@UK PLC News Announcement

@UK PLC - Preliminary Results

RNS Number:8489T
@UK PLC
28 March 2007

Embargoed until 7am 28 March 2007

@UK plc

('@UK' or 'the Group')

Audited Preliminary results for the year ended 31 December 2006

@UK plc (AIM: ATUK), a leading provider of software solutions that facilitate eCommerce and eProcurement in the government, health and private sectors, today announces its audited Preliminary results for the year ended December 2006.

Financial Highlights:

* Turnover increased by 49% to £2.2m (2005: £1.5m)
* Loss before tax of £3.2m (2005: £0.9m), before exceptionals and share based payments
* Loss before tax of £3.5m (£2005: 1.7m), after exceptional items and share based payments
* Loss per share of 9.3p (2005: 8.5p)
* Year end net cash of £4.0m (2005: £8.6m)

Operating Highlights:

* Strategic review completed and now fully implemented
* Board and Management restructuring: Grant Oliver appointed CEO in January 2007
* Cost reduction programme has reduced overheads by an annualised £1.2m
* Substantial reduction in cash burn going forward
* Refocused sales efforts to maximise growth

Commenting on the Preliminary results, Grant Oliver, Chief Executive said:
'The beginning of this year has been satisfactory as a result of the benefits of the action plan put in place following the strategic review. Our financial performance has stabilised as a result of the reduction in our cash burn and we aim to sustain this improvement. As at the year end we had £4.0m of cash available to take the Group through to profitability.

'There are still significant opportunities to substantially grow our business and I am looking forward to the challenges of the next year as we take advantage of these. We intend to provide a trading update at the time of the Group's AGM on 24 May.'

For further information, please contact:

@UK 0118 369 7000
Grant Oliver, Chief Executive
John Aiken, Chief Financial Officer

Shore Capital 020 7408 4080
Dru Danford / Graham Shore

Smithfield 020 7360 4900
Tania Wild / Reg Hoare

Notes to Editors:

@UK is one of the UK's leading eMarketplace providers. @UK's software provides a secure internet eMarketplace enabling buyers such as local authorities, schools and hospitals to buy online from commercial suppliers ranging from large corporations to small to medium enterprises (SMEs).

It works by linking the financial systems of bodies such as local authorities, hospitals, schools and large corporations to all their suppliers. This allows buying and selling to take place with no paperwork and no chance of transposition errors, achieving major savings throughout the supply chain.

@UK provides eCommerce to thousands of suppliers of every size, from multinational businesses to 'one man band' window cleaners and plumbers and the numbers are growing daily. Even the smallest suppliers can now trade electronically with customers creating electronic orders and more importantly raise electronic invoices for all their customers.

@UK PLC also offers services to new businesses, including incorporation, company secretary services and filing annual returns. Over 120,000 companies have been incorporated using @UK's online company formation service.

@UK joined AIM in December 2005, raising £8 million before expenses at an issue price of 60p. In May 2006 it purchased Coding International Limited, its first acquisition since becoming a quoted company, @UK is included in the Software and Computer Services Sector (9530). For further information please visit www.ukplc.net.

CHAIRMAN'S STATEMENT

Introduction

I am pleased to present @UK's second report to shareholders as an AIM listed company. 2006 has been a challenging year for @UK, with growth slower than we had originally anticipated. Nevertheless it has still been a year of progress towards our target of becoming the company of choice for providing eCommerce solutions to the public and private sectors. With the changes we have made in management and strategy we are confident that we are moving in the right direction.

Results

Notable elements in the results were:

* in the year ended 31 December 2006, @UK increased sales by 49% to £2.2m (2005: £1.5m);
* sales of web and eCommerce services increased by 152% to £0.9m in the year ended 31 December 2006 (2005: £0.4m);
* loss before taxation (before exceptional items and share based payments) in 2006 was £3.2m compared to £0.9m in the prior year which reflects the increased cost base in preparation for the roll out of our products and services;
* after taking account of exceptional costs and share based payments the loss before tax for 2006 was £3.5m (2005: £1.7m); and
* at 31 December 2006 the Group had net funds of £4.0m available to take the Group through to profitability.

Strategic Review

In November 2006 we announced that we had carried out a review of the business of the Group, its operating structure and cost base. The review highlighted the need to:

* undertake a management restructuring;
* appoint a new Chief Executive Officer;
* implement a new cost reduction programme focusing on headcount and sales and marketing expenditure; and
* refocus our sales efforts to maximise growth.

The overall impact of the review has been to streamline our management, whilst reducing costs on an annualised basis by £1.2m.

Strategy

The Board's strategy is to take advantage of the growth opportunities in its market and to achieve profitability in the medium term. We remain focussed on the provision of our buy-side eCommerce solutions, and using this as a channel to sell our supply-side solutions, but:

* we have simplified our approach to implementation to make it easier for existing and new buy-side customers to achieve the benefits our solutions bring;
* we are adopting more flexible sales techniques such as offering to sell on a risk/reward model and targeting areas of spend within organisations where the return on investment is particularly quick;
* we are commencing a targeted sales campaign in the private sector for our buy-side solutions; and
* these changes on the buy-side will have a positive impact on supplier adoption.

Management
As a result of the review, Chris Hoar and Dudley George, the Commercial and Marketing Directors, left the Board. I would like to take this opportunity to thank Chris Hoar and Dudley George for their contribution to the development of the Group. Lyn Duncan moved to the role of Business Development Director in order to focus wholly on maximising her strong relationships within the Public Sector and in particular the NHS, and we also started a search for a new Chief Executive Officer.

Subsequently I was pleased to announce in January that we had appointed Grant Oliver as our new CEO. The benefits of these changes are now being seen and it has been pleasing to see some client wins recently.

People
On behalf of the Board I would like to thank all our employees for their hard work and effort during the year.

Summary
With the management changes which have been made, the Group's level of funding and good progress in implementing the new strategy, the Board is confident in @UK's future.

Bernard R. Fisher

Chairman
28 March 2007

CHIEF EXECUTIVE'S REVIEW

Introduction
I am pleased to present the first Chief Executive's Review since my appointment.

Before presenting a review of operations in the year I think it would be useful to make some observations on my initial findings:

* @UK has a well perceived product which works;
* that product can deliver substantial savings and hence return on investment to purchasing organisations;
* the sales cycle has been slower than anticipated. This is particularly the case in our traditional core market, Local Government;
* there has been a tendency for projects to stall due to lack of internal resources available within our client base;
* the Group's sales effort needed refocusing; and
* costs had increased rapidly in anticipation of a level of sales growth which had not occurred, and needed to be reduced.

I believe we have made substantial progress in addressing these issues which I will move on to explain.

@UK's eCommerce Offering
The Company has developed a unique approach to allow transactions via eCommerce between buyers such as Public Sector Bodies - Local Authorities, schools and hospitals, and corporate enterprises, and sellers such as small to medium enterprises (SMEs) as well as larger companies. Our solution has significant Local Economic Development benefits as well as allowing Local Authorities to purchase via the @UK Marketplace in a cost-effective, paperless way.

What sets @UK apart from other eProcurement suppliers in the market is that we have a solution which is used by both sides of a transaction. Buyers such as a Public Sector Body or a large private enterprise (our 'buy-side' customers), interact electronically with their suppliers (our 'supply-side' customers), providing seamless, user friendly eCommerce for all sizes of supplier. As the process is electronic from despatch of order through to receipt of an electronic invoice, this enables process cost savings from eProcurement to be achieved.

Our strategy is to target buyers in the Public Sector, signing them up as customers before turning our attention to their suppliers. Once set-up work and training has been completed, we work with the buy-side customer to adopt their suppliers onto the @UK eCommerce platform. This means that buyers can use our network to purchase from their suppliers. One of the attractive features of the system for the suppliers is that they are then also immediately available to be accessed by any other buyer on the network at no extra charge.

In order to achieve the cost savings, and for @UK to get good rates of sign-up with suppliers, the buying organisation must commit to the change to paperless procurement. Typically, the suppliers who individually have few purchases per year but are large in number can be a block to going 100% electronic. To help with this we have introduced our '100% Model', which provides the functionality to allow the organisation to trade with ease electronically, even with those suppliers.

Operational Overview

eProcurement
Since we reported in last year's annual report and accounts it has become clear

that the Public Sector was taking longer to initiate and implement eProcurement than @UK had anticipated at the time of the IPO in December 2005. This was particularly true in the local authority market where few signed up to an eProcurement solution during 2006.

In response to this we have:

* refocused our Local Authority sales effort on better quality prospects;
* allocated resource to progressing projects with existing prospects which had stalled;
* increased sales effort in the NHS sector where cost reduction is a priority;
* initiated test selling of our solution in the private sector; and
* started to work in partnership with major FMS (Financial Management Systems) vendors to broaden our sales effort.

We are currently working with 66 Public Sector Organisations and one private sector buy-side client.

Many of these organisations have moved slowly from letter of intent through to a fully functioning system. In many cases the delay is due to the customer not having sufficient resources available. To address this, in March 2007 we launched our Rapid Deployment service, which aims to get the purchasing organisation fully operational within as little as five days. To date six of our customers have signed up for this service and two have already gone live as a result.

Local Authorities - We now have a total of 59 authorities who have adopted the @UK eProcurement solution as their chosen approach. We are pleased to announce that since the year end that the London Borough of Hillingdon and Somerset County Council have become customers.

Central Government - As part of our focus on deploying our resources where we can maximise revenues, we withdrew from the Zanzibar consortium in September 2006. The demand for value added services from suppliers proved to be very low and the Board took the decision to redeploy resource where it will be more effective. This enabled us to sell direct into Central Government, which we commenced in November 2006, having recruited an experienced salesman to focus on this area.

National Health Service - 2006 saw @UK move successfully into the NHS, winning the mandate for the Leeds Teaching Hospitals Trust, while continuing to work at

University Hospital Birmingham. With Leeds as a major reference site we have made sales in the NHS a key priority in 2007.

Education - We are currently working with four Local Education Authorities, three of which now have live sites. This is a net reduction of eight LEAs since we last reported. The project with the nine Greater Manchester Boroughs for an electronically based schools purchasing information service was cancelled at an early stage, by mutual agreement, after they received funding from the Department for Education and Skills to take part in a national pilot for another solution.

Other Public Sector - In 2006 we were pleased to have gained our first customer in the Emergency Services, Thames Valley Police.

Suppliers - We have attracted an impressive range of large suppliers to our marketplace. During 2006 we changed our approach to signing up suppliers from using on site supplier adoption officers to the use of supplier advisers working from a call centre environment at our offices in Aldermaston. These advisers follow up mailings sent out by buying organisations to their suppliers. The volume of sign-ups is critically dependent on the buy-side providing those mailings, and on the letters containing a call to action from the buying organisation as they change the way they procure. This inter-dependency between the buy-side and supply-side makes the push to get buy-side projects moving referred to above doubly important.

Company Formations - Our company formation services business grew by 13% in the year. In 2006 approximately 10% of companies formed in Great Britain were completed using our system, either directly by @UK or by other agents paying a royalty for use of our service (2005: 8%). During the year we tested the marketing of our eCommerce services and third party accounting software for business start-ups directly to all newly incorporated companies. However, the take-up was not sufficient to warrant continuing with this relatively expensive, direct marketing approach. We have, therefore, reverted to making additional services available on the company formations area of our website. These are provided by third parties, on which we make a margin or commission.

Marketing - During 2006 marketing spend (including pay per click advertising) increased to £0.7m from £0.4m in the previous year. The increase was attributable to increased attendance at industry exhibitions and advertising via trade press. We consider that the aim of increasing awareness of @UK in the market has now been achieved, so spend is being reduced this year. Marketing activity will now be more focused on events such as the seminar we organised for Local Authorities.

Acquisition of Coding International Limited
The acquisition of Coding International Limited ('CIL') at the end of April 2006 was an important enhancement to our business as we believe proper coding of products is essential to gain the full benefits from eProcurement. CIL is seen as expert in this area.

The North West London Health Trusts contract was announced in July, and is progressing well. The trusts will soon be able to show savings based on the solution and it is already being showcased to other NHS bodies. The first sale of coding services into one of our local authority clients has just taken place, and we are confident that many more will follow.

Financial Results
Turnover for the year was £2.16m, an increase of 49% over the previous year (2004: £1.45m). Web and eCommerce sales rose by 152% to £0.94m, assisted by a maiden contribution of £0.15m from CIL. Gross margin fell from 67% to 59% reflecting the costs of staff carrying out implementation work for supply-side customers increasing ahead of sales.

Operating expenses before exceptional items increased from £1.88m to £4.84m. The rise reflects the increase in the cost base in preparation for the roll-out of our products and services across the UK Public Sector.

£0.05m was charged as the cost calculated under FRS 20 of share options granted to employees (2005: £Nil).

Following the strategic review carried out in November staff numbers were reduced and have fallen from a peak of 115 to 85, including 11 at CIL. An exceptional cost of £0.22m was incurred in making this reduction.

After taking account of exceptional items, the loss before tax for the year was £3.51m compared to £1.68m in the previous year.

As anticipated, cash outflow before financing increased substantially in 2006 to £4.51m (2005: £1.58m). The larger part of the outflow went on operating costs, but capital expenditure increased significantly to £792,000 from £121,000 in 2005, with the expenditure on the new data centre in London and office refurbishment as well as equipment for the additional staff. Following the reduction in operating expenses as a result of the strategic review in November, our cash burn has been reduced to a rate of £0.2m per month.

At 31 December 2006 the Group had net funds of £4.04m available, which we are confident is sufficient to take us through to profitability.

Dividend Policy

The Board is not recommending the payment of a dividend for 2006. In the immediate future, the Board is committed to building the group's business and accordingly all the group's financial resources are being applied to this end. In the longer term, the Directors intend to adopt a progressive dividend policy appropriate to the Group's financial performance.

Transition to International Financial Reporting Standards (IFRS)

As an AIM listed company @UK will adopt IFRS for our financial statements for the year ending 31 December 2007 and the interim results to 30 June 2007 will be prepared under the new standards.

The audit committee has been regularly briefed on the development of IFRS and the associated International Accounting Standards (IAS) so that it can understand their impact and manage the transition to IFRS.

As well as the different presentation formats, the most notable changes for our results are likely to be related to:

* Acquisitions and goodwill - IFRS 3 (IAS 27) Under IAS 38 ('Intangible Assets') there will be no amortisation of goodwill. Instead it will be carried as a permanent item and be subject to an annual impairment review of the carrying value. Future acquisitions will involve the identification and evaluation of separate intangible assets;
* Research and development expenditure - IAS38 'Research and Development', which requires expenditure meeting certain recognition criteria to be capitalised, amortised over its useful economic life and subject to impairment review; and
* Increased disclosure generally, but in particular in relation to IAS 14 'Segmental Reporting' and IAS 24 'Related Party Transactions'.

Overall the change to IAS is not expected to have a material impact on the results.

Outlook

The beginning of this year has been satisfactory as a result of the benefits of the action plan put in place following the strategic review. Our financial performance has stabilised as a result of the reduction in our cash burn and we aim to sustain this improvement. As at the year end we had £4.0m of cash available to take the Group through to profitability.

There are still significant opportunities to substantially grow our business and I am looking forward to the challenges of the next year as we take advantage of these. We intend to provide a trading update at the time of the Group's AGM on 24 May.

Grant Oliver

Chief Executive

28 March 2007

Consolidated Profit and Loss Account

For the year ended 31 December 2006

	Notes	2006 £	2005 £ (restated*)
Turnover	4		
Existing operations		2,018,004	1,454,073
Acquisitions		144,976	-
		2,162,980	1,454,073
Cost of sales		(891,124)	(474,570)
Gross profit		1,271,856	979,503
Administrative expenses		(4,844,179)	(1,882,939)
Operating loss before exceptional item		(3,572,323)	(903,436)
Exceptional reorganisation costs	2	(219,962)	-
Exceptional goodwill write-off	2	-	(798,408)
Operating loss			
Existing operations		(3,784,766)	(1,701,844)
Acquisitions		(7,519)	-
		(3,792,285)	(1,701,844)
Interest receivable		290,901	27,510
Interest payable	3	(5,989)	(9,549)
Loss on ordinary activities before taxation		(3,507,373)	(1,683,883)
Taxation	5	-	-
Loss on ordinary activities after taxation, retained	10	(3,507,373)	(1,683,883)
Loss per share			
Basic and diluted	6	9.3p	8.5p

The turnover and operating loss for the year arises from the Company's continuing operations.

No separate Statement of Total Recognised Gains and Losses has been presented as all such gains and losses have been dealt with in the Profit and Loss Account.

* certain expenses have been reclassified within the profit and loss account in the prior year (see note 1)

Consolidated Balance Sheet
31 December 2006

	Notes	2006 £	2005 £
Fixed assets			
Intangible assets		83,438	-
Tangible assets		752,481	114,067
Investments		-	-
		835,919	114,067
Current assets			
Debtors		397,667	226,839
Cash at bank and in hand		4,119,248	8,644,345
		4,516,915	8,871,184
Creditors: Amounts falling due within one year		(891,074)	(1,079,796)
Net current assets		3,625,841	7,791,388
Total assets less current liabilities		4,461,760	7,905,455
Creditors: Amounts falling due in more			

than one year		(66,667)	(79,167)
Total net assets		4,395,093	7,826,288
Capital and reserves			
Called up share capital	8	376,074	375,654
Share premium account	9	10,113,881	10,113,881
Other reserve - merger	9	606,754	582,174
Other reserve - share-based payments	9	51,178	-
Profit and loss account	9	(6,752,794)	(3,245,421)
Equity shareholders' funds	10	4,395,093	7,826,288

Consolidated Cash Flow Statement
for the year ended 31 December 2006

	Notes	2006 £	2005 £
Net cash outflow from operating activities	11a	(3,917,875)	(1,307,510)
Returns on investments and servicing of finance	11b	284,912	(5,747)
Taxation		(65,783)	(25,012)
Capital expenditure	11b	(791,858)	(120,755)
Acquisitions	11b	(21,994)	(125,918)
Cash outflow before management of liquid resources and financing		(4,512,598)	(1,584,942)
Management of liquid resources		3,652,998	(7,567,974)
Financing	11b	(12,500)	10,224,927
(Decrease)/Increase in cash	11c, 11d	(872,100)	1,072,011

Notes to the Preliminary Results

1. Accounting policies

The financial information set out in this preliminary announcement does not constitute the Group's statutory accounts for the years ended 31 December 2006 or 2005, but is derived from those accounts. The preliminary statement was approved by the Board of Directors on 28 March 2007 and has been agreed for release with the auditors. Copies of the Group's audited statutory accounts for the year ended 31 December 2006 will be dispatched to shareholders and the AIM team shortly. Copies will also be available to the public at the Company's website www.ukplc.net.

The statutory accounts for the year ended 31 December 2005 have been delivered to the Registrar of Companies, and those for the year ended 31 December 2006 will be delivered to the Registrar of Companies following the Annual General Meeting. The auditors have reported on those accounts; their reports were unqualified and do not contain statements under Companies Act 1985 sections 237 (2) or (3).

The Financial Information is presented on the basis of the accounting policies contained in the Financial Statements for the year ended 31 December 2005 save as explained in the following paragraph.

Certain expenses, principally relating to 'pay per click' advertising are now classified within administrative expenses and not cost of sales as the directors believe that this gives a fairer presentation. The amount reclassified in the prior period is £289,616.

2. Exceptional item

The reorganisation costs in 2006 represent the costs incurred in reducing staff numbers following the review announced in November 2006. The exceptional item in 2005 represents the provision for impairment, in full, of the goodwill which arose on the acquisition of @Software PLC.

3. Interest payable and similar charges

	2006 £	2005 £
Bank interest	5,989	5,627
Other interest	-	3,922
	5,989	9,549

4. Segmental analysis

	2006 £	2005 £
Turnover by class of business		
Company formation services	1,223,130	1,081,607
Web and eCommerce services	939,850	372,466
	2,162,980	1,454,073

All turnover arose in the UK.

5. Taxation

	2006 £	2005 £
Tax charge for the year	-	-
Factors affecting tax charge for the year		
Loss on ordinary activities before taxation	(3,507,373)	(1,683,883)
Loss on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 30% (2005: 30%)	(1,052,211)	(505,165)
Effects of:		
Expenses not deductible for tax purposes	15,487	340,995
Share based payments	15,353	-
Capital allowances less than/(in excess) of depreciation	(55,201)	(10,845)
Carry forward of tax losses	1,076,572	175,015
	1,052,211	505,165
Current tax charge	-	-

The Group has estimated tax losses of £7,200,000 (2005: £3,664,000) available for carry forward against future trading profit. No deferred tax asset has been recognised in respect of the losses given the uncertainty regarding available future taxable profits.

6. Loss per share

The calculations for loss per share are based on the weighted average number of shares in issue during the year 37,593,941 (2005: 19,920,248) and the following losses:

	2006 £	2005 £
Unadjusted earnings:		
Loss on ordinary activities after tax	(3,507,373)	(1,683,883)
Add back:		
Exceptional reorganisation costs	219,962	-
Exceptional write-off of goodwill	-	798,408

Share-based payments	51,178	-
Adjusted earnings	(3,236,233)	(885,475)

The share options and warrants are non-dilutive as they would not increase the loss per share in the year.

The basic and diluted loss per share calculated on the adjusted earnings is 8.6p (2005: 4.4p).

7. Acquisition

On 28 April 2006 the Company acquired 100% of the issued share capital of Coding International Limited, a company incorporated in the United Kingdom, for an initial consideration of £50,000, satisfied as to £25,000 in cash and £25,000 by the issue of 42,015 ordinary 1p shares in the Company at 59.5p. Deferred consideration of up to £25,000 per year, to be satisfied by the issue of further shares in the Company, is payable dependant on Coding International's performance for the years ended 31 December 2006 and 2007. The amount in respect of 2006 has been earned in full. It is too early to know if any of the payment in respect of 2007 will be earned.

In accordance with Sections 131 and 133 of the Companies Act 1985, the Company has taken no account of any premium on the shares issued and has recorded the cost of the investment at the nominal value of the shares issued plus the fair value of the other consideration. The resulting difference on consolidation has been credited to other reserves.

The following table sets out the book values, which were also the fair values to the Group, of the identifiable assets and liabilities acquired:

	Fair value £
Tangible fixed assets	1,746
Trade debtors	17,182
Other debtors	4,323
Cash at bank and in hand	6,256
Trade creditors	(8,706)
Other creditors	(38,825)
Net liabilities	(18,024)
Goodwill	96,274
	78,250
Satisfied by:	
Cash, including costs of acquisition	28,250
Shares issued	25,000
Shares to be issued	25,000
	78,250

The goodwill is being amortised over its estimated economic useful life of five years.

In the period from 1 October 2005 (the start of its accounting period) to the date of acquisition Coding International Limited had turnover of £79,000, an operating profit of £4,000 and a profit before tax of £3,000. For the year ended 30 September 2005 the comparative figures were £148,331, loss of £225 and loss of £14 respectively.

8. Share capital

	2006 £	2005 £

Authorised: 250,000,000 (2005: 250,000,000) ordinary shares of 1p each	2,500,000	2,500,000
Allotted, issued and fully paid: 37,607,409 (2005: 37,565,394) ordinary shares of 1p each	376,074	375,654

During the year 42,015 ordinary shares were issued at 59.5p in connection with the acquisition of Coding International Limited (see note 7).

At 31 December 2006 options had been granted under the @UK PLC Share Option Scheme to subscribe for ordinary shares in the Company as follows:

Number of options under grant	Subscription price per share	Exercise period
750,000	45p	December 2008 to December 2015
489,677	63p	January 2009 to January 2016
225,501	61.5p	June 2009 to June 2016

The Company has granted to Shore Capital a warrant to subscribe for 375,654 ordinary shares at 60p per share. The warrant is exercisable, in whole or in part, at any time for a period up to 14 December 2008.

Share based payments

The Group has a share option scheme under which the Remuneration Committee can grant options over shares in the Company to employees of the Group. Options are granted with a fixed option price equal to the market price of the shares under option at the date of grant. The contractual life of an option is 10 years. There are no performance criteria or market conditions attached to the options. Options are valued using the Black Scholes option pricing model. The charge for the year arising from this valuation was £51,178 (2005: £Nil). The fair value of options granted and the assumptions used in the calculations are as follows:

Grant Date	8 December 2005	31 January 2006	30 June 2006
Share price at grant date	60p	63p	61.5p
Exercise price	45p	63p	61.5p
Number of employees	1	31	20
Shares originally under option	250,000	644,121	270,895
Vesting period (years)	3	3	3
Expected volatility	31%	31%	31%
Expected life (years)	4	4	4
Risk free rate	4.30%	4.30%	4.78%
Rate ceasing employment before vesting (annual)	0%	12.5%	35.0%
Fair value per option	£0.17	£0.15	£0.15

No dividends were assumed. The expected volatility is based on the historical volatility of the Company's shares to the extent information was available and of the shares of similar entities. In addition to the grant above on 8 December 2005, options over 500,000 shares were also granted to former directors of the Company on the same terms. As part of the terms of their compensation for loss of office they were allowed to retain those options. These were valued at the date on which the directors ceased to be employees and the value written off as it was in respect of past services.

9. Reserves

	Share premium £	Other reserve merger £	Other reserve share based payments £	Profit and Loss Account £
Group				
At 1 January 2006	10,113,881	582,174	-	(3,245,421)
Shares issued in the year	-	24,580	-	-

Share based payments	-	-	51,178	-
Retained loss for the year	-	-	-	(3,507,373)
At 31 December 2006	10,113,881	606,754	51,178	(6,752,794)

10. Reconciliation of movements in shareholders' funds

	2006 £	2005 £
Group		
Loss for the year	(3,507,373)	(1,683,883)
Shares issued in the year	25,000	11,154,920
Share based payment	51,178	-
Purchase of own shares	-	(1,111,624)
Gain on placing and purchase of own shares	-	194,132
Net (depletion)/addition to shareholders' funds	(3,431,195)	8,553,545
Opening shareholders' funds	7,826,288	(727,257)
Closing shareholders' funds	4,395,093	7,826,288

11. Notes to the cash flow statement

a. Reconciliation of operating loss to net cash outflow from operating activities

	2006 £	2005 £
Operating loss	(3,792,285)	(1,701,844)
Depreciation	155,190	17,252
Amortisation of goodwill	12,836	-
Write-off of goodwill	-	798,408
Share based payments	51,178	-
Increase in debtors	(149,323)	(376,312)
Decrease in creditors	(195,471)	(45,014)
	(3,917,875)	(1,307,510)

b. Analysis of cash flows

	2006 £	2005 £
Returns on investments and servicing of finance		
Interest received	290,901	9,802
Bank interest	(5,989)	(5,627)
Other interest	-	(9,922)
Net cash outflow for returns on investments and servicing of finance	284,912	(5,747)
Capital expenditure		
Purchase of tangible fixed assets	(791,858)	(120,755)
Net cash outflow for capital expenditure	(791,858)	(120,755)
Acquisitions		
Purchase of subsidiary undertaking	(28,250)	-
Cash/(Overdraft) in subsidiary acquired	6,256	(125,918)
Net cash outflow for acquisitions	(21,994)	(125,918)
Financing		
Loan repayments in year	(12,500)	(12,500)
Proceeds on issue of shares	-	10,237,427

Net cash inflow from financing	(12,500)	10,224,927

c. Analysis of changes in net funds/debt

	1 January 2006	Cash flows	Non-cash movement	31 December 2006
Net cash:				
Cash at bank and in hand	1,076,371	(872,100)	-	204,271
Money market deposits	7,567,974	(3,652,998)	-	3,914,976
Debt:				
Bank loan due within one year	(12,500)	12,500	(12,500)	(12,500)
Bank loan due after one year	(79,167)	-	12,500	(66,667)
	8,552,678	(4,512,598)	-	4,040,080

d. Reconciliation of net funds/debt

	2006 £	2005 £
(Decrease)/Increase in cash for the year	(872,100)	1,072,011
Cash outflow from management of liquid resources	(3,652,998)	7,567,974
Cash outflow from decrease in net debt	12,500	12,500
Change in net debt arising from cash flows	(4,512,598)	8,652,485
Net Funds/(Debt) at 1 January	8,552,678	(99,807)
Net Funds at 31 December	4,040,080	8,552,678

Coding International Limited, acquired in the year, contributed £15,545 to the Group's net operating cash flows, received £187 in respect of net returns on investment and servicing of finance and utilised £1,476 for capital expenditure.

END
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