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DIRECTORS, REGISTERED OFFICE AND ADVISERS

Humayun A Mughal	Executive Chairman
Robert J Piper	Finance Director and Company Secretary
Peter J Barron	Non-Executive Director
Peter Y Thoms	Non-Executive Director

Registered Office Akhter House
Perry Road
Harlow
CM18 7PN

Registered Number 1435584

Registrars Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield, HD8 0LA

Auditors RSM Robson Rhodes LLP
Daedalus House
Station Road
Cambridge, CB1 2RE

Principal Bankers Lloyds TSB Bank plc
Lloyds TSB Corporate
PO Box 18436
39 Threadneedle Street
London, EC2R 8PT

Financial Adviser and Broker ARM Corporate Finance Ltd
12 Pepper Street
London, E14 9RP

Web Site www.ultima-networks.co.uk

Chairman's Statement

It has been a difficult year. The main objectives for 2005 were to increase the market share of the established IT and related services businesses, to build the new telecoms business profitably and to expand the legal software activities. This was expected to be achieved by organic growth and the acquisition of suitably complementary businesses. This strategy for development and growth was evidenced on 7 June 2005 by successfully moving the Company's quotation to the AIM Market of the London Stock Exchange plc where the transaction costs for acquisitions are significantly lower than on the Official List of the UK Listing Authority. However, despite pursuing a number of potential acquisition opportunities, we did not complete a transaction.

The Group made an operating loss of £115,000 (2004: profit £519,000) on Group sales of £1,074,000 (2004: £1,659,000). However, the continuing businesses remain profitable with operating profits of £239,000 (2004: profit £590,000) and sales of £968,000 (2004: £1,453,000).

The IT and related services division made an operating loss of £206,000 (2004: profit £271,000). The performance of C2 Communications Limited was particularly disappointing; it failed to establish itself in its chosen markets and the situation was very similar for SilCom Manufacturing Technology Inc. As a consequence these two subsidiaries were no longer considered by the Board to be part of the ongoing strategy of the Group and on 14 November 2005 the sale of C2 Communications Limited and the closure of SilCom Manufacturing Technology Inc. based in Canada were announced.

However, the software businesses continued to contribute positively, albeit at lower levels than in the previous year. Cognito Software Limited found new sales difficult to close, but increased both licence and support revenues and profit margins. Sales of the new, fully integrated, trust and probate software solution, Custodiens®, continued to increase as the year progressed and with further product development planned for 2006 is forecast to continue to do so.

The other products division contributed an operating profit of £91,000 (2004: £248,000). Sales of solar cell installations were minimal due to difficulties in obtaining supplies and therefore this activity may be discontinued in 2006.

The pre-tax loss was £360,000 (2004: profit £313,000). The tax charge of £40,000 (2004: £28,000) is in respect of deferred tax and therefore no corporation tax is payable by the Group. The loss for the financial year after taxation is £400,000 compared with a profit of £285,000 for 2004.

In March 2006, the Company commenced the marketing of its freehold property in Bradford. Any proceeds from the sale will be applied primarily in repaying the loans to Lloyds TSB Bank plc and Akhter Group plc, which are both secured on the property as well as repayment of the outstanding 8% loan notes and accrued interest. Any balance of the proceeds will provide funds for investment in the profitable expansion of the Group, which is a priority for 2006 and beyond.



Humayun A Mughal
Chairman

Operational Overview

IT and related services

Integrated Publishing Systems Limited and Cognito Software Limited - Publishing and legal application software

Sales revenues were £639,000 (2004: £943,000) producing operating profits of £148,000 (2004: £342,000). The fall in sales revenues was against new business as license and support revenues increased. Sales of the new, fully integrated, trust and probate software solution, Custodiens® increased as the year progressed and are expected to further increase in 2006.

SilCom Manufacturing Inc. (Canada) – Wireless networking production and services

Sales revenues were £7,000 (2004: £66,000) producing operating losses of £122,000 (2004: £73,000). SilCom ceased to trade in Canada on 31 December 2005 and the Wireless production facility previously relocated to Pakistan from Canada has been mothballed.

C2 Communications Limited – Telecoms products and services

Sales revenues were £99,000 (2004: £140,000) producing an operating loss of £232,000 (2004: profit £2,000). On 1 November 2005 this subsidiary was sold.

Other products

Ultima Networks plc and UTN Solutions (North) Limited – Electric bicycles, energy saving lamps and educational electronic kits

Sales revenues were £329,000 (2004: £510,000) producing operating profits of £91,000 (2004: £248,000). Sales of solar cell installations were minimal due to difficulties in obtaining supplies and therefore this activity may be discontinued in 2006.

Financial Review

- Group turnover was £1,074,000 (2004: £1,659,000).
- Gross margin for the year was 70% compared with 67% in 2004 due to the sales of software licenses and support services comprising a higher proportion of Group turnover.
- Group selling and administration expenses were £1,109,000 (2004: £843,000).
- Loss on ordinary activities before taxation for the year was £360,000 (2004: profit £313,000)
- Loss per share was 0.20p (2004: earnings per share 0.14p).
- Net debt increased by £159,000 to £3,248,000 (2004: £3,089,000).
- Consolidated balance sheet remains positive with net assets of £388,000 (2004: £836,000).
- Continuing operations are profitable with operating profits of £239,000 (2004: £590,000).

Report of the Directors

The Directors present their annual report and audited financial statements for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activities of the Group during the year were the development, licensing and support of professional application software, the supply of telecoms products and services, the installation and distribution of energy saving products, property rentals, the provision of computer networking products and services and wholesale and retail merchanting.

A detailed review of the Group's business and activities during the year is contained in the Chairman's Statement, Operational Overview and Financial Review on pages 3 to 5.

RESULTS AND DIVIDENDS

The Group loss for the year before taxation amounted to £360,000 (2004: profit of £313,000). There is a taxation charge for the year of £40,000 (2004: charge of £28,000). The loss on ordinary activities after taxation was £400,000 (2004: profit £285,000).

The Directors do not recommend the payment of a dividend for 2005. No dividends were paid or proposed to be paid in 2004.

FUTURE DEVELOPMENTS

The Group is continuing to invest in the development of new products and services. Reference is made to these matters in the Chairman's Statement and Operational Overview on pages 3 to 4.

SUBSTANTIAL INTERESTS

At the date of this report the following parties had notified the Company of a beneficial interest which represents 3% or more of the Company's issued ordinary share capital at that date:

	No. of shares	% held
Akhter Group plc and related parties	100,075,176	48.9%

No nominee shareholder held 10% or more of the Company's issued share capital on 23 May 2006.

SHARE CAPITAL

The movements in the issued and authorised share capital are detailed in note 18 to the financial statements.

DIRECTORS AND DIRECTORS' INTERESTS

The Directors who served during the year are listed on page 2.

The emoluments, share interests and share options of the Directors are disclosed in the Remuneration Report on pages 11 to 12.

Report of the Directors *continued*

EXECUTIVE DIRECTORS

Mr H.A. Mughal, aged 52, is the co-founder of Akhter Group plc and is its majority shareholder. He graduated in electronics from Liverpool University. Mr Mughal originally worked as a research engineer for ITT Components Group Limited prior to setting up Akhter Instruments Limited in 1979. He continues to be responsible for the overall control and direction of Akhter's business, a role he also performs for the Group. He was appointed in November 1998.

Mr R.J. Piper, aged 48, was appointed as Finance Director in October 2004. He previously held the role of Financial Controller and Company Secretary with the Company and will continue to act as Company Secretary. He is a fellow of the Chartered Association of Certified Accountants, a member of the Association of Taxation Technicians and is also Finance Director of Akhter Computers plc.

NON-EXECUTIVE DIRECTORS

Mr P.J. Barron, aged 63, has extensive operations experience in the electronics industry, notably with Texas Instruments Inc in the USA and with Systime Computers Limited and Chase Advanced Technologies Limited in the UK. He was appointed in May 1992, is Chairman of the remuneration committee and a member of the audit committee.

Mr P.Y. Thoms, aged 60, a Chartered Accountant, is Chief Operating Officer and Finance Director of NXT plc. From 1989 to 1992 he was Finance Director of Amstrad plc, prior to which he spent 15 years with the Gillette Company in Canada and Europe. He was appointed in April 2002, is Chairman of the audit committee and a member of the remuneration committee.

EMPLOYEE INVOLVEMENT

It is Group policy that employees should be kept as fully informed as is feasible and practicable about the activities of the Group through consultative meetings. In addition, managers hold regular meetings with representatives of their staff in order to encourage employees to make their views known on matters that affect them.

EMPLOYMENT OF DISABLED PERSONS

The Group's policy is to give full consideration to applications from disabled persons and to ensure that those recruited receive training, career development and promotion, which is similar to that of all other employees. Special attention would be given to the needs of any employee who became temporarily or permanently disabled whilst in employment.

PENSIONS

During the year the Group did not contribute to any pension schemes for either employees or Directors.

SHARE OPTION SCHEMES

Microvitec 1994 Inland Revenue Approved Executive Share Option Scheme

During the year ended 31 December 2005 the Company granted no options in respect of the Microvitec 1994 Inland Revenue Approved Executive Share Option Scheme and no options lapsed. There were no options exercised during the year. On 31 December 2005 options were outstanding on 100,000 ordinary shares of 1p (2004: 250,000).

Ultima Networks plc 2004 Share Option Scheme

This scheme was approved by the AGM held on 28 May 2004. No options to subscribe for ordinary shares of 1p each have ever been granted.

CHARITABLE AND POLITICAL CONTRIBUTIONS

Donations to UK charitable organisations by the Group amounted to £Nil (2004: £4,000). There were no political donations.

Report of the Directors *continued*

FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES

Credit risk

Exposures to credit risk are minimised by employing effective credit management policies and procedures. Only customers known to the Group are granted credit terms. Annual software licences are payable in advance and require a uniquely numbered "valid licence key" to operate.

Price risk

Selling prices of the Group's products and services are continually reviewed for competitiveness. The Group has a policy of maintaining gross margins. Therefore, if selling prices are reduced, then a corresponding reduction in cost of sales is sought.

Liquidity and cash flow risks

The Group has a policy of ensuring sufficient cash resources are available to meet the short-term liabilities. This is principally achieved from fixed term bank and other loans, loan notes and a bank overdraft facility.

PAYMENTS TO CREDITORS

The Group does not follow any code or standard on payment practice as the terms and conditions for its business transactions are agreed with individual suppliers. Payment is then made in accordance with those terms, subject to the other terms and conditions being met by the supplier. Creditor days at the end of the year for the Company were 30 days (2004: 28 days).

ANNUAL GENERAL MEETING

The Annual General Meeting of the company is to be held at Akhter House, Perry Road, Harlow, Essex CM18 7PN on 30 June 2006 at 1pm. An explanation of the resolutions to be proposed as special business at that Meeting appears in the Notice of Annual General Meeting provided with this Annual Report.

PJ Barron, Director of the Company, retires by rotation and offers himself for re-election.

AUDITORS

In accordance with Section 385 of the Companies Act 1985, a resolution for the re-appointment of RSM Robson Rhodes LLP as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board



Robert J Piper

Secretary

23 May 2006

Corporate Governance

The Board is committed to ensuring that proper standards of corporate governance operate throughout the Group and has therefore followed the principles of the 2003 FRC Code so far as is practicable and appropriate to the nature and size of the Group. A statement of the directors' responsibilities in respect of the financial statements is set out on page 13. The statement below describes the role of the Board and its committees, followed by a statement regarding the Group's system of internal controls.

THE BOARD

The activities of the Group are ultimately controlled by the Board of Directors, which at the year-end consisted of an Executive Chairman, a Finance Director and two non-executive Directors. Biographical details of all Directors are to be found on page 7. All Directors are equally accountable under law for the proper stewardship of the Company's affairs. The non-executive Directors have a particular responsibility to ensure that the strategies proposed by the Executive Directors are fully discussed and critically examined.

The Board, which has an agreed Schedule of Matters reserved for its consideration and approval, meets regularly throughout the year reviewing trading performance, setting strategy, examining capital expenditure and acquisitions or disposals, operating budgets and material contracts.

The current Executive Directors do not have service contracts and do not receive any emoluments. Any director appointed during the year is required, under the Company's Articles of Association, to retire and seek re-election by the shareholders at the next Annual General Meeting and one third of the Board is required to retire each year and seek re-election. The Company has a procedure to enable Directors to take independent professional advice at the expense of the Company in the furtherance of their duties. All Directors have unrestricted access to the Company Secretary.

The appointment of Directors is a matter for the Board as a whole and therefore a nominations committee is considered unnecessary given the present number of Board members.

AUDIT COMMITTEE

The Audit Committee, chaired by Peter Y. Thoms, comprises both non-executive Directors and assists the Board in its duties regarding the Group's financial statements and the maintenance of adequate internal financial controls. The Audit Committee's prime tasks are to receive reports from the Company's auditors, RSM Robson Rhodes LLP, and to review the half-yearly and annual accounts before they are presented to the Board, focusing in particular on accounting policies and compliance and areas of management judgements and estimates.

There is no internal audit function for the Group, as the Board does not believe that this is appropriate given the size of the business.

REMUNERATION COMMITTEE

The Remuneration Committee comprises both non-executive Directors and is chaired by Peter J Barron. Details of the executive remuneration policy are set out in the separate Remuneration Report.

SHAREHOLDER RELATIONS

The Board has a policy of providing any reasonably requested historical information and explanations to shareholders on request. The Group's Interim and Annual Reports are sent to all shareholders. These reports are also available from the Company's website along with all public announcements. All shareholders are encouraged to participate in the Company's Annual General Meeting, which is attended by the Directors.

Corporate Governance *continued*

INTERNAL CONTROL AND FINANCIAL REPORTING

The Board is responsible for ensuring that there is a system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The Audit Committee has been delegated responsibility by the Board for discharging its internal control review responsibilities.

The management of each business unit is responsible for internal control and risk management within its own business and for ensuring compliance with the Group's risk management and internal control programme. Reports from management are also reviewed to consider whether significant risks are identified, evaluated, managed and controlled and whether any significant weaknesses are promptly remedied and indicate a need for more extensive monitoring.

There is a group-wide system of budget planning with frequent reporting of results to each level of management as appropriate, including monthly reporting to the Board. Budgetary planning reviews include the identification and assessment of business and financial risks inherent in each business with the key issues evaluated by the Board.

The Board has formal procedures in place for the approval of investment and acquisition projects, with designated levels of authority, supported by post investment review processes for all major acquisitions and major capital expenditure.

Treasury policies and financial risks are reviewed on a regular basis by the board. The purpose of treasury policies is to ensure that adequate cost effective funding is available to the Group at all times and that exposure to treasury risks is minimised.

The Directors believe that, taken as a whole, the systems of internal control are appropriate to the business for the year ended 31 December 2005.

GOING CONCERN

Having reviewed the future plans and projections for the business, the Directors are satisfied that the Group has adequate resources to continue to operate for the foreseeable future, a period of not less than twelve months from the date of this report. Also, the Directors have received a letter of support from Akhter Group plc confirming their intention to provide continuing financial support for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the financial statements.

Directors' Remuneration Report

The Directors present the Directors' Remuneration Report for the financial year ended 31 December 2005.

Remuneration Committee

The Remuneration Committee consists wholly of non-executive directors. Peter J. Barron and Peter Y. Thoms, both non-executive directors, served as members of the Remuneration Committee throughout the year and in the period to 23 May 2006.

The Remuneration Committee makes recommendations to the Board, within agreed terms of reference, concerning the company's framework of executive remuneration. The Remuneration Committee determines any remuneration and benefits packages of the executive directors and considers any service contracts, salaries, other benefits, including bonuses and participation in the company's share option plans, and any other terms and conditions of employment including any compensation payments on termination of office.

Remuneration Policy

Any basic salaries and benefits in kind are set to be comparable with those of peer group companies. Any share options are granted to strengthen the link between personal interests and those of the shareholders. A scheme was approved by the AGM held on 28 May 2004, being the Ultima Networks plc 2004 Share Option Scheme, but no options to subscribe for ordinary shares of 1p each have ever been granted. No director has any options outstanding under the 1994 Microvitec Inland Revenue Approved Executive Share Option Scheme.

Non-executive directors

The non-executive directors do not have contracts for services. The non-executive directors have letters of appointment concerning, amongst other things, the initial terms for which they are appointed, a general statement of their role and duties, the fees they will receive as a director and the supplementary fees receivable for additional work, such as being a member of more than one Board committee. The fees of non-executive directors are determined by the full Board within the limits set out in the Memorandum and Articles of Association.

Service Contracts and Letters of Appointment

The company does not have service contracts in respect of the Executive Directors. The letters of appointment in respect of the non-executive directors who served during the year ended 31 December 2005 are for a rolling 12 month period. The letters of appointment do not contain notice periods or provision for termination payments.

Directors' Remuneration Report *continued*

Directors' remuneration payable for the year to 31 December 2005 was as follows:

	Basic Salary £000	Fees £000	Benefits in kind £000	2005 Total £000	2004 Total £000	Pension contributions 2005 £000	Pension contributions 2004 £000
Executive							
H.A. Mughal	-	-	-	-	-	-	-
R.J. Piper	-	-	-	-	-	-	-
Non-Executive							
P.J. Barron	-	12	-	12	10	-	-
P.Y. Thoms	-	12	-	12	12	-	-
	<u>-</u>	<u>24</u>	<u>-</u>	<u>24</u>	<u>22</u>	<u>-</u>	<u>-</u>

H.A. Mughal is a director of Akhter Group plc. No remuneration is paid by the Group for the services of the two Executive Directors, either directly to the Directors or to Akhter Group plc. There is currently no pension provision for any of the directors and therefore no pension is accrued to them.

The beneficial interests in the share capital of the Company of those persons, who were Directors at the year-end, as recorded in the register of Director's interests, were as follows:

	31 December 2005		31 December 2004	
	Ordinary shares of 1p	Ordinary share options	Ordinary shares of 1p	Ordinary share options
H.A. Mughal*	100,075,176	-	99,375,176	-
R.J. Piper	-	-	-	-
P.J. Barron	-	-	-	-
P.Y. Thoms	-	-	-	-

*Mr H.A. Mughal's holding includes 54,055,336 Ordinary Shares beneficially owned by Akhter Group plc, of which he is the majority shareholder and 5,483,360 and 530,000 Ordinary Shares beneficially owned by the trustees of the Akhter Group plc Directors' SSAS Pension Fund and the Akhter Unapproved Pension Fund respectively, under both of which he is a beneficiary.

At 31 December 2005 no options were outstanding over shares granted to directors. No director was granted or exercised any share options during this or the previous year nor did any lapse.

No director has any interest in the shares of any subsidiary of Ultima Networks plc.

There have been no changes in the above interests between 31 December 2005 and 23 May 2006.

Beneficial holdings include the director's personal holdings and those of their spouse and children as well as holdings in family trusts of which the Director's spouse or their children are beneficiaries or potential beneficiaries.

The market price at 31 December 2005 was 1.62p and the range during the year was 1.37p to 3.13p.

Approval

The Directors' Remuneration Report was approved by the Board on 23 May 2006 and signed on its behalf by:



Peter J Barron
Chairman, Remuneration Committee

Statement of Directors' Responsibilities for the financial statements

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

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

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

The Annual Report is available on the company's web site. The maintenance and integrity of the company's web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the information contained in the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

Independent Auditors' Report to the Shareholders of Ultima Networks PLC

We have audited the financial statements of Ultima Networks plc for the year ended 31 December 2005, which comprise the profit and loss account, the balance sheets, the cash flow statement, the statement of total recognised gains and losses, the reconciliation of shareholders' funds and the notes.

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

Respective responsibilities of directors and auditors

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

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards. We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company and other members of the group is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, the Chairman's Statement, the Operational Overview, Financial Review, the Corporate Governance Statement and the Director's Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 December 2005 and of the group's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



RSM Robson Rhodes LLP

Chartered Accountants and Registered Auditors

Cambridge, England

23 May 2006

Consolidated profit and loss account

for the year ended 31 December 2005

	Note	2005 £000	Restated 2004 £000
Turnover			
Continuing operations		968	1,453
Discontinued operations		106	206
	2	<u>1,074</u>	<u>1,659</u>
Cost of sales			
Continuing operations		(238)	(455)
Discontinued operations		(89)	(89)
		<u>(327)</u>	<u>(544)</u>
Gross profit			
Continuing operations		730	998
Discontinued operations		17	117
		<u>747</u>	<u>1,115</u>
Selling and administration expenses			
Continuing operations		(738)	(655)
Discontinued operations		(371)	(188)
		<u>(1,109)</u>	<u>(843)</u>
Other operating income			
Continuing operations	5	247	247
Operating (loss)/ profit			
Continuing operations		239	590
Discontinued operations		(354)	(71)
	4	<u>(115)</u>	<u>519</u>
Exceptional item - discontinued operations	6	<u>(35)</u>	<u>-</u>
(Loss)/ profit on ordinary activities before interest and taxation		(150)	519
Net interest payable and similar charges	3	<u>(210)</u>	<u>(206)</u>
(Loss)/ profit on ordinary activities before taxation		(360)	313
Taxation	8	<u>(40)</u>	<u>(28)</u>
(Loss)/ profit for the financial year		(400)	285
Basic and diluted (loss)/ earnings per share – pence			
Continuing operations	9	(0.01)	0.17
Discontinued operations		(0.19)	(0.03)

There is no material difference between the profit as disclosed above and the profit calculated on the historical cost basis. The notes on pages 20 to 36 form part of these financial statements.

Consolidated balance sheet

at 31 December 2005

	Note	2005		2004	
		£000	£000	£000	£000
Fixed assets					
Tangible assets	10		3,907		4,121
Current assets					
Stocks	12	114		130	
Debtors	13	232		416	
Cash at bank and in hand		4		237	
		<u>350</u>		<u>783</u>	
Creditors: amounts falling due within one year	14	<u>(1,674)</u>		<u>(1,576)</u>	
Net current liabilities			<u>(1,324)</u>		<u>(793)</u>
Total assets less current liabilities			2,583		3,328
Creditors: amounts falling due after more than one year	15		<u>(2,195)</u>		<u>(2,492)</u>
Net assets			<u>388</u>		<u>836</u>
Capital and reserves					
Called up share capital	18		7,554		7,551
Share premium account	19		5,602		5,598
Revaluation reserve	19		2,071		2,142
Other reserves	19		1,334		1,334
Profit and loss account	19		<u>(16,173)</u>		<u>(15,834)</u>
Shareholders' funds			388		791
Minority interest			<u>-</u>		<u>45</u>
			<u>388</u>		<u>836</u>

These financial statements were approved by the board of directors on 23 May 2006 and were signed on its behalf by:



Humayun A Mughal
Chairman

Company balance sheet

at 31 December 2005

	Note	2005		2004	
		£000	£000	£000	£000
Fixed assets					
Tangible assets	10		3,902		4,020
Investments	11		613		668
			<u>4,515</u>		<u>4,688</u>
Current assets					
Stocks	12	-		102	
Debtors	13	39		1,515	
Cash		-		41	
			<u>39</u>	<u>1,658</u>	
Creditors: amounts falling due within one year	14	<u>(1,978)</u>		<u>(1,108)</u>	
Net current (liabilities)/ assets			<u>(1,939)</u>		<u>550</u>
Total assets less current liabilities			<u>2,576</u>		<u>5,238</u>
Creditors: amounts falling due after more than one year	15		<u>(2,195)</u>		<u>(2,492)</u>
Net assets			<u>381</u>		<u>2,746</u>
Capital and reserves					
Called up share capital	18		7,554		7,551
Share premium account	19		5,602		5,598
Revaluation reserve	19		2,071		2,142
Other reserves	19		5,618		5,618
Profit and loss account	19		<u>(20,464)</u>		<u>(18,163)</u>
Shareholders' funds			<u>381</u>		<u>2,746</u>

These financial statements were approved by the board of directors on 23 May 2006 and were signed on its behalf by:



Humayun A Mughal
Chairman

Consolidated cash flow statement

for the year ended 31 December 2005

	Note	2005 £000	2004 £000
Cash flow statement			
Cash inflow from operating activities	23	56	266
Returns on investments and servicing of finance	24	(169)	(171)
Taxation		-	-
Minority interest		-	45
Acquisitions and disposals	24	(45)	-
Capital expenditure and financial investment	24	(8)	(63)
Cash (outflow)/ inflow before management of liquid resources and financing		(166)	77
Financing	24	(251)	75
(Decrease)/ increase in cash in the year		(417)	152

Note: an analysis of the above cash flows between continuing and discontinued operations is provided in Notes 23 and 24.

Reconciliation of net cash flow to movement in net debt

	Note	2005 £000	2004 £000
(Decrease)/ increase in cash in the year		(417)	152
Cash outflow from decrease in debt and lease financing		258	120
(Increase)/ decrease in net debt from cashflows		(159)	272
Movement in net debt in the year		(159)	272
Net debt at the start of the year		(3,089)	(3,361)
Net debt at the end of the year	25	(3,248)	(3,089)

Consolidated statement of total recognised gains and losses for the year ended 31 December 2005

	2005 £000	2004 £000
(Loss)/ profit for the financial year	(400)	285
Currency translation differences on foreign investment	(10)	16
Total recognised (losses) and gains relating to the financial year	(410)	301

Reconciliation of movement in shareholders' funds for the year ended 31 December 2005

	Group		Company	
	2005 £000	2004 £000	2005 £000	2004 £000
(Loss)/ profit for the financial year	(400)	285	(2,372)	72
Issue of ordinary share capital	7	195	7	195
Freehold property revaluation	-	1,084	-	1,084
Currency translation differences on foreign currency	(10)	16	-	-
Net (decrease)/ increase to shareholders' funds	(403)	1,580	(2,365)	1,351
Opening shareholders' funds	791	(789)	2,746	1,395
Closing shareholders' funds	388	791	381	2,746

Notes (forming part of the financial statements)

1 ACCOUNTING POLICIES

Basis of preparation:

The financial statements are prepared under the historical cost convention supplemented by the revaluation of certain tangible fixed assets and in accordance with applicable accounting standards.

Having reviewed the future plans and projections for the business, the Directors are satisfied that the Group has adequate resources to continue to operate for the foreseeable future, a period of not less than twelve months from the date of this report. Also, the Directors have received a letter of support from Akhter Group plc confirming their intention to provide continuing financial support for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the financial statements.

Consolidation:

The consolidated profit and loss account includes the results of any companies acquired during the year from their effective dates of acquisition.

Goodwill:

Goodwill on acquisitions comprises the excess of the fair value of the purchase consideration over the fair value of identifiable assets and liabilities acquired. Goodwill arising on acquisitions after 1 January 1999 is recognised within fixed assets in the year of acquisition. Amortisation is calculated on a straight-line basis so as to write off the goodwill over the Director's estimate of its useful economic life of 10 years.

Goodwill arising on acquisitions prior to 1 January 1999 has been set off against reserves in the year of acquisition as a matter of accounting policy. On disposal of a previously acquired subsidiary undertaking any attributable goodwill previously set off against reserves is written back to reserves brought forward and charged through the profit and loss account.

Turnover:

Turnover consists of the invoiced value (excluding VAT) for goods and services supplied to third parties. Turnover from the sale of software product licenses is recognised at the time the software licence is granted. Turnover relating to hardware and software support is recognised proportionally over the period to which it relates.

Depreciation:

All land and buildings are included at valuation. Valuations are kept up-to-date through periodic valuations carried out by external valuers. Depreciation is provided evenly on the cost (or valuation where appropriate) of tangible fixed assets, to write them down to their estimated residual values over their expected useful lives. Where there is evidence of impairment, fixed assets are written down to recoverable amount. No depreciation is provided on freehold land. The principal annual rates used for other assets are:

Freehold buildings	- 50 years
Short leasehold property	- over the period of the lease
Plant, machinery and fixtures	- 3 to 5 years

Stocks:

Stocks are valued at the lower of cost and net realisable value. In respect of work in progress and finished goods cost includes attributable overheads.

Foreign currencies:

The results and cash flows of overseas undertakings are translated into sterling at the average rates of exchange ruling throughout the period. The balance sheets of overseas undertakings are translated into sterling at the rates ruling at the balance sheet dates. Exchange differences arising on consolidation are taken directly to reserves. Assets and liabilities denominated in foreign currencies are converted at the rates of exchange ruling at the balance sheet date or at rates specified in related derivative instruments.

Notes continued

1 ACCOUNTING POLICIES continued

Foreign currencies continued

Transactions in foreign currencies are converted at the rate of ruling at the date of each transaction or at rates specified in related derivative instruments. Exchange differences are included in the profit and loss account where they relate to trading transactions. Exchange differences arising on foreign currency borrowings, to the extent that they are used to provide a hedge against foreign equity investments, are taken directly to reserves, together with the exchange differences on the carrying amount of the related investments.

Research and development:

All research and development expenditure is written off in the year in which it is incurred.

Deferred taxation:

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

In accordance with FRS 19 deferred tax is not provided on timing differences arising from:

- a) revaluation gains on land and buildings, unless there is a binding agreement to sell them at the balance sheet date;
- b) gains on the sale of non-monetary assets, where on the basis of all available evidence it is more likely than not that the taxable gain will be rolled over into replacement assets;
- c) extra tax payable on the unremitted earnings of the overseas subsidiaries and associates where there is no commitment to remit these earnings; and
- d) fair value adjustment gains to fixed assets and stock to uplift prices to those ruling when an acquisition is made.

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

Deferred tax is measured at the tax rates that are expected to apply in the periods when the timing differences are expected to reverse, based on tax rates and law enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted. Where law or accounting standards require gains and losses to be recognised in the statement of total recognised gains and losses, the related taxation is also taken directly to the statement of total recognised gains and losses in due course.

Leased assets:

The Group does not have any assets acquired under finance leases or similar agreements. The rental costs of all other leased assets are charged to the profit and loss account on a straight line basis over the period of the leases.

Lessors:

Assets held for rental purposes are included in the balance sheet and are depreciated in accordance with the accounting policies. The invoice value (excluding VAT) of rental income receivable from third parties under operating leases is credited to the profit and loss account over the period to which it relates.

Notes continued

1 ACCOUNTING POLICIES *continued*

Pensions:

The Group does not operate or contribute to any pension schemes.

Investments:

Investments are stated at cost less provision for impairment where necessary to reduce book value to the estimated recoverable amount.

Restatement:

Prior to 2005 Other Operating Income has been reported in Turnover. Therefore, Turnover in 2004 has been restated in these accounts to exclude this income.

2 SEGMENTAL REPORTING

Turnover represents sales of products and services to customers outside the Group excluding value added tax or equivalent sales tax. The analysis of turnover by geographical destination is as follows:

	2005 £000	Restated 2004 £000
TURNOVER		
United Kingdom	1,067	1,593
North America	7	66
Total	<u>1,074</u>	<u>1,659</u>
TURNOVER		
IT and related services	745	1,149
Other products	329	510
Total	<u>1,074</u>	<u>1,659</u>
	2005 £000	2004 £000
(LOSS)/ PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST AND EXCEPTIONAL ITEM		
IT and related services	(206)	271
Other products	91	248
Total	<u>(115)</u>	<u>519</u>

The Group's Canadian operations made an operating loss of £122,000 (2004 loss: £73,000) on turnover of £7,000 (2004: £66,000). Net liabilities of the Canadian operations were £1,353,000 (2004: £1,221,000). Non interest bearing net assets/ (liabilities) of the Group analysed by Division are as follows:

	2005 £000	2004 £000
IT and related services	461	(1,242)
Other products	3,785	2,078
Total	<u>4,246</u>	<u>836</u>

Notes continued

3 NET INTEREST PAYABLE AND SIMILAR CHARGES

	2005 £000	2004 £000
Bank loans and overdrafts	117	108
Other loans (Akhter Group plc)	52	54
Loan notes	41	47
Bank interest receivable	-	(3)
	<u>210</u>	<u>206</u>

4 OPERATING (LOSS)/ PROFIT

	2005 £000	2004 £000
Operating (loss)/ profit is stated after charging		
Depreciation and other amounts written off tangible fixed assets	150	86
Research and development expenditure	50	108
Loss on disposal of fixed assets	31	22
Operating leases – rent of buildings	29	32
Auditors' remuneration:		
Audit (Company £15,000, (2004 - £3,000))	15	18
Other services	7	-
	<u> </u>	<u> </u>

Note: audit fees for all Group companies have been borne by the Company in 2005.

5 OTHER OPERATING INCOME

	2005 £000	2004 £000
Rent receivable from freehold property	247	247
	<u>247</u>	<u>247</u>

Note: prior to 2005 this income has been reported in Turnover. Therefore, Turnover in 2004 has been restated in these accounts to exclude this income.

6 EXCEPTIONAL ITEM – Disposal of C2 Communications Limited

	2005 £000	2004 £000
Tangible fixed assets	41	-
Stock	-	-
Debtors	38	-
Cash	-	-
Creditors	(44)	-
Goodwill previously written off to reserves	-	-
	<u>35</u>	<u>-</u>
Loss on disposal	(35)	-
Cash consideration	-	-
	<u> </u>	<u> </u>

Notes continued

7 EMPLOYEES

	2005 £000	2004 £000
Employees costs including executive directors during the year amounted to:		
Wages and salaries	462	464
Social security costs	41	41
Other pension costs	-	-
	<u>503</u>	<u>505</u>

	2005	2004
The average number of persons employed during the year including executive directors analysed by category was made up as follows:		
Production	-	2
Selling and distribution	2	2
Engineering and development	11	12
Administration	10	10
	<u>23</u>	<u>26</u>

	2005 £000	2004 £000
The total remuneration of Directors was as follows:		
Fees of non-executives	24	22
Remuneration as executives (including benefits in kind)	-	-
Pension contributions	-	-
	<u>24</u>	<u>22</u>

Details of Directors' interests in the share capital of the Company together with further details of the Directors' remuneration are contained in the Remuneration Report on pages 11 to 12.

Notes continued

8 TAXATION

	2005 £000	2004 £000
Corporation Tax		
Current tax on income for the year	-	-
Adjustments in respect of prior years	-	-
Current taxation	-	-
Deferred taxation		
Net origination of timing differences (note 17)	40	28
Tax charge on profit on ordinary activities	40	28
Current tax reconciliation		
(Loss)/ profit on ordinary activities before taxation	(360)	313
Theoretical tax at UK corporation tax rate 30% (2004: 30%)	(108)	94
Effects of:		
- income not chargeable to corporation tax	-	-
- group relief	-	(15)
- expenditure not tax deductible	51	15
- accelerated capital allowances	(6)	(12)
- movement in losses	31	(45)
- R&D tax credits	(5)	(59)
- tax in overseas subsidiary	37	22
	-	-

There is no UK corporation tax charge for the year due to the availability of trading losses brought forward and tax losses incurred during the year. The Group has tax losses to carry forward of £6,056,000 (2004: £4,679,000) which will be available for offset against future trading profits.

9 EARNINGS PER SHARE

	2005 Number	2004 Number
Weighted average ordinary shares in issue during the year	204,600,559	204,394,191
Potentially dilutive share options under the Group's share option schemes	100,000	250,000
Weighted average ordinary shares for diluted earnings per share	204,700,559	204,644,191
	£'s	£'s
(Loss)/ earnings attributable to shareholders:		
Continuing operations	(12,000)	357,000
Discontinued operations	(388,000)	(72,000)

The calculation of earnings per ordinary share is based on the (loss)/ profit after tax and the weighted average number of ordinary shares in issue during the year.

Notes continued

10 TANGIBLE FIXED ASSETS

	Freehold land and buildings	Plant, machinery, fixtures, vehicles and tooling	Total
	£000	£000	£000
GROUP			
Cost or valuation			
At beginning of year	4,020	799	4,819
Additions	-	8	8
Disposals	-	(625)	(625)
Sale of subsidiary	-	(64)	(64)
	<u>4,020</u>	<u>118</u>	<u>4,138</u>
At end of year	4,020	118	4,138
Depreciation			
At beginning of year	-	698	698
Charge for year	118	32	150
Disposals	-	(594)	(594)
Sale of subsidiary	-	(23)	(23)
	<u>118</u>	<u>113</u>	<u>231</u>
At end of year	118	113	231
Net book value			
At 31 December 2005	3,902	5	3,907
At 31 December 2004	4,020	101	4,121

Notes continued

10 TANGIBLE FIXED ASSETS *continued*

	Freehold land and buildings £000
COMPANY	
Cost or valuation	
At beginning and end of year	4,020
Additions	-
Revaluation	-
	<hr/>
At end of year	4,020
	<hr/> <hr/>
Depreciation	
At beginning of year	-
Charge for year	118
Revaluation	-
	<hr/>
At end of year	118
	<hr/> <hr/>
Net book value	
At 31 December 2005	3,902
	<hr/> <hr/>
At 31 December 2004	4,020
	<hr/> <hr/>

The aggregate amounts at which freehold land and buildings would have been shown in the financial statements had they not been revalued are as follows:

GROUP AND COMPANY	2005	2004
	£000	£000
Cost	2,754	2,754
Depreciation	(879)	(839)
	<hr/>	<hr/>
	1,875	1,915
	<hr/> <hr/>	<hr/> <hr/>

Freehold land and buildings include depreciable assets of £1,605,000 (2004: £1,605,000).

The freehold land and buildings owned by the Company were revalued on the basis of market value and rental value. The valuation report, dated 1 December 2004, was prepared by H.W. Petty and Co., and was undertaken strictly in accordance with the Royal Institution of Chartered Surveyors Appraisal and Valuation Standards, fifth edition (as amended), and the valuer, a Fellow of the Royal Institution of Chartered Surveyors, was independent of the Group.

Notes continued

11 FIXED ASSET INVESTMENTS - INVESTMENTS IN SUBSIDIARIES

COMPANY	£000
Cost	
At beginning of year	6,121
Addition at cost	45
Disposal at cost	(100)
	<hr/>
At end of year	6,066
	<hr/> <hr/>
Provision	
At beginning and end of year	5,453
	<hr/> <hr/>
Net book value	
At 31 December 2005	613
	<hr/> <hr/>
At 31 December 2004	668
	<hr/> <hr/>

The principal subsidiary undertakings are all wholly owned, are consolidated and include the following:

Subsidiary undertakings	Principal activity
SilCom Manufacturing Technology Inc.*	Design and manufacture of specialist networking products
UTN Solutions (North) Limited	Wholesale and retail merchandising
Integrated Publishing Systems Limited	Provision of computer hardware and software services
Cognito Software Limited	Development and marketing of computer software
C2 Communications Limited **	Provision of telecoms products and services

* SilCom Manufacturing Technology Inc. ceased to trade on 31 December 2005.

** C2 Communications Limited was sold on 1 November 2005.

A full list of subsidiary undertakings will be filed with the Registrar of Companies. All Companies were incorporated in England and Wales and trade in the UK, other than SilCom Manufacturing Technology Inc. which is incorporated in Canada and traded principally in Canada and the USA.

Notes continued

12 STOCKS

	Group		Company	
	2005 £000	2004 £000	2005 £000	2004 £000
Finished goods	114	130	-	102
	<u>114</u>	<u>130</u>	<u>-</u>	<u>102</u>

13 DEBTORS: DUE WITHIN ONE YEAR

	Group		Company	
	2005 £000	2004 £000	2005 £000	2004 £000
Trade debtors	132	319	32	73
Amounts owed by group undertakings	-	-	-	1,428
Other debtors	15	17	-	-
Prepayments and accrued income	65	20	7	14
Deferred taxation (see note 17)	20	60	-	-
	<u>232</u>	<u>416</u>	<u>39</u>	<u>1,515</u>

14 CREDITORS: AMOUNTS DUE WITHIN ONE YEAR

	Group		Company	
	2005 £000	2004 £000	2005 £000	2004 £000
Trade creditors	33	65	9	54
Amounts due to group undertakings	-	-	700	-
Borrowings (see note 15b)	1,057	834	1,055	834
Owed to related party (see note 26)	11	117	-	-
Other taxes and social security	85	61	19	15
Accruals and deferred income	488	499	195	205
	<u>1,674</u>	<u>1,576</u>	<u>1,978</u>	<u>1,108</u>

15a CREDITORS: AMOUNTS DUE AFTER MORE THAN ONE YEAR

	Group		Company	
	2005 £000	2004 £000	2005 £000	2004 £000
Borrowings (see note 15b)	2,195	2,492	2,195	2,492
	<u>2,195</u>	<u>2,492</u>	<u>2,195</u>	<u>2,492</u>

Notes continued

15b BORROWINGS ANALYSIS

	Group		Company	
	2005 £000	2004 £000	2005 £000	2004 £000
Due within one year				
Bank overdraft	184	-	182	-
Bank loans	246	206	246	206
Akhter Group loan	110	111	110	111
8% unsecured loan notes	517	517	517	517
	1,057	834	1,055	834
Due after more than one year				
Bank loans	1,475	1,661	1,475	1,661
Akhter Group loan	720	831	720	831
	2,195	2,492	2,195	2,492
Repayable				
Due within 1 year	1,057	834	1,055	834
Over 1 but ≤ 2 years	378	327	378	327
Over 2 but ≤ 5 years	1,184	1,112	1,184	1,112
After 5 years	633	1,053	633	1,053
	3,252	3,326	3,250	3,326

Under the terms of the Loan Note Instrument dated 16 June 1999 the loan notes were to be redeemed in four installments in December 2000, June 2001, December 2001 and June 2002. In March 2004 the Company repaid £885,000 to 8% loan note holders, being capital of £584,000 and all outstanding interest up to 1 March 2004 of £301,000. All of the remaining loan notes of £517,000 (2004: £517,000) are held by related parties (see note 26).

The £1,150,000 loan from Akhter Group plc attracts an interest rate of 1.25% above the Base Rate and is secured by a second charge over the freehold property in Bradford. The £2,300,000 loan from Lloyds TSB Bank plc attracts an interest rate of 1.25% above the Base Rate and is secured by a first legal charge over the property in freehold Bradford. The £80,000 loan from Lloyds TSB Bank plc, drawn-down in February 2005, attracts an interest rate of 1.50% above the Base Rate and is secured by a first legal charge over the freehold property in Crediton, Devon.

Notes continued

16 FINANCIAL INSTRUMENTS

The Group's financial instruments comprise bank and other borrowings, loan notes, some cash and various items, such as trade debtors and creditors that arise directly from its operations. Short-term debtors and creditors have been excluded from all of the following disclosures except in relation to currency risk. The main risks arising from, and impacted by, the financial assets and liabilities of the Group are interest rate risk, foreign currency risk and liquidity risk. The Board reviews and agrees policies for managing these risks and they are summarised below. The Group does not trade in financial instruments.

Interest rate risk

The Group finances its operations through a mixture of retained profits, loan notes and bank and other borrowings. The interest rate exposure of the financial liabilities of the Group was as follows:

	2005		2004	
	Floating rate £000	Fixed rate £000	Floating rate £000	Fixed rate £000
Sterling fixed term loans	2,551	-	2,809	-
Sterling 8% loan notes	-	517	-	517
Sterling bank overdraft	182	-	-	-
Canadian Dollar bank overdraft	2	-	-	-
	<u>2,735</u>	<u>517</u>	<u>2,809</u>	<u>517</u>

The sterling floating rate borrowings have interest rates of 1.25% and 1.50% above the Base Rate (2004: 1.25% above the Base Rate). The Sterling fixed rate borrowings have an interest rate of 8.0% (2004: 8.0%). The maturity profile of these loan balances is shown in note 15b. The only financial assets held by the Group are cash at bank. Amounts held at the year end were:

	2005 £000	2004 £000
Sterling	4	232
Canadian Dollars	-	5
	<u>4</u>	<u>237</u>

All cash attracts interest at floating rates that vary with bank rates in the countries concerned.

Currency risk

The Group is exposed to translation and transaction foreign exchange risk. However, operations in foreign currencies are considered by the Directors to not be material and therefore only very minimal currency risk exists. There are no currency hedge arrangements in place (2004: none).

Liquidity risk

It is the Group's policy to maintain a mix of short, medium and long-term borrowings with its bankers and other finance providers. Flexibility is achieved by the use of fixed term loan facilities and bank overdrafts. The floating rate borrowings are repayable monthly with the last payments for the £1,150,000 and £2,300,000 loans scheduled for May 2012 and the last payment for the £80,000 loan scheduled for February 2008. At the year end the Group had an overdraft facility of £300,000 of which £122,000 was un-drawn. The overdraft facility is presently available until 31 May 2006.

The market value of the Group's financial assets and liabilities does not differ materially from the carrying value.

Notes continued

17 DEFERRED TAXATION

	Group £'000	Company £'000
Deferred tax asset at 1 January 2005	60	-
Released to profit and loss account in the year	(40)	-
Deferred tax asset at 31 December 2005	20	-

GROUP	Provided		Not provided	
	2005 £000	2004 £000	2005 £000	2004 £000
Accelerated capital allowances	(9)	(5)	-	-
Losses	(11)	(55)	(1,806)	(1,348)
	(20)	(60)	(1,806)	(1,348)
COMPANY				
	Provided		Not provided	
	2005 £000	2004 £000	2005 £000	2004 £000
Accelerated capital allowances	-	-	-	-
Losses	-	-	(1,515)	(1,061)
	-	-	(1,515)	(1,061)

18 CALLED UP SHARE CAPITAL

	2005 £000	2004 £000
Authorised		
449,302,276 ordinary shares of 1p each	4,493	2,593
137,674,431 deferred shares of 4p each	5,507	5,507
	10,000	8,100
Allotted, called up and fully paid up		
204,747,964 ordinary shares of 1p each	2,047	2,044
137,674,431 deferred shares of 4p each	5,507	5,507
	7,554	7,551

The deferred shares have no right to dividends nor do the holders thereof have the right to receive notice of or to attend or vote at any General Meeting of the Company. On a return of capital on a winding up of the Company the holders of the deferred shares shall only be entitled to receive the amount paid up on such shares after the holders of the ordinary shares have received the sum of £1,000,000 for each ordinary share held by them.

During the year the Company issued 353,773 ordinary shares of 1p to Mr Khalid Malik in part payment of his consultancy fees for assisting in the establishment of C2 Communications Limited. These shares were admitted to trading on the AIM market on 13 June 2005.

Notes continued

18 CALLED UP SHARE CAPITAL *continued*

Ultima Networks plc 2004 Share Option Scheme

This scheme was approved by the AGM held on 28 May 2004. No options to subscribe for ordinary shares of 1p each have ever been granted.

Executive Share Option Schemes

Options to subscribe for ordinary shares of 1p each are exercisable in accordance with the 1994 Microvitec Inland Revenue Approved Executive Share Option Scheme. During the year ended 31 December 2005 no options were granted, no options were exercised and options on 150,000 ordinary shares lapsed. At 31 December 2005 options were outstanding on 100,000 (2004: 250,000) ordinary shares as follows:

Dates exercisable	No. of shares	Price
16 April 2004 – 15 April 2010	100,000	7.5p

19 RESERVES

	Share premium £000	Revaluation Reserve £000	Other Reserves £000	Profit and Loss Account £000
GROUP				
At beginning of year	5,598	2,142	1,334	(15,834)
Issue of ordinary shares	4	-	-	-
Exchange movements	-	-	-	(10)
Loss for the financial year	-	-	-	(400)
Transfer from revaluation reserve	-	(71)	-	71
At end of year	5,602	2,071	1,334	(16,173)
COMPANY				
At beginning of year	5,598	2,142	5,618	(18,163)
Issue of ordinary shares	4	-	-	-
Retained loss for the financial year	-	-	-	(2,372)
Transfer from revaluation reserve	-	(71)	-	71
At end of year	5,602	2,071	5,618	(20,464)

In the Group financial statements the cumulative amount of goodwill written-off to reserves, net of the goodwill attributable to business disposals, for acquisitions prior to 1 January 1999 is £3,350,000 (2004: £3,350,000).

A separate profit and loss account dealing with the results of the parent Company only has not been presented in accordance with Section 230 Companies Act 1985. Within the consolidated loss, a loss of £2,372,000 (2004: profit £72,000) is dealt with in the financial statements of the parent Company.

20 CAPITAL COMMITMENTS

	Group		Company	
	2005 £000	2004 £000	2005 £000	2004 £000
Contracted Capital Expenditure	-	-	-	-

Notes continued

21 FUTURE OPERATING LEASE COMMITMENTS

There are no material operating lease commitments at the balance sheet date.

22 PENSIONS

The Group did not contribute to any pension schemes in respect of any of its employees or directors.

23 RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW

	2005 £000	2004 £000
Operating (loss)/ profit		
Continuing operations	239	590
Discontinued operations	(354)	(71)
Depreciation charge		
Continuing operations	124	66
Discontinued operations	26	20
Loss on disposal of fixed assets		
Continuing operations	-	-
Discontinued operations	31	22
Decrease/ (increase) in stocks		
Continuing operations	(12)	(53)
Discontinued operations	28	54
Decrease/ (increase) in debtors		
Continuing operations	53	283
Discontinued operations	53	(99)
(Decrease)/ increase in creditors		
Continuing operations	(326)	(575)
Discontinued operations	194	29
Net cash inflow/ (outflow) from operating activities		
Continuing operations	78	311
Discontinued operations	(22)	(45)
Net cash inflow from operating activities	56	266

Notes continued

24 ANALYSIS OF CASHFLOWS

	2005 £000	2004 £000
Returns on investment and servicing of finance		
Interest paid	(169)	(174)
Interest received	-	3
	<u>(169)</u>	<u>(171)</u>
Net cash outflow from returns on investment and servicing of finance – all continuing		
	<u>(169)</u>	<u>(171)</u>
Capital expenditure and financial investment		
Purchase of tangible fixed assets		
Continuing operations	(4)	(4)
Discontinued operations	(4)	(59)
	<u>-</u>	<u>-</u>
Sale of tangible fixed assets		
	<u>-</u>	<u>-</u>
Net cash outflow from capital expenditure investment	(8)	(63)
	<u>(8)</u>	<u>(63)</u>
Acquisitions and disposals		
Purchase of shares in subsidiary	(45)	-
	<u>(45)</u>	<u>-</u>
	<u>(45)</u>	<u>-</u>
Financing		
Issue of ordinary share capital	7	195
Bank loan draw downs	80	500
Other loan draw downs	-	250
Repayment of bank loans	(226)	(196)
Repayment of other loans	(112)	(90)
Repayment of loan notes	-	(584)
	<u>(251)</u>	<u>75</u>
Net cash (outflow)/ inflow from financing – all continuing	<u>(251)</u>	<u>75</u>

25 ANALYSIS OF NET DEBT

	At beginning of year £000	Cash flow £000	At end of year £000
Cash at bank and in hand	237	(233)	4
Bank loans and overdrafts	(1,867)	(38)	(1,905)
Other loans	(942)	112	(830)
	<u>(2,572)</u>	<u>(159)</u>	<u>(2,731)</u>
Loan notes	(517)	-	(517)
	<u>(3,089)</u>	<u>(159)</u>	<u>(3,248)</u>
Total	<u>(3,089)</u>	<u>(159)</u>	<u>(3,248)</u>

Notes continued

26 RELATED PARTY TRANSACTIONS

The Executive Chairman, Mr H.A. Mughal, is the majority shareholder of Akhter Group plc. As a Director of both the Company and Akhter Group plc, Mr Mughal does not take part in any discussions or votes of the Board of the Company, which relate in any way to matters involving Akhter Group plc and related parties. Akhter Group plc and related parties hold 100,075,176 shares representing 48.9% of the Company's issued ordinary share capital. Akhter Group plc and related parties also hold £517,000 (100%) of the Unsecured Loan Notes (see note 15b).

During the year the Group made purchases from Akhter Group plc totalling £172,000 (2004: £157,000) and, of this amount, £11,000 (2004: £117,000) was payable to Akhter Group plc as at 31 December 2005. The purchases can be analysed as follows:

Group company	2005 £000	2004 £000	Description of purchases
Ultima Networks	38	28	Marketing and carriage
UTN Solutions (North)	47	-	Cost of sales, carriage and marketing
Integrated Publishing Systems	23	31	Rent and cost of sales
Cognito Software	54	85	Cost of sales
C2 Communications	10	13	Rent
Total	172	157	

In addition to the purchases detailed above, the Group is provided with a number of staff and other services by Akhter Group plc for which a fee is not paid. These services comprise executive management, accounting, treasury, credit control, purchasing, marketing, warehousing and office accommodation and facilities.

The Executive Chairman, Mr H.A. Mughal, owed the Company £31,000 at 31 December 2005 (2004: £31,000) in respect of purchases made on an arm's length basis during the year ended 31 December 2004.

27 POST BALANCE SHEET EVENTS

The Company commenced marketing its freehold property in Bradford in March 2006. Basic heads of terms have been agreed with a third party and completion is expected by the end of June 2006. The Company has available capital losses from earlier years to offset against the capital gain that will arise. The net proceeds will be used to repay the loans to Lloyds TSB Bank plc and Akhter Group plc, which are both secured on the property as well as repayment of the outstanding unsecured 8% loan notes and accrued interest. Any balance of the proceeds will provide funds for investment in the profitable expansion of the Group.

28 SUMMARY OF RESULTS

	2005	2004	2003	2002	2001
Turnover £000	1,074	1,659	1,770	2,206	4,391
Pre-tax (loss)/ profit £000	(360)	313	185	165	513
Net assets/ (liabilities) £000	388	836	(789)	(935)	(1,168)
Net assets/ (liabilities) per share pence	0.19	0.41	(0.41)	(0.49)	(0.61)
Basic (loss)/ earnings per share pence	(0.20)	0.14	0.09	0.10	0.30
Dividends	-	-	-	-	-