

## Contents

Directors and Advisors	2
Chairman's Statement	3
Financial Highlights	4
Report of the Directors	5
Corporate Governance	10
Directors' Remuneration Report	12
Report of the Independent Auditor	14
Consolidated income statement	16
Consolidated balance sheet	17
Company balance sheet	18
Consolidated cash flow statement	19
Company cash flow statement	20
Consolidated statement of changes in equity	21
Company statement of changes in equity	22
Notes forming part of the financial statements	23

## Annual performance history

	IFRS	IFRS	UK GAAP	UK GAAP	UK GAAP
	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Revenue £000	1,564	1,398	1,074	1,659	1,770
Pre-tax profit/ (loss) £000	276	548	(360)	313	185
Net assets/ (liabilities) £000	1,168	903	388	836	(789)
Net assets/ (liabilities) per share pence	0.57	0.44	0.19	0.41	(0.41)
Basic earnings/ (loss) per share pence	0.13	0.25	(0.20)	0.14	0.09
Dividends	-	-	-	-	-

## Directors and Advisors

Humayun A Mughal	Chairman and Chief Executive Officer
Robert J Piper	Finance Director and Company Secretary
Peter J Barron	Non-Executive Director
Richard M Bearpark	Non-Executive Director

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Akhter House  
Perry Road  
Harlow  
CM18 7PN

Web Site [www.ultima-networks.co.uk](http://www.ultima-networks.co.uk)

Company number 1435584

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Byron House  
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Solicitors  
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## Chairman's Statement

### Introduction

The Group has seen continued growth in 2007 with all parts of the business making positive profit contributions, which has resulted in an increase in Group sales, operating profit before exceptional items and cash balances.

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

### IT and related services division

The IT and related services division made an operating profit of £148,000 (2006: £126,000) on sales of £701,000 (2006: £778,000). This division principally provides computer application software and related support and other services to the legal profession with Cognito Software continuing to be the major contributor.

The Group has invested in a new document production and management system, which will be integrated with the existing Cognito Software products and on the market this July targeting existing customers in the legal IT sector. Additional staff and other resources have been employed to ensure the efficient implementation of this project. The system will also be available in a standalone version for sale to all professional services firms.

On 1 March 2008 the trade of Integrated Publishing Systems ("IPS") was transferred to UTN Solutions (North) to reduce administration costs. IPS will continue to be reported within the IT and related services division.

### Other products division

The Other products division contributed an operating profit of £85,000 (2006: £5,000) on sales of £863,000 (2006: £620,000). This division has found continuing success with its competitively priced PowaCycle branded range of electric bicycles, which are refreshed by the regular introduction of new models and are increasingly being sold through a growing number of appointed dealers throughout the UK, which totalled over 50 at the year end.

The Group has invested in a completely new and premium priced Infineum branded range of electric bicycles, which will incorporate a new and unique stackable battery giving the rider a choice over battery weight and distance travelled. The launch in mid-2008 of this new range of electric bicycles is expected to fully complement the existing PowaCycle range and therefore increase sales and profits of the division.

### Group results

In the year ended 31 December 2007 the Group achieved increased sales of £1,564,000 (2006: £1,398,000) and an increased operating profit before sale of freehold property of £233,000 (2006: £225,000).

The pre-tax profit of the Group was £276,000 (2006: £548,000). The taxation expense was £11,000 (2006: £33,000) and therefore the profit for the financial year after taxation was £265,000 (2006: £515,000). The profit for the financial year 2006 of £515,000 included the one-off profit of £462,000 from the sale of the freehold investment property in Bradford in September 2006 and therefore without this would have been £53,000.

The Group continues to operate debt free and had cash at bank of £1,026,000 at 31 December 2007. Any balance of cash funds not required for working capital purposes is being placed on short term bank deposit to try and maximize interest receivable.

### Outlook

Our philosophy is based on the pursuit of low risk recurring revenues complemented by a highly selective acquisitions policy. We maintain the view that the professional services sector is highly fragmented and therefore opportunities for consolidation exist. Indeed, we are actively seeking a number of targets.

We have invested in new technology for both operating divisions, which we believe will augment our competitive position and increase sales. Further news on the product launches will be announced in the coming months.



**Prof. Humayun Akhter Mughal**  
Chairman and Chief Executive Officer  
29 April 2008

## Financial Highlights

- Group revenue was £1,564,000 (2006: £1,398,000)
- Gross margin for the year was 71% compared with 73% in 2006
- Group administration expenses were £883,000 (2006: £985,000)
- Operating profit before disposal of freehold property was £233,000 (2006: £225,000)
- Profit on ordinary activities before taxation for the year was £276,000 (2006: £548,000, which includes a one-off profit of £462,000 on disposal of freehold property)
- Earnings per share was 0.13p (2006: 0.25p)
- Cash at bank at the year end was £1,026,000 (2006: £832,000)
- Consolidated balance sheet has increased net assets of £1,168,000 (2006: £903,000)

## Report of the Directors

The Directors present their annual report and audited financial statements for the year ended 31 December 2007.

### BUSINESS REVIEW AND PRINCIPAL ACTIVITIES

The principal activities of the Group during the year were the marketing and support of computer application software and the wholesale and retail merchandising of various products, but primarily electric bicycles.

There have not been any significant changes in the Group's principal activities in the year under review and the Directors are not aware at the date of this report of any likely major changes in the Group's activities in the next year. The UK market remains the principal area of operation for the Group.

The Group achieved an operating profit of £233,000 (2006: £225,000) on turnover of £1,564,000 (2006: £1,398,000), with all of the Group's subsidiaries being profitable for the year.

The Group's operations are managed in two divisions, being the IT and related services division and the Other products division. The IT and Related Services division comprises Cognito Software Limited and Integrated Publishing Systems Limited that are involved in marketing and supporting legal and publishing application software respectively. This division had sales revenues of £701,000 (2006: £778,000) producing operating profits of £148,000 (2006: £126,000). The Other products division comprises UTN Solutions (North) Limited that is involved in merchandising electric bicycles, energy saving lamps and educational electronic kits. This division had sales revenues of £863,000 (2006: £620,000) producing operating profits of £85,000 (2006: £5,000).

Since the disposal of its investment property in September 2006, Ultima Networks plc has acted solely as a holding company recharging its overhead costs to its trading subsidiaries on an equitable basis.

In the IT and related services division, Cognito Software, the provider of application software and services to the legal profession, was the major contributor. Sales were lower than expected due to new business being difficult to close. Therefore, costs were tightly controlled, but not to the detriment of customer service and support levels which remained strong and as a result profitability increased.

The Other products division experienced strong growth with sales up by 39% to £863,000, the major increase being the sales of the PowaCycle branded range of electric bicycles through a growing base of dealerships and as a consequence profits increased strongly to £85,000.

The Group balance sheet continues to be debt free and shows an increase in net assets to £1,168,000 (2006: £903,000). The year end cash balance was £1,026,000 and is available for working capital purposes and to fund investment in the expansion of the Group.

### RESULTS AND DIVIDENDS

The Group profit for the year before taxation amounted to £276,000 (2006: £548,000). There is a taxation expense for the year of £11,000 (2006: £33,000). The profit on ordinary activities after taxation was £265,000 (2006: £515,000). The profits for the previous year include an exceptional item, being the profit on the sale of the freehold investment property in Bradford of £462,000 on which no taxation was payable.

The Directors do not recommend the payment of a dividend for 2007. No dividends were paid or proposed to be paid in 2006.

## Report of the Directors *continued*

### KEY PERFORMANCE INDICATORS

The aim of the Group is to increase shareholder value through growth in sales revenues and operating profitability. Therefore, these are the two key performance indicators used by the directors to measure performance and are reported in the table below.

Key performance indicator	IFRS	IFRS	IFRS	UK GAAP
	Target	2007	2006	2005
	£000	£000	£000	£000
Revenue	1,475	1,564	1,398	1,074
Operating profit / (loss)	205	233	225	(115)

The increase in revenue in 2007 over both the target and previous year was primarily due to sales of the PowaCycle branded range of electric bicycles.

### PRINCIPAL RISKS AND UNCERTAINTIES FACING THE GROUP

The businesses within the IT and related services division operate as very small players in very crowded and competitive market sectors. Many of the customers are small businesses that are relatively slow to change and update their business systems, but are also, and more positively, reluctant to change their supplier. Consolidation is occurring in the legal sector, both among suppliers and users, effectively reducing the number of new business opportunities. Against this backdrop the Group has recognised the need to offer excellent levels of customer service and support to maintain the existing customer base, which it has successfully achieved and which must be continued. Additional features and functionality for the existing software products will have to be incorporated and released in a timely manner to ensure the existing products remain competitive and embrace the latest legislative changes. In addition the products will have to integrate easily with leading industry office software such as Microsoft Office products. Therefore, current and planned software development work is targeted to ensure the current software products maintain a modern look and feel by utilising the latest software tools and products and to enable easier integration with Microsoft Office products. The directors recognise that organic growth will be slow to realise and therefore complementary acquisitions are being sought to increase sales revenues and to grow the customer base.

The Other products division has continued to seek niche market opportunities with a marketing led strategy for sales generation and making full use of the Internet. Several product market trials have been made to fully understand the extent of the potential opportunities and currently the Group is concentrating on electric bicycles, energy saving lamps and educational electronic kits. The lamps and electronic kits markets are increasingly crowded and have several large competitors, but the Group believes it can maintain and continue to grow its business by being extremely cost competitive and building strong relationships with suppliers based in China. The PowaCycle range of electric bicycles has enjoyed continuing success by offering a very cost competitive product range and this growth is expected to be maintained by increasing the number of independent UK retail dealers, which stood at over 50 at the year end. The Group has plans to further enhance turnover and profits by the introduction of its new Infineum branded range of electric bicycles. This is a premium priced range and will incorporate a new and unique stackable battery giving the rider a choice over battery weight and distance travelled. This new range is expected to complement the existing PowaCycle range and is being launched in mid-2008.

### ENVIRONMENT

The Group complies with all legal requirements relating to the environment in all areas of its operations and therefore, has not incurred any fines or penalties or been investigated for any breach of environmental regulations. Specifically, the requirements of the EC Directive on Waste Electrical and Electronic Equipment (WEEE) have been implemented resulting in UTN Solutions (North) Limited being registered with the appropriate WEEE compliance schemes to deal with the taking back and disposal of used equipment. This subsidiary company has also implemented the requirements of the EC Directive on the Restriction of the use of Certain Hazardous Substances in Electrical and Electronic Equipment (RoHS). Compliance with RoHS is based on a self-declaration and involves requesting material declarations from suppliers, the selected analysis of products and holding a technical file on each product purchased for a minimum of four years.

## Report of the Directors *continued*

### RESEARCH AND DEVELOPMENT

The Group invests in the ongoing design and development of its PowaCycle and new Infineum branded ranges of electric bicycles. These development design costs have been estimated by the Directors to have a useful economic life of 3 years and are therefore capitalised and charged to the profit and loss account in equal instalments over this period. The Group also invests in the maintenance and development of its application software products for the legal profession to ensure they retain a modern look and feel and remain fully compliant with current legislation and practices. Unless certain conditions are met, all such expenditure on software products is charged to the profit and loss account as it is incurred.

### SUBSTANTIAL INTERESTS

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

	Number of shares	% held
Akhter Group plc and related parties	100,075,176	48.9
Barclays Stockbrokers Ltd	10,495,600	5.1

No nominee shareholder held 10% or more of the Company's issued share capital on 29 April 2008.

### DIRECTORS AND DIRECTORS' INTERESTS

The Directors who served in office since the beginning of the financial year are shown on page 2. Mr R.M. Bearpark served since his appointment on 1 October 2007. In addition, Mr P.Y. Thoms served until his resignation on 24 July 2007. The emoluments, share interests and share options of the Directors are disclosed in the Directors' Remuneration Report on pages 12 to 13.

### EXECUTIVE DIRECTORS

Prof. H.A. Mughal, aged 54, 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 and he continues to be responsible for the overall control and direction of Akhter's business. He was appointed in November 1998.

Mr R.J. Piper, aged 50, was appointed as Finance Director in October 2004. He previously held the role of Financial Controller with the Company and he also acts as Company Secretary. He is a fellow of the Association of Chartered Certified Accountants and is also Finance Director of Akhter Computers plc. During the year he was appointed as Managing Director of Cognito Software Ltd, being in addition to his existing roles.

### NON-EXECUTIVE DIRECTORS

Mr P.J. Barron, aged 66, 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 and is Chairman of the remuneration and audit committees.

Mr R.M. Bearpark, aged 58, has a significant entrepreneurial and management experience gained over 38 years in the IT industry. Over the last 18 years he has been integral to the operations of 5 IT solution and services companies as either Chief Executive or Managing Director. The last company being AIM Group Holdings Limited, a company operating mainly in the legal IT sector offering software solutions to the legal profession. He was appointed in October 2007 and is a member of the remuneration and audit committees.

### EMPLOYEES

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.

## Report of the Directors *continued*

### PENSIONS

During the year the Group contributed to the personal pension schemes (defined contribution) of certain employees. No contributions were paid in respect of the Directors.

### SHARE OPTION SCHEMES

#### **Microvitec 1994 Inland Revenue Approved Executive Share Option Scheme**

During the year ended 31 December 2007 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 2007 options were outstanding on 100,000 ordinary shares of 1p (2006: 100,000).

#### **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 been granted to date.

### CHARITABLE AND POLITICAL CONTRIBUTIONS

There were no donations to UK charitable organisations (2006: nil) and no political donations (2006: nil).

### FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES

The Group's financial instruments comprise cash and various items, such as trade debtors and creditors that arise directly from its operations. The Group's exposures to its financial instruments are not material and therefore derivative financial instruments are not used to manage them.

The main risks arising from the Group's financial instruments can be analysed as follows:

#### **Credit risk**

The Group's credit risk is primarily attributable to its trade receivables. 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 fees for software licences and support agreements are payable in advance and require a uniquely numbered "valid licence key" to operate.

#### **Price risk**

The Group does not hold any listed security investments and therefore has no exposure to securities price risk.

#### **Foreign currency risk**

The Group is not exposed to transaction foreign currency exchange risk in respect of purchases from suppliers as this process is dealt with on the Group's behalf by Akhter Group plc. Therefore, any transactions of the Group in foreign currencies are settled by Akhter Group plc and are converted to pounds sterling at pre-agreed spot rates for reimbursement by the Group. Therefore, the Group only holds any cash balances in pounds sterling.

#### **Liquidity risk**

The Group has sufficient cash resources available to meet its short-term liabilities.

#### **Cash flow interest rate risk**

The Group has no borrowings and receives variable rate interest based on UK bank base rates on cash balances and bank deposits.

### 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 (2006: 30 days).

## Report of the Directors *continued*

### STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. In preparing these financial statements, the directors have also elected to comply with IFRSs, issued by the International Accounting Standards Board (IASB). The financial statements are required by law to 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 that the financial statements comply with IFRSs as adopted by the European Union and IFRSs issued by IASB; and prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group will continue in business.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and to 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 the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information on the Group's website. 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.

### DISCLOSURE OF INFORMATION TO AUDITORS

At the date of making this report each of the Company's directors, as set out on page 2, confirm the following:

- so far as each director is aware, there is no relevant information needed by the Company's auditors in connection with preparing their report of which the Company's auditors are unaware, and
- each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant information needed by the Company's auditors in connection with preparing their report and to establish that the Company's auditors are aware of that information.

### AUDITORS

RSM Robson Rhodes LLP ("Robson Rhodes") merged its audit practice with that of Grant Thornton UK LLP ("Grant Thornton") with effect from 2 July 2007, with the successor firm being Grant Thornton. Robson Rhodes resigned as auditors on 25 July 2007 creating a casual vacancy, which the directors have filled by appointing Grant Thornton. A resolution to reappoint Grant Thornton as auditors of the Group will be proposed at the forthcoming Annual General Meeting.

### ANNUAL GENERAL MEETING

The Annual General Meeting of the Company is to be held at Akhter House, Perry Road, Harlow, Essex CM18 7PN on 29 May 2008 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.

### APPROVAL

The report of the Directors was approved by the Board on 29 April 2008 and signed on its behalf by:



**Prof. Humayun Akhter Mughal**  
Chairman and Chief Executive Officer

## Corporate Governance

As a Company quoted on the Alternative Investment Market of The London Stock Exchange, the Company is not required to comply with the provisions of the 2006 Financial Reporting Council's revised Combined Code. However, the Board is committed to ensuring that proper standards of corporate governance operate throughout the Group and has therefore followed the principles of the 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 contained within the Report of the Directors above. 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 a Chairman and Chief Executive Officer, a Finance Director and two non-executive Directors. Biographical details of all four Directors are to be found within the Report of the Directors above. 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 non-executive directors are Peter Barron (the senior non-executive director) and Richard Bearpark and the Board considers both to be independent.

The Board meets on a regular basis throughout the year reviewing trading performance, setting strategy, examining capital expenditure and acquisitions or disposals, operating budgets and material contracts.

The two Executive Directors do not have service contracts and do not receive any emoluments directly from the Company. 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 Directors are able to take independent professional advice at the expense of the Company in the furtherance of their duties.

### NOMINATIONS COMMITTEE

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 comprises both non-executive Directors and is chaired by Peter Barron. This committee 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, Grant Thornton UK 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 Barron. Details of the executive remuneration policy are set out in the separate Directors' 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 annual reports are sent to all shareholders. These reports are also available from the Company's website along with the Group's half yearly reports and 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 Board has established an organisational structure with clearly defined levels of responsibility and delegation of authority. Control procedures include annual budget approval and monitoring of actual performance. The Board approves all investment and acquisition projects for all major acquisitions and major capital expenditure.

The Board has a clear responsibility for identifying risks facing each of the businesses and for putting in place procedures to mitigate and monitor risks. As part of the annual budgeting process risks are formally assessed by the Board.

There is a system of financial reporting and budget planning. On a monthly basis, actual results are reported and compared to budget with any significant adverse variances being examined and any remedial action taken as necessary.

The Directors believe that, taken as a whole, the systems of internal control are appropriate to the business for the year ended 31 December 2007.

### **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 continue to provide the staff services, other services and facilities, as disclosed in Note 24, 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 2007. It should be noted that, as a Company quoted on the Alternative Investment Market of The London Stock Exchange, the Company is not required to comply with the Remuneration Report regulations and therefore, not all elements of the regulations have been complied with. For example, a share price graph has been omitted.

### Remuneration Committee

The Remuneration Committee consists wholly of non-executive directors, Peter Barron and Richard Bearpark. Peter Barron served as a member of the Remuneration Committee throughout the year and in the period to 29 April 2008. Richard Bearpark served as a member of the Remuneration Committee from his appointment in October 2007. In addition, Peter Thoms, previously a non-executive director, was a member of the committee from the beginning of the period until his retirement on 24 July 2007.

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 been granted to date. 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 any 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 2007 are for a rolling 12 month period. The letters of appointment do not contain notice periods or provision for termination payments.

Directors' remuneration payable for the year to 31 December 2007 was as follows:

	Basic Salary £000	Fees £000	Benefits in kind £000	2007 Total £000	2006 Total £000	Pension contributions 2007 £000	Pension contributions 2006 £000
<b>Executive</b>							
H.A. Mughal	-	-	-	-	-	-	-
R.J. Piper	-	-	-	-	-	-	-
<b>Non-Executive</b>							
P.J. Barron	-	12	-	12	12	-	-
P.Y. Thoms	-	6	-	6	12	-	-
R.M. Bearpark	-	3	-	3	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	-	21	-	21	24	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

H.A. Mughal is a director of Akhter Group plc. No remuneration is paid directly by the Group for the services of the two Executive Directors. However, a charge to the Company from Akhter Group plc of £56,000 (2006: £50,000) and to Cognito Software Limited of £9,000 (2006: nil) for executive management services, disclosed in Note 24 of the financial statements, is for the services of the Company's finance director and Akhter's marketing director. There is currently no pension provision for any of the directors and therefore no pension is accrued to them.

## Directors' Remuneration Report *continued*

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 2007		31 December 2006	
	Ordinary shares of 1p	Ordinary share options	Ordinary shares of 1p	Ordinary share options
H.A. Mughal*	100,075,176	-	100,075,176	-
R.J. Piper	-	-	-	-
P.J. Barron	-	-	-	-
P.Y. Thoms	-	-	-	-
R.M. Bearpark	-	-	-	-

\*Prof. 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 6,013,360 Ordinary Shares beneficially owned by the trustees of the Akhter Group plc Directors' SSAS Pension Fund, under which he is a beneficiary.

At 31 December 2007 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 2007 and 29 April 2008.

Beneficial holdings include the directors' 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 2007 was 0.75p and the range during the year was 0.25p to 2.25p.

### Approval

The Directors' Remuneration Report was approved by the Board on 29 April 2008 and signed on its behalf by:



**Peter Barron**  
Chairman, Remuneration Committee

## Report of the Independent Auditor to the Members of Ultima Networks plc

We have audited the group and parent company financial statements (the "financial statements") of Ultima Networks plc for the year ended 31 December 2007 which comprise the group income statement, the group and parent company balance sheets, the group and parent company cash flow statements, the group and parent company statement of recognised income and expense and notes 1 to 26. These financial statements have been prepared under the accounting policies set out therein.

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

### Respective responsibilities of directors and auditors

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

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Report of the Directors is consistent with the financial statements.

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

We read 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 Directors' Remuneration Report, the Chairman's Statement and the Financial Highlights and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### Basis of audit opinion

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

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

## Report of the Independent Auditor to the Members of Ultima Networks plc *continued*

### Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2007 and of its profit for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2007;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Report of the Directors is consistent with the financial statements.

*Grant Thornton UK LLP*

**Grant Thornton UK LLP**

Chartered Accountants and Registered Auditors

Cambridge, England

29 April 2008

**Consolidated income statement  
for the year ended 31 December 2007**

	<i>Note</i>	<b>2007 £000</b>	2006 £000
<b>Revenue</b>	3	<b>1,564</b>	1,398
Cost of sales		<b>(452)</b>	(372)
<b>Gross profit</b>		<b>1,112</b>	1,026
Administration expenses		<b>(883)</b>	(985)
Other operating income	7	<b>4</b>	184
<b>Operating profit before disposal of freehold property</b>		<b>233</b>	225
Disposal of freehold property	8	-	462
<b>Operating profit</b>	5	<b>233</b>	687
Finance income	4	<b>43</b>	11
Finance costs	4	-	(150)
<b>Profit before taxation</b>		<b>276</b>	548
Taxation expense	10	<b>(11)</b>	(33)
<b>Profit for the period attributable to equity holders of the parent</b>		<b>265</b>	515
<b>Basic and diluted earnings per share – pence</b>	11	<b>0.13</b>	0.25

All amounts relate to continuing activities.

**Consolidated balance sheet  
at 31 December 2007**

	Note	2007 £000	2006 £000
<b>ASSETS</b>			
<b>Non current assets</b>			
Property, plant and equipment	12a	120	127
Intangible assets – development costs	12b	6	7
Deferred tax asset	19	5	4
<b>Total non current assets</b>		<b>131</b>	<b>138</b>
<b>Current assets</b>			
Inventories	14	257	208
Trade and other receivables	15	284	234
Cash and cash equivalents	16	1,026	832
<b>Total current assets</b>		<b>1,567</b>	<b>1,274</b>
<b>Total assets</b>		<b>1,698</b>	<b>1,412</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	17	97	139
Current tax liabilities		98	65
Accruals and deferred income		335	305
<b>Total current liabilities</b>		<b>530</b>	<b>509</b>
<b>Total liabilities</b>		<b>530</b>	<b>509</b>
<b>Net assets</b>		<b>1,168</b>	<b>903</b>
<b>EQUITY</b>			
<b>Capital and reserves attributable to equity holders of the parent</b>			
Called up share capital	20	7,554	7,554
Share premium account		5,602	5,602
Other reserves		-	1,334
Retained earnings		(11,988)	(13,587)
<b>Total equity</b>		<b>1,168</b>	<b>903</b>

These financial statements were approved by the board of directors on 29 April 2008 and were signed on its behalf by:



**Prof. Humayun Akhter Mughal**  
Chairman and Chief Executive Officer

**Company balance sheet**  
*at 31 December 2007*

	Note	2007 £000	2006 £000
<b>ASSETS</b>			
<b>Non current assets</b>			
Property, plant and equipment	12a	107	112
Investments	13	513	513
<b>Total non current assets</b>		<b>620</b>	625
<b>Current assets</b>			
Trade and other receivables	15	22	43
Cash and cash equivalents	16	1,012	827
<b>Total current assets</b>		<b>1,034</b>	870
<b>Total assets</b>		<b>1,654</b>	1,495
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	17	961	860
Accruals and deferred income		44	28
<b>Total current liabilities</b>		<b>1,005</b>	888
<b>Total liabilities</b>		<b>1,005</b>	888
<b>Net assets</b>		<b>649</b>	607
<b>EQUITY</b>			
<b>Capital and reserves attributable to equity holders of the parent</b>			
Called up share capital	20	7,554	7,554
Share premium account		5,602	5,602
Other reserves		202	5,618
Retained earnings		(12,709)	(18,167)
<b>Total equity</b>		<b>649</b>	607

These financial statements were approved by the board of directors on 29 April 2008 and were signed on its behalf by:



**Prof. Humayun Akhter Mughal**  
Chairman and Chief Executive Officer

**Consolidated cash flow statement  
for the year ended 31 December 2007**

	<b>2007</b>	2006
	<b>£000</b>	£000
<b>Profit for the financial period</b>	<b>265</b>	515
Taxation expense	11	33
Interest receivable	<b>(43)</b>	(11)
Interest payable	-	150
Depreciation charges	<b>12</b>	96
Profit on disposal of property, plant and equipment	-	(462)
Amortisation of intangibles	<b>5</b>	3
	<hr/>	<hr/>
<b>Operating profit before changes in working capital</b>	<b>250</b>	324
Increase in inventories	<b>(49)</b>	(94)
Increase in trade and other receivables	<b>(50)</b>	(22)
Increase/ (decrease) in trade payables and other current liabilities	<b>9</b>	(49)
	<hr/>	<hr/>
<b>Cash generated from operations</b>	<b>160</b>	159
Taxation	-	-
	<hr/>	<hr/>
<b>Net cash generated from operating activities</b>	<b>160</b>	159
	<hr/>	<hr/>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	<b>(5)</b>	(17)
Development expenditure	<b>(4)</b>	(10)
Proceeds from sale of property, plant and equipment	-	4,163
	<hr/>	<hr/>
<b>Net cash used in investing activities</b>	<b>(9)</b>	4,136
	<hr/>	<hr/>
<b>Cash flows from financing activities</b>		
Interest received	<b>43</b>	11
Interest paid	-	(226)
Repayment of borrowings	-	(3,068)
	<hr/>	<hr/>
<b>Net cash used in financing activities</b>	<b>43</b>	(3,283)
	<hr/>	<hr/>
<b>Net increase in cash and cash equivalents</b>	<b>194</b>	1,012
<b>Cash and cash equivalents at beginning of the period</b>	<b>832</b>	(180)
	<hr/>	<hr/>
<b>Cash and cash equivalents at end of the period</b>	<b>1,026</b>	832
	<hr/> <hr/>	<hr/> <hr/>

**Company cash flow statement**  
*for the year ended 31 December 2007*

	<b>2007</b>	2006
	<b>£000</b>	£000
<b>Profit for the financial period</b>	<b>42</b>	226
Interest receivable	(43)	(11)
Interest payable	-	150
Depreciation charges	5	89
Profit on disposal of property, plant and equipment	-	(462)
Impairment charges	-	100
	<hr/>	<hr/>
<b>Operating profit before changes in working capital</b>	<b>4</b>	92
Decrease/ (increase) in trade and other receivables	21	(4)
Increase in trade payables and other current liabilities	117	41
	<hr/>	<hr/>
<b>Cash generated from operations</b>	<b>142</b>	129
Taxation	-	-
	<hr/>	<hr/>
<b>Net cash generated from operating activities</b>	<b>142</b>	129
	<hr/>	<hr/>
<b>Cash flows from investing activities</b>		
Proceeds from sale of property, plant and equipment	-	4,163
	<hr/>	<hr/>
<b>Net cash used in investing activities</b>	<b>-</b>	4,163
	<hr/>	<hr/>
<b>Cash flows from financing activities</b>		
Interest received	43	11
Interest paid	-	(226)
Repayment of borrowings	-	(3,068)
	<hr/>	<hr/>
<b>Net cash used in financing activities</b>	<b>43</b>	(3,283)
	<hr/>	<hr/>
<b>Net increase in cash and cash equivalents</b>	<b>185</b>	1,009
<b>Cash and cash equivalents at beginning of the period</b>	<b>827</b>	(182)
	<hr/>	<hr/>
<b>Cash and cash equivalents at end of the period</b>	<b>1,012</b>	827
	<hr/> <hr/>	<hr/> <hr/>

## Consolidated statement of changes in equity

### (i) Year ended 31 December 2007

	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	-	-	-	-	265	265
Transfer	-	-	-	(1,334)	1,334	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2007	7,554	5,602	-	-	(11,988)	1,168
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

### Other reserve

The balance of £1,334,000 on the other reserve at 1 January 2007 comprises the premium on shares issued as part of the consideration for the acquisition of various subsidiary undertakings less the expenses of issuing those shares, the costs of the acquisitions and goodwill written off. Therefore, as those subsidiary undertakings representing this balance on the other reserve have been disposed of, it has been transferred to retained earnings.

### (ii) Year ended 31 December 2006

	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	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2006	7,554	5,602	-	1,334	(13,587)	903
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

## Company statement of changes in equity

### (i) Year ended 31 December 2007

	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	-	5,618	(18,167)	607
Profit for the period	-	-	-	-	42	42
Transfer	-	-	-	(5,416)	5,416	-
	<u>7,554</u>	<u>5,602</u>	<u>-</u>	<u>202</u>	<u>(12,709)</u>	<u>649</u>
At 31 December 2007	<u>7,554</u>	<u>5,602</u>	<u>-</u>	<u>202</u>	<u>(12,709)</u>	<u>649</u>

### Other reserve

The balance of £5,618,000 on the other reserve at 1 January 2007 comprises the premium on shares issued as part of the consideration for the acquisition of various subsidiary undertakings less the expenses of issuing those shares and the costs of the acquisitions. All but one of the subsidiary undertakings representing this balance on the other reserve has either been disposed of or the carrying value of the investment in it has been impaired to nil, the amount representing this has been transferred to retained earnings leaving the balance on the reserve to represent the remaining subsidiary.

### (ii) Year ended 31 December 2006

	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	5,618	(20,464)	381
Profit for the period	-	-	-	-	226	226
Sale of freehold property	-	-	(2,071)	-	2,071	-
	<u>7,554</u>	<u>5,602</u>	<u>-</u>	<u>5,618</u>	<u>(18,167)</u>	<u>607</u>
At 31 December 2006	<u>7,554</u>	<u>5,602</u>	<u>-</u>	<u>5,618</u>	<u>(18,167)</u>	<u>607</u>

## Notes (forming part of the financial statements)

### 1 GENERAL INFORMATION

Ultima Networks plc ("the Company") and its subsidiaries (together "the Group") are involved in the marketing and support of computer application software and the merchandising of various products, but primarily electric bicycles.

The Company is a public limited company, which is quoted on the Alternative Investment Market of The London Stock Exchange and is incorporated and domiciled in the UK. The address of its registered office is Akhter House, Perry Road, Harlow CM18 7PN.

The registered number of the Company is 1435584.

### 2 ACCOUNTING POLICIES

#### Authorisation of financial statements and statement of compliance with IFRS:

The Group's and Company's financial statements for the year ended 31 December 2007 were authorised for issue by the Board of Directors on 29 April 2008 and the balance sheets were signed on the Board's behalf by Prof. Humayun Akhter Mughal.

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations as endorsed by the European Union, and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. The Company's financial statements have been prepared on the same basis and as permitted by Section 230(3) of the Companies Act 1985, no income statement is presented for the Company. Within the consolidated profit, a profit of £42,000 (2006: £226,000) is dealt with in the financial statements of the parent Company.

#### Basis of preparation:

These are the Group's and Company's first financial statements prepared under IFRS and IFRS 1 "First Time Adoption of International Financial Reporting Standards" has been applied. The last financial statements under UK Generally Accepted Accounting Principles ("UK GAAP") were for the year to 31 December 2006 and the comparatives have been restated to comply with IFRS. The transition from UK GAAP to IFRS is explained in note 25.

The financial statements are presented in pounds sterling and all values are rounded to the nearest thousand pounds (£000) except when otherwise indicated.

The accounting policies have been applied consistently to all periods presented in these consolidated financial statements and in preparing an opening balance sheet at 1 January 2006, being the date of transition, for the purposes of transition to IFRS unless otherwise stated.

#### Basis of consolidation:

The consolidated financial statements incorporate the results and net assets of Ultima Networks plc and its subsidiary undertakings (together referred to as the 'Group') for the year ended 31 December 2007. A subsidiary is an entity over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than 50% of the voting rights. The results of each subsidiary are included from the date that control transferred to the Group and are adjusted to align accounting policies with the Group's accounting policies. Subsidiaries are no longer consolidated from the date that control ceases. All intercompany balances and transactions are eliminated in full.

#### Company investment in subsidiaries:

In its separate financial statements the Company recognises its investments in subsidiaries at cost. Income is recognised from these investments only in relation to distributions received from post acquisition profits.

#### Share-based payments:

All share-based payment arrangements granted after 7 November 2002 that had not vested prior to 1 January 2006 are recognised in the financial statements.

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payments, the fair values of employee's services are determined indirectly by reference to the fair value of the instrument granted to the employee. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example, profitability and sales growth targets). All equity-settled share-based payments are ultimately recognised as an expense in the income statement with a corresponding credit to reserves.

If vesting periods or other non-market vesting conditions apply; the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting. Upon exercise of share options the proceeds received net of attributable transaction costs are credited to share capital, and where appropriate share premium.

## Notes (forming part of the financial statements)

### 2 ACCOUNTING POLICIES *continued*

#### **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 is recognised as an asset on the Group's balance sheet in the year in which it arises. Goodwill is not amortised and is tested for impairment at least annually and more frequently if events or changes indicate that the carrying value may be impaired and is carried at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill is allocated to the cash generating units on which it arose. Any impairment is recognised immediately in the consolidated income statement and is not subsequently reversed.

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.

#### **Revenue recognition:**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue consists of the fair value (excluding VAT) of consideration received for goods and services supplied to third parties.

Revenue from the sale of software product licences is recognised at the time the software licence is granted. Revenue relating to hardware and software support is recognised proportionally over the period to which it relates. Revenue from the sale of other products is recognised when the Group has delivered the products and there is no unfulfilled obligation that could affect the customer's acceptance of the products.

#### **Research and development:**

All research expenditure is written off in the year in which it is incurred. Unless certain conditions are met, all development expenditure is also written off in the year in which it is incurred.

The Group incurs development costs that are design costs relating to the production of new or substantially improved devices and products for the Groups 'PowaCycle' and 'Infineum' ranges of electric bicycles and development costs that relate to the production of new or substantially improved application software products for the legal profession.

Development costs are capitalised only if the following conditions are met: A new or substantially improved asset is created that can be clearly identified; it is probable that the asset created will generate future economic benefits and the development cost of the asset can be measured reliably. If all these conditions are met then the associated development costs are amortised on a straight line basis over the useful life of the asset, which is estimated to be 3 years.

#### **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 from those of other business segments and whose operating results are reviewed on a regular basis by the Group's board and for which discrete financial information is available. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

#### **Property, plant and equipment:**

Property, plant and equipment is carried at cost or valuation less accumulated depreciation and any recognised impairment in value. Cost comprises the aggregate amount paid to acquire the asset and includes costs directly attributable to making the asset capable of operating as intended.

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 the assets, to write them down to their estimated residual values over their expected useful lives. No depreciation is provided on freehold land. The principal annual rates used for other assets are:

Freehold buildings	- 25 to 50 years
Office equipment	- 5 years
Motor vans	- 4 years
Computer equipment	- 3 years

The assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate on an annual basis. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year that the asset is derecognised.

## Notes (forming part of the financial statements)

### 2 ACCOUNTING POLICIES *continued*

#### **Impairment of assets:**

At each balance sheet date, the Group reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset, which is the higher of its fair value less costs to sell and its value in use, is estimated in order to determine the extent of the impairment loss. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

An impairment charge is recognised in the income statement in the year in which it occurs. When an impairment loss, other than an impairment loss on goodwill, subsequently reverses due to a change in its original estimate, the carrying amount of the asset is increased to the revised estimate of its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

#### **Inventories:**

Inventories are valued at the lower of cost and net realisable value. Cost of raw materials, consumables and goods purchased for resale means actual purchase price, including transport and handling and is determined using the FIFO method. Net realisable value means estimated net selling price less estimated costs of disposal.

#### **Trade and other receivables:**

Trade receivables do not carry any interest and are recognised and carried at the lower of their original invoiced value and recoverable amount. Provision against trade receivables is made when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of those receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

#### **Cash and cash equivalents:**

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within financial liabilities in current liabilities on the balance sheet.

#### **Trade and other payables:**

Trade payables are not interest bearing and are stated at their fair value and then subsequently measured at amortised cost using the effective interest method.

#### **Provisions:**

Provisions are recognised when there is a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefit will be required to settle the obligation, and where the amount of the obligation can be reliably measured.

#### **Foreign currencies:**

The Group does not carry investments, assets or liabilities denominated in foreign currencies or hold derivative instruments. Transactions in foreign currencies are dealt with on the Group's behalf by Akhter Group plc. Therefore, any transactions of the Group in foreign currencies are settled by Akhter Group plc and are converted to pounds sterling at pre-agreed spot rates for reimbursement by the Group.

#### **Income taxes:**

Current income tax assets and liabilities are measured at the amount expected to be recovered or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised using the balance sheet liability method, providing for temporary differences between the tax bases and the accounting bases of assets and liabilities. Deferred income tax is calculated on an undiscounted basis at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Deferred income tax liabilities are recognised for all temporary differences, except where the deferred income tax liability from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred income tax assets and liabilities are offset against each other only when the Group has a legally enforceable right to do so.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised.

## Notes (forming part of the financial statements)

### 2 ACCOUNTING POLICIES *continued*

#### Pensions:

The Group does not operate any pension schemes, but does contribute to the personal pension plans of certain staff. The contributions are charged as an expense as they fall due. Any contributions unpaid at the balance sheet date are included as an accrual at that date. The Group has no future payment obligations once the contributions have been paid.

#### Leased assets – Group as lessee:

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the Group. All other leases are classified as operating leases.

Assets leased under operating leases are not recorded on the balance sheet. Rentals payable are charged direct to the income statement. Lease incentives, for example, up-front cash payments or rent-free periods, are capitalised and spread over the period of the lease term. Payments made to acquire operating leases are treated as prepaid lease expenses and amortised over the life of the lease.

#### Leased assets – Group as lessor:

Assets leased out under operating leases are included in property, plant and equipment and depreciated over their useful lives. Rental income, including the effect of lease incentives, is recognised on a straight line basis over the lease term.

#### Use of assumptions and estimates:

The Group makes judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The resulting accounting estimates calculated using these judgements and assumptions will, by definition, seldom equal the related actual results but are based on historical experience and expectations of future events. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

The estimates and assumptions that have a significant effect on the amounts recognised in the financial statements are:

- establishing depreciation and amortisation periods for the Group;
- estimates in relation to future cash flows and discount rates utilised in impairment testing;
- whether development costs meet the capitalisation criteria in IAS 38;
- the recognition and quantification of provisions under IAS 37;
- changes in estimates under IAS 8;
- fair-values in share-based payments under IFRS 2;
- estimates of net realisable values of inventories under IAS 2; and
- management intentions for realisation of tax assets and liabilities under IAS 12.

#### Standards issued by the International Accounting Standards Board (IASB) not yet effective for the current year and not adopted by the Group:

The following standards and interpretations have been issued by the IASB. They become effective after the current year and have not been early adopted by the Group and Company:

International Financial Reporting Standards (IFRS)		Effective date	To be adopted by the Group and Company during years commencing
IFRS 2	Amendment - Share-based Payment Vesting Conditions and Cancellations	01.01.2009	01.01.2009
IFRS 8	Operating Segments	01.01.2009	01.01.2009
IFRS 3	Business Combinations (revised 2008)	01.01.2009	01.01.2010
IAS 1	Presentation of Financial Statements (revised 2007)	01.01.2009	01.01.2009
IAS 23	Amendment – Borrowing Costs	01.01.2009	01.01.2009
IAS 27	Consolidated and Separate Financial Statements (revised 2008)	01.01.2009	01.01.2010
IAS 32	Amendment - Puttable Financial Instruments and Obligations Arising on Liquidation	01.01.2009	01.01.2009
International Financial Reporting Interpretations Committee (IFRIC)			
IFRIC 11	IFRS 2 – Group and Treasury Share Transactions	01.03.2007	01.01.2008
IFRIC 12	Service Concession Arrangements	01.01.2008	01.01.2008
IFRIC 13	Customer Loyalty Programmes	01.07.2008	01.01.2009
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	01.01.2008	01.01.2008

The impact on the Group's and Company's financial statements from the adoption of these new financial reporting standards is not expected to be material.

## Notes (forming part of the financial statements)

### 3 SEGMENTAL REPORTING

The Group operates wholly within the United Kingdom and therefore has no separate geographical segments of operation.

At 31 December 2007, the Group is organised into two principal business segments:

- IT and related services (comprising legal and publishing application software)
- Other products (comprising electric bicycles, energy saving lamps and educational electronic kits)

The segmental results for the year ended 31 December 2007 are as follows:

	IT and related services £000	Other products £000	Unallocated £000	Group £000
Revenue	701	863	-	1,564
Operating profit	148	85	-	233
Finance income				43
Profit before taxation				276
Depreciation	4	3	5	12
Amortisation	-	5	-	5

The segment results for the year ended 31 December 2006 are as follows:

	IT and related services £000	Other products £000	Unallocated £000	Group £000
Revenue	778	620	-	1,398
Operating profit	126	5	556	687
Finance costs - net				(139)
Profit before taxation				548
Depreciation	3	4	89	96
Amortisation	-	3	-	3

The unallocated operating profit in 2006 of £556,000 relates to the activities of the Company and includes rent receivable of £180,000 from the freehold investment property in Bradford and the profit of £462,000 on the sale of this property in September 2006. Since the disposal of this property, the Company has acted solely as a holding company recharging its administration costs to its trading subsidiaries on an equitable basis.

The assets and liabilities of the Group cannot be allocated to the above segments. Entity balance sheets are not split into segments for internal reporting purposes.

## Notes (forming part of the financial statements)

### 4 FINANCE INCOME AND COSTS

	2007 £000	2006 £000
Interest expense:		
- Interest payable on bank loans and overdrafts	-	84
- Interest payable on other loans (Akhter Group plc)	-	35
- Interest payable on unsecured 8% loan notes	-	31
	-	150
Finance costs	-	150
Finance income:		
- Bank interest receivable	(43)	(11)
	(43)	(11)
Net finance (income)/ costs	(43)	139

### 5 OPERATING PROFIT

	2007 £000	2006 £000
<b>Operating profit is stated after charging:</b>		
Depreciation and other amounts written off property, plant and equipment	12	96
Amortisation of intangible development costs	5	2
Operating leases – rent of buildings	49	34
	66	132

### 6 AUDITOR REMUNERATION

#### Services provided by the Company's auditor and its associates

During the year the Group obtained the following services from the Company's auditor and its associates:

	2007 £000	2006 £000
<b>Group</b>		
Fees payable to the Company's auditor for the audit of the Company and consolidated financial statements	11	7
Fees payable to the Company's auditor and its associates for other services:		
- The audit of Company's subsidiaries pursuant to legislation	7	7
	18	14

### 7 OTHER OPERATING INCOME

	2007 £000	2006 £000
Rent receivable from freehold property	-	180
Royalty receivable from sale of subsidiary	4	4
	4	184

## Notes (forming part of the financial statements)

### 8 DISPOSAL OF FREEHOLD PROPERTY

	2007 £000	2006 £000
Valuation	-	3,900
Accumulated depreciation	-	(199)
	<hr/>	<hr/>
Net book value	-	3,701
Costs of disposal	-	37
Profit on disposal	-	462
	<hr/>	<hr/>
Cash consideration	-	4,200
	<hr/> <hr/>	<hr/> <hr/>

On 29 September 2006 the Company completed the sale of its freehold investment property in Bradford to an unconnected third party. The sale did not give rise to a charge to corporation tax. Therefore, the balance on the revaluation reserve was realised and transferred to profit and loss account.

### 9 EMPLOYEES

	2007 £000	2006 £000
Employees costs including executive directors during the year amounted to:		
Wages and salaries	461	499
Social security costs	45	47
Other pension costs	3	3
	<hr/>	<hr/>
	509	549
	<hr/> <hr/>	<hr/> <hr/>

	Number of employees	
	2007	2006
The average number of persons employed during the year including executive directors analysed by category was made up as follows:		
Production	2	2
Sales and marketing	2	4
Product development and support	8	8
Administration	9	10
	<hr/>	<hr/>
	21	24
	<hr/> <hr/>	<hr/> <hr/>

The Company has no employees and no staff costs.

	2007 £000	2006 £000
The total remuneration of Directors was as follows:		
Fees of non-executives	21	24
Remuneration as executives (including benefits in kind)	-	-
Pension contributions	-	-
	<hr/>	<hr/>
	21	24
	<hr/> <hr/>	<hr/> <hr/>

No remuneration is paid directly by the Group for the services of the two Executive Directors. However, a charge to the Company from Akhter Group plc of £56,000 (2006: £50,000) and Cognito Software Limited of £9,000 (2006: nil) for executive management services, disclosed in Note 24 of the financial statements, is for the services of the Company's finance director and Akhter's marketing director. There is currently no pension provision for any of the directors and therefore no pension is accrued to them.

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 12 to 13.

## Notes (forming part of the financial statements)

### 10 TAXATION ON PROFIT

<b>(a) Analysis of charge in the year</b>	<b>2007</b>	2006
	<b>£000</b>	£000
<b>Current taxation</b>		
UK corporation tax on profits for the year	29	17
Adjustments in respect of previous periods	(17)	-
	<hr/>	<hr/>
Total current taxation	12	17
<b>Deferred taxation</b>		
Origination and reversal of temporary differences (note 19)	(1)	16
	<hr/>	<hr/>
Taxation expense	11	33
	<hr/> <hr/>	<hr/> <hr/>
<b>(b) Factors affecting charge in the year</b>		
Profit on ordinary activities before taxation	276	548
	<hr/> <hr/>	<hr/> <hr/>
Tax at UK corporation tax rate 20% (2006: 19%)	55	104
Effect of:		
Profit on sale of property not taxable	-	(88)
Expenditure not tax deductible	-	17
Utilisation of tax losses not recognised for deferred taxation	(27)	-
Adjustments in respect of previous periods	(17)	-
	<hr/>	<hr/>
Taxation expense	11	33
	<hr/> <hr/>	<hr/> <hr/>

The corporation tax rate has been changed from the rate of 19% applied in the prior year to reflect the actual rate applicable to the current year of 20%.

The Group has tax losses to carry forward of £5,760,000 (2006: £5,978,000) which may be available for offset against future trading profits.

### 11 EARNINGS PER SHARE

	<b>2007</b>	2006
	<b>Number</b>	Number
Weighted average ordinary shares in issue during the year	204,747,964	204,747,964
Potentially dilutive share options under the Group's share option schemes	-	-
	<hr/>	<hr/>
Weighted average ordinary shares for diluted earnings per share	204,747,964	204,747,964
	<hr/> <hr/>	<hr/> <hr/>
	<b>£'s</b>	£'s
Earnings/ (loss) attributable to shareholders:		
Continuing operations	265,000	515,000
Discontinued operations	-	-

The calculation of earnings per ordinary share is based on the profit for the period attributable to equity holders of the parent and the weighted average number of ordinary shares in issue during the year.

## Notes (forming part of the financial statements)

### 12a PROPERTY, PLANT AND EQUIPMENT

#### At 31 December 2007

GROUP	Freehold land and buildings £000	Office and computer equipment and motor vans £000	Total £000
<b>Cost or valuation</b>			
At beginning of year	120	30	150
Additions	-	5	5
	<hr/>	<hr/>	<hr/>
At end of year	120	35	155
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>Depreciation</b>			
At beginning of year	8	15	23
Charge for year	5	7	12
	<hr/>	<hr/>	<hr/>
At end of year	13	22	35
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>Net book value</b>			
At end of year	107	13	120
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At beginning of year	112	15	127
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

#### At 31 December 2006

GROUP	Freehold land and buildings £000	Office and computer equipment and motor vans £000	Total £000
<b>Cost or valuation</b>			
At beginning of year	4,020	118	4,138
Additions	-	17	17
Disposals	(3,900)	(105)	(4,005)
	<hr/>	<hr/>	<hr/>
At end of year	120	30	150
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>Depreciation</b>			
At beginning of year	118	113	231
Charge for year	89	7	96
Disposals	(199)	(105)	(304)
	<hr/>	<hr/>	<hr/>
At end of year	8	15	23
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>Net book value</b>			
At end of year	112	15	127
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At beginning of year	3,902	5	3,907
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

## Notes (forming part of the financial statements)

### 12a PROPERTY, PLANT AND EQUIPMENT *continued*

COMPANY	At 31 December 2007	At 31 December 2006
	Freehold land and buildings £000	Freehold land and buildings £000
<b>Valuation</b>		
At beginning of year	120	4,020
Disposals	-	(3,900)
	<hr/>	<hr/>
At end of year	120	120
	<hr/> <hr/>	<hr/> <hr/>
<b>Depreciation</b>		
At beginning of year	8	118
Charge for year	5	89
Disposals	-	(199)
	<hr/>	<hr/>
At end of year	13	8
	<hr/> <hr/>	<hr/> <hr/>
<b>Net book value</b>		
At end of year	107	112
	<hr/> <hr/>	<hr/> <hr/>
At beginning of year	112	3,902
	<hr/> <hr/>	<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	2007 £000	2006 £000
Cost	120	120
Depreciation	(13)	(8)
	<hr/>	<hr/>
	107	112
	<hr/> <hr/>	<hr/> <hr/>

Freehold land and buildings include depreciable assets of £108,000 (2006: £108,000).

The freehold land and buildings owned by the Company and located in Crediton, Devon was revalued on the basis of market value and rental value. The valuation report, dated 20 September 2004, quotes a market value that agrees to the original cost of £120,000. The directors do not consider this valuation to be materially different as at 31 December 2007 and therefore that the carrying value is not materially different from the fair value.

## Notes (forming part of the financial statements)

### 12b INTANGIBLE ASSETS

GROUP	At 31 December 2007	At 31 December 2006
	Development costs	Development costs
	£000	£000
<b>Cost</b>		
At beginning of year	10	-
Additions	4	10
	<hr/>	<hr/>
At end of year	14	10
	<hr/> <hr/>	<hr/> <hr/>
<b>Amortisation</b>		
At beginning of year	3	-
Charge for year	5	3
	<hr/>	<hr/>
At end of year	8	3
	<hr/> <hr/>	<hr/> <hr/>
<b>Net book value</b>		
<b>At end of year</b>	<b>6</b>	<b>7</b>
	<hr/> <hr/>	<hr/> <hr/>
At beginning of year	7	-
	<hr/> <hr/>	<hr/> <hr/>

### 13 INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

COMPANY	At 31 December 2007
	£000
<b>Cost</b>	
At beginning of year	6,066
Adjustment *	(3,538)
	<hr/>
At end of year	2,528
	<hr/> <hr/>
<b>Provision</b>	
At beginning and end of year	5,553
Adjustment *	(3,538)
	<hr/>
At end of year	2,015
	<hr/> <hr/>
<b>Net book value</b>	
<b>At end of year</b>	<b>513</b>
	<hr/> <hr/>
At beginning of year	513
	<hr/> <hr/>

\* The adjustment is in respect of disposals made in prior periods.

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

Subsidiary undertakings	Principal activity
UTN Solutions (North) Limited	Merchandising of electric bicycles and other products
Integrated Publishing Systems Limited	Support of computer application software
Cognito Software Limited	Marketing and support of computer application software

All Companies were incorporated in England and Wales and trade in the UK.

## Notes (forming part of the financial statements)

### 14 INVENTORY

	Group		Company	
	2007 £000	2006 £000	2007 £000	2006 £000
Finished goods	257	208	-	-
	<u>257</u>	<u>208</u>	<u>-</u>	<u>-</u>
	<u><u>257</u></u>	<u><u>208</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

### 15 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2007 £000	2006 £000	2007 £000	2006 £000
Trade receivables	162	134	-	-
Less: provision for impairment	-	-	-	-
	<u>162</u>	<u>134</u>	<u>-</u>	<u>-</u>
Trade receivables - net	162	134	-	-
Owed by related party (see note 24)	23	-	-	-
Other receivables	15	15	15	15
Tax recoverable	7	16	7	12
Prepayments and accrued income	77	69	-	16
	<u>284</u>	<u>234</u>	<u>22</u>	<u>43</u>
	<u><u>284</u></u>	<u><u>234</u></u>	<u><u>22</u></u>	<u><u>43</u></u>

The directors do not consider there to be any material difference between the fair values of trade and other receivables and the amounts shown above. The trade and other receivables of the Company and the Group are all denominated in pounds sterling. The Group's main credit risk relates to trade receivables. No collateral is held as security against these receivables and the carrying value approximates to the fair value.

Trade receivables that are less than three months past due are not considered impaired. As of 31 December 2007, trade receivables of £2,000 (2006: nil) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	Group		Company	
	2007 £000	2006 £000	2007 £000	2006 £000
Up to 3 months	2	-	-	-
3 to 6 months	-	-	-	-
	<u>2</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u><u>2</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

As of 31 December 2007, trade receivables of £3,000 (2006: nil) were impaired, but not provided for as the directors considered the amounts to be immaterial. The ageing of these receivables is as follows:

	Group		Company	
	2007 £000	2006 £000	2007 £000	2006 £000
Up to 3 months	-	-	-	-
3 to 6 months	3	-	-	-
	<u>3</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u><u>3</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

## Notes (forming part of the financial statements)

### 16 CASH AND CASH EQUIVALENTS

	Group		Company	
	2007 £000	2006 £000	2007 £000	2006 £000
Cash at bank and on hand	76	832	62	827
Short-term bank deposits	950	-	950	-
	<u>1,026</u>	<u>832</u>	<u>1,012</u>	<u>827</u>

### 17 TRADE AND OTHER PAYABLES

	Group		Company	
	2007 £000	2006 £000	2007 £000	2006 £000
Trade payables	50	71	6	12
Amounts due to Group undertakings	-	-	927	798
Owed to related party (see note 24)	47	68	28	50
	<u>97</u>	<u>139</u>	<u>961</u>	<u>860</u>

The directors consider that the carrying value of trade and other payables approximates to their fair value.

### 18 FINANCIAL INSTRUMENTS

The Group's principal financial instruments, from which financial instrument risk arises, comprise cash and cash equivalents, trade receivables and trade payables that arise directly from its operations. The main financial instrument risks arising from, and impacted by, the financial assets and liabilities of the Group are credit risk, cash flow interest rate risk and liquidity risk. The Board reviews and agrees policies for managing these risks and they are summarised below.

The Group does not hold any derivative financial instruments. The Group's financial assets and liabilities are measured at amortised cost.

The principal financial assets of the Group are trade receivables and cash at bank. Cash is held in Sterling only in either current account or on short-term deposit. The amounts being as follows:

Current financial assets	2007 £000	2006 £000
Trade receivables	165	134
Cash and cash equivalents	1,026	832
	<u>1,191</u>	<u>966</u>

Trade receivables arise directly from the Group's operations and do not carry any interest. All cash balances attract interest at floating rates that vary with UK bank base rates. The Group does not have any undrawn borrowing facilities.

## Notes (forming part of the financial statements)

### 18 FINANCIAL INSTRUMENTS *continued*

The principal financial liabilities of the Group are trade payable, the amounts being as follows:

<b>Current financial liabilities</b>	<b>2007</b>	<b>2006</b>
	<b>£000</b>	<b>£000</b>
Trade payables	<b>50</b>	<b>71</b>

Trade payables arise directly from the Group's operations and are not interest bearing.

#### **Credit risk**

The Group's credit risk is primarily attributable to its trade receivables. 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 fees for software licences and support agreements are payable in advance and require a uniquely numbered "valid licence key" to operate.

#### **Cash flow interest rate risk**

The Group is cash positive and places its balances on short-term deposits with Lloyds TSB Bank plc. Variable rate interest receivable is based on UK bank base rates and therefore changes in interest rates will affect the return on cash balances. No interest is received on any of the Group's other assets or receivables. The Group does not have any loans, bank borrowings or other interest bearing payables.

#### **Liquidity risk**

It is the Group's policy to maintain sufficient cash resources to meet its short-term liabilities

#### **Foreign currency risk**

The Group is not exposed to transaction foreign currency exchange risk in respect of purchases from suppliers as this process is dealt with on the Group's behalf by Akhter Group plc. Therefore, any transactions of the Group in foreign currencies are settled by Akhter Group plc and are converted to pounds sterling at pre-agreed spot rates for reimbursement by the Group. Therefore, the Group only holds any cash balances in pounds sterling.

#### **Price risk**

The Group does not hold any listed security investments and therefore has no exposure to securities price risk.

#### **Capital risk management**

The Group considers its capital to comprise its ordinary and deferred share capital, share premium account and accumulated retained losses.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group considers equity funding as the most appropriate form of capital for the Group, but keeps this under review taking into account the risks, costs and benefits to equity shareholders of introducing debt.

## Notes (forming part of the financial statements)

### 19 DEFERRED TAXATION

			Group £'000	Company £'000
Deferred tax asset at 1 January 2007			4	-
Credited to income statement in the year			1	-
			<hr/>	<hr/>
<b>Deferred tax asset at 31 December 2007</b>			<b>5</b>	<b>-</b>
			<hr/> <hr/>	<hr/> <hr/>
<b>GROUP</b>		<b>Provided</b>		<b>Not provided</b>
	<b>2007</b>	2006	<b>2007</b>	2006
	<b>£000</b>	£000	<b>£000</b>	£000
Accelerated capital allowances	(5)	(4)	-	-
Losses	-	-	(1,152)	(1,136)
	<hr/>	<hr/>	<hr/>	<hr/>
	(5)	(4)	(1,152)	(1,136)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>COMPANY</b>		<b>Provided</b>		<b>Not provided</b>
	<b>2007</b>	2006	<b>2007</b>	2006
	<b>£000</b>	£000	<b>£000</b>	£000
Losses	-	-	(974)	(951)
	<hr/>	<hr/>	<hr/>	<hr/>
	-	-	(974)	(951)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The Group has tax losses of £5,760,000 as at 31 December 2007 (2006: £5,978,000) which have not been recognised for deferred tax purposes as these may only be set against certain profits arising in future accounting periods.

### 20 CALLED UP SHARE CAPITAL

	2007 £000	2006 £000
<b>Authorised</b>		
449,302,276 ordinary shares of 1p each	4,493	4,493
137,674,431 deferred shares of 4p each	5,507	5,507
	<hr/>	<hr/>
	10,000	10,000
	<hr/> <hr/>	<hr/> <hr/>
<b>Allotted, called up and fully paid up</b>		
204,747,964 ordinary shares of 1p each	2,047	2,047
137,674,431 deferred shares of 4p each	5,507	5,507
	<hr/>	<hr/>
	7,554	7,554
	<hr/> <hr/>	<hr/> <hr/>

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.

#### 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 been granted under this scheme.

#### 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 2007 no options were granted, no options were exercised and no options lapsed. At 31 December 2007 options were outstanding on 100,000 (2006: 100,000) ordinary shares as follows:

Dates exercisable	No. of shares	Price
16 April 2003 – 15 April 2010	100,000	7.5p

## Notes (forming part of the financial statements)

### 21 CAPITAL COMMITMENTS

	Group		Company	
	2007 £000	2006 £000	2007 £000	2006 £000
Contracted capital expenditure	-	-	-	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

### 22 FUTURE OPERATING LEASE COMMITMENTS

There are no operating lease commitments at the balance sheet date (2006: nil).

### 23 PENSIONS

During the year the Group contributed to the personal pension schemes (defined contribution) of certain employees. No contributions were paid in respect of the Directors. No amounts were accrued or prepaid at the year end (2006: nil).

### 24 RELATED PARTY TRANSACTIONS

The Chairman, Prof. H.A. Mughal, is the majority shareholder of Akhter Group plc. Akhter Group plc and related parties hold 100,075,176 shares representing 48.9% of the Company's issued ordinary share capital.

During the year the Group made purchases from Akhter Group plc totalling £164,000 (2006: £150,000) and, of this amount, £47,000 (2006: £68,000) was payable to Akhter Group plc as at 31 December 2007. The purchases can be analysed as follows:

Group company	2007 £000	2006 £000	Description of purchases
Ultima Networks	56	50	Executive management services ("EMS")
UTN Solutions (North)	74	67	Rent and carriage costs
Integrated Publishing Systems	20	24	Rent
Cognito Software	14	9	Computer equipment and EMS
<b>Total</b>	<u>164</u>	<u>150</u>	

The charge to the Company of £56,000 (2006: £50,000) and to Cognito Software of £9,000 (2006: nil) from Akhter Group plc for executive management services, disclosed above, is for the services of the Company's finance director and Akhter's marketing director and is based on a proportion of their time.

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

As stated above the treasury function is performed on behalf of the Company by Akhter Group plc and will always try to make the most beneficial use of available cash resources. During the year no monies were loaned by the Company to Akhter Group plc (2006: £200,000) and no monies were borrowed by the Company from Akhter Group plc (2006: maximum £120,000).

On disposal of its freehold property in September 2006, the Company repaid its term loan balance of £830,000, which was secured on the property, and outstanding unsecured 8% loan notes of £517,000 to Akhter Group plc.

The Chairman, Prof. H.A. Mughal, owed the Company nil at 31 December 2007 (2006: £17,000) in respect of purchases made on an arm's length basis during the year ended 31 December 2004. On 30 March 2007 this debt was settled by Akhter Computers plc.

The Chairman's son, Mr W. Mughal, who is a shareholder of the Company, owed a subsidiary company nil at 31 December 2007 (2006: £15,000) in respect of an unsecured employee loan provided on an interest free basis. On 20 March 2007 this debt was settled by Akhter Computers plc.

## Notes (forming part of the financial statements)

### 24 RELATED PARTY TRANSACTIONS *continued*

During the year the Group made sales to Akhter Group plc totalling £20,000 (2006: nil) and, of this amount, £23,000 (2006: nil) was payable by Akhter Group plc as at 31 December 2007. The sales can be analysed as follows:

Group company	2007 £000	2006 £000	Description of sales
Integrated Publishing Systems	20	-	IT staff and support services
<b>Total</b>	<b>20</b>	<b>-</b>	

During the year the Company recharged its administration expenses to all its subsidiaries based on their profits before tax as detailed below:

Group company	2007 £000	2006 £000	Description
Ultima Networks	(192)	(157)	Group recharge (receivable)
UTN Solutions (North)	70	5	Group recharge payable
Integrated Publishing Systems	13	32	Group recharge payable
Cognito Software	109	120	Group recharge payable
<b>Total</b>	<b>-</b>	<b>-</b>	

Any surplus cash balances held by any of the subsidiaries are transferred to the Company where they are pooled and placed on short-term deposits with Lloyds TSB Bank to maximise interest receivable.

### 25 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 these financial statements 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 income statement or balance sheet there are no adjustments necessary.

## **Notes** *(forming part of the financial statements)*

### **26 POST BALANCE SHEET EVENTS**

With effect from 1 March 2008 the directors have transferred the trade of Integrated Publishing Systems Limited to UTN Solutions (North) Limited to reduce administration costs.

On 10 March 2008 the Company purchased the software intellectual property rights to use, modify and sell a document production and management system for sale to professional services firms on an exclusive basis. The agreed purchase consideration totals £50,000 comprising of an initial payment of £30,000 and two further payments of £10,000 each, but based on the number of sales of the system.