

Company Registration No. 3351717

ALTERIAN TECHNOLOGY LIMITED
Annual Report and Financial Statements

31 March 2007

TUESDAY



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ALTERIAN TECHNOLOGY LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS 2007

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ALTERIAN TECHNOLOGY LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

D J Eldridge (Chairman)
D R Cutler
T E McCarthy
M J Talbot

COMPANY SECRETARY

S A Attryde ACA

REGISTERED OFFICE

Century Place
Bond Street
Bristol
BS2 9AG

AUDITORS

Deloitte & Touche LLP
Bristol

ALTERIAN TECHNOLOGY LIMITED

DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements of Alterian Technology Limited, a wholly owned subsidiary of Alterian plc, for the year ended 31 March 2007

BUSINESS REVIEW AND PRINCIPAL ACTIVITY

The principal activity of the Company is the design and development of software tools for marketing and customer insight for sale under licence through third party business partner organisations

Review of developments/future outlook

Alterian has continued to focus on its strategy of winning long term contracts with structural recurring revenue flows that compound over a number of years. Significant progress is still being made as resource in all areas of the business is concentrated on this strategy rather than delivering one-off licence sales. This is reflected in the nature and value of contracts going forward.

The outlook is positive, as the Company continues to progress the implementation of its strategy with the compounding of the recurring licence fee income expected to convert into substantial annual profitability going forward.

Results and dividends

The result for the year is set out in the income statement on page 7. This shows revenues increasing by 22% and a retained profit of £2.6m (2006: £1.8m). The balance sheet on page 8 shows net assets of £8.5m (2006: £6.0m). Cash and cash equivalents are now at £1.2m.

The Company has not paid nor accrued any dividends for the year (2006: nil).

Research and development activities

Alterian has continued to invest approximately £2.5m in Research and Development, as previously announced and in line with its strategy of maintaining a market leading position.

New versions of almost all of Alterian's products have been successfully released during the year, including a major new release of Alterian's core Data Discovery and Visualisation product which introduces a host of new dashboarding and ease of use features.

The team have also successfully integrated the products resulting from its parent company's acquisition of DDI, and have been working to finalise the general release version of the products resulting from that company's acquisition of Nvigorate.

Investment is currently focused on further enhancements to existing core products, a new product for marketing list owners and brokers, and the development of the next major generation of Alterian's products is also advancing.

The charge for core research and development in the year was £1,728,000 (2006: £2,176,000) after the capitalisation of £764,000 (2006: £405,000). An amortisation charge of £202,000 (2006: nil) arises in relation to capitalised development costs.

Key performance indicators

Alterian plc manages the performance of its subsidiaries on the basis of the geographical origins of their revenues. For this reason, the Directors believe that further key performance indicators are not necessary or appropriate for an understanding of the performance of the company's business. The group's performance is discussed in the group's Annual Report which does not form part of this Report.

ALTERIAN TECHNOLOGY LIMITED

DIRECTORS' REPORT (continued)

BUSINESS REVIEW AND PRINCIPAL ACTIVITY (continued)

Risks and Uncertainties

There are a number of potential risks and uncertainties which could have a material impact on the Company's long term performance

Competitor Risks

Alterian's blend of the power of its Engine, allied to the ever widening suite of its applications, is a unique offering to the market. However, competition exists for fragmented elements of our offering from internally generated solutions as well as large ASPs and other software providers. If one or more of these competitors is successful in developing solutions that are faster and more economic than Alterian's, and can provide the necessary support levels to the MSP market, then Alterian's long term revenue streams will be at risk. To minimise this risk Alterian continues to develop both market relevant applications and the quality of its core products.

Commercial Relationships

Alterian's future revenue streams depend on its close long term relationships with its Partner group. Damage to, or loss of these substantial relationships, could cause a detrimental effect on long term revenue prospects. To manage this risk Alterian ensures that constant and developing working reviews take place with its key Partners to ensure both their needs and the needs of their end customers are met.

Foreign Exchange and Treasury Risks

The company operates mostly within the UK. Currency exposures are regularly monitored and decisions taken on whether to hedge only when specific cash exposures are contracted. Purely accounting exposure is not hedged. The Company has historically maintained its reserve cash balances principally in sterling.

Environmental Risks

Alterian takes its responsibilities to the environment seriously. The risks to which Alterian is materially exposed are not company specific as Alterian does not operate in areas that materially damage the environment.

Resources

The principal resources of the Group are

- Its intellectual property which is protected by internal controls and held in secure escrow,
- The employees of Alterian who have extensive knowledge of the products and markets in which the company operates,
- The unique indirect channel to market operated through the strong partner network built up since the founding of the business.

Any material adverse change in these resources would constitute a risk to the Company's performance.

Financial Structure and Liquidity

The Company is financed by the issue of Ordinary and Preference shares held entirely by its parent company. There is no third party debt. At the year ended 31 March 2007 the Company had £1.2m cash and cash equivalents (2006 £0.8m) and receivables due from Group companies of £3.9m (2006 £1.2m restated).

The Group's risks are discussed in the Group's annual report which does not form part of this report.

Employees

Details of the number of employees and related costs can be found in note 5 to the financial statements.

ALTERIAN TECHNOLOGY LIMITED

DIRECTORS' REPORT (continued)

DIRECTORS AND THEIR INTERESTS

The present membership of the Board is set out on page 1

The Directors had no interests in the shares of the Company

All the Directors at the year end were also Directors of the ultimate parent company, Alterian plc, and their interests in the Share Capital of that company are disclosed in the accounts of that company

POLICY ON PAYMENT TO SUPPLIERS

It is the Company's policy to agree terms and conditions for its business transactions with suppliers. The Company seeks to abide by the payment terms agreed with suppliers whenever it is satisfied that the supplier has provided the goods and services in accordance with the agreed terms and conditions. The trade creditors of the Company at 31 March 2007 represent 49 days (2006: 40 days) as a proportion of the total amount invoiced by suppliers during the year.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the annual report and the financial statements. The Directors have elected to prepare financial statements for the Company in accordance with International Financial Reporting Standards (IFRS), the Companies Act 1985 and Article 4 of the IAS Regulation.

IAS 1 requires that the financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the Preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards. Directors are also required to

- properly select and apply accounting policies,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information, and
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

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

The Directors are responsible for the maintenance and integrity of the Company website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

ALTERIAN TECHNOLOGY LIMITED

DIRECTORS' REPORT (continued)

AUDITORS

In the case of each of the persons who are Directors of the Company at the date when this report was approved

- So far as each of the Directors is aware, there is no relevant audit information (as defined in the Companies Act 1985) of which the Company's auditors are unaware, and
- Each of the Directors has taken steps that he ought to have taken as a Director to make himself aware of any relevant audit information (as defined) and to establish that the Company's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of S234ZA of the Companies Act 1985

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

By order of the Board



David Cutler
Director
26 July 2007

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF

ALTERIAN TECHNOLOGY LIMITED

We have audited the financial statements of Alterian Technology Limited for the year ended 31 March 2007 which comprise the Income Statement, the statement of recognised income and expenditure, the Balance Sheet, the Cash Flow Statement, and the related notes 1 to 24. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

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

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

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

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 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 IFRSs as adopted by the European Union, of the state of the company's affairs as at 31 March 2007 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.

Deloitte & Touche LLP

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

Bristol, United Kingdom

27 July 2007

ALTERIAN TECHNOLOGY LIMITED

INCOME STATEMENT Year ended 31 March 2007

	Note	2007 £000	2006 £000
REVENUE	3	9,681	7,909
Cost of Sales		(1,167)	(629)
GROSS PROFIT		8,514	7,280
Distribution costs		(2,208)	(1,846)
Administrative expenses		(4,166)	(4,086)
OPERATING PROFIT	4	2,140	1,348
Investment revenues	6	14	19
Finance costs	7	(1)	-
PROFIT BEFORE TAXATION		2,153	1,367
Tax credit on profit on ordinary activities	8	411	480
RETAINED PROFIT FOR THE FINANCIAL YEAR	17	2,564	1,847
ATTRIBUTABLE TO EQUITY HOLDERS	17	2,564	1,847

There is no difference between the operating profit or the profit for the year stated above and their historical cost equivalents

The results above all derive from the continuing operations of the Company

There are no recognised gains and losses for the current financial year or the preceding financial year other than as stated in the income statement. Accordingly no statement of recognised income and expense has been prepared

ALTERIAN TECHNOLOGY LIMITED

BALANCE SHEET

At 31 March 2007

	Note	2007 £000	2006 £000 Restated (see note 1)
NON CURRENT ASSETS			
Other intangible assets	9	1,452	559
Property, plant & equipment	10	247	309
Investments	11	185	129
Deferred tax asset	15	650	250
Other receivables	12	3,862	1,207
TOTAL NON CURRENT ASSETS		6,396	2,454
CURRENT ASSETS			
Trade and other receivables	12	4,931	4,652
Cash and cash equivalents		1,223	811
TOTAL CURRENT ASSETS		6,154	5,463
TOTAL ASSETS		12,550	7,917
CURRENT LIABILITIES			
Trade and other payables	13	(3,447)	(1,410)
Current tax liabilities		(554)	(522)
TOTAL CURRENT LIABILITIES		(4,001)	(1,932)
NET CURRENT ASSETS		2,153	3,531
NET ASSETS		8,549	5,985
EQUITY			
Share capital	16	19,210	19,210
Share premium account	17	280	280
Retained earnings	17	(10,941)	(13,505)
SHAREHOLDERS' FUNDS		8,549	5,985

These financial statements were approved by the Board of Directors and authorised for issue on 26 July 2007

Signed on behalf of the Board of Directors



David Cutler
Director

ALTERIAN TECHNOLOGY LIMITED

CASH FLOW STATEMENT

Year ended 31 March 2007

	Note	2007 £000	2006 £000
NET CASH FROM OPERATING ACTIVITIES	18	1,731	679
INVESTING ACTIVITIES			
Interest received	14	19	
Interest paid	(1)	-	
Purchases of property, plant & equipment	(105)	(294)	
Expenditure on product development	(763)	(405)	
Payments in respect of IPR capitalised	(340)	-	
Receipts from sales of property, plant & equipment	-	11	
Overdraft acquired	(57)	-	
NET CASH USED IN INVESTING ACTIVITIES		(1,252)	(669)
FINANCING ACTIVITIES			
Purchase of shares of the parent company	(56)	(27)	
NET CASH USED IN FINANCING ACTIVITIES		(56)	(27)
Net increase/(decrease) in cash and cash equivalents		423	(17)
Cash and cash equivalents at beginning of year		811	828
Effect of foreign exchange rate changes		(11)	-
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u>1,223</u>	<u>811</u>

ALTERIAN TECHNOLOGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2007

1. ACCOUNTING POLICIES

Details of the Company's principal IFRS accounting policies are set out below

Basis of preparation

The financial statements of Alterian Technology Limited are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the European Union, for the year ending 31 March 2006 onwards. Accordingly, this report has been prepared using accounting policies consistent with IFRS.

IFRS 7 and IFRIC Interpretations 7 to 10 were in issue but not yet effective as at the year end, and have not been applied in the preparation of the financial statements. The Directors do not anticipate that the adoption in future periods of these standards and interpretations will have a material impact on the financial statements of the group. As described below, IFRIC 11 "IFRS 2 - Group and treasury share transactions" has been applied early, in the current year.

Revenue recognition

Revenue represents amounts invoiced to customers (net of value added tax) for goods and services and Revenue is recognised as follows:

Licence sales and partner fees

Revenue from licence sales is recognised upon discharge of the Group's obligation to deliver to the customer.

Maintenance and support contracts

Revenue from maintenance and support contracts is recognised over the period of the contract.

Professional services

Revenue from professional services such as training and consultancy is recognised when the services are performed.

Royalty income

Royalty income is recognised as royalties are earned, through partners selling products to end users or committing to minimum levels of sales.

Where a single arrangement comprises a number of individual elements which are capable of operating independently of one another, the total revenues are allocated amongst the individual elements based on an estimate of the fair value of each element.

Cost of sales

The Directors consider that in order to appropriately reflect the operating profile of the business, only the directly variable costs of making sales such as royalties and commissions should be shown as deducted from turnover and that all other costs of the business are more appropriately classified as distribution costs and as administrative expenses.

Operating profit

Operating profit is stated after charging distribution costs and administrative expenses but before investment income.

Foreign currency translation

Transactions in foreign currencies are recorded at the exchange rate prevailing on the date of the transaction. At each balance sheet date, monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rate prevailing at the balance sheet date. Translation differences on monetary items are taken to the income statement.

ALTERIAN TECHNOLOGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2007

1. ACCOUNTING POLICIES (continued)

Taxation

The tax credit represents the net sum of tax received and receivable and deferred tax movements

The tax currently receivable 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 tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount 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 tax profit nor the accounting profit.

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

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

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

Property, plant and equipment

Property, plant and equipment are held at cost less accumulated depreciation and any impairment in value.

Depreciation is charged on a straight line basis as follows:

- Motor vehicles are depreciated over 4 years,
- computer and office equipment are depreciated over 2 to 3 years according to the estimated life of the asset, and
- fixtures and fittings are depreciated over 4 to 7 years according to the estimated life of the asset.

Other intangible assets

Intangible assets acquired as part of an acquisition of a business are capitalised separately from goodwill, if those assets are separable and their fair value can be measured reliably. Intangible assets acquired separately from the acquisition of a business are capitalised at cost.

Computer software

Computer software licences and other intellectual property assets acquired are held at cost and are amortised on a straight line basis over their estimated useful lives of 2 to 6 years.

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred.

Research and development costs

Research costs are normally expensed as incurred. Expenditure arising from development (or from the development phase of an internal project) is capitalised if it satisfies the specified criteria within IAS 38 which requires the expenditure to be identifiable, reliably measured and to be likely to generate future economic benefits. These assets are amortised on a straight line basis over their useful lives of not more than 3 years.

ALTERIAN TECHNOLOGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2007

1. ACCOUNTING POLICIES (continued)

Impairment of tangible and intangible assets

Assets that have an indefinite useful life are not subject to amortisation but are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss would be recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Investments in shares of the parent company

Investments in the Group's shares are included in the Company balance sheet at cost less any provision for impairment.

Financial instruments

Short-term debtors and creditors are treated as financial assets or liabilities.

Preference shares

Preference shares are classified as equity if they do not give rise to any contractual obligation to deliver cash or other financial assets to other entities.

Available for Sale Investments

Available for sale investments are, if fair value cannot be reliably measured, included in the Company balance sheet at cost less any provision for impairment.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand and deposits held at call with banks.

Share-based payments

The Group operates a number of equity-settled, share-based compensation plans. The fair value of the employee services received under such schemes is recognised as an expense in the income statement of the Company. Fair value is determined by use of the Black-Scholes Option Pricing Model. The amount to be expensed over the vesting period is determined by reference to the fair value of share incentives. At each balance sheet date, the Company revises its estimates of the number of share incentives that are expected to vest. The impact of the revision of original estimates, if any, is recognised in the income statement, with a corresponding adjustment to equity, over the remaining vesting period.

The Company has applied IFRIC 11, "IFRS 2 - Group and treasury share transactions" for the first time this year. For equity settled share based payments where employees of subsidiary undertakings are rewarded with shares issued by the parent company, the expense associated with the services provided is recognised in the employing company's accounts, with an entry to the intercompany account reflecting the fact that the subsidiary will reimburse the parent for the fair value of the options granted. The credit to equity associated with the grant of options will be accounted for in the parent company's accounts.

This change of accounting policy has meant that the prior year reserves and intercompany receivables have been restated by £399,000.

The Company's accounts include the Alterian Share Incentive Plan (SIP) which is administered by its trustees. The Trust holds shares in the Group for the SIP. The Directors consider that Alterian Technology Limited has control of shares held by the Trust and bears their benefits and risks. The value of shares in the Group held by the Trust is shown within investments. Finance costs and administrative expenses of the plan are charged to the income statement as they accrue.

ALTERIAN TECHNOLOGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2007

1. ACCOUNTING POLICIES (continued)

Leases

Operating leases

Leases in which the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight line basis over the period of the lease.

Employee benefits

Pension obligations

The Company operates a defined contribution pension scheme in the UK. The assets of the scheme are held separately from those of the Company in an independently administered fund. The Company has no legal or constructive obligations to pay further contributions to the fund. The cost of providing these benefits, recognised in the income statement, comprises the amount of contributions payable to the schemes in respect of the year.

In addition to the scheme some UK employees receive an enhancement to salary of between 5% and 10% of gross pay in lieu of company contributions. The costs of both schemes are charged to the income statement as incurred.

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Critical judgements in applying the Company's accounting policies

In the process of applying the Company's accounting policies, which are described in note 1, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements:

Revenue recognition

In accordance with IAS 18, revenue, even when invoiced, is not recognised to the extent that significant obligations are retained by the Company, such as when training and consultancy services remain to be performed. Revenue is recognised where the Company has met all of its obligations and the customer has accepted the transaction. For partner fees and minimum royalty arrangements, this is typically at the inception of contracts, for ongoing royalty receipts and the provision of maintenance and training, the date of delivery and hence of recognition is agreed with the customer.

In situations where contract terms allow for delayed payment, a case by case assessment is made of whether this indicates that delivery of goods or services is also delayed, and revenue is deferred as necessary.

The Company's credit risk associated with extended contract terms is discussed more fully in note 14 to the financial statements.

Capitalisation of Development costs

In accordance with IAS 38, development project costs are assessed against the key criteria laid down therein. When qualified projects reach a sufficient state of maturity to justify inclusion in the review of capitalisation, the detailed project costs are collated and the projects tested against the probable economic benefits. Only those projects satisfying all six of the IAS 38 criteria are capitalised. All projects are written off within 3 years of capitalisation.

ALTERIAN TECHNOLOGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2007

3. REVENUE

All turnover is attributable to the principal activity of the Company and generated in the United Kingdom.

	2007 £000	2006 £000
Geographical analysis of turnover by destination		
United Kingdom	5,714	5,495
United States	2,537	1,345
Rest of the world	1,430	1,069
	<u>9,681</u>	<u>7,909</u>

An analysis of the Company's revenue is as follows

	2007 £000	2006 £000
Software sales	8,502	7,299
Consultancy and support services	1,179	610
	<u>9,681</u>	<u>7,909</u>
Investment revenues (see note 6)	14	19
	<u>9,695</u>	<u>7,928</u>

4. OPERATING PROFIT

	2007 £000	2006 £000
Operating profit is stated after charging/(crediting)		
Research and development costs expensed	1,728	2,176
Depreciation of property, plant & equipment	171	128
Amortisation of Intangible fixed assets		
- IPR and other software licences	154	164
- Development costs	202	-
Staff costs (see note 5)	5,412	4,787
Profit on sale of property, plant and equipment	-	(1)
Auditors' remuneration - audit fees	35	31
Operating lease rentals	186	179
	<u></u>	<u></u>

ALTERIAN TECHNOLOGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2007

5. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

Directors' emoluments

	2007 £000	2006 £000
Emoluments	1,130	822
Highest paid director	£000	£000
Emoluments	333	246

Directors' pensions

None of the Directors are members of a defined benefit or defined contribution pension scheme, or long term incentive plan. Basic salaries include an enhancement to salary equal to 10% of basic salary in lieu of company contributions.

Employee costs (including Directors) during the year	2007 £000	2006 £000
Wages and salaries	4,804	4,229
Social security costs	489	469
Other pension costs (see note 21)	119	89
	5,412	4,787

Average number of persons (including Directors) employed by the Company in the year:

	No.	No.
Product development and testing	48	40
Sales and distribution	15	15
Administration	13	10
	76	65

6. INVESTMENT REVENUES

	2007 £000	2006 £000
Interest receivable and similar income	14	19

7. FINANCE COSTS

	2007 £000	2006 £000
Interest paid to Group Company	1	-

ALTERIAN TECHNOLOGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2007

8. TAX CREDIT ON PROFIT ON ORDINARY ACTIVITIES

Analysis of credit in year:	2007 £000	2006 £000
Overseas tax – current year	45	7
Research and development tax credit – current year	-	(150)
Research and development tax credit – prior year	(56)	(87)
	<u>(11)</u>	<u>(230)</u>
Deferred tax (see note 15)	(400)	(250)
	<u>(411)</u>	<u>(480)</u>

Factors affecting tax charge:

The standard rate of tax for the year, based on the UK standard rate of corporation tax, is 30% (2006 30%)
The actual tax charge for the current and previous year differs from the standard rate for the reasons set out in the following reconciliation

	2007 £000	2006 £000
Profit on ordinary activities before tax	2,153	1,367
Tax on profit on ordinary activities at standard rate	646	410
Non deductible expenditure	33	42
Tax effect of share options exercised	(40)	(239)
Tax effect of capitalised research and development expenditure	-	(122)
Research and development credit – current year	-	(150)
Research and development credit – prior year	(56)	(87)
Current year losses surrendered for research and development credit	-	326
Current year research and development uplift	(293)	(313)
Tax effect of tax losses not previously recognised	(400)	(250)
Tax effect of current year short term timing differences not recognised	(341)	(104)
Group relief surrendered for no payment	(5)	-
Overseas tax – current year	45	7
Tax credit for the year	<u>(411)</u>	<u>(480)</u>

Factors affecting future tax charges

The Company does not anticipate that tax will arise on profits within the immediate future due to the availability of tax losses of £9.6m (2006 £10m) as at 31 March 2007

The Finance Bill 2007 announced a change to the rate of corporate income tax from 30% to 28%. As this was not substantively enacted before the year end, no accounting entries have been made in respect of this potential change

ALTERIAN TECHNOLOGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 March 2007

9. OTHER INTANGIBLE ASSETS

	Development costs	IPR & other software licences	Total
	£000	£000	£000
Cost:			
At 1 April 2005	-	1,803	1,803
Additions	405	-	405
	<hr/>	<hr/>	<hr/>
At 1 April 2006	405	1,803	2,208
Additions	763	486	1,249
Disposals	-	(508)	(508)
	<hr/>	<hr/>	<hr/>
At 31 March 2007	1,168	1,781	2,949
	<hr/>	<hr/>	<hr/>
Accumulated amortisation:			
At 1 April 2005	-	1,485	1,485
Charge for the year	-	164	164
	<hr/>	<hr/>	<hr/>
At 1 April 2006	-	1,649	1,649
Charge for the year	202	154	356
Disposals	-	(508)	(508)
	<hr/>	<hr/>	<hr/>
At 31 March 2007	202	1,295	1,497
	<hr/>	<hr/>	<hr/>
Carrying amount:			
At 31 March 2007	966	486	1,452
	<hr/>	<hr/>	<hr/>
At 31 March 2006	405	154	559
	<hr/>	<hr/>	<hr/>

Intangible assets represent intellectual property rights and other software licences and development costs. Intellectual property rights and other software licences are amortised over their estimated useful lives of 2 to 6 years. Development costs are amortised over their estimated useful lives of not more than 3 years.

The anticipated life of intangible assets is regularly reviewed in accordance with IAS 38 'Intangible Assets'.

ALTERIAN TECHNOLOGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 March 2007

10. PROPERTY PLANT & EQUIPMENT

	Motor vehicles £000	Computer and office equipment £000	Fixtures and fittings £000	Total £000
Cost:				
At 1 April 2005	26	473	254	753
Additions	-	248	46	294
Disposals	(26)	-	-	(26)
At 1 April 2006	-	721	300	1,021
Additions	-	77	32	109
At 31 March 2007	-	798	332	1,130
Accumulated depreciation:				
At 1 April 2005	13	420	167	600
Charge for the year	3	84	41	128
Disposals	(16)	-	-	(16)
At 1 April 2006	-	504	208	712
Charge for the year	-	122	49	171
At 31 March 2007	-	626	257	883
Carrying amount:				
At 31 March 2007	-	172	75	247
At 31 March 2006	-	217	92	309

11. INVESTMENTS HELD AS FIXED ASSETS

Available for sale investments £000

Cost at 1 April 2006 and 31 March 2007 70

This investment does not have a quoted market price in an active market, and its fair value cannot be reliably measured. It has been measured at cost and the value reviewed for impairment.

Investment in parent company shares

£000

Balance

At 1 April 2006 59

Additions in the year 56

At 31 March 2007 115

Investments relate to shares in the Group held in trust in order to facilitate the operation of the Group share schemes for the benefit of employees of the Company.

ALTERIAN TECHNOLOGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2007

12. FINANCIAL ASSETS

Trade and other receivables

At the balance sheet date trade and other receivables comprise amounts from the sale of goods, other debtors and prepayments of £8,793,000 (2006 restated £5,859,000)

The average credit period taken on sales of goods is 53 days (2006 90 days) No interest is charged on the receivables

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value

Non-current other receivables represent amounts owed by group companies of £3,876,000 (2006 restated £1,207,000) falling due after more than one year These loans have no fixed repayment date, other than being due after more than one year The balance has been restated to reflect the updated accounting policy for share based payments as described in note 1

Cash and cash equivalents

These comprise in cash in hand and deposits held at call with banks The carrying amount of these assets approximates to their fair value

13. FINANCIAL LIABILITIES

Trade and other payables

Trade payables principally comprise amounts outstanding for trade purchases and ongoing costs Other payables include amounts due to Group companies of £897,000 (2006 £nil) The average credit period taken for trade purchases for the Company is 49 days (2006 40 days)

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

14. CREDIT RISK

The Company's principal financial assets are bank balances and cash and trade and other receivables which represent the Company's maximum exposure to credit risk in relation to financial assets

The Company's credit risk is primarily attributable to its trade receivables The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the Company's management based on prior experience and their assessment of the current economic environment

The Company has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers

ALTERIAN TECHNOLOGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2007

15. DEFERRED TAXATION

A deferred tax asset of £650,000 (2006 £250,000) has been recognised in respect of tax losses and the increase of £400,000 has been credited to the income statement during the year

Unrecognised deferred tax assets at 31 March 2007 are £3,145,000 (2006 £3,480,000) relating to short term timing differences and tax losses. These will be realised as and when they reverse against suitable future taxable profits

At the balance sheet date the Company has unused tax losses of £9.6 million (2006 £10 million) available for offset against future profits. A deferred tax asset has been recognised in respect of £2.2 million (2006 £0.8m) of such losses. No deferred tax asset has been recognised in respect of the remaining £7.4 million (2006 £9.2 million) as the Company is in the early stages of emerging into profitability and it would be imprudent to assume the amount and timing of further future profit streams for this purpose at this time. Losses may be carried forward indefinitely.

16. SHARE CAPITAL

	2007 £	2006 £
Authorised		
21,100,000 Ordinary Shares of £0.01 each	211,000	211,000
19,000,000 6% Redeemable Preference Shares of £1 each	19,000,000	19,000,000
	<u>19,211,000</u>	<u>19,211,000</u>
	No.	£
Called up, allotted and fully paid		
21,010,073 Ordinary Shares of £0.01 each	210,101	210,101
19,000,000 6% Redeemable Preference Shares of £1 each	19,000,000	19,000,000
	<u>19,210,101</u>	<u>210,101</u>

The preference shares carry a non-cumulative dividend of 6% per annum on par value and are redeemable only at the Company's option.

ALTERIAN TECHNOLOGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2007

17. COMBINED RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS AND STATEMENT OF MOVEMENTS ON RESERVES

	Share capital £000	Share premium account £000	Other reserves £000	Retained earnings £000	2007 £000	2006 £000
At the beginning of the years as previously reported	19,210	280	399	(13,505)	6,384	(14,546)
Restatement (see note 1)	-	-	(399)	-	(399)	(316)
As restated	19,210	280	-	(13,505)	5,985	(14,862)
Profit for the year	-	-	-	2,564	2,564	1,847
Issue of shares	-	-	-	-	-	19,000
At the end of the year	19,210	280	-	(10,941)	8,549	5,985

Share capital includes £210,101 Ordinary Share capital (2006 £210,101) and £19,000,000 (2006 £19,000,000) Preference Share capital (see note 16)

Other reserves have been restated to reflect the updated accounting policy for share based payments as described in note 1

18. NOTES TO THE CASH FLOW STATEMENT

Reconciliation of operating profit to net cash from operating activities

	2007 £000	2006 £000
Operating profit	2,140	1,348
Adjustments for		
Depreciation of property, plant and equipment	171	128
Amortisation of intangible assets	154	164
Amortisation of development costs	202	-
Profit on sale of property, plant and equipment	-	(1)
Employee benefit charges	37	31
IFRS 2 share based payment charge	108	83
Operating cash flows before movements in working capital	2,812	1,753
Increase in receivables	(1,934)	(2,704)
Increase in payables	734	1,380
Cash generated by operations	1,612	429
Tax credit received	164	257
Tax paid	(45)	(7)
Net cash from operating activities	1,731	679

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash in hand and deposits held at call with banks

ALTERIAN TECHNOLOGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2007

19. OPERATING LEASE COMMITMENTS

At 31 March 2007 the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows

	2007 £000	2006 £000
Within one year	117	11
Between two and five years	71	152
	<u>188</u>	<u>163</u>

20. SHARE-BASED PAYMENTS

Equity-settled share option plan

Some of the employees of Alterian Technology Limited have options under grant under the Approved, Unapproved and EMI Schemes

The options under grant are held over the shares of Alterian plc and not Alterian Technology Limited

The fair value of the employee services received under these schemes is recognised as an expense in the income statement. Fair value is determined by use of the Black-Scholes Option Pricing Model. The amount to be expensed over the vesting period is determined by reference to the fair value of share incentives. At each balance sheet date, the Company revises its estimates of the number of share incentives that are expected to vest. The impact of the revision of original estimates, if any, is recognised in the income statement, with a corresponding adjustment to equity, over the remaining vesting period. A summary of the key assumptions is included in note 28 of the Group financial statements.

The Company has applied the transitional provisions of IFRS 2 in respect of equity-settled awards and has applied IFRS 2 to equity-settled awards granted after 7 November 2002 that had not vested on 31 March 2005.

The amount recognised as an expense in the income statement is £108,000 (2006 £83,000).

21. RETIREMENT BENEFIT SCHEMES

The Company operates a defined contribution pension scheme covering its permanent UK employees. Scheme funds are administered by trustees and are independent of the Company's finances. Where there are employees who leave the scheme prior to vesting fully in the contributions, the contributions payable by the Company are reduced by the amount of the forfeited contributions.

The Company has contributed 5.5% of members' gross salaries to the scheme since 1 October 2001. The pension cost charge represents contributions payable by the Company to the fund and amounted to £119,000 (2006 £89,000).

Some UK employees receive an enhancement to salary of between 5% and 10% of gross pay in lieu of Company contributions. This amounted to £85,000 (2006 £90,000).

ALTERIAN TECHNOLOGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2007

22. RELATED PARTY TRANSACTIONS

At the year end, the Company had the following outstanding balances with related parties who are members of the Group

	Amounts owed by related parties		Amounts owed to related parties	
	2007	2006 Restated	2007	2006
	£000	£000	£000	£000
Alterian plc	-	332	897	-
Alterian Inc	3,876	875	-	-
	<u>3,876</u>	<u>1,207</u>	<u>897</u>	<u>-</u>

During the year the Company received Inter-segment sales of £2,537,000 (2006 £1,345,000) from Alterian Inc. The Company also paid management charges of £106,000 (2006 £nil) to Alterian plc and inter-segment charges of £25,000 (2006 £nil) to Alterian LLC.

Balances have been restated to reflect the updated accounting policy for share based payments as described in note 1.

Remuneration of key management personnel

The remuneration of the Directors, who are the key management personnel of the Company, is set out below in aggregate for each of the categories specified in IAS 24 "Related Party Disclosures"

	2007 £000	2006 £000
Short-term employee benefits	1,130	822
Share-based payment (gains on exercise of share options)	-	489
	<u>1,130</u>	<u>1,311</u>

ALTERIAN TECHNOLOGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 March 2007

23. ACQUISITIONS

On 11 September 2006 the Company's ultimate Parent acquired 100% of the issued share capital of Nvigate Limited. The total cost of acquisition was approximately £1.47m comprising consideration of £467k and net liabilities assumed of £1m. This transaction has been accounted for by the purchase method of accounting.

Following the acquisition the business and net liabilities of Nvigate were integrated into those of Alterian Technology Limited at net book value.

The carrying amounts of each class of Nvigate's assets and liabilities before the combination are set out below.

Description	Fair value	Carrying value prior to acquisition
	£000	£000
Property, plant and equipment	4	4
Trade and other receivables	92	98
Trade and other payables (excluding bank overdrafts)	(897)	(681)
Cash and cash equivalents (bank overdrafts)	(57)	(57)
Trade and other payables due after one year	(144)	(144)
Net liabilities acquired	<u>(1,002)</u>	<u>(780)</u>
Cost	<u>(1,002)</u>	
Satisfied by		
Intercompany charges	<u>(1,002)</u>	

The amount of the profit or loss of Nvigate since the acquisition date has not been identified as the business was immediately combined with other Company activities so the impact cannot be determined.

24. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

The Company is a wholly owned subsidiary of Alterian Holdings Limited, which is a wholly owned subsidiary of Alterian plc, both of which are incorporated in Great Britain. Alterian plc is both the smallest and largest Group for which Group accounts are prepared. Copies of the accounts of Alterian plc may be obtained from the Company Secretary's office, Century Place, Bond Street, Bristol, BS2 9AG.