Volantis Systems Limited
Registered number: 3910006

Annual report and financial statements
for the year ended 31 December 2007

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Volantis Systems Limited

Annual report and financial statements for the year ended 31 December 2007

	Page(s)
Company information	3
Report of the directors	4-8
Independent auditors' report	9-10
Consolidated profit and loss account	11
Statement of group total recognised gains and losses	12
Consolidated balance sheet	13
Company balance sheet	14
Consolidated cash flow statement	15
Notes to the financial statements	16-31

Volantis Systems Limited

Company information

Directors

M Herson
K E Relander
M Watson

Company secretary

S Selden

Registered number

3910006

Registered office and business address

1 Chancellor Court
Occam Road
Surrey Research Park
Guildford
Surrey
GU2 7YT

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
The Atrium
1 Harefield Road
Uxbridge
UB8 1EX

Volantis Systems Limited

Report of the directors for the year ended 31 December 2007

The directors present their report and the audited financial statements of the company and its subsidiaries ("the Group") for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The principal activity of the Group and company throughout the year was that of software development and support, in particular, relating to software which enables delivery of web-based applications and content to a wide range of internet enabled devices.

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

2007 orders were broadly steady over 2006. However there were delays in completion of some services engagements resulting in revenue being deferred until 2008, and our stated revenue in 2007 was less than in 2006. In mid-2007 the group made substantial cost savings (around 35% of costs), mainly in business development for the media segment, and in US-based upper and middle management. Sales and distribution efforts were refocused on the core licensed software business, in particular the company's technologies for content ingestion, management, discovery, adaptation and delivery. Direct sales were refocused on customers in the mobile operator sector and in license sales. The developer-oriented "framework" product was re-launched in late 2007 with an "open-source" support-based business model. Business development was cut back in the media sectors.

2008 saw further reductions in costs (by about another 30%), as most of R&D, support and back-office professional services delivery was moved to our Krakow facility. Overall headcount in these functions, however, has remained at the 2007 level and we expect to expand R&D slightly in 2009. At the same time, bookings and revenue have significantly increased, to the extent that the company achieved profitability in the third quarter of 2008, and expects to repeat this achievement in the fourth quarter, as well as projecting profitability throughout 2009.

Volantis has continued to announce new products, including clients for iPhone and Android handsets, and new versions of all its existing products. Volantis has a number of additional Content Delivery Platform (CDP) component product announcements, and a planned rebranding of the CDP product line, planned for the fourth quarter of 2008. The company also expects to invest further in sales and marketing functions in 2009.

One of the company's existing customers as at year end filed a claim against the company in August 2007. The company settled this claim in February 2008. The settlement amount was covered by the company's insurers but the company incurred the cost of legal fees in settling this action. The directors believe that this does not have an impact on the company's financial position as at the end of the year (note 25).

POST BALANCE SHEET EVENT

On 30 June 2008 Accel Partners announced that they will provide no further funding for Ubik.com Inc, an associate undertaking of the Volantis Group.

The Directors believe that this does not have a material impact on the company's financial position as at the end of the year.

RESULTS AND DIVIDENDS

The Group's loss for the year after taxation amounted to £7,258,459 (2006: 8,769,579) which will be deducted from reserves. The directors do not recommend the payment of a dividend (2006: £nil). A cumulative preference share appropriation of £4,902,596 (2006: £3,653,155) is due and has been accrued for within Creditors due after more than one year.

Report of the directors for the year ended 31 December 2007 (continued)

PRINCIPAL RISKS AND UNCERTAINTIES

The management of the business and the execution of the group's strategy are subject to a number of risks; these risks are identified and mitigated where appropriate. The key business risks affecting the company are as follows:

- The mobile Internet is still at the stage where the substantial part of our revenue base is made up of sales to mobile operators. The market is characterised by divisions of control between the mobile operators, brand/content owners and of handset/terminal providers, which particularly constrains the ability of content owners to extract significant amounts of money, either from existing consumer arrangements or through new models such as mobile advertising or e-commerce.

- the product has such technical requirements for implementation that skills in our product remain sufficiently rare in the marketplace, that we are dependent on the knowledge of a relatively small group of employees in our professional services and engineering organisations, both to support sales and implementation.

- emergence of new competitors.

- the current state of the world economy has not thus far affected, to any great extent, the mobile telecommunications sector. If this situation changes, the company would experience a risk to the level of new revenue it needs to achieve to continue to be profitable. In general, we have attempted to mitigate this by managing our cost level to a point where it is equal to the level of guaranteed revenue going forward. Given the majority of the company's revenue in 2007 was made up US dollars, whereas costs are largely in GB pounds and Polish zlotys, the company is also subject to changes in exchange rate, although more recently the strengthening of the dollar has actually supported profitability.

FINANCIAL RISK MANAGEMENT

The company's operations expose it to a variety of financial risks that include the effects of market prices, credit risk, liquidity risk and interest rate risk. The company has in place processes that seek to limit the adverse effects on the financial performance of the company by monitoring levels of debt finance and the related finance costs.

Given the size of the company, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the board and company is set and implemented by the company's finance department.

CREDIT RISK

The company has implemented policies that require appropriate credit checks on potential customers before sales are made. Where debt finance is utilised, this is subject to pre-approval by the board of directors and such approval is limited to credible financial institutions. The amount of exposure to any individual counterparty is subject to a limit, which is reassessed annually by the board.

LIQUIDITY RISK

The company maintains a mixture of debt finance that is designed to ensure the company has sufficient available funds for operations and planned expansions.

Report of the directors for the year ended 31 December 2007 (continued)

FINANCIAL RISK MANAGEMENT (continued)

FOREIGN EXCHANGE AND PRICE RISK

The company is not exposed to significant foreign exchange or price risk and as such the company does not use any derivatives financial instruments to manage this risk

INTEREST RATE CASH FLOW RISK

The company has both interest bearing assets and interest bearing liabilities. Interest bearing assets include only cash balances which earn interest at variable rates at the time of investment.

KEY PERFORMANCE INDICATORS

The following, in the directors' opinion are the main financial and non-financial key performance indicators:
- Customer acquisition
- Revenue
- Profitability

	2007	*2006*	*Definition and method of calculation*
Customer acquisition	14	13	New customers in the year
Revenue growth	(13)%	(6)%	Year on year sales growth expressed as a percentage
Gross profit	(40)%	(15)%	Year on year gross profit growth expressed as a percentage

2007 saw a restructuring of the business away from smaller deals to a concentration of larger deals, based around Volantis' Content Delivery Platform product set, and to mobile operators. The restructuring process took until the fourth quarter of 2007, and the company experienced a fall-off in performance during the process. Quarterly costs were cut by 23% between second and fourth quarters 2007 (principally as a result of the removal of a number of executive positions, and withdrawal of loss-making hosted services for the media market). In 2008 to date mobile operators accounted for around 90% of Volantis' overall revenue (having reached a low of 72% in 2006). In the first three quarters of 2008 the allocation of new revenue (license plus professional services, i.e. total revenue not including support) to the CDP products (only introduced to the market in 2006) rose from 83% in Q1 to 90% in Q3. Volantis was profitable for the third quarter of 2008 and is projecting operating profitability in Q4 2008 and in 2009, based on the combination of planned costs, forecastable revenue and identified revenue backlog.

GOING CONCERN

The financial statements are prepared on a going concern basis which the directors believe to be appropriate for the following reasons.

The directors have prepared projected cash flow information for the period ending twelve months from the date of the approval of these financial statements. The cash flow reflects further reduction of costs in 2008 and has taken into consideration orders received and pipeline generated in 2008. On the basis of this cash flow information, the directors consider that the group will continue to operate within its available cash resources. Forecasts are based on revenues that the directors' believe to be reasonable but any shortfalls against these may require additional funds from existing shareholders or new investors, as has been the case in the past.

The financial statements do not include any adjustments that would result from the going concern basis of preparation being inappropriate.

Report of the directors for the year ended 31 December 2007 (continued)

DIRECTORS

The following directors have held office since 1 January 2007 and up to the date of signing these financial statements except where detailed below:

D Carratt (resigned 11 June 2008)
M Harris (resigned 25 May 2007)
M Herson (appointed 11 June 2008)
K E Relander
D Sola (resigned 27 February 2008)
M Watson

RESEARCH AND DEVELOPMENT (R&D)

The Group continues its research and development of the technology relating to software that enables organisations to deliver their web-based applications and content to a wide range of internet enabled devices. R&D expenditure in 2007 totalled £2,057,708 (2006: £2,647,253) comprising of staff costs.

Report of the directors for the year ended 31 December 2007 (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 company and group for that period.

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

- select suitable accounting policies and then apply them consistently; and
- make judgements and estimates that are reasonable and prudent.

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.

DISCLOSURE OF INFORMATION TO AUDITORS

Each of the persons who is a director at the date of approval of this report confirms that:

(1) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and

(2) 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.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

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

M Watson
Director
27 November 2008

Volantis Systems Limited

Independent auditors' report to the members of Volantis Systems Limited

We have audited the group and parent company financial statements (the "financial statements") of Volantis Systems Limited for the year ended 31st December 2007 which comprise the Consolidated profit and loss account, the Consolidated and Company balance sheets, the Consolidated cash flow statement, the Consolidated Statement of Group Total Recognised Gains and Losses, and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements.

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.

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 2006 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 financial statements the information given in the Directors' Report is consistent with the financial statements.

Independent auditors' report to the members of Volantis Systems Limited (continued)

Emphasis of matter – going concern
Without qualifying our opinion, we draw attention to note 1 in the notes to the financial statements which indicates that the going concern basis depends on the achievement of the company's revenue forecasts and consequently as to whether the group will be able to meet its liabilities as they fall due. As such the Company may require further support from its shareholders.

The financial statements do not include any adjustments that would result from a failure to obtain such funding. This condition indicates the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditor
West London
28 November 2008

Volantis Systems Limited

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

	Note	2007 £	2006 £
Turnover	2	**6,439,540**	7,408,525
Cost of sales		**(3,132,566)**	(1,923,185)
Gross profit		**3,306,974**	5,485,340
Administrative expenses		**(8,970,024)**	(13,336,089)
Operating loss	3	**(5,663,050)**	(7,850,749)
Interest receivable and similar income	6	**6,371**	16,692
Interest payable and similar charges	7	**(2,127,989)**	(1,374,542)
Loss on ordinary activities before taxation		**(7,784,668)**	(9,208,599)
Tax on loss on ordinary activities	8	**526,209**	439,020
Loss for the financial year	17,18	**(7,258,459)**	(8,769,579)

All results derive from continuing operations.

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

Volantis Systems Limited

Statement of group total recognised gains and losses for the year ended 31 December 2007

	2007	2006
	£	£
Loss for the financial year	(7,258,459)	(8,769,579)
Foreign exchange differences	(24,382)	149,530
Total recognised losses relating to the financial year	(7,282,841)	(8,620,049)

Volantis Systems Limited

Consolidated balance sheet as at 31 December 2007

	Note	2007 £	2006 £
Fixed assets			
Intangible assets	10	-	-
Tangible assets	11	96,090	307,079
Investments	12	-	-
		96,090	307,079
Current assets			
Debtors	13	4,432,930	3,294,553
Cash at bank and in hand		379,081	979,035
		4,812,011	4,273,588
Creditors: amounts falling due within one year	14	(26,488,884)	(8,915,335)
Net current liabilities		(21,678,873)	(4,641,747)
Total assets less current liabilities		(21,580,783)	(4,334,668)
Creditors: amounts falling due after more than one year	15	(13,191,232)	(23,098,903)
Net liabilities		(34,772,015)	(27,433,571)
Capital and reserves			
Called up share capital	16	131,220	115,528
Share premium account	17	123,409	123,409
Profit and loss account	17	(35,120,586)	(27,837,745)
Share option reserve	17	93,942	165,237
Total shareholders' deficit	18	(34,772,015)	(27,433,571)

The financial statements on pages 11 to 31 were approved by the board on 27 November 2008 and signed on its behalf by:

M Watson
Director



Volantis Systems Limited

Company balance sheet as at 31 December 2007

	Note	2007 £	2006 £
Fixed assets			
Intangible assets	10	-	-
Tangible assets	11	**78,981**	274,312
Investments	12	**7,836**	7,836
		86,817	282,148
Current assets			
Debtors	13	**4,614,896**	3,335,750
Cash at bank and in hand		**352,439**	864,991
		4,967,335	4,200,741
Creditors: amounts falling due within one year	14	**(26,499,385)**	(8,751,268)
Net current liabilities		**(21,532,050)**	(4,550,527)
Total assets less current liabilities		**(21,445,233)**	(4,268,379)
Creditors: amounts falling due after more than one year	15	**(13,191,232)**	(23,098,903)
Net liabilities		**(34,636,465)**	(27,367,282)
Capital and reserves			
Called up share capital	16	**131,220**	115,528
Share premium account	17	**123,409**	123,409
Profit and loss account	17	**(34,985,036)**	(27,771,456)
Share option reserve	17	**93,942**	165,237
Total shareholders' deficit	18	**(34,636,465)**	(27,367,282)

The financial statements on pages 11 to 31 were approved by the board on 27 November 2008 and signed on its behalf by:



M Watson
Director

Volantis Systems Limited

Consolidated cash flow statement for the year ended 31 December 2007

	Note	£	2007 £	£	2006 £
Net cash outflow from operating activities	19		**(6,511,852)**		(7,837,346)
Returns on investments and servicing of finance					
Interest received		**6,371**		16,692	
Interest paid		**(142,631)**		(49,233)	
Net cash outflow from returns on investments and servicing of finance			**(136,260)**		(32,541)
Taxation			**(952)**		729,367
Capital expenditure and financial investments					
Purchase of tangible fixed assets		**(42,485)**		(223,941)	
Net cash outflow for capital expenditure and financial investment			**(42,485)**		(223,941)
Net cash outflow before financing			**(6,691,549)**		(7,364,461)
Financing					
Issue of share capital		**15,692**		27,471	
Increase in borrowings		**6,075,903**		6,031,318	
Net cash inflow from financing			**6,091,595**		6,058,789
Decrease in net cash	20,21		**(599,954)**		(1,305,672)

Notes to the financial statements for the year ended 31 December 2007

1 Accounting policies

The principal accounting policies, which have been applied consistently throughout the year, are set out below:

(a) Basis of accounting

The financial statements have been prepared on a going concern basis under the historical cost convention and in accordance with the Companies Act 1985 and applicable accounting standards in the United Kingdom.

(b) Basis of preparation

The financial statements are prepared on a going concern basis which assumes that the company will continue in operational existence for the foreseeable future. The directors believe that the validity of this assumption is appropriate for the following reasons. The directors have prepared projected cash flow information for the period ending twelve months from the date of the approval of these financial statements. The cash flow reflects further reduction of costs in 2008 and has taken into consideration orders received and pipeline generated in 2008. On the basis of this cash flow information, the directors consider that the group will continue to operate within its available cash resources.

If the company were unable to continue in operational existence for the foreseeable future, adjustments would have to be made to reduce the balance sheet values of assets to their recoverable amounts, to provide for further liabilities that might arise and to reclassify fixed assets and long term liabilities as current assets and liabilities.

Although there have been large orders received and pipeline generated in 2008, which is expected to continue in the foreseeable future, the Company may still require further support from its shareholders. Whilst there is material uncertainty which may cast significant doubt about the entity's ability to continue as a going concern the directors believe that it is appropriate for the financial statements to be prepared on a going concern basis.

(c) Basis of consolidation

The consolidated profit and loss account and balance sheet incorporate the results made up to 31 December of the company and its subsidiaries, Volantis Systems Inc, Volantis Systems SAS and Volantis Systems SL. All group companies have co-terminus year ends and all use uniform accounting policies. All intercompany transactions and balances are eliminated on consolidation.

The results of subsidiaries acquired are consolidated for the periods from which control passed. Acquisitions are accounted for under the acquisition method. The net assets of companies acquired are incorporated in the consolidated accounts at their fair values to the Group after making adjustments to reflect the alignment of accounting policies where the accounting policies of the acquired companies would otherwise be inconsistent with those of the Group. Goodwill representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired is capitalised within intangible assets and amortised over its estimated useful economic life. The balance sheets and profit and loss accounts of the subsidiaries in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial year. Foreign exchange differences are dealt with as an adjustment to reserves.

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

1 Accounting policies (continued)

(d) Turnover

Turnover represents amounts recognised on products sold and services provided, net of any discounts and value added tax. Product revenue, in respect of software licence fees receivable, is recognised at the time of shipment if installation is considered perfunctory, or acceptance of the software if installation is considered a significant element of the contract, depending on the specific terms of each agreement. Service revenue comprises maintenance and support services. Revenue from contracts for support services (representing professional services for installation, training, and consultancy at pre-determined rates) is recognised in accordance with the terms of the contracts. Revenue from annual maintenance contracts is recognised evenly over the length of the contract. Revenue attributable to the unexpired portion of the contract is carried forward as deferred income and included within creditors.

Accrued income represents income already recognised, which has not yet been invoiced to clients, and is included in debtors.

(e) Cost of sales

Cost of sales comprises third party costs associated with the provision of licenses and/or services to customers and salary costs of staff involved in the provision of consultancy, maintenance and support services.

(f) 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.

(g) Intangible fixed assets

Intangible fixed assets represent patents, which are valued at historic purchase cost less accumulated amortisation. Amortisation is calculated to write off the costs of patents on a straight-line basis over their estimated useful economic lives. Where future cash flows cannot be shown to be directly related to a patent the full cost is amortised immediately.

(h) Tangible fixed assets and depreciation

Tangible fixed assets are stated at historic purchase cost less accumulated depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Depreciation is provided so as to write off the cost of fixed assets to their estimated residual value over their expected useful economic lives. The principal annual depreciation rates and methods of calculation are as follows:

Office equipment	- 33⅓% per annum on cost
Fixtures and fittings	- 20%-33⅓% per annum on cost
Leasehold Improvements	- over the length of the lease

(i) Deferred taxation

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 at the balance sheet date.

A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, 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.

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

1 Accounting policies (continued)

(i) Deferred taxation (continued)

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

Deferred tax is recognised in respect of the retained earnings of overseas subsidiaries only to the extent that, at the balance sheet date, dividends have been accrued as receivable or a binding agreement to distribute past earnings in future periods has been entered into by the subsidiary.

(j) Pension costs

The Group operates a defined contribution pension scheme. The pension costs charged in the financial statements represent the contributions payable by the Group during the year in accordance with FRS 17 'Retirement Benefits'.

(k) Foreign currency

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to the profit and loss account. The balance sheets and profit and loss accounts of the subsidiaries in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial year. Foreign exchange differences are dealt with as an adjustment to reserves.

The balance sheets and profit and loss accounts of the subsidiaries in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial year. Foreign exchange differences are dealt with as an adjustment to reserves.

(l) Investments

Investments in subsidiaries are carried at the lower of cost and underlying net asset value, and are subject to any required provisions for impairment. Impairment reviews are carried out annually by the board.

(m) Share options

The company operates a number of equity-settled, share-based compensation plans. 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 entity 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.

(n) Research and development

Research and development costs are written off to the profit and loss account as incurred.

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

2 Turnover

The total turnover of the Group for the year has been derived from its principal activity which is substantially undertaken in the United Kingdom. In the opinion of the directors, the activities of the Group constitute one class of business. All turnover is derived from external customers. The analysis of turnover by destination is as follows:

	2007 £	2006 £
UK	**821,680**	935,403
Europe	**2,230,853**	1,982,410
USA	**2,791,251**	2,969,823
Other	**595,756**	1,520,889
	6,439,540	7,408,525

3 Operating loss

Operating loss is stated after charging / (crediting):

	2007 £	2006 £
Depreciation of tangible fixed assets:		
- owned assets	**200,664**	216,391
Operating lease rentals		
- other than plant and machinery	**444,582**	362,036
Loss on disposal of fixed assets	**62,984**	-
Research and development expenditure (comprising staff costs and included in note 4 below)	**2,057,708**	2,647,253
Services provided by the company's auditor		
Fees payable for the audit	**27,000**	25,500
Fees payable for other services – tax compliance	**9,700**	10,200
Foreign exchange (gain)/loss	**(64,056)**	67,061

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

4 Employee information

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

	2007 Number	2006 Number
Group		
Sales and marketing	**19**	31
Technical, development and support	**111**	125
Finance and administration	**9**	8
	139	164

	2007 Number	2006 Number
Company		
Sales and marketing	**8**	20
Technical, development and support	**103**	115
Finance and administration	**8**	6
	119	141

The costs associated with these employees (including directors) were as follows:

	2007 £	2006 £
Group		
Wages and salaries	**7,315,526**	9,515,653
Social security costs	**712,888**	889,445
Other pension costs (note 22)	**151,866**	195,858
	8,180,280	10,600,956

Included within the wages and salaries expense is a credit of £71,295 (2006: charge of £72,313) relating to share options issued to employees. Details of the share option scheme are shown in note 16.

	2007 £	2006 £
Company		
Wages and salaries	**6,084,652**	7,518,709
Social security costs	**640,790**	749,870
Other pension costs (note 22)	**149,615**	194,269
	6,875,057	8,462,848

Included within the wages and salaries expense is a credit of £5,569 (2006: charge of £24,924) relating to share options issued to employees. Details of the share option scheme are shown in note 16.

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

5 Directors' emoluments

	2007 £	2006 £
Aggregate emoluments	**207,395**	391,891
Compensation for loss of office	**123,810**	-
Payments to money purchase pension schemes	**6,667**	6,195
	337,872	398,086

Retirement benefits are accruing to one of the directors (2006: one) under the Group's money purchase schemes.

During the year one director (2006: none) exercised options over shares of Volantis Systems Limited. 1,569,143 ordinary shares were issued for £15,692 cash consideration on 31 July 2007.

Highest paid director

	2007 £	2006 £
Aggregate emoluments	**185,400**	200,459
Payments to money purchase pension schemes	**6,667**	6,195
	192,067	206,654

6 Interest receivable and similar income

	2007 £	2006 £
Bank interest receivable	**6,371**	16,692

7 Interest payable and similar charges

	2007 £	2006 £
Bank interest	**179,458**	60,528
Loan interest	**699,090**	161,226
Preferred share appropriation	**1,249,441**	1,152,788
	2,127,989	1,374,542

Amounts owed to group undertakings are unsecured, interest free and repayable on demand.

A cumulative preference share appropriation of £4,902,596 (2006: £3,653,155) is due and has been accrued for within Creditors due after more than one year.

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

8 Tax on loss on ordinary activities

a) Analysis of charge in period

	2007 £	2006 £
Current tax:		
UK corporation tax on losses of the year	**(493,850)**	(515,806)
Adjustments in respect of previous years	**(91,162)**	74,099
Withholding tax	**46,200**	-
Overseas tax	**12,603**	2,687
Tax credit on loss on ordinary activities	**(526,209)**	(439,020)

b) Factors affecting the tax charge for the year:

The tax assessed for the year is higher (2006: higher) than the standard rate of corporation tax in the UK (30%). The difference is explained below:

	2007 £	2006 £
Loss on ordinary activities before tax	**(7,784,668)**	(9,208,599)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2006: 30%)	**(2,335,400)**	(2,762,580)
Effects of:		
Preference share appropriation not deductible for tax purposes	**374,832**	345,836
Other expenses not deductible for tax purposes	**39,881**	27,975
Relief for research and development expenditure	**(308,656)**	(322,378)
Losses surrendered for research and development tax credit	**432,119**	451,330
Deferred tax movement not recognised	**1,303,374**	1,744,011
Withholding tax	**46,200**	-
Overseas tax	**12,603**	2,687
Adjustments in respect of previous years	**(91,162)**	74,099
Total current tax credit	**(526,209)**	(439,020)

From 1 April 2008 the applicable rate of UK corporation tax is 28%.

Deferred taxation

	Amounts provided		Amounts unprovided	
	2007 £	2006 £	2007 £	2006 £
Excess of depreciation over tax allowances	-	-	**(309,737)**	(210,080)
Other timing differences	-	-	-	(9,600)
Tax losses	-	-	**(5,306,131)**	(2,868,002)
	-	-	**(5,615,868)**	(3,087,682)

The directors consider that it is unlikely that there will be sufficient taxable profits in the future such as to realise the deferred tax asset, and therefore the asset has not been recognised in these financial statements.

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

9 Company profit and loss account

As permitted by section 230 of the Companies Act, the company's profit and loss account has not been included in these financial statements. Its loss for the year amounted to £7,213,580 (2006: £8,611,598).

10 Intangible assets

	Patents £
Group and Company	
Cost	
At 1 January 2007 and at 31 December 2007	**11,222**
Accumulated amortisation	
At 1 January 2007 and at 31 December 2007	**(11,222)**
Net book value	
At 31 December 2006 and at 31 December 2007	**-**

11 Tangible assets

	Office equipment £	Fixture and fittings £	Leasehold improvements £	Total £
Group				
Cost				
At 1 January 2007	987,240	491,715	35,795	1,514,750
Exchange adjustments	15,977	5,152	2,349	23,478
Additions	36,462	6,023	-	42,485
Disposals	(524,675)	(2,263)	-	(526,938)
At 31 December 2007	**515,004**	**500,627**	**38,144**	**1,053,775**
Accumulated depreciation				
At 1 January 2007	727,987	460,508	19,176	1,207,671
Exchange adjustments	8,041	5,062	201	13,304
Charge for the year	176,498	18,412	5,754	200,664
Disposals	(463,954)	-	-	(463,954)
At 31 December 2007	**448,572**	**483,982**	**25,131**	**957,685**
Net book value				
At 31 December 2007	**66,432**	**16,645**	**13,013**	**96,090**
At 31 December 2006	259,253	31,207	16,619	307,079

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

11 Tangible assets (continued)

	Office equipment £	Fixture and fittings £	Leasehold improvements £	Total £
Company				
Cost				
At 1 January 2007	941,744	491,715	35,795	1,469,254
Exchange adjustments	16,705	5,152	2,350	24,207
Additions	30,302	3,760	-	34,062
Disposals	(510,448)	-	-	(510,448)
At 31 December 2007	**478,303**	**500,627**	**38,145**	**1,017,075**
Accumulated depreciation				
At 1 January 2007	715,257	460,509	19,176	1,194,942
Exchange adjustments	8,272	5,062	201	13,535
Charge for the year	166,911	18,412	5,754	191,077
Disposals	(461,460)	-	-	(461,460)
At 31 December 2007	**428,980**	**483,983**	**25,131**	**938,094**
Net book value				
At 31 December 2007	**49,323**	**16,644**	**13,014**	**78,981**
At 31 December 2006	226,487	31,206	16,619	274,312

12 Investments

	Shares in subsidiary undertakings £
Company	
Costs	
At 1 January 2007 and 31 December 2007	44,315
Provision for impairment	
At 1 January 2007 and 31 December 2007	36,479
Net book value	
At 31 December 2007 and 31 December 2006	**7,836**

12 Investments (continued)

Investment in subsidiary undertakings:

Name of subsidiary	Country of incorporation	Description of shares held	Proportion of nominal value of issued shares held
Volantis Systems Inc	USA	Ordinary shares of $0.01 each	100%
Volantis Systems SAS	France	Ordinary shares of €15.24 each	100%
Volantis Systems SL	Spain	Ordinary shares of €1 each	100%

The directors believe that the carrying value of the investments is supported by their underlying net assets

The principal activity of Volantis Systems Inc, Volantis Systems SAS and Volantis Systems SL is the sale of software developed by Volantis Systems Limited together with associated services. Volantis Systems Inc was incorporated in the US. Volantis Systems SAS was incorporated in France on 1 January 2003. Volantis Systems SL in Spain became part of the group on 24 October 2005.

Investments in associate undertakings

Name of associate	Country of incorporation	Description of shares held	Proportion of nominal value of issued shares held
Ubik.com Inc	USA	Ordinary shares $0.01 each	48.72%

The company acquired 1,900,000 ordinary shares of Ubik.com Inc on 12 December 2007

The principal activity of Ubik.com is the provision of mobile web publishing platforms for consumers.

Ubik.com Inc is immaterial to the group and therefore has not been consolidated in the group accounts

13 Debtors

	Group		Company	
	2007	2006	**2007**	2006
	£	£	**£**	£
Trade debtors	**2,124,165**	2,240,148	**2,124,165**	2,240,148
Amounts owed by group undertakings	**-**	-	**199,534**	68,300
Other debtors	**426,642**	207,160	**409,631**	198,304
Corporation tax recoverable	**1,101,129**	573,968	**1,100,818**	573,968
Prepayments and accrued income	**780,994**	273,277	**780,748**	255,030
	4,432,930	3,294,553	**4,614,896**	3,335,750

Other debtors includes rent deposits of £96,882 (2006: £90,705) which are repayable after more than one year if the leases run to their full term.

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

14 Creditors: amounts falling due within one year

	Group		Company	
	2007	2006	**2007**	2006
	£	£	**£**	£
Bank loans	**1,412,136**	1,450,000	**1,412,136**	1,450,000
Trade creditors	**332,776**	578,251	**312,604**	484,027
Amounts owed to group undertakings	**-**	-	**111,895**	242,481
Taxation and social security	**147,081**	220,577	**139,236**	206,460
Other creditors (note 24)	**10,694,926**	4,586,230	**10,694,926**	4,586,230
Preference shares (12,007,926 'C' preferred shares of 1p each) (note 15)	**11,157,112**	-	**11,157,112**	-
Accruals and deferred income	**2,744,853**	2,080,277	**2,671,476**	1,782,070
	26,488,884	8,915,335	**26,499,385**	8,751,268

Amounts owed to group undertakings are unsecured, interest free and repayable on demand.

The bank loans represent working capital line of credit which is subject to interest rates of UK LIBOR + rates ranging from 4% - 4.75%. The original agreement dated 31 March 2006, provided that this loan matures 24 months from date of documentation. A reduced working capital facility was agreed on 30 June 2008, expiring on 31 October 2008. Terms have been agreed for a further extension on similar terms to 30 June 2009.

15 Creditors: amounts falling due after more than one year

	2007	2006
Group and Company	**£**	£
Preferred shares	**13,191,232**	23,098,903
Preferred Shares		
5,357,145 'A' (2006: 5,357,145) preferred shares of 1p each	**2,100,000**	2,100,000
8,348,795 'B' (2006: 8,348,795) preferred shares of 1p each	**6,096,704**	6,096,704
12,007,926 'C' (2006: 12,007,926) preferred shares of 1p each	**-**	10,293,883
10,989,538 'D' (2006: 10,989,538) preferred shares of 1p each	**4,994,528**	4,608,316
	13,191,232	23,098,903

The 'A' preferred shares carry the same rights as ordinary shares, but rank above them in a liquidation. On a return of assets on a liquidation, reduction of capital or otherwise, 'A' preferred shareholders are entitled to the subscription price and any outstanding liabilities due to them, including dividends declared and not paid.

The 'B' preferred shares carry the same rights as ordinary shares, but rank above them and 'A' preferred shares in a liquidation and are not entitled to receive dividends. On a return of assets on a liquidation, reduction of capital or otherwise, 'B' preferred shareholders are entitled to the higher of: i) the subscription price and any outstanding liabilities due to the 'B' preferred shareholders; or ii) an amount equal to the sum 'B' preferred shareholders would have received had such 'B' preferred shares been converted into ordinary shares.

The 'C' preferred shares carry the same rights as ordinary shares, but rank above them and 'A' preferred shares and 'B' preferred shares on payment of a dividend and in a liquidation. On a return of assets on a liquidation, reduction of capital or otherwise, 'C' preferred shareholders are entitled to the higher of: i) one and a half times the subscription price and any outstanding liabilities due to the 'C' preferred shareholders, including dividends declared and not paid; or ii) an amount equal to the sum 'C' preferred shareholders would have received had such 'C' preferred shares been converted into ordinary shares. 'C' preferred shares are redeemable on or after 15 July 2008 at the election of the holders of 66.67% or more of the 'C' preferred shares. The redemption amount payable is the aggregate of the subscription price and an amount equal to 10% per annum of the subscription price less any dividend paid. The change in value from the prior year relates to the FRS 4 preference share appropriation that is required to show the full cost of non-equity shares in the profit and loss account thereby reflecting properly the profit for the year that belongs to the equity shareholders.

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

15 Creditors: amounts falling due after more than one year (continued)

As at the signing of these accounts, the 'C' preferred shares have not been redeemed and are unlikely to be redeemed in 2008.

The 'D' preferred shares carry the same rights as ordinary shares, but rank above them and 'A' preferred shares, 'B' preferred shares and 'C' preferred shares on payment of a dividend and in a liquidation. On a return of assets on a liquidation, reduction of capital or otherwise, 'D' preferred shareholders are entitled to the higher of: i) one and a half times the subscription price and any outstanding liabilities due to the 'D' preferred shareholders, including dividends declared and not paid; or ii) an amount equal to the sum 'D' preferred shareholders would have received had such 'D' preferred shares been converted into ordinary shares. 'D' preferred shares are redeemable on or after 14 July 2011 at the election of the holders of 66.67% or more of the 'D' preferred shares. The redemption amount payable is the aggregate of the subscription price and an amount equal to 10% per annum of the subscription price less any dividend paid. The change in value from the prior year relates to the FRS 4 preference share appropriation that is required to show the full cost of non-equity shares in the profit and loss account thereby reflecting properly the profit for the year that belongs to the equity shareholders.

All of the above preferred shares are convertible by the shareholders to ordinary shares at any time on a one for one basis.

16 Called Up Share Capital

Group and Company	2007 £	2006 £
Authorised		
25,380,205 ordinary shares of 1p each	**253,802**	253,802

Group and Company	2007 £	2006 £
Allotted and fully paid		
13,121,980 (2006: 11,552,837) ordinary shares of 1p each	**131,220**	115,528

1,569,143 ordinary shares were issued during the year for £15,692 cash consideration. The nominal value of the shares is £15,692 with no resultant share premium.

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

16 Called Up Share Capital (continued)

Potential issues of ordinary shares

Employees hold options to subscribe for the ordinary shares in the company at prices ranging from 1p to 39.2p under the share option schemes approved by the shareholders in November 2000 and December 2001. 1,274,000 options were granted in the year. 1,569,143 options were exercised in 2007 and 4,779,016 options lapsed or were forfeited in the year. The number of shares subject to options, the periods in which they were granted and the periods in which they may be exercised are given below:

Year of grant	Exercise price (pence)	Exercise period	2007 Numbers	2006 Numbers
2000	1.00	2001-2010	**382,653**	382,653
	39.20	2001-2010	**258,813**	328,813
2001	8.29	2001-2010	**2,168,677**	2,190,677
	8.29	2002-2011	**270,000**	270,000
2002	8.29	2002-2011	**100,000**	100,000
	8.29	2003-2012	**9,000**	9,000
	12.09	2003-2012	**10,000**	10,000
2003	12.09	2004-2013	**742,175**	784,075
2004	12.09	2001-2010	**200,000**	200,000
	12.09	2002-2011	**50,000**	50,000
	12.09	2004-2013	**50,000**	50,000
	12.09	2005-2014	**786,871**	818,750
2005	12.09	2006-2015	**496,313**	3,406,193
	7.53	2006-2015	**210,100**	2,616,600
2006	7.53	2007-2016	**541,100**	848,600
2007	7.53	2008-2017	**530,500**	-
	12.09	2008-2017	**185,000**	-
			6,991,202	12,065,361

17 Reserves

	Share option reserve £	Share premium account £	Profit and loss account £
Group			
At 1 January 2007	165,237	123,409	(27,837,745)
Loss for the financial year	-	-	(7,258,459)
Foreign exchange differences	-	-	(24,382)
FRS 20 credit for the year	(71,295)	-	-
At 31 December 2007	**93,942**	**123,409**	**(35,120,586)**

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

17 Reserves (continued)

	Share option reserve £	Share premium account £	Profit and loss account £
Company			
At 1 January 2007, as previously reported	165,237	123,409	(27,771,456)
Loss for the financial year	-	-	(7,213,580)
FRS 20 credit for the year	(71,295)	-	-
At 31 December 2007	**93,942**	**123,409**	**(34,985,036)**

18 Reconciliation of movements in shareholders' deficit

	2007 £	2006 £
Group		
Opening shareholders' deficit	**(27,433,571)**	(18,913,306)
Loss for the financial year	**(7,258,459)**	(8,769,579)
Foreign exchange differences	**(24,382)**	149,530
New shares issued	**15,692**	27,471
FRS 20 (credit)/ charge for the year	**(71,295)**	72,313
Net increase in shareholders' deficit	**(7,338,444)**	(8,520,265)
Closing shareholders' deficit	**(34,772,015)**	(27,433,571)

	2007 £	2006 £
Company		
Opening shareholders' deficit	**(27,367,282)**	(18,855,468)
Loss for the financial year	**(7,213,580)**	(8,611,598)
New shares issued	**15,692**	27,471
FRS 20 (credit)/charge for the year	**(71,295)**	72,313
Net increase in shareholders' deficit	**(7,269,183)**	(8,511,814)
Closing shareholders' deficit	**(34,636,465)**	(27,367,282)

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

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

	2007 £	2006 £
Operating loss	**(5,663,050)**	(7,850,749)
Depreciation	**200,664**	216,391
Loss on disposal	**62,984**	
FRS 20 charge for the year	**(71,295)**	72,313
Increase in debtors	**(611,216)**	(555,162)
(Decrease)/increase in creditors	**(395,384)**	126,304
Exchange differences	**(34,555)**	153,557
Net cash outflow from continuing operating activities	**(6,511,852)**	(7,837,346)

20 Reconciliation of net cash flow to movement in net debt

	2007 £	2006 £
Decrease in cash in the year	**(599,954)**	(1,305,672)
Cash inflow from new borrowings	**(6,075,903)**	(6,031,318)
Change in net debt resulting from cash flows	**(6,675,857)**	(7,336,990)
Movement in net funds in the year	**(6,675,857)**	(7,336,990)
Net (debt)/funds at 1 January	**(5,052,283)**	2,284,707
Net debt at 31 December (note 21)	**(11,728,140)**	(5,052,283)

21 Analysis of changes in net debt

	At 01 January 2007 £	Cash flows £	At 31 December 2007 £
Cash at bank and in hand	979,035	(599,954)	**379,081**
Borrowings	(6,031,318)	(6,075,903)	**(12,107,221)**
	(5,052,283)	(6,675,857)	**(11,728,140)**

22 Pensions

The company 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 represents contributions payable by the company to the fund and amounted to £148,849 (2006: £193,371). No contributions (2006: £nil) were payable to the fund at the year end. In addition the company made £766 (2006: £898) of contributions to its non-UK based employees' pension schemes. The group also made £2,251 (2006: £1,589) of contributions to non-UK employees' pension schemes.

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

23 Financial commitments

At 31 December 2007 the company and group had annual commitments under non-cancellable operating leases as follows:

	Land and Buildings	
	2007	2006
	£	£
Expiry date:		
Between two and five years	**382,918**	341,373

24 Related Party Transactions

At the balance sheet date, £2,500 (2006: £2,500) of the charge due under clause three of the Shareholders and Subscription Agreement was outstanding to Softbank and is included in accruals and deferred income. In addition £1,782,514 (2006: £763,553) was outstanding to Softbank and is included in other creditors. Interest of £143,766 was due on this loan and is included in accruals and deferred income. Softbank is related by virtue of its shareholdings in the Company. Softbank hold 5,496,291 'B' preferred shares (2006: 5,496,291) and 108,108 'C' preferred shares (2006: 108,108). Softbank are also the registered holder of 519,508 warrants over 'D' preferred shares (2006: 218,979).

At the balance sheet date £4,456,285 (2006: £1,908,883) was outstanding to Accel and is included in other creditors. Interest of £358,275 was due on this loan and is included in accruals and deferred income. Accel is related by virtue of its shareholdings in the Company. Accel hold 8,648,649 'C' preferred shares (2006: 8,648,649) and 5,474,365 'D' preferred shares (2006: 5,474,365). Accel are also the registered holder of 1,298,763 warrants over 'D' preferred shares (2006: 547,445).

At the balance sheet date £4,456,285 (2006: £1,908,883) was outstanding to Kennet and is included in other creditors (see note 14). Interest of £358,275 was due on this loan and is included in accruals and deferred income. Kennet is related by virtue of its shareholdings in the Company. Kennet hold 5,102,041 'A' preferred shares (2006: 5,102,041); 2,748,145 'B' preferred shares (2006: 2,748,145); 3,243,243 'C' preferred shares (2006: 3,243,243); and 5,474,365 'D' preferred shares (2006: 5,474,365). Kennet are also the registered holder of 1,298,763 warrants over 'D' preferred shares (2006: 547,445).

At the balance sheet date the following charges created in favour of Accel Europe L.P. as security trustee for Accel, Kennet and Softbank were outstanding: (a) a mortgage debenture dated 15 June 2006; (b) a mortgage debenture dated 7 December 2006; (c) a mortgage debenture dated 23 March 2007; (d) a debenture dated 25 April 2007; (e) a debenture dated 11 July 2007; and (f) a debenture dated 7 November 2007. Each such security contains a fixed and floating charge over the undertaking and all property and assets present and future of the Company.

25 Post balance sheet events

One of the company's existing customers filed a claim against the company in August 2007. The company settled this claim in February 2008. The settlement amount was covered by the company's insurers and the legal fees relating to the claim have been accrued in the accounts. The Directors believe that this does not have an impact on the company's financial position as at the end of the year.

26 Control

There is no ultimate controlling party.