Financial report 30 June 2006

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This financial report covers both Altium Limited as an individual entity and the consolidated entity consisting of Altium Limited and its controlled entities.

Altium Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is: Level 3, 12a Rodborough Road, Frenchs Forest, NSW 2086.

A description of the consolidated entity's principal activities is included in the Directors' Report on pages 14 to 22 .

Through the use of the internet, Altium has ensured that its corporate reporting is timely, complete and available globally at minimum cost to the company. All press releases, financial reports and other information are available at the Investors' section on the Altium website: **www.altium.com**. For queries in relation to Altium's reporting please email **investor.relations@altium.com.au**.

Income statements

For the year ended 30 June 2006

		Consolidated		Parent Entity	
	Notes	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Revenue and other income from continuing operations	2	**45,555**	**40,111**	**29,801**	**29,997**
Changes in inventories of finished goods and work in progress	8	17	(80)	(37)	(54)
Raw materials and consumables used		(1,355)	(1,408)	(1,309)	(1,353)
Employee benefits expense		(27,260)	(24,825)	(12,011)	(11,520)
Depreciation and amortisation expense	3	(5,883)	(5,691)	(3,497)	(3,417)
Finance costs	3	(232)	(42)	(154)	(130)
Rental expense	3	(2,207)	(2,092)	(752)	(668)
Marketing expense		(2,339)	(4,178)	(2,339)	(4,178)
Professional advice expense		(1,050)	(812)	(474)	(422)
Communication expense		(585)	(510)	(268)	(248)
Intercompany royalties		-	-	(719)	(2,932)
Contract research and development expense		-	(4)	(6,861)	(5,845)
Write down in carrying value of investment in subsidiaries	3	-	-	-	(50,897)
Provision for intercompany loan	3	-	-	-	50,740
Foreign exchange loss	3	-	(952)	(92)	(819)
Other expenses	3	(3,632)	(3,485)	(1,886)	(1,767)
Profit (loss) before income tax		**1,029**	**(3,968)**	**(598)**	**(3,513)**
Income tax benefit	4	386	2,364	895	962
Profit (loss) for the year		**1,415**	**(1,604)**	**297**	**(2,551)**
Profit (loss) attributable to members of Altium Limited	21	**1,415**	**(1,604)**	**297**	**(2,551)**
		cents	cents		
Basic earnings per share	31	1.6	(1.8)		
Diluted earnings per share	31	1.6	(1.8)		

The above income statements should be read in conjunction with the accompanying notes

Balance sheets

As at 30 June 2006

	Notes	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent Entity 2006 $'000	Parent Entity 2005 $'000
Current assets					
Cash and cash equivalents	6	6,352	3,590	4,113	1,399
Trade and other receivables	7	12,857	9,358	8,567	7,951
Inventories	8	938	921	799	836
Current tax receivables	10	-	151	-	-
Other assets	13	486	660	196	209
Total current assets		20,633	14,680	13,675	10,395
Non-current assets					
Trade and other receivables	7	754	749	5,058	4,779
Property, plant and equipment	9	1,499	1,639	718	832
Deferred tax assets	11	3,492	2,987	967	-
Intangible assets	12	20,870	25,899	13,257	16,332
Other financial assets	29	-	-	5,672	5,589
Other assets	13	379	356	25	24
Total non-current assets		26,994	31,630	25,697	27,556
Total assets		47,627	46,310	39,372	37,951
Current liabilities					
Trade and other payables	14	2,702	2,871	4,576	3,669
Borrowings	15	230	202	135	105
Current tax liabilities	17	265	675	22	-
Provisions	16	1,640	1,613	970	1,009
Other liabilities	19	5,200	4,794	120	29
Total current liabilities		10,037	10,155	5,823	4,812
Non-current liabilities					
Borrowings	15	195	376	132	220
Provisions	16	340	401	340	401
Total non-current liabilities		535	777	472	621
Total liabilities		10,572	10,932	6,295	5,433
Net assets		37,055	35,378	33,077	32,518
Equity					
Contributed equity	20	119,370	119,370	119,370	119,370
Reserves	21	1,131	869	1,131	869
Accumulated losses	21	(83,446)	(84,861)	(87,424)	(87,721)
Total equity		37,055	35,378	33,077	32,518

The above balance sheets should be read in conjunction with the accompanying notes

Statements of changes in equity

For the year ended 30 June 2006

		Consolidated		Parent Entity	
		2006	2005	2006	2005
	Notes	$'000	$'000	$'000	$'000
Total equity at 1 July		35,378	36,426	32,518	34,513
Employee share options	21, 27	262	556	262	556
Profit (loss) for the year		1,415	(1,604)	297	(2,551)
Total equity at 30 June		37,055	35,378	33,077	32,518

The above statements of changes in equity should be read in conjunction with the accompanying notes

Cash flow statements

For the year ended 30 June 2006

	Notes	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent Entity 2006 $'000	Parent Entity 2005 $'000
Cash flows from operating activities					
Receipts from customers (inclusive of goods and services tax)		43,768	39,967	29,107	25,318
Payments to trade creditors, other suppliers and employees (inclusive of goods and services tax)		(39,739)	(38,018)	(26,267)	(26,906)
Interest received		190	96	406	336
Interest paid		(70)	(42)	(21)	(130)
Income taxes paid (net)		(529)	(591)	(51)	(24)
Net cash inflows (outflows) from operating activities	30	3,620	1,412	3,174	(1,406)
Cash flows from investing activities					
Payments for property, plant and equipment		(688)	(393)	(253)	(298)
Proceeds from sale of property, plant and equipment		87	11	50	3
Payments for shares in controlled entities		-	-	(83)	-
Loans to related parties		-	-	(1,365)	(91)
Repayment of loans by related parties		-	1	1,334	1,723
Payments for technology acquisitions and licenses		-	(430)	-	(430)
Payments for research and development		-	(493)	-	(493)
Net cash (outflows) inflows from investing activities		(601)	(1,304)	(317)	414
Cash flows from financing activities					
Proceeds from borrowings		-	-	1	1,897
Repayment of borrowings		(257)	(89)	(144)	(45)
Net cash (outflows) inflows from financing activities		(257)	(89)	(143)	1,852
Net increase in cash held		2,762	19	2,714	860
Cash at beginning of the financial year		3,590	3,571	1,399	539
Cash at end of the financial year	6	6,352	3,590	4,113	1,399
Non-cash financing and investing activities	30				

The above cash flow statements should be read in conjunction with the accompanying notes

1. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out on the following pages. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes separate financial statements for Altium Limited as an individual entity and the consolidated entity consisting of Altium Limited and its subsidiaries.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views and the *Corporations Act 2001*.

Compliance with IFRSs

Australian Accounting Standards include AIFRSs. Compliance with AIFRSs ensures that the consolidated financial statements and notes of Altium Limited comply with International Financial Reporting Standards (IFRSs).

Application of AASB1 First-time adoption of Australian Equivalents to International Financial Reporting Standards

These financial statements are the first Altium Limited financial statements to be prepared in accordance with AIFRSs. AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards has been applied in preparing these financial statements.

Financial statements of Altium Limited until 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRS. When preparing the Altium Limited 2006 financial statements, management has amended certain accounting, valuation and consolidation methods applied in the AGAAP financial statements to comply with AIFRS. Reconciliations and descriptions of the effect of the transition from previous AGAAP to AIFRS on the group's equity and its net loss are stated in note 33.

Historical cost convention

These financial statements have been prepared under the historical cost convention.

Critical accounting estimates

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. There are no areas involving estimation uncertainty that present a significant risk of causing a material adjustment, to the carrying amounts of assets and liabilities within the next financial reporting period.

(b) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Altium Limited as at 30 June 2006 and the results of all subsidiaries for the year then ended. Altium Limited and its subsidiaries together are referred to in this financial report as the group or the consolidated entity.

Subsidiaries are all those entities over which the group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity.

Subsidiaries are fully consolidated from the date on which control transfers to the group. They are de-consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries by the group. The consolidated entity has elected to apply the exemption available under AASB 1, in respect of business combinations before 1 July 2004. Investments in subsidiaries are accounted for at the lower of cost or recoverable value in the individual financial statements of Altium Limited.

Intercompany transactions, balances and unrealised gain on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries are consistent with the policies adopted by the group.

(c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

The directors have determined the group does not operate in more than one business segment.

1. Summary of significant accounting policies (continued)

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Altium Limited's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at the exchange rates at the dates of the transactions.

(e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid. Revenue is recognised for the major business activities as follows:

(i) Software – a sale is recorded when goods have been despatched to a customer pursuant to a sales order and the associated risks have passed to the customer.

(ii) Support Services – revenue recognition is deferred and taken to the income statement over the period which the service is provided.

(iii) Training Services – a sale is recorded and revenue is recognised at the time the service is provided.

(iv) Projects – for fixed price contracts, the stage of completion is measured by reference to time incurred to date as a percentage of estimated total time to complete each project. Revenue from cost plus contracts is recognised by reference to the recoverable costs incurred during the reporting period plus time spent on each contract.

(f) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

(g) Leases

Leases of property, plant and equipment where the group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are classified as

1. Summary of significant accounting policies (continued)

borrowings in the balance sheet. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(h) Impairment of assets

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 is 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. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

(i) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

(j) Trade receivables

Trade receivables, which generally have 30 - 90 day terms are recognised and carried at original invoice amount less an allowance for doubtful debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The amount of the provision is recognised in the income statement.

(k) Inventories

Finished goods and raw materials are stated at the lower of cost and net realisable value. Cost comprises direct materials only. Costs have been assigned to inventory quantities on hand at balance date using the first in first out basis.

(l) Investments and other financial assets

The group has not taken the exemption available under AASB 1 and has applied AASB 132 and AASB 139 from 1 July 2004.

The group classifies its financial assets as loans and receivables. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in non-current assets, except for those with maturities less than 12 months after the balance sheet date which are classified as current assets. Loans and receivables are included in receivables in the balance sheet.

(m) Plant and equipment

Plant and equipment is stated at cost.

Plant and equipment is depreciated and leasehold improvements are amortised over their estimated useful lives using the straight line method.

The expected useful lives of the assets are as follows:

Office equipment	3 - 5 years
Computer hardware and software	2 - 3 years
Motor vehicles	4 - 5 years
Leasehold improvements	5 - 40 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

1. Summary of significant accounting policies (continued)

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(h)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement. When revalued assets are sold, it is group policy to transfer the amounts included in other reserves in respect of those assets to retained earnings.

(n) Intangible assets

(i) Acquired technology and licenses
Acquisition costs of software licenses, customer lists and copyrights are amortised on a straight-line basis over the period for which the right is acquired or the period over which economic benefits are expected to arise. These periods vary from 3 to 10 years, starting from the date of commercial release.

(ii) Software developed for internal use
Costs relating to software developed for internal use have been capitalised and are being amortised over its estimated useful life using the straight-line method. Software developed for internal use is presently being amortised over 3 years. Costs capitalised include labour and other directly attributable costs.

(o) Research and development expenditure

Expenditure on research activities, undertaken with the prospect of obtaining new technical knowledge and understanding, is recognised in the income statement as an expense when it is incurred.

Expenditure on development activities are charged to operating profit before income tax as incurred, or deferred where these costs are directly associated with integration of acquired technology and it is determined that the technology has reached technological feasibility. Costs are deferred to future periods to the extent that they are expected beyond any reasonable doubt to be recoverable and the technology has reached technological feasibility. The costs capitalised comprises of directly attributable costs, including costs of materials, services and direct labour. Deferred costs are amortised from the date of commercial release on a straight-line basis over the period of the expected benefit, which varies from 3 to 10 years. Research expenditure is recognised as an expense as incurred.

(p) Trade and other payables

These amounts represent liabilities for goods and services provided to the group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(q) Finance costs

Finance costs are recognised as expenses in the period in which they are incurred.

(r) Employee benefits

(i) Wages and salaries, annual leave and sick leave
Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

(ii) Long service leave
The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Share-based payments
Share-based compensation benefits are provided to employees via the Altium Option Plan, Directors' Plan, Altium Employee Share Option Plan and Altium Director Share Option Plan.

Share options granted before 7 November 2002 and/or vested before 1 January 2005
No expense is recognised in respect of these options. The shares are recognised when the options are exercised and the proceeds received allocated to share capital.

1. Summary of significant accounting policies (continued)

Share options granted after 7 November 2002 and vested after 1 January 2005

The fair value of options granted under the Altium Option Plan, Altium Employee Share Option Plan and Altium Director Share Option Plan, is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is determined using a derivative of the Black-Scholes option-pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk- free interest rate for the term of the option.

Upon the exercise of options, the balance of the share based payments reserve relating to those options is transferred to share capital.

(s) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options, or for the acquisition of a business, are not included in the cost of the acquisition as part of the purchase consideration.

(t) Earnings per share

(i) Basic earnings per share
Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share
Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(u) Rounding of amounts

The company is of a kind referred to in Class order 98/0100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

(v) Share buy-back

Shares bought back are brought to account by directly reducing the share capital account by the cost of acquisition of the shares. The cost of acquisition of the shares bought back comprises the purchase consideration plus costs incidental to the acquisition.

(w) Dividends

A provision is made for the amount of any dividend on the date they are declared.

(x) New accounting standards and UIG interpretations

Certain new accounting standards and UIG interpretations have been published that are not mandatory for 30 June 2006 reporting periods. The group's assessment of the impact of these new standards and interpretations is set out below.

(i) *UIG 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds* The group does not have interests in decommissioning, restoration and environmental rehabilitation funds. This interpretation will not affect the group's financial statements.

(ii) *AASB 7 Financial Instruments: Disclosures and AASB 2005 10 Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038]*
AASB 7 and AASB 2005-10 are applicable to annual reporting periods beginning on or after 1 January 2007. The group has not adopted the standards early. Application of the standards will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the group's financial instruments.

2. Revenue and other income

	Consolidated		Parent Entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Revenue:				
Sales revenue				
Sale of goods	42,699	36,515	29,267	29,459
Services	2,258	3,440	109	154
Interest	190	141	407	381
Total revenue from continuing operations	45,147	40,096	29,783	29,994
Other income:				
Sale of non-current assets	19	11	18	3
Foreign exchange gains (net)	368	-	-	-
Other income	21	4	-	-
Total other income from continuing operations	408	15	18	3
Total revenue and other income from continuing operations	**45,555**	**40,111**	**29,801**	**29,997**

3. Expenses

	Consolidated		Parent Entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Result from continuing operations before income tax expense includes the following specific expenses:				
Cost of revenue				
Goods	1,660	2,411	2,313	4,777
Services	468	1,934	29	129
Total costs of revenue	2,128	4,345	2,342	4,906
Foreign exchange losses (net)	-	952	92	819
Depreciation				
Plant and equipment (note 9)	512	556	270	321
Total depreciation	512	556	270	321
Amortisation				
Leasehold improvements (note 9)	117	79	23	6
Plant and equipment under finance leases (note 9)	225	65	129	43
Technology acquisitions and licenses	2,578	3,241	1,386	1,375
Capitalised research and development	2,244	1,377	1,481	1,299
Internally developed information system	207	373	208	373
Total amortisation	5,371	5,135	3,227	3,096
Other charges against assets				
Write down of inventories to net realisable value	50	98	34	84
Bad and doubtful debts	173	129	73	47
Finance costs				
Interest paid/payable	58	14	91	110
Finance charges relating to finance leases	174	28	63	20
Total finance costs	232	42	154	130
Rental expense relating to operating leases	2,207	2,092	752	668
Defined contribution superannuation expense	1,347	1,585	796	826
Research and development costs incurred	8,649	11,645	10,708	13,110
Less: amounts capitalised	-	(493)	-	(493)
Research and development costs expensed	8,649	11,152	10,708	12,617
Other charges against assets				
Write down in carrying value of investment in subsidiaries	-	-	-	50,897
Provision for intercompany loan	-	-	-	(50,740)

4. Income tax

	Consolidated		Parent Entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
(a) Income tax benefit				
Current tax	700	648	72	23
Deferred tax	(505)	(2,833)	(967)	(985)
Over provision in prior years	(581)	(179)	-	-
	(386)	(2,364)	(895)	(962)
Deferred income tax benefit included in income tax benefit comprises:				
Decrease (increase) in deferred tax assets (note 11)	(377)	(283)	(967)	1,444
Decrease in deferred tax liabilities (note 18)	(128)	(2,550)	-	(2,429)
	(505)	(2,833)	(967)	(985)
(b) Numerical reconciliation of income tax (benefit) expense to prima facie tax payable				
Profit (loss) from ordinary activities before income tax expense	1,029	(3,455)	(600)	(2,999)
Income tax calculated at 30%	309	(1,037)	(180)	(900)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Research and development concession	(364)	(495)	(364)	(495)
Intellectual property amortisation	280	277	29	27
Share-based payments	149	-	149	-
Sundry items	38	4	-	(1)
	412	(1,251)	(366)	(1,369)
Over provision in prior years	(581)	(179)	-	-
Benefit of tax losses not previously recognised now considered recoverable	(586)	(1,025)	(529)	-
Benefit of tax losses previously recognised written down	166	-	-	360
Write-down of carrying value of investment in subsidiaries	-	-	-	15,269
Provision for intercompany receivable	-	-	-	(15,222)
Timing differences not brought to account	-	47	-	-
Effects of different rates of tax on overseas income	203	44	-	-
Aggregate income tax benefit	(386)	(2,364)	(895)	(962)
(c) Tax losses				
Unused tax losses for which no deferred tax asset has been recognised	4,037	4,505	-	1,560
Potential tax benefit @ 30%	1,211	1,352	-	468

The benefit for tax losses will only be obtained if:

(i) the consolidated entity derives future assessable income of a nature and amount sufficient to enable the benefit from the deductions for the losses to be realised, or

(ii) the losses are transferred to an eligible entity in the consolidated entity, and

(iii) the consolidated entity continues to comply with the conditions for deductibility imposed by tax legislation, and

(iv) no changes in tax legislation adversely affect the consolidated entity in realising the benefit from the deductions for the losses.

5. Segment information

Primary reporting – geographic segments

Although the consolidated entity's divisions are managed on a global basis they operate in four main geographical areas:

- **Australia** – the home country of the parent entity which is also the main operating entity. The areas of operation are design, development and sale of computer software for the design of electronic products.
- **North America** – comprises the sale of computer software for the design of electronic products throughout USA and Canada.
- **Europe** – comprises the sale of computer software for the design of electronic products throughout Europe. Also, the design and development of electronic products occurs in this segment.
- **Asia** – comprises the sale of computer software for the design of electronic products throughout Asia.

2006

	Australia $'000	North America $'000	Europe $'000	Asia $'000	Other $'000	Inter-segment eliminations/ unallocated $'000	Consolidated $'000
Sales to customers outside the economic entity	1,760	19,997	16,288	6,264	648	-	44,957
Inter-segment sales	21,616	1,085	7,858	358	-	(30,917)	-
Other revenue	(74)	706	758	(3)	-	(979)	408
Total segment revenue	23,302	21,788	24,904	6,619	648	(31,896)	45,365
Segment result	1,510	(1,598)	2,630	3,648	648	297	7,135
Unallocated expenses							(6,106)
Profit from ordinary activities before income tax expense							1,029
Income tax benefit							386
Net profit							1,415
Segment assets	22,297	11,856	10,741	1,083	-	(1,842)	44,135
Segment liabilities	2,439	3,780	3,305	242	-	541	10,307
Acquisitions of property, plant and equipment	349	126	212	95	-	-	782
Acquisitions of non-current assets	-	-	-	-	-	-	-
Depreciation and amortisation expense	3,290	1,595	691	100	-	207	5,883
Other non-cash expenses	-	-	-	-	-	-	-

5. Segment information (continued)

2005

	Australia $'000	North America $'000	Europe $'000	Asia $'000	Other $'000	Inter-segment eliminations/ unallocated $'000	Consolidated $'000
Sales to customers outside the economic entity	1,708	15,337	15,868	6,227	815	-	39,955
Inter-segment sales	24,549	2,057	7,220	-	-	(33,826)	-
Other revenue	3	1	278	-	-	(268)	14
Total segment revenue	26,260	17,395	23,366	6,227	815	(34,094)	39,969
Segment result	3,348	(956)	(1,352)	2,020	815	(827)	3,048
Unallocated expenses							(7,016)
Loss from ordinary activities before income tax expense							(3,968)
Income tax benefit							2,364
Net loss							(1,604)
Segment assets	22,074	11,429	10,480	1,109	-	(1,769)	43,323
Segment liabilities	3,450	2,844	3,592	367	-	4	10,257
Acquisitions of property, plant and equipment	628	149	177	61	-	-	1,015
Acquisitions of non-current assets	430	-	-	-	-	-	430
Depreciation and amortisation expense	3,045	1,560	653	60	-	373	5,691
Other non-cash expenses	1,400	(530)	(652)	30	-	-	248

Notes to and forming part of the segment information

(a) Accounting policies

Segment information is prepared in conformity with the accounting policies of the entity as disclosed in note 1 and accounting standard *AASB 114 Segment Reporting*.

Segment revenues, expenses, assets and liabilities are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis. Segment assets include all assets used by a segment and consist primarily of operating cash, receivables, inventories, property, plant and equipment and goodwill and other intangible assets, net of related provisions. Segment liabilities consist primarily of trade and other creditors and employee benefits. Segment assets and liabilities do not include income taxes.

(b) Inter-segment transfers

Inter-segment transfers consist of the following types of transactions:

(i) research and development costs based on a notional mark-up on cost
(ii) royalty costs for the use of intellectual property
(iii) subsidiaries earn a return for a limited risk distribution function
(iv) interest on intercompany loans
(v) logistic costs based on a notional mark-up on cost

(c) Secondary reporting – business segments

The directors have determined the company does not operate in more than one business segment; as such no secondary reporting segment information had been presented.

6. Cash and cash equivalents

	Consolidated		Parent Entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Current				
Cash at bank and on hand	6,352	3,590	4,113	1,399

7. Trade and other receivables

	Consolidated		Parent Entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Current				
Trade receivables	12,990	9,168	8,640	7,947
Less: provision for doubtful receivables	(181)	(99)	(74)	(3)
	12,809	9,069	8,566	7,944
Other receivables	48	289	1	7
	12,857	9,358	8,567	7,951
Non-current				
Loan to subsidiaries*	-	-	4,314	4,050
Loans to key management personnel**	214	185	214	185
Employee loans***	540	564	530	544
	754	749	5,058	4,779

* For terms and conditions of intercompany loans refer to note 28
** Further information relating to loans to related parties and key management personnel is set out in note 24
*** The loans advanced are charged at the 'benchmark interest rate' under the *Fringe Benefits Tax Assessment Act 1986 (Cwlth)* as at 30 June 2006 being 7.30% p.a. (2005: 7.05%). The above unsecured loans are for a five year term or repayable within thirty days of separation. Repayments during the year totalled $95,308 (2005: $14,568).

An assessment of the carrying value of all employee loans is conducted by the directors at the end of each reporting period. Where the directors believe that the loan will not be recovered, the loan is expensed along with any fringe benefits tax associated with the loan forgiveness.

Bad and doubtful trade receivables

The group has recognised a loss of $60,068 (2005: $80,990) in respect of bad and doubtful trade receivables during the year ended 30 June 2006. The loss has been included in other expenses in the income statement.

8. Inventories

	Consolidated		Parent Entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Current				
Finished goods at cost	552	504	413	419
Raw materials at cost	386	417	386	417
	938	921	799	836

Inventory expense

Inventories recognised as expense during the year ended 30 June 2006 amounted to $1,337,637 (2005: $1,487,886). Write downs of inventories to net realisable value recognised as an expense during the year ended 30 June 2006 amounted to $49,738 (2005: $98,336). The expense has been included in raw materials and consumables used in the income statement.

9. Property, plant and equipment

	Consolidated		Parent Entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Non-current				
Plant and equipment at cost	1,753	1,992	657	933
Less: accumulated depreciation	(895)	(1,178)	(310)	(491)
	858	814	347	442
Leasehold improvements at cost	374	404	122	76
Less: accumulated depreciation	(159)	(158)	(31)	(10)
	215	246	91	66
Leased plant and equipment	682	622	431	345
Less: accumulated amortisation	(256)	(43)	(151)	(21)
	426	579	280	324
Total property, plant and equipment	1,499	1,639	718	832

9. Property, plant and equipment (continued)

Reconciliations

Reconciliations of the carrying amounts of each class of plant and equipment at the beginning and end of the current financial year are set out below.

	Plant and equipment $'000	Leasehold improvements $'000	Leased plant and equipment $'000	Total $'000
Consolidated – 2006				
Carrying amount at 1 July 2005	814	246	579	1,639
Additions	602	86	94	782
Disposals	(68)	-	-	(68)
Other movements	22	-	(22)	-
Depreciation/amortisation expense (note 3)	(512)	(117)	(225)	(854)
Carrying amount at 30 June 2006	858	215	426	1,499
Parent entity – 2006				
Carrying amount at 1 July 2005	442	66	324	832
Additions	195	58	86	339
Disposals	(20)	(11)	-	(31)
Depreciation/amortisation expense (note 3)	(270)	(22)	(130)	(422)
Carrying amount at 30 June 2006	347	91	280	718

During the year a number of fully depreciated assets were disposed. As these assets were fully written down there was no impact on the financial results of the consolidated entity.

10. Current tax receivables

	Consolidated		Parent Entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Current				
Income tax receivable	-	151	-	-

11. Deferred tax assets

	Consolidated		Parent Entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
The balance comprises temporary differences attributable to:				
Amounts recognised in the income statement:				
Difference between book value and tax value of non-current assets – plant and equipment	138	203	64	129
Difference between book value and tax value of non-current assets – intangibles	191	152	-	-
Finance leases	19	1	19	1
Foreign currency revaluations	270	337	270	338
Employee entitlements	515	474	393	423
Retirement benefit obligations	44	64	-	-
Doubtful debts	33	17	22	1
Non-deductible provisions	80	79	67	72
Tax losses	3,347	798	2,878	-
Tax credits	2,901	3,059	1,183	988
	7,538	5,184	4,896	1,952
Set-off of deferred tax liabilities pursuant to set-off provisions	(4,046)	(2,197)	(3,929)	(1,952)
Net deferred tax assets	3,492	2,987	967	-
Movements:				
Balance at 1 July	2,987	154	-	-
Charged to the income statement	505	2,833	967	-
Balance at 30 June	3,492	2,987	967	-
Deferred tax assets to be recovered after more than 12 months	4,511	3,422	2,941	1,118
Deferred tax assets to be recovered within 12 months	3,027	1,762	1,955	834
	7,538	5,184	4,896	1,952

12. Intangible assets

2006	Consolidated			Parent Entity		
	Internally generated intangibles $'000	Other acquired intangibles $'000	Total $'000	Internally generated intangibles $'000	Other acquired intangibles $'000	Total $'000
At 1 July 2005						
Cost	19,049	21,242	40,291	7,493	18,756	26,249
Accumulated amortisation and impairment	(7,258)	(7,134)	(14,392)	(2,461)	(7,456)	(9,917)
Net book amount	11,791	14,108	25,899	5,032	11,300	16,332
Movements						
Amortisation charge	(3,028)	(2,001)	(5,029)	(1,678)	(1,397)	(3,075)
	(3,028)	(2,001)	(5,029)	(1,678)	(1,397)	(3,075)
At 30 June 2006						
Cost	19,049	21,242	40,291	7,493	18,756	26,249
Accumulated amortisation and impairment	(10,286)	(9,135)	(19,421)	(4,139)	(8,853)	(12,992)
Net book amount	8,763	12,107	20,870	3,354	9,903	13,257

2005	Consolidated			Parent Entity		
	Internally generated intangibles $'000	Other acquired intangibles $'000	Total $'000	Internally generated intangibles $'000	Other acquired intangibles $'000	Total $'000
At 1 July 2004						
Cost	18,555	20,812	39,367	6,999	18,326	25,325
Accumulated amortisation and impairment	(4,864)	(4,537)	(9,401)	(1,472)	(5,398)	(6,870)
Net book amount	13,691	16,275	29,966	5,527	12,928	18,455
Movements						
Additions	494	430	924	494	430	924
Amortisation charge	(2,394)	(2,597)	(4,991)	(989)	(2,058)	(3,047)
	(1,900)	(2,167)	(4,067)	(495)	(1,628)	(2,123)
At 30 June 2005						
Cost	19,049	21,242	40,291	7,493	18,756	26,249
Accumulated amortisation and impairment	(7,258)	(7,134)	(14,392)	(2,461)	(7,456)	(9,917)
Net book amount	11,791	14,108	25,899	5,032	11,300	16,332

Amortisation of $5,029,000 (2005: $4,991,000) is included in depreciation and amortisation expense in the income statement.

Impairment test for intangible assets

The recoverable amount of the group's intangible assets has been assessed based on value-in-use calculations. The calculations use cash flow projections based on actual results achieved for 2006. Future cash flows have been extrapolated using average revenue growth rates of 4.1% per annum and average cost growth rates of 2.5% per annum. The annual growth rate used for revenue extrapolation is significantly less than the current annual revenue growth rate. If the assumed growth rates included in revenue forecasts were removed, the recoverable amount would still exceed the carrying amount for the intangible assets. A post-tax discount rate of 12.05% is applied to post tax cash flow projections.

13. Other assets

	Consolidated		Parent Entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Current				
Prepayments	486	660	196	209
Non-current				
Long term deposits	379	356	25	24

14. Trade and other payables

	Consolidated		Parent Entity	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
Current				
Trade payables	1,526	1,754	2,105	1,019
Loans from subsidiaries*	-	-	2,135	1,983
Other payables	1,176	1,117	336	667
	2,702	2,871	4,576	3,669

* For terms and conditions of intercompany loans refer to note 28

15. Borrowings

	Consolidated		Parent Entity	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
Current				
Lease liabilities (note 26)	230	202	135	105
Non-current				
Lease liabilities (note 26)	195	376	132	220

The lease liability consists of finance leases for plant and equipment. Leases due within one year have a weighted average interest rate of 8.29% (2005: 6.91%).

16. Provisions

	Consolidated		Parent Entity	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
Current				
Employee entitlements	1,640	1,613	970	1,009
Non-current				
Employee entitlements	340	401	340	401

17. Current tax liabilities

	Consolidated		Parent Entity	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
Current				
Income tax	265	675	22	-

18. Deferred tax liabilities

	Consolidated		Parent Entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
The balance comprises temporary differences attributable to:				
Amounts recognised in the income statement:				
Difference between book value and tax value of non-current assets – plant and equipment	9	-	-	-
Difference between book value and tax value of non-current assets – intangibles	3,845	4,701	3,834	4,608
Foreign currency revaluations	179	218	95	88
Employee entitlements	5	6	-	-
Doubtful debts	-	16	-	-
Tax losses	-	(2,744)	-	(2,744)
Tax credits	8	-	-	-
	4,046	2,197	3,929	1,952
Set-off of deferred tax liabilities pursuant to set-off provisions	(4,046)	(2,197)	(3,929)	(1,952)
Net deferred tax liabilities	-	-	-	-
Movements:				
Balance at 1 July	-	-	-	-
Charged to the income statement	-	-	-	-
Balance at 30 June	-	-	-	-
Deferred tax liabilities to be recovered after more than 12 months	3,930	2,072	3,834	1,864
Deferred tax liabilities to be recovered within 12 months	116	125	95	88
	4,046	2,197	3,929	1,952

19. Other liabilities

	Consolidated		Parent Entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Current				
Unearned income	358	102	16	3
Deferred maintenance revenue	4,842	4,692	104	26
	5,200	4,794	120	29

20. Contributed equity

	Parent Entity			
	2006 Number	2005 Number	2006 $'000	2005 $'000
(a) Share capital				
Ordinary shares – Fully paid	88,049,459	88,049,459	119,370	119,370

	Number of shares	2006 $'000
(b) Movements in ordinary share capital		
Balance at 1 July 2005	88,049,459	119,370
Movement during the year	-	-
Balance at 30 June 2006	88,049,459	119,370

(c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

20. Contributed equity (continued)

(d) Options

Information relating to the Altium Option Plan, Altium Employee Share Option Plan, Directors' Option Plan and Altium Director Share Option Plan, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year, are set out in note 27.

21. Reserves and accumulated losses

	Consolidated		Parent Entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
(a) Reserves				
Share-based payments reserve				
Balance at 1 July	869	313	869	313
Option expense	262	556	262	556
Balance at 30 June	1,131	869	1,131	869
(b) Accumulated losses				
Accumulated losses at the beginning of the financial year	(84,861)	(83,257)	(87,721)	(85,170)
Profit (loss) attributable to members of Altium Limited	1,415	(1,604)	297	(2,551)
Accumulated losses at the end of the financial year	(83,446)	(84,861)	(87,424)	(87,721)

(c) Nature and purpose of reserves

Share-based payments reserve

The share-based payments reserve is used to recognise the fair value of options issued but not exercised.

22. Financial risk management

(a) Credit risk exposures

The credit risk on financial assets of the consolidated entity, which have been recognised on the balance sheet, other than investments in shares, is generally the carrying amount, net of any provisions for doubtful debts. The group has no significant concentrations of credit risk. The group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history.

(b) Interest rate risk exposures

The consolidated entity's exposure to interest rate risk and the effective weighted average interest rate for each class of financial assets and financial liabilities is set out below. Exposures arise predominantly from assets and liabilities bearing variable interest rates as the consolidated entity intends to hold fixed rate assets and liabilities to maturity.

2006

			Fixed interest rate maturities				
	Notes	Floating interest rate $'000	1 year or less $'000	Over 1 to 5 years $'000	Over 5 years $'000	Non-interest bearing $'000	Total $'000
Financial assets							
Cash	6	5,354	-	-	-	998	6,352
Receivables	7	-	-	754	-	12,857	13,611
		5,354	-	754	-	13,855	19,963
Weighted average interest rate		1.02%		7.18%			
Financial liabilities							
Accounts payable	14	-	-	-	-	(2,702)	(2,702)
Financial lease liabilities	15,26	-	(230)	(195)	-	-	(425)
		-	(230)	(195)	-	(2,702)	(3,127)
Weighted average interest rate			7.69%	8.74%			
Net financial assets (liabilities)		5,354	(230)	559	-	11,153	16,836

22. Financial risk management (continued)

2005

	Notes	Floating interest rate $'000	Fixed interest rate maturities 1 year or less $'000	Over 1 to 5 years $'000	Over 5 years $'000	Non-interest bearing $'000	Total $'000
Financial assets							
Cash	6	2,157	-	-	-	1,433	3,590
Receivables	7	-	-	749	-	9,358	10,107
		2,157	-	749	-	10,791	13,697
Weighted average interest rate		1.2%		7.05%			
Financial liabilities							
Accounts payable	14	-	-	-	-	(2,871)	(2,871)
Financial lease liabilities	15,26	-	(202)	(376)	-	-	(578)
		-	(202)	(376)	-	(2,871)	(3,449)
Weighted average interest rate			6.91%	6.98%			
Net financial assets (liabilities)		2,157	(202)	373	-	7,920	10,248

(c) Net fair value of financial assets and liabilities

The net fair value of financial assets and financial liabilities is based upon market prices where a market exists or by discounting the expected future cash flows by the current interest rates for assets and liabilities with similar risk profiles. At balance date, the net fair value of financial assets and liabilities approximates their carrying value.

23. Dividends

Ordinary shares

No dividends were paid or declared during the financial year ended 30 June 2006 (2005:$nil).

Dividends not recognised at year end	Parent Entity 2006 $'000	2005 $'000
The directors declared a final unfranked dividend of 4 cents per share on 21 August 2006, for the year ended 30 June 2006	3,522	-

24. Key management personnel

Directors

The following persons were directors of Altium Limited during the financial year:

Non-executive Chairman

Carl J Rooke

Executive Directors

Nicholas M Martin
Kayvan Oboudiyat
Darren Charles*

* Darren Charles resigned as Executive Director on 15 July 2005 and continues in his capacity of Chief Financial Officer at date of this report

Non-executive Directors

William A Bartee
David M Warren
Dr Steven G Duvall*
Bruce W Edwards*

* Dr Steven G Duvall and Bruce W Edwards resigned as Non-executive Directors on 15 July 2005

24. Key management personnel (continued)

Other key management personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the group, directly or indirectly, during the financial year.

Name	Position	Employer
Darren Charles	Chief Financial Officer	Altium Limited
Emma Lo Russo	Chief Operating Officer	Altium Limited
Michael Stipe	Vice President, Sales Americas	Altium Inc.
Peter Murman	Managing Director, Amersfoort Technology Centre	Altium BV
Frank Hoschar	Managing Director, Sales and Support Europe	Altium Europe GmbH

All of the above persons were key management personnel during the year ended 30 June 2005, with the exception of Michael Stipe who commenced employment with the group on 19 September 2005 and Emma Lo Russo who was appointed Chief Operating Officer on 13 January 2006.

Key management personnel compensation	Consolidated	
	2006	2005
	$	$
Short-term employee benefits	2,134,714	1,425,233
Post-employment benefits	212,872	151,268
Share-based payments	87,479	364,182
	2,435,065	1,940,683

The company has transferred the detailed remuneration disclosures to the Directors' Report.

Equity instrument disclosures relating to key management personnel

Options provided as remuneration and shares on exercise of such options

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options can be found in the remuneration report.

Option holdings

The number of option holdings over ordinary shares in the company held during the financial year by each director of Altium Limited and other key management personnel of the group, including their personally related parties are set out below.

Directors of Altium Limited

2006

	Balance at 1 July 2005	Granted during year	Expired during year	Balance at 30 June 2006	Vested and exercisable at 30 June 2006
Carl J Rooke	320,000	-	160,000	160,000	112,000
Kayvan Oboudiyat	2,400,000	-	1,200,000	1,200,000	840,000
William A Bartee	160,000	-	80,000	80,000	56,000
Dr Steven G Duvall*	80,000	-	80,000	-	-
Darren Charles*	601,000	100,000	130,000	571,000	333,450
Bruce W Edwards*	150,000	-	-	150,000	105,000

* Darren Charles resigned as Executive Director on 15 July 2005 and continues in his capacity of Chief Financial Officer at date of this report. Dr Steven G Duvall and Bruce W Edwards resigned as Non-executive Directors on 15 July 2005.

No ordinary shares in the company were issued as a result of options being exercised by the directors of the company.

Nicholas M Martin and David M Warren have not been granted options over ordinary shares at any time since the commencement of any company option plan.

2005

	Balance at 1 July 2004	Granted during year	Expired during year	Balance at 30 June 2005	Vested and exercisable at 30 June 2005
Carl J Rooke	320,000	-	-	320,000	224,000
Kayvan Oboudiyat	2,400,000	-	-	2,400,000	1,680,000
William A Bartee	160,000	-	-	160,000	112,000
Dr Steven G Duvall	80,000	-	-	80,000	32,000
Darren Charles	762,250	-	161,250	601,000	325,900
Bruce W Edwards	150,000	-	-	150,000	60,000

24. Key management personnel (continued)

Directors' Option Plan

The board of directors approved the establishment of the Directors' Option Plan in October 2000. The board may offer options to any director of Altium Limited (excluding Nicholas M Martin). Before issuing options to directors, the board will need to seek shareholder approval in accordance with ASX Listing Rule 10.14.

The Directors' Option Plan is based on the Altium Option Plan subject to changes required due to the fact that options are being issued to directors rather than employees.

When the board is exercising its discretion in respect of the Directors' Option Plan a director will not be able to vote if the exercise of the discretion relates to options or shares in the company which will be issued to that director.

All exercisable options issued under this plan expired during the year, consequently there were no options outstanding as at 30 June 2006 (2005: 1,440,000).

Altium Director Share Option Plan

The board of directors approved the establishment of the Altium Directors' Share Option Plan in November 2003. The board may offer options to any director of Altium Limited (excluding Nicholas M Martin). Before issuing options to directors, the board will need to seek shareholder approval in accordance with ASX Listing Rule 10.14.

The Altium Directors Share Option Plan is based on the Altium Employee Share Option Plan subject to changes required due to the fact that options are being issued to directors rather than employees.

When the board is exercising its discretion in respect of the Altium Directors Share Option Plan, a director will not be able to vote if the exercise of the discretion relates to options or shares in the company which will be issued to that director.

A total of 1,790,000 options (2005: 1,870,000) are outstanding under the plan as at 30 June 2006. Each option is convertible into one ordinary share. Conversion can occur no earlier than the first anniversary of the date on which the options were granted being 5 December 2003. The last exercise date for these options is 5 December 2008. The exercise price payable upon conversion is fixed at $0.86.

There were no options exercised during the year by the directors of the company.

Other key management personnel of the group

2006

	Balance at 1 July 2005	Granted during year	Expired during year	Balance at 30 June 2006	Vested and exercisable at 30 June 2006
Emma Lo Russo	-	200,000	-	200,000	-
Michael Stipe	-	200,000	-	200,000	-
Peter Murman	415,000	-	-	415,000	338,538
Frank Hoschar	375,000	-	-	375,000	272,500

2005

	Balance at 1 July 2004	Granted during year	Expired during year	Balance at 30 June 2005	Vested and exercisable at 30 June 2005
Peter Murman	415,000	-	-	415,000	222,700
Frank Hoschar	275,000	100,000	-	375,000	170,000

No ordinary shares in the company were issued as a result of options being exercised by the key management personnel of the group.

Share holdings

The number of ordinary shares in the company held during the financial year by each director of the company and each of the key management personnel of the consolidated entity, including their related entities, are set out on the following page.

24. Key management personnel (continued)

Directors of Altium Limited

2006

	Balance at 1 July 2005	Acquisitions during the year	Other changes during the year	Balance at 30 June 2006
Carl J Rooke	324,400	140,965	-	465,365
Nicholas M Martin	22,444,000	-	-	22,444,000
Kayvan Oboudiyat	1,187,500	-	-	1,187,500
William A Bartee	-	-	-	-
Dr Steven G Duvall*	-	-	-	-
David M Warren	5,403,000	120,000	-	5,523,000
Bruce W Edwards*	100,000	-	(100,000)	-

* Dr Steven G Duvall and Bruce W Edwards resigned as Non-executive Directors on 15 July 2005.

2005

	Balance at 1 July 2004	Acquisitions during the year	Other changes during the year	Balance at 30 June 2005
Carl J Rooke	324,400	-	-	324,400
Nicholas M Martin	22,444,000	-	-	22,444,000
Kayvan Oboudiyat	1,187,500	-	-	1,187,500
William A Bartee	-	-	-	-
Dr Steven G Duvall	-	-	-	-
David M Warren	5,403,000	-	-	5,403,000
Darren Charles*	130,890	-	-	130,890
Bruce W Edwards	100,000	-	-	100,000

* Darren Charles resigned as Executive Director on 15 July 2005 and continues in his capacity of Chief Financial Officer at date of this report.

Other key management personnel of the group

2006

	Balance at 1 July 2005	Acquisitions during the year	Other changes during the year	Balance at 30 June 2006
Darren Charles*	130,890	40,000	-	170,890
Frank Hoschar	445,500	-	-	445,500
Peter Murman	-	-	-	-
Emma Lo Russo	-	-	-	-
Michael Stipe	-	175,000	-	175,000

* Darren Charles resigned as Executive Director on 15 July 2005 and continues in his capacity of Chief Financial Officer at date of this report.

2005

	Balance at 1 July 2004	Acquisitions during the year	Other changes during the year	Balance at 30 June 2005
Frank Hoschar	445,500	-	-	445,500
Peter Murman	-	-	-	-

Loans to directors and director-related entities

At 30 June 2006 the following unsecured loans to director-related entities were outstanding: Darren Charles – Chief Financial Officer $51,122 (2005: $51,130); and Nicholas M Martin – Chief Executive Officer $209,464 (2005: $197,581). The loans are charged at the 'benchmark interest rate' under the *Fringe Benefits Tax Assessment Act 1986 (Cwlth)* as at 30 June 2006 being 7.30% p.a. (2005: 7.05%). Interest charged on the loans for the year to 30 June 2006 was $3,628 (2005: $3,705) for Darren Charles and $9,607 (2005: $11,810) for Nicholas M Martin. During the year there were repayments of $3,636 by Darren Charles and $nil by Nicholas M Martin. The above unsecured loans are for a five year term or repayable within thirty days of separation.

Remuneration of director-related entities

A director, Carl J Rooke, is a partner in Horwath Tas Pty Limited. Horwath Tas Pty Limited has provided taxation services to Altium Limited for many years on normal commercial terms and conditions. The total amounts recognised as expenses during the year total $nil (2005: $8,899). There was no aggregate amounts payable at balance date to Horwath Tas Pty Limited as a director-related entity.

Related entities of directors employed by any company in the consolidated entity are paid on normal commercial terms and conditions.

25. Remuneration of auditors

	Consolidated		Parent Entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
During the year the auditor of the parent entity and its related practices earned the following remuneration:				
Assurance services				
PricewaterhouseCoopers Australian firm:				
Audit and review of financial reports and other audit work under the *Corporations Act 2001*	286,960	218,362	286,960	218,362
Related practices of PricewaterhouseCoopers Australian firm	23,439	23,675	-	-
Total remuneration for assurance services	310,399	242,037	286,960	218,362
Taxation services				
PricewaterhouseCoopers Australian firm:				
Tax compliance services, including review of company income tax returns	11,154	2,000	11,154	2,000
Tax consulting and tax advice	22,710	55,545	22,710	55,545
Related practices of PricewaterhouseCoopers Australian firm:				
Tax compliance services, including review of company income tax returns	259,353	138,244	-	-
Tax consulting and tax advice	84,620	123,968	-	-
Total remuneration for taxation services	377,837	319,757	33,864	57,545
Advisory services				
PricewaterhouseCoopers Australian firm	9,600	-	9,600	-
Related practices of PricewaterhouseCoopers Australian firm	1,212	8,806	-	-
Total remuneration for advisory services	10,812	8,806	9,600	-

From time to time the company will employ accountants to provide consulting services. The consolidated entity has a policy of seeking competitive tender for all major projects. Amounts in excess of $20,000 must be approved by the audit and risk management committee.

26. Commitments for expenditure

	Consolidated		Parent Entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Lease commitments				
Operating leases				
Commitments in relation to operating leases contracted for at the reporting date but not recognised as liabilities, payable:				
Within one year	1,655	1,753	403	767
Later than 1 year but not later than 5 years	1,453	1,392	225	590
	3,108	3,145	628	1,357
Representing:				
Non-cancellable operating leases	3,108	3,145	628	1,357
Finance leases				
Commitments in relation to finance leases are payable as follows:				
Not later than one year	257	236	147	116
Later than 1 year but not later than 5 years	205	402	138	230
Minimum lease payments	462	638	285	346
Less: future finance charges	(37)	(60)	(18)	(21)
Provided for in accounts	425	578	267	325
Representing lease liabilities:				
Current (note 15)	230	202	135	105
Non-current (note 15)	195	376	132	220
	425	578	267	325

27. Employee benefits

	Consolidated		Parent Entity	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
Employee benefit and related on-cost liabilities				
Provision for employee entitlements				
Current (note 16)	1,640	1,613	970	1,009
Non-current (note 16)	340	401	340	401
Aggregate employee entitlement liability	1,980	2,014	1,310	1,410
Employee numbers				
Average number of employees during the financial year	253	262	113	125

Share-based payments

The company has the following share option plans:

(i) Altium Option Plan
(ii) Altium Employee Share Option Plan
(iii) Directors' Option Plan
(iv) Altium Director Share Option Plan

Altium Option Plan

The board of directors approved the establishment of the Altium Option Plan in June 1999. All employees (excluding executive directors) of Altium Limited and its subsidiaries are eligible to participate in the plan. Invitations for employees to participate are determined at the discretion of the directors of the company.

A total of 4,343,440 options (2005: 6,535,401) are outstanding under the plan to eligible employees as at 30 June 2006. Each option is convertible into one ordinary share. Conversion can occur no earlier than the first anniversary of the date on which the options were granted. The exercise price payable upon conversion is fixed.

Altium Employee Share Option Plan

The board of directors approved the establishment of the Altium Employee Share Option Plan in December 2003. All employees (excluding executive directors) of Altium Limited and its subsidiaries are eligible to participate in the plan. Invitations for employees to participate are determined at the discretion of the directors of the company.

A total of 9,123,560 options (2005: 8,327,146) are outstanding under the plan to eligible employees as at 30 June 2006. Each option is convertible into one ordinary share. Conversion can occur no earlier than the first anniversary of the date on which the options were granted.

Directors' Option Plan

For details see note 24.

Altium Director Share Option Plan

For details see note 24.

27. Employee benefits (continued)

Share options on issue

Consolidated and parent entity – 2006

Grant date	Expiry date	Exercise price ($)	Balance at 1 July 2005	Movements during the year Granted	Exercised	Lapsed	Balance at 30 June 2006
29 Sep 2000	29 Sep 2005	5.50	1,115,650	-	-	(1,115,650)	-
20 Nov 2000	20 Nov 2005	5.50	1,440,000	-	-	(1,440,000)	-
12 Oct 2001	12 Oct 2006	4.20	1,355,260	-	-	(274,260)	1,081,000
7 Nov 2001	7 Nov 2006	4.20	717,700	-	-	(300,700)	417,000
4 Dec 2001	4 Dec 2006	3.56	123,000	-	-	(123,000)	-
10 Jul 2002	10 Jul 2007	1.17	400,000	-	-	-	400,000
23 Oct 2002	23 Oct 2007	1.34	2,422,185	-	-	(253,035)	2,169,150
30 Oct 2002	30 Oct 2007	1.34	8,400	-	-	(1,000)	7,400
11 Nov 2002	11 Nov 2007	1.34	81,216	-	-	(34,276)	46,940
19 Nov 2002	19 Nov 2007	1.34	260,990	-	-	(90,040)	170,950
27 Nov 2002	27 Nov 2007	1.34	51,000	-	-	-	51,000
5 Dec 2003	5 Dec 2008	0.86	8,037,146	-	-	(1,285,986)	6,751,160
5 Dec 2003	5 Dec 2008	0.86	1,870,000	-	-	(80,000)	1,790,000
7 May 2005	7 May 2009	0.86	200,000	-	-	-	200,000
21 Feb 2006	21 Feb 2011	1.00	-	1,748,100	-	(164,400)	1,583,700
14 Mar 2006	14 Mar 2011	1.00	-	588,700	-	(9,750)	578,950
21 Mar 2006	14 Mar 2011	1.00	-	9,750	-	-	9,750
Total			**18,082,547**	**2,346,550**	**-**	**(5,172,097)**	**15,257,000**
Weighted average exercise price			1.99	1.00	-	3.63	1.28

The weighted average contractual life of the above options is 2.45 years.

Consolidated and parent entity – 2005

Grant date	Expiry date	Exercise price ($)	Balance at 1 July 2004	Movements during the year Granted	Exercised	Lapsed	Balance at 30 June 2005
9 Jun 2000	9 Jun 2005	3.42	2,023,000	-	-	(2,023,000)	-
29 Sep 2000	29 Sep 2005	5.50	1,192,150	-	-	(76,500)	1,115,650
20 Nov 2000	20 Nov 2005	5.50	1,440,000	-	-	-	1,440,000
12 Oct 2000	12 Oct 2006	4.20	1,499,460	-	-	(144,200)	1,355,260
7 Nov 2001	7 Nov 2006	4.20	765,700	-	-	(48,000)	717,700
4 Dec 2001	4 Dec 2006	3.56	123,000	-	-	-	123,000
10 Jul 2002	10 Jul 2007	1.17	400,000	-	-	-	400,000
23 Oct 2002	23 Oct 2007	1.34	2,685,435	-	-	(263,250)	2,422,185
30 Oct 2002	30 Oct 2007	1.34	8,400	-	-	-	8,400
11 Nov 2002	11 Nov 2007	1.34	81,216	-	-	-	81,216
19 Nov 2002	19 Nov 2007	1.34	277,410	-	-	(16,420)	260,990
27 Nov 2002	27 Nov 2007	1.34	51,000	-	-	-	51,000
5 Dec 2003	5 Dec 2008	0.86	8,511,696	-	-	(474,550)	8,037,146
5 Dec 2003	5 Dec 2008	0.86	1,870,000	-	-	-	1,870,000
7 May 2005	7 May 2009	0.86	-	200,000	-	-	200,000
Total			**20,928,467**	**200,000**	**-**	**(3,045,920)**	**18,082,547**
Weighted average exercise price			2.15	0.86	-	2.92	1.99

The weighted average contractual life of the above options is 2.65 years.

	Consolidated			
	2006 $	2005 $	2006 Number	2005 Number
Options vested at reporting date	3,976,729	2,689,082	9,824,897	9,945,988

The market price per ordinary share at 30 June 2006 was $0.30.

During the year no options were exercised by employees and directors.

27. Employee benefits (continued)

Fair value of options granted

Fair values at grant date have been assessed using a derivative of the Black-Scholes option-pricing model including the following factors; the exercise price, stock price, expected life, volatility, risk-free rate, dividend yield and vesting period. Key assumptions adopted as at the date of issue for valuing the options in the current year include risk-free rate of interest between 5.18% and 5.41% and volatility of share price 66%.

Options are granted for no consideration. The amount received on the exercise of options is recognised as issued capital at the date of issue of the shares.

Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

	Consolidated		Parent Entity	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
Options issued under employee option plans	262	556	262	556

28. Related party information

Directors, specified executives and their related entities

Disclosures relating to directors, specified executives and their related entities including information concerning shares or share options are set out in note 24 to the accounts.

Parent entity

The parent entity within the group is Altium Limited. The wholly-owned group consists of Altium Limited, the ultimate parent entity, and its wholly-owned controlled entities, Altium Inc, Altium Japan KK, Protel AG, Altium Netherlands BV, Altium BV, Altium Europe GmbH, Altium Limited (UK) and Altium Information Technology (Shanghai) Co., Ltd. Ownership interests in these controlled entities are set out in note 29.

Transactions between Altium Limited and other entities in the wholly-owned group during the years ended 30 June 2006 and 30 June 2005 consisted of:

(a) supply of computer software for sale by Altium Limited;
(b) purchase of computer software for sale from Altium Limited ;
(c) loans advanced by Altium Limited and interest received thereon;
(d) loans repaid to Altium Limited;
(e) purchase of research and development services by Altium Limited;
(f) supply of finance, administration and marketing services by Altium Limited; and
(g) payments for royalties in exchange for use of intellectual property.

These transactions were made on normal commercial terms and conditions and at market rates, except that there are no fixed terms for the repayment of principal on loans advanced by Altium Limited. The average interest rate charged on the loans during the year was 4.59% (2005: 5.05%)

	Parent Entity	
	2006	2005
	$	$
The following transactions occurred with related parties:		
Revenue from continuing operations	23,766,719	24,549,180
Interest revenue	228,464	246,467
Royalty expense	(772,434)	(2,857,911)
Contract research and development expense	(6,861,256)	(5,990,830)
Marketing expense	(815,179)	(929,249)
Employee benefits expense	111,760	(5,404)
Other related party transactions	50,542	(368,782)
The following balances are outstanding at the reporting date in relation to transactions with related parties:		
Current assets		
Trade and other receivables	6,123,233	6,237,705
Non-current assets		
Trade and other receivables	4,312,309	4,050,331
Current liabilities		
Trade and other payables	2,134,277	1,982,990

29. Other financial assets

	Parent Entity	
	2006 $'000	2005 $'000
Shares in subsidiaries	5,672	5,589

Investments in controlled entities comprise:

	Country of incorporation	Equity holding 2006 %	Equity holding 2005 %	Investment in subsidiary 2006 $'000	Investment in subsidiary 2005 $'000
Altium Netherlands BV – at recoverable amount	Netherlands	100	100	1,960	1,960
- Altium BV* – at recoverable amount	Netherlands	100	100	-	-
- Altium Limited (UK)	UK	100	100	-	-
Altium Inc – at recoverable amount	USA	100	100	-	-
Altium Europe GmbH	Germany	100	100	3,415	3,415
Protel AG	Switzerland	100	100	100	100
Altium Japan KK	Japan	100	100	114	114
Altium Information Technology (Shanghai) Co., Ltd	China	100	-	83	-

* Altium Limited holds 37.4% (2005: 37.4%) of shares in Altium BV directly. The remaining 62.6% (2005: 62.6%) are held indirectly through Altium Netherlands BV. Altium Information Technology (Shanghai) Co., Ltd., a subsidiary 100% owned by Altium Limited, was incorporated in China on 11 July 2005.

30. Cash flow information

	Consolidated		Parent Entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Reconciliation of operating profit (loss) after income tax to net cash inflows from operating activities				
Operating profit (loss) after income tax	1,415	(1,604)	297	(2,551)
Depreciation and amortisation	5,883	5,691	3,497	3,418
Write down in carrying value of investments in subsidiaries	-	-	-	50,897
Intercompany bad debt expense	-	-	-	(50,740)
Gain on disposal of assets	(19)	(11)	(18)	(3)
Unrealised foreign exchange differences	10	(3)	(80)	339
Change in operating assets and liabilities, net of effects from purchase of controlled entities				
(Increase) decrease in trade and other debtors	(3,353)	87	(631)	(1,202)
(Increase) decrease in inventories	(17)	79	37	53
Decrease in prepayments and other assets	151	145	515	62
(Decrease) increase in deferred tax assets	(377)	(1,668)	11	(41)
Increase (decrease) in trade and other creditors and employee entitlements	237	(551)	846	(1,484)
(Decrease) increase in deferred income tax liabilities	(128)	(1,103)	22	(945)
Decrease in income tax receivable and payable	(410)	(184)	(1,484)	-
(Decrease) increase in other provisions	(34)	(22)	(100)	235
Increase in equity compensation reserve	262	556	262	556
Net cash inflows (outflows) from operating activities	3,620	1,412	3,174	(1,406)
Non-cash financing and investing activities				
Acquisition of plant and equipment by means of finance lease	95	622	86	345

31. Earnings per share

	Consolidated	
	2006 cents	2005 cents
Basic earnings per share	1.6	(1.8)
Diluted earnings per share	1.6	(1.8)

	2006 Number	2005 Number
Weighted average number of ordinary shares used in the calculation of basic earnings per share	88,049,459	88,049,459
Weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share	88,049,459	88,049,459

	2006 $'000	2005 $'000
Earnings used for basic and diluted earnings per share	1,415	(1,604)
Profit (loss) per income statement	1,415	(1,604)

Information concerning the classification of securities

Options

Options granted under the Altium Option Plan, Altium Employee Share Option Plan, the Directors' Option Plan and the Altium Director Share Option Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent that the current share price is greater than the exercise price of the outstanding options. The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in note 27.

Options granted prior to and up until 30 June 2006 are not included in the calculation of diluted earnings per share because they are anti-dilutive for the year ended 30 June 2006. These options could potentially dilute basic earnings per share in the future.

32. Contingent liabilities

From time to time the consolidated entity is subject to various claims and legal proceedings. Full provision has been made in the financial report for legal costs incurred to date in defending these matters and the directors' do not believe there is significant exposure to these claims based on legal advice received to date.

33. Impact of adopting Australian equivalents to IFRS

(1) Reconciliation of equity reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to equity under Australian equivalents to IFRSs (AIFRS)

(a) At the date of transition to AIFRS: 1 July 2004

		Consolidated			Parent		
	Notes	Previous AGAAP $'000	Effect of transition to AIFRS $'000	AIFRS $'000	Previous AGAAP $'000	Effect of transition to AIFRS $'000	AIFRS $'000
Current assets							
Cash and cash equivalents		3,571	-	3,571	539	-	539
Trade and other receivables		9,649	-	9,649	6,799	-	6,799
Inventories		1,001	-	1,001	890	-	890
Current tax receivable		-	-	-	-	-	-
Other assets		761	-	761	268	-	268
Total current assets		14,982	-	14,982	8,496	-	8,496
Non-current assets							
Trade and other receivables	(a)	921	(226)	695	10,064	(226)	9,838
Property, plant and equipment		1,324	-	1,324	559	-	559
Deferred tax assets	(d)	3,049	(1,848)	1,201	1,444	(1,444)	-
Intangible assets	(b)	30,832	(866)	29,966	19,321	(866)	18,455
Other financial assets		-	-	-	5,589	-	5,589
Other assets		401	-	401	25	-	25
Total non-current assets		36,527	(2,940)	33,587	37,002	(2,536)	34,466
Total assets		51,509	(2,940)	48,569	45,498	(2,536)	42,962
Current liabilities							
Trade and other payables		3,349	-	3,349	6,250	-	6,250
Borrowings		46	-	46	25	-	25
Current tax liabilities		859	-	859	-	-	-
Provisions		1,622	-	1,622	760	-	760
Other liabilities		4,887	-	4,887	34	-	34
Total current liabilities		10,763	-	10,763	7,069	-	7,069
Non-current liabilities							
Provisions		395	-	395	395	-	395
Deferred tax liabilities	(d)	2,833	(1,848)	985	2,429	(1,444)	985
Total non-current liabilities		3,228	(1,848)	1,380	2,824	(1,444)	1,380
Total liabilities		13,991	(1,848)	12,143	9,893	(1,444)	8,449
Net assets		37,518	(1,092)	36,426	35,605	(1,092)	34,513
Equity							
Contributed equity		119,370	-	119,370	119,370	-	119,370
Reserves	(c)	-	313	313	-	313	313
Accumulated losses	(a), (b), (c)	(81,852)	(1,405)	(83,257)	(83,765)	(1,405)	(85,170)
Total equity		37,518	(1,092)	36,426	35,605	(1,092)	34,513

33. Impact of adopting Australian equivalents to IFRS (continued)

(b) At the end of last reporting period

		Consolidated			Parent		
	Notes	Previous AGAAP $'000	Effect of transition to AIFRS $'000	AIFRS $'000	Previous AGAAP $'000	Effect of transition to AIFRS $'000	AIFRS $'000
Current assets							
Cash and cash equivalents		3,590	-	3,590	1,399	-	1,399
Trade and other receivables		9,358	-	9,358	7,951	-	7,951
Inventories		921	-	921	836	-	836
Current tax receivable		151	-	151	-	-	-
Other assets		660	-	660	209	-	209
Total current assets		14,680	-	14,680	10,395	-	10,395
Non-current assets							
Trade and other receivables	(a)	932	(183)	749	4,962	(183)	4,779
Property, plant and equipment		1,639	-	1,639	832	-	832
Deferred tax assets	(d)	4,717	(1,730)	2,987	1,484	(1,484)	-
Intangible assets	(b)	26,765	(866)	25,899	17,198	(866)	16,332
Other financial assets		-	-	-	5,589	-	5,589
Other assets		356	-	356	24	-	24
Total non-current assets		34,409	(2,779)	31,630	30,089	(2,533)	27,556
Total assets		49,089	(2,779)	46,310	40,484	(2,533)	37,951
Current liabilities							
Trade and other payables		2,871	-	2,871	3,669	-	3,669
Borrowings		202	-	202	105	-	105
Current tax liabilities		675	-	675	-	-	-
Provisions		1,613	-	1,613	1,009	-	1,009
Other liabilities		4,794	-	4,794	29	-	29
Total current liabilities		10,155	-	10,155	4,812	-	4,812
Non-current liabilities							
Borrowings		376	-	376	220	-	220
Provisions		401	-	401	401	-	401
Deferred tax liabilities	(d)	1,730	(1,730)	-	1,484	(1,484)	-
Total non-current liabilities		2,507	(1,730)	777	2,105	(1,484)	621
Total liabilities		12,662	(1,730)	10,932	6,917	(1,484)	5,433
Net assets		36,427	(1,049)	35,378	33,567	(1,049)	32,518
Equity							
Contributed equity		119,370	-	119,370	119,370	-	119,370
Reserves	(c)	-	869	869	-	869	869
Accumulated losses	(a), (b), (c)	(82,943)	(1,918)	(84,861)	(85,803)	(1,918)	(87,721)
Total equity		36,427	(1,049)	35,378	33,567	(1,049)	32,518

33. Impact of adopting Australian equivalents to IFRS (continued)

(2) Reconciliation of loss for the year ended 30 June 2005

		Consolidated			Parent		
	Notes	Previous AGAAP $'000	Effect of transition to AIFRS $'000	AIFRS $'000	Previous AGAAP $'000	Effect of transition to AIFRS $'000	AIFRS $'000
Revenue from continuing operations	(a)	**40,066**	**45**	**40,111**	**29,952**	**45**	**29,997**
Changes in inventories of finished goods and work in progress		(80)	-	(80)	(54)	-	(54)
Raw materials and consumables used		(1,408)	-	(1,408)	(1,353)	-	(1,353)
Employee benefits expense	(c)	(24,269)	(556)	(24,825)	(10,964)	(556)	(11,520)
Depreciation and amortisation expense		(5,691)	-	(5,691)	(3,417)	-	(3,417)
Finance costs		(42)	-	(42)	(130)	-	(130)
Rental expense		(2,092)	-	(2,092)	(668)	-	(668)
Marketing expense		(4,178)	-	(4,178)	(4,178)	-	(4,178)
Professional advice expense		(812)	-	(812)	(422)	-	(422)
Communication expense		(510)	-	(510)	(248)	-	(248)
Intercompany royalties		-	-	-	(2,932)	-	(2,932)
Contract research and development expense		(4)	-	(4)	(5,845)	-	(5,845)
Write down in carrying value of investment in subsidiaries		-	-	-	(50,897)	-	(50,897)
Provision for intercompany loan		-	-	-	50,740	-	50,740
Foreign exchange loss		(952)	-	(952)	(819)	-	(819)
Other expenses	(a)	(3,483)	(2)	(3,485)	(1,765)	(2)	(1,767)
Loss before income tax expense		(3,455)	(513)	(3,968)	**(3,000)**	**(513)**	**(3,513)**
Income tax benefit		2,364	-	2,364	962	-	962
Loss for the year		(1,091)	(513)	(1,604)	**(2,038)**	**(513)**	**(2,551)**
Loss attributable to members of Altium Limited		(1,091)	(513)	(1,604)	**(2,038)**	**(513)**	**(2,551)**

(3) Reconciliation of cash flow statement for the year ended 30 June 2005

The adoption of AIFRSs has not resulted in any material adjustments to the cash flow statement.

(4) Notes to the reconciliations

(a) Financial Instruments - Non-current receivables

Under previous AGAAP, the group's accounting policy was that financial assets were carried at the lower of cost and recoverable amount. The group's policy for financial assets categorised as loans and receivables under *AASB 139 Financial Instruments: Recognition and Measurement* is to initially measure the assets at fair value with subsequent measurement at amortised cost, using the effective interest rate method. At the date of transition the carrying value of non-current receivables has been reduced by $226,000. The effect is:

(i) At 1 July 2004
For the group there has been an increase in accumulated losses of $226,000 and a decrease in non-current receivables of $226,000.

(ii) At 30 June 2005
For the group there has been an increase in accumulated losses of $183,000 and a decrease in non-current receivables of $183,000.

(iii) For the year ended 30 June 2005
For the group other income has increased by $45,000 and other expenses have increased by $2,000.

(b) Intangible assets - Trademarks

Under previous AGAAP the group had capitalised certain internally generated intangible assets. The group's accounting policy for internally generated intangible assets under *AASB 138 Intangible Assets* is to only capitalise internally generated intangibles for the purposes of development that meet the criteria outlined by AASB 138. The group has reviewed the intangible assets and at the date of transition trademark assets of $866,000 are no longer capitalised. The effect is:

(i) At 1 July 2004
For the group there has been an increase in accumulated losses of $866,000 and a decrease in intangible assets of $866,000.

(ii) At 30 June 2005
For the group there has been an increase in accumulated losses of $866,000 and a decrease in intangible assets of $866,000.

33. Impact of adopting Australian equivalents to IFRS (continued)

(c) Equity-based compensation benefit

Under *AASB 2 Share-based Payment* from 1 July 2004 the group is required to recognise and expense for those options that were issued to employees under the Altium Option Plan, Directors' Plan, Altium Employee Option Plan and Altium Director Option Plan after 7 November 2002 but that had not vested by 1 January 2005. The effect of this is:

(i) At 1 July 2004
For the group there has been an increase in accumulated losses of $313,000 and an increase in reserves of $313,000.

(ii) At 30 June 2005
For the group there has been an increase in accumulated losses of $869,000 and an increase in reserves of $869,000.

(iii) For the year ended 30 June 2005
For the group employee expense has increased by $556,000.

(d) Deferred tax assets and deferred tax liabilities

Under *AASB 112 Income Taxes* from 1 July 2004 the group is required to off-set deferred tax assets and deferred tax liabilities where the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity. The effect of this is:

(i) At 1 July 2004
For the group there has been a decrease in the deferred tax assets of $1,848,000 and a decrease in the deferred tax liabilities of $1,848,000.

(ii) At 30 June 2005
For the group there has been a decrease in the deferred tax assets of $1,730,000 and a decrease in the deferred tax liabilities of $1,730,000.

(iii) For the year ended 30 June 2005
There is no effect on the group.

Declaration to the board of directors in accordance with Section 295A of the Corporations Act

In our opinion:

(a) the financial records of the company and the consolidated entity for the financial year ended 30 June 2006 have been properly maintained in accordance with section 286 of the *Corporations Act 2001*; and

(b) the financial statements, and the notes to the financial statements, of the company and the consolidated entity, for the financial year ended 30 June 2006:

  (i) comply with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

  (ii) give a true and fair view of the company's and consolidated entity's financial position as at 30 June 2006 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date.

Nicholas M Martin
Chief Executive Officer

Darren Charles
Chief Financial Officer

Sydney
21 August 2006

Directors' declaration

In the directors' opinion:

(a) the financial statements and notes set out on pages 28 - 61 are in accordance with the *Corporations Act 2001*, including:

  (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

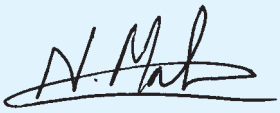
  (ii) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2006 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the directors.

For and on behalf of the board



Nicholas M Martin
Director and Chief Executive Officer

Kayvan Oboudiyat
Director and Executive Vice Chairman

Sydney
21 August 2006

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Matters relating to the electronic presentation of the audited financial report

This audit report relates to the financial report and remuneration disclosures of Altium Limited and the Altium Group (defined below) for the financial year ended 30 June 2006 included on Altium Limited web site. The Company's directors are responsible for the integrity of the Altium web site. We have not been engaged to report on the integrity of this web site. The audit report refers only to the financial report and remuneration disclosures identified below. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report or the remuneration disclosures. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report and remuneration disclosures to confirm the information included in the audited financial report and remuneration disclosures presented on this web site.

Audit opinion

In our opinion:

1. the financial report of Altium Limited:
   - gives a true and fair view, as required by the *Corporations Act 2001* in Australia, of the financial position of Altium Limited and the Altium Limited Group (defined below) as at 30 June 2006, and of their performance for the year ended on that date, and
   - is presented in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, and the *Corporations Regulations 2001*, and
2. the remunerations disclosures that are contained on pages 16 to 22 of the Directors' Report comply with Accounting Standard *AASB 124 Related Party Disclosures* (AASB 124) and the *Corporations Regulations 2001*.

This opinion must be read in conjunction with the rest of our audit report.

Scope

The financial report, remunerations disclosures and directors' responsibility

The financial report comprises the balance sheet, income statement, cash flow statements, statement of changes in equity, accompanying notes to the financial statements, and the directors' declaration for both Altium Limited and the Altium Limited Group for the year ended 30 June 2006. The consolidated entity comprises both the company and the entities it controlled during that year.

The company has disclosed information about the remuneration of directors and executives (remuneration disclosures) as required by AASB 124, under the heading 'remuneration report' on pages 16 to 22 of the Directors' Report, as permitted by the *Corporations Regulations 2001*.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The directors are also responsible for the remuneration disclosures contained in the Directors' Report.

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Audit approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement and the remuneration disclosures comply with AASB 124 and the *Corporations Regulations 2001*. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected. For further explanation of an audit, visit our website http://www.pwc.com/au/financialstatementaudit.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations, changes in equity and cash flows. We also performed procedures to assess whether the remuneration disclosures comply with AASB 124 and the *Corporations Regulations 2001*.

We formed our audit opinion on the basis of these procedures, which included;

examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report and remuneration disclosures, and

assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Andrew Sneddon

Andrew Sneddon
Partner

Sydney
21 August 2006