(633,287)</u>

### 20. RELATED PARTY TRANSACTIONS

The Group has taken advantage of the exemption in FRS 8: Related party transactions, from disclosing transactions with other group companies.

#### Loans from directors

Included in creditors (note 13) are the following balances owed to directors:

	Group 2006 £	Company 2006 £
DC Cairns	828,764	828,764
SJ Jennis	5,000	-
KR Steele	20,000	-
	<u>853,764</u>	<u>828,764</u>

The amount owed to DC Cairns at 17 February 2005 (also the maximum amount outstanding in the period) was £847,300. Further details on the amount owed to DC Cairns are disclosed in note 13. Interest payable in respect of the loan in the period was £63,446.

The amounts owed to SJ Jennis and KR Steele detailed above also represent the maximum outstanding in the year and are unsecured. No interest is charged on the amounts owed.