

Company number 1435584

Ultima Networks plc

Annual Report and Financial Statements

31 December 2006

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5 Year Performance

	2006	2005	2004	2003	2002
Turnover £000	1,398	1,074	1,659	1,770	2,206
Pre-tax profit/ (loss) £000	548	(360)	313	185	165
Net assets/ (liabilities) £000	903	388	836	(789)	(935)
Net assets/ (liabilities) per share pence	0.44	0.19	0.41	(0.41)	(0.49)
Basic earnings/ (loss) per share pence	0.25	(0.20)	0.14	0.09	0.10
Dividends	-	-	-	-	-

Directors and Advisors

Humayun A Mughal	Chairman and Chief Executive Officer
Robert J Piper	Finance Director and Company Secretary
Peter J Barron	Non-Executive Director
Peter Y Thoms	Non-Executive Director

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Company number
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Chairman's Statement

The Group has achieved an operating profit of £225,000 (2005: loss £115,000) on increased Group sales of £1,398,000 (2005: £1,074,000). All of the Group's subsidiaries were profitable for the year.

The IT and Related Services division made an operating profit of £126,000 (2005: £148,000) on sales of £778,000 (2005: £639,000). Cognito Software, the provider of application software and services to the legal profession, was the major contributor to this division. The other company in this division is Integrated Publishing Systems.

The Other Products division contributed an operating profit of £99,000 (2005: £91,000) on sales of £620,000 (2005: £329,000). All of the sales in this division were generated by UTN Solutions (North), being mainly through the sales of its PowaCycle branded range of electric bicycles. The other company in this division is the holding company, which did not produce sales, but generated other operating income from renting its former freehold property in Bradford.

On 29 September 2006 the holding company completed the sale of its freehold property in Bradford to an unconnected third party for a cash sum of £4.2m. This sale generated a profit of £462,000, which has been disclosed as an exceptional item in the financial statements. The proceeds from the sale have been applied primarily in repaying the bank overdraft, the term loans to Lloyds TSB Bank plc and Akhter Group plc, which were all secured on the property, as well as repaying the outstanding unsecured 8% loan notes and accrued interest. The sale did not give rise to a charge to corporation tax.

The Group is now debt free and had cash at bank at the year end of £832,000 available for working capital purposes and to fund investment in the profitable expansion of the Group.

Pre-tax profit of the group, excluding exceptional items, was £86,000, being a significant improvement on last year's loss of £325,000. Pre-tax profit of the group, including exceptional items, was £548,000 (2005: loss £360,000).

The main objective of the Group for 2007 and beyond is to grow profitably by a mix of organic growth and through the acquisition of complementary businesses. It is intended to give particular focus to the IT and Related Services division to achieve this.

Humayun Akhter Mughal
Chairman and Chief Executive Officer
29 May 2007

2006 Financial Highlights

- Group turnover was £1,398,000 (2005: £1,074,000)
- Gross margin for the year was 73% compared with 70% in 2005
- Group selling and administration expenses were £985,000 (2005: £1,109,000)
- Profit on ordinary activities before taxation for the year was £548,000 (2005: loss £360,000)
- Earnings per share increased to 0.25p (2005: loss per share 0.20p)
- Net debt, comprising of bank overdraft, term loans to Lloyds TSB Bank plc and Akhter Group plc and unsecured 8% loan notes, was repaid during the year (2005: £3,248,000)
- Cash at bank at the year end £832,000 (2005: bank overdraft £184,000)
- Consolidated balance sheet has increased net assets of £903,000 (2005: £388,000)
- Continuing operations remain profitable with operating profits of £225,000 (2005: £239,000)

Report of the Directors

The Directors present their annual report and audited financial statements for the year ended 31 December 2006.

BUSINESS REVIEW AND PRINCIPAL ACTIVITIES

The principal activities of the Group during the year were the development, marketing and support of professional application software, wholesale and retail merchanting, the provision of computer networking products and property rentals.

There have not been any significant changes in the Group's principal activities in the year under review and the Directors are not aware at the date of this report of any likely major changes in the Group's activities in the next year, apart from the curtailment of property rentals due to the sale of the Company's freehold property in Bradford on 29 September 2006. The UK market remains the principal area of operation for the Group.

The Group achieved an operating profit of £225,000 (2005: loss £115,000) on turnover of £1,398,000 (2005: £1,074,000), with all of the Group's subsidiaries being profitable for the year.

The Group's operations are managed in two divisions, being the IT and Related Services division and the Other Products division. The IT and Related Services division comprises Cognito Software Limited and Integrated Publishing Systems Limited who are involved in Legal and Publishing application software respectively. This division had sales revenues of £778,000 (2005: £639,000) producing operating profits of £126,000 (2005: £148,000). The Other Products division comprises Ultima Networks plc and UTN Solutions (North) Limited who are involved in Property rentals and Electric bicycles, energy saving lamps and educational electronic kits respectively. This division had sales revenues of £620,000 (2005: £329,000) producing operating profits of £99,000 (2005: £91,000).

In the IT and Related Services division, Cognito Software, the provider of application software and services to the legal profession, was the major contributor. Sales were lower than expected due to delays in new product releases, which hampered the generation of new business. However, customer service and support remained strong and contributed positively to the stability of the existing customer base.

The Products division experienced strong growth with sales up by 88% to £620,000, the major increase being the sales of the PowaCycle branded range of electric bicycles. Profits only increased marginally to £99,000 due to the relatively high marketing costs incurred, but necessary to generate market awareness, including the Internet, and establish a dealer base in the UK.

As mentioned above, the Company disposed of its freehold property in Bradford to an unconnected third party for a cash sum of £4,200,000. This sale generated a profit of £462,000, which has been disclosed as an exceptional item and detailed in Note 6a. The proceeds from the sale have been applied primarily in repaying the bank overdraft, the term loans to Lloyds TSB Bank plc and Akhter Group plc, which were all secured on the property, as well as repaying the outstanding unsecured 8% loan notes and accrued interest. The sale did not give rise to a charge to corporation tax.

The Group balance sheet is now debt free and shows an increase in net assets to £903,000 (2005: £388,000). The year end cash balance was £832,000 and is available for working capital purposes and to fund investment in the expansion of the Group.

RESULTS AND DIVIDENDS

The Group profit for the year before taxation amounted to £548,000 (2005: loss of £360,000). There is a taxation charge for the year of £33,000 (2005: charge of £40,000). The profit on ordinary activities after taxation was £515,000 (2005: loss £400,000). These profits for the year include the exceptional item, being the profit on the sale of the freehold property in Bradford of £462,000.

The Directors do not recommend the payment of a dividend for 2006. No dividends were paid or proposed to be paid in 2005.

Report of the Directors *continued*

KEY PERFORMANCE INDICATORS

The aim of the Group is to increase shareholder value through growth in sales revenues and operating profitability. Therefore, these are the two key performance indicators used by the directors to measure performance and are reported in the table below.

Key performance indicator	Target £000	2006 £000	2005 £000
Turnover	1,389	1,398	1,074
Operating profit / (loss)	335	225	(115)

The target operating profit included a full years rent of £240,000 from the Company's freehold property in Bradford, but the property was sold on 29 September 2006 and so only three quarters of rental income was received. Also, the target operating profit did not include the £50,000 charge from Akhter Group plc for the services of the two executive directors, as disclosed in Note 26 to the financial statements. The turnover for 2006 increased by 30% over 2005.

PRINCIPLE RISKS AND UNCERTAINTIES FACING THE GROUP

The IT and related services division operates as very small players in very crowded and competitive market sectors. Many of the customers are small businesses that are relatively slow to change and update their business systems, but are also, and more positively, reluctant to change their supplier. Consolidation is occurring in the legal sector, both among suppliers and users, effectively reducing the number of new business opportunities. Against this backdrop the Group has recognised the need to offer excellent levels of customer service and support to maintain the existing customer base, which it has successfully achieved and which must be maintained. Additional features and functionality for the existing software products will have to be developed and released in a timely manner to ensure the existing products remain competitive and embrace the latest legislative changes. In addition the products will have to integrate easily with leading industry office software such as Microsoft and this may involve significant development work. The Group is aware of the changes required and is in the process of putting additional staff resources in place. Also, complementary acquisitions are being sought to increase sales revenues and to grow the customer base.

The Products division has continued to seek niche market opportunities with a marketing led strategy for sales generation and making full use of the Internet. Several product market trials have been made to fully understand the extent of the potential opportunities and currently the Group is concentrating on educational electronic kits, energy saving lamps and electric bicycles. The electronic kits and lamps markets are increasingly crowded and have several large competitors, but the Group believes it can continue to grow its business by being extremely cost competitive by building strong relationships with suppliers based in China. The PowaCycle range of electric bicycles have enjoyed early success by offering a very cost and performance competitive product range. This will have to be maintained if the early growth is to continue. The Group has plans to add value by developing new product features and be one of the first to market with the latest technology. Critical to success is the recruitment of a network of established dealers to ensure wide availability of the division's products.

ENVIRONMENT

The Group complies with all legal requirements relating to the environment in all areas of its operations and therefore, has not incurred any fines or penalties or been investigated for any breach of environmental regulations. Specifically, the requirements of the EC Directive on Waste Electrical and Electronic Equipment (WEEE) have been implemented resulting in UTN Solutions (North) Limited being registered with the appropriate WEEE compliance schemes to deal with the taking back and disposal of used equipment. This subsidiary company has also implemented the requirements of the EC Directive on the Restriction of the use of Certain Hazardous Substances in Electrical and Electronic Equipment (RoHS). Compliance with RoHS is based on a self-declaration and involves requesting material declarations from suppliers, the selected analysis of products and holding a technical file on each product purchased for a minimum of four years.

Report of the Directors *continued*

RESEARCH AND DEVELOPMENT

The Group invests in the development of its application software products for the legal profession to ensure they are continually updated with improved functionality and are fully compliant with current legislation and practices. All such expenditure is charged to the profit and loss account as it is incurred. The Group also invests in the ongoing design and development of its new PowaCycle branded range of electric bicycles. Development design costs have been estimated by the Directors to have a useful economic life of 3 years and are therefore capitalised and charged to the profit and loss account in equal instalments over this period.

SUBSTANTIAL INTERESTS

At the date of this report the following parties had notified the Company of a beneficial interest that represents 3% or more of the Company's issued ordinary share capital at that date:

	No. of shares	% held
Akhter Group plc and related parties	100,075,176	48.9%

No nominee shareholder held 10% or more of the Company's issued share capital on 29 May 2007.

DIRECTORS AND DIRECTORS' INTERESTS

The Directors who served during the year are listed on page 2.

The emoluments, share interests and share options of the Directors are disclosed in the Remuneration Report on pages 12 to 13.

EXECUTIVE DIRECTORS

Mr H.A. Mughal, aged 53, is the co-founder of Akhter Group plc and is its majority shareholder. He graduated in electronics from Liverpool University. Mr Mughal originally worked as a research engineer for ITT Components Group Limited prior to setting up Akhter Instruments Limited in 1979 and he continues to be responsible for the overall control and direction of Akhter's business. He was appointed in November 1998.

Mr R.J. Piper, aged 49, was appointed as Finance Director in October 2004. He previously held the role of Financial Controller with the Company and he also acts as Company Secretary. He is a fellow of the Association of Chartered Certified Accountants and is also Finance Director of Akhter Computers plc.

NON-EXECUTIVE DIRECTORS

Mr P.J. Barron, aged 64, has extensive operations experience in the electronics industry, notably with Texas Instruments Inc in the USA and with Systime Computers Limited and Chase Advanced Technologies Limited in the UK. He was appointed in May 1992, is Chairman of the remuneration committee and a member of the audit committee.

Mr P.Y. Thoms, aged 61, a Chartered Accountant, is Chief Operating Officer and Finance Director of NXT plc. From 1989 to 1992 he was Finance Director of Amstrad plc, prior to which he spent 15 years with the Gillette Company in Canada and Europe. He was appointed in April 2002, is Chairman of the audit committee and a member of the remuneration committee.

PENSIONS

During the year the Group contributed to the personal pension schemes (defined contribution) of certain employees. No contributions were paid in respect of the Directors.

EMPLOYEES

It is Group policy that employees should be kept as fully informed as is feasible and practicable about the activities of the Group through consultative meetings. In addition, managers hold regular meetings with representatives of their staff in order to encourage employees to make their views known on matters that affect them.

Report of the Directors *continued*

SHARE OPTION SCHEMES

Microvitec 1994 Inland Revenue Approved Executive Share Option Scheme

During the year ended 31 December 2006 the Company granted no options in respect of the Microvitec 1994 Inland Revenue Approved Executive Share Option Scheme and no options lapsed. There were no options exercised during the year. On 31 December 2006 options were outstanding on 100,000 ordinary shares of 1p (2005: 100,000).

Ultima Networks plc 2004 Share Option Scheme

This scheme was approved by the AGM held on 28 May 2004. No options to subscribe for ordinary shares of 1p each have been granted to date.

CHARITABLE AND POLITICAL CONTRIBUTIONS

Donations to UK charitable organisations by the Group amounted to £nil (2005: £nil). There were no political donations.

FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES

The Group's financial instruments comprise cash and various items, such as trade debtors and creditors that arise directly from its operations. The Group's exposures to its financial instruments are not material and therefore derivative financial instruments are not used to manage them.

The main risks arising from the Group's financial instruments can be analysed as follows:

Credit risk

The Group's credit risk is primarily attributable to its trade debtors. Exposures to credit risk are minimised by employing effective credit management policies and procedures. Only customers known to the Group are granted credit terms. Annual software licences are payable in advance and require a uniquely numbered "valid licence key" to operate.

Price risk

The Group does not hold any listed security investments and therefore has no exposure to securities price risk.

Foreign currency risk

The Group is exposed to transaction foreign currency exchange risk in respect of purchases from suppliers. However, transactions in foreign currencies are considered by the Directors to not be material and therefore only minimal currency risk exists. The only foreign currencies operated in are the Euro and the US dollar. The Group does not hold any cash balances in these currencies.

Liquidity risk

The Group has sufficient cash resources available to meet its short-term liabilities.

Cash flow interest rate risk

The Group has no borrowings and on cash balances and bank deposits receives variable rate interest based on UK bank base rates.

PAYMENTS TO CREDITORS

The Group does not follow any code or standard on payment practice as the terms and conditions for its business transactions are agreed with individual suppliers. Payment is then made in accordance with those terms, subject to

the other terms and conditions being met by the supplier. Creditor days at the end of the year for the Company were 30 days (2005: 30 days).

ANNUAL GENERAL MEETING

The Annual General Meeting of the company is to be held at Akhter House, Perry Road, Harlow, Essex CM18 7PN on 24 July 2007 at 12 noon. An explanation of the resolutions to be proposed as special business at that Meeting appears in the Notice of Annual General Meeting provided with this Annual Report.

Peter Thoms, a non-executive Director of the Company, retires by rotation and is not seeking re-election. There is no proposal to appoint a replacement at this time.

Report of the Directors *continued*

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR 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 the group and of the profit or loss of the group for that period. In preparing these 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 United Kingdom 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.

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

The directors are responsible for the maintenance and integrity of the corporate and financial information on the group's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

DISCLOSURE OF INFORMATION TO AUDITORS

At the date of making this report each of the Company's directors, as set out on page 2, confirm the following:

- so far as each director is aware, there is no relevant information needed by the Company's auditors in connection with preparing their report of which the Company's auditors are unaware, and
- each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant information needed by the Company's auditors in connection with preparing their report and to establish that the Company's auditors are aware of that information.

AUDITORS

The auditors, RSM Robson Rhodes LLP, are willing to continue in office, and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

APPROVAL

The report of the Directors was approved by the Board on 29 May 2007 and signed on its behalf by:

Humayun Akhter Mughal
Chairman and Chief Executive Officer

Corporate Governance

As a Company listed on the Alternative Investment Market of the London Stock Exchange plc, the Company is not required to comply with the provisions of the 2006 Financial Reporting Council's revised Combined Code. However, the Board is committed to ensuring that proper standards of corporate governance operate throughout the Group and has therefore followed the principles of the Code so far as is practicable and appropriate to the nature and size of the Group. A statement of the directors' responsibilities in respect of the financial statements is contained within the Report of the Directors above. The statement below describes the role of the Board and its committees, followed by a statement regarding the Group's system of internal controls.

THE BOARD

The activities of the Group are ultimately controlled by the Board of Directors, which at the year-end consisted of a Chairman and Chief Executive Officer, a Finance Director and two non-executive Directors. Biographical details of all four Directors are to be found within the Report of the Directors above. All Directors are equally accountable under law for the proper stewardship of the Company's affairs. The non-executive Directors have a particular responsibility to ensure that the strategies proposed by the Executive Directors are fully discussed and critically examined.

The non-executive directors are Peter Barron (the senior non-executive director) and Peter Thoms and the Board considers both to be independent.

The Board meets on a regular basis throughout the year reviewing trading performance, setting strategy, examining capital expenditure and acquisitions or disposals, operating budgets and material contracts.

The two Executive Directors do not have service contracts and do not receive any emoluments directly from the Company. Any director appointed during the year is required, under the Company's Articles of Association, to retire and seek re-election by the shareholders at the next Annual General Meeting and one third of the Board is required to retire each year and seek re-election. The Directors are able to take independent professional advice at the expense of the Company in the furtherance of their duties.

Peter Thoms, non-executive Director, retires by rotation at the next AGM and is not seeking re-election. There is no proposal to appoint a replacement at this time and therefore, only one non-executive director will be serving on the Board.

NOMINATIONS COMMITTEE

The appointment of Directors is a matter for the Board as a whole and therefore a nominations committee is considered unnecessary given the present number of Board members.

AUDIT COMMITTEE

The Audit Committee comprises both non-executive Directors and is chaired by Peter Thoms. This committee assists the Board in its duties regarding the Group's financial statements and the maintenance of adequate internal financial controls. The Audit Committee's prime tasks are to receive reports from the Company's auditors, RSM Robson Rhodes LLP, and to review the half-yearly and annual accounts before they are presented to the Board, focusing in particular on accounting policies and compliance and areas of management judgements and estimates.

There is no internal audit function for the Group, as the Board does not believe that this is appropriate given the size of the business.

REMUNERATION COMMITTEE

The Remuneration Committee comprises both non-executive Directors and is chaired by Peter J Barron. Details of the executive remuneration policy are set out in the separate Remuneration Report.

SHAREHOLDER RELATIONS

The Board has a policy of providing any reasonably requested historical information and explanations to shareholders on request. The Group's Interim and Annual Reports are sent to all shareholders. These reports are also available from the Company's website along with all public announcements. All shareholders are encouraged to participate in the Company's Annual General Meeting, which is attended by the Directors.

Corporate Governance *continued*

INTERNAL CONTROL AND FINANCIAL REPORTING

The Board is responsible for ensuring that there is a system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The Audit Committee has been delegated responsibility by the Board for discharging its internal control review responsibilities.

The Board has established an organisational structure with clearly defined levels of responsibility and delegation of authority. Control procedures include annual budget approval and monitoring of actual performance. The Board approves all investment and acquisition projects for all major acquisitions and major capital expenditure.

The Board has a clear responsibility for identifying risks facing each of the businesses and for putting in place procedures to mitigate and monitor risks. As part of the annual budgeting process risks are formally assessed by the Board.

There is a system of financial reporting and budget planning. On a monthly basis, actual results are reported and compared to budget with any significant adverse variances being examined and any remedial action taken as necessary.

The Directors believe that, taken as a whole, the systems of internal control are appropriate to the business for the year ended 31 December 2006.

GOING CONCERN

Having reviewed the future plans and projections for the business, the Directors are satisfied that the Group has adequate resources to continue to operate for the foreseeable future, a period of not less than twelve months from the date of this report. Also, the Directors have received a letter of support from Akhter Group plc confirming their intention to continue to provide the staff services, other services and facilities, as disclosed in Note 26, for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the financial statements.

Directors' Remuneration Report

The Directors present the Directors' Remuneration Report for the financial year ended 31 December 2006. It should be noted that, as a Company listed on the Alternative Investment Market of the London Stock Exchange plc, the Company is not required to comply with the Remuneration Report regulations and therefore, not all elements of the regulations have been complied with. For example, a share price graph has been omitted.

Remuneration Committee

The Remuneration Committee consists wholly of non-executive directors. Peter Barron and Peter Thoms, both non-executive directors, served as members of the Remuneration Committee throughout the year and in the period to 29 May 2007. Peter Thoms retires by rotation at the next AGM and is not seeking re-election. There is no proposal to appoint a replacement at this time.

The Remuneration Committee determines any remuneration and benefits packages of the executive directors and considers any service contracts, salaries, other benefits, including bonuses and participation in the Company's share option plans, and any other terms and conditions of employment including any compensation payments on termination of office.

Remuneration Policy

Any basic salaries and benefits in kind are set to be comparable with those of peer group companies. Any share options are granted to strengthen the link between personal interests and those of the shareholders. A scheme was approved by the AGM held on 28 May 2004, being the Ultima Networks plc 2004 Share Option Scheme, but no options to subscribe for ordinary shares of 1p each have been granted to date. No director has any options outstanding under the 1994 Microvitec Inland Revenue Approved Executive Share Option Scheme.

Non-executive directors

The non-executive directors do not have contracts for services. The non-executive directors have letters of appointment concerning, amongst other things, the initial terms for which they are appointed, a general statement of their role and duties, the fees they will receive as a director and the supplementary fees receivable for additional work, such as being a member of more than one Board committee. The fees of non-executive directors are determined by the full Board within the limits set out in the Memorandum and Articles of Association.

Service Contracts and Letters of Appointment

The Company does not have service contracts in respect of the Executive Directors. The letters of appointment in respect of the non-executive directors who served during the year ended 31 December 2006 are for a rolling 12 month period. The letters of appointment do not contain notice periods or provision for termination payments.

Directors' remuneration payable for the year to 31 December 2006 was as follows:

	Basic Salary £000	Fees £000	Benefits in kind £000	2006 Total £000	2005 Total £000	Pension contributions 2006 £000	Pension contributions 2005 £000
Executive							
H.A. Mughal	-	-	-	-	-	-	-
R.J. Piper	-	-	-	-	-	-	-
Non-Executive							
P.J. Barron	-	12	-	12	12	-	-
P.Y. Thoms	-	12	-	12	12	-	-
	<u>-</u>	<u>24</u>	<u>-</u>	<u>24</u>	<u>24</u>	<u>-</u>	<u>-</u>
	<u><u>-</u></u>	<u><u>24</u></u>	<u><u>-</u></u>	<u><u>24</u></u>	<u><u>24</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

H.A. Mughal is a director of Akhter Group plc. No remuneration is paid directly by the Company for the services of the two Executive Directors. However, a charge to the Company from Akhter Group plc of £50,000 (2005: £nil) for executive management services, disclosed in Note 26 of the financial statements, is for the services of the Company's finance director and Akhter's marketing director. There is currently no pension provision for any of the directors and therefore no pension is accrued to them.

Directors' Remuneration Report *continued*

The beneficial interests in the share capital of the Company of those persons, who were Directors at the year end, as recorded in the register of Director's interests, were as follows:

	31 December 2006		31 December 2005	
	Ordinary shares of 1p	Ordinary share options	Ordinary shares of 1p	Ordinary share options
H.A. Mughal*	100,075,176	-	100,075,176	-
R.J. Piper	-	-	-	-
P.J. Barron	-	-	-	-
P.Y. Thoms	-	-	-	-

*Mr H.A. Mughal's holding includes 54,055,336 Ordinary Shares beneficially owned by Akhter Group plc, of which he is the majority shareholder and 6,013,360 Ordinary Shares beneficially owned by the trustees of the Akhter Group plc Directors' SSAS Pension Fund, under which he is a beneficiary.

At 31 December 2006 no options were outstanding over shares granted to directors. No director was granted or exercised any share options during this or the previous year nor did any lapse.

No director has any interest in the shares of any subsidiary of Ultima Networks plc.

There have been no changes in the above interests between 31 December 2006 and 29 May 2007.

Beneficial holdings include the director's personal holdings and those of their spouse and children as well as holdings in family trusts of which the Director's spouse or their children are beneficiaries or potential beneficiaries.

The market price at 31 December 2006 was 0.88p and the range during the year was 0.75p to 1.63p.

Approval

The Directors' Remuneration Report was approved by the Board on 29 May 2007 and signed on its behalf by:

Peter Barron
Chairman, Remuneration Committee

Independent Auditors' Report to the Shareholders of Ultima Networks plc

We have audited the financial statements on pages 15 to 35. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's shareholders, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

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).

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. The other information comprises only the Directors' Report, the Chairman's Statement and the Corporate Governance statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and 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 the 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 affairs of the group and parent company as at 31 December 2006 and of the profit of the group 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.

RSM Robson Rhodes LLP

Chartered Accountants and Registered Auditors

Cambridge, England
29 May 2007

Consolidated profit and loss account
for the year ended 31 December 2006

	Note	2006 £000	2005 £000
Turnover			
Continuing operations		1,398	968
Discontinued operations		-	106
		<hr/>	<hr/>
	2	1,398	1,074
Cost of sales			
Continuing operations		(372)	(238)
Discontinued operations		-	(89)
		<hr/>	<hr/>
		(372)	(327)
Gross profit			
Continuing operations		1,026	730
Discontinued operations		-	17
		<hr/>	<hr/>
		1,026	747
Selling and administration expenses			
Continuing operations		(985)	(738)
Discontinued operations		-	(371)
		<hr/>	<hr/>
		(985)	(1,109)
Other operating income			
Continuing operations	5	184	247
		<hr/>	<hr/>
Operating profit/ (loss)			
Continuing operations		225	239
Discontinued operations		-	(354)
		<hr/>	<hr/>
	4	225	(115)
Exceptional item - disposal of freehold property	6a	462	-
Exceptional item - discontinued operations	6b	-	(35)
		<hr/>	<hr/>
Profit/ (loss) on ordinary activities before interest and taxation		687	(150)
Net interest payable and similar charges	3	(139)	(210)
		<hr/>	<hr/>
Profit/ (loss) on ordinary activities before taxation		548	(360)
Taxation	8	(33)	(40)
		<hr/>	<hr/>
Retained profit/ (loss) for the financial year	19	515	(400)
		<hr/> <hr/>	<hr/> <hr/>
Basic and diluted earnings/ (loss) per share – pence	9		
Continuing operations		0.25	(0.01)
Discontinued operations		-	(0.19)
		<hr/> <hr/>	<hr/> <hr/>

The notes on pages 20 to 35 form part of these financial statements.

Consolidated statement of total recognised gains and losses
for the year ended 31 December 2006

	2006 £000	2005 £000
Retained profit/ (loss) for the financial year	515	(400)
Currency translation differences on foreign investment	-	(10)
	<hr/>	<hr/>
Total recognised gains and (losses) relating to the financial year	515	(410)
	<hr/> <hr/>	<hr/> <hr/>

Reconciliation of movement in equity shareholders' funds
for the year ended 31 December 2006

	Group		Company	
	2006 £000	2005 £000	2006 £000	2005 £000
Retained profit/ (loss) for the financial year	515	(400)	226	(2,372)
Issue of ordinary share capital	-	7	-	7
Currency translation differences on foreign currency	-	(10)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Net increase/ (decrease) to equity shareholders' funds	515	(403)	226	(2,365)
Opening equity shareholders' funds	388	791	381	2,746
	<hr/>	<hr/>	<hr/>	<hr/>
Closing equity shareholders' funds	903	388	607	381
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Consolidated balance sheet
at 31 December 2006

	Note	2006 £000	2005 £000	£000
Fixed assets				
Tangible assets	10a		127	3,907
Intangible assets	10b		7	-
			<u>134</u>	<u>3,907</u>
Current assets				
Stocks	12	208	114	
Debtors	13	238	232	
Cash at bank and in hand		832	4	
		<u>1,278</u>	<u>350</u>	
Creditors: amounts falling due within one year	14	<u>(509)</u>	<u>(1,674)</u>	
Net current assets/ (liabilities)			<u>769</u>	<u>(1,324)</u>
Total assets less current liabilities			<u>903</u>	<u>2,583</u>
Creditors: amounts falling due after more than one Year	15a		-	<u>(2,195)</u>
Net assets			<u>903</u>	<u>388</u>
Capital and reserves				
Called up share capital	18	7,554		7,554
Share premium account	19	5,602		5,602
Revaluation reserve	19	-		2,071
Other reserves	19	1,334		1,334
Profit and loss account	19	(13,587)		(16,173)
Equity shareholders' funds			<u>903</u>	<u>388</u>

These financial statements were approved by the board of directors on 29 May 2007 and were signed on its behalf by:

Humayun Akhter Mughal
Chairman and Chief Executive Officer

Company balance sheet
at 31 December 2006

	Note	2006 £000	2005 £000	2005 £000	£000
Fixed assets					
Tangible assets	10a		112		3,902
Investments	11		513		613
			<hr/>		<hr/>
			625		4,515
Current assets					
Stocks	12	-	-		
Debtors	13	43	39		
Cash		827	-		
		<hr/>	<hr/>		
Creditors: amounts falling due within one year	14	870 (888)	39 (1,978)		
		<hr/>	<hr/>		
Net current liabilities			(18)		(1,939)
			<hr/>		<hr/>
Total assets less current liabilities			607		2,576
Creditors: amounts falling due after more than one year	15a		-		(2,195)
			<hr/>		<hr/>
Net assets			607		381
			<hr/> <hr/>		<hr/> <hr/>
Capital and reserves					
Called up share capital	18		7,554		7,554
Share premium account	19		5,602		5,602
Revaluation reserve	19		-		2,071
Other reserves	19		5,618		5,618
Profit and loss account	19		(18,167)		(20,464)
			<hr/>		<hr/>
Equity shareholders' funds			607		381
			<hr/> <hr/>		<hr/> <hr/>

These financial statements were approved by the board of directors on 29 May 2007 and were signed on its behalf by:

Humayun Akhter Mughal
Chairman and Chief Executive Officer

Consolidated cash flow statement
for the year ended 31 December 2006

	Note	2006 £000	2005 £000
Cash inflow from operating activities	23	159	56
Returns on investments and servicing of finance	24	(215)	(169)
Taxation		-	-
Acquisitions	24	-	(45)
Capital expenditure and financial investment	24	4,136	(8)
		<hr/>	<hr/>
Cash inflow/ (outflow) before management of liquid resources and financing		4,080	(166)
Financing	24	(3,068)	(251)
		<hr/>	<hr/>
Increase/ (decrease) in cash in the year		<u>1,012</u>	<u>(417)</u>

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

	£000	£000
Increase/ (decrease) in cash in the year	1,012	(417)
Cash outflow from decrease in debt and lease financing	3,068	258
	<hr/>	<hr/>
Decrease/ (increase) in net debt from cashflows	4,080	(159)
	<hr/>	<hr/>
Movement in net debt in the year	4,080	(159)
Net debt at the start of the year	(3,248)	(3,089)
	<hr/>	<hr/>
Net funds/ (debt) at the end of the year	25 <u>832</u>	<u>(3,248)</u>

Notes (forming part of the financial statements)

1 ACCOUNTING POLICIES

Basis of preparation:

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards. The Group has adopted FRS 20 (share based payments), but this has had no impact on these financial statements.

Basis of consolidation:

The consolidated financial statements incorporate the results of Ultima Networks plc and its subsidiary undertakings (together referred to as the 'Group') for the year ended 31 December 2006. A subsidiary is an entity over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than 50% of the voting rights. The results of each subsidiary are included from the date that control transferred to the Group and are adjusted to align accounting policies with the Group's accounting policies. Subsidiaries are no longer consolidated from the date that control ceases. All intercompany balances and transactions are eliminated in full.

Share options:

When shares and share options are granted to employees a charge is made to the profit and loss account and a reserve created in capital and reserves to record the fair value of the awards at the date of grant in accordance with FRS 20 (share based payments). This charge is spread over the vesting period. When shares and share options are granted to employees of subsidiary companies, the fair value of the awards is treated as a capital contribution and spread over the period of performance relating to the grant. The corresponding entry is made in reserves.

Goodwill:

Goodwill on acquisitions comprises the excess of the fair value of the purchase consideration over the fair value of identifiable assets and liabilities acquired. Goodwill arising on acquisitions after 1 January 1999 is recognised within fixed assets in the year of acquisition. Amortisation is calculated on a straight-line basis so as to write off the goodwill over the Director's estimate of its useful economic life of 10 years.

Goodwill arising on acquisitions prior to 1 January 1999 has been set off against reserves in the year of acquisition as a matter of accounting policy. On disposal of a previously acquired subsidiary undertaking any attributable goodwill previously set off against reserves is written back to reserves brought forward and charged through the profit and loss account.

Turnover and income recognition:

Turnover consists of the invoiced value (excluding VAT) for goods and services supplied to third parties. Turnover from the sale of software product licenses is recognised at the time the software licence is granted. Turnover relating to hardware and software support is recognised proportionally over the period to which it relates.

Depreciation:

All land and buildings are included at valuation. Valuations are kept up-to-date through periodic valuations carried out by external valuers. Depreciation is provided evenly on the cost (or valuation where appropriate) of tangible fixed assets, to write them down to their estimated residual values over their expected useful lives. Where there is evidence of impairment, fixed assets are written down to recoverable amount. No depreciation is provided on freehold land. The principal annual rates used for other assets are:

Freehold buildings	- 25 to 50 years
Short leasehold property	- over the period of the lease
Plant, machinery and fixtures	- 3 to 5 years

Development costs and amortisation:

Development costs are design costs relating to the production of new or substantially improved devices and products for the Groups new 'PowaCycle' range of electric bicycles. These development costs are being capitalised and amortised over a period of three years since most of the benefit of the expenditure is expected to fall into this period.

Research and development:

All research and development expenditure, with the exception of development design costs, is written off in the year in which it is incurred.

Stocks:

Stocks are valued at the lower of cost and net realisable value. Cost of raw materials, consumables and goods purchased for resale means actual purchase price, including transport and handling and is determined using the FIFO method. Net realisable value means estimated net selling price less further costs to completion.

Foreign currencies:

The Group does not carry investments, assets or liabilities denominated in foreign currencies. Transactions in foreign currencies are converted at the rate ruling at the date of each transaction or at rates specified in related derivative instruments. Exchange differences are included in the profit and loss account where they relate to trading transactions.

Notes continued

1 ACCOUNTING POLICIES continued

Deferred taxation:

Deferred tax is provided, except as noted below, on timing differences that have arisen but not reversed by the balance sheet date, where the timing differences result in an obligation to pay more tax, or a right to pay less tax, in the future. Timing differences arise because of differences between the treatment of certain items for accounting and taxation purposes.

In accordance with FRS 19 deferred tax is not provided on timing differences arising from:

- a) revaluation gains on land and buildings, unless there is a binding agreement to sell them at the balance sheet date;
- b) gains on the sale of non-monetary assets, where on the basis of all available evidence it is more likely than not that the taxable gain will be rolled over into replacement assets;
- c) extra tax payable on the unremitted earnings of the overseas subsidiaries and associates where there is no commitment to remit these earnings; and
- d) fair value adjustment gains to fixed assets and stock to uplift prices to those ruling when an acquisition is made.

Deferred tax assets are recognised to the extent that it is regarded, as more likely than not that they will be recovered.

Deferred tax is measured at the tax rates that are expected to apply in the periods when the timing differences are expected to reverse, based on tax rates and law enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted. Where law or accounting standards require gains and losses to be recognised in the statement of total recognised gains and losses, the related taxation is also taken directly to the statement of total recognised gains and losses in due course.

Leased assets:

The Group does not have any assets acquired under finance leases or similar agreements. The rental costs of all other leased assets are charged to the profit and loss account on a straight-line basis over the period of the leases.

Lessors:

Assets held for rental purposes are included in the balance sheet and are depreciated in accordance with the accounting policies. The invoice value (excluding VAT) of rental income receivable from third parties under operating leases is credited to the profit and loss account over the period to which it relates.

Pensions:

The Group does not operate any pension schemes, but does contribute to the personal pension schemes (defined contribution) of certain employees.

Investments:

Investments are stated at cost less provision for impairment where necessary to reduce book value to the estimated recoverable amount.

Notes continued

2 SEGMENTAL REPORTING

Turnover represents sales of products and services to customers outside the Group excluding value added tax or equivalent sales tax. The analysis of turnover by geographical destination and division is as follows:

	2006	2005
	£000	£000
TURNOVER		
United Kingdom – continuing operations	1,398	968
United Kingdom – discontinued operations	-	99
	<hr/>	<hr/>
North America – discontinued operations	1,398	1,067
	-	7
	<hr/>	<hr/>
Total	1,398	1,074
	<hr/> <hr/>	<hr/> <hr/>
TURNOVER		
IT and related services - continuing operations	778	639
IT and related services - discontinued operations	-	106
	<hr/>	<hr/>
Other products - continuing operations	778	745
	620	329
	<hr/>	<hr/>
Total	1,398	1,074
	<hr/> <hr/>	<hr/> <hr/>
	2006	2006
	£000	£000
PROFIT/ (LOSS) ON ORDINARY ACTIVITIES BEFORE INTEREST AND EXCEPTIONAL ITEMS		
IT and related services - continuing operations	126	148
IT and related services - discontinued operations	-	(354)
	<hr/>	<hr/>
Other products - continuing operations	126	(206)
	99	91
	<hr/>	<hr/>
Total	225	(115)
	<hr/> <hr/>	<hr/> <hr/>

Non-interest bearing net assets/ (liabilities) of the Group analysed by Division are as follows:

	2006	2005
	£000	£000
IT and related services	556	461
Other products	(485)	3,785
	<hr/>	<hr/>
Total	71	4,246
Interest bearing net assets/ (liabilities)	832	(3,858)
	<hr/>	<hr/>
Total Group net assets as per consolidated balance sheet	903	388
	<hr/> <hr/>	<hr/> <hr/>

Notes continued

3 NET INTEREST PAYABLE AND SIMILAR CHARGES

	2006 £000	2005 £000
Interest payable on bank loans and overdrafts	84	117
Interest payable on other loans (Akhter Group plc)	35	52
Interest payable on unsecured 8% loan notes	31	41
Bank interest receivable	(11)	-
	<u>139</u>	<u>210</u>

4 OPERATING PROFIT/ (LOSS)

	2006 £000	2005 £000
Operating profit/ (loss) is stated after charging:		
Depreciation and other amounts written off tangible fixed assets	96	150
Amortisation of intangible development costs	2	-
Research and development expenditure	89	50
Loss on disposal of fixed assets	-	31
Operating leases – rent of buildings	34	29
Auditors' remuneration:		
- fees payable to the Company's auditors for the audit of the financial statements (Company £14,000, (2005 - £15,000))	14	15
- non-audit services (accountants' report)	-	7
	<u>139</u>	<u>210</u>

Note: audit fees for all Group companies are borne by the Company for the current and prior year.

5 OTHER OPERATING INCOME

	2006 £000	2005 £000
Rent receivable from freehold property	180	247
Royalty receivable from sale of subsidiary	4	-
	<u>184</u>	<u>247</u>

6a EXCEPTIONAL ITEM – Disposal of freehold property

	2006 £000	2005 £000
Valuation	3,900	-
Accumulated depreciation	(199)	-
	<u>3,701</u>	<u>-</u>
Net book value	3,701	-
Costs of disposal	37	-
Profit on disposal	462	-
	<u>4,200</u>	<u>-</u>
Cash consideration	4,200	-

On 29 September 2006 the Company completed the sale of its freehold property in Bradford to an unconnected third party. The sale did not give rise to a charge to corporation tax. Also, the balance on revaluation reserve was realised and therefore has been transferred to profit and loss account.

Notes continued

6b EXCEPTIONAL ITEM – Disposal of C2 Communications Limited

	2006 £000	2005 £000
Tangible fixed assets	-	41
Debtors	-	38
Creditors	-	(44)
	<hr/>	<hr/>
Loss on disposal	-	35
Cash consideration	-	(35)
	<hr/> <hr/>	<hr/> <hr/>

In November 2005 the Company completed the sale of its subsidiary C2 Communications Limited as it was no longer considered by the Board to be part of the ongoing strategy of the Group.

7 EMPLOYEES

	2006 £000	2005 £000
Employees costs including executive directors during the year amounted to:		
Wages and salaries	499	462
Social security costs	47	41
Other pension costs	3	-
	<hr/>	<hr/>
	549	503
	<hr/> <hr/>	<hr/> <hr/>

	Number of employees	
	2006	2005
The average number of persons employed during the year including executive directors analysed by category was made up as follows:		
Production	2	-
Sales and marketing	4	2
Product development and support	8	11
Administration	10	10
	<hr/>	<hr/>
	24	23
	<hr/> <hr/>	<hr/> <hr/>

The Company has no employees and no staff costs.

	2006 £000	2005 £000
The total remuneration of Directors was as follows:		
Fees of non-executives	24	24
Remuneration as executives (including benefits in kind)	-	-
Pension contributions	-	-
	<hr/>	<hr/>
	24	24
	<hr/> <hr/>	<hr/> <hr/>

No remuneration is paid directly by the Company for the services of the two Executive Directors. However, a charge to the Company from Akhter Group plc of £50,000 (2005: £nil) for executive management services, disclosed in Note 26 of the financial statements, is for the services of the Company's finance director and Akhter's marketing director. There is currently no pension provision for any of the directors and therefore no pension is accrued to them.

Details of Directors' interests in the share capital of the Company together with further details of the Directors' remuneration are contained in the Remuneration Report on pages 12 to 13.

Notes continued

8 TAXATION

	2006 £000	2005 £000
Corporation Tax		
Current tax on income for the year	17	-
	<hr/>	<hr/>
Current taxation	-	-
Deferred taxation		
Net origination and reversal of timing differences (note 17)	16	40
	<hr/>	<hr/>
Tax charge on profit on ordinary activities	33	40
	<hr/> <hr/>	<hr/> <hr/>
Current tax reconciliation		
Profit/ (loss) on ordinary activities before taxation	548	(360)
	<hr/>	<hr/>
Theoretical tax at UK corporation tax rate 19% (2005: 30%)	104	(108)
Effects of:		
- profit on sale of property covered by losses	(88)	-
- expenditure not tax deductible	17	51
- accelerated capital allowances	(1)	(6)
- movement in losses	(15)	31
- R&D tax credits	-	(5)
- tax in overseas subsidiary	-	37
	<hr/>	<hr/>
	17	-
	<hr/> <hr/>	<hr/> <hr/>

The corporation tax rate has been changed from the standard rate of 30% applied in the prior year to reflect the actual rate applicable to the current year of 19%.

The Group has tax losses to carry forward of £5,978,000 (2005: £6,056,000) which may be available for offset against future trading profits.

9 EARNINGS PER SHARE

	2006 Number	2005 Number
Weighted average ordinary shares in issue during the year	204,747,964	204,600,559
Potentially dilutive share options under the Group's share option schemes	-	100,000
	<hr/>	<hr/>
Weighted average ordinary shares for diluted earnings per share	204,747,964	204,700,559
	<hr/> <hr/>	<hr/> <hr/>
	£'s	£'s
Earnings/ (loss) attributable to shareholders:		
Continuing operations	515,000	(12,000)
Discontinued operations	-	(388,000)

The calculation of earnings per ordinary share is based on the profit/ (loss) after tax and the weighted average number of ordinary shares in issue during the year.

Notes continued

10a TANGIBLE FIXED ASSETS

	Freehold land and buildings £000	Fixtures and fittings, computer equipment, and motor vans £000	Total £000
GROUP			
Cost or valuation			
At beginning of year	4,020	118	4,138
Additions	-	17	17
Disposals	(3,900)	(105)	(4,005)
	<hr/>	<hr/>	<hr/>
At end of year	120	30	150
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Depreciation			
At beginning of year	118	113	231
Charge for year	89	7	96
Disposals	(199)	(105)	(304)
	<hr/>	<hr/>	<hr/>
At end of year	8	15	23
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Net book value			
At 31 December 2006	112	15	127
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 December 2005	3,902	5	3,907
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

	Freehold land and buildings £000
COMPANY	
Cost or valuation	
At beginning of year	4,020
Disposals – valuation	(3,900)
	<hr/>
At end of year – cost	120
	<hr/> <hr/>
Depreciation	
At beginning of year	118
Charge for year	89
Disposals	(199)
	<hr/>
At end of year	8
	<hr/> <hr/>
Net book value	
At 31 December 2006	112
	<hr/> <hr/>
At 31 December 2005	3,902
	<hr/> <hr/>

Notes continued

10a TANGIBLE FIXED ASSETS *continued*

The aggregate amounts at which freehold land and buildings would have been shown in the financial statements had they not been revalued are as follows:

GROUP AND COMPANY	2006	2005
	£000	£000
Cost	120	2,754
Depreciation	(8)	(839)
	<hr/>	<hr/>
	112	1,915
	<hr/> <hr/>	<hr/> <hr/>

Freehold land and buildings include depreciable assets of £108,000 (2005: £1,605,000).

The freehold land and buildings owned by the Company and located in Crediton was revalued on the basis of market value and rental value. The valuation report, dated 20 September 2004, quotes a market value that agrees to the original cost of £120,000.

10b INTANGIBLE FIXED ASSETS

Development costs

	£000
GROUP	
Cost or valuation	
At beginning of year	-
Additions	10
	<hr/>
At end of year	10
	<hr/> <hr/>
Amortisation	
At beginning of year	-
Charge for year	3
	<hr/>
At end of year	3
	<hr/> <hr/>
Net book value	
At 31 December 2006	7
	<hr/> <hr/>
At 31 December 2005	-
	<hr/> <hr/>

Notes continued

11 FIXED ASSET INVESTMENTS - INVESTMENTS IN SUBSIDIARIES

COMPANY	£000
Cost	
At beginning of year	6,066
	<hr/>
At end of year	6,066
	<hr/> <hr/>
Provision	
At beginning and end of year	5,453
Addition	100
	<hr/>
	5,553
	<hr/> <hr/>
Net book value	
At 31 December 2006	513
	<hr/> <hr/>
At 31 December 2005	613
	<hr/> <hr/>

The addition in the year of £100,000 to the provision is in respect of UTN Solutions (North) Limited, which has net liabilities and the Directors expect it to continue to have net liabilities for the foreseeable future. The Company's investment in UTN Solutions (North) Limited is now fully provided for.

The principal subsidiary undertakings are all wholly owned by the Company, are consolidated and include the following:

Subsidiary undertakings	Principal activity
UTN Solutions (North) Limited	Wholesale and retail merchandising
Integrated Publishing Systems Limited	Provision of computer hardware and software services
Cognito Software Limited	Development and marketing of computer software

All Companies were incorporated in England and Wales and trade in the UK.

12 STOCKS

	Group		Company	
	2006 £000	2005 £000	2006 £000	2005 £000
Finished goods	208	114	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	208	114	-	-
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

13 DEBTORS: DUE WITHIN ONE YEAR

	Group		Company	
	2006 £000	2005 £000	2006 £000	2005 £000
Trade debtors	134	132	-	32
Other debtors	15	15	17	-
Prepayments and accrued income	69	65	14	7
Deferred taxation (see note 17)	4	20	-	-
Other taxes	16	-	12	-
	<hr/>	<hr/>	<hr/>	<hr/>
	238	232	43	39
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Notes continued

14 CREDITORS: AMOUNTS DUE WITHIN ONE YEAR

	Group		Company	
	2006 £000	2005 £000	2006 £000	2005 £000
Bank overdraft (see note 15b)	-	184	-	182
Trade creditors	71	33	12	9
Amounts due to group undertakings	-	-	798	700
Borrowings (see note 15b)	-	873	-	873
Owed to related party (see note 26)	68	11	50	-
Corporation tax	17	-	-	-
Other taxes and social security	48	85	-	19
Accruals and deferred income	305	488	28	195
	509	1,674	888	1,978

15a CREDITORS: AMOUNTS DUE AFTER MORE THAN ONE YEAR

	Group		Company	
	2006 £000	2005 £000	2006 £000	2005 £000
Borrowings (see note 15b)	-	2,195	-	2,195

15b BORROWINGS ANALYSIS

	Group		Company	
	2006 £000	2005 £000	2006 £000	2005 £000
Due within one year				
Bank overdraft	-	184	-	182
Bank loans	-	246	-	246
Akhter Group loan	-	110	-	110
8% unsecured loan notes	-	517	-	517
	-	1,057	-	1,055
Due after more than one year				
Bank loans	-	1,475	-	1,475
Akhter Group loan	-	720	-	720
	-	2,195	-	2,195
Repayable				
Due within 1 year	-	1,057	-	1,055
Over 1 but less than 2 years	-	378	-	378
Over 2 but less than 5 years	-	1,184	-	1,184
After 5 years	-	633	-	633
	-	3,252	-	3,250

The net proceeds from the sale of the freehold property in Bradford have been applied primarily in repaying the bank overdraft, the term loans to Lloyds TSB Bank plc and Akhter Group plc, which were all secured on the property, as well as repaying the outstanding unsecured 8% loan notes and accrued interest.

Notes *continued*

Notes continued

16 FINANCIAL INSTRUMENTS

The Group's financial instruments comprise cash and various items, such as trade debtors and creditors that arise directly from its operations. The main risks arising from, and impacted by, the financial assets and liabilities of the Group are interest rate risk, foreign currency risk and liquidity risk. The Board reviews and agrees policies for managing these risks and they are summarised below. Short-term debtors and creditors have been excluded from all of the following disclosures.

The Group does not hold any derivative financial instruments.

The market value of the Group's financial assets and liabilities does not differ materially from the carrying value.

Financial assets

The only significant financial asset of the Group is cash at bank. Cash is held in Sterling only in either current account or on short-term deposit. The amounts being as follows:

	2006	2005
	£000	£000
Sterling	832	4
	832	4
	832	4

All cash balances attract interest at floating rates that vary with UK bank base rates.

Financial liabilities

The Group does not have any financial liabilities in the current year. The financial liabilities of the previous year are shown below:

	2006		2005	
	Floating rate	Fixed rate	Floating rate	Fixed rate
	£000	£000	£000	£000
Sterling fixed term loans	-	-	2,551	-
Sterling 8% loan notes	-	-	-	517
Sterling bank overdraft	-	-	182	-
Canadian Dollar bank overdraft	-	-	2	-
	-	-	2,735	517
	-	-	2,735	517

The Group does not have any undrawn borrowing facilities.

Cash flow interest rate risk

The Group is cash positive and places its balances on short-term deposits with Lloyds TSB Bank plc. Variable rate interest receivable is based on UK bank base rates and therefore changes in interest rates will affect the return on cash balances.

Foreign currency risk

The Group is exposed to transaction foreign currency exchange risk in respect of purchases from suppliers. However, transactions in foreign currencies are considered by the Directors to not be material and therefore only very minimal currency risk exists.

Liquidity risk

It is the Group's policy to maintain sufficient cash resources to meet its short-term liabilities.

Notes continued

17 DEFERRED TAXATION

	Group £'000	Company £'000
Deferred tax asset at 1 January 2006	20	-
Charged to profit and loss account in the year	(16)	-
	<hr/>	<hr/>
Deferred tax asset at 31 December 2006	4	-
	<hr/> <hr/>	<hr/> <hr/>

GROUP	Provided		Not provided	
	2006 £000	2005 £000	2006 £000	2005 £000
Accelerated capital allowances	(4)	(9)	-	-
Losses	-	(11)	(1,136)	(1,806)
	<hr/>	<hr/>	<hr/>	<hr/>
	(4)	(20)	(1,136)	(1,806)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

COMPANY	Provided		Not provided	
	2006 £000	2005 £000	2006 £000	2005 £000
Losses	-	-	(951)	(1,515)
	<hr/>	<hr/>	<hr/>	<hr/>
	-	-	(951)	(1,515)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The Group has tax losses of £5,978,000 as at 31 December 2006 (2005: £6,056,000) which have not been recognised for deferred tax purposes as these may only be set against certain profits arising in future accounting periods.

18 CALLED UP SHARE CAPITAL

	2006 £000	2005 £000
Authorised		
449,302,276 ordinary shares of 1p each	4,493	4,493
137,674,431 deferred shares of 4p each	5,507	5,507
	<hr/>	<hr/>
	10,000	10,000
	<hr/> <hr/>	<hr/> <hr/>
Allotted, called up and fully paid up		
204,747,964 ordinary shares of 1p each	2,047	2,047
137,674,431 deferred shares of 4p each	5,507	5,507
	<hr/>	<hr/>
	7,554	7,554
	<hr/> <hr/>	<hr/> <hr/>

The deferred shares have no right to dividends nor do the holders thereof have the right to receive notice of or to attend or vote at any General Meeting of the Company. On a return of capital on a winding up of the Company the holders of the deferred shares shall only be entitled to receive the amount paid up on such shares after the holders of the ordinary shares have received the sum of £1,000,000 for each ordinary share held by them.

Notes continued

18 CALLED UP SHARE CAPITAL *continued*

Ultima Networks plc 2004 Share Option Scheme

This scheme was approved by the AGM held on 28 May 2004. No options to subscribe for ordinary shares of 1p each have been granted under this scheme.

Executive Share Option Schemes

Options to subscribe for ordinary shares of 1p each are exercisable in accordance with the 1994 Microvitec Inland Revenue Approved Executive Share Option Scheme. During the year ended 31 December 2006 no options were granted, no options were exercised and no options lapsed. At 31 December 2006 options were outstanding on 100,000 (2005: 100,000) ordinary shares as follows:

Dates exercisable	No. of shares	Price
16 April 2003 – 15 April 2010	100,000	7.5p

19 RESERVES

	Share premium £000	Revaluation Reserve £000	Other Reserve £000	Profit and Loss Account £000
GROUP				
At beginning of year	5,602	2,071	1,334	(16,173)
Retained profit for the financial year	-	-	-	515
Transfer from revaluation reserve	-	(2,071)	-	2,071
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	5,602	-	1,334	(13,587)
	<hr/>	<hr/>	<hr/>	<hr/>
	Share premium £000	Revaluation Reserve £000	Other Reserve £000	Profit and Loss Account £000
COMPANY				
At beginning of year	5,602	2,071	5,618	(20,464)
Retained profit for the financial year	-	-	-	226
Transfer from revaluation reserve	-	(2,071)	-	2,071
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	5,602	-	5,618	(18,167)
	<hr/>	<hr/>	<hr/>	<hr/>

On disposal of the Company's freehold property in Bradford the balance on revaluation reserve was realised and therefore has been transferred to profit and loss account.

In the Group financial statements the cumulative amount of goodwill written-off to reserves, net of the goodwill attributable to business disposals, for acquisitions prior to 1 January 1999 is £3,350,000 (2005: £3,350,000).

A separate profit and loss account dealing with the results of the parent Company only has not been presented in accordance with Section 230 Companies Act 1985. Within the consolidated loss, a profit of £226,000 (2005: loss £2,372,000) is dealt with in the financial statements of the parent Company.

20 CAPITAL COMMITMENTS

	Group		Company	
	2006 £000	2005 £000	2006 £000	2005 £000
Contracted Capital Expenditure	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>

Notes continued

21 FUTURE OPERATING LEASE COMMITMENTS

There are no material operating lease commitments at the balance sheet date (2005: £nil).

22 PENSIONS

During the year the Group contributed to the personal pension schemes (defined contribution) of certain employees. No contributions were paid in respect of the Directors. No amounts were accrued or prepaid at the year end (2005: £nil).

23 RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW

	2006 £000	2005 £000
Operating profit/ (loss)		
Continuing operations	225	239
Discontinued operations	-	(354)
Depreciation and amortisation charges		
Continuing operations	99	124
Discontinued operations	-	26
Loss on disposal of fixed assets		
Continuing operations	-	-
Discontinued operations	-	31
(Increase)/ decrease in stocks		
Continuing operations	(94)	(12)
Discontinued operations	-	28
(Increase)/ decrease in debtors		
Continuing operations	(22)	53
Discontinued operations	-	53
(Decrease)/ increase in creditors		
Continuing operations	(49)	(326)
Discontinued operations	-	194
	-----	-----
Net cash inflow/ (outflow) from operating activities		
Continuing operations	159	78
Discontinued operations	-	(22)
	-----	-----
Net cash inflow from operating activities	159	56
	=====	=====

Notes continued

24 ANALYSIS OF CASHFLOWS

	2006 £000	2005 £000
Returns on investment and servicing of finance		
Interest paid	(226)	(169)
Interest received	11	-
	<hr/>	<hr/>
Net cash outflow from returns on investment and servicing of finance	(215)	(169)
	<hr/> <hr/>	<hr/> <hr/>
Capital expenditure and financial investment		
Purchase of tangible fixed assets		
Continuing operations	(17)	(4)
Discontinued operations	-	(4)
Purchase of intangible development costs	(10)	-
Sale of tangible fixed assets	4,163	-
	<hr/>	<hr/>
Net cash inflow/ (outflow) from capital expenditure investment	4,136	(8)
	<hr/> <hr/>	<hr/> <hr/>
Acquisitions		
Purchase of shares in subsidiary	-	(45)
	<hr/>	<hr/>
Net cash outflow from acquisitions	-	(45)
	<hr/> <hr/>	<hr/> <hr/>
Financing		
Issue of ordinary share capital	-	7
Bank loan draw downs	-	80
Repayment of bank loans	(1,721)	(226)
Repayment of other loans	(830)	(112)
Repayment of loan notes	(517)	-
	<hr/>	<hr/>
Net cash outflow from financing	(3,068)	(251)
	<hr/> <hr/>	<hr/> <hr/>

25 ANALYSIS OF NET FUNDS/ (DEBT)

	At beginning of year £000	Cash flow £000	At end of year £000
Cash at bank and in hand	4	828	832
Bank overdrafts	(184)	184	-
	<hr/>	<hr/>	<hr/>
Bank loans	(180)	1,012	832
Other loans	(1,721)	1,721	-
	<hr/>	<hr/>	<hr/>
Loan notes	(830)	830	-
	<hr/>	<hr/>	<hr/>
	(2,731)	3,563	832
	(517)	517	-
	<hr/>	<hr/>	<hr/>
Total	(3,248)	4,080	832
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Notes continued

26 RELATED PARTY TRANSACTIONS

The Chairman, Mr H.A. Mughal, is the majority shareholder of Akhter Group plc. Akhter Group plc and related parties hold 100,075,176 shares representing 48.9% of the Company's issued ordinary share capital.

During the year the Group made purchases from Akhter Group plc totalling £150,000 (2005: £172,000) and, of this amount, £68,000 (2005: £11,000) was payable to Akhter Group plc as at 31 December 2006. The purchases can be analysed as follows:

Group company	2006 £000	2005 £000	Description of purchases
Ultima Networks	50	38	Executive management services
UTN Solutions (North)	67	47	Rent, cost of sales, carriage, marketing
Integrated Publishing Systems	24	23	Rent, cost of sales
Cognito Software	9	54	Cost of sales, computer equipment
C2 Communications	-	10	Rent
Total	150	172	

The charge to the Company from Akhter Group plc for executive management services, disclosed above, is for the services of the Company's finance director and Akhter's marketing director and is based on a proportion of their time.

In addition to the purchases detailed above, the Group is provided with a number of staff services, other services and facilities by Akhter Group plc for which a fee is not paid. These comprise accounting, treasury, credit control, purchasing, marketing, warehousing and office facilities.

As stated above the treasury function is performed on behalf of the Company by Akhter Group plc and will always try to make the most beneficial use of available cash resources. During the year this resulted in the Company loaning Akhter Group plc £200,000 (2005: £nil), which was fully repaid to the Company on 2 February 2006. During the period 30 June 2006 to 29 September 2006 the Company borrowed monies from Akhter Group plc, the maximum amount borrowed being £120,000.

The Chairman, Mr H.A. Mughal, owed the Company £17,000 at 31 December 2006 (2005: £31,000) in respect of purchases made on an arm's length basis during the year ended 31 December 2004. On 30 March 2007 this debt was settled by Akhter Computers plc.

The Chairman's son, Mr W. Mughal, who is a shareholder of the Company, owed a subsidiary company £15,000 at 31 December 2006 (2005: £nil) in respect of an unsecured employee loan provided on an interest free basis. On 20 March 2007 this debt was settled by Akhter Computers plc.