

The top half of the page features a vibrant, abstract background with a blue and green color palette. A large, stylized '01' is positioned in the upper right corner. The word 'VIALOGY' is written in a white, sans-serif font across the top. The background is filled with binary code (0s and 1s) and a circular, sunburst-like pattern that creates a sense of depth and motion.

VIALOGY

01

ViaLogy PLC

Interim Report and Unaudited
accounts for six months ended
30 September 2007

Chairman's statement for the six months ended 30 September 2007

Dear Shareholder,

This Interim Report covers the six-month period to 30 September 2007.

During the period the Company made substantial progress on several fronts. In June, in order to provide funding for a sales and service infrastructure for our commercial activities, we raised £4.4 million by way of a placing of 55 million new ordinary shares at 8p per share. In addition, subject to shareholder approval which was subsequently given at the AGM, the placees received one warrant for every two ordinary shares purchased in the placing. Each warrant entitles the holder to purchase an additional ordinary share at 10p at any time up to 30 October 2009.

For the scientists at our head office in Pasadena, California, the six months covered by the Report was a time of intense activity as the Group's patented technology was incorporated into ViaLogy's first-ever commercial product, the Sensor Policy Manager (SPM™). This is an enterprise-grade software policy manager for large-scale sensor applications. The target date for completion of the product was 15 September and I am delighted to say that the team delivered on time and we were able to demonstrate SPM to potential customers. Although only a couple of months have passed since the launch we can say that all initial indications are favourable. The product has been accepted for beta-testing in sensors and sensor systems by a number of global organisations.

The figures show a loss for the period of £1,997,656, which includes £1,056,048 for amortisation and depreciation. As I explained in the last annual report, the amortisation charge relates to the value of ViaLogy's Intellectual Property and associated Research and Development, which is amortised over a total of six years. The cash outflow from operations during the period was £889,791.

Since the end of the period to which this Interim Report relates we have considerably strengthened our management team. In particular, we have a new Chief Executive Officer, Dr. Robert W. Dean, who is also President of our wholly-owned US subsidiary, ViaLogy LLC. Robert comes to us from Science Applications International Corporation (SAIC), where he was a Senior Vice President. He brings a wealth of experience and business acumen to ViaLogy. In addition we welcome Robert Kern as Vice President, Sales and Marketing, and Hugo Freuhauf as Vice President, Operations.

We have also strengthened our Board of Directors, with Peter Reynolds joining us as a non-executive director. An international businessman, Peter is on the boards of a number of quoted companies and has considerable City experience.

In the Spring of 2008 we intend to launch ViaLogy's second product, MicroSPM™. This is a hardware platform for autonomous high definition digital video processing. It is powered by ViaLogy's patented signal processing technology, Quantum Resonance Interferometry ('QRI'). Other products, including MPEX Electronic Eye™ which we are developing with the Boeing Corporation, will follow.

We are dealing with international customers, who have long established reputations for quality to protect, so the testing process is rigorous and detailed. In each case the incorporation of SPM has so far proved entirely successful and in two instances we are in detailed pricing negotiations which we are confident will lead to profitable contracts for ViaLogy.

Terry Bond
Executive Chairman
ViaLogy PLC

20 December 2007

Directors

Terry Bond – Executive Chairman
Dr. Robert W Dean – Chief Executive Officer
Dr. Sandeep Gulati – Chief Technology Officer
Michael Kelly – Non-Executive Director
George Rehm – Non-Executive Director
Peter Reynolds – Non-Executive Director

ViaLogy PLC

Consolidated income statement for the six months ended 30 September 2007

	Unaudited 6 months to 30 Sep 2007	Unaudited 6 months to 30 Sep 2006	Audited Year to to 31 Mar 2007
	£	£	£
Revenue	22,567	3,204	273,478
Cost of sales	408	–	8,410
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Gross profit	22,159	3,204	265,068
Administrative expenses	2,266,459	170,190	1,848,450
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Loss from Operations	(2,244,300)	(166,986)	(1,583,382)
Share of losses of associate	–	(315,888)	(526,481)
Finance costs	(1,275)	–	(353)
Finance income	52,776	65,834	106,373
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Loss for the year before taxation	(2,192,799)	(417,040)	(2,003,843)
	<hr/>	<hr/>	<hr/>
Taxation	195,143	–	171,524
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Loss for the year attributable to equity holders of the parent	(1,997,656)	(417,040)	(1,832,319)
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	£	£	£
Loss per share			
Basic and diluted	4 (0.46)p	(0.13)p	(0.52)p

ViaLogy PLC

Consolidated statement of changes in equity for the six months ended 30 September 2007

	Share capital	Share premium account	Warrant reserve	Foreign exchange reserve	Retained earnings	Total
	£	£	£	£	£	£
At 1 April 2007	4,031,255	10,970,508	–	20,075	(4,345,317)	10,676,521
Loss for period	–	–	–	–	(1,997,656)	(1,997,656)
Exchange differences arising on translation of foreign operations	–	–	–	(676,847)	–	(676,847)
Share options expense	–	–	–	–	217,133	217,133
Fundraising costs	–	(84,320)	–	–	–	(84,320)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total income and expense recognised for the year	–	(84,320)	–	(676,847)	(1,780,523)	(2,541,690)
Arising on issue of shares	555,903	3,595,661	275,000	–	–	4,426,564
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Balance at 30 September 2007	<u>4,587,158</u>	<u>14,481,849</u>	<u>275,000</u>	<u>(656,772)</u>	<u>(6,125,840)</u>	<u>12,561,395</u>

ViaLogy PLC

Consolidated balance sheet at 30 September 2007

	Unaudited 30 Sep 2007 £	Unaudited 30 Sep 2006 £	Audited 31 Mar 2007 £
Assets			
Non current assets			
Property, plant and equipment	86,558	2,795	51,730
Intangible Assets	10,390,570	–	11,649,759
Financial Assets	200,000	200,000	200,000
Investments – associated companies	–	2,640,876	–
	10,677,128	2,843,671	11,901,489
Current assets			
Inventories	7,363	–	1,965
Trade and other receivables	45,879	638,777	43,332
Cash and cash equivalents	3,983,337	2,252,359	1,197,855
	4,036,579	2,891,136	1,243,152
Total Assets	14,713,707	5,734,807	13,144,641
Liabilities			
Current liabilities			
Trade and other payables	211,368	192,583	169,695
Non-current liabilities			
Deferred tax liability	1,940,944	–	2,298,425
Total liabilities	2,152,312	192,583	2,468,120
Capital and reserves attributable to equity holders of the Company			
Share capital	4,587,158	3,112,222	4,031,255
Share premium account	14,481,849	7,639,013	10,970,508
Warrant Reserve	275,000	–	–
Foreign Exchange translation reserve	(656,772)	–	20,075
Retained Earnings	(6,125,840)	(5,209,011)	(4,345,317)
Shareholders' funds	12,561,395	5,542,224	10,676,521
Total equity and liabilities	14,713,707	5,734,807	13,144,641

ViaLogy PLC

Consolidated cash flow statement for the six months ended 30 September 2007

	Unaudited 30 Sep 2007 £	Unaudited 30 Sep 2006 £	Audited 31 Mar 2007 £
Operating Activities			
Loss before tax	(2,192,799)	(101,152)	(2,003,843)
Adjustments for :-			
Share of associate	-	-	526,481
Finance income	(52,776)	(65,834)	(106,373)
Finance cost	1,275	-	353
Depreciation	15,689	311	17,492
Amortisation	1,040,359	-	869,385
Share option expense	217,133	-	126,970
Foreign exchange movements	(3,901)	(391)	26,426
Operating Activities before changes in working capital	(975,020)	(167,066)	(543,109)
Reduction/(Increase) in trade and other receivables	(2,547)	(153,403)	1,023
Increase in inventories	(5,398)	-	(1,965)
(Reduction)/Increase in trade and other payables	41,673	156,137	(91,975)
Interest received	52,776	65,834	106,373
Interest paid	(1,275)	-	(353)
Cash generated from operations	(889,791)	(98,498)	(530,006)
Investing activities			
Acquisition of subsidiary, net of cash acquired	-	-	(685,174)
Internally generated intangible asset	(615,626)	-	(350,286)
Acquisition of tangible fixed assets	(51,346)	(240)	(50,237)
Increase in loans to investee companies	-	(462,875)	-
	(1,556,763)	(561,613)	(1,615,703)
Financing Activities			
Cash inflow from issue of new shares (net of issuance costs)	4,315,680	-	-
Cash inflow from exercise of options	26,565	-	-
Decrease in cash and cash equivalents	2,785,482	(561,613)	(1,615,703)
Cash and cash equivalents at beginning of year	1,197,855	2,813,558	2,813,558
Cash and cash equivalents at end of year	3,983,337	2,251,945	1,197,855

ViaLogy PLC

Notes forming part of the parent company financial statements

1 Accounting policies

Basis of preparation

The financial information has been prepared in accordance with International Financial Reporting Standards (IFRS) and stated in British pounds (£). In preparing the interim financial statements, the same accounting policies are applied as in the preparation of the audited Financial Statements for the year ended 31 March 2007 except for the changes set out below.

The above financial information does not constitute statutory accounts within the meaning of Section 240, Companies Act 1985. The information relating to the six months ended 30 September 2007 has been reviewed but not audited. Information relating to the year ended 31 March 2007 has been extracted from the statutory accounts of the Group which have been audited by the Group's auditors BDO Stoy Hayward and whose report thereon is unqualified.

Changes in accounting policies

In the current financial year, the Group will adopt IFRS 7 "Financial instruments: disclosures" for the first time. As IFRS 7 is a disclosure standard, there is no impact of that change in accounting policy on the half-yearly financial report. Full details of the change will be disclosed in our annual report for the year ended 31 March 2008.

2 Segmental analysis

The Group's primary and secondary formats for reporting segment information are shown below. The primary operations segment is based in the USA; the head office primary segment is based in the UK. The differing geographical locations being the secondary segment overlap completely with the differing nature of the business segments.

2007 Business Segments	Operations	Head Office	Consolidated
	£	£	£
Revenue	22,567	–	22,567
Operating Profit	22,159	–	22,159
Gross Finance Income	1,672	51,104	52,776
Net loss for the period	(1,702,560)	(493,239)	(2,192,799)
Segment assets	6,550,473	4,126,655	10,677,128
Segment liabilities	2,008,227	144,085	2,152,312
Costs to acquire plant property and equipment	50,530	816	51,346
Costs to acquire intangible assets	615,626	–	615,626
Depreciation and amortisation	1,055,489	556	1,056,048
Share based payments charged	–	217,133	217,133

All sales were to external customers.

ViaLogy PLC

Notes forming part of the parent company financial statements

2006 Business Segments	Operations	Head Office	Consolidated
	£	£	£
Revenue	–	3,204	3,204
Operating Loss	–	(166,986)	(166,986)
Net Finance Income	–	65,834	65,834
Net loss for the period	–	(101,152)	(101,152)
Segment assets	–	7,676,215	7,676,215
Segment liabilities	–	(192,583)	(192,583)
Depreciation and amortisation	–	310	310

All sales were to external customers.

The operations business segment was acquired by way of acquisition on 26 October 2006 thus there are no comparatives for the six months ended 30 September 2006.

3 Taxation on profits from ordinary activities

The movement on the tax account relates to the release of the provision on the deferred tax credit. The calculation is shown below:

	2007	2006
	£	£
At 1 April 2007	2,298,425	–
Release for the six months to 30 Sept 2007	(195,143)	–
Foreign exchange translation	(162,319)	–
At 30 September 2007	1,940,963	–

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 35%.

4 Loss per share

Basic

The calculation of earnings per share is based on the loss for the year of £1,997,656 (2006 – loss £417,040) and on 434,204,404 (2006 – 311,222,223) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

Diluted

Diluted earnings per share dilute the basic earnings per share to take into account share options and warrants. The calculation includes the weighted average number of ordinary shares that would have been issued on the conversion of all the dilutive share operations and warrants into ordinary shares. 38,296,484 options and 3,693,654 warrants have been excluded from this calculation as this would reduce the loss per share.

ViaLogy PLC

Notes forming part of the parent company financial statements

5 Share capital

	2007 Number	Authorised 2006 Number	2007 £	2006 £
Ordinary Shares of 1p Each	750,000,000	500,000,000	7,500,000	5,000,000
		Allotted, called up and fully paid		
	2007 Number	2006 Number	2007 £	2006 £
Ordinary Shares of 1p Each				
At 1 April	403,125,537	311,222,223	4,031,255	3,112,222
Shares issued for cash	55,000,000		550,000	
Employee Share option exercised	590,334		59,033	
At 30 September	458,715,871	311,222,223	4,587,158	3,112,222

On 26 October 2006 the Company issued 91,903,314 new ordinary shares of 1p at their fair value of 4.625p each to purchase the remaining 56.34% of ViaLogy Corp.

On 19 June 2007 the Company issued 55,000,000 shares of 1p each at 8p per share by way of a private placing.

On 23 August 2007, the Company issued 590,334 ordinary shares of 1p each upon the exercise of share options at an exercise price of 4.5 pence per share.

6 Reserves

2007	Ordinary share capital £	Share Premium account £	Warrant Scheme reserve £	Foreign Exchange £	Retained earnings £
At 1 April 2007	4,031,255	10,970,508	–	20,075	(4,345,317)
Arising on issue of Shares	555,903	3,595,661	275,000	–	–
Fundraising costs	–	(84,320)	–	–	–
Loss for the period	–	–	–	–	(1,997,656)
Arising in the period	–	–	–	(676,847)	–
Share option expense	–	–	–	–	217,133
At 30 September 2007	4,587,158	14,481,849	275,000	(656,772)	(6,125,840)

ViaLogy PLC

Notes forming part of the parent company financial statements

2006	Ordinary share capital £	Share Premium account £	Warrant Scheme reserve £	Foreign Exchange £	Retained earnings £
At 1 April 2006	3,112,222	7,639,013	–	–	(5,107,858)
Arising on issue of Shares	919,033	3,331,495	–	–	–
Losses previously recognised on investment in associate	–	–	–	–	2,467,890
Loss for the year	–	–	–	–	(1,832,319)
Arising in the year	–	–	–	20,075	–
Share option expense	–	–	–	–	126,970
At 31 March 2007	<u>4,031,255</u>	<u>10,970,508</u>	<u>–</u>	<u>20,075</u>	<u>(4,345,317)</u>

The following describes the nature and purpose of each reserve within shareholders equity:

Reserve

Share premium account

Retained earnings

Foreign Exchange

Description and purposes

Amount subscribed for share capital in excess of nominal value.

Cumulative net gains and losses recognised in the consolidated income statement.

Exchange difference arising on translation of foreign operations.



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