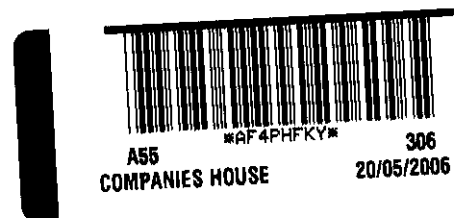


Registered Number 3997349

**Axiom Systems Holdings Limited**  
**Annual report**  
**for the year ended 31 December 2005**



# **Axiom Systems Holdings Limited**

## **Annual report for the year ended 31 December 2005**

	Page
Directors' report	1
Independent auditors' report	3
Consolidated profit and loss account	5
Consolidated balance sheet	6
Company balance sheet	7
Consolidated cash flow statement	8
Notes to the financial statements	9

## **Directors' report for the year ended 31 December 2005**

The directors present their report and the audited financial statements of the group and company for the year ended 31 December 2005.

### **Principal activities**

The company was established to hold an investment in Axiom Systems Limited, a company specialising in the provision of operational support solutions to the telecommunications industry.

### **Review of business and future developments**

The directors are satisfied with the results for the year and expect continued growth in the future.

### **Results and dividends**

The consolidated profit and loss account for the year is set out on page 5.

No ordinary dividends were paid or proposed during the year. Preference dividends of £1,463,000 (2004: £1,102,000) were appropriated at the year end but not paid.

### **Directors and their interests**

The directors who held office during the year, unless otherwise stated are given below:

G Senior  
N Humphries  
S Clearman  
J Gordon

The interests of the directors in the shares of the company are as follows:

	<b>Ordinary shares of 1p each 31 December 2005</b>	<b>Ordinary shares of 1p each 31 December 2004</b>
G Senior	<b>3,549,000</b>	3,549,000

No other director had a beneficial interest in the shares of the company.

The following directors held options to subscribe for the ordinary share capital in the company at 67p per share. Expiry date is 10 years from grant and the options are time vesting at 25% per annum:

	<b>At 31 December 2004 No.</b>	<b>Granted in year No.</b>	<b>Exercised in year No.</b>	<b>Lapsed during the year No.</b>	<b>At 31 December 2005 No.</b>
J Gordon	510,000	-	-	-	<b>510,000</b>

## Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that 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. The directors are required to prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

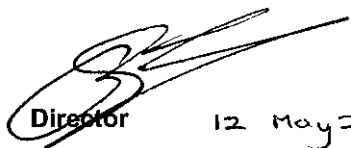
The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2005 and that applicable accounting standards have been followed.

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

## Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

On behalf of the Board

  
Director 12 May 2006

**Independent auditors' report to the members of  
Axiom Systems Holdings Limited**

We have audited the group and parent company financial statements (the "financial statements") of Axiom Systems Holdings Limited for the year ended 31 December 2005 which comprise the Group Profit and Loss Account, the Group and Company Balance Sheets, the Group Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

**Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report and the Chairman's 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**

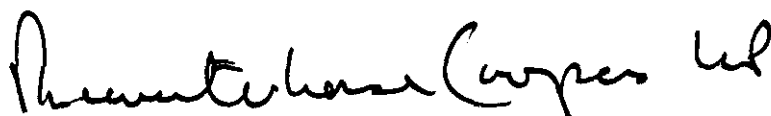
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments 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.

## Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 December 2005 and of the group's LOSS and cash flows for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.



**PricewaterhouseCoopers LLP**  
Chartered Accountants and Registered Auditors  
Reading

12 May 2006

## Consolidated profit and loss account for the year ended 31 December 2005

	Note	31 December 2005 £'000	9 months to 31 December 2004 £'000
<b>Turnover</b>	2	<b>10,435</b>	4,973
Cost of sales		<b>(3,463)</b>	(2,134)
<b>Gross profit</b>		<b>6,972</b>	2,839
Selling and distribution costs		<b>(3,060)</b>	(961)
- net recurring administrative expenses excluding amortisation and impairment of goodwill		<b>(4,610)</b>	(2,156)
- exceptional administrative expenses	18	<b>760</b>	-
- amortisation of software copyright	10	<b>(159)</b>	(160)
Total administrative expenses		<b>(4,009)</b>	(2,316)
<b>Operating loss</b>	3	<b>(97)</b>	(438)
Interest receivable and similar income	4	<b>120</b>	19
Interest payable and similar charges	5	<b>(122)</b>	(135)
<b>Loss on ordinary activities before taxation</b>		<b>(99)</b>	(554)
Tax on loss on ordinary activities	8	<b>(34)</b>	181
<b>Loss on ordinary activities after taxation</b>		<b>(133)</b>	(373)
Dividends and other appropriations	9	<b>(1,463)</b>	(1,130)
<b>Loss for the financial year</b>	21	<b>(1,596)</b>	(1,503)

All results are derived from continuing operations.

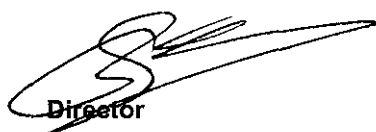
The group has no recognised gains and losses other than the loss above and therefore no separate statement of total recognised gains and losses has been prepared.

There is no difference between the losses on ordinary activities before taxation and the losses for the periods stated above and their historical cost equivalents.

## Consolidated balance sheet as at 31 December 2005

	Note	31 December 2005 £'000	31 December 2004 £'000
<b>Fixed assets</b>			
Intangible assets	10	-	159
Tangible assets	11	255	178
		255	337
<b>Current assets</b>			
Debtors	13	3,804	2,914
Cash at bank and in hand		1,343	616
		5,147	3,530
<b>Creditors – Amounts falling due within one year</b>	14	(6,292)	(3,980)
<b>Net current liabilities</b>		(1,145)	(450)
<b>Total assets less current liabilities</b>		(890)	(113)
<b>Creditors – Amounts falling due after more than one year</b>	15	(5)	(6)
Convertible loan stock	16	(1,315)	(1,198)
Provisions for liabilities and charges	18	(1,375)	(2,135)
<b>Net liabilities</b>		(3,585)	(3,452)
<b>Capital and reserves</b>			
Called-up share capital	19	436	436
Share premium account	20	28,830	28,830
Profit and loss account (deficit)	20	(32,851)	(32,718)
<b>Total shareholders' funds</b>	21	(3,585)	(3,452)
<b>Analysis of shareholders' funds:</b>			
Equity		(35,445)	(34,149)
Non-equity		32,160	30,697
	21	(3,285)	(3,452)

The financial statements on pages 5 to 28 were approved by the board of directors on 12 May 2006 and were signed on its behalf by:



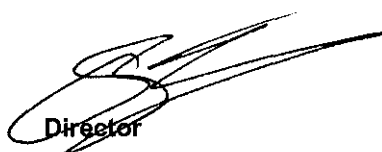
Director



# Company balance sheet as at 31 December 2005

	Note	31 December 2005 £'000	31 December 2004 £'000
<b>Fixed assets</b>			
Intangible assets	10	-	159
		-	159
Debtors	13	16,668	17,317
Cash at bank and in hand		1,271	564
		17,939	17,881
<b>Creditors – Amounts falling due within one year</b>	14	(1,782)	(1,786)
<b>Net current assets</b>		16,157	16,095
<b>Total assets less current liabilities</b>		16,157	16,254
<b>Convertible loan stock</b>	16	(1,315)	(1,198)
<b>Net assets</b>		14,842	15,056
<b>Capital and reserves</b>			
Called-up share capital	19	436	436
Share premium account	20	28,830	28,830
Profit and loss account – (deficit)	20	(14,424)	(14,210)
<b>Total shareholders' funds</b>	21	14,842	15,056
<b>Analysis of shareholders' funds:</b>			
Equity		(47,002)	(15,641)
Non-equity		32,160	30,697
	21	14,842	15,056

The financial statements on pages 5 to 28 were approved by the board of directors on 12 May 2006 and were signed on its behalf by:

  
Director

# Consolidated cashflow statement for the year ended 31 December 2005

	Note	31 December 2005 £'000	31 December 2004 £'000
<b>Net cash outflow from operating activities</b>	22	<b>764</b>	<b>(574)</b>
<b>Returns on investment and servicing of finance</b>			
Interest received		120	19
Interest paid		(5)	(20)
Interest element of hire purchase payments		-	(8)
<b>Net cash inflow/(outflow) from return on investments and servicing of finance</b>		<b>115</b>	<b>(9)</b>
<b>Taxation</b>			
UK tax credits received		85	319
<b>Capital expenditure and financial investment</b>			
Purchase of tangible fixed assets		(189)	(39)
Sales of tangible fixed assets		3	-
<b>Net cash outflow from capital expenditure and financial investment</b>		<b>(186)</b>	<b>(39)</b>
<b>Net cash inflow from acquisitions</b>		<b>-</b>	<b>-</b>
<b>Net cash outflow before financing</b>	22	<b>778</b>	<b>(303)</b>
<b>Financing</b>			
Receipts from issuing convertible loan stock		-	-
Convertible loan stock issue costs		-	-
Capital element of hire purchase payments		(51)	(59)
		(51)	(59)
<b>Net increase/(decrease) in cash</b>	22	<b>727</b>	<b>(362)</b>

**Notes to the financial statements for the year ended 31 December 2005****1 Accounting policies**

The financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 1985 and applicable accounting standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below.

**Basis of consolidation**

The consolidated financial statements include the company and its subsidiary undertakings made up to 31 December 2005. Intra group sales and profits are eliminated fully on consolidation and the consolidated accounts reflect external transactions only.

The identifiable assets and liabilities of subsidiary undertakings are included in the consolidated balance sheet at their fair values at the date of acquisition. The results and cash flows of subsidiaries are brought into the Group accounts only from the date of acquisitions.

No profit and loss account is presented for Axiom Systems Holdings Limited as permitted by section 230 of the Companies Act 1985.

**Tangible fixed assets**

The cost of tangible fixed assets is their purchase cost, together with any incidental cost of acquisition.

Depreciation is calculated so as to write off the cost of tangible fixed assets less their estimated residual values over the useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

Leasehold improvements	20%
Office furniture, fixtures and fittings	20%
Computer equipment	25% - 50%

The carrying value of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

**Turnover**

Turnover represents amounts derived from the sale of computer software and related support services supplied and the value of long term contract work done. Software revenue is recognised upon delivery and acceptance of licences by customers. Support and maintenance fees are recognised rateably over the period to which they relate. Fees for service are recognised as the services are performed. Turnover is standard net of VAT and trade discounts.

**Goodwill**

The goodwill arising on the acquisitions of Axiom Systems Limited and Viewgate Networks Limited was capitalised as an asset and has been amortised on a straight line basis over 10 years, being the period the directors estimate to be the useful economic life of the assets. The directors will make an additional write down if market conditions indicate that the goodwill is impaired.

## **Fixed asset investments**

Investments in group undertakings are held at cost less provision for impairment.

## **Intangible assets**

Intangible assets are capitalised at cost and are amortised on a straight line basis over their estimated useful lives up to a maximum of 5 years. The carrying value of intangible assets is reviewed for impairment at the end of the first full year following acquisition and in other periods if events or changes in circumstances indicate the carrying value may not be recoverable.

## **Dividends and other appropriations**

The company has adopted the provisions of Financial Reporting Standard 4 'Capital Instruments' ("FRS4") which requires the amount of shareholders' funds attributable to equity and non-equity interests to be separately disclosed. Dividends on convertible cumulative redeemable preference shares are appropriated through the profit and loss account. However, as the company does not have sufficient distributable reserves in order to pay such preference share dividends, these dividends have been credited back within profit and loss account reserves. Issue costs incurred in connection with these instruments are allocated to periods over the term of the instrument at a constant rate on the carrying amount.

## **Finance and operating leases**

Costs in respect of operating leases are charged on a straight line basis over the lease term. Leasing arrangements which transfer to the group substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the shorter of the lease terms and the useful lives of equivalent owned assets.

## **Research and development**

Research and development expenditure is written off to the profit and loss account as incurred.

## **Foreign currencies**

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward foreign currency contract. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date or if appropriate at the forward contract rate. All differences are taken to the profit and loss account.

## **Taxation**

UK Corporation tax is provided at amounts expected to be paid using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

**Deferred tax**

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred on the balance sheet date.

A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all evidence available, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured at the average rates that are expected to apply in the periods in which the timing differences are expected to reverse based on the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on an undiscounted basis.

**Pension costs**

The company pays into a defined contribution pension scheme. Contributions are charged to the profit and loss account as they become payable.

**Related party transactions**

Financial Reporting Standard 8 'Related Party Disclosures' requires the disclosure of the details of material transactions between the reporting entity and any related parties. The company has adopted the provisions of FRS 8, however, transactions between the company and other Group companies have not been disclosed in accordance with the exemption in FRS 8.

**2 Turnover**

All turnover originates in the United Kingdom. An analysis of turnover by destination is given below:

	<b>Year ended 31 December 2005 £'000</b>	<b>9 months to 31 December 2004 £'000</b>
United Kingdom	<b>2,811</b>	989
Rest of Europe	<b>6,095</b>	1,757
Rest of World	<b>1,529</b>	2,227
	<b>10,435</b>	4,973

### 3 Operating loss

	Year ended 31 December 2005 £'000	9 months to 31 December 2004 £'000
<b>Operating (loss) is stated after charging/(crediting):</b>		
Wages and salaries	5,376	2,466
Social security costs	619	294
Pension costs	189	83
<b>Staff costs</b>	<b>6,184</b>	<b>2,843</b>
Auditors' remuneration		
- audit fees	22	20
- non-audit fees	5	19
Depreciation of tangible fixed assets		
- owned assets	74	112
- leased assets	35	30
Amortisation of software copyright	159	160
Operating lease rentals		
- plant and machinery	3	5
- other	811	608
Foreign exchange loss/(gain)	126	(41)

### 4 Interest receivable and similar income

	Year ended 31 December 2005 £'000	9 months to 31 December 2004 £'000
Bank interest	120	19

### 5 Interest payable and similar charges

	Year ended 31 December 2005 £000	9 months to 31 December 2004 £'000
On loans	117	127
On assets held under hire purchase agreements	5	8
	<b>122</b>	<b>135</b>

## 6 Directors' emoluments

	Year ended 31 December 2005 £'000	9 months to 31 December 2004 £'000
Aggregate emoluments	461	338
Company contributions paid to money purchase pension schemes	11	11
Compensation for loss of office	-	44
Sums paid to third parties for directors' services	33	24
	505	417

Retirement benefits are accruing to two (31 December 2004:two) directors under a money purchase pension scheme.

	Year ended 31 December 2005 £'000	9 months to 31 December 2004 £'000
<b>Highest paid director</b>		
Emoluments	455	306
Company contributions paid to money purchase pension schemes	11	7
	466	313

The highest paid director did not exercise any share options during the year.

## 7 Employee information

The average monthly number of persons (including executive directors) employed by the group during the year was:

By activity	Year ended 31 December 2005 £'000	9 months to 31 December 2004
Technical	11	11
Sales and administration	56	34
	67	45

## 8 Tax credit on profit on ordinary activities

	Year ended 31 December 2005 £'000	9 months to 31 December 2004 £'000
<b>Current tax</b>		
UK corporation tax credit at 16%	(74)	(181)
Restriction in respect of prior year losses	108	
	<b>34</b>	<b>(181)</b>

The tax assessed for the year differs to the standard rate of corporation tax in the UK. The differences are explained below:

	Year ended 31 December 2005 £'000	9 months to 31 December 2004 £'000
Loss on ordinary activities	(99)	(554)
Loss on ordinary activities before tax multiplied by the standard rate in the UK 19% (2004: 19%)	(19)	(105)
Effects of:		
Restriction in respect of prior year losses	108	-
Depreciation for the period in excess of capital allowances	(27)	2
Expenses not deductible for tax purposes	41	19
Tax losses carried forward to future periods <sup>1</sup>	12	(56)
Other short term timing differences	10	(2)
R&D relief 50% mark up on expenses	(106)	(73)
Rate change for R&D tax credits at 16% <sup>2</sup>	15	34
<b>Current tax credit for the year</b>	<b>34</b>	<b>(181)</b>

### Notes:

1. Tax losses carried forward is after taking account of the R&D tax credits.
2. R&D tax credits are claimed at 16p per £1, and so a change in the tax rate is required.

R&D expenditure @ 19% (£513,113, 2004: £1,116,947)	97,491	217,000
R&D expenditure @ 16% (£513,113, 2004: £1,116,947)	(82,098)	(183,000)
Rate change adjustment	15,393	34,000



## 9 Dividends and other appropriations

	2005	2004
	£'000	£'000
Appropriation of current year non-equity dividends not payable	1,463	1,102
Appropriation of issue costs	-	28
	<b>1,463</b>	<b>1,130</b>

In accordance with FRS 4, the company has made appropriations of £1,463,000 (2004: £1,130,000) through the profit and loss account for dividends due but not payable and issue costs for the year on the company's cumulative redeemable preference shares (see note 20).

The dividend arrears on the company's cumulative redeemable preference shares at 31 December 2005 were £6,271,000 (2004: £4,808,000)

## 10 Intangible assets

Group	Software copyright £'000	Goodwill £'000	Total £'000
<b>Cost</b>			
At 1 January 2004 and 31 December 2005	1,063	8,008	9,071
<b>Accumulated amortisation</b>			
At 1 January 2005	904	8,008	8,912
Charge for the year	159	-	159
At 31 December 2005	1,063	8,008	9,071
<b>Net book amount</b>			
At 31 December 2005	-	-	-
At 31 December 2004	159	-	159

Company	Software copyright £'000
<b>Cost</b>	
At 1 January 2005 and 31 December 2005	1,063
<b>Accumulated amortisation</b>	
At 1 January 2005	904
Charge for the year	159
<b>At 31 December 2005</b>	<b>1,063</b>
<b>Net book amount</b>	
At 31 December 2005	-
At 31 December 2004	159

The software copyright has been capitalised at its acquisition cost of £1,063,000 and is being amortised evenly over its expected useful economic life of 5 years.

## 11 Tangible fixed assets

Group	Short leasehold improvements £'000	Office furniture, fixtures & fittings £'000	Computer equipment £'000	Total £'000
<b>Cost</b>				
At 1 January 2005	232	334	822	1,388
Additions	31	28	130	189
Disposal	-	(4)	(2)	(6)
<b>At 31 December 2005</b>	<b>263</b>	<b>358</b>	<b>950</b>	<b>1,571</b>
<b>Accumulated Depreciation</b>				
At 1 January 2005	166	261	783	1,210
Charge for the year	49	53	7	109
Disposals	-	(1)	(2)	(3)
<b>At 31 December 2005</b>	<b>215</b>	<b>313</b>	<b>788</b>	<b>1,316</b>
<b>Net book amount</b>				
At 31 December 2005	48	45	162	255
At 31 December 2004	66	73	39	178

Included in the above are the following assets held under finance lease agreements:

	Short leasehold improvements £'000	Office, furniture, fixtures & fittings £'000	Total £'000
<b>Net book amount</b>			
<b>At 31 December 2005</b>	<b>1</b>	<b>16</b>	<b>17</b>
At 31 December 2004	2	54	56
<b>Depreciation charged in the year</b>			
<b>- ended 31 December 2005</b>	<b>1</b>	<b>34</b>	<b>35</b>
- ended 31 December 2004	1	29	30

## 12 Fixed assets investments

In accordance with FRS 11, Impairment of fixed assets and goodwill, the directors have fully written down the investments based on their best estimate of the recoverable amount of the assets.

Name of subsidiary undertaking	Proportion of nominal value of shares held by company		Principal business activity	Country of incorporation
	Directly	Indirectly		
Axiom Systems Limited	100%		Provider of operational support systems in the telecommunications industry	United Kingdom
Viewgate Networks Limited	100%		Non-trading	United Kingdom
Network People Limited		100%	Non-trading	United Kingdom

### 13 Debtors

	Group		Company	
	31 December 2005 £'000	31 December 2004 £'000	31 December 2005 £'000	31 December 2004 £'000
Trade debtors	2,871	2,048	-	-
Amounts due from subsidiary undertakings	-	-	16,664	17,314
Other debtors	414	377	4	3
Corporation tax recoverable	74	194	-	-
Prepayments and accrued income	445	295	-	-
	<b>3,804</b>	<b>2,914</b>	<b>16,668</b>	<b>17,317</b>

Amounts falling due after more than one year included in the above are as follows:

	Group		Company	
	31 December 2005 £'000	31 December 2004 £'000	31 December 2005 £'000	31 December 2004 £'000
Amounts due from subsidiary undertakings	-	-	16,664	17,314

Amounts owed by group undertakings are unsecured, interest free and repayable on demand. The company has indicated that repayment will not be demanded for the foreseeable future and so these amounts have been classified as due after more than one year.

# 14 Creditors – Amounts falling due within one year

	Group		Company	
	31 December 2005 £'000	31 December 2004 £'000	31 December 2005 £'000	31 December 2004 £'000
Trade creditors	326	446	-	-
Obligations under hire purchase agreements	5	55	-	-
Amounts due to subsidiary undertakings	-	-	1,775	1,775
Taxation and social security	200	132	-	-
Other creditors	6	54	7	7
Accruals and deferred income	5,755	3,293	-	4
	<b>6,292</b>	<b>3,980</b>	<b>1,782</b>	<b>1,786</b>

Amounts owed to group undertakings are unsecured, interest free and have no fixed repayment date.

# 15 Creditors – Amounts falling due after more than one year

	Group		Company	
	31 December 2005 £'000	31 December 2004 £'000	31 December 2005 £'000	31 December 2004 £'000
Obligations under hire purchase agreements	5	6	-	-

## 16 Convertible loan stock

	Group		Company	
	31 December 2005 £'000	31 December 2004 £'000	31 December 2005 £'000	31 December 2004 £'000
18% Convertible loan stock 2013	1,315	1,198	1,315	1,198

### 18% Convertible loan stock 2013

The convertible loan stock issued by the company was issued at par and accrues an interest at a rate of 18% per annum. Issue costs of £20,000 were incurred on the issue of the loan stock and the carrying value of the loan stock was reduced by this amount. The issue costs are being charged to the profit and loss account over the term of the debt at a constant rate on the carrying amount. As such net proceeds received from the issue were £1,000,000

The loan stock is secured with a floating charge over the company's assets.

### Redemption

The Company shall be entitled with the prior consent of a written resolution, upon giving not less than 15 days' prior written notice in writing to the noteholders, to redeem at any time at par the whole or part of the notes for the time being outstanding and on the expiry of the notice the notes together with accrued interest in respect of which it has been given shall be so redeemed.

The notes, or any part of the notes, will be repaid at par together with any accrued interest at any time upon a noteholder giving to the Company 15 days notice to provided that such noteholder has the prior consent of a written resolution and relates to any part of the relevant noteholders notes in amounts or integral multiples of not less than £10,000 (or the entire balance of notes then outstanding and held by the noteholder if less).

All notes not previously redeemed, purchased or converted by the Company in accordance with the provisions of this instrument will be repaid at par together with accrued interest on the repayment date in 2013 or, if earlier, on the date on which a sale, listing, event of default or liquidation event occurs.

### Conversion rights

At the time of the raising of this finance the company issued warrants to the note holders to enable the conversion of the debt to be made into warrant shares at any time prior to 31 May 2004. The warrants confer the right on the warrant-holders to subscribe at the subscription price for such number of warrant shares as equates to the percentage of the fully diluted share capital. These warrant shares are not considered to be able to be transferred separately. The warrant holders have not taken up their rights to convert the debt in the period.

## 17 Loans and other borrowings

	Group		Company	
	31 December 2005 £'000	31 December 2004 £'000	31 December 2005 £'000	31 December 2004 £'000
Convertible loan stock 2013	1,315	1,198	1,315	1,198
Obligations under hire purchase agreements	10	61	-	-
	<b>1,325</b>	<b>1,259</b>	<b>1,315</b>	<b>1,198</b>
<b>Maturity of debt</b>				
In one year or less, or on demand	5	55	-	-
In more than two years, but not more than five	5	6	-	-
In more than five years	1,315	1,198	1,315	1,198
	<b>1,325</b>	<b>1,259</b>	<b>-</b>	<b>1,198</b>

### Finance leases

Net obligations under finance leases are as follows:

	31 December 2005 £'000	31 December 2004 £'000
Within one year	5	55
In more than one year, but not more than five years	5	6
	<b>10</b>	<b>61</b>

## 18 Provisions for liabilities and charges

	Group £'000
<b>Provision for onerous lease</b>	
At 1 January 2005	2,135
Release to the P&L during the year	(760)
<b>At 31 December 2005</b>	<b>1,375</b>

The provision made in the accounts in respect of the onerous lease represents the best estimate of the unavoidable lease payments for office space not utilised by the company. The company continues to work with the landlord to minimise the exposure to future onerous lease charges.

	31 December 2005 £'000	31 December 2004 £'000
<b>Provision for deferred tax</b>		
<b>Deferred tax liabilities/(assets) not provided/(recognised) in the accounts comprises</b>		
Capital allowances in excess of depreciation	(44)	(61)
Other timing differences	(49)	(18)
Tax losses	(4,120)	(3,989)
<b>Unrecognised deferred tax asset</b>	<b>(4,213)</b>	<b>(4,068)</b>



## 19 Called-up share capital

Group and company	31 December 2005 £'000	31 December 2004 £'000
<b>Authorised</b>		
30,000,000 ordinary shares of 1p each	300	300
27,699,376 convertible redeemable preference shares of 1p each		
17,745,000 Geo convertible redeemable preference shares of 1p each	177	177
9,954,376 Hg convertible redeemable preference shares of 1p each	100	100
11,000,000 C class convertible redeemable preference shares of 1p each	110	110
	<b>687</b>	<b>687</b>
<b>Allotted, called-up and fully paid</b>		
7,755,000 ordinary shares of 1p each	78	78
27,699,376 convertible redeemable preference shares of 1p each		
17,745,000 Geo convertible redeemable preference shares of 1p each	177	177
9,954,376 Hg convertible redeemable preference shares of 1p each	100	100
6,007,978 C class convertible redeemable preference shares of 1p each	60	60
	<b>415</b>	<b>415</b>
<b>Shares to be issued</b>		
2,085,656 C class convertible redeemable preference shares of 1p each	21	21
	<b>436</b>	<b>436</b>

The convertible redeemable preference shares of 1p each are designated as Geo convertible and Hg convertible redeemable preference shares of 1p each. The rights attached to each class of shares are outlined below:

### Conversion Rights

Within 28 days of the date by which the Company shall have received written notice from each holder any Hg Preferred Shares shall be converted into and re-designated as fully paid ordinary shares at the rate of one ordinary share for every Hg Preferred Share.

Each Geo Preferred Shareholder may at any time convert the whole or part of his holding of Geo Preferred Shares into fully paid Ordinary Shares at the rate of one Ordinary Share for each Geo Preferred Share.

## Dividends

The C Class preference shareholders shall be entitled in priority to any payment of dividend on any other class of shares in the company to receive a fixed cumulative preference dividend at the rate of 6% per annum on the amount paid up (including any premium) on the C Class preference shares.

The Hg preference shareholders shall be entitled, in priority to any payment of dividend on any other class of shares in the company with the exception of the C Class Preference Shareholders to receive a fixed cumulative preference dividend at the rate of 6% per annum on the amount paid up (including any premium) on the Hg preference shares.

The Geo preferred shareholders shall be entitled in priority to any payment of dividend to any other class of shares in the company with the exception of the C Class Preference Shareholders and the Hg Preference Shareholders to receive a fixed cumulative preferential dividend at the rate of 6% per annum on the amount paid up (including any premium) on the preference shares.

Dividends shall be deemed to accrue from day to day throughout each financial year.

## Voting Rights

Holders of the C Class preference shares, the Hg preference shares and the Geo preference shares shall be entitled to receive notice of, attend, speak and vote at a general meeting of the company. On a show of hands, each shareholder present in person or (being a corporation) by a representative, has one vote and on a poll each shareholders shall have one vote per share.

## Winding up

On return of capital on a winding up or otherwise the company's assets available for distribution amongst the members shall be applied firstly in repaying to C Class preference shareholders i) the aggregate amount of the nominal amount of the C class preference shares and premium paid on subscription for them; ii) any accrued but unpaid dividends up to the date of commencement of winding up or return of capital; secondly to the Hg preference shareholders in repaying the aggregate of the nominal amount of the preference shares and premium paid on subscription for them; thirdly to the Geo preference shareholders in repaying the aggregate of the nominal amount of the preference shares and premium paid on subscription for them; fourthly in paying to the Hg and Geo preference shareholders any accrued by unpaid dividends on the preference shares; finally in paying the balance of any proceeds pro-rata to the holders of the shares.

**Redemption Rights**

The company shall, with the consent of each holder of C Preferred Shares as regards its holding of C Preferred Shares redeem all of the C Preferred Shares held by the C Preferred Shareholders then unredeemed or outstanding on 31 December 2007. The company shall redeem all of the Hg preference shares then unredeemed or outstanding on 31 December 2007. The holders of a majority of the C Preferred Shares and the Hg preference share in issue are entitled to require Redemption at any time, of some or all of the shares if i) when C Preferred Shares/Hg Preferred Shares are due for redemption, the company does not pay all the redemption money then payable to C Preferred Shareholders/Hg Preferred Shares, and whether or not the company has enough profits available for distribution or other requisite funds to pay the redemption money; ii) the whole or a substantial part of the undertaking or business of the company is disposed of other than to a wholly-owned subsidiary of the company; iii) the appointment of a receiver, manager or administrative receiver over all or any part of the assets of the Company. The redemption price payable will be the aggregate of the nominal amount and the premium paid on subscription plus accrued but unpaid dividends. If the company has insufficient distributable reserves at the time of redemption the amount due will become a debt due and payable by the company on which the C Class preference share dividend/Hg preference share dividend will be deemed to continue to accrue.

A Geo preferred shareholder may elect to redeem the Geo Preferred shares on or after 31 December 2007. The company shall not redeem any Geo Preferred shares before redemption of C Preferred shares and Hg Preferred Shares. The redemption price payable will be the aggregate of the nominal amount and any premium paid on subscription plus accrued dividends.

The holders of a majority of the Geo Preferred in issue are entitled to require Redemption at any time, of some or all of Geo Preferred if i) when Geo Preferred share are due for redemption, the company does not pay all the redemption money then payable to Geo preferred share, and whether or not the company has enough profits available for distribution or other requisite funds to pay the redemption money; ii) the whole or a substantial part of the undertaking or business of the company is disposed of other than to a wholly-owned subsidiary of the company; iii) the appointment of a receiver, manager or administrative receiver over all or any part of the assets of the Company. The redemption price payable will be the aggregate of the nominal amount and the premium paid on subscription plus accrued but unpaid dividends. If the company has insufficient distributable reserves at the time of redemption the amount due will become a debt due and payable by the company.

The convertible preference shares in issue may be redeemed at any time by the shareholders on or after the sixth anniversary of the date of issue. The redemption price payable will be the greater of i) fair market value price or ii) the aggregate of the nominal amount and any premium paid on subscription of the preference shares plus accrued but unpaid dividends.

## 20 Reserves

Group	Share premium £'000	Profit & loss account (deficit) £'000	Total £'000
At 1 January 2005	28,830	(32,718)	(3,888)
Loss for the year	-	(1,596)	(1,596)
Appropriation of preference dividends	-	1,463	1,463
<b>At 31 December 2005</b>	<b>28,830</b>	<b>(32,851)</b>	<b>(4,021)</b>
<b>Company</b>			
At 1 January 2005	28,830	(14,210)	14,620
Loss for the year	-	(1,677)	(1,677)
Appropriation of preference dividends	-	1,463	1,463
<b>At 31 December 2005</b>	<b>28,830</b>	<b>(14,424)</b>	<b>14,406</b>

The company has taken advantage of Section 230 of the Companies Act 1985 and has not published its own profit and loss account. Of the loss on ordinary activities after taxation for the year, a loss of £214,000 (2004: £249,000) is dealt with in the accounts of the holding company.

## 21 Reconciliation of movements in shareholders funds

	Group 31 December 2005 £'000	31 December 2004 £'000	Company 31 December 2005 £'000	31 December 2004 £'000
Loss for financial year	(133)	(373)	(214)	(249)
Dividends and other appropriations	(1,463)	(1,130)	(1,463)	(1,130)
	(1,596)	(1,503)	(1,677)	(1,379)
Appropriation of preference dividends and share issue costs	1,463	1,130	1,463	1,130
Net decrease in shareholders funds	(133)	(373)	(214)	(249)
Opening shareholders funds	(3,452)	(3,079)	15,056	15,305
<b>Closing shareholders' (deficit) / funds</b>	<b>(3,585)</b>	<b>(3,452)</b>	<b>14,842</b>	<b>15,056</b>

## 22 Notes to the statement of cashflows

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

	2005 £'000	2004 £'000
Operating loss	(97)	(438)
Depreciation of tangible fixed assets	109	142
Amortisation of intangible fixed assets	159	160
(Increase) in debtors	(1,010)	(1,616)
Increase in creditors	2,363	1,310
(Decrease) in provisions for liabilities and charges	(760)	(132)
	<b>764</b>	<b>(574)</b>

### (b) Reconciliation of net cash flow to movement in net funds / debt

	2005 £'000	2004 £'000
Increase/(decrease) in cash in the period	727	(362)
Cash inflow from decrease in lease financing	51	59
Changes in net debt resulting from cash flows	778	(303)
Accrued interest on Loan Stock	(117)	(107)
New finance leases	(5)	(5)
Net debt at beginning of year	(643)	(228)
Net funds/(debt) at end of year	<b>13</b>	<b>(643)</b>

### (c) Analysis of changes in net debt

	31 December 2004 £'000	Cash flow £'000	Non cash movements £'000	31 December 2005 £'000
Cash	616	727	-	1,343
	616	727	-	1,343
<b>Liquid resources</b>				
Finance leases	(61)	51	(5)	(15)
Convertible loan stock	(1,198)	-	(117)	(1,315)
	(643)	778	(122)	13

## **23 Financial commitments**

At 31 December 2005 the company had annual commitments under non-cancellable operating leases expiring as follows:

	<b>Land &amp; buildings</b>		<b>Other</b>	
	<b>31 December 2005 £'000</b>	<b>31 December 2004 £'000</b>	<b>31 December 2005 £'000</b>	<b>31 December 2004 £'000</b>
Within on year	-	-	3	3
Within two to five years	-	-	-	-
After five years	811	811	-	-
	<b>811</b>	<b>811</b>	<b>3</b>	<b>3</b>

## **24 Pension commitments**

The group operates a defined contribution pension scheme.

Pension costs are accounted for in the year in which they are incurred. The total pension charge for the year amounted to £189,000 (2004: £83,000).

The total amount of contributions withheld by the company and outstanding at the balance sheet date was £36,000 (2004: £44,000).

## **25 Related party transactions**

During the year the company acquired consultancy services totalling £32,706 (2004: £24,060) from Daroy Gordon Limited, an entity controlled by Mr J Gordon, who was a director of the company for the whole period. There were no amounts due to Daroy Gordon Limited at the year end (31 December 2004 : £nil).