

Ultima Networks plc

Interim Report

Six months ended 30 June 2007

Chairman's Statement

This is the first set of results announced under IFRS with comparisons against 2006 interim results. The adoption of IFRS represents an accounting change only and does not affect the operations or cash flows of the Group.

In the six months to 30 June 2007 the Group achieved increased sales of £678,000 (H1 2006: £654,000) and an increased pre-tax profit of £70,000 (H1 2006: profit £3,000). All of the Group's trading subsidiaries reported operating profits.

The IT and related services division made an operating profit of £27,000 (H1 2006: profit £95,000) on sales of £287,000 (H1 2006: £345,000). This division comprises Cognito Software and Integrated Publishing Systems. Cognito Software, the provider of application software and services to the legal profession, continues to be the major contributor to this division and is being supported by the recruitment of a stronger management team.

The Other products division contributed an operating profit of £24,000 (H1 2006: profit £10,000) on sales of £391,000 (H1 2006: £309,000). This division solely comprises UTN Solutions (North) and has found continuing success with its PowaCycle branded range of electric bicycles, which are complemented by the regular introduction of new models and are increasingly being sold through a growing number of appointed dealers throughout the UK.

As stated above, pre-tax profit of the Group was £70,000 (H1 2006: profit £3,000). The taxation credit of £12,000 (H1 2006: taxation charge £23,000) was due to the release of a provision of £17,000, which was made at 31 December 2006 and is no longer required. The profit for the financial period after taxation was £82,000 (H1 2006: loss £20,000), being a significant improvement.

The Group remains debt free and had cash at bank of £907,000 at 30 June 2007. Any balance of cash funds not required for working capital purposes is being placed on bank deposit to try and maximize interest receivable. Our main objective continues to be the profitable expansion of the Group through a mixture of organic growth and the acquisition of complementary businesses. Our focus remains on the IT and related services division to achieve this objective.

Prof. Humayun Akhter Mughal
Chairman and Chief Executive Officer

28 September 2007

Consolidated income statement
Six months ended 30 June 2007

	Note	Unaudited Half year 2007 £000	Unaudited Half year 2006 £000	Unaudited Full year 2006 £000
Continuing operations				
Revenue	1	678	654	1,398
Cost of sales		(208)	(194)	(372)
Gross profit		470	460	1,026
Selling and administration expenses		(419)	(474)	(985)
Other operating income		-	120	184
Operating profit before exceptional items	1	51	105	225
Exceptional items (sale of freehold property)		-	-	462
Operating profit		51	105	687
Finance income		19	-	11
Finance costs		-	(102)	(150)
Profit before taxation		70	3	548
Tax income / (expense)		12	(23)	(33)
Profit / (loss) for the period attributable to equity holders of the parent		82	(20)	515
Basic and diluted earnings / (loss) per share derived from total and continuing operations – pence		0.04	(0.01)	0.25

Consolidated balance sheet
At 30 June 2007

	Unaudited Half year 2007 £000	Unaudited Half year 2006 £000	Unaudited Full year 2006 £000
ASSETS			
Non current assets			
Property, plant and equipment	123	134	127
Intangible assets – development costs	5	-	7
Deferred tax asset	4	6	4
Total non current assets	132	140	138
Current assets			
Inventories	254	99	208
Trade and other receivables	139	198	234
Cash and cash equivalents	907	14	832
Total current assets	1,300	311	1,274
Total non-current assets held for sale - freehold property	-	3,730	-
Total assets	1,432	4,181	1,412
LIABILITIES			
Current liabilities			
Financial liabilities	-	1,168	-
Trade and other payables	85	51	139
Current tax liabilities	36	35	48
Corporation tax liability	5	9	17
Accruals and deferred income	321	541	305
Total current liabilities	447	1,804	509
Non current liabilities			
Financial liabilities	-	2,009	-
Total liabilities	447	3,813	509
Net assets	985	368	903
EQUITY			
Capital and reserves attributable to equity holders of the parent			
Called up share capital	7,554	7,554	7,554
Share premium account	5,602	5,602	5,602
Revaluation reserve	-	2,071	-
Other reserves	1,334	1,334	1,334
Retained earnings	(13,505)	(16,193)	(13,587)
Total equity	985	368	903

Consolidated cash flow statement

Six months ended 30 June 2007

	Unaudited Half year 2007 £000	Unaudited Half year 2006 £000	Unaudited Full year 2006 £000
Cash flows from operating activities			
Operating profit for the financial period	51	105	225
Depreciation and amortisation charges	8	60	99
(Increase) / decrease in inventories	(46)	15	(94)
Decrease / (increase) in trade and other receivables	95	14	(22)
Decrease in trade and other payables and accruals	(50)	(11)	(49)
	<hr/>	<hr/>	<hr/>
Cash generated from operations	58	183	159
Taxation	-	-	-
	<hr/>	<hr/>	<hr/>
Net cash generated from operating activities	58	183	159
	<hr/>	<hr/>	<hr/>
Investing activities			
Interest received	19	-	11
Purchase of property, plant and equipment	(2)	(17)	(17)
Purchase of intangible development costs	-	-	(10)
Proceeds from sale of non-current assets held for sale	-	-	4,163
	<hr/>	<hr/>	<hr/>
Net cash flow from Investing activities	17	(17)	4,147
	<hr/>	<hr/>	<hr/>
Financing activities			
Interest paid	-	(81)	(226)
Repayment of borrowings	-	(176)	(3,068)
	<hr/>	<hr/>	<hr/>
Net cash flow from financing activities	-	(257)	(3,294)
	<hr/>	<hr/>	<hr/>
Net movement in cash and cash equivalents	75	(91)	1,012
	<hr/>	<hr/>	<hr/>
Cash and cash equivalents at the beginning of the period	832	4	4
Bank overdrafts at the beginning of the period *	-	(184)	(184)
	<hr/>	<hr/>	<hr/>
	832	(180)	(180)
	<hr/>	<hr/>	<hr/>
Cash and cash equivalents at the end of the period	907	14	832
Bank overdrafts at the end of the period *	-	(285)	-
	<hr/>	<hr/>	<hr/>
	907	(271)	832
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

* Bank overdrafts are included within financial liabilities under current liabilities in the consolidated balance sheet above.

Reconciliation of net movement in cash and cash equivalents to movements in net funds

Net movement in cash and cash equivalents	75	(91)	1,012
Net movement in debt	-	176	3,068
	<hr/>	<hr/>	<hr/>
Movement in net funds or debt from cash flows	75	85	4,080
	<hr/>	<hr/>	<hr/>
Movement in net funds or debt in the period	75	85	4,080
Net funds / (debt) at the start of the period	832	(3,248)	(3,248)
	<hr/>	<hr/>	<hr/>
Net funds / (debt) at the end of the period	907	(3,163)	832
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Consolidated statement of changes in equity

(i) Six months ended 30 June 2007 - Unaudited

	Called up Share capital £000	Share Premium £000	Revaluation reserve £000	Other reserve £000	Retained Earnings £000	Total equity £000
At 1 January 2007	7,554	5,602	-	1,334	(13,587)	903
Profit for the period	-	-	-	-	82	82
	<u>7,554</u>	<u>5,602</u>	<u>-</u>	<u>1,334</u>	<u>(13,505)</u>	<u>985</u>
At 30 June 2007	<u>7,554</u>	<u>5,602</u>	<u>-</u>	<u>1,334</u>	<u>(13,505)</u>	<u>985</u>

(ii) Six months ended 30 June 2006 - Unaudited

	Called up Share capital £000	Share Premium £000	Revaluation reserve £000	Other reserve £000	Retained Earnings £000	Total equity £000
At 1 January 2006	7,554	5,602	2,071	1,334	(16,173)	388
Loss for the period	-	-	-	-	(20)	(20)
	<u>7,554</u>	<u>5,602</u>	<u>2,071</u>	<u>1,334</u>	<u>(16,193)</u>	<u>368</u>
At 30 June 2006	<u>7,554</u>	<u>5,602</u>	<u>2,071</u>	<u>1,334</u>	<u>(16,193)</u>	<u>368</u>

(iii) Year ended 31 December 2006 - Unaudited

	Called up Share capital £000	Share premium £000	Revaluation reserve £000	Other reserve £000	Retained Earnings £000	Total equity £000
At 1 January 2006	7,554	5,602	2,071	1,334	(16,173)	388
Profit for the period	-	-	-	-	515	515
Sale of freehold property	-	-	(2,071)	-	2,071	-
	<u>7,554</u>	<u>5,602</u>	<u>-</u>	<u>1,334</u>	<u>(13,587)</u>	<u>903</u>
At 31 December 2006	<u>7,554</u>	<u>5,602</u>	<u>-</u>	<u>1,334</u>	<u>(13,587)</u>	<u>903</u>

Notes

1. Segmental reporting

	Unaudited Half year 2007 £000	Unaudited Half year 2006 £000	Unaudited Full year 2006 £000
Revenue			
United Kingdom	678	654	1,398
	<hr/>	<hr/>	<hr/>
Total	678	654	1,398
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Revenue			
IT and related services	287	345	778
Other products	391	309	620
	<hr/>	<hr/>	<hr/>
Total	678	654	1,398
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Operating profit before exceptional items			
IT and related services	27	95	126
Other products	24	10	99
	<hr/>	<hr/>	<hr/>
Total	51	105	225
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2. Accounting policies

The Group has previously prepared Group financial statements in accordance with UK Generally Accepted Accounting Practice ("UK GAAP"). From 1 January 2007 the Group is required to prepare its consolidated financial statements under International Accounting Standards and International Financial Reporting Standards (collectively "IFRS") as adopted by the European Union ("EU"). The Group's date of transition to IFRS is 1 January 2006, being the start of the previous period that has been presented as comparative information.

The financial information presented in this document has been prepared on the basis of the IFRS in issue that are either endorsed by the EU and effective at 31 December 2007 or are expected to be endorsed at 31 December 2007. Based on these adopted and unadopted IFRS, the directors have made assumptions about the accounting policies expected to be applied when the first annual IFRS statements are prepared for the year ended 31 December 2007. In addition, the adopted IFRS that will be effective in the annual financial statements for the year ending 31 December 2007 are still subject to change and to additional interpretations and therefore cannot be determined with certainty. Accordingly, the accounting policies for that annual period will be determined finally only when the annual financial statements for the Group are prepared for the year ending 31 December 2007.

3. The effects of the transition to IFRS

In implementing the transition to IFRS, the Group has followed the requirements of IFRS 1 "First Time Adoption of International Financial Reporting Standards", which in general requires IFRS accounting policies to be applied fully retrospectively in deriving the opening balance sheet at the date of transition. IFRS 1 contains certain mandatory exceptions and some optional exemptions to this principle of retrospective application. Where the Group has taken advantage of the exemptions they are noted below.

It should be noted that reconciliations to previously presented financial statements are not required as there are no adjustments necessary to any of the figures in this interim statement arising from the adoption of IFRS.

Goodwill and Business Combinations (IFRS 3)

The Group has elected to take the exemption not to apply IFRS 3 retrospectively to business combinations occurring prior to the date of transition to IFRS. Under IFRS 3 any goodwill arising on such acquisitions is not amortised, but is subject to impairment reviews. However, as the Group had no goodwill recognised under UK GAAP at 1 January 2006 there are no adjustments necessary.

Intangible Assets - capitalisation of development costs (IAS 38)

Under UK GAAP all development expenditure was capitalised and amortised over a period of three years in equal instalments since most of the benefit of the expenditure was expected to fall into this period. There is no change to this existing policy under IAS 38 required and therefore there are no adjustments necessary.

Income Taxes (IAS 12)

IAS 12 looks at "temporary differences" between tax and book values for deferred tax whereas UK GAAP assesses "permanent" and "timing differences" reversing in future periods. However, as there is no impact arising from this on either the profit and loss or balance sheet there are no adjustments necessary.

Interim Financial Statements (IAS 34)

As permitted, the Group has chosen not to adopt IAS 34 'Interim Financial Statements' in preparing these interim financial statements and therefore the interim financial information is not in full compliance with IFRS.

Notes continued

4. Taxation

The interim tax credit reflects an estimate of the likely effective tax rate for the period applied to the interim profit before tax.

5. Dividends

The company has not proposed or declared an interim dividend.

6. Earnings per share

Basic earnings per share has been calculated based on the profit on ordinary activities after taxation and the weighted average number of shares in issue for the period of 204,747,964 (June 2006: 204,747,964 and December 2006: 204,747,964). Diluted basic earnings per share has been calculated based on the profit on ordinary activities after taxation and the weighted average number of shares in issue and dilutive shares for the period of 204,747,964 (June 2006: 204,747,964 and December 2006: 204,747,964).

7. Other information

This interim statement was approved by the board on 25 September 2007 and has not been audited by the company's auditors Grant Thornton UK LLP. The comparatives for the full year ended 31 December 2006 are not the Company's full statutory accounts for that year. A copy of the statutory accounts for that year, which were prepared under UK GAAP, has been delivered to the Registrar of Companies. The auditors' report on those accounts was unqualified, did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their report and did not contain a statement under section 237(2)-(3) of the Companies Act 1985.

A copy of this interim statement is available at the Company's registered office at Ultima Networks plc, Akhter House, Perry Road, Harlow, CM18 7PN or on the company's website, www.ultimanetworks.co.uk