

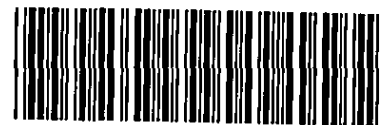
Registered No. 5141256

THE CLOUD NETWORKS LIMITED

Annual report

For the year ended 31 December 2008

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Annual report
for the year ended 31 December 2008

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Directors and advisors

Directors

Krishna Visvanathan
Åsa Sundberg
Bjorn Erik Reisenh
Steve Nicholson
Jonathan Apps
Simon Levene
Niall Murphy

Registered office

4 Victoria Square
Victoria Street
St Albans
Hertfordshire
AL1 3TF

Solicitors

Taylor Wessing
Carmelite
50 Victoria Embankment
London
EC4Y 0DX

Bankers

Lloyds TSB Bank PLC
25 Gresham Street
London
EC2V 7HN

Independent Auditors

PricewaterhouseCoopers LLP
1 Embankment Place
London
WC2N 6RH

Directors' report for the year ended 31 December 2008

The Directors present their report and the audited financial statements of the Group and Company for the year ended 31 December 2008.

Principal activity

The Group operates a public wireless broadband network in the UK and Europe, supporting data, internet and voice services.

Review of business and future developments

The Directors are satisfied with the growth and performance of the Group in the year and look forward to continuing to develop the business in the foreseeable future.

The business continues to be in its investment stage, making losses and requiring additional capital. In 2008, the Group raised £6.334m (€7.8m) of new capital from new investors and a new convertible loan of £3.662m (€5.1m) to complement the existing £1.581m (€2.25m) convertible loan made to the Group by the existing investors in 2007. Both convertible loans were converted into B Preferred Shares on 15 September 2008. Throughout 2009 the business has traded with strong operational cash flow but has yet to achieve a positive free cash flow position due to the repayment of the scheduled debt. The Directors consider that, subject to the wider economic conditions, the business is fully funded and can reach a net positive free cash flow position with its existing cash balances. Should further funding be required, the Directors consider that such funding would be available. The Key Performance Indicators (KPIs) of the Group are considered to be the following:

a) Revenue

The Group continues to grow its revenue streams from service providers, location owners, device manufacturers, consumers and other sources. Revenue metrics include minutes usage, data usage, number of unique users using either the Group's products or service provider products, number of live sites and access points through which internet services can be offered.

b) Operating costs

The Group manages its costs in line with its business plan, making adjustments as required in line with achievement of targets. Costs were managed in line with continuing forecasts prepared by the Directors.

c) Network performance

The performance of the network is constantly monitored with management reviewing performance statistics and outages. In addition, the Group maintains key performance indicators focused on sessions, minutes and the scale of its network reach and asset base.

Directors' report for the year ended 31 December 2008 (continued)

Research and Development

The Company's research and development activities are linked to the launch of new products, services and markets with the aim of helping to grow the business. All costs are written off in the year that they are incurred.

Principal risks and uncertainties

The management of the business and the execution of the Group's strategy are subject to a number of risks and uncertainties, the key risks being that of funding and the ability to secure new and existing contracts with key trading partners. Based on a prudent outlook and current trading patterns, the Directors do not foresee a requirement for further capital though are mindful of the difficult economic and financial circumstances facing the global economy.

Results and dividends

The results for the year are set out in the consolidated profit and loss account on page 8. The Group's loss for the year, after taxation, amounted to £4,722,000 (2007: loss £6,393,000). The directors do not propose payment of a dividend (2007: £nil).

Financial risk management

The Group's stage of growth and nature of debt/equity financing exposes it to a variety of financial risks that include customer risk, credit risk, liquidity risk, foreign exchange risk and funding risk. Given the size of the Group, responsibility for monitoring financial risk management is in the hands of the Board. The Board seeks to limit the adverse effects on the financial performance of the Group by monitoring levels of debt finance and the related finance costs.

a) Customer risk

The Group is exposed to customer risk as a large proportion of its revenues are generated by a small number of service provider and managed service customers. The directors are regularly updated on the status of each major contract, and the Group is actively expanding both its revenue streams and types of customers to reduce the prior dependency on a few major contracts.

b) Credit risk

The Company and its subsidiaries cannot incur debts in excess of €500,000 without approval of a majority of the Investors. To mitigate the credit risk of institutions where deposits are held, the Group adopted a treasury policy on 26 February 2008, whereby cash on hand should be held in a number of credit worthy institutions as determined by external rating agencies rather than with just one institution.

c) Liquidity risk

The Group receives a number of large receipts, both from funding sources and significant service provider customers. The directors are kept apprised regularly of the cash flow outlook of the business.

Directors' report for the year ended 31 December 2008 (continued)

Financial risk management (continued)

d) Funding risk

The Group continues to generate cash on a trading basis but consumes cash as it repays its structured debt. Forecasts prepared by the Group demonstrate that with no further material adverse downturn in the economies in which it operates, that it can reach a net positive free cash flow position with the funds currently on hand. The Directors believe that should there be a requirement for further funding that sources of finance would be available to the Group.

e) Interest rate risk

Rising interest rates may increase the cost of raising additional capital affecting the future cash flows of the Group. The majority of the borrowings of the Group are at fixed interest rates and hence there is little exposure to short term interest rate fluctuations.

f) Exchange rate risk

The Group's revenues and costs are denominated in a number of currencies, principally Sterling, Euros and Swedish Krona. Deposits of cash are held in proportion to the ratio that costs are not covered by revenues in those currencies. This ratio is reviewed regularly and as a result, the directors do not consider it necessary to enter into derivative financial instruments to manage exchange rate risk.

Post balance sheet events

There have been no significant events outside the normal course of business since the end of the year which would require disclosure.

Directors

The directors who held office during the period and up to the date of signing were:

Kaj-Erik Relander (resigned 3 July 2009)
Ian Lobley (resigned 21 January 2009)
Krishna Visvanathan (appointed 28 January 2008)
Åsa Sundberg
Bjorn-Erik Reisenh (appointed 16 October 2008)
Steve Nicholson
Jonathan Apps (appointed 1 February 2008)
Niall Murphy
Simon Levene (appointed 6 July 2009)

Directors' report for the year ended 31 December 2008 (continued)

Statement of directors' responsibilities in respect of the Annual Report and the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have 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 group and of the profit or loss of the group for that period.

In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

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.

Provision of information to Auditors

So far as each director is aware, there is no relevant audit information of which the company's auditors are unaware; and each director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Independent Auditors

PricewaterhouseCoopers LLP have indicated their willingness to continue in office and a resolution to reappoint them as auditors will be proposed at the next annual general meeting.

By order of the board

Steve Nicholson
Director



21 September 2009

Independent auditors' report to the members of The Cloud Networks Limited

We have audited the group and parent company financial statements (the "financial statements") of The Cloud Networks Limited for the year ended 31 December 2008 which comprise the Consolidated Profit and Loss Account, the Consolidated Statement of Total Recognised Gains and Losses, 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 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 all of the other information listed on the contents page. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

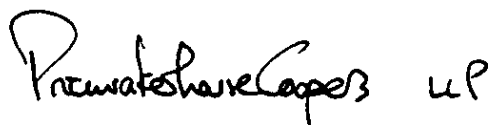
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity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

Independent auditors' report to the members of The Cloud Networks 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 2008 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.

A handwritten signature in black ink, appearing to read 'PricewaterhouseCoopers LLP', is written over the printed name of the firm.

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

London

21 September 2009

**Consolidated profit and loss account
for the year ended 31 December 2008**

	Notes	2008 £'000	2007 £'000
Turnover	2	15,872	8,160
Cost of sales		<u>(3,603)</u>	<u>(2,760)</u>
Gross profit		12,269	5,400
Distribution and selling costs		(3,115)	(6,038)
Administrative expenses		(13,417)	(5,246)
Other operating income		<u>837</u>	<u>151</u>
Operating loss	6	(3,426)	(5,733)
Net interest payable	7	<u>(1,198)</u>	<u>(691)</u>
Loss on ordinary activities before taxation		(4,624)	(6,424)
Tax on loss on ordinary activities	8	<u>(98)</u>	<u>-</u>
Loss for the financial year		(4,722)	(6,424)
Equity minority interests		-	31
Loss for the financial year	22, 23	<u>(4,722)</u>	<u>(6,393)</u>

The results disclosed above relate to continuing operations.

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.

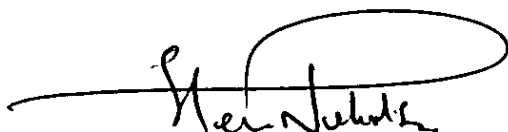
**Consolidated statement of total recognised gains and losses
for the year ended 31 December 2008**

	Notes	2008 £'000	2007 £'000
Loss for the financial year		(4,722)	(6,393)
Exchange adjustments offset in reserves (translation of overseas sales and foreign investments)	26	<u>(614)</u>	<u>(79)</u>
Total recognised losses since last annual report		<u>(5,336)</u>	<u>(6,472)</u>

Consolidated balance sheet as at 31 December 2008

	Notes	2008 £'000	2007 £'000
Fixed assets			
Intangible assets	9	4,129	4,076
Tangible assets	10	<u>6,373</u>	<u>7,078</u>
		10,502	11,154
Current assets			
Stocks	12	333	-
Debtors	13	5,383	3,155
Short term investments		3,670	-
Cash at bank and in hand		<u>1,551</u>	<u>1,838</u>
		10,937	4,993
Creditors: amounts falling due within one year	15	<u>(10,444)</u>	<u>(10,737)</u>
Net current assets / (liabilities)		493	(5,744)
Total assets less current liabilities		10,995	5,410
Creditors: amounts falling due after more than one year	16	(3,509)	(2,666)
Convertible loan	18	<u>-</u>	<u>(1,581)</u>
Net assets		<u>7,486</u>	<u>1,163</u>
Capital and reserves			
Called up share capital	19	7	5
Share premium account	22	33,173	22,160
Shares to be issued	22	610	610
Warrant reserve	22	191	79
Share based payment reserve	22	1,225	718
Foreign exchange reserve	22	(736)	(122)
Profit and loss account (deficit)	22	<u>(26,984)</u>	<u>(22,228)</u>
Total shareholders' funds	23	<u>7,486</u>	<u>1,222</u>
Minority interests		<u>-</u>	<u>(59)</u>
Capital employed		<u>7,486</u>	<u>1,163</u>

The financial statements on pages 8 to 34 were approved by the board of directors on 21 September 2009 and were signed on its behalf by:

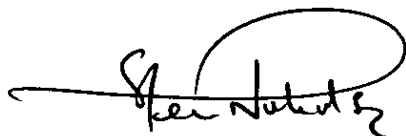


Steve Nicholson
Director

Company balance sheet as at 31 December 2008

	Notes	2008 £'000	2007 £'000
Fixed assets			
Intangible assets	9	-	955
Tangible assets	10	1,975	2,297
Investments	11	7,953	3,831
		<u>9,928</u>	<u>7,083</u>
Current assets			
Stocks	12	333	-
Debtors	13	5,898	6,411
Short term investments		3,670	-
Cash at bank and in hand		349	663
		<u>10,250</u>	<u>7,074</u>
Creditors: amounts falling due within one year	15	<u>(3,604)</u>	<u>(1,934)</u>
Net current assets		<u>6,646</u>	<u>5,140</u>
Total assets less current liabilities		<u>16,574</u>	<u>12,223</u>
Creditors: amounts falling due after more than one year	16	<u>(994)</u>	<u>(3,133)</u>
Convertible loan	18	-	(1,581)
Net assets		<u>15,580</u>	<u>7,509</u>
Capital and reserves			
Called up share capital	19	7	5
Share premium account	22	33,173	22,160
Shares to be issued	22	610	610
Warrant reserve	22	191	79
Share based payment reserve	22	1,225	718
Profit and loss account (deficit)	22	<u>(19,626)</u>	<u>(16,063)</u>
Total shareholders' funds	23	<u>15,580</u>	<u>7,509</u>

The financial statements on pages 8 to 34 were approved by the board of directors on 21 September 2009 and were signed on its behalf by:



Steve Nicholson
Director

**Consolidated cash flow statement
for the year ended 31 December 2008**

	Notes	2008 £'000	2007 £'000
Net cash outflow from operating activities	24	<u>(1,970)</u>	<u>(3,899)</u>
Returns on investments and servicing of finance			
Interest received		98	35
Interest paid		(778)	(113)
Interest element of finance lease payments		<u>(345)</u>	<u>(323)</u>
Net cash outflow from returns on investments and servicing of finance		<u>(1,025)</u>	<u>(401)</u>
Taxation		-	-
Capital expenditure			
Purchase of tangible fixed assets		(2,242)	(2,064)
Purchase of intangible fixed assets		-	(905)
Net cash outflow for capital expenditure		<u>(2,242)</u>	<u>(2,969)</u>
Acquisitions			
Purchase of subsidiary undertakings		(1,957)	(112)
Cash balance acquired with subsidiary undertaking		4	594
Net cash (outflow) / inflow for acquisitions		<u>(1,953)</u>	<u>482</u>
Net cash outflow before management of liquid resources and financing		<u>(7,190)</u>	<u>(6,787)</u>
Management of liquid resources			
Increase in short term deposits with banks	25	(3,670)	-
Financing			
Issue of shares – share capital		2	1
Issue of shares – share premium		10,033	5,308
Issue of shares – costs		(601)	(41)
Increase/(decrease) in other loans	25	1,973	(9)
Capital element of finance lease payments	25	(834)	(238)
Convertible loan		-	1,581
Net cash inflow from financing		<u>10,573</u>	<u>6,602</u>
Decrease in cash	25	<u>(287)</u>	<u>(185)</u>

Notes to the consolidated financial statements for the year ended 31 December 2008

1 Principal accounting policies

Accounting convention

These financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards and the Companies Act 1985. A summary of the principal accounting policies, which have been reviewed by the Board of Directors in accordance with Financial Reporting Standard ("FRS") 18, "Accounting Policies" and have been consistently applied, is set out below.

Basis of preparation – consolidation

The Group financial statements consolidate the results of The Cloud Networks Limited and its subsidiaries drawn up to 31 December 2008. The results of all subsidiaries have been consolidated using the principles of acquisition accounting. Inter-group transactions, profits and balances are eliminated in full on consolidation.

The Company has not presented its own profit and loss account as permitted by section 230(3) of the Companies Act 1985. For the year ended 31 December 2008, the Company recorded a loss of £3,563,000 (2007: £4,483,000).

Turnover

Turnover represents sales of wireless broadband services to retail customers, site owners and other service providers, including wholesale telecoms operators, net of value added tax. Retail products include sale of vouchers enabling access to the internet with payment via credit cards, SMS and indirectly through site owners. Site revenues include provision of internet access services using wireless technology together with vouchers sold on a wholesale basis. Service Provider customers pay for access to the company's wireless broadband infrastructure in order to provide service to their own customers, on a per minute, per month or per year basis. Turnover from vouchers is recognised at the time of sale whilst any contracts for revenue over a period of time are spread evenly over that contract period.

Goodwill and intangible assets

Goodwill arising on the acquisition of a business represents the excess of the fair value of the consideration given, including direct costs of the acquisition, over the fair value of the identifiable net assets acquired. Goodwill is eliminated through the profit and loss account over its estimated useful economic life, which the directors consider to be between two and three years for historic acquisitions, with each contract being assessed on its own merits.

Goodwill on GANAG is being written off over 10 years as the directors believe that this is the useful life.

Upfront payments for exclusive rights to use certain wireless assets at venues not otherwise served by the Group, via which revenues are generated, are classified as intangible fixed assets. The costs associated with these payments are to be written off over the anticipated beneficial period which is in line with the depreciation policy of equivalent assets used in the Group's network.

1 Principal accounting policies (continued)**Tangible fixed assets**

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

Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, on a straight line basis over the expected useful economic lives of the assets concerned. The range of depreciation periods used in the Group are:

Leasehold improvements	3 years
Office equipments	3 to 8 years
Fixtures and fittings	3 to 8 years
Network assets	2 to 5 years
Software licence	3 years

Investments

Fixed asset investments are stated at cost less any provision for impairment.

Foreign currencies

Monetary assets and liabilities in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of transaction. All exchange differences arising from the above are included in the profit and loss account.

On consolidation, assets and liabilities of subsidiaries in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial year and the results of foreign subsidiaries are translated at the average rate of exchange for the year. Differences on exchange arising from the retranslation of the opening net investment in subsidiaries, and from the translation of the results of those undertakings at the average rate, are taken to reserves and are reported in the consolidated statement of total recognised gains and losses. All other foreign exchange differences are taken to the profit and loss account in the year in which they arise and are included in operating loss.

Research and development

Expenditure on research and development is charged to the profit and loss account in the year in which it is incurred.

Taxation

The charge for taxation is based on the profit/loss for the year as adjusted for disallowable items and timing differences.

Deferred taxation is recognised in respect of transactions or events that have occurred at the balance sheet date that give rise to an obligation to pay more taxation in the future. An asset is recognised to the extent that the transfer of economic benefit in the future is more likely than not. Deferred tax assets and liabilities are not discounted.

1 Principal accounting policies (continued)

Leased assets

Costs in respect of operating leases are charged to the profit and loss account on a straight line basis over the lease term.

Assets acquired under finance leases are included in the balance sheet as tangible fixed assets and are depreciated over the shorter of the lease period or their useful lives. The capital elements of future lease payments are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the lease to give a constant charge on the balance of the capital repayments outstanding. Costs of the transaction are held against the outstanding loan balance and written off to the profit and loss account over the period of the loan.

Pensions

The Group makes contributions to individual personal pension plans. The contributions are charged to the profit and loss account as they are incurred.

Financial Instruments

The Group's policy in relation to financial instruments is set out in Note 27.

Short term investments

Short term investments comprise bank deposits which are not repayable on demand. Movements in such investments are included under "management of liquid resources" in the Group's cash flow statement.

Share based payments

The Company operates a share option scheme which allows certain employees to acquire shares in the Company. The fair value of share options granted is recognised within staff costs with a corresponding increase in equity. The fair value is measured at grant date and spread over the period up to the date when the recipient becomes unconditionally entitled to acquire the shares.

The fair value of share options is measured using the Black-Scholes formula, taking into account the terms and conditions upon which the grants were made. The amount recognised as an expense is adjusted to reflect the actual number of share options that are expected to vest.

FRS 20, "Share Based Payment", has been applied to all options granted after 7 November 2002 which have not vested on or before 1 January 2006. A deferred tax adjustment is also made relating to the intrinsic value of the share options at the balance sheet date, where appropriate.

Where warrants have been issued as recompense for services supplied, these are considered equity settled share based payments. The fair value of warrants, calculated using the Black-Scholes model, is charged to the profit and loss account and a corresponding credit is made to the warrant reserve.

2 Turnover

An analysis by destination of the group's turnover, all of which is derived from its principal activity, is set out below:

	2008	2007
	£'000	£'000
United Kingdom	6,673	4,559
Germany	7,648	2,734
Nordic Region	1,551	867
	<u>15,872</u>	<u>8,160</u>

3 Employees

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

	2008	2007
By activity:	Number	Number
Development and marketing	46	62
Administration	24	24
	<u>70</u>	<u>86</u>

	2008	2007
Staff costs (for the above persons):	£'000	£'000
Wages and salaries	4,703	5,105
Social security costs	656	596
Share-based payments	507	411
Other pension costs (see note 5)	115	16
	<u>5,981</u>	<u>6,128</u>

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

	2008	2007
By activity:	Number	Number
Development and marketing	37	45
Administration	19	17
	<u>56</u>	<u>62</u>

3 Employees (continued)

	2008	2007
	£'000	£'000
Staff costs (for the above persons):		
Wages and salaries	3,592	4,160
Social security costs	435	442
Share-based payments	507	411
Other pension costs (see note 5)	72	16
	<u>4,606</u>	<u>5,029</u>

4 Directors' emoluments

	2008	2007
	£'000	£'000
Aggregate emoluments (including benefits in kind)	751	518
Compensation for loss of office	-	190
Pension contributions	16	-
	<u>767</u>	<u>708</u>

The total amount payable to the highest paid director was:

	2008	2007
	£'000	£'000
Aggregate emoluments (including benefits in kind)	302	143
Compensation for loss of office	-	190
Pension contributions	6	-
	<u>308</u>	<u>333</u>

Since March 2008, the company has paid 3% of executive directors' basic salary into a pension scheme of their choice and provided an insurance package including health, dental and life cover (2007: £nil).

Three Directors (2007 no directors) have retirement benefits accruing under defined contribution pension schemes.

5 Pension contributions

The Group makes contributions to individual personal pension plans. The total charge for the year was £115,000 (2007: £16,000). There are unpaid contributions outstanding at the year end of £nil (2007: £nil).

The Company makes contributions to individual personal pension plans. The total charge for the year was £72,000 (2007: £16,000). There are unpaid contributions outstanding at the year end of £nil (2007: £nil).

6 Operating loss

	2008	2007
	£'000	£'000
Operating loss is stated after charging / (crediting):		
Depreciation of owned tangible fixed assets	2,406	21
Depreciation of assets held under finance leases	1,136	1,135
Loss on disposal of tangible fixed assets	186	-
Amortisation of goodwill	617	394
Amortisation of other intangible fixed assets	300	167
Impairment of exclusive rights	438	-
During the year, the Group (including its overseas subsidiaries) obtained the following services from the Group's auditors at costs as detailed below:		
- Fees payable by the Group's auditor for the audit of the Company and consolidated financial statements	46	35
- Audit of the Group's subsidiaries pursuant to legislation	51	23
- Other services relating to taxation	25	8
- Other services	26	-
Operating leases – land and buildings	288	196
Foreign exchange (gains) / losses	(456)	359

In connection with the fundraising completed in September 2008 and detailed in Note 19, the Group's auditor received fees of £47,000 (2007: £Nil). These costs have been written off to the share premium account.

7 Net interest payable

	2008	2007
	£'000	£'000
Interest receivable		
Bank interest receivable	98	34
Interest payable		
Finance lease interest	(345)	(321)
Amortisation of costs	-	(49)
Interest payable on other loans	(778)	(113)
Fair value of warrants issued	(112)	(40)
Exchange difference on foreign loans	(61)	(202)
	(1,296)	(725)
Net interest payable	(1,198)	(691)

8 Tax on loss on ordinary activities

	2008	2007
	£'000	£'000
Current tax		
Foreign corporation tax on losses for the period	98	-
Current tax charge for the year	<u>98</u>	<u>-</u>

Factors affecting tax charge for the year

The tax charge for the year is different to the standard rate of corporation tax in the UK (28.5%) (2007: 30%):

	2008	2007
	£'000	£'000
Loss on ordinary activities before taxation	(4,624)	(6,424)
Loss on ordinary activities multiplied by the UK corporation tax rate of 28.5% (2007: 30%)	(1,318)	(1,927)
Effect of:		
Expenses not deductible for tax purposes	57	78
Difference between capital allowances and depreciation	88	(62)
Losses carried forward (no deferred tax recognised)	1,264	1,887
Adjustment in respect of foreign tax rates	7	24
Current tax charge for the year	<u>98</u>	<u>-</u>

The standard rate of Corporation tax in the UK changed from 30% to 28% with effect from 1 April 2008. Accordingly, the Company's losses for this accounting period are taxed at an effective rate of 28.5% and will be taxed at 28% in the future.

No provision has been made for deferred tax in the accounts (see note 14). This is due to the uncertainty that the asset will be able to be utilised in the foreseeable future.

9 Intangible fixed assets

Group	Exclusive Rights £'000	Goodwill £'000	Total £'000
Cost			
At 1 January 2008	905	7,294	8,199
Additions	-	447	447
Foreign exchange	-	1,007	1,007
At 31 December 2008	905	8,748	9,653
Amortisation			
At 1 January 2008	167	3,956	4,123
Charge for the year	300	617	917
Impairment charge	438	-	438
Foreign exchange	-	46	46
At 31 December 2008	905	4,619	5,524
Net book value			
At 31 December 2008	-	4,129	4,129
At 31 December 2007	738	3,338	4,076

Company	Exclusive Rights £'000	Goodwill £'000	Total £'000
Cost			
At 1 January 2008 and 31 December 2008	905	4,173	5,078
Amortisation			
At 1 January 2008	167	3,956	4,123
Charge for the year	300	217	517
Impairment charge	438	-	438
At 31 December 2008	905	4,173	5,078
Net book value			
At 31 December 2008	-	-	-
At 31 December 2007	738	217	955

9 Intangible fixed assets (continued)**Impairment charge of exclusive rights**

The Group has reviewed the carrying value of its Exclusive rights granted to it in 2007. In the opinion of the Group, the carrying value is no longer justified and as such a full impairment has been taken during the year.

Adjustment to provisional fair values

During 2008, the directors made a final assessment of the fair value of the assets and liabilities acquired from GANAG, which has increased goodwill arising from acquisition from £3,121,000 to £3,503,000.

	Provisional Fair value	Completion and hindsight period adjustments	Final fair value to the Group
	2007	2008	2008
	£'000	£'000	£'000
Tangible fixed assets	2,999	-	2,999
Trade debtors	585	-	585
Cash at bank and in hand	594	-	594
Trade creditors	(684)	(240)	(924)
Loan from trading partner	(2,952)	-	(2,952)
Obligations under finance leases	(66)	-	(66)
Net assets acquired	476	(240)	236
Goodwill	3,121	382	3,503
Consideration	<u>3,597</u>	<u>142</u>	<u>3,739</u>

Two adjustments arose from the final assessment carried out by the directors in 2008. The first adjustment is related to trade invoices received in 2008 for costs incurred in 2007, these costs total £240,000 and were not accrued within trade creditors in 2007. The second adjustment relates to additional consideration payable to the sellers of GANAG which was not taken into account in the provisional assessment, the total consideration payable was £142,000. The overall impact of these adjustments increases the provisional goodwill from £3,121,000 to £3,503,000.

Acquisition of minority interest in Sweden subsidiary

In February 2008, the remaining 2.133% of share capital was acquired in the Swedish subsidiary (The Cloud Networks Nordic A.B.) for consideration of £52,000 in the form of a combination of cash and share capital. The acquisition of the minority interest results in goodwill of £65,000.

10 Tangible fixed assets

Group	Leasehold improvements £'000	Office equipment £'000	Fixtures and fittings £'000	Network assets £'000	Software licence	Total £'000
Cost						
At 1 January 2008	107	855	60	8,194	-	9,216
Additions	-	258	28	1,726	230	2,242
Disposals	-	-	-	(326)	-	(326)
Exchange differences	-	49	3	1,332	-	1,384
At 31 December 2008	107	1,162	91	10,926	230	12,516
Depreciation						
At 1 January 2008	47	573	35	1,483	-	2,138
Charge for year	35	254	23	3,215	15	3,542
Disposals	-	-	-	(140)	-	(140)
Foreign exchange	-	47	1	555	-	603
At 31 December 2008	82	874	59	5,113	15	6,143
Net book value						
At 31 December 2008	25	288	32	5,813	215	6,373
At 31 December 2007	60	282	25	6,711	-	7,078

At 31 December 2008, the Group had Network assets under finance leases with a gross book value of £3,407,000 (2007: £3,407,000) and a net book value of £107,000 (2007: £1,242,000).

10 Tangible fixed assets (continued)

Company	Leasehold improvements £'000	Office equipment £'000	Fixtures and fittings £'000	Network assets £'000	Software licence £'000	Total £'000
Cost						
At 1 January 2008	107	697	52	2,559	-	3,415
Additions	-	100	-	617	117	834
At 31 December 2008	107	797	52	3,176	117	4,249
Depreciation						
At 1 January 2008	47	440	35	596	-	1,118
Charge for year	35	219	17	874	11	1,156
At 31 December 2008	82	659	52	1,470	11	2,274
Net book value						
At 31 December 2008	25	138	-	1,706	106	1,975
At 31 December 2007	60	257	17	1,963	-	2,297

At 31 December 2008, the Company had Network assets under finance leases with a gross book value of £1,766,000 (2007: £1,766,000) and a net book value of £320,000 (2007: £589,000).

11 Fixed asset investments

Company	£'000
Shares in subsidiary undertakings:	
At 1 January 2008	3,831
Additions in the period	4,122
At 31 December 2008	7,953

During the year, additional investment of £4,045,000 (SEK 46m) was made in the Swedish subsidiary by way of capitalising part of the intercompany balance to maintain its net assets position as required under Swedish law.

In February 2008, the remaining 2.133% of share capital was acquired in the Swedish subsidiary for £52,000 (see Note 9).

Three new subsidiaries in Denmark, Finland and Norway were incorporated during the year as wholly owned subsidiaries of the Company at a total cost of £25,000.

11 Fixed asset investments (continued)

The details of the subsidiaries, all of which are consolidated, are as follows:

	Country of incorporation	Date of incorporation or acquisition	Proportion of voting rights and share capital	Nature of business
The Cloud Networks Nordic A.B.	Sweden	03/11/2004	100%	Wireless Broadband
The Cloud Networks Germany GmbH	Germany	04/02/2005	100%	Wireless Broadband
GlobalAirNet AG	Germany	28/12/2007	100%	Wireless Broadband
The Cloud Networks Denmark ApS	Denmark	20/02/2008	100%	Wireless Broadband
The Cloud Networks Finland OY	Finland	15/06/2008	100%	Wireless Broadband
The Cloud Networks Norway AS	Norway	19/05/2008	100%	Wireless Broadband
Roampoint Limited	UK	05/07/2004	100%	Dormant

GlobalAirNet AG was acquired by The Cloud Networks Germany GmbH on 28 December 2007 and therefore the shares are indirectly owned by The Cloud Networks Limited.

12 Stocks

	Group 2008 £'000	Group 2007 £'000	Company 2008 £'000	Company 2007 £'000
Work in progress	<u>333</u>	<u>-</u>	<u>333</u>	<u>-</u>

13 Debtors

	Group 2008 £'000	Group 2007 £'000	Company 2008 £'000	Company 2007 £'000
Trade debtors	3,090	2,078	1,396	1,457
Other debtors	886	692	651	198
Prepayments and accrued income	1,407	385	497	183
Amounts owed by group undertakings	-	-	3,354	3,685
Intercompany loan receivable	-	-	-	888
	<u>5,383</u>	<u>3,155</u>	<u>5,898</u>	<u>6,411</u>

Amounts owed by group undertakings are unsecured, non-interest bearing and repayable on demand.

The intercompany loans with the German and Swedish subsidiaries reflect the licence agreements with those subsidiaries related to the sale and leaseback transaction. Interest charges and the repayment plan directly reflect their proportion of the overall sale and leaseback agreement.

14 Deferred tax asset

The deferred taxation provided and unprovided is included in the financial statements as follows:

Group	Amount recognised	Amount unrecognised	Amount recognised	Amount unrecognised
	2008	2008	2007	2007
	£'000	£'000	£'000	£'000
Tax effects of timing differences because of:				
Accelerated capital allowances	-	232	-	162
Deductions on the exercise of share options	-	257	-	162
Other timing differences	-	53	-	-
Losses	-	6,904	-	5,771
	<u>-</u>	<u>7,446</u>	<u>-</u>	<u>6,095</u>
Company	Amount recognised	Amount unrecognised	Amount recognised	Amount unrecognised
	2008	2008	2007	2007
	£'000	£'000	£'000	£'000
Tax effects of timing differences because of:				
Accelerated capital allowances	-	232	-	162
Deductions on the exercise of share options	-	257	-	162
Other timing differences	-	53	-	-
Losses	-	4,845	-	3,986
	<u>-</u>	<u>5,387</u>	<u>-</u>	<u>4,310</u>

The deferred tax asset may be utilised against future profits earned by the group/company. The asset remains unrecognised due to inherent uncertainty attaching to the future profitability of the group/company.

The deferred tax on losses in Sweden, Germany and Denmark have been measured at the local rates expected to apply to future profits, which are 26% in Sweden, 36% in Germany and 25% in Denmark.

No deferred tax is recognised on the unremitted earnings of overseas subsidiaries as any earnings are continually reinvested by the group. Therefore no tax is expected to be payable on them in the foreseeable future.

15 Creditors: amounts falling due within one year

	Group	Group	Company	Company
	2008	2007	2008	2007
	£'000	£'000	£'000	£'000
Trade creditors	1,916	1,034	999	321
Other taxation and social security costs	469	126	183	113
Accruals and deferred income	3,118	3,829	1,051	674
Corporation tax	120	-	-	-
Deferred consideration	922	1,954	-	-
Loan acquired with GANAG	-	2,952	-	-
Other loans	2,649	59	121	59
Obligations under finance leases	1,250	783	1,250	767
	<u>10,444</u>	<u>10,737</u>	<u>3,604</u>	<u>1,934</u>

16 Creditors: amounts falling due after more than one year

	Group	Group	Company	Company
	2008	2007	2008	2007
	£'000	£'000	£'000	£'000
Other loans	2,515	180	-	180
Obligations under finance leases	994	1,564	994	1,514
Deferred consideration	-	922	-	-
Intercompany loan	-	-	-	1,439
	<u>3,509</u>	<u>2,666</u>	<u>994</u>	<u>3,133</u>

16 Creditors: amounts falling due after more than one year (continued)**Maturity table**

	Group 2008	Group 2007	Company 2008	Company 2007
	£'000	£'000	£'000	£'000
In one year or less, or on demand	4,821	5,748	1,371	826
In more than one year, but not more than two years	3,390	1,890	875	2,390
In more than two years, but not more than five years	119	776	119	743
	<u>8,330</u>	<u>8,414</u>	<u>2,365</u>	<u>3,959</u>

In addition to the existing vendor financing loan from 2006 in Other loans, a loan with Noble Venture Finance ("Noble") was drawn down in January 2008 for £4.421m (€6m). The facility was used to fund the acquisition of GANAG in 2007 and to repay a loan with a trading partner in GANAG of £2.952m. The loan is repayable in 30 installments and attracts an interest rate of 650 base points per annum over the 3 year € swap rate as quoted in the Financial Times 3 days prior to the Draw Down Date.

The Group's obligations under finance leases includes the master sub-lease that was signed in August 2006 and was revised in 2007. The total drawdowns total to €3,901,000 with a repayment profile extending to January 2011. The implied interest rate on the loan transaction is 15.5%. Transaction fees of £114,000 were set off against the loan and were amortised over 3 years.

Additionally, in the group there are obligations under finance leases via 48 month sale and leaseback agreements which were signed in 2007 by GANAG relating to hardware and software, including services and radio devices. The outstanding balance on this loan at the year end was £5,000 (2007: £66,000).

17 Obligations under finance leases

	Group 2008	Group 2007	Company 2008	Company 2007
	£'000	£'000	£'000	£'000
In one year or less, or on demand	1,250	783	1,250	767
In more than one year, but not more than two years	875	907	875	890
In more than two years, but not more than five years	119	657	119	624
	<u>2,244</u>	<u>2,347</u>	<u>2,244</u>	<u>2,281</u>

18 Convertible loan

On 21 November 2007, the Company entered into an agreement with its primary shareholders for a £1.581m (£2.25m) loan with repayment due on 31 March 2008. During the year, the loan was extended to 15 September 2008 when it was converted into B Preferred shares at a value of £1.318 (£1.8384) per share. Interest of £278,000 was earned and paid on this loan up to the date of conversion. In addition, as part of the purchase consideration for GANAG, a convertible loan of £3.662m (£5m) was advanced by the existing shareholders of the Company on 4 January 2008. On 15 September 2008, this amount was converted into B Preferred shares at a value of £1.39 per share.

19 Called up share capital

	2008	2007
	£	£
Authorised		
25,000,000 (2007: 25,000,000) A Preferred shares of £0.00025 each	6,250	6,250
10,000,000 (2007: Nil) B Preferred shares of £0.00025 each	2,500	-
10,000,000 (2007: 10,000,000) A Ordinary shares of £0.00025 each	2,500	2,500
15,000,000 (2007: 15,000,000) Ordinary shares of £0.00025 each	3,750	3,750
5,000,000 (2007: 5,000,000) B Ordinary shares of £0.00025 each	1,250	1,250
10,000,000 (2007: 10,000,000) C Ordinary shares of £0.00025 each	2,500	2,500
	<u>18,750</u>	<u>16,250</u>

19 Called up share capital (continued)

	2008	2007
	£	£
Allotted, called up and fully paid		
12,977,616 (2007: 12,977,616) A Preferred shares of £0.00025 each	3,245	3,245
8,242,765 (2007: Nil) B Preferred shares of £0.00025 each	2,061	-
4,676,327 (2007: 4,676,327) A Ordinary shares of £0.00025 each	1,169	1,169
360,000 (2007: 360,000) Ordinary shares of £0.00025 each	90	90
73,805 (2007: 53,805) C Ordinary shares of £0.00025 each	18	13
	<u>6,583</u>	<u>4,517</u>

During the year, the company adopted new Articles of Association. As a result, 10,000,000 B Preferred shares of £0.00025 each were authorised.

On 15 September 2008, 4,242,752 B Preferred shares of £0.00025 each were issued to new investors at €1.8384 per share, for a total consideration of £6.334m (€7.8m). The shares issued incurred legal costs of £601,000. Convertible loans raised in 2007 and 2008 of £1.581m (€2.25m) and £3.662m (€5.1m) respectively were converted to 4,000,013 B Preferred shares on 15 September 2008 at €1.8384.

In addition, the Company purchased the 2.133% minority interest in its Swedish subsidiary, The Cloud Networks Nordic AB. Part of the consideration for this transaction was 20,000 C Ordinary Shares at SEK 31.4 per share (£39,000).

Rights and obligations attaching to shares

Any holder of A Ordinary shares, A Preferred shares and B Preferred shares may at any time convert the whole or part of their shareholding into Ordinary shares. On certain prescribed events conversion is automatic. The holders of the A Preferred and B Preferred shares are entitled to a priority distribution of shareholder funds under certain circumstances, with the B Preferred shares ranking ahead of the A Preferred shares, prior to any general equity distribution.

The C Ordinary shares participate in a distribution of shareholders' funds alongside the other classes of shares as if there was a single class upon the sale of the company, but, unlike the other classes of share, do not hold voting rights.

20 Warrants**Warrant instrument**

A third party finance house, which undertook a sale and leaseback transaction in 2006 has the right to subscribe for 182,465 of The Cloud Networks Limited A Preferred shares at a price of €3.2883 per share. In 2008, a further 369 and 28,763 warrant instruments were issued to this third party finance house increasing their rights to 182,834 A Preferred shares at €3.2883 per share and 28,763 A Preferred shares at €2.839 per share.

During 2008, the provider of the debt instrument used to acquire GANAG in 2007 was issued warrants over 316,487 A Preferred shares at €1.8384 and warrants over 206,752 B Preferred shares at €1.8384.

The fair value of the warrants was measured using the QCA-IRS Option Valuer™ which uses the Black-Scholes formula, taking into account the terms and conditions upon which the grants were made.

The warrant charge for the period of £112,000 has been included in interest payable as warrants were granted in connection with either the sale & leaseback transaction or the provision of a debt instrument. The credit entry has been taken to a separate warrant reserve (note 22).

20 Warrants (continued)

	A Preferred	A Preferred	A Preferred	B Preferred
Date of grant	8 Aug 2006	8 Jan 2008	15 Sep 2008	15 Sep 2008
Number of warrants	182,465	316,856	28,763	206,752
Share price at date of grant (pence)	223.00	212.45	211.39	211.39
Exercise price (pence)	219.22	177.87	274.5	189.55
Risk Free Rate %	4.73%	4.75%	4.75%	4.75%
Assumed time to exercise (years)	8	8	8	8
Assumed volatility %	77%	76%	67%	67%
Fair value per option (pence)	173.00	158.48	155.55	155.55

21 Share options

The Cloud Networks Limited Group's Share Option Scheme ("the Scheme") was introduced in November 2004. The grant price of share options during 2008 was the par value of shares. The contractual life of an option is ten years. Options granted under the Scheme become exercisable subject to vesting conditions over a period of time, or completely in the event of the sale of the company or an IPO. The fair value of share options was measured using the QCA-IRS Option Valuer™ using the Black-Scholes formula, taking into account the terms and conditions upon which the grants were made. The fair value per option granted, and the assumptions used in the calculation, are as follows:

	19 Nov 2004	30 Mar 2005	16 Aug 2005	25 Jul 2006	22 May 2007
Date of grant					
Share price at date of grant (pence)	68	68	58.8	113	113
Exercise price (pence)	27.2	27.2	0.025	0.025	0.025
Number of employees	18	18	10	6	2
Shares under option	215,598	183,500	1,340,303	263,000	326,000
Vesting period (years)	4	4	4	4	4
Expected volatility	77%	77%	77%	77%	77%
Option life (years)	10	10	10	10	10
Expected life (years)	5	5	4	3	2
Risk free rate	4.63%	4.70%	4.25%	4.73%	5.17%
Expected dividends expressed as a dividend yield	-	-	-	-	-
Fair value per option (pence)	54.57	54.6	58.73	112.98	112.98

	14 Jun 2007	17 Oct 2007	28 May 2008	06 Aug 2008
Date of grant				
Share price at date of grant (pence)	121.8	115.9	46.2	29.2
Exercise price (pence)	0.025	0.025	0.025	0.025
Number of employees	20	7	12	23
Shares under option	815,957	315,000	390,000	795,142
Vesting period (years)	4	4	4	4
Expected volatility	77%	77%	67%	67%
Option life (years)	10	10	10	10
Expected life (years)	2	2	4	4
Risk free rate	5.47%	5.09%	4.75%	4.75%
Expected dividends expressed as a dividend yield	-	-	-	-
Fair value per option (pence)	121.82	115.84	46.18	29.23

21 Share options (continued)

All outstanding employee share options are over Ordinary shares.

The expected volatility is based on historical volatility over the last four years of a company within the same industry of similar size. The expected life is between two to five years. The risk free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the assumed option life. A reconciliation of option movements over the year to 31 December 2008 is shown below:

	2008		2007	
	Number of shares	Weighted average exercise price (pence)	Number of shares	Weighted average exercise price (pence)
Outstanding at 1 January	2,201,179	2.38	1,729,982	9.34
Granted	1,185,142	0.025	1,456,957	0.025
Forfeited	(63,000)	0.15	(718,881)	1.161
Exchanged	-	-	(266,879)	0.025
Exercised	-	-	-	-
Outstanding at 31 December	3,323,321	1.55	2,201,179	6.975
Exercisable at 31 December	1,234,545	4.11	722,365	0.062

The weighted average fair value of options granted in the year was £0.348 (2007: £1.191).

The share-based payment charge to the profit and loss account was £507,000 (2007: £411,000).

22 Reserves

Group	Share premium account	Shares to be issued	Warrant reserve	Share based payment reserve	Foreign exchange reserve	Profit and loss account (deficit)
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2008	22,160	610	79	718	(122)	(22,228)
Premium on shares issued	11,614	-	-	-	-	-
Issue costs	(601)	-	-	-	-	-
Loss for the financial year	-	-	-	-	-	(4,722)
Minority interest acquired	-	-	-	-	-	(34)
Credit from warrants	-	-	112	-	-	-
Foreign exchange arising from translation of overseas subsidiaries	-	-	-	-	(614)	-
Credit from share based payment	-	-	-	507	-	-
At 31 December 2008	33,173	610	191	1,225	(736)	(26,984)

The shares to be issued represent deferred consideration in relation to the acquisition of GANAG in the year ended 31 December 2007. The issue of the 280,000 A Preferred shares is contingent on the financial performance of GANAG in the year ended 31 December 2008. The shares have subsequently been issued in July 2009.

22 Reserves (continued)

Company	Share premium account	Shares to be issued	Warrant reserve	Share based payment reserve	Profit and loss account (deficit)
	£'000	£'000	£'000	£'000	£'000
At 1 January 2008	22,160	610	79	718	(16,063)
Premium on shares issued	11,614	-	-	-	-
Issue costs	(601)	-	-	-	-
Loss for the financial year	-	-	-	-	(3,563)
Credit from warrants	-	-	112	-	-
Credit from share based payment	-	-	-	507	-
At 31 December 2008	33,173	610	191	1,225	(19,626)

23 Reconciliation of movements in shareholders' funds

Group	2008	2007
	£'000	£'000
Total shareholders' funds	1,222	1,365
Opening shareholders' funds	2	-
Issue of share capital	(4,722)	(6,393)
Loss for the financial year	11,013	5,268
Net proceeds of issue of share capital	-	610
Shares to be issued	507	411
Credit from share based payment	112	40
Credit from warrants	(614)	(79)
Foreign exchange reserve movement	(34)	-
Minority interest acquired	7,486	1,222
Closing shareholders' funds		
Company	2008	2007
	£'000	£'000
Total shareholders' funds	7,509	5,663
Opening shareholders' funds	2	-
Issue of share capital	(3,563)	(4,483)
Loss for the financial year	11,013	5,268
Net proceeds of issue of share capital	-	610
Shares to be issued	507	411
Credit from share based payment	112	40
Credit from warrants	15,580	7,509
Closing shareholders' funds		

24 Reconciliation of operating loss to net cash outflow from operating activities

	2008	2007
	£'000	£'000
Continuing operating activities		
Operating loss	(3,426)	(5,733)
Depreciation of tangible fixed assets	3,542	1,156
Loss on disposal of tangible fixed assets	186	-
Share-based payment	507	411
Amortisation of intangible fixed assets	917	561
Impairment of intangible fixed assets	438	-
Increase in stocks	(333)	-
Increase in debtors	(2,358)	(638)
Decrease in creditors	(987)	(15)
(Gain)/loss on foreign exchange	(456)	359
	<u>(1,970)</u>	<u>(3,899)</u>

25 Reconciliation of movement in net debt

	At 1 January 2008	Cash Flow	Foreign exchange/ conversion of convertible loan	At 31 December 2008
Group	£'000	£'000	£'000	£'000
Cash at bank and in hand	1,838	(287)	-	1,551
Other loans	(239)	(4,925)	-	(5,164)
Loan acquired with GANAG	(2,952)	2,952	-	-
Obligations under finance leases	(2,347)	834	(731)	(2,244)
Conversion of convertible loan	(1,581)	-	1,581	-
Short term investments	-	3,670	-	3,670
	<u>(5,281)</u>	<u>2,244</u>	<u>850</u>	<u>(2,187)</u>

	2008	2007
Group	£'000	£'000
Opening balance	(5,281)	(493)
Decrease in cash	(287)	(185)
Increase in short term investments	3,670	-
Increase in other loans	(4,925)	9
Loan acquired with GANAG	2,952	(2,952)
Obligations under finance leases	103	(79)
Conversion of convertible loan	1,581	(1,581)
	<u>(2,187)</u>	<u>(5,281)</u>

26 Reconciliation of exchange differences recognised through the consolidated statement of total recognised gains and losses

	2008	2007
Group	£'000	£'000
Opening balance of cumulative exchange differences	(122)	(43)
Exchange adjustment on intangible fixed assets	(1,007)	-
Exchange adjustments on tangible fixed assets	(1,384)	(209)
Exchange adjustments on amortisation of intangible fixed assets	46	-
Exchange adjustments on depreciation of tangible fixed assets	603	73
Exchange adjustments on overseas subsidiaries	1,128	57
Closing balance of cumulative exchange differences	(736)	(122)

27 Financial instruments

The financial risks faced by the Group include customer risk, credit risk, liquidity risk, funding risk, interest rate risk and exchange rate risk. The Board reviews and agrees policies for managing each of these risks.

The Group's main objective in using financial instruments is the maximisation of returns from funds held on deposit and, when appropriate, the generation of additional cash resources for Group operations through financing arrangements for capital assets and through the issue of shares and other financial instruments. The main purpose of these financial instruments is to provide working capital for the Group's operations in the UK and Europe.

The Group's policy is to raise cash when it is required and when market conditions are appropriate, using those financial instruments that can be negotiated with the providers of finance at that time. These instruments include loans and finance leases.

28 Financial commitments

At 31 December 2008, the group/company had annual commitments under operating leases as follows:

Group	Other		Land and Buildings	
	2008	2007	2008	2007
	£'000	£'000	£'000	£'000
Expiring within one year	-	-	123	-
Expiring within two to five years	289	55	39	-
Expiring after more than five years	-	-	-	196
	289	55	162	196

28 Financial commitments (continued)

Company	Land and Buildings	
	2008	2007
	£'000	£'000
Expiring within one year	80	-
Expiring after more than five years	-	196
	<u>80</u>	<u>196</u>

The Company's operating lease relates to the rental payments on 54 Bartholomew Close, (the Company's head office), which was vacated on 31 May 2009 (at the break clause).

29 Ultimate controlling party

The directors do not consider there to be an ultimate controlling party.

29 Related party disclosures

The Company has taken advantage of the exemption available to parent companies under FRS 8, "Related party disclosures", where transactions and balances between group entities have been eliminated on consolidation, not to disclose details of those transactions.

30 Post balance sheet events

There have been no significant events outside the normal course of business since the end of the year which would require disclosure.