

**Artilium plc**  
**Preliminary Results for the Financial Year ended 30 June 2007**

**Management's key milestones for the year achieved with clear strategy for growth**

Artilium plc ("Artilium" or the "Company") announces preliminary results for the financial year ended 30 June 2007.

Artilium develops software that unifies communications. The Company produces highly sophisticated solutions that seamlessly integrate mobile, fixed, and IP networks for telecoms operators, system integrators, managed service providers and mobile virtual network enablers. Artilium enables mobile virtual network operators to create new mobile brands and differentiated offerings rapidly, securely and with real-time management. Artilium unifies communications, provides access to communications via any telephone or online device, and applies intelligent processes to automate and manage rich communications.

**Highlights**

- o Year of significant transformation of the business
- o Revenues increased by over 50%, meeting a key financial objective set by management at the time of the Annual General Meeting in January 2007
- o Loss of £4.8m in line with expectations after a £1.9m loss relating to a discontinued operation divested during the year
- o Management team strengthened, adding extensive industry expertise, including new CEO in Robert Marcus appointed in April 2007 and three new Non-Executive Directors, including Philip Kendall announced separately today
- o Strategy updated under Robert Marcus focusing on Unified Communications
- o Strong operational performance
- o Positive outlook with clear strategy for growth

**Commenting on the results Robert Marcus, Chief Executive Officer of Artilium said:**

"It's been a good year for Artilium. We made real progress in strengthening category market leadership in the Benelux through the delivery of our convergence software solutions to telecoms operators and system integrators. Every day, tens of millions of people use our software through our 40 installations in 11 countries. Our vision is to be a world leader in the field of Unified Communications. We successfully transformed the fundamentals of the business, designed a clear strategy to support sustainable growth and expansion, and attracted a high quality leadership team with the experience and talent capable of achieving it."

The Company's AGM will be held on 28 November 2007 and shareholders should expect to receive copies of the Annual Report in due course.

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**About Artilium**

Artilium delivers innovative software solutions which layer seamlessly over disparate fixed, mobile and IP networks to enable the rapid deployment of converged services and applications.

Founded in 1995 and recognised for its engineering talent and unique combination of IT and telecom expertise, Artilium has completed more than 40 installations serving tens of millions of end-users in 11 countries.

Customers include Mobile Network Operators (MNOs), Mobile Virtual Network Enablers (MVNEs), Mobile Virtual Network Operators (MVNOs), Fixed and Alternative Operators, Hosting Providers, Systems Integrators and Managed Service Providers. Artilium is now expanding its leadership in telecom and unified communications platforms on a global scale.

Artilium is headquartered in London, UK with offices in Bruges, Belgium and Seattle, USA. Artilium plc is a publicly listed company on AIM: the Alternative Investment Market of the London Stock Exchange (LSE/AIM: ARTA).

For more information, please visit: [www.artilium.com](http://www.artilium.com)

## **CHAIRMAN AND CHIEF EXECUTIVE'S STATEMENT**

### **Overview**

Following the acquisition of Artilium N.V. in January 2007, the re-admission to AIM and the subsequent change of name to Artilium plc, the Company is pleased to report the achievement of key milestones set out by management for the financial year ended 30 June 2007.

Firstly, the Company has effectively managed significant transformation of the business by divesting loss-making operations; expanding the board with recognized industry experts, and building a senior leadership team with executives from Microsoft, T-Mobile and other market leading communication companies; and defining a strategic roadmap which expands Artilium's proven technology and core expertise in cross-network (mobile, fixed telecom, internet) software for expansion into new territories and market segments.

Secondly, Artilium is delighted to announce that it has achieved sales volumes of £4.5 million for the year ended 30 June 2007 (2006: £612,000 representing only four months of revenue from subsidiary acquired in March 2006) which represents a more than 50% increase on a year-on-year basis, the key benchmark defined by management following the annual general meeting (AGM) on 5 January 2007.

Finally, as expected, the Company reports a loss of £4.8 million for the year, of which £1.9 million is related to a discontinued operation, divested during the year. The remaining loss from continuing operations of £2.9 million includes a number of one-off costs in relation to the re-organisation of the Company, and the cost of completing the acquisition of Artilium N.V. and the subsequent re-listing of the Company.

Artilium is confident that it is well-positioned to capitalize on opportunities in the Unified Communications market, a rapidly evolving segment championed by Microsoft, Cisco and other major technology leaders.

Artilium products integrate the internet, fixed-line and mobile phone systems, unifying voice and data services and delivering access to telephony from within everyday business applications. This unification allows people to manage all of their communications from differing service providers, in the format they desire, routed over the lowest cost networks available. This opens up the possibility for increased worker productivity and reduced business costs.

### **Key developments during the year**

The results for the twelve months ended 30 June 2007 reflect a period of significant operational transformation within the Company.

On 11 September 2006, the Board of Directors authorised the sale of certain of the Company's intellectual property and physical assets pertaining to a potential consumer offering in the retail unified communications market.

On 12 December 2006, a circular was issued to shareholders outlining the terms of the completion of the acquisition of Artilium N.V. The Company's ordinary shares were restored to trading on 13 December 2006.

Since the acquisition of Artilium N.V. and the subsequent placing and capital reorganisation completed in January of this year, we have laid the foundations for a successful business in the communications sector.

To secure a base in the US and gain key technical expertise, on 21 March 2007, the Company completed the acquisition of a 31% stake in Chinook Hosting Corporation, paying approximately £300,000 in cash. Chinook was founded in 2006 by technology professionals with experience in developing, deploying and hosting Microsoft technologies. This acquisition provides us with ready access to the US hosting market and represents a major step ahead for our new voice solutions business.

On 2 April 2007, Robert Marcus was appointed as Chief Executive. An experienced leader of emerging technology businesses, his career includes over nine years at Microsoft where he served most recently as

a director on the company's mergers and acquisitions team. He is an expert in unified communications and led Microsoft's unified communications strategy.

Against this backdrop, we are pleased to report that results for the twelve months ended 30 June 2007 are in line with our expectations.

## **Performance**

Over the past 12 months, we have delivered a strong performance from our communications convergence software business. We saw growth among new and existing customers and deployed multiple installations within major telecommunications and cable operator accounts.

## **Financial Results**

In line with our expectations, revenue increased to £4.5 million for the year ended 30 June 2007 (2006: £612,000 representing only four months of revenue from the subsidiary acquired in March 2006). Furthermore, as anticipated, the Company reported a loss from continuing operations for the year ended 30 June 2007 of £2.9 million. However, this loss includes a number of one-time charges in relation to the re-organisation of the company, and the cost of completing the acquisition of Artilium N.V. and the subsequent re-listing of the Company totalling around £500,000. The loss also includes an accounting charge related to awards under new share based payment schemes of £707,000, depreciation and amortisation of £281,000 and a minority interest expense of £110,000. The Company also reported a loss from discontinued operations of £1.9 million in relation to its discontinued retail unified communications business which was disposed of in September 2006.

Artilium N.V., the Group's Belgian subsidiary, reported a profit before tax of £281,000 on a stand-alone basis.

## **Strategy**

In the year ahead, the company will continue to build upon its regional success in the Benelux, expanding aggressively into new geographic and technology markets. Geographic growth will include a launch in the United States, and the targeting of dynamic convergence markets in Western and Central Europe.

The Company is on track to launch new Unified Communications technologies in October 2007, which target knowledge workers in small and medium sized businesses. The technology is Microsoft-based and will release at a time of Microsoft's increasing emphasis on Unified Communications.

The Company will focus its go-to-market strategy on strategic partnerships and channel relationships with leaders in the IT, systems integration, hosted service provider, and Web industries. Microsoft engagement will be a central focus; Artilium has achieved select Gold Certified Partner status at Microsoft, bringing it into a much closer strategic business and technology engagement with Microsoft.

To achieve its vision and growth goals the Company will continue to invest in people:

## **Board appointments**

- As announced this morning, Philip Kendall has joined the Artilium board as a Non-Executive Director. Currently a Senior Adviser at Hawkpoint Partners Ltd, Philip brings with him a wealth of experience in the global capital markets arena, having spent some 30 years in the City and on Wall Street.
- Richard Hooper CBE, Chairman of Informa plc until May of this year has joined the board as a Non-Executive Director. He was founding Deputy Chairman of the UK communications regulator, OFCOM, Chairman of the Radio Authority, and CEO of the value added services division of British Telecom.
- Michael Hulme, a convergence expert, joined the board as a Non-Executive Director. He is Honorary Professor of the Institute for Advanced Studies at Lancaster University, Director of the Centre for the Study of Media Technology and Culture, and Director of the Social Futures Observatory think-tank.

- Having successfully steered the company through its transition and introduced Robert Marcus as Chief Executive, Paul Gratton will step down as Artilium's Executive Chairman, remaining on the board as a Non-Executive Director. It is intended that Paul will step down as Executive Chairman at the Company's AGM to be held on 28 November 2007 and, subject to the passing of necessary shareholder resolutions, be succeeded by Richard Hooper in the newly created role of Non-Executive Chairman.

#### **Executive Management appointments**

- Gytis Barzdukas joined as Vice President, Marketing. He was responsible for Office, SharePoint, Messenger and Hotmail marketing during a distinguished 13-year career at Microsoft.
- Stewart Emerson, joined as Vice President, Worldwide Sales. He was former Head of Web and tele-sales at T-Mobile International, and previously head of Nortel EMEA Business Development.
- Charlotte Massard, joined as Vice President, Business Development. She was VP Global Services at IDT, and previously head of EMEA Business and Channel Development at Verestar

#### **Outlook**

Artilium is well positioned to emerge as a leader in the Unified Communications market. In the year ahead we will build on the strong foundations laid over the course of the past twelve months, extending Artilium's existing product offerings into new geographic markets, and launching new products. We will invest heavily in channel and partner development, including the strategic partnership with Microsoft. We have the team and the technology necessary to drive a transformational shift in business growth and expansion.

We are pleased with the past year and are confident of continued growth in the current financial year as well as the long term prospects of the Group.

**Artidium plc****Consolidated income statement  
Year ended 30 June 2007**

	Note	2007 £'000	2006 £'000 Restated
<b>Continuing operations</b>			
Revenue		4,549	612
Cost of sales		<u>(1,295)</u>	<u>(56)</u>
<b>Gross profit</b>		3,254	556
Other operating income		7	-
Administrative expenses		(6,222)	(2,428)
Other operating expenses		-	(6)
Share of results of associate		<u>(30)</u>	<u>-</u>
<b>Operating loss</b>		(2,991)	(1,878)
Investment revenues		124	135
Other losses		-	(698)
Finance costs		<u>(5)</u>	<u>(349)</u>
<b>Loss before tax</b>		(2,872)	(2,790)
Tax	3	<u>(24)</u>	<u>(152)</u>
<b>Loss for the year from continuing operations</b>		<u>(2,896)</u>	<u>(2,942)</u>
<b><u>Discontinued operations</u></b>			
Loss for the year from discontinued operations	4	<u>(1,885)</u>	<u>(981)</u>
<b>Loss for the year</b>		<u>(4,781)</u>	<u>(3,923)</u>
Attributable to:			
Equity holders of parent		(4,671)	(3,158)
Minority interest		<u>(110)</u>	<u>(765)</u>
		<u>(4,781)</u>	<u>(3,923)</u>
Loss per share in pence from continuing operations	5	<u>(6.12)</u>	<u>(9.85)</u>
Loss per share in pence from discontinued operations	5	<u>(4.14)</u>	<u>(4.44)</u>
Total loss per share in pence	5	<u>(10.26)</u>	<u>(14.29)</u>

The Company's shareholders approved a 1 for 5 share consolidation at the AGM on 5 January 2007. Five old 1p shares were replaced by one new 5p share. As a result the comparative loss per share figures above have been restated using the number of issued new shares. Loss per share in pence for 2006 using the number of issued old shares was 1.98p from continuing operations and 0.88p from discontinued operations.

**Artilium plc**

**Consolidated statement of recognised income and expense  
Year ended 30 June 2007**

	<b>2007</b> <b>£'000</b>	<b>2006</b> <b>£'000</b>
Exchange differences on translation of foreign operations	14	2
	<hr/>	<hr/>
<b>Net income recognised directly in equity</b>	14	2
<b>Loss for the year</b>	<u>(4,781)</u>	<u>(3,923)</u>
<b>Total recognised income and expense for the year</b>	(4,767)	(3,921)
Attributable to:		
Equity holders of parent	(4,657)	(3,156)
Minority interest	<u>(110)</u>	<u>(765)</u>
	<u>(4,767)</u>	<u>(3,921)</u>

**Artidium plc**

**Consolidated balance sheet  
Year ended 30 June 2007**

	<b>2007</b>	<b>2006</b>
	<b>£'000</b>	<b>£'000</b>
<b>Non-current assets</b>		
Goodwill	6,211	2,697
Intangible assets	774	837
Plant and equipment	634	170
Deferred tax asset	51	119
Interests in associate	401	-
	<u>8,071</u>	<u>3,823</u>
<b>Current assets</b>		
Inventories	58	118
Trade and other receivables	2,208	1,925
Cash and cash equivalents	3,162	1,911
	<u>5,428</u>	<u>3,954</u>
<b>Total assets</b>	<u>13,499</u>	<u>7,777</u>
<b>Current liabilities</b>		
Trade and other payables	1,884	2,849
Obligations under finance leases	25	4
Provisions	458	425
	<u>2,367</u>	<u>3,278</u>
<b>Non-current liabilities</b>		
Obligations under finance leases	52	-
Deferred tax liabilities	226	180
	<u>288</u>	<u>180</u>
<b>Total liabilities</b>	<u>2,645</u>	<u>3,458</u>

**Artilium plc**

**Consolidated balance sheet  
Year ended 30 June 2007**

	<b>Note</b>	<b>2007 £'000</b>	<b>2006 £'000</b>
<b>Equity</b>			
Share capital	6	2,625	1,769
Share premium account		19,770	9,033
Capital redemption reserve		4,493	4,493
Option to acquire minority interest		-	(1,611)
Share warrant reserve		216	336
Share option reserve		707	-
Share of equity of associate		97	-
Translation reserve		16	2
Own shares	7	(2,550)	-
Retained earnings		<u>(14,520)</u>	<u>(9,849)</u>
<b>Equity attributable to equity holders of the parent</b>		<b>10,854</b>	<b>4,173</b>
<b>Minority interest</b>		<u>-</u>	<u>146</u>
<b>Total equity</b>		<u><b>10,854</b></u>	<u><b>4,319</b></u>
<b>Total liabilities and equity</b>		<u><b>13,499</b></u>	<u><b>7,777</b></u>

**Artidium plc**

**Consolidated cashflow statement  
Year ended 30 June 2007**

	<b>Note</b>	<b>2007 £'000</b>	<b>2006 £'000</b>
<b>Net cash used in operating activities</b>	9	(5,051)	(1,732)
<b>Investing activities</b>			
Interest received		124	135
Sale of investments		-	21
Purchases of property, plant and equipment		(712)	(34)
Proceeds from disposal of property, plant and equipment		30	
Purchases of investments		(334)	(691)
Acquisition of subsidiary		<u>(1,414)</u>	<u>(4,370)</u>
<b>Net cash used in investing activities</b>		<b><u>(2,306)</u></b>	<b><u>(4,939)</u></b>
<b>Financing activities</b>			
Repayments of obligations under finance leases		73	(5)
Proceeds on issue of shares		11,071	8,046
Loan to employee benefit trust		<u>(2,550)</u>	<u>-</u>
<b>Net cash from financing activities</b>		<b><u>8,594</u></b>	<b><u>8,041</u></b>
<b>Net increase in cash and cash equivalents</b>		<b>1,237</b>	<b>1,370</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>1,911</b>	<b>552</b>
Effect of foreign exchange rate changes		<u>14</u>	<u>(11)</u>
<b>Cash and cash equivalents at end of year</b>		<b><u>3,162</u></b>	<b><u>1,911</u></b>

The financial statements were approved by the Board of Directors and authorised for issue on 11 September 2007. They were signed on its behalf by:

Tony Lynch  
Director

## **Artilium plc**

### **Notes to the company financial statements Year ended 30 June 2007**

#### **1. Preparation of results**

Whilst the financial information included in this preliminary announcement has been computed in accordance with International Financial Reporting Standards (IFRSs), this announcement does not itself contain sufficient information to comply with IFRSs.

The financial information contained in this announcement does not constitute statutory accounts as defined by Section 240 of the Companies Act 1985. Statutory accounts for the year ended 30 June 2007 were approved by the board and delivered to Companies House on 11 September 2007. These statutory accounts included an unqualified audit opinion.

The directors approved this preliminary announcement on 11th September 2007.

This announcement is prepared on the basis of the accounting policies as stated in the statutory accounts.

The financial statements have been prepared on the historical cost basis.

The consolidated financial statements incorporate the financial statements of the Company and the entity controlled by the Company (its subsidiary) made up to 30 June each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The result of the subsidiary acquired during the year is included in the consolidated income statement from the effective date of acquisition.

Where necessary, adjustments are made to the financial statements of the subsidiary to bring the accounting policies used into line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

The prior comparatives in the Financial Statements have been restated to reflect the impact of discontinued operations in relation to a business unit divested during the year.

#### **Business combinations**

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for resale in accordance with IFRS 5 Non Current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes.

Revenue is recognised for the sale of proprietary software, professional services, and the re-sale of third party hardware and software and after sale maintenance contracts.

Where the outcome of a contract can be estimated reliably, revenue and costs related to the sale of proprietary software and professional services are recognised by reference to the stage of completion on the contract activity at the balance sheet date. This is normally measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion.

The revenue recognition policy was changed during the period, as due to the improved systems and procedures implemented, the company is now able to recognise revenue over the course of a contracted project. The directors believe that this policy better reflects the revenue earning process and aligns the company with industry practice.

The change in accounting policy has an immaterial impact on the prior year comparatives and therefore no restatement for the change in revenue recognition policy has been made.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Sale of third party hardware and software is recognized when the goods are delivered and title has passed.

Maintenance revenue is recognized rateably over the support term concluded in the platform contract.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

## 2 Loss for the year

Loss for the year has been arrived at after charging / (crediting):

	<b>2007</b>	<b>2006</b>
	<b>£'000</b>	<b>£'000</b>
Net foreign exchange gains	10	(11)
Operating lease rentals – land and buildings	233	47
Depreciation of property, plant and equipment	102	31
Amortisation of intangibles	179	60
Impairment of investment	-	698
Profit on sale of investments	-	(14)
Cost of inventories recognised as expense	-	56
Staff costs	2,665	786
Employee benefits	27	14
Auditors' remuneration for audit services	58	30

### 3. Tax

	2007 £'000	2006 £'000
<b>Analysis of taxation expense for the year:</b>		
Current tax:		
UK tax	-	-
Overseas tax	<u>(35)</u>	<u>(172)</u>
<b>Total current tax</b>	(35)	(172)
Deferred tax :		
Origination and reversal of temporary differences	<u>11</u>	<u>20</u>
<b>Total deferred tax</b>	<u>11</u>	<u>20</u>
<b>Total taxation expense in the income statement</b>	<u>(24)</u>	<u>(152)</u>

The total taxation expense in the income statement relates to continuing operations. The taxation expense due to discontinued operations is £nil.

The charge for the year can be reconciled to the loss per the income statement as follows:

	2007 £'000	2007 £'000	2006 £'000
	Continuing Operations	Discontinued Operations	
Loss before tax from continuing operations	<u>(2,872)</u>	<u>(1,885)</u>	<u>(3,771)</u>
Tax at the UK corporation tax rate of 30% (2006: 30%)	(861)	(566)	(1,131)
<i>Effects of:</i>			
Expenses not deductible for tax purposes	326	-	784
Provision in respect of tax exposures	-	-	374
Tax losses brought forward utilised in the year	(64)	-	(11)
Tax losses carried forward unutilised in the year	694	566	136
Non-tax effective consolidation adjustment	(80)	-	-
Impact of loss after tax of associate	<u>9</u>	<u>-</u>	<u>-</u>
Tax expense and effective tax rate for the year	<u>24</u>	<u>-</u>	<u>152</u>

#### 4 Discontinued operations

On September 11, 2006, the Company disposed of its retail unified communication operation to Flasktent Limited. Trading activity and cashflows relating to this discontinued operation have been separately disclosed on the face of the Consolidated Income Statement and notes to the consolidated cashflow statement and the results of these discontinued operations were as follows:

	<b>2007</b> <b>£'000</b>	<b>2006</b> <b>£'000</b>
Revenue	-	-
Expenses	<u>(863)</u>	<u>(981)</u>
Loss before tax	<u>(863)</u>	<u>(981)</u>
Loss on disposal of discontinued operations	<u>(1,022)</u>	-
Net loss attributable to discontinued operations	<u>(1,885)</u>	<u>(981)</u>

There was no tax charge associated with the net loss attributable to discontinued operations.

#### 5 Losses per share

The warrants and share options on issue do not have a dilutive effect as the market price of ordinary shares exceeded the exercise price of the warrants during the financial year. As a result, diluted loss per share is the same as basic earnings per share.

	<b>2007</b> <b>£'000</b>	<b>2006</b> <b>£'000</b>
<b>Losses</b>		
Losses from continuing operations for the purposes of basic losses per share being net losses attributable to equity holders of the parent	<u>(2,786)</u>	<u>(2,177)</u>
Losses from discontinued operations for the purposes of basic losses per share being net losses attributable to equity holders of the parent	<u>(1,885)</u>	<u>(981)</u>
	<b>No.</b>	<b>No.</b>
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purposes of basic losses per share	<u>45,525,727</u>	<u>22,110,549*</u>

\* The Company's shareholders approved a 1 for 5 share consolidation at the AGM of 5 January 2007. Five old 1p shares were replaced by one new 5p share. As a result these new shares are equivalent to 110,552,747 old shares

## 6. Share capital

The Company's shareholders approved a 1 for 5 share consolidation at the AGM of 5 January 2007. Five old 1p shares were replaced by one new 5p share.

	2007 £'000	2006 £'000
<b>Fully paid ordinary shares:</b>		
Authorised:		
1,050,676,946 (2006: 1,050,676,946) old ordinary shares of 1p each now replaced by new 5p shares as outlined below	<u>10,507</u>	<u>10,507</u>
210,135,390 (2006: 210,135,390) new ordinary shares of 5p each	<u>10,507</u>	<u>10,507</u>
Issued and fully paid:		
262,499,000 (2006: 176,900,000) old ordinary shares of 1p each now replaced by new 5p shares as outlined below	<u>2,625</u>	<u>1,769</u>
52,499,800 (2006: 35,380,000) ordinary shares of 5p each	<u>2,625</u>	<u>1,769</u>
<b>Deferred ordinary shares:</b>		
Authorised:		
900,447 (2006: 900,447) deferred ordinary shares of £4.99 each	<u>4,493</u>	<u>4,493</u>

	2007		2006 £'000
	No. '000 Old 1p shares	No. '000 New 5p shares	
<b>Fully paid ordinary shares:</b>			
Balance at beginning of financial year	176,900	35,380	1,769
Shares issued by placement	15,000	3,000	150
Shares issued for acquisition consideration	2,000	400	20
Series 1 warrant conversion	53,349	10,670	533
Series 2 warrant conversion	<u>15,250</u>	<u>3,050</u>	<u>153</u>
Issued and fully paid:	<u>262,499</u>	<u>52,500</u>	<u>2,625</u>

Fully paid ordinary shares carry one vote per share and carry the rights to dividends.

## 7. Own Shares

	Own shares £'000
Balance at 1 July 2006	-
Series 2 warrants purchased during the period	(300)
Warrants exercised during the period	<u>(2,250)</u>
Balance at 30 June 2007	<u>(2,550)</u>

The own shares reserve represents the cost of shares in Artilium plc purchased and held by the Artilium plc Employee Benefit Trust to satisfy options and share awards under the Group's Employee Share Schemes. 3 million Series 2 warrants were purchased by the Trust at a price of

10p per warrant in December 2006. These warrants were then exercised at a price of 75p and converted into ordinary 5p shares by the Trust.

## 8 Share based payments

The Company set up a share option scheme and long term incentive plan (LTIP) under which grants have been made to directors and certain employees.

The Remuneration Committee met on 19<sup>th</sup> January 2007 and confirmed that prior to the Company posting its re-admission document to shareholders it had been agreed that options would be granted to the Executive Directors and certain other employees with an option price based on the share price of the Company for the 5 trading days following re-admission (73.5p). This figure had been agreed on the basis that it would be the market's value of the Company at a time when the market was in full possession of all the information relating to the enlarged group going forward. The options vest in equal tranches in January 2008, 2009 and 2010. If the options remain unexercised after a period of 5 years from the date of grant, the options expire.

Details of the share options outstanding during the year are as follows:

	2007		2006	
	Number of Share options	Weighted average exercise price	Number of Share options	Weighted average exercise price
Outstanding at beginning of year	-	-	-	-
Granted during the year	1,963,946	73.5p	-	-
Outstanding at the end of year	1,963,946	73.5p	-	-

There were no share options exercised during the period.

The Performance Period for the LTIP awards is the period starting on 8<sup>th</sup> January 2007 and ending on 1<sup>st</sup> April 2010, or on such earlier date as the shares vest according to the rules of the scheme, and the base price for the Company's Total Shareholder Return (TSR) calculation shall be £1.00, which is the price at which new shares were issued in the relisting. The performance conditions operate such that no shares will vest should the TSR performance of the Company be below that of the AIM index. One third of the shares will vest if the performance of the Company is equal to that of the AIM index, increasing to two thirds if the Company's performance is equal to that of the AIM index plus 10% and one times if it is equal to AIM index plus 35%. The Committee understands from its advisors that these levels of performance are broadly equivalent to that which would have placed the company at median, upper quartile and upper decile in the AIM over a 3-year period.

There are currently a maximum of 1,163,000 share awards outstanding under the LTIP.

The aggregate of the estimated fair values of the options and LTIP shares granted during the year was £3.5 million and the amount recognised as an expense during the year ended 30 June 2007 was £707,000. This valuation was carried out in accordance with independent advice from Price Waterhouse Coopers and a Binomial (Lattice) model deployed to arrive at the fair value of these share awards.

The inputs into the Binomial model were as follows:

	<b>Share Options</b>	<b>LTIP</b>
Share price	£1.32	£2.865
Exercise price	73.5p	n/a
Expected volatility	35%	35%
Expected life	3 years	3 years
Risk free rate	5.17%	5.37%
Expected dividends	-	-

In the absence of a credible amount of past share price data for the company, expected volatility was calculated using the historical volatility of similar listed companies. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

## 9 Notes to the cash flow statement

	<b>Consolidated</b>	
	<b>2007</b>	<b>2006</b>
	<b>£'000</b>	<b>£'000</b>
Loss from continuing operations	(2,947)	(3,923)
Loss from discontinued operations	(1,885)	-
Adjustments for:		
Investment revenues	(124)	(135)
Impairment of investment	-	698
Tax	-	152
Depreciation of property, plant and equipment	102	31
Amortisation of intangible assets	179	60
Share based payment expense	707	336
Gain on disposal of property, plant and equipment	30	(14)
Increase/(decrease) in provisions	(68)	425
	(4,006)	(2,370)
Operating cash flows before movements in working capital		
Increase in inventories	60	(34)
Decrease/(increase) in receivables – continuing operations	(989)	(1,139)
Decrease/(increase) in receivables – discontinued operations	825	-
Increase/(decrease) in payables – continuing operations	(254)	2,163
Increase/(decrease) in payables – discontinued operations	(687)	-
Cash generated by operations	(5,051)	(1,380)
Income taxes paid	-	(352)
Net cash from operating activities	(5,051)	1,732

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less.

## 10. Share warrants

On 27 November 2006, an Extraordinary General Meeting of both classes of warrants was convened and resolutions were passed to make the exercise of the Series 1 warrants mandatory within a period of 30 days commencing the day after the resolutions were passed. The terms of the Series 2 warrants remained unchanged. As a result, 52.5 million of the remaining Series 1 warrants were exercised while the remainder expired.

In addition, 15 million Series 2 warrants were exercised during the year.

Details of the warrants outstanding during the year are as follows.

	2007		2006	
	Number of warrants	Weighted average exercise price (in pence)	Number of warrants	Weighted average exercise price (in pence)
Exercisable at the start of the year	121,483,333	-	-	-
Granted during the year	-	-	122,333,333	13.03
Exercised during the year	67,249,000	12.00	850,000	12.00
Expired during the year	<u>26,984,333</u>	12.00	<u>-</u>	-
Outstanding at the end of the year	<u>27,250,000</u>	13.04	<u>121,483,333</u>	13.04
1 for 5 Share Consolidation conversion	5,450,000			
Exercised after share consolidation	<u>50,000</u>			
Exercisable at the end of the year*	<u>5,400,000</u>	75.00		

The weighted average share price at the date of exercise for warrants exercised during the period was 12 pence. All the Series 2 warrants outstanding at the end of the period remain exercisable until 31 December 2007 at 75p per Ordinary Share.

## 11. Events after the balance sheet date

Since the year end, 1.2 million Series 2 warrants have been exercised by warrant holders. As a result, the company has 53,699,900 5p ordinary shares in issue at the date of these financial statements and cash consideration of £900,000 has been received for these new shares.

There have been no other material events after the balance sheet date.