

**Registered Number 3997349**

**Axiom Systems Holdings Limited**  
**Annual report**  
**for the year ended 31 December 2007**

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**Axiom Systems Holdings Limited**  
**Annual report**  
**for the year ended 31 December 2007**

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## **Directors' report for the year ended 31 December 2007**

The directors present their report and the audited financial statements of the group for the year ended 31 December 2007.

### **Principal activities**

The principal activity of the group is the provision of operational support solutions to the telecommunications industry. The principal activity of the company is that of a holding company.

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

The group had a strong year in customer and product development with the successful introduction of the new Active Catalog product into three customers, and winning six new customers around the world. These included two contracts in North America, where the group had previously not made sales. The group channel strategy continued to flourish with a number of new partners being enrolled, particularly in the Eastern European, Russia and Middle Eastern regions where business interest has seen a significant increase in recent months due to a sharp rise in demand for Next Generation Broadband Services.

The OSS industry has continued to experience a large number of acquisitions and mergers throughout 2007. Consolidation has been initiated by the larger IT companies which have been looking to buy into this niche, complicated, but much needed area of technology. This consolidation worked in the favour of Axiom, as Service Providers resisted multi-million long-term contracts with the larger organisations; instead choosing to purchase and consult with a smaller specialist player who they knew understood the technology and challenges. As a consequence of this, Axiom's profile and brand awareness grew as the competition disappeared and demand for specialist players remained consistent.

Delayed decision making by several larger customers meant that a small number of large deals that were expected to close in the third and fourth quarters of 2007 slipped into 2008 with a negative impact upon the group's revenues, profits and cash flows. As a consequence, the company sought further funds for working capital purposes from existing shareholders and finance providers as follows:

On 23 May 2007 the company drew down funds totalling £750,000 under a term loan agreement with ETV Capital S.A.

On 28 September 2007 the company drew down funds of £1,000,000 under a short term loan agreement with existing investors, Geocapital and Hg Capital.

The group was restructured during the year to better take advantage the market opportunity, with sales, pre-sales and development staff refocused on closing larger deals more quickly and bringing through new product functionality. The organisational structure was also rationalised and simplified. Cost savings from this activity will be evident in 2008.

As described in note 16, on page 23, the provision for onerous lease charges was increased in 2007, as it seems unlikely that the unutilised building space will be used or sublet in the foreseeable future. This resulted in an exceptional charge of £1,405,000.

### **Results and dividends**

The consolidated profit and loss account for the year is set out on page 7.

No ordinary dividends were paid or proposed during the year (2006: £nil). Preference dividends of £1,553,000 (2006: £1,503,000) were charged as interest during the year but not paid.

### **Post balance sheet events**

On 16 January 2008 the company secured additional funds with the arrangement of a loan facility with existing investors, Geocapital, Hg Capital and Gareth Senior.

**Directors' report for the year ended 31 December 2007  
(continued)**

On 21 April 2008, Comptel Corporation, a listed Finnish company, announced the acquisition of the share capital of Axiom Systems Holdings Limited and its subsidiaries. The initial purchase consideration of £7 million went to discharge the company's debts, transaction fees, certain of the group's liabilities and to certain of the preferential shareholders. Further consideration may become payable under an earn-out if revenues exceed specified levels. The directors of the company resigned following completion and were replaced by nominees of the acquirer.

**Principal risks and uncertainties**

The management of the business and the execution of the group's strategy are subject to a number of risks. The key business risks affecting the group are set out below:

*Competition*

The group operates in a highly competitive market place with pressure particularly felt on price and thus, margins. Management are of the opinion that this risk is mitigated by the market leading functionality and availability of the product set and are careful to focus research and development expenditure to maintain this leading edge.

*Market channels*

A majority of the group's business is derived through sales via channel partners. Deliveries to the end customer will often be handled by channel staff and thus, dissatisfaction with an implementation could occur if channel staff are insufficiently trained or supported. To mitigate this risk, the group typically ensures that first implementation projects are heavily supported by trained group personnel. End customers often recognise the value-add of group personnel such that ongoing consultancy contracts result.

*Market decision making delays*

Over the last eighteen months, end customer purchasing decisions have lengthened and have become less predictable. This has meant that cash in flows have been harder to predict. Significant effort by the group's sales force has been made to get as close to the end customer as possible, to obtain up to date deal information.

**Key performance indicators ("KPIs")**

Given the straightforward nature of the business, the group's directors use a limited number of KPIs to understand the development, performance or position of the business. The key metrics used and the performance during the year, are as follows:

	<b>2007</b>	<b>Definition, method of calculation and analysis</b>
Sales vs. Budget	46%	Achieved sales as a % of budget. The group suffered from a lengthening of the purchase decision by several customers for larger deals.
Cash conversion	25%	Operating cash flow to EBITDA. This low figure is good, since EBITDA is negative. The benefit was from high billings at the end of 2006, collection occurring in 2007.

**Directors' report for the year ended 31 December 2007  
(continued)****Financial risk management**

The group's operations expose it to a variety of financial risks that include currency fluctuation, credit risk, interest rate risk and liquidity risk. Price risk does not have a material impact on the group. Risks are managed through policies approved by the Board of Directors, which seek to limit any adverse effects on the financial performance of the company and its subsidiaries. Given the size of the group, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the board. The policies set by the board of directors are implemented by the company's finance department.

**Credit risk**

The group has implemented policies that require appropriate credit checks on potential customers before sales are made. The amount of exposure to any individual counterparty is subject to a limit, which is reassessed annually.

**Liquidity risk**

Liquidity risk is managed through an assessment of working capital requirements to ensure the group has sufficient funds available for operations and planned expansions. The board review this policy on an ongoing basis, and in particular pursue suitable equity and debt funding arrangements in the company.

**Interest rate risk**

The group has both interest bearing assets and liabilities. Liabilities include fixed rate preference shares, together with variable rate short term and long term loans. The board seeks to arrange financing at competitive rates, primarily from existing investors, and will review the appropriateness of this policy should the group's operations change in size or nature.

**Foreign exchange risk**

All foreign exchange balances held at year end were converted into sterling at the exchange rate in operation at 31 December 2007. Any expenditure incurred or invoices raised during the year were converted at the valid exchange rate on the date of the transaction. The group holds cash in foreign currencies where considered necessary. The board will continue to review policies around foreign exchange transactions.

There were no derivative financial instruments or hedging transactions during the year.

**Research and development**

The group carries out activities to upgrade and improve the specification of existing operational support solutions. The costs incurred represent staff costs attributable to these activities, the profit and loss account charge for the year amounted to £1,918,000 (2006: £1,839,000).

**Charitable donations**

During the year £900 (2006: £nil) was donated to United Kingdom charitable organisations. No payments were made for political purposes.

**Directors**

The directors who held office during the year and up to the date of signing the financial statements are given below:

G Senior	
N Humphries	(resigned 21 April 2008)
S Clearman	(resigned 21 April 2008)
J Gordon	(resigned 21 April 2008)
S Ahonen	(appointed 20 April 2008)
S Saaskilahti	(appointed 20 April 2008)

**Directors' report for the year ended 31 December 2007  
(continued)**

**Statement of directors' responsibilities**

The directors are responsible for preparing the Annual Report and 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 elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business, in which case there should be supporting assumptions or qualifications as necessary (see note 1).

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 that 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.

**Going Concern**

As mentioned above, the group was acquired by Comptel Corporation on 21 April 2008.

On acquisition the initial purchase consideration of £7 million went to discharge group debts, transaction fees, certain group liabilities and to certain of the preferential shareholders. Comptel has also agreed to provide ongoing support to the company and group together with the necessary funds to continue to trade for the foreseeable future. The directors consider, therefore, that preparing the accounts on a going concern basis is appropriate.

**Statement on disclosure of information to auditors**

Each of the persons who is a director at the date of approval of this report confirms that: so far as the directors are aware, there is no relevant audit information of which the company and group's auditors are unaware; and the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company and group's auditors are aware of that information.

**Independent 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

  
~~Graham Semor~~ GRAHAM SEMOR  
Director  
28 January 2009

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

We have audited the group and parent company financial statements of Axiom Systems Holdings Limited for the year ended 31 December 2007 which comprise the consolidated profit and loss account, the consolidated and company balance sheets, the consolidated 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 whether in our opinion the information given in the Directors' Report 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 the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

**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.

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

**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 2007 and of the group's loss and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.



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

29 January 2009



## Consolidated profit and loss account for the year ended 31 December 2007

	Note(s)	2007 £'000	2006 £'000
Turnover	2	7,837	13,685
Cost of sales		(5,872)	(5,927)
<b>Gross profit</b>		<b>1,965</b>	<b>7,758</b>
- Recurring administrative expenses		(3,607)	(3,453)
- Exceptional administrative expenses	3	(1,405)	-
Administrative expenses		(5,012)	(3,453)
Selling and distribution costs		(2,621)	(2,839)
<b>Operating (loss)/profit</b>	3	<b>(5,668)</b>	<b>1,466</b>
Interest receivable and similar income	4	38	51
Interest payable and similar charges	5	(2,255)	(2,078)
<b>Loss on ordinary activities before taxation</b>		<b>(7,885)</b>	<b>(561)</b>
Tax on loss on ordinary activities	8	465	(6)
<b>Loss for the financial year</b>	20,21	<b>(7,420)</b>	<b>(567)</b>

All results are derived from continuing operations.

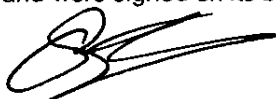
The group has no recognised gains and losses other than the loss above and therefore no separate statement of total recognised gains and losses has been prepared.

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

**Consolidated balance sheet as at 31 December 2007**

	Note(s)	2007 £'000	2006 £'000
<b>Fixed assets</b>			
Intangible assets	9	-	-
Tangible assets	10	269	235
		<b>269</b>	<b>235</b>
<b>Current assets</b>			
Debtors	12	2,925	5,581
Cash at bank and in hand		653	952
		<b>3,578</b>	<b>6,533</b>
<b>Creditors – Amounts falling due within one year</b>	13	<b>(8,652)</b>	<b>(6,634)</b>
<b>Net current liabilities</b>		<b>(5,074)</b>	<b>(101)</b>
<b>Total assets less current liabilities</b>		<b>(4,805)</b>	<b>134</b>
<b>Creditors – Amounts falling due after more than one year</b>	14	<b>(36,058)</b>	<b>(34,747)</b>
<b>Provisions for liabilities and charges</b>	16	<b>(2,232)</b>	<b>(1,103)</b>
<b>Net liabilities</b>		<b>(43,095)</b>	<b>(35,716)</b>
<b>Capital and reserves</b>			
Called-up share capital	18	65	65
Share premium account	20	3,894	3,857
Profit and loss account	20	(47,055)	(39,638)
Other reserves	20	1	-
<b>Total equity shareholders' deficit</b>	21	<b>(43,095)</b>	<b>(35,716)</b>

The financial statements on pages 7 to 33 were approved by the board of directors on 28 January 2009 and were signed on its behalf by:



~~Gareth Smith~~ **GARETH SMITH**  
Director

# Axiom Systems Holdings Limited

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## Company balance sheet as at 31 December 2007

	Note(s)	2007 £'000	2006 £'000
<b>Fixed assets</b>			
Intangible assets	9	-	-
Investments	11	-	-
		-	-
Debtors	12	20,814	19,915
Cash at bank and in hand		541	868
		21,355	20,783
<b>Creditors – Amounts falling due within one year</b>	13	(6,901)	(5,100)
<b>Net current assets</b>		<b>14,454</b>	<b>15,683</b>
<b>Total assets less current liabilities</b>		<b>14,454</b>	<b>15,683</b>
<b>Creditors – Amounts falling due after more than one year</b>	14	<b>(36,009)</b>	<b>(34,743)</b>
<b>Net liabilities</b>		<b>(21,555)</b>	<b>(19,060)</b>
<b>Capital and reserves</b>			
Called-up share capital	18	65	65
Share premium account	20	3,894	3,857
Profit and loss account	20	(25,514)	(22,982)
<b>Total equity shareholders' deficit</b>	21	<b>(21,555)</b>	<b>(19,060)</b>

The financial statements on pages 7 to 33 were approved by the board of directors on 28 January 2009 and were signed on its behalf by:



~~Signature~~ **GARETH SEATON**  
Director

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

	Note(s)	2007 £'000	2006 £'000
<b>Net cash outflow from operating activities</b>	22	(900)	(3,118)
<b>Returns on investment and servicing of finance</b>			
Interest received		36	51
Interest paid		(391)	(180)
Interest element of hire purchase payments		(12)	(1)
<b>Net cash outflow from return on investments and servicing of finance</b>		(367)	(130)
<b>Taxation</b>			
UK tax credits received		73	-
<b>Capital expenditure and financial investment</b>			
Purchase of tangible fixed assets		(83)	(134)
Sale of tangible fixed assets		-	3
<b>Net cash outflow from capital expenditure and financial investment</b>		(83)	(131)
<b>Net cash outflow before financing</b>		(1,277)	(3,379)
<b>Financing</b>			
Redemption of 2013 Convertible loan stock including accumulated interest		-	(1,584)
Drawdown of 2005 loan		-	1,000
Drawdown of 2006 loan		-	1,387
Drawdown of 2007 loan		1,000	-
Drawdown of 2006 long term loan		-	2,011
Drawdown of 2007 long term loan		750	-
Financing fees capitalised on issue of long term loan		(15)	(35)
Capital repayments of long term loans		(750)	(286)
Capital element of hire purchase payments		(28)	(5)
Issue of C preferred shares		-	1,500
Payments to re-acquire company's shares		-	(1,000)
<b>Net cash inflow from financing</b>		957	2,988
<b>Net decrease in cash</b>	21	(320)	(391)

**Notes to the financial statements for the year ended 31 December 2007****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 throughout the year, is set out below.

**Basis of preparation**

The financial statements have been prepared on the going concern basis.

In making this assumption, the directors have considered the financial support that has been received by the company since its acquisition on 21 April 2008 and ongoing support promised for the foreseeable future by its new parent company, Comptel Corporation. They have also considered the financial strength of Comptel Corporation itself.

On this basis, the directors consider it appropriate to prepare the financial statements on the going concern basis.

**Basis of consolidation**

The consolidated financial statements include the company and its subsidiary undertakings made up to 31 December 2007. Intra group sales and profits are eliminated fully on consolidation and the consolidated financial statements reflect external transactions only. All group companies apply uniform accounting policies and have co-terminous year ends.

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 financial statements 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.

**Share-based payments**

The group operates a number of equity-settled, share-based compensation plans for its employees and directors. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the group revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

**Tangible fixed assets**

Tangible fixed assets are stated at cost less accumulated depreciation.

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

**Notes to the financial statements for the year ended 31 December 2007 (continued)****1 Accounting policies (continued)**

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 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 completed. 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.

**Long term contracts**

Turnover and a prudent estimate of the profit attributable to work completed on long-term contracts is recognised once the outcome of the contract can be recognised with reasonable certainty. The amount by which turnover exceeds payments on account is shown under debtors as accrued income. The amount by which payments on account exceed turnover is shown under creditors as deferred income. The costs on long-term contracts not yet taken to the profit and loss account less related foreseeable losses and payments on account are shown in stocks as work in progress.

**Goodwill**

Goodwill arising on consolidation represents the excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired. Under the accounting standard FRS10 (Goodwill and Intangible Assets), goodwill arising on the acquisitions of Axiom Systems Limited and Viewgate Networks Limited has been capitalised and is being amortised on a straight line basis over a period of 10 years, being the period expected to benefit. The group evaluates the carrying value of goodwill in each financial year to determine if there has been an impairment in value, which would result in the inability to recover the carrying amount. When it is determined that the carrying value exceeds the recoverable amount, the excess is written off to the profit and loss account.

**Fixed asset investments**

Investments in group undertakings are held at cost plus incidental expenses less provision for impairment. The directors are responsible for evaluating the carrying value of fixed asset investments in each financial year to determine if there has been an impairment in value, which would result in the inability to recover the carrying amount.

**Notes to the financial statements for the year ended 31 December 2007 (continued)****1 Accounting policies (continued)****Intangible assets**

Intangible assets are capitalised at cost and were amortised on a straight line basis over their estimated useful economic 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.

**Finance and operating leases**

Costs in respect of operating leases are charged to the profit and loss account 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 economic lives of equivalent owned assets.

**Provisions**

Provisions are recognised when the group has a present obligation as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

**Pension costs**

The group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the group in an independently administered fund. The pension cost charge disclosed in note 24 represents contributions payable by the group to the fund.

**Research and development**

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

**Own equity instruments**

Transactions by the company to re-acquire its own equity instruments by the company, shall be deducted from equity. No gain or loss shall be recognised in the profit and loss on the purchase, sale, issue or cancellation of such instruments. Consideration paid or received shall be recognised directly in equity.

**Preference shares and borrowings**

The substance of a financial instrument, rather than its legal form is considered when classifying financial instruments. Convertible redeemable preference shares are regarded as a compound instrument consisting of a liability and equity component. On adoption of FRS 25 'Financial instruments: presentation' the equity component was not considered to carry a fair value, therefore preference shares have been classified wholly within liabilities. Preference dividends are recognised within the profit and loss account as an interest charge.

Financial liabilities are carried at amortised cost. Costs that are directly attributable to issue were capitalised against share premium and have been amortised (as interest payable) on a straight line basis over the life of the instrument.

**Notes to the financial statements for the year ended 31 December 2007 (continued)****1 Accounting policies (continued)****Foreign currencies**

Transactions in foreign currencies are recorded and translated into Sterling 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 into Sterling 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.

Where the presentational currency of a foreign subsidiary's financial statements differs from that adopted in the group accounts, the subsidiary accounts are translated into Sterling for consolidation purposes. The profit and loss account is translated into Sterling using an average exchange rate, assets and liabilities are translated into Sterling at the rate of exchange ruling at the balance sheet date. Share capital is translated into Sterling using the rate of exchange ruling at the date of incorporation. All exchange differences arising on consolidation are recognised in other reserves.

**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.

**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 and balances between the companies within the group have not been disclosed in accordance with the exemption FRS 8 paragraph 3(a) as these have been eliminated on consolidation.



## Notes to the financial statements for the year ended 31 December 2007 (continued)

### 2 Turnover

There is only one class of business. All turnover originates in the United Kingdom, an analysis of turnover by destination is given below:

	2007 £'000	2006 £'000
United Kingdom	2,352	3,937
Rest of Europe	3,918	8,184
Rest of World	1,567	1,564
	<b>7,837</b>	<b>13,685</b>

### 3 Operating (loss)/profit

	2007 £'000	2006 £'000
<b>Operating (loss)/profit is stated after charging/(crediting):</b>		
Wages and salaries	6,387	6,067
Social security costs	665	720
Other pension costs (note 24)	206	265
Share option charge (note 19)	3	54
<b>Staff costs</b>	<b>7,261</b>	<b>7,106</b>
Depreciation of tangible fixed assets		
- owned assets	136	139
- leased assets	17	12
Loss/(profit) on disposal of tangible fixed assets	1	(1)
Operating leases - plant and machinery	-	3
- other	823	823
Foreign exchange loss	131	128
Research and development costs	1,918	1,839
Exceptional administrative expenses – onerous lease provision (note 16)	1,405	-
<b>Services provided by the group's auditors and network firms</b>		
Fees payable for the audit of the company and consolidated statutory financial statements	7	6
<b>Fees payable to the company's auditors and its associates for audit and other services</b>		
The audit of company's subsidiaries pursuant to legislation	33	29
Fees payable for non audit services including taxation	44	18
	<b>84</b>	<b>53</b>

Audit fees for the company were borne by other group companies.

**Notes to the financial statements for the year ended 31 December 2007 (continued)**
**4 Interest receivable and similar income**

	2007 £'000	2006 £'000
Bank interest	38	51

**5 Interest payable and similar charges**

	2007 £'000	2006 £'000
Preference share dividends	1,590	1,540
Finance charge on 2013 Convertible loan	-	269
Interest on 2005 Loan notes	140	76
Interest on 2006 Loan notes	194	90
Interest on 2007 Loan notes	44	-
Interest on 2006 Term loan	146	96
Interest on 2007 Term loan	56	-
On assets held under hire purchase agreements	12	1
Accrued interest on overdue rent	49	-
Bank interest	24	6
	2,255	2,078

In accordance with the adoption of FRS 25 'Financial instruments: presentation', dividends on preference shares are included within interest payable. Preference share dividends have been accrued at 6% per annum, and include £37,000 (2006: £37,000) in respect of the amortisation of issue costs.

**6 Directors' emoluments**

	2007 £'000	2006 £'000
Aggregate emoluments	264	268
Company contributions paid to money purchase pension schemes	12	12
Sums paid to third parties for directors' services	50	45
	326	325

Retirement benefits are accruing to two (2006: two) directors under a money purchase pension scheme. No directors exercised share options during the period (2006: none).

Highest paid director	2007 £'000	2006 £'000
Aggregate emoluments	258	262
Company contributions paid to money purchase pension schemes	12	12
	270	274

**Notes to the financial statements for the year ended 31 December 2007 (continued)**

**7 Employee information**

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

By activity	2007	2006
Sales and administration	27	21
Technical	65	64
	<b>92</b>	<b>85</b>

The company had no employees during the year (2006: none). The equity share option charge is the only staff cost incurred by the company, this amounted to £3,000 (2006: £54,000).

**8 Tax on loss on ordinary activities**

	2007 £'000	2006 £'000
<b>Current tax (credit)/charge</b>		
UK corporation tax charge at 30% (2006: 30%)	(467)	-
Overseas corporation tax	1	1
Restriction in respect of prior year losses	1	5
<b>Total current tax (credit)/charge</b>	<b>(465)</b>	<b>6</b>

The tax assessed for the year and prior year differs to the standard rate of corporation tax in the United Kingdom (30%). The differences are explained below:

	2007 £'000	2006 £'000
Loss on ordinary activities before tax	(7,885)	(561)
Loss on ordinary activities before tax multiplied by the standard rate in the UK 30% (2006: 30%)	(2,366)	(168)
Effects of:		
Restriction in respect of prior year losses	1	5
Accelerated capital allowances / other short term timing differences	61	(8)
Expenses not deductible for tax purposes	492	579
Rate change	(3)	-
Unutilised carried forward losses	1,233	(209)
R&D relief 50% mark up on expenses	(292)	(193)
Losses surrendered for R&D tax credits at 16%	409	-
<b>Total current tax (credit)/charge for the financial year</b>	<b>(465)</b>	<b>6</b>

The factors affecting future tax charges include the United Kingdom 2008 Budget and the changes in the corporation tax rates from April 2008. The effect of the changes in the corporation tax rates on the unrecognised deferred tax asset at 1 January is a reduction of £429,000 (2006: £nil).

# Notes to the financial statements for the year ended 31 December 2007 (continued)

## 9 Intangible assets

Group	Software copyright £'000	Goodwill £'000	Total £'000
<b>Cost</b>			
At 1 January 2007 and 31 December 2007	1,063	8,008	9,071
<b>Accumulated amortisation</b>			
At 1 January 2007 and 31 December 2007	1,063	8,008	9,071
<b>Net book amount</b>			
At 31 December 2006 and 31 December 2007	-	-	-

Company	Software copyright £'000
<b>Cost</b>	
At 1 January 2007 and 31 December 2007	1,063
<b>Accumulated amortisation</b>	
At 1 January 2007 and 31 December 2007	1,063
<b>Net book amount</b>	
At 31 December 2006 and 31 December 2007	-

The software copyright has been capitalised at its acquisition cost of £1,063,000 and has been fully amortised.

## 10 Tangible fixed assets

Group	Short leasehold improvements £'000	Office furniture, fixtures and fittings £'000	Computer equipment £'000	Total £'000
<b>Cost</b>				
At 1 January 2007	276	367	1,058	1,701
Additions	8	106	73	187
Disposals	-	-	(67)	(67)
<b>At 31 December 2007</b>	<b>284</b>	<b>473</b>	<b>1,064</b>	<b>1,821</b>
<b>Accumulated depreciation</b>				
At 1 January 2007	242	336	888	1,466
Charge for the year	11	24	118	153
Disposals	-	-	(67)	(67)
<b>At 31 December 2007</b>	<b>253</b>	<b>360</b>	<b>939</b>	<b>1,552</b>
<b>Net book amount</b>				
At 31 December 2007	31	113	125	269
At 31 December 2006	34	31	170	235

# Notes to the financial statements for the year ended 31 December 2007 (continued)

## 10 Tangible fixed assets (continued)

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

Group	Short leasehold improvements £'000	Office furniture, fixtures and fittings £'000	Computer equipment £'000	Total £'000
<b>Cost</b>				
At 1 January 2007	7	199	108	314
Additions	-	104	-	104
Disposals	-	-	(22)	(22)
<b>At 31 December 2007</b>	<b>7</b>	<b>303</b>	<b>86</b>	<b>396</b>
<b>Accumulated depreciation</b>				
At 1 January 2007	7	194	108	309
Charge for the year	-	17	-	17
Disposals	-	-	(22)	(22)
<b>At 31 December 2007</b>	<b>7</b>	<b>211</b>	<b>86</b>	<b>304</b>
<b>Net book amount</b>				
<b>At 31 December 2007</b>	<b>-</b>	<b>92</b>	<b>-</b>	<b>92</b>
At 31 December 2006	-	5	-	5

The company has no tangible fixed assets.

## 11 Fixed assets investments

Company	Subsidiary undertakings £'000
<b>Cost</b>	
At 1 January 2007 and at <b>31 December 2007</b>	<b>6,421</b>
<b>Provisions for impairment</b>	
At 1 January 2007 and at <b>31 December 2007</b>	<b>(6,421)</b>
<b>Net book amount</b>	
<b>At 31 December 2007</b>	<b>-</b>
At 31 December 2006	-

In accordance with FRS 11, Impairment of fixed assets and goodwill, the directors have fully written down the investments in previous years.

## Notes to the financial statements for the year ended 31 December 2007 (continued)

### 11 Fixed assets investments (continued)

Name of subsidiary	Proportion of nominal value of shares held by company		Class of shares	Principal business activity	Country of incorporation
	Directly	Indirectly			
Axiom Systems Limited	100%		Ordinary	Provider of operational support systems in the telecommunications industry	United Kingdom
Viewgate Networks Limited	100%		Ordinary	Non-trading	United Kingdom
Network People Limited		100%	Ordinary	Non-trading	United Kingdom
Axiom Systems OSS (Asia-Pacific) Pte	100%		Ordinary	Provider of operational support systems in the telecommunications industry	Singapore
Viewgate Networks Inc	100%		Ordinary	Non-trading	United States

### 12 Debtors

	Group		Company	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Trade debtors	1,074	2,387	-	-
Amounts due from subsidiary undertakings	-	-	20,814	19,913
Corporation tax recoverable	461	69	-	-
Other debtors	208	411	-	2
Accrued Income	882	2,496	-	-
Prepayments	300	218	-	-
	2,925	5,581	20,814	19,915

Amounts due from subsidiary undertakings are unsecured, interest free and have no fixed repayment date.

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

	Group		Company	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Amounts due from subsidiary undertakings	-	-	20,814	19,913

Amounts due from group undertakings are unsecured, interest free and repayable on demand. However, as the parent company, Axiom Systems Holdings Limited, has indicated that repayment will not be demanded for the foreseeable future, these amounts have been classified as due after more than one year.

# Notes to the financial statements for the year ended 31 December 2007 (continued)

## 13 Creditors – Amounts falling due within one year

	Group		Company	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Loan notes and term loans (note 15)	4,344	2,990	4,344	2,990
Trade creditors	1,392	947	11	-
Amounts due to subsidiary undertakings	-	-	2,333	2,019
Obligations under hire purchase agreements	32	1	-	-
Taxation and social security	367	244	-	-
Other creditors	57	45	-	-
Accruals and deferred income	2,460	2,407	213	91
	<b>8,652</b>	<b>6,634</b>	<b>6,901</b>	<b>5,100</b>

Amounts due to subsidiary undertakings are unsecured, interest free and have no fixed repayment date.

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

	Group		Company	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Obligations under hire purchase agreements	49	4	-	-
6% Cumulative redeemable Preference shares and accrued dividends (note 15)	35,210	33,657	35,210	33,657
Term Loans (note 15)	799	1,086	799	1,086
	<b>36,058</b>	<b>34,747</b>	<b>36,009</b>	<b>34,743</b>

## 15 Loans and other borrowings

	Group		Company	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
2005 Loan notes	1,000	1,000	1,000	1,000
2006 Loan notes	1,387	1,387	1,387	1,387
2007 Loan notes	1,000	-	1,000	-
2006 Term loan	1,142	1,689	1,142	1,689
2007 Term loan	614	-	614	-
6% Cumulative redeemable Preference shares and accrued dividends	35,210	33,657	35,210	33,657
Obligations under hire purchase agreements	81	5	-	-
	<b>40,434</b>	<b>37,738</b>	<b>40,353</b>	<b>37,733</b>
<b>Maturity of debt</b>				
In one year or less, or on demand	4,376	2,991	4,344	2,990
In more than two years, but not more than five years	36,058	34,747	36,009	34,743
	<b>40,434</b>	<b>37,738</b>	<b>40,353</b>	<b>37,733</b>

## Notes to the financial statements for the year ended 31 December 2007 (continued)

### 15 Loans and other borrowings (continued)

#### Details of loan arrangements

	Principal	Interest rate	Loan term
2005 Loan notes	£1,000,000	LIBOR + 9%	on going loan
2006 Loan notes	£1,386,970	LIBOR + 9%	on going loan
2007 Loan notes	£1,000,000	LIBOR + 9%	Repayment due by 2020
2006 Term loan	€ 2,900,000	3yr Swap rate + 7.25%	36 months from drawdown date
2007 Term loan	£750,000	3yr Swap rate + 7.25%	36 months from drawdown date

The Sterling equivalent of the 2006 Term loan principal is £2,132,000.

On 23 May 2007 the company drew down funds totalling £750,000 under a term loan agreement with ETV Capital S.A. The loan is repayable in equal monthly instalments over a 3 year term, and bears interest at 13.21%. Fees of £15,000 were incurred in connection with the loan have been capitalised and will be amortised on a straight line basis over the 3 year term of the loan.

On 27 September 2007 the company drew down funds of £1,000,000, "2007 Loan notes" under a loan agreement with existing investors, Geocapital (£592,340) and Hg Capital (£407,660). The loan bears a fixed rate interest at 18% payable quarterly in arrears. The full 18% is repayable whether the loan is retained for a full year or less. The lenders are able to call for the repayment of the loan on 1 January 2009 if it has not been fully settled. This loan is subordinated to the ETV loans.

The 2006 term loan carries a fixed charge on the intellectual property, shares, any derivative assets, goodwill and uncalled capital. It carries a floating charge against the undertaking and assets.

The 2007 term loan carries fixed and floating charges over the undertaking and all assets present and future.

#### Finance leases

Net obligations under finance leases are as follows:

	2007 £'000	2006 £'000
Within one year	32	1
In more than one year, but not more than five years	49	4
	81	5

#### Preference shares

Group and company	2007 £'000	2006 £'000
<b>Authorised</b>		
11,000,000 (2006: 11,000,000) C class preference shares of 1p each	110	110
17,745,000 (2006: 17,745,000) Geo convertible redeemable preference shares of 1p each	177	177
17,745,000 (2006: 17,745,000) Geo 2 convertible redeemable preference shares of 1p each	177	177
9,954,376 (2006: 9,954,376) Hg convertible redeemable preference shares of 1p each	100	100
9,954,376 (2006: 9,954,376) Hg 2 convertible redeemable preference shares of 1p each	100	100
	664	664



## Notes to the financial statements for the year ended 31 December 2007 (continued)

### 15 Loans and other borrowings (continued)

Group and company	2007 £'000	2006 £'000
<b>Allotted, called-up and fully paid</b>		
8,081,806 (2006: 8,081,806) C class preference shares of 1p each	81	81
17,745,000 (2006: 17,745,000) Geo convertible redeemable preference shares of 1p each	177	177
9,954,376 (2006: 9,954,376) Hg convertible redeemable preference shares of 1p each	100	100
Premium on issue of preference shares	25,522	25,522
	<b>25,880</b>	<b>25,880</b>

#### Conversion, redemption, voting, dividend and rights on winding up

The rights attached to each class of preference shares are presented in note 18.

### 16 Provisions for liabilities and charges

Provision for onerous lease	Group £'000
At 1 January 2007	1,103
Increase in provision charged to the profit and loss account (note 3)	1,405
Utilised during the year	(276)
<b>At 31 December 2007</b>	<b>2,232</b>

The provision made in the financial statements in respect of the onerous lease represents the best estimate of the unavoidable lease payments for the office space not utilised by the group. In the current year the provision has been increased to cover the costs up to the expiry of the lease in December 2014, accordingly this charge has been classified as an exceptional administrative expense. The group continues to work with the landlord to minimise the exposure to future onerous lease charges. The amounts provided have not been discounted.

The company has no provisions for liabilities and charges.

### 17 Deferred taxation

	Group		Company	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
<b>Deferred tax assets not recognised in the financial statements comprises:</b>				
Capital allowances in excess of depreciation	129	70	-	-
Other timing differences	60	69	1	-
Tax losses	7,100	6,297	661	338
	<b>7,289</b>	<b>6,436</b>	<b>662</b>	<b>338</b>

The unrecognised deferred tax asset of £6,440,000 (2006: £5,959,000) in respect of trading losses is available to carry forward, and is recoverable against future profits arising from the same trade. No deferred tax asset has been recognised as it is not certain that there will be suitable profits in the near future.

## Notes to the financial statements for the year ended 31 December 2007 (continued)

### 18 Called-up share capital

Group and company	2007 £'000	2006 £'000
<b>Authorised</b>		
30,000,000 (2006: 30,000,000) ordinary shares of 1p each	300	300
7,258,999 (2006: 7,258,999) E shares of 1p each	73	73
	<b>373</b>	<b>373</b>
<b>Allotted, called-up and fully paid</b>		
4,429,160 (2006: 4,429,160) ordinary shares of 1p each	44	44
	<b>44</b>	<b>44</b>
<b>Shares to be issued</b>		
2,085,656 (2006: 2,085,656) C preference shares of 1p each	21	21
	<b>65</b>	<b>65</b>

The E shares of 1p each have no rights to dividends, shall have no rights to receive notice of, or to attend and vote at general meetings of the company. Rights to participate on an exit or winding up are subordinated to those of preference shares, but are in preference to those of ordinary shares.

The details of authorised, allotted, called-up and fully paid preference shares are shown in note 15.

#### 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.

Immediately prior to conversion holders of both Hg and Geo preferred shares so converted, are entitled to subscribe at par for a new class of preference shares as shall equal the number so converted, designated as Hg 2 and Geo 2. The Hg 2 and Geo 2 preferred shares shall have no rights to conversion.

On event of a listing the C preferred shares, Hg ordinary shares, Hg preferred shares, Geo ordinary shares, Geo preferred share, Hg 2 shares, Geo 2 shares and E shares in issue shall convert to fully paid ordinary shares at a rate of one ordinary share for every such share converted.

#### 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.

**Notes to the financial statements for the year ended 31 December 2007 (continued)****18 Called-up share capital (continued)**

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. The cumulative dividends accrued amount to £9,330,000 (2006: £7,777,000) and date back to when each tranche of preference shares was issued, the earliest being October 2000.

**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. The holders of Hg 2 and Geo 2 preferred shares shall have no rights to receive notice of, or vote at a general meeting.

**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 E Class shareholders any management preference if so entitled, after calculation of amounts payable to other parties; secondly, 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; thirdly to the Hg and Hg 2 preference shareholders in repaying the aggregate of the nominal amount of the preference shares and premium paid on subscription for them; fourthly to the Geo and Geo 2 preference shareholders in repaying the aggregate of the nominal amount of the preference shares and premium paid on subscription for them; fifthly in paying to the Hg and Geo preference shareholders any accrued but unpaid dividends on the Hg, Hg 2, Geo and Geo 2 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 2009. The company shall redeem all of the Hg preference shares then unredeemed or outstanding on 31 December 2009. 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.

**Notes to the financial statements for the year ended 31 December 2007 (continued)****18 Called-up share capital (continued)**

A Geo preferred shareholder may elect to redeem the Geo preferred shares on or after 31 December 2009. 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 but unpaid dividends.

The holders of a majority of the Geo preferred shares in issue are entitled to require redemption at any time, of some or all of the Geo preferred shares if i) when Geo preferred shares are due for redemption, the company does not pay all the redemption money then payable to Geo preferred shareholders, 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.

**19 Share-based payments****Potential issues of shares**

Certain directors of the company and certain employees across the group hold options to subscribe for shares of the company (Ordinary and E-class shares) at prices ranging from 1p per share to 67p per share, under a number of share option schemes approved by the board of directors. Options are granted with a fixed exercise price authorised by the board of directors in consideration of the estimated value of the share at grant. The contractual life of options is generally 10 years. Options granted to employees under the share option plan (EMI) will become exercisable after the fourth anniversary of the date of grant, subject to continued employment. Certain senior executives hold options to subscribe for shares in the company under separate option schemes. The number of shares subject to options at 31 December 2007, the periods in which they were granted and the periods in which they may be exercised are given below. All of the awards were granted for nil consideration and will be equity-settled. Options are not subject to further non-market or market-based performance conditions.

# Notes to the financial statements for the year ended 31 December 2007 (continued)

## 19 Share-based payments (continued)

Year of grant	Exercise price £	Exercise period	2007 Number of shares	2006 Number of shares
<b>Executive scheme</b>				
2001	0.67	January 2005 – July 2013	562,500	562,500
2002	0.67	January 2006 – October 2013	55,893	55,893
2003	0.67	January 2007 – April 2013	20,000	20,000
<b>Chairman's Scheme</b>				
23 May 2001	0.67	May 2002 – May 2011	510,000	510,000
18 April 2006	0.01	April 2006 – April 2016	1,000,000	1,000,000
<b>Other schemes</b>				
28 January 2003	0.67	January 2003 – January 2007	-	44,286
1 March 2004	0.67	March 2004 – December 2007	-	88,572
<b>Share option plan</b>				
1 February 2004	0.67	February 2008 – February 2014	4,000	4,000
1 March 2004	0.67	March 2008 – March 2014	8,000	8,000
26 July 2004	0.09	July 2008 – July 2014	697,944	697,944
5 April 2006	0.01	April 2010 – April 2016	1,780,556	1,780,556
14 August 2006	0.01	August 2010 – August 2016	102,500	102,500
23 February 2007	0.01	February 2011 – February 2017	67,500	-
12 March 2007	0.01	March 2011 – March 2017	32,500	-
30 July 2007	0.01	July 2011 – July 2017	93,000	-
5 November 2007	0.01	November 2011 – November 2017	64,500	-
<b>E-class option plan</b>				
9 November 2006	0.01	November 2006 – November 2016	5,661,551	5,661,551
9 November 2006	0.01	November 2010 – November 2016	1,596,848	1,596,848
			<b>12,257,292</b>	<b>12,132,650</b>

The company's effective date for FRS 20 'Share-based payment', implementation is 1 January 2005 and the provisions of FRS 20 have been applied to all share options granted after 7 November 2002 and which have not vested by this date. Options were valued using the Black-Scholes option-pricing model as follows:

# Notes to the financial statements for the year ended 31 December 2007 (continued)

## 19 Share-based payments (continued)

Scheme	Number of employees	Exercise price £	Grant date	Number of shares options granted at 31 December 2007 that vest after 1 January 2005	Fair value £
Executive scheme	1	0.67	2003 (various)	40,000	-
Chairman's scheme	1	0.01	18 April 2006	1,000,000	6,267
Other schemes	1	0.67	28 January 2003	44,286	-
Other schemes	1	0.67	1 March 2004	88,572	-
Share option plan	1	0.67	1 February 2004	4,000	-
Share option plan	1	0.67	1 March 2004	8,000	-
Share option plan	30	0.09	26 July 2004	697,944	1,124
Share option plan	45	0.01	5 April 2006	1,780,556	11,159
Share option plan	31	0.01	14 August 2006	102,500	642
Share option plan	3	0.01	23 February 2007	67,500	425
Share option plan	4	0.01	12 March 2007	32,500	205
Share option plan	21	0.01	30 July 2007	93,000	605
Share option plan	24	0.01	5 November 2007	64,500	406
E-class option plan	4	0.01	9 November 2006	5,661,551	35,493
E-class option plan	4	0.01	9 November 2006	1,596,848	10,011

Scheme	Grant date	Vesting period (years)	Expected dividend yield b)	Expected volatility a)	Risk free rate d)	Performance conditions
Executive scheme	2003 (various)	4	0%	45%	4.37%	None
Chairman's scheme	18 April 2006	Immediate	0%	45%	4.53%	None
Other schemes	28 January 2003	Immediate	0%	45%	4.43%	None
Other schemes	1 March 2004	Immediate	0%	45%	4.89%	None
Share option plan	1 February 2004	4	0%	45%	4.89%	None
Share option plan	1 March 2004	4	0%	45%	4.89%	None
Share option plan	26 July 2004	4	0%	45%	5.14%	None
Share option plan	5 April 2006	4	0%	45%	4.53%	None
Share option plan	14 August 2006	4	0%	45%	4.76%	None
Share option plan	23 February 2007	4	0%	45%	4.88%	None
Share option plan	12 March 2007	4	0%	45%	4.76%	None
Share option plan	30 July 2007	4	0%	45%	5.43%	None
Share option plan	5 November 2007	4	0%	45%	4.75%	None
E-class option plan	9 November 2006	Immediate	0%	45%	4.54%	None
E-class option plan	9 November 2006	4	0%	45%	4.54%	None

## Notes to the financial statements for the year ended 31 December 2007 (continued)

### 19 Share-based payments (continued)

- Expected volatility is a measure of the amount by which a share price is expected to fluctuate during the period. In the absence of an active market in shares of the company and therefore no reliable historical information on which to calculate volatility, expected volatility has been estimated based on share price information of other companies engaged in similar activities within the telecommunications industry.
- The dividend yield of 0% in all cases reflects the absence of any expected dividends at date of grant.
- The risk free rate is based on UK Gilt rates prevalent on the grant date and commensurate with the term of each award.
- Given that there is no active market in the ordinary or E-class shares of the company (no recent share issues have been made) historical and current year share prices at grant date have been estimated to be equal to 1p.
- An option life of 10 years has been applied to all grants.

A reconciliation of option movements over the year ended 31 December 2007 is shown below:

	2007		2006	
	Number	Weighted average exercise price £	Number	Weighted average exercise price £
Outstanding at 1 January	12,132,650	0.47	2,013,105	0.47
Cancelled	(132,858)	0.67	(20,000)	0.67
Exercised	-	-	(1,910)	0.01
Granted	257,500	0.01	10,141,455	0.01
Outstanding at 31 December	12,257,292	0.08	12,132,650	0.08

The weighted average fair value of options granted in the year £1,641 (2006: £53,683).

The following table summarises information about the range of exercise prices and weighted average remaining life:

	2007		2006	
Exercise prices	Number	Weighted average remaining life years	Number	Weighted average remaining life years
£0.01	10,398,955	8.71	10,141,455	9.70
£0.09	697,944	6.57	697,944	7.57
£0.67	1,160,393	3.74	1,293,251	4.31
Outstanding at 31 December	12,257,292		12,132,650	

There is no material difference between the expected and contractual obligations.

The total charge for the year relating to employee share-based payment plans was £3,098 (2006 £53,936), all of which related to equity-settled transactions.

## Notes to the financial statements for the year ended 31 December 2007 (continued)

### 20 Reserves

Group	Share premium account £'000	Profit and loss account £'000	Other reserves £'000	Total £'000
At 1 January 2007	3,857	(39,638)	-	(35,781)
Loss for the financial year	-	(7,420)	-	(7,420)
Equity share option charge (note 19)	-	3	-	3
Exchange differences on consolidation	-	-	1	1
Appropriation of preference share issue costs	37	-	-	37
<b>At 31 December 2007</b>	<b>3,894</b>	<b>(47,055)</b>	<b>1</b>	<b>(43,160)</b>
<b>Company</b>				
At 1 January 2007	3,857	(22,982)	-	(19,125)
Loss for the financial year	-	(2,535)	-	(2,535)
Equity share option charge (note 19)	-	3	-	3
Appropriation of preference share issue costs	37	-	-	37
<b>At 31 December 2007</b>	<b>3,894</b>	<b>(25,514)</b>	<b>-</b>	<b>(21,620)</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 £2,535,000 (2006: loss of £2,338,000) is dealt with in the financial statements of the holding company.

### 21 Reconciliation of movements in equity shareholders deficit

	Group	
	2007 £'000	2006 £'000
Loss for the financial year	(7,420)	(567)
Equity share option charge (note 19)	3	54
Appropriation of preference share issue costs	37	37
Purchase of own shares	-	(1,000)
Exchange differences on consolidation	1	-
Net increase in equity shareholders deficit	(7,379)	(1,476)
Opening equity shareholders' deficit	(35,716)	(34,240)
<b>Closing equity shareholders' deficit</b>	<b>(43,095)</b>	<b>(35,716)</b>



# Notes to the financial statements for the year ended 31 December 2007 (continued)

## 22 Notes to the statement of cash flows

### (a) Reconciliation of operating (loss)/profit to net cash outflow from operating activities

	2007 £'000	2006 £'000
Operating (loss)/profit	(5,668)	1,466
Depreciation of tangible fixed assets	153	151
Share option charge (note 19)	3	54
Decrease/(increase) in debtors	3,048	(1,782)
Increase/(decrease) in creditors	435	(2,735)
Increase/(decrease) in provisions for liabilities and charges	1,129	(272)
<b>Net cash outflow from operating activities</b>	<b>(900)</b>	<b>(3,118)</b>

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

	2007 £'000	2006 £'000
Decrease in cash in the year	(320)	(391)
Cash flow from increase in debt and lease financing	(957)	(3,988)
Changes in net debt resulting from cash flows	(1,277)	(4,379)
Accrued interest on Loan Stock	-	(269)
Accrued preference dividend	(1,553)	(1,503)
Other non cash changes	(165)	1
Movement in net debt in the year	(2,995)	(6,150)
Net debt at the beginning of the year	(36,786)	(30,636)
Net debt at the end of the year	(39,781)	(36,786)

Non cash movements include accrued dividends on 6% cumulative preference shares £1,553,000 (2006: £1,503,000) amortisation of debt issue costs and differences on foreign exchange of £61,000 (2006: £1,000), accrued finance charge incurred of £nil (2006: £269,000) on the 2013 convertible debt for the period until redemption, and £104,000 (2006: £nil) in relation to new finance leases.

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

	1 January 2007 £'000	Cash flow £'000	Non cash movements £'000	31 December 2007 £'000
Cash in hand and at bank	952	(320)	21	653
Debt due within 1 year	(2,991)	(1,295)	(58)	(4,344)
Debt due after 1 year	(34,742)	310	(1,577)	(36,009)
Finance leases	(5)	28	(104)	(81)
<b>Net debt</b>	<b>(36,786)</b>	<b>(1,277)</b>	<b>(1,718)</b>	<b>(39,781)</b>

**Notes to the financial statements for the year ended 31 December 2007 (continued)****23 Financial commitments**

At 31 December 2007 the group had annual commitments under non-cancellable operating leases for assets expiring as follows:

	<b>Land and buildings</b>	
	<b>2007</b>	<b>2006</b>
	<b>£'000</b>	<b>£'000</b>
Within one year	-	12
After five years	811	811
	<b>811</b>	<b>823</b>

The company had no annual commitments under non-cancellable operating leases (2006: £nil).

**24 Pension commitments**

The group operates a defined contribution pension scheme, the assets of which are held separately from those of the group in an independently administered fund.

Pension costs are accounted for in the year in which they are incurred. The total pension charge for the year amounted to £206,000 (2006: £265,000).

The total amount of contributions due but not remitted at the balance sheet date was £56,000 (2006: £30,000).

**25 Related party transactions**

During the year the group acquired consultancy services totalling £50,000 (2006: £43,200) from Daroy Gordon Limited, an entity controlled by Mr J Gordon, who was a director of the group for the whole year. There were no amounts due to Daroy Gordon Limited at the year end (2006: £nil).

The company has an outstanding balance of £1,000,000 (2006: £1,000,000), "2005 Loan notes" under a loan agreement with existing investors, Geocapital (£592,340) and Hg Capital (£407,660). Interest of £140,000 (2006: £76,000) has been charged on the total balance; at 31 December 2007 a balance payable of £80,000 (2006: £35,000) (including withholding tax) has been included in creditors falling due in less than one year.

The company has an outstanding balance of £1,386,970 (2006: £1,386,970), "2006 Loan notes" under a loan agreement with existing investors, Geocapital (£751,322), Hg Capital (£544,663) and G Senior (£90,985). Interest of £194,000 (2006: £90,000) has been charged on the total balance; at 31 December 2007 a balance payable of £58,000 (2006: £84,000) (including withholding tax) has been included in creditors falling due in less than one year.

On 27 September 2007 the company drew down funds of £1,000,000, "2007 Loan notes" under a loan agreement with existing investors, Geocapital (£592,340) and Hg Capital (£407,660). Interest of £44,000 has been charged on the total balance; at 31 December 2007 a balance payable of £44,000 (including withholding tax) has been included in creditors falling due in less than one year.

**Notes to the financial statements for the year ended 31  
December 2007 (continued)**

**26 Ultimate parent company and controlling party**

Since 21 April 2008, Comptel Corporation, a company incorporated and registered in Finland, is the immediate and ultimate parent company of the group and company, and the ultimate controlling party.

Prior to the acquisition (note 27) the directors considered that there was no ultimate controlling party, and the company was the ultimate parent company of the group. The smallest and largest group in which the results of the company were consolidated was that headed by the company.

**27 Post balance sheet events**

On 16 January 2008, the company drew down £750,000 funds under a new loan facility agreed with existing investors, providing funds of up to £900,000 (Geocapital £400,000, Hg Capital £400,000 and G Senior £100,000). The loan bears interest at 20% which shall not be payable in cash and shall be capitalised and added to the outstanding loan amounts, quarterly. Geocapital and Hg Capital (acting jointly) may at any time after 30 April 2008 demand repayment in full of the balance outstanding. This loan is subordinated to existing term loans.

On 21 April 2008 the group and company was acquired by Comptel Corporation. On acquisition the initial purchase consideration of £7 million went to discharge the group's and company's debts, transaction fees, certain of the group's liabilities and to certain of the preferential shareholders.