

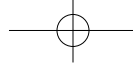
centurion[®]
electronics plc

ANNUAL REPORT 2007

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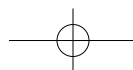
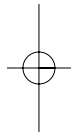
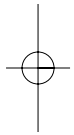
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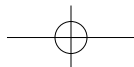
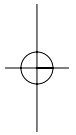
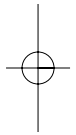
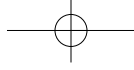
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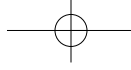


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Directors & Advisers

Directors

C Rhodes
E Kastner
M Diamond
K Davis (resigned 28 September 2007)
M Harrison (resigned 19 January 2008)
I Rees (resigned 31 August 2007)

Principal Solicitors

Finers Stephens Innocent
179 Great Portland Street
London
W1W 5LS

Secretary and Registered Office

C Rhodes
Satellite House, City Park
Swiftfields
Welwyn Garden City
Herts
AL7 1LY

Company Number

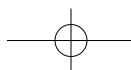
2826917

Auditors

Ernst & Young LLP
400 Capability Green
Luton
LU1 3LU

Principal Bankers

Fortis
Greenwood House
91/99 New London Road
Chelmsford Road
Essex
CM2 0PP



Chairman's Statement and Financial Review

Introduction

The financial year ended 30 September 2007 has been another year of transition and development for Centurion Electronics. The Directors are disappointed with the result for the year which has been caused by delays in product launches by the motor manufacturers and the level of orders placed by the current manufacturers.

During this financial year, the Company was successful in winning two additional OEM customer contracts; one with Honda Access Europe and one with Audi China; and one additional contract from our largest customer Toyota Motor Europe. These successes mean that the Company's reliance on one customer has been significantly reduced. However, the revenues from these contract wins will not be realised until Q3 of financial year ending September 2008.

Our product range now incorporates core technologies that have been transferred across many products within our customer offerings. In doing this, the Company benefits from economies of scale on components and ensures a manageable supply base, most of which are Tier 1 automotive accredited suppliers.

Review

During this year, the Company has been developing the marketing services offered to all customers. Market research has been a core area of focus that has been instrumental in raising the credibility of the Company with OEMs and also assisted in the development of launch plans with Honda Access Europe.

The Company's plans announced earlier this year to reduce costs by 10% by the end of the financial year have now been executed. Overheads are an area of on-going review as part of the Company's plans to reduce operating costs and return the company to profitability during the next financial year.

New Business

As reported in the interim accounts for 2007, Centurion was successful in achieving three additional supply contracts. The first contract awarded in February with Toyota Motor Europe, for the supply of a premium in-car entertainment system was launched in 2007 as planned and will be initially available across five

models. Revenues from this system will contribute to Q3 of the financial year ending September 2008. The system has been given an official launch into the market place and is being supported by literature and demo vehicles in dealerships.

The second contract, awarded in April with Honda Access Europe, for the supply of our newly developed modular integrated rear-seat entertainment system, will be launched into the market place in Q3 of financial year ending September 2008 on the new 2008 model year CR-V and Accord with a roll-out across the model range throughout the next two quarters.

Our marketing team has been working closely with Honda and a promotional launch activity programme is in place commencing with the official launch of the system at the Geneva Motor Show in March 2008. It is extremely encouraging that Honda Access Europe has welcomed working with Centurion in this way and it has paved the way for a strong working relationship.

The third contract, awarded in May with Audi China for the C6 programme, will be launched in Q3 of financial year ending September 2008. The programme timing has moved slightly due to vehicle schedules, however, the revenues will continue to contribute to Q3 of the same financial year.

Financial Performance

The Company's turnover for the year ended 30 September 2007, reduced by £2.6 million to £4.6 million. The prior year included sales to specialist retail markets, which was exited during the first half of 2006. Underlying automotive sales were lower on the back of reduced end customer campaigns, which was necessary in order to manage the risk of component stock obsolescence prior to the introduction of product refresh activities.

The operating loss for the year was of £1.38 million (2006: loss of £1.17 million), while the pre-exceptional operating loss for the year was £1.15 million (2006: loss of £0.43 million). This produced a loss per share of 11.11p compared to a loss per share of 5.48p in 2006. The pre-exceptional loss per share was 9.44p compared to a loss per share of 8.81p in 2006.

Exceptional charges in 2007 include a charge for professional and legal fees incurred following an abortive acquisition and also the charge for share based payments as required by FRS 20.

Chairman's Statement and Financial Review (continued)

The gross profit margin achieved on sales in 2007 has increased from that achieved in 2006 reflecting the continuing refocus of the business having exited the lower margin specialist retail market.

Administration costs in 2007 were maintained at prior year pre-exceptional levels having concluded the restructuring during the first half of 2006, and ensuring the company's cost base is aligned to the automotive strategy. This was achieved despite significant programme expenditure against the automotive contract wins which will deliver revenue in subsequent years.

Banking, liquidity and financing

In April 2007, the company issued a further £1.0 million of 10% convertible loan notes to Ravensworth (International) Limited which are redeemable on or before 13th March 2009 if not previously converted.

In addition to the financing above obtained during the year, in January 2008, the below financing arrangements were also put in place.

The Loan Agreement

The Company has entered into a two year loan agreement with Lloyds TSB split into i) a receivables invoice discounting facility with an advance rate of 85% for both Euro and Sterling up to 120 days with a key customer concentration cap of 50% ongoing; interest is charged at 1.75% over Lloyds TSB base rate with a maximum facility review limit of £1,500,000. ii) a stock line facility up to 50% of agreed stock valuation with a limit of £150,000; interest is charged at 2.25% over Lloyds TSB base rate.

The Ravensworth Agreement

The Company has entered into a convertible loan agreement with Ravensworth whereby a further £750,000 has been provided by Ravensworth and Ravensworth will forgo its first charge and take second charge over all the Company's assets in favour of Lloyds TSB. These new convertible loan notes will carry an interest rate of 10 per cent per annum and have a two year life during which at any time Ravensworth can elect to convert the loan notes into Centurion ordinary shares at a price of 0.5p per share. Ravensworth has agreed to the above on the basis

that the existing £2,000,000 Convertible Loan Notes in place and the £250,000 Working Capital Facility will be cancelled and replaced with New Convertible Loan Notes carrying the same terms as will apply to the £750,000 loan notes to be currently issued. As such, upon completion of the Restructuring, one new convertible loan in the amount of £3,000,000 would be outstanding to Ravensworth convertible at Ravensworth's option only for a two year period which, if converted in full, would result in the issue of 600,000,000 New Ordinary Shares of 0.5p per share. The New Convertible Loan Notes carry interest and are payable quarterly in arrears, at 10% per annum.

A requirement of the above agreement is that the Company must call an EGM in May 2008 to ratify the above agreement and to obtain shareholder approval to effect such a capital reorganisation as necessary to give Ravensworth control over 97.7% of the company on conversion. If this is not obtained then the convertible loan note can at the option of Ravensworth apply interest at a rate of 25% on the entire balance of £3,000,000.

People

I would like to welcome all new employees to the Company; the Company currently employs circa 30 people and morale has continued to remain high throughout the financial year.

Outlook and Future Prospects

The Company is focused on achieving new contracts within this next financial year ended September 2008, successfully launching the contracts referred to above as well as focusing on the further development of existing customer relationships through marketing initiatives all with a view to returning the company to profitability.



Ernst Kastner
Chairman

Centurion Electronics Plc - Annual report and financial statements for the year ended 30 September 2007

Report of the Directors

for the year ended 30 September 2007

The directors have pleasure in submitting their report and the audited financial statements for the year ended 30 September 2007.

Business of the company

The principal activities of the company in the year under review continued to be the design, development and supply of automotive infotainment systems.

A review of the development of the business of the company during the year; its position at the end of it and likely future developments in the business are set out in the Chairman's statement and Financial Review on pages 2 to 3.

Results and Dividends

The profit and loss account is set out on page 11 and shows a loss for the year of £1,519,569 (2006: loss of £427,178).

The directors do not recommend the payment of a final dividend (2006: nil).

Review of the business and future developments

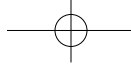
The Chairman's Statement and Financial Review, which form part of this report, describe the activities during the financial year; recent events and the outlook for the future.

The Directors' believe the following measures to represent the key performance indicators (KPIs) of the company:

	2007	2007	2006	2006
	Pre	Post	Pre	Post
	Exceptional	Exceptional	Exceptional	Exceptional
	£	£	£	£
Turnover	4,608,638	4,608,638	7,251,962	7,251,962
Gross profit	2,334,991	2,334,991	2,986,319	2,986,319
Loss before tax	(1,291,664)	(1,519,569)	(686,249)	(427,178)
Basic loss per share	(9.44p)	(11.11p)	(8.81p)	(5.48p)

Risks: The major risk to the business is the failure to meet the sales forecasts anticipated and as disclosed in note 1 to the financial statements. Whilst an overall economic downturn is a possibility in the forthcoming financial year; this often results in OEMs increasing their offer of accessories on a campaign basis to stimulate vehicle sales and protect their market share. The risks to the business are currently around the proliferation of launch activity during Q3 with three major vehicle launches, the risk of introduction delays and late engineering changes are always a possibility. So too are delays and difficulties encountered in the supply base. Mitigating strategies are in place and a conservative view of these factors has been taken into account in the financial planning.

Opportunities: As stated above, the possibility of launch delays and/or programme management issues are a risk. However; the Company's new customers are excited about the prospect of launching these market leading products. To this extent, advanced discussions are in play regarding campaign opportunities and marketing incentives across Europe. It is believed that whilst not all will be implemented there is sufficient evidence to suggest that the impact of opportunities will outweigh the negative impact of the risks.



Report of the Directors (continued)

for the year ended 30 September 2007

Furthermore, installation rates at an average of 2% have been carried forward from previous years. Given that all the new products being launched have a lower consumer cost value it is expected that take-up will be higher than that predicted. Although this is likely to have more of a material impact in financial year 2009, the green shoots of growth are likely to be experienced in the fourth quarter of 2007/08.

Risk Management

The risks facing the business are assessed on an ongoing basis. The executive Directors evaluate the likelihood and potential impact of each risk and ensure appropriate action is taken to mitigate them. A number of key risks such as liquidity, interest rate and foreign currency come under the direct control of the executive directors.

Centurion's policy on interest rate risk is to minimise net interest charges. Operations are financed through a mixture of convertible loans, invoice discounting, and leasing arrangements (predominantly operating leases related to company vehicles and leasehold premises). The company's bank deposits are at floating rates.

Centurion's policy on liquidity risk is to maintain sufficient funding to meet any foreseeable peak in cash requirements. Short term flexibility is provided through the Lloyds TSB invoice discounting. Liquidity risk is monitored regularly through cash reports, cash forecasts and comparisons to budgets.

Centurion's main customers are blue chip automotive manufacturers which give rise to little or no credit risk.

Further information relating to interest rate and foreign currency risk is given in note 20 of the accounts.

Employees

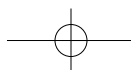
The directors consider its employees as essential to the continued prosperity of the company. As a result it maintains motivation through a full appraisal process, remuneration review and participation in share options. This has kept staff turnover well below the industry average. Integral to this is the sharing of information with employees that is of interest and concern to them. The directors further encourage openness and discussion between members of staff at all levels.

Research and Development

The company is committed to its development programme, taking customer vehicle concepts and developing a solution for ICE incorporating future proof functionality.

Environmental issues

The Company has recently approved expenditure for the implementation and accreditation to ISO14001 standards. In addition all of its products now conform to the RoHS directive that became law in July 2007. Compliance with IMDS end of life legislation is also on track.



Centurion Electronics Plc - Annual report and financial statements for the year ended 30 September 2007

Report of the Directors (continued)

for the year ended 30 September 2007

Directors

Changes in the directors of the company during the year are as follows:

I Rees resigned as OEM Sales director on 31 August 2007. K Davis resigned as Supply Chain Director on 28 September 2007.

Directors' interests in shares

Directors' interests in the issued share capital of the company are set out as follows:

	Ordinary 5p Shares	
	2007 Number	2006 Number
C Rhodes	20,600	20,600
M Diamond	20,420	20,420
M Harrison	100	100

Directors' share options

The outstanding share options of the directors under the EMI share scheme are set out below:

	1 October 2006	Cancelled during the year	Re-issued during the year	30 September 2007
C Rhodes	145,454	145,454	513,011	513,011
M Harrison	145,454	–	–	145,454

The options issued to C Rhodes on 3 April 2006 were cancelled and re-issued on 17 April 2007. No options were exercised in 2007.

The outstanding share options of the directors under the unapproved share option scheme are set out below:

	1 October 2006	Cancelled during the year	Re-issued during the year	30 September 2007
C Rhodes	218,180	–	–	218,180

No options under the unapproved scheme were exercised during 2007 or 2006.

Further details relating to the company's share option schemes are shown in note 15.

Changes in share capital

At the beginning of the year, the authorised share capital was £1,203,333 divided into 24.067 million ordinary shares of 5p each. At the Annual General Meeting on 21 March 2007, the authorised share capital of the company was increased by £100,000 by the creation of 2 million new ordinary shares of 5p each. The resultant authorised share capital became £1,303,333 divided into 26.067 million shares of 5p.

Full details of the movements in the issued share capital of the company are given in note 15 to the accounts

Report of the Directors (continued)

for the year ended 30 September 2007

Major Shareholders

At 30 September 2007, the following interests of shareholders in excess of 3% have been notified to the company:

	Number of ordinary shares held	Ordinary shares as % of issued share capital
Mr RG Persey & Family	3,727,800	27.25
Portimao Investments Limited	2,400,000	17.54
Ravensworth International Limited	1,307,560	9.56
Fidelity Investments	1,122,830	8.21
Rock (Nominees) Ltd	1,075,140	7.86
Electra Partners	1,038,982	7.59
Advance Aim Value Realisation Co Ltd	1,014,747	7.42

Policy on the payment of creditors

It is the policy of the company to negotiate and agree payment terms with each individual supplier. Creditors are paid in accordance with these agreed terms. The number of days purchases of the company represented by trade creditors at 30 September 2007 was 29 (2006: 53).

Donations

During the year the company did not make any charitable donations (2006: £nil).

Going concern

The directors are satisfied that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly these financial statements have been prepared on a going concern basis. There are inherent uncertainties around this assessment as detailed in note 1 to the financial statements.

Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year. In preparing those 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 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.

Centurion Electronics Plc - Annual report and financial statements for the year ended 30 September 2007

Report of the Directors (continued)

for the year ended 30 September 2007

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

The directors are responsible for ensuring that the directors' report and other information included in the annual report is prepared in accordance with company law in the United Kingdom.

Financial statements are published on the company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Auditors

We are not proposing to re-elect Ernst & Young as auditors at the forthcoming Annual General Meeting.

Directors' statement as to the disclosure of information to auditors

The directors who were members of the Board at the time of approving the directors' reports are listed on page 1. Having made enquiries of fellow directors and of the Company's auditors, each of these directors confirms that:

- to the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the Company's auditors are unaware; and
- each director has taken all steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information.

By order of the board



C Rhodes

Secretary

Date: 4 April 2008

Report of the Independent Auditors

To the shareholders of Centurion Electronics Plc

We have audited the company's financial statements for the year ended 30 September 2007 which comprise the Profit and Loss Account, the Balance Sheet, and the Cash Flow Statement, and the related notes 1 to 23. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, 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 members 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 members 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 United Kingdom law and 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. This other information comprises only the Chairman's

Statement and Financial Review and the director's report. 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to 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 the company's affairs as at 30 September 2007 and of its loss 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.

Centurion Electronics Plc - Annual report and financial statements for the year ended 30 September 2007

Report of the Independent Auditors (continued)

for the year ended 30 September 2007

Emphasis of Matter – Going Concern

In forming our opinion, we have considered the adequacy of the disclosures made in Note 1 of the financial statements concerning the material uncertainty over the company's ability to continue as a going concern. The financial statements are prepared on a going concern basis which is dependent on the timing and quantity of actual sales being in line with the forecast prepared by management which is based on indicative quantities received from the motor manufacturers. However, there can be no certainty that these sales forecasts and consequent cash flows will be met.

There is also uncertainty around the future interest expense whereby after obtaining additional funding from Ravensworth in January 2008, there is a possibility that the interest rate charged on the £3,000,000 convertible loan note will increase to 25% if the new post balance sheet financing arrangement with Ravensworth is not approved at the EGM as stated in Note 1. Management have prepared forecasts which indicate that they would be able to service this debt for the foreseeable future, but this is dependent on achieving sales volume based on the indicative quantities from the motor manufacturers.

In view of the existence of these material uncertainties we consider that it should be brought to your attention, but our opinion is not qualified in this respect.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditors
Luton

Profit and Loss Account

for the year ended 30 September 2007

	Notes	2007 Pre- exceptional £	2007 Exceptional* £	2007 Total £	2006 Pre- exceptional £	2006 Exceptional* (restated) £	2006 Total (restated) £
Turnover	2	4,608,638	–	4,608,638	7,251,962	–	7,251,962
Cost of sales		(2,273,647)	–	(2,273,647)	(4,265,643)	–	(4,265,643)
Gross profit		2,334,991		2,334,991	2,986,319	–	2,986,319
Administrative expenses		(3,482,151)	(227,905)	(3,710,056)	(3,416,410)	(737,119)	(4,153,529)
Operating (loss)	3	(1,147,160)	(227,905)	(1,375,065)	(430,091)	(737,119)	(1,167,210)
Loss on disposal of fixed assets	3	–	–	–	–	(9,771)	(9,771)
Interest payable and similar charges	6	(144,504)	–	(144,504)	(256,158)	1,005,961	749,803
(Loss)/profit on ordinary activities before taxation		(1,291,664)	(227,905)	(1,519,569)	(686,249)	259,071	(427,178)
Taxation on (loss)/profit on ordinary activities	7	–	–	–	–	–	–
(Loss)/profit on ordinary activities after taxation		(1,291,664)	(227,905)	(1,519,569)	(686,249)	259,071	(427,178)
(Loss)/earnings per share	8						
Basic		(9.44p)	(1.67p)	(11.11p)	(8.81p)	3.33p	(5.48p)
Diluted		(9.44p)	(1.67p)	(11.11p)	(8.81p)	3.33p	(5.48p)

* Further details of exceptional items are disclosed in note 3

There are no other recognised gains, or losses, other than the loss of £1,519,569 (2006: loss of £427,178) as stated above.

Centurion Electronics Plc

Balance Sheet

at 30 September 2007

	Note	2007 £	2007 £	2006 £	2006 £
Fixed assets					
Intangible assets	9		51,142		44,286
Tangible assets	9		608,546		726,120
			659,688		770,406
Current assets					
Stocks	10	466,570		623,186	
Debtors	11	733,309		1,741,087	
Cash at bank and in hand		810,929		728,360	
		2,010,808		3,092,633	
Creditors: amounts falling due within one year	12	(1,313,850)		(1,996,918)	
			696,958		1,095,715
Net current assets					
			1,356,646		1,866,121
Total assets less current liabilities					
Creditors: amounts falling due after more than one year	13	(2,008,750)		(1,116,090)	
			(2,008,750)		(1,116,090)
Net (liabilities)/assets					
			(652,104)		750,031
Capital and reserves					
Called up share capital	15		880,681		880,681
Share premium account	16		7,139,660		7,139,660
Capital redemption reserve	16		130,000		130,000
Profit and loss account	16		(8,802,445)		(7,400,310)
Shareholders' (deficit)/funds – Equity	17		(652,104)		750,031

The financial statements were approved by the Board on 4 April 2008.



C Rhodes
Director

Notes 1 to 23 form part of these financial statements.

Cash Flow Statement

for the year ended 30 September 2007

	Note	2007 £	2007 £	2006 £	2006 £
Net cash (outflow)/inflow from operating activities	21		(640,956)		358,446
Returns on investments and servicing of finance					
Interest paid		(166,227)		(252,882)	
Finance lease interest		(777)		(3,276)	
		-----		-----	
Net cash outflow from returns on investments and servicing of finance			(167,004)		(256,158)
Capital expenditure and financial investment					
Purchase of intangible fixed assets		(6,856)		(44,286)	
Purchase of tangible fixed assets		(130,757)		(142,054)	
Sale of tangible fixed assets		11,887		15,709	
		-----		-----	
			(125,726)		(170,632)
Net cash outflow before financing			(933,686)		(68,344)
Financing					
Short term import loans (paid)		-		(2,083,403)	
Bank loans repaid		(35,168)		(45,334)	
Loan note issued		1,000,000		1,000,000	
Other loans received		99,385		150,615	
Capital element of finance lease rental payments		(47,962)		(98,156)	
Share issues (net of expenses)		-		3,066,981	
		-----		-----	
			1,016,255		(1,990,703)
Increase in cash	22		82,569		1,922,359
			-----		-----

The notes on pages 14 to 29 form part of these financial statements.

Notes Forming Part of the Financial Statements

for the year ended 30 September 2007

Accounting policies

The financial statements have been prepared under the historical cost convention and are in accordance with applicable accounting standards. The accounting policies applied are the same as in the previous financial year except the company has adopted the requirements of FRS 20 'Share-based Payment'.

In preparing the financial statements for the current year, the group has adopted FRS 20 'Share-based Payment', which has resulted in a change in accounting policy for share-based payment transactions. FRS 20 requires the fair value of options and share awards to be charged to the profit and loss account over the vesting or performance period. No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied. For equity-settled transactions the fair value is determined at the date of the grant using an appropriate pricing model. If an award fails to vest as the result of non-market conditions not being satisfied, the charge to the income statement will be adjusted to reflect this. Additional staff costs of £117,434 (2006: £168,077) have been recognised in the profit and loss account.

The following principal accounting policies have been applied:

Turnover

Turnover is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duty. Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on despatch of goods.

Depreciation

Depreciation is provided to write off the cost, less estimated residual values, of all tangible fixed assets over their expected useful lives. It is calculated at the following rates:

Motor vehicles	–	20% per annum on reducing balance
Fixtures & fittings	–	10% – 50% per annum on cost
Office equipment	–	20% per annum on cost
Tooling	–	25% per annum on cost

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Stocks

Stocks are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items. Cost includes all costs incurred in bringing each product to its present location and condition. Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

Research and development

Expenditure on pure and applied research is charged to the profit and loss account in the year in which it is incurred. Where the company undertakes development activities and where those activities are in respect of a specific product that is anticipated to be profitable within the market, the costs attributable to that development are capitalised as intangible fixed assets at cost. These costs will be amortised over the expected life of the product.

Financial Instruments

In relation to the disclosures made in note 20:

- Short term debtors and creditors are not disclosed as financial assets or financial liabilities except for the currency disclosures;
- The company does not hold or issue derivative financial instruments for trading purposes; and
- Forward exchange contracts are used to fix the exchange rate of committed and anticipated foreign currency transactions. Gains and losses arising are not recognised until the transaction occurs.

Accounting policies (continued)**Foreign currency**

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward foreign currency contract. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet dates, or if appropriate the forward contract rate. Any differences are taken to the profit and loss account.

Pensions

The company contributes to a money purchase pension scheme. The amounts charged to the profit and loss in respect of pension costs represent contributions payable in the year. Differences between contributions payable and actually paid are shown as either accruals or prepayments in the balance sheet.

Loans

At 30 September 2007, the company had bank and other loans. These were initially recorded in the balance sheet at the net proceeds value. Any interest is charged to the profit and loss account over the term of the loan at constant rate on the carrying amount of the debt. The carrying values of the loans are reduced as principal payments are made.

Deferred tax

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax with the following exception:

- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

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

Leased assets

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the company are capitalised in the balance sheet and are depreciated over the shorter of the lease term and the asset's useful life. The capital elements of future obligations under leases are included as liabilities in the balance sheet. The interest elements of the rental obligations are charged in the profit and loss account over the periods of the leases and represent a constant proportion of capital repayments outstanding.

Rentals payable under operating leases are charge in the profit and loss account on a straight line basis over the lease term. Lease incentives are recognised over the shorter of the lease term and the date of the next rent review.

Lease payments are analysed between capital and interest components so that the interest element of the payment is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding. The capital part reduces the amounts payable to the lessor. All other leases are treated as operating leases. Their annual rentals are charged to the profit and loss account on a straight-line basis over the term of the lease.

National Insurance on Share Options

To the extent that the share price at the balance sheet date is greater than the exercise price on options granted under unapproved schemes a charge for any National Insurance contributions payable by the company is accrued over the performance period and has been based on the prevailing rate of National Insurance.

Notes Forming Part of the Financial Statements

for the year ended 30 September 2007 (continued)

1 Fundamental uncertainty

In January 2008, the Company acquired additional funding to meet its commitments as they fall due. This has been secured through an invoice financing arrangement capped at 85% of the debtor's value and stock financing of £150,000 agreement from Lloyds TSB.

In addition in January 2008 the directors accepted an offer from Ravensworth to inject a further £750,000 by way of convertible loan notes bringing the amount of their loan notes to £3,000,000. In consideration for this additional funding, Ravensworth have requested that the previous loan notes be combined into a new £3 million convertible loan note. In addition, the company is required to hold an EGM by May 2008 and ensure that a resolution is passed at this meeting which will allow whatever changes to be made to the capital structure of the company such that if Ravensworth chooses to convert their £3 million convertible loan note to ordinary shares, they will own 97.7% of the ordinary share capital of the company. The loan note is convertible at any time at the option of Ravensworth. If this resolution is not passed at the EGM or within 10 days of the EGM, the interest accruing on the £3 million convertible loan note can increase at Ravensworth's option from 10% per annum to 25% per annum from the date that Ravensworth exercise the option. Whilst the company has secured an irrevocable written undertaking from the largest shareholder who holds 27.25% of the voting share capital of the company, that they will vote in favour of the resolution, currently there can be no certainty that the resolution will be passed.

The directors have prepared sales, profit and cash flow forecasts for the period until September 2009. The principal uncertainty in achieving these forecasts relates to the timing and quantity of orders received from the major motor manufacturers, the most significant to the company being Toyota and Honda. Typically the manufacturers give indicative forecast quantities when contracts are signed. However, firm orders are only provided monthly. The new contract with Honda is expected to commence in May 2008. Any delay in commencement will significantly impact the cash flows forecasted.

The directors' forecasts rely on the timing and quantity of orders being consistent with the timing and quantities contained in the indicative forecast quantities provided by the manufacturers. As has been the experience in previous years, there can be no certainty that the timing and quantity of firm orders received will be consistent with manufacturers' indications.

In preparing the sales, profit and cash flow forecast for the period until September 2009, the directors have assumed that the timing and quantity of manufacturers' indications will convert to firm orders. In preparing these cash flow forecasts the directors have also considered the impact of the failure of the resolution to be passed at the EGM and interest on the £3 million convertible loan note being charged at 25%.

Having carefully considered the two uncertainties outlined above, the directors are satisfied that the cash flow forecast indicates that the company can meet its liabilities as they fall due for the foreseeable future. However, the margin of headroom available is small and inherently there can be no certainty in relation to these matters.

The directors believe that the forecast cash flows are achievable and therefore believe it is appropriate to prepare the accounts on the going concern basis. The financial statements do not include any adjustment to the balance sheet intangible and tangible fixed assets or provision for further liabilities which would result should the going concern basis not be appropriate. In particular if the sales forecasts were not achieved, it may be necessary to consider the impairment of the intangible fixed assets of £52,142 and the tangible fixed assets of £608,546.

2 Turnover, net assets and profits

Turnover, net assets and profits are wholly attributable to the principal activity of the company.

No further segmental reporting disclosures have been presented in these financial statements as the directors believe these would be seriously prejudicial to the interests of the company.

3 Operating loss, exceptional items and auditor's remuneration

This is arrived at after charging/(crediting)

	2007	2006
	£	£
Depreciation of tangible fixed assets	229,763	243,719
Exceptional items (see below)	110,471	578,813
Operating leases – other than plant and machinery	166,570	168,593
Foreign exchange (gain)	(133,094)	(244,609)
Auditors' remuneration:		
Audit of the financial statements	42,195	36,750
Other fees to auditors – taxation services	13,150	12,000
– corporate finance services	70,250	31,000
	<hr/>	<hr/>

Exceptional Items

Included in administrative expenses for the year ended 30 September 2007 is an exceptional charge of £103,011 (2006: £nil) relating to the professional and legal fees incurred in respect of an abortive acquisition. During the year the directors considered the acquisition of a competitor and fees were incurred in the carrying out of due diligence. However, the competitor decided it was not the best option for their company. There was also an amount of £7,460 relating to legal fees and costs for the remaining specialist debt. Also included in administrative expenses is the share based payment charge of £117,434 (2006: £168,077).

The cash flow implications relating to the exceptional items during the year totalled £115,971 as detailed above.

Included in administrative expenses for 2006 is an exceptional charge for redundancy and other costs following restructuring, in the amount of £569,042. A further charge of £9,771 relates to the disposal of certain fixed assets.

The cash flow implications relating to the exceptional items during 2006 totalled £379,264, being redundancy £73,216, consulting costs £133,890 and other administrative costs £172,158.

4 Employees

	2007	2006
	£	£
Staff costs (including directors) consist of:		
Wages and salaries	1,746,304	1,554,285
Social security costs	195,117	173,318
Other pension costs	86,361	41,522
Share-based payment	117,434	205,376
	<hr/>	<hr/>
	2,145,216	1,974,501
	<hr/>	<hr/>

The average number of employees, including directors, during the year was as follows:

	Number	Number
Management and administration	10	9
Sales and distribution	12	17
Technical and engineering	21	16
	<hr/>	<hr/>
	43	42
	<hr/>	<hr/>

Notes Forming Part of the Financial Statements

for the year ended 30 September 2007 (continued)

5 Directors' remuneration

	2007	2006
	£	£
Aggregate emoluments	603,158	591,298
Compensation for loss of office	55,002	–
Company contributions made to money purchase pension scheme	35,728	33,970
	<u> </u>	<u> </u>

Included within the aggregate emoluments is an amount in respect of the highest paid director of £174,644 (2006: £169,817).

There are two directors in the company's money purchase pension scheme (2006: four). Company contributions for money purchase pension scheme in respect of the highest paid director amounted to £16,380 (2006: £16,055).

During the year none of the directors (2006: none) exercised their share options.

6 Interest payable and similar charges

	2007	2006
	£	£
Invoice discounting charges	–	18,555
Other loan interest	32,684	193,025
Convertible loan interest	111,043	41,301
Finance lease interest	777	3,277
Exceptional credit – write down of debt	–	(1,005,961)
	<u> </u>	<u> </u>
	144,504	(749,803)
	<u> </u>	<u> </u>

Included in interest payable and similar charges for the year ended 30 September 2006 is a credit of £1,005,961. This relates to a write down of debt following the re-financing that occurred on 13 March 2006.

7 Taxation on loss on ordinary activities

	2007	2006
	£	£
Current tax		
UK corporation tax on loss for the year	–	–
	<u> </u>	<u> </u>
Total current tax	–	–
Deferred tax		
Origination and reversal of timing difference	–	–
	<u> </u>	<u> </u>
Taxation on loss on ordinary activities	–	–
	<u> </u>	<u> </u>

7 Taxation on loss on ordinary activities (continued)

The tax assessed for the year is different from the standard rate of corporation tax in the UK of 30% (2006: 30%). The differences are reconciled below:

	2007 £	2006 £ re-stated
(Loss) on ordinary activities before taxation	(1,519,569)	(427,178)
(Loss) on ordinary activities at the standard rate of corporation tax in the UK of 30% (2006: 30%)	(455,871)	(128,153)
Effects of:		
Expenses not allowable for tax purposes	44,890	57,984
Depreciation in excess of capital allowances	23,291	64,700
Unrelieved losses carried forward	387,690	11,469
Other timing differences	–	(6,000)
Current tax charge for year	–	–

The company has estimated trading losses of £9,279,519 (2006: £8,361,716) offset by accelerated capital allowances of £185,158 (2006: £262,794) available for offset against future profits. The company has not recognised the deferred tax asset of £2,728,309 (2006: £2,429,677) since there is no persuasive evidence that there will be suitable taxable gains against which the losses can be relieved.

8 (Loss)/earnings per share

Earnings per ordinary share have been calculated using the weighted average number of shares in issue during the relevant financial years. These take into account the issue of 659,200,000 ordinary shares of 0.1p on 13 March 2006 and the subsequent consolidation of every fifty issued and unissued ordinary shares of 0.1p into one ordinary share of 5p each on 19 May 2006.

The numerator for the diluted earnings per share disclosure is the same as the basic earnings per share numerator. The options detailed in note 15 and convertible loan note have been considered but are currently anti-dilutive.

The denominator for the diluted earnings per share disclosure is as follows:

	2007	2006
Basic and diluted earnings per share denominator ordinary shares of 5p	13,680,295	7,792,639

Earnings per share excluding exceptional items

	2007 Total Earnings £	2007 Weighted average no. of shares	2007 Per Share	2006 Total Earnings £ Restated	2006 Weighted average no. of shares	2006 Per Share Restated
Basic and diluted EPS	(1,519,569)	13,680,295	(11.11p)	(427,178)	7,792,639	(5.48p)
Exceptional administrative expenses	227,905	–	1.67p	746,890	–	9.58p
Exceptional interest income	–	–	–	(1,005,961)	–	(12.91p)
Basic and diluted EPS excluding exceptional items	(1,291,664)	13,680,295	(9.44p)	(686,249)	7,792,639	(8.81p)

Notes Forming Part of the Financial Statements

for the year ended 30 September 2007 (continued)

9 Fixed assets

Intangible fixed assets

	Development Costs £
Cost	
At 1 October 2006	44,286
Additions	6,856
At 30 September 2007	<u>51,142</u>
Amortisation	
At 1 October 2006 and 30 September 2007	<u>–</u>
Net book value	
At 30 September 2007	<u>51,142</u>
At 30 September 2006	<u>44,286</u>

This comprises development and testing of a new core modular product. It has not been amortised as the product is not yet in use. However it is expected to be in use from March 2008 when the first sales of the new product are anticipated to be made. At this point, the asset will be amortised over three years on a straight line basis.

Tangible fixed assets

	Tooling £	Motor Vehicles £	Fixtures & Fittings £	Office Equipment £	Total £
Cost					
At 1 October 2006	350,521	163,158	573,802	351,869	1,439,350
Additions	94,353	–	19,440	16,964	130,757
Disposals	–	(40,950)	–	–	(40,950)
At 30 September 2007	<u>444,874</u>	<u>122,208</u>	<u>593,242</u>	<u>368,833</u>	<u>1,529,157</u>
Depreciation					
At 1 October 2006	188,212	66,009	276,045	182,964	713,230
Provided for the year	90,963	17,678	47,748	73,374	229,763
Disposals	–	(22,382)	–	–	(22,382)
At 30 September 2007	<u>279,175</u>	<u>61,305</u>	<u>323,793</u>	<u>256,338</u>	<u>920,611</u>
Net book value					
At 30 September 2007	<u>165,699</u>	<u>60,903</u>	<u>269,449</u>	<u>112,495</u>	<u>608,546</u>
At 30 September 2006	<u>162,309</u>	<u>97,149</u>	<u>297,757</u>	<u>168,905</u>	<u>726,120</u>

9 Fixed assets (continued)

The net book value of tangible fixed assets included assets held under finance leases and hire purchase contracts as follows:

	2007	2006
	£	£
<i>Net book value</i>		
Motor vehicles	60,903	97,149
Fixtures and fittings	10,955	12,742
	<hr/>	<hr/>
<i>Depreciation charged on these assets during the year was as follows:</i>		
Motor vehicles	17,678	24,131
Fixtures and Fittings	1,787	1,787
	<hr/>	<hr/>

10 Stocks

	2007	2006
	£	£
Finished goods held for resale	466,570	623,186
	<hr/>	<hr/>

There is no material difference between the replacement cost of stocks and the amounts stated above.

11 Debtors

	2007	2006
	£	£
Trade debtors	454,015	1,269,645
Other debtors	49,604	96,823
Prepayments	229,690	374,619
	<hr/>	<hr/>
	733,309	1,741,087
	<hr/>	<hr/>

12 Creditors: amounts falling due within one year

	2007	2006
	£	£
Other loans (secured as per note 13)	256,250	185,783
Trade creditors	182,893	625,182
Other taxation and social security	65,734	54,937
Obligations under finance lease and hire purchase contracts	22,178	54,049
Other creditors	311,901	811,348
Accruals	474,894	265,619
	<hr/>	<hr/>
	1,313,850	1,996,918
	<hr/>	<hr/>

Notes Forming Part of the Financial Statements

for the year ended 30 September 2007 (continued)

13 Creditors: amounts falling due after more than one year

	2007 £	2006 £
Other loans (secured – see below)	–	6,250
Convertible loan notes	1,977,500	1,000,000
Obligations under finance leases	–	16,090
Other creditors	31,250	93,750
	<u>2,008,750</u>	<u>1,116,090</u>
	2007 £	2006 £
Other loans are due:		
In one year or less or on demand	256,250	185,783
In more than one year but not more than two years	–	6,250
	<u>256,250</u>	<u>192,033</u>
Less: amounts included within creditors less than one year	(256,250)	(185,783)
	<u>–</u>	<u>6,250</u>

The bank loans are secured by fixed and floating charges over the assets of the company.

Convertible loan notes

	2007 £	2006 £
Obligations under convertible loan notes are due as follows:		
In more than one year but not more than two years	1,977,500	–
In more than two years but not more than five years	–	1,000,000
	<u>1,977,500</u>	<u>1,000,000</u>

In April 2007, the company issued £1,000,000 of 10% convertible loan notes. Up to £1,000,000 is redeemable on 13 March 2009 if not previously converted or redeemed. This convertible loan note carries interest at 10% p.a. payable quarterly in arrears and are redeemable at any time by the company. The holders of the loan notes may convert whole or part of their holding of convertible loan notes into ordinary shares at any time at the average mid market price for the five months following 8 March 2007. This would result in the issue of 8,547,009 ordinary shares at an average mid market price of 11.70p. If the loan is not converted by March 2009, it will be repaid.

In March 2006, the company issued £1,000,000 of 7.5% convertible loan notes. Up to £1,000,000 is redeemable on 13 March 2009 if not previously converted or redeemed. The convertible loan notes carry interest at 7.5% p.a. payable quarterly in arrears and are redeemable at any time by the company. The repayment obligations are secured by a debenture over the assets of the company. The holders of the loan notes may convert whole or part of their holding of convertible loan notes into ordinary shares at any time at the price of 25p per ordinary share. If the loan note was converted in full, it would result in the issue of 4,000,000 ordinary shares.

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

Finance leases

	2007	2006
	£	£
Obligations under finance leases are due as follows:		
In one year or less	22,178	54,049
In more than one year but not more than two years	–	16,090
	<u>22,178</u>	<u>70,139</u>
Less: amounts included within creditors less than one year	(22,178)	(54,049)
	<u>–</u>	<u>16,090</u>

14 Deferred Tax

	Unprovided	Unprovided	Provided	Provided
	2007	2006	2007	2006
	£	£	£	£
Accelerated capital allowances	55,547	78,838	–	–
Losses carried forward	(2,783,856)	(2,508,515)	–	–
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

The unprovided deferred tax asset has been calculated at the prevailing rate of UK tax of 30%. On 1 April 2008 this rate changes to 28% which will reduce the unprovided tax asset by £194,879.

15 Share capital

Authorised	2007	2007	2006	2006
	No.	£	No.	£
<i>Equity share capital</i>				
Ordinary shares of 5p each	26,066,660	1,303,333	24,066,660	1,203,333
Deferred shares of £1 each	196,667	196,667	196,667	196,667
	<u>26,263,327</u>	<u>1,500,000</u>	<u>24,263,327</u>	<u>1,400,000</u>
Allotted, called up and fully paid	2007	2007	2006	2006
	No.	£	No.	£
<i>Equity share capital</i>				
Ordinary shares of 5p each	13,680,295	684,014	13,680,295	684,014
Deferred shares of £1 each	196,667	196,667	196,667	196,667
	<u>13,876,962</u>	<u>880,681</u>	<u>13,876,295</u>	<u>880,681</u>

On 13 March 2006 the company issued 659,200,000 ordinary shares of 0.1p each for a consideration of 0.5p as part of its restructuring. Expenses in relation to the share issue amounted to £229,018. At the same time the company increased its authorised share capital by £960,000 by the creation of 960,000,000 new ordinary shares of 0.1p each.

Subsequent to these events and following the AGM on 19 May 2006, every fifty issued and unissued ordinary shares of 0.1p were consolidated into one ordinary share of 5p each.

At the beginning of the year, the authorised share capital was £1,203,333 divided into 24.067 million ordinary shares of 5p each. At the Annual General Meeting on 21 March 2007, the authorised share capital of the company was increased by £100,000 by the creation of 2 million new ordinary shares of 5p each. The resultant authorised share capital became £1,303,333 divided into 26.067 million shares of 5p.

Notes Forming Part of the Financial Statements

for the year ended 30 September 2007 (continued)

15 Share capital (continued)

The deferred shares carry no voting rights and are non-redeemable. They are entitled to 1p of every £999.99 of distributions made to ordinary shareholders and are also entitled to the equivalent proportion of net assets in the event of the company being wound up.

Share options

At 30 September 2007 the following share options were outstanding under the company's share option schemes in respect of the ordinary shares of 5p each:

EMI Scheme			
Date of Grant	Number of Shares	Period over which Option can be exercised	Exercise price of option
05/10/2004	1,001	5 October 2006 to 5 October 2014	75.00 pence
10/04/2006	299,494	27 June 2007 to 27 June 2015	68.75 pence
17/04/2007	513,011	1 October 2010 to 17 April 2017	14.50 pence
Unapproved share option scheme			
Date of Grant	Number of Shares	Period over which Option can be exercised	Exercise price of option
19/04/2006	218,180	27 June 2007 to 27 June 2015	68.75 pence

All of the above shares under option at 30 September 2007 were held by the directors and employees of the company.

The Directors consider that an important part of the company's remuneration policy should include equity incentives through the grant of share options to directors and employees. Consequently on 21 November 2002, the company entered into the Enterprise Management Incentive (EMI) Options and adopted the Unapproved Share Option Scheme.

Pursuant to the Share Option Schemes, options have or may be granted to directors and employees of the company at not less than the market value of the Ordinary Shares at the time of grant over an aggregate maximum of 10% of the company's issued ordinary share capital.

For options issued on 17 April to directors (as per the directors' report on page 6) the performance criterion upon which the options are exercisable is that the percentage growth in earnings per share over three consecutive financial years commencing with the year of grant is higher than the percentage increase on the retail price index over the same period. If real earnings per share growth is between 3% and 6%, 20% of the shares vest, between 6% and 9%, 60% of the shares vest and if growth is more than 9%, 100% of shares vest.

All options issued are conditional upon the individual remaining a director or employee of the Company.

Share-based payments

	Number of share options 2007	Weighted average exercise price 2007	Number of share options 2006	Weighted average exercise price 2006
Outstanding at the beginning of period	736,529	68.76p	3,077,287	23.78p
Cancelled during the period	290,908	68.75p	—	—
Reissued during the period	1,539,033	14.50p	—	—
Granted during the period	—	—	735,528	68.75p
Forfeited during the period	952,968	24.20p	3,076,286	23.77p
Outstanding at the end of the period	1,031,686	41.77p	736,529	68.76p
Exercisable at the end of the period	518,675	68.76p	1,001	75.00p

15 Share capital (continued)

No share options were exercised during the period. The options outstanding at 30 September 2007 had a weighted average exercise price of 41.77p and a weighted average remaining contractual life of 8.87 years (2006: 7.50 years). In 2007 Options were granted on 17 April. The aggregate of the estimated fair values of the options granted on that date is £44,058. In 2006, options were granted on 10 April and 19 April. The aggregate of the estimated fair values of the options granted on those dates is £93,287.

The weighted average fair value of options granted during the year was £0.41 (2006: £0.41). The range of exercise prices for options outstanding at the end of the year was £0.145 – £0.750 (2006: £0.205 – £0.750).

The inputs into the Black-Scholes Option Pricing Model are as follows:

	2007	2006
	£	£
Weighted average share price	14.5p	68.75p
Weighted average exercise price	14.5p	68.75p
Expected volatility	49%	49%
Expected life	7.5 years	8 years
Risk-free rate	5.19%	4.43%
Expected dividend yield	0%	0%

Expected volatility was determined by calculating the historical volatility of the group's share price over the previous year. 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.

The group recognised total expenses of £117,434 and £168,077 related to equity-settled share-based payment transactions in 2007 and 2006 respectively.

16 Reserves

	Share premium account	Capital redemption reserves	Profit and loss account
	£	£	£
As previously reported at 1 October 2005	4,731,879	130,000	(7,141,209)
Loss for the year	–	–	(427,178)
Premium arising on share issue (net of expenses)	2,407,781	–	–
Share based payment expense	–	–	168,077
As at 30 September 2006	7,139,660	130,000	(7,400,310)
Loss for the year	–	–	(1,519,569)
Share based payment expense	–	–	117,434
As at 30 September 2007	7,139,660	130,000	(8,802,445)

Notes Forming Part of the Financial Statements

for the year ended 30 September 2007 (continued)

17 Reconciliation of movements in shareholders' funds

	2007	2006
	£	£
Loss on ordinary activities after taxation for the year	(1,519,569)	(427,178)
	<u>(1,519,569)</u>	<u>(427,178)</u>
Nominal value of share capital issued	–	659,200
Premium arising on share issue (net of expenses)	–	2,407,781
Share based payment expense	117,434	168,077
	<u>117,434</u>	<u>168,077</u>
Net movement in shareholders' funds	(1,402,135)	2,807,880
Opening shareholders' funds as previously reported	750,031	(2,057,849)
	<u>750,031</u>	<u>(2,057,849)</u>
Closing shareholders' funds	(652,104)	750,031
	<u>(652,104)</u>	<u>750,031</u>

18 Commitments under operating leases

As at 30 September 2007, the company had annual commitments under non-cancellable operating leases in respect of land and buildings and motor vehicles as set out below:

	2007	2006
	£	£
Operating leases which expire:		
Within one year		
Motor vehicles	20,445	2,412
	<u>20,445</u>	<u>2,412</u>
In two to five years		
Land and buildings	145,674	131,112
Motor vehicles	–	37,482
	<u>145,674</u>	<u>168,594</u>

19 Related party transactions and Post balance sheet events

Since the year end, additional finance has been raised from both Lloyds TSB and Ravensworth as detailed in note 1.

Following the agreements reached with Ravensworth, there is a potential for Ravensworth to become a related party with 97.77% of the shares and as such there would be a requirement to disclose transactions with Ravensworth. During the year £1,000,000 (2006: £1,000,000) of convertible loan note was granted to Ravensworth and £100,000 (2006: £150,000) of working capital loans were drawn down.

20 Financial instruments

The company's financial instruments comprise a loan, finance leases, the convertible loan notes, a loan under the Government's small firm's loan guarantee scheme, short term debtors, short term creditors and cash and short term deposits.

The main risks arising from the company's financial instruments are interest rate risk, currency risk and liquidity risk. The policies for managing these risks are regularly reviewed and agreed by the Board.

20 Financial instruments (continued)

Interest rate risk

The company's exposure to cash flow interest rate risk in relation to year end borrowings is in the Government Small Firms Loan. The interest rate on the Government loan is 2.5% above Bank of England base. The company also has exposure on interest rates in relation to the convertible loan notes of 7.5% and 10% which are fixed until March 2009.

The weighted average interest rate of fixed rate financial liabilities and the weighted average period for which they are fixed is as follows:

Currency	Weighted average interest rate	Weighted average period for which rate is fixed	Weighted average interest rate	Weighted average period for which rate is fixed
	% 2007	Years 2007	% 2006	Years 2006
Sterling:				
Less than one year	6.74	0.06	3.75	0.30
More than one year but not more than two years	8.75	1.31	—	—
More than two years and less than five	—	—	7.40	2.34
Overall	8.50	1.37	7.21	2.64

The breakdown of borrowings between fixed rate and floating rate is set out below. Fixed rate borrowings consist of other loan, convertible loan notes and finance lease liabilities.

	2007 £	2006 £
Fixed rate borrowings	2,249,678	1,230,922
Floating rate borrowings	6,250	31,250
	2,255,928	1,262,172

Other loans

Financial liabilities are due:

	2007 £	2006 £
In one year or less or on demand	256,250	185,783
In more than one year but not more than two years	—	6,250
	256,250	192,033

Finance leases

Financial liabilities are due:

	2007 £	2006 £
In one year or less or on demand	22,178	54,049
In more than one year but not more than two years	—	16,090
	22,178	70,139

Notes Forming Part of the Financial Statements

for the year ended 30 September 2007 (continued)

20 Financial instruments (continued)

Total financial liabilities

Financial liabilities are due:

	2007 £	2006 £
In one year or less or on demand	278,428	239,832
In more than one year but not more than two years	1,977,500	22,340
In more than two years but not more than five years	–	1,000,000
	<u>2,255,928</u>	<u>1,262,172</u>

Currency risk

As at 30 September 2007

Currency	Non interest bearing liabilities £	Fixed Rate borrowings £	Floating Rate borrowings £	Total
Sterling	1,038,838	2,249,678	6,250	3,294,766
US Dollar	25,582	–	–	25,582
Euro	2,252	–	–	2,252
	<u>1,066,672</u>	<u>2,249,678</u>	<u>6,250</u>	<u>3,322,600</u>

As at 30 September 2006

Currency	Non interest bearing liabilities £	Fixed Rate borrowings £	Floating Rate borrowings £	Total
Sterling	1,699,702	1,230,922	31,250	2,961,874
US Dollar	51,119	–	–	51,119
Euro	100,015	–	–	100,015
	<u>1,850,836</u>	<u>1,230,922</u>	<u>31,250</u>	<u>3,113,008</u>

Currency	Non interest bearing assets 2007 £	Non interest bearing assets 2006 £	Floating Rate cash 2007 £	Floating Rate cash 2006 £
Sterling	202,054	325,694	–	79,944
US Dollar	–	–	105,082	123
Euro	301,565	1,040,774	705,847	648,293
	<u>503,619</u>	<u>1,366,468</u>	<u>810,929</u>	<u>728,360</u>

The non interest bearing assets are trade debtors which will be received in the normal course of business. The interest rate for the floating rate cash is 1% below Bank of England base rate.

Liquidity risk

The refinancing in February 2008 resulted in an additional convertible loan of £750,000 and an asset based financing facility with Lloyds TSB up to £1,500,000, and allows the company to pursue its policy of supporting the business by way of internally generated funds.

Fair values of financial assets and liabilities

The directors believe that the fair value of financial assets and liabilities are not materially different from their book values except for the convertible loans which have a market value of £2,000,000 and a book value of £1,977,500 due to issue costs being offset.

21 Reconciliation of operating profit to net cash outflow from operating activities

	2007	2006
	£	£
Operating loss	(1,375,065)	(1,204,509)
Share based payments	117,434	205,376
Loss on sales of fixed assets	6,684	-
Depreciation	229,763	243,719
Decrease in stocks	156,616	1,512,290
Decrease in debtors	1,007,778	228,406
(Decrease) in creditors	(784,166)	(626,836)
Net cash (outflow)/inflow from operating activities	<u>(640,956)</u>	<u>358,446</u>

22 Reconciliation of net cash inflow to movement in net debt

	2007	2007	2006	2006
	£	£	£	£
Increase in cash in the year	82,569		1,922,359	
Cash (inflow)/outflow from changes in debt and lease financing	<u>(1,016,255)</u>		<u>1,076,276</u>	
Change in net debt resulting from cash flows		(933,686)		2,998,635
Other non cash movement (note 6)		-		1,005,961
Movement in net debt in the year		<u>(933,686)</u>		<u>4,004,596</u>
Net debt at start of year		(533,812)		(4,538,408)
Net debt at end of year (note 23)		<u>(1,467,498)</u>		<u>(533,812)</u>

23 Analysis of net debt

	At	Cash	At
	1 October	flow	30 September
	2006	£	2007
	£	£	£
Cash in hand and at bank	728,360	82,569	810,929
Debt due after 1 year	(1,006,250)	(993,750)	(2,000,000)
Debt due within 1 year	(185,783)	(70,467)	(256,250)
Obligations under finance leases	(70,139)	47,962	(22,178)
Total	<u>(533,812)</u>	<u>(933,686)</u>	<u>(1,467,498)</u>

Centurion Electronics Plc