



Nasstar plc

Annual Report & Financial Statements

For the year ended 30 September 2006



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Highlights

- Admission to AIM
- £525,000 raised via placing and Admission to AIM (before expenses)
- Positive organic growth with 26% increase in turnover
- Scalable technical infrastructure established to service new customers
- Launch of new hosted desktop service
- Increase in hosted exchange subscribers to 1,158 (2005: 419)
- Post balance sheet fund-raising of £500,000
- Post balance sheet acquisition of Network Support International Limited trading as Virtual e-Mail
- Post balance sheet appointment of Kevin Bird as Sales Director and a substantial increase in the sales team

Chairman's Statement

I am pleased to announce our first results since our admission to AIM. During the period the Company has achieved the key objectives we set out to meet and the results are in line with the Directors' expectations. The Company experienced solid organic growth with monthly sales almost doubling from the start of the period. This growth was achieved during a period when the Company's primary objective was creating a scalable technical platform. The primary objective was completed successfully and now the Company has attained the technical capacity to cater for substantial future growth. Since the year end the Company has shifted its focus to achieving strong sales growth and this is being achieved. In December 2006 the Company raised £500,000 and acquired Network Support International Limited trading as Virtual e-Mail. The acquisition has significantly increased the number of customers of our core hosted exchange email service and almost doubled the monthly sales revenue. The Directors are excited about the future and are very confident about the prospects of the Group.

The Lord Daresbury
Chairman
23 March 2007



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Directors and Advisers

Directors

Lord Daresbury
C M A Black
K L Bird
D P Greef
S I Johnston
A R Malkin

Non-executive Chairman
Chief Executive
Sales Director
Non-executive Director
Technical Director
Finance Director

Secretary

A R Malkin

Company Number

5623736

Registered Office

14 - 18 Old Street
London
EC1V 9BH

Nominated Adviser and Broker

W H Ireland Limited
24 Bennetts Hill
Birmingham
B2 5QP

Registrars

Neville Registrars Limited
Neville House, 18 Laurel Lane
Halesowen
B63 3DA

Independent Auditors

Gerald Edelman
25 Harley Street
London
W1G 9BR

Solicitors to the Company

Marriot Harrison
12 Great James Street
London
WC1N 3DR

Bankers

Coutts & Co
440 Strand
London
WC2R 0QS



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Business Review

Outlook

Nasstar is an Application Service Provider (“ASP”) supplying software as a service. Nasstar operates in a similar way to a broadcasting service, distributing business software to end users over networks so that businesses can access their software on a subscription basis in the same way they subscribe for cable and satellite television services or mobile phone services. This method of distributing software has recently become known as Software-as-a-Service (“SaaS”).

In terms of demand for Nasstar’s services, the starting proposition is that most businesses need the service Nasstar provides – the ability to send and receive email, create and read Word documents, spreadsheets, accounts information, browse the web, and to view and retrieve files and data. Nasstar meets these requirements through its software broadcasting services. Nasstar has two core subscription packages – Nasstar Mail and Nasstar Desktop. More detailed information on these is set out below.

Nasstar’s software broadcasting approach provides a dynamically different approach to the traditional local-based installation and up-front payment of business software. Nasstar’s services are subscription based pay monthly services. In recent years people have become increasingly confident and familiar with the idea of online shopping and banking online. Nasstar’s vision is an extension of those concepts, providing access to business software and company data online – and in a secure environment just like online shopping and banking.

The Company intends to focus on its core services of Nasstar Mail and Nasstar Desktop as these provide a comprehensive software as a service solution.

Nasstar Mail

Nasstar Mail is a business email service that uses Microsoft Exchange as its engine. In accordance with the Company’s SaaS delivery model, Nasstar hosts the Microsoft Exchange software at its data centre and end users who subscribe for the service access their email in one of three ways – (1) Outlook, (2) Outlook Web Access or (3) a Windows mobile smartphone or BlackBerry. As a result, a user can send and receive email, view and edit their contacts and view and edit their Calendar using any of the three access methods. All the email data is filtered for viruses and spam and is backed-up by Nasstar. Businesses who are looking to outsource information technology requirements often decide to start by outsourcing their email service. One reason for this is that managing email in-house is complex; a second reason is that migrating an in-house email service to a hosted service is a straightforward process.

Nasstar Desktop

Nasstar Desktop is Nasstar’s complete SaaS subscription package which enables a user to login over a secure connection (either from their usual desktop PC or laptop, a thin client or through a web browser) and access Microsoft Office (including Word, Excel, PowerPoint and Outlook) and other software applications such as accounts software. In addition a user has their own ‘My Documents’ area and access to the company’s shared data and files. As a result, a user can access all of their business software and company documents online. All the software and data is hosted by Nasstar in its data centre facility, which means there is no local based installation of software and no local data storage.

There have been no material changes to the services offered during the period under review. However, the Company has made a number of technological advancements in respect of the services that improve scalability and which will reduce the overall cost of storage and back-up as the number of customers grows, resulting in improved margins going forward. Further information on the changes made to the technical infrastructure is set out below.

Nasstar Desktop – a multi-tenanted platform established

During the period Nasstar implemented a far more scalable platform for its Nasstar Desktop service. Prior to the new platform, Nasstar Desktop had been provided on the basis of one server per customer. Each new customer would therefore require a new server to be set up. This meant time to deliver Nasstar Desktop was slow and costly (involving the purchase of a new server each time). During the period therefore the Company designed a new robust architecture for Nasstar Desktop which gave the platform redundancy and scalability.



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Business Review (continued)

This has been achieved by creating a platform that is 'multi-tenanted' so that there is no hardware dedicated to individual customers. Instead, any number of customers share a large hardware platform with security being controlled by the software. This means no single company is aware that any other company is on the system as they are segregated entirely from a security perspective. The result is that new customers who subscribe to Nasstar Desktop can be set up within four hours and the Company does not have to purchase a new server for each new customer.

Core Network

Nasstar has established its own Core Network and has become a member of RIPE NCC, one of the five internet registries in the world responsible for the allocation of public internet (IP) addresses. As a result of becoming a member of RIPE NCC and having its own Core Network Nasstar now has public IP addresses allocated in its name rather than having to have a third party allocate Nasstar IP addresses. This makes a major difference to future growth. Until the Company had its own Core Network and public IP addresses the Company was tied to a single provider in one data centre location. Now the Company can quickly and for relatively low cost establish services in different geographical locations providing the opportunity with expansion options for future growth.

Principal risks and uncertainties

In accordance with the guidelines for this Business Review, the principal risks and uncertainties will be considered under the following headings: strategic, commercial, operational and financial risk and reputational risk. Further information on financial instruments and associated risk is set out in note 18 to the financial statements.

Strategic risk

The software as a service model that Nasstar provides involves hosting software made by third parties, primarily Microsoft. A strategic risk is that software vendors decide to host their own software and seek to cut out service providers such as Nasstar. The Directors consider this to be an extremely remote risk to Nasstar's service. The Directors' reasoning – based on the service Nasstar provides – is that businesses which use software as a service invariably need to use the software of more than one vendor, for example they would need to access Microsoft Office, Sage Accounts and Adobe Acrobat software. In addition, most users of Nasstar Desktop have their own industry specific or bespoke software that is hosted as part of the service. Even assuming software vendors offer an increasing amount of their software through a web browser, it is submitted that the end user would still have to log-in and log-out of multiple different systems to use the different vendors' software. In the Directors' opinion this would provide a cumbersome and inefficient desktop environment. Nasstar's software as a service solution enables the end user to login to a single desktop from where they can access all of their Nasstar hosted software including software from different vendors.

Competition

Competition exists in the market and the Directors' believe that the hosted applications market is fast growing. Recently Google announced that it would be introducing 'Docs and Spreadsheets' into its Google Apps system as part of a planned growth in the hosted applications market. The fact that Google wishes to grow in the hosted applications market adds significant weight to the arguments put forward by Nasstar that hosted applications (also referred to as software as a service) is the future of software delivery. Nasstar's software as a service is a markedly different way of delivering software in comparison to the traditional model of local based server and PC installation. Potential customers need educating in the difference and the fact that Google is expanding in the hosted applications market helps make potential customers aware that what Nasstar is doing is the way of the future.

In terms of competition, the market for hosted Exchange is competitive. The Directors are confident that Nasstar is establishing itself as one of the market leaders and that we are able to compete effectively with the other providers of hosted Exchange.



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Business Review (continued)

Operational and financial risk

Since the period under review Nasstar's sales have grown substantially. To reduce the risk of debtors taking time to pay it has been agreed that a direct debit system should be established to enable the Company to collect customer payments by monthly direct debit.

A risk identified in the Admission document was that the Company operated its services out of a single data centre. As a result of the acquisition of Network Support International Limited the Company now operates services out of two data centres.

Financial review and key performance indicators

Turnover increased by 26% to £556,000 in line with the Directors' expectations. The increase in turnover was achieved at a time when the Company's primary focus was the creation of a scalable technical infrastructure. Operating expenses increased by 67% reflecting investment in operating capability and the additional costs of being a quoted company. Loss per share increased by 16% to 5.1p. Full information is set out in the Consolidated Profit and Loss Account on page 11.

Employees

During the period the Company employed one sales person, one administrative person and the remainder were technical staff. This staff make up is consistent with the Company's stated focus on technical infrastructure during the period. Since the period end the Company has expanded its sales staff and currently employs five sales people including Kevin Bird, the Sales Director.



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Directors' Report

For the year ended 30 September 2006

The Directors present their report and consolidated financial statements for the year ended 30 September 2006.

The Company was incorporated on 15 November 2005 and merged with Nasstar (UK) Limited on 2 December 2005. The results for the prior period have been presented as if the Company had owned Nasstar (UK) Limited throughout the current and previous accounting periods.

Principal activities, review of the business and future developments

The company is an Application Services Provider, supplying software as a service.

The review of the group's activities and performance for the year and its prospects for 2006 is contained in the Chairman's Statement on page 2 and the Business Review on page 4.

Results and dividends

The results for the year are set out on page 11. No dividend has been paid during the year.

Directors

The following directors have held office since incorporation:

M H Directors Limited	(appointed 15 November 2005, resigned 2 December 2005)
M H Directors 2 Limited	(appointed 15 November 2005, resigned 2 December 2005)
K L Bird	(appointed 8 December 2006)
C M A Black	(appointed 2 December 2005)
Lord Daresbury	(appointed 2 December 2005)
D P Greef	(appointed 2 December 2005)
S I Johnston	(appointed 2 December 2005)
A R Malkin	(appointed 2 December 2005)

In accordance with the Articles of Association of the company, all of the directors other than C M A Black, having been appointed during the year, will offer themselves for election at the Annual General Meeting.

Directors' interests

The directors' interests in the shares of the company were as stated below:

	Ordinary shares of 1p each		On appointment
	Shareholding %	30 September 2006	
C M A Black	59.83%	6,521,666	6,291,666
Lord Daresbury	10.66%	1,161,667	1,041,667
D P Greef	6.85%	746,667	666,667
S I Johnston	0.46%	50,000	50,000
A R Malkin	0.19%	20,833	20,833

Substantial shareholdings

Other than the directors' interests shown above, the share register shows the following substantial interests as at 30 September 2006:

	Ordinary shares of 1p each	
	Shareholding %	30 September 2006
Pershing Keen Nominees Limited Des:GWCLT	10.24%	1,116,667
HSBC Global Custody Nominee (UK) Limited Des:968814	4.84%	527,083

Share capital

Details of the share capital are given in note 14 to the financial statements.

Share options

The company has established a share option scheme, under the rules of which the number of shares under option at any one time will not exceed more than 12% of the company's issued share capital from time to time.



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Directors' Report (continued)

For the year ended 30 September 2006

Share options (continued)

EMI Options and Unapproved Options (together the "Options") have been granted over 1,144,000 ordinary shares in aggregate to directors and staff under the schemes and representing approximately 10.5% of the issued share capital as at 30 September 2006. There are no performance conditions required for the exercise of the options in respect of the grants. Additionally, on 20 December 2005 the Company entered into an option agreement with W.H. Ireland pursuant to which the Company granted options to subscribe for 52,000 Ordinary Shares in the Company. The said Options are exercisable at any time from the grant for a period of five years at 12p per share. On 8 December 2005 the company granted 1,020,000 share options under the Share Option Plan exercisable at 12 pence each. On the same date the Company granted 124,000 share options under the EMI Scheme exercisable at 24 pence each.

The following Options over the ordinary shares have been granted to the directors.

Director share options	Option price (p)	Number granted	Date of grant
Charles Black	12	750,000	8 December 2005
Lord Daresbury	12	105,000	8 December 2005
Richard Malkin	12	70,000	8 December 2005
Damion Greef	12	95,000	8 December 2005
Shannon Johnston	24	100,000	8 December 2005

Further details on director share options are given in note 14 to the financial statements.

Creditor payment policy

The Company policy is to ensure that, in the absence of dispute, all suppliers are dealt with in accordance with its standard payment practice whereby all outstanding trade accounts are settled within the term agreed with the supplier at the time of the supply or otherwise 30 days from receipt of the relevant invoice. Trade creditor days based on creditors at 30 September 2006 were 65 days (2005: 103 days).

Directors' indemnity insurance

Directors' and officers' liability insurance is held by the group.

Auditors

Gerald Edelman were appointed auditors to the company and in accordance with section 385 of the Companies Act 1985, a resolution proposing that they be re-appointed will be put to the Annual General Meeting.

Corporate Governance

The Board is committed to maintaining high standards of corporate governance and is accountable to the Company's shareholders for good corporate governance. This statement describes how the principles of corporate governance are applied to the Company.

Board Meetings

The Board meets at least four times per year excluding the AGM. The Chief Executive Officer maintains frequent communication with the Chairman and non-executive Director to ensure they are kept up to date with the operations of the Group and to benefit from their advice.

The Board is responsible to shareholders for the proper management of the Group. A statement of the directors' responsibilities in respect of the accounts is set out in the Directors' Report.

The Audit Committee

The Audit Committee during the period comprised Lord Daresbury and Damion Greef and was chaired by Lord Daresbury. The Audit Committee is responsible for reviewing a wide range of matters, including half-year and annual results before their submission to the Board, and for monitoring the controls that are in force to ensure the integrity of information reported to shareholders. The Committee advises the board on the appointment of external auditors and on their remuneration for both audit and non-audit work, and discusses the nature, scope



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Directors' Report (continued)

For the year ended 30 September 2006

Corporate Governance (continued)

The Audit Committee (continued)

and results of the audit with the external auditors. The Committee keeps under review the cost effectiveness and the independence and objectivity of the external auditors.

The Remuneration Committee

The Remuneration Committee during the period comprised Lord Daresbury and Damion Greef and was chaired by Lord Daresbury. The Remuneration Committee is responsible for reviewing the performance of the executive directors and for setting the scale and structure of their remuneration, paying due regard to the interests of shareholders and the performance of the Group. The Remuneration Committee is also responsible for determining allocations of any share options.

Report of the remuneration committee

During the period in review, no changes were made to the pay of any of the Directors. Furthermore, no changes were made to the share option scheme that was adopted on 8 December 2005 and the options granted to the directors remain the same as those set out in the Admission Document which are disclosed above.

Directors' responsibilities

The directors are responsible for preparing the Annual Report and the 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 company and of the group and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

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

The directors are responsible for keeping proper accounting records 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 safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Statement of disclosure to the auditor

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

On behalf of the board

A R Malkin

Director

23 March 2007



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Independent Auditor's Report to the members of Nasstar plc

We have audited the financial statements of Nasstar plc for the year ended 30 September 2006 which comprise the balance sheet and the related notes 1 to 23. 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

As described in the statement of directors' responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom 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 in accordance with the relevant financial reporting framework and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if 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 in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Directors' Report, the Chairman's Statement and the Business Review. 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 other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the 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 United Kingdom Generally Accepted Accounting Practice, of the state of the Company's and the Group's affairs as at 30 September 2006 and of the result of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985;
- the information in the Directors' Report is consistent with the financial statements.

Gerald Edelman

Chartered Accountants & Registered Auditors
London
23 March 2007



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Consolidated Profit and Loss Account

For the year ended 30 September 2006

	Notes	2006 £000	2005 £000
Turnover	2	556	442
Operating expenses		(1,119)	(670)
Operating loss	3	(563)	(228)
Interest payable and similar charges	4	(66)	(44)
Loss on ordinary activities before taxation		(629)	(272)
Tax on loss on ordinary activities	5	104	51
Loss on ordinary activities after taxation	15	(525)	(221)
Loss per share			
Basic and diluted	6	(5.1)p	(4.4)p

All amounts derive from continuing operations.

There are no recognised gains and losses other than those passing through the profit and loss account.



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Balance Sheets

As at 30 September 2006

	Notes	Group		Company
		2006 £000	2005 £000	2006 £000
Fixed assets				
Tangible assets	7	140	164	-
Investments	8	-	-	156
		<u>140</u>	<u>164</u>	<u>156</u>
Current assets				
Debtors	10	321	121	10
Cash at bank and in hand		48	37	-
		<u>369</u>	<u>158</u>	<u>10</u>
Creditors: amounts falling due within one year	11	(453)	(406)	-
Net current assets/(liabilities)		<u>(84)</u>	<u>(248)</u>	<u>10</u>
Total assets less current liabilities		<u>56</u>	<u>(84)</u>	<u>166</u>
Creditors: amounts falling due after more than one year	12	(20)	(32)	-
		<u>36</u>	<u>(116)</u>	<u>166</u>
Capital and reserves				
Called up share capital	14	109	57	109
Share premium account	15	67	-	67
Merger reserve	15	662	157	-
Profit and loss account	15	(802)	(330)	(10)
Shareholders' funds – equity interests	16	<u>36</u>	<u>(116)</u>	<u>166</u>

The financial statements were approved by the Board of Directors on 23 March 2007, and signed on its behalf by:

C M A Black
Chief Executive

A R Malkin
Finance Director



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Consolidated Cash Flow Statement

For the year ended 30 September 2006

	Notes	2006		2005	
		£000	£000	£000	£000
Net cash inflow/(outflow) from operating activities	19		(477)		84
Returns on investments and servicing of finance					
Interest paid		(66)		(44)	
Net cash inflow/(outflow) from returns on investments and servicing of finance			(66)		(44)
Capital expenditure					
Payments to acquire tangible assets		(66)		(57)	
Net cash inflow/(outflow) from capital expenditure			(66)		(57)
Net cash inflow/(outflow) before management of liquid resources and financing			(609)		(17)
Financing					
Issue of ordinary share capital		624		85	
Capital element of hire purchase contracts		(4)		(7)	
Net cash inflow from financing			620		78
Increase in cash in the year	19		<u>11</u>		<u>61</u>



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Notes to the Consolidated Financial Statements

For the year ended 30 September 2006

1 Accounting policies

1.1 Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards, which have been applied consistently. The financial statements have been prepared on the assumption that the Group is a going concern. The financial statements show a loss for the period of £525,000 and net current liabilities of £84,000. At the date of the financial statements the Group's ability to continue as a going concern reflects the net funds available to the Group at the year end and the forecasts for the current financial period. On this basis, in the opinion of the Directors, the financial statements have been properly prepared on the assumption that the Group is a going concern.

1.2 Basis of consolidation

The consolidated profit and loss account and balance sheet include the financial statements of the company and its subsidiary undertakings made up to 30 September 2006.

Acquisitions of subsidiaries are dealt with by the acquisition method of accounting except for those qualifying as group reconstructions where merger accounting is permitted.

Merger with Nasstar (UK) Limited

On 2 December 2005, Nasstar plc entered into an agreement with all the shareholders of Nasstar (UK) Limited to merge their respective businesses. The consideration for the purchase of the share capital of Nasstar (UK) Limited was satisfied by the allotment and issue of 10,300,000 ordinary shares of 1 penny each in Nasstar plc, credited as fully paid.

The financial statements have been prepared under the merger accounting rules (the pooling of interests method), as the combining entities within the group were controlled by the same parties both before and after the combination. Accordingly, the financial information for the current period and for the prior period has been presented as if Nasstar (UK) Limited had been owned by Nasstar plc throughout the current and comparative accounting periods.

1.3 Turnover

Turnover represents amounts receivable for services net of VAT and trade discounts. Revenue from service contracts is accrued evenly over the period of the contract except that set-up revenues are recognised over the length of the set-up period on a percentage to completion basis. Some contracts are financed by a process of invoice discounting with a finance house and in such cases an appropriate proportion of the funds received are carried forward to future periods in which the income is recognised.

1.4 Research and development

Research expenditure is written off to the profit and loss account in the year in which it is incurred. Development expenditure is written off in the same way unless the directors are satisfied as to the technical, commercial and financial viability of individual projects. In this situation, the expenditure is deferred and amortised over the period during which the company is expected to benefit.

1.5 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Computer equipment	33.3% on straight line basis
Fixtures, fittings & equipment	25% on reducing balance basis
Office equipment	25% on reducing balance basis

1.6 Leasing

Rentals payable under operating leases are charged against income on a straight line basis over the lease term

1.7 Deferred taxation

The company has adopted Financial Reporting Standard No.19 on deferred taxation which requires deferred tax to be provided in full in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes. Recognition of the deferred tax asset is limited to the extent that the company anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences. The deferred tax balance has not been discounted.



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Notes to the Consolidated Financial Statements

For the year ended 30 September 2006

1.8 Share-based payments

The group operates executive and employee share schemes. For all grants of share options, the fair value as at the date of grant is calculated using an option pricing model and the corresponding expense is recognised over the vesting period. The expense is recognised as a staff cost and the associated credit entry is made against equity.

2 Turnover

The total turnover of the company for the year has been derived from its principal activity wholly undertaken in the United Kingdom

3 Operating loss

Operating loss is stated after charging:

	2006 £000	2005 £000
Depreciation of tangible assets	90	63
Operating lease rentals	86	23
Auditors' remuneration – audit services	10	5
– non-audit services – due diligence	10	18
	<u> </u>	<u> </u>

4 Interest payable and similar charges

	2006 £000	2005 £000
On bank loans and overdrafts	-	15
Hire purchase interest	12	2
Other finance costs	54	27
	<u> </u>	<u> </u>
	66	44
	<u> </u>	<u> </u>

5 Taxation

Domestic current year tax

	2006 £000	2005 £000
U.K. corporation tax	-	-
	<u> </u>	<u> </u>

Current tax charge

Deferred tax

Deferred tax credit	(104)	(51)
	<u> </u>	<u> </u>
	(104)	(51)
	<u> </u>	<u> </u>

Factors affecting the tax charge for the year

Loss on ordinary activities before taxation	(629)	(272)
	<u> </u>	<u> </u>

Loss on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 19% (2005: 19%)

	(120)	(52)
	<u> </u>	<u> </u>

Effects of:

Non deductible expenses	4	-
Depreciation add back	17	12
Capital allowances	(10)	(22)
Losses carried forward	109	62
	<u> </u>	<u> </u>
	120	52
	<u> </u>	<u> </u>

Current tax charge

	-	-
	<u> </u>	<u> </u>

There is no provision for UK corporation tax due tax losses carried forward, subject to agreement with Inland Revenue.



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Notes to the Consolidated Financial Statements

For the year ended 30 September 2006

6 Earnings per share

The calculation of the basic loss per share is based on the loss attributable to ordinary equity shareholders of £525,000 (2005: loss £221,000) divided by the weighted average of 10,367,361 (2005: 5,000,000) ordinary shares in issue.

Due to the loss incurred in the year, there is no dilution effect from the issued share options.

7 Tangible fixed assets Group	Computer equipment £000	Fixtures, fittings & equipment £000	Office equipment £000	Total £000
Cost				
At 1 October 2005	270	11	11	292
Additions	64	1	1	66
At 30 September 2006	334	12	12	358
Depreciation				
At 1 October 2005	120	4	4	128
Charge for the year	86	2	2	90
At 30 September 2006	206	6	6	218
Net book value				
At 30 September 2006	128	6	6	140
At 30 September 2005	150	7	7	164

Included above are assets held under finance leases or hire purchase contracts as follows:

	Computer equipment £000
Net book value	
At 30 September 2006	54
Depreciation charge for the year	
At 30 September 2006	26

8 Fixed asset investments Company

Cost

	Shares in group undertakings £000
At 1 October 2005	-
Additions	156
At 30 September 2006	156

In the opinion of the directors, the aggregate value of the company's investment in subsidiary undertakings is not less than the amount included in the balance sheet.

At 30 September 2006 Nasstar plc owned 100% of the issued share capital in Nasstar (UK) Limited, a company incorporated in England & Wales whose activity was as an Application Service Provider.



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Notes to the Consolidated Financial Statements

For the year ended 30 September 2006

9 Intangible fixed assets			Software development
Group			£000
Cost			
At 1 October 2005 & at 30 September 2006			25
Amortisation			
At 1 October 2005 & at 30 September 2006			25
Net book value			
At 30 September 2005 & at 30 September 2006			-
			=
			=
10 Debtors			
	Group		Company
	2006	2005	2006
	£000	£000	£000
Trade debtors	72	33	-
Other debtors	13	9	10
Prepayments and accrued income	61	8	-
Deferred tax asset (see note 0)	175	71	-
	<u>321</u>	<u>121</u>	<u>10</u>
	=	=	=
	=	=	=
11 Creditors: amounts falling due within one year			
	Group		Company
	2006	2005	2006
	£000	£000	£000
Net obligations under finance leases	27	19	-
Trade creditors	99	52	-
Taxation and social security costs	36	21	-
Other creditors	-	-	-
Accruals and deferred income	291	314	-
	<u>453</u>	<u>406</u>	<u>-</u>
	=	=	=
	=	=	=
12 Creditors: amounts falling due after more than one year			
	Group		Company
	2006	2005	2006
	£000	£000	£000
		£	£
Net obligations under finance leases	20	32	-
	<u>20</u>	<u>32</u>	<u>-</u>
Net obligations under finance leases			
Repayable within one year	40	30	-
Repayable between one and five years	29	49	-
	<u>69</u>	<u>79</u>	<u>-</u>
Finance charges and interest allocated to future accounting periods	(22)	(28)	-
	<u>47</u>	<u>51</u>	<u>-</u>
Included in liabilities falling due within one year	(27)	(19)	-
	<u>20</u>	<u>32</u>	<u>-</u>
	=	=	=
	=	=	=



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Notes to the Consolidated Financial Statements

For the year ended 30 September 2006

13 Provisions for liabilities and charges

The deferred tax asset (included in debtors, note 10) is made up as follows:

	Group £000	Company £000
Balance at 1 October 2005	71	-
Profit and loss account	104	-
	<hr/>	<hr/>
Balance at 30 September 2006	175	-
	<hr/> <hr/>	<hr/> <hr/>

	Group		Company
	2006 £000	2005 £000	2006 £000
Tax losses available	169	101	-
Accelerated capital allowances	(4)	(30)	-
Other timing differences	10	-	-
	<hr/>	<hr/>	<hr/>
	175	71	-
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

14 Share capital

	Group		Company
	2006 £000	2005 £000	2006 £000
Authorised			
1,000,000,000 Ordinary shares of 1p each	10,000	10,000	10,000
	<hr/>	<hr/>	<hr/>
Allotted, called up and fully paid			
10,900,000 Ordinary shares of 1p each	109	57	109
	<hr/>	<hr/>	<hr/>
Reported as at 1 October 2005 or on incorporation	57	50	-
Issue of shares	52	7	109
	<hr/>	<hr/>	<hr/>
Reported as at 30 September 2006	109	57	109
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

On 10 November 2005 Nasstar (UK) Limited allotted 4,591,667 ordinary shares of 1p at a premium of 11p for cash.

The company was incorporated with a share capital of two ordinary shares of £1 on 15 November 2005 as Nasstar plc. On 2 December 2005 the company passed a resolution to subdivide every one ordinary share of £1 (both issued and unissued) in the share capital of the company into 100 ordinary shares of one penny each.

On 2 December 2005 the shareholders of Nasstar (UK) Limited entered into a share exchange agreement with Nasstar plc whereby they transferred their shares in Nasstar (UK) Limited for shares in Nasstar plc, one for one. This resulted in 10,299,800 ordinary shares of 1 penny each being issued at par.

On 29 December 2005 the company issued a further 600,000 ordinary shares of 1 pence each for cash consideration of 25 pence each. Following this issue of shares the company placed its shares for trading on the AIM.

The financial statements have been prepared under the merger accounting rules (the pooling of interests method), as the combining entities within the group were controlled by the same parties both before and after the combination. Accordingly, the financial information for the current period, and for the prior period, has been presented as if Nasstar (UK) Ltd had been owned by Nasstar plc throughout the current and comparative accounting periods.



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For the year ended 30 September 2006

Share option schemes

The company has established a share option scheme, under the rules of which the number of shares under option at any one time will not exceed more than 12% of the company's issued share capital from time to time.

EMI Options and Unapproved Options (together the "Options") have been granted over 1,144,000 ordinary shares in aggregate to directors and staff under the schemes and representing approximately 10.5% of the issued share capital as at 30 September 2006. There are no performance conditions required for the exercise of the options in respect of the grants referred to in this paragraph. Additionally, On 20 December 2005 the Company entered into an option agreement with W.H. Ireland pursuant to which the Company granted options to subscribe for 52,000 Ordinary Shares in the Company. The said Options are exercisable at any time from the grant for a period of five years at 12p per share.

On 8 December 2005 the company granted 1,020,000 share options under the Share Option Plan exercisable at 12 pence each. On the same date the company granted 124,000 share options under the EMI Scheme exercisable at 24 pence each.

All shares issued on exercise of option shall rank pari passu in all respects with the company's existing shares, save that the shares issued will not rank for any dividends or other distributions declared or recommended prior to the date when the option is exercised. The options will each vest and thereby become exercisable on the second anniversary of the date of grant with no performance conditions a requirement of exercise. All options will lapse on the tenth anniversary of grant.

No options have been exercised or forfeited during the year and none have lapsed.

15 Statement of movements on reserves

Group	Merger reserve £000	Share premium account £000	Profit and loss account £000
Balance as at 1 October 2005	157	-	(330)
Retained loss for the year	-	-	(525)
Equity-settled share-based payments	-	-	53
Premium on shares issued during the year	505	144	-
Issue costs	-	(77)	-
	<hr/>	<hr/>	<hr/>
Balance as at 30 September 2006	<u>662</u>	<u>67</u>	<u>(802)</u>

Company	Share premium account £000	Profit and loss account £000
Balance as at 1 October 2005	-	-
Retained loss for the year	-	(63)
Equity-settled share-based payments	-	53
Premium on shares issued during the year	144	-
Issue costs	(77)	-
	<hr/>	<hr/>
Balance as at 30 September 2006	<u>67</u>	<u>(10)</u>

Company profit and loss account

As permitted by section 230 of the Companies Act 1985, the company has not presented its own profit and loss account.



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Notes to the Consolidated Financial Statements

For the year ended 30 September 2006

16 Reconciliation of movements in shareholders' funds

	Group		Company
	2006 £000	2005 £000	2006 £000
Result for the financial year	(525)	(221)	(63)
Equity-settled share-based payments	53	-	53
Proceeds from the issue of shares	701	85	253
Issue costs	(77)	-	(77)
Net increase/(depletion) in shareholders' funds	152	(136)	166
Opening shareholders' funds	(116)	20	-
Closing shareholders' funds	36	(116)	166

17 Financial commitments

At 30 September 2006 the group had annual commitments under non-cancellable operating leases as follows:

	Land and buildings		Other	
	2006 £000	2005 £000	2006 £000	2005 £000
Expiry date:				
Within one year	-	-	8	-
In two to five years	22	22	73	115
In over five years	-	-	-	-

18 Financial instruments

The Group's financial instruments comprise cash at bank and various items such as trade debtors and creditors that arise directly from its operations. The main purpose of these instruments is to raise finance for operations. The Group has not entered into derivatives transactions and does not trade in financial instruments as a matter of policy. The main future risks arising from the Group's financial instruments are interest rate risk and currency risk.

Operations to date have been financed through the placing of shares, hire purchase agreements and contracts paid in advance and it is Board policy to keep borrowings to a minimum. The company has no other long-term borrowings.

The company continues to apply FRS 13 and has taken advantage of the exemption contained in the Standard in respect of short-term debtors and creditors.

Interest rate risk profile of financial assets and liabilities

Financial assets

The only financial assets (other than short-term debtors) are cash at bank held at variable interest rates. Amounts held at 30 September 2006 were £48,000 in sterling.

Financial liabilities, excluding non-debt current liabilities

During the year to 30 September 2006 the Group incurred interest charges of £66,000 on hire purchase agreements and contracts paid in advance of £324,000.

Currency risk

In the opinion of the Directors the currency risk arising from overseas foreign currency held is minimal.

In the opinion of the Directors there is no material difference between the book and fair value of financial assets and liabilities.



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Notes to the Consolidated Financial Statements

For the year ended 30 September 2006

19 Notes to the consolidated cash flow statement

(a) Reconciliation of operating loss to net cash inflow/(outflow) from operating activities

	2006 £000	2005 £000
Operating loss	(563)	(228)
Depreciation of tangible assets	90	62
Equity-settled share-based payments	53	-
Amortisation of intangible assets	-	-
Increase/(decrease) in debtors	(96)	1
Decrease in creditors	39	249
Net cash inflow/(outflow) from operating activities	<u>(477)</u>	<u>84</u>

(b) Analysis of net funds/(debt)

	01.10.2005 £000	Cash flow £000	30.09.2006 £000
Net cash			
Cash at bank and in hand	37	11	48
Bank overdrafts	-	-	-
	<u>37</u>	<u>11</u>	<u>48</u>
Finance leases	(51)	4	(47)
Net funds/(debt)	<u>(14)</u>	<u>15</u>	<u>1</u>

(c) Reconciliation of net cash flow to movement in net funds

	2006 £000	2005 £000
Increase in cash in the year	11	61
Cash outflow from decrease in debt and lease financing	4	7
Change in net funds/debt resulting from cash flows	15	68
New finance leases	-	(58)
Movement in net funds/debt	15	10
Opening net debt	(14)	(24)
Closing net funds/(debt)	<u>1</u>	<u>(14)</u>

20 Directors' emoluments

	2006 £000	2005 £000
Emoluments for qualifying services	244	148
Fees to third parties	8	Nil
Emoluments disclosed above include the following amounts paid to the highest paid director:		
Emoluments for qualifying services	<u>124</u>	<u>148</u>

Fees paid to third parties comprise amounts paid to Eclipse Information Systems, under an agreement to provide the group with the services of Mr. S. Johnston from appointment to 31 December 2005. From 1 January 2006 Mr. Johnston provided his services directly to the company and his remuneration is included within emoluments above.



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21 Employees

Number of employees

The average monthly number of employees (including directors) during the year was:

	2006 Number	2005 Number
Technical, sales and management	8	6

Employment costs

	2006 £000	2005 £000
Wages and salaries	371	269
Social security costs	30	31
	<u>401</u>	<u>300</u>

22 Share-based payments

Share options have been granted as set out in note 14.

Inputs into the Black-Scholes option pricing model were as follows:

	2006	2005
Weighted average share price in pence	24	-
Weighted average exercise price in pence	13.3	-
Expected volatility	18%	-
Expected life in years	3.5	-
Risk free rate	4.4%	-
Expected dividends	None	-

Expected volatility was determined by calculating the volatility in the share price over the 12 months to 31 December 2006.

23 Post balance sheet events

On 8 December 2006 the Company raised £500,000 and acquired Network Support International Limited trading as Virtual e-Mail.