centurion®

electronics plc

Annual Report 2006

Excellence

By Design

Contents

Directors & Advisers

Directors

C Rhodes
B Hendon (resigned 13 March 2006)
M Diamond
K Davis
M Harrison
E Kastner (appointed 13 March 2006)
I Rees (appointed 27 March 2006)

Secretary and Registered Office

M Harrison
Satellite House, City Park
Swiftfields
Welwyn Garden City
Herts
AL7 1LY

Company Number

2826917

Auditors

Ernst & Young LLP
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Luton
LU1 3LU

Principal Bankers

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

Principal Solicitors

Finers Stephens Innocent
179 Great Portland Street
London
W1W 5LS

Nominated Adviser & Broker

J.M. Finn & Co
Salisbury House
London Wall
London
EC2M 5TA

Chairman's Statement

Introduction

The financial year ended September 2006 has been one of development and transition for the Company.

Following the withdrawal from all higher risk non-automotive related activities and with the restructuring and re-financing of the Company now completed, and with the disruption this caused behind us, I am pleased to report that we are already seeing the benefits of the difficult decisions taken coming through in terms of new business and improved relationships with key customers and suppliers. Customer volumes were up 9% in the period, which is a trend the directors anticipate to continue.

The treatment of costs associated with the Company's restructuring activities have been treated as a one-off exceptional charge.

Against this background, I am pleased to report that we have traded in-line with management expectations and that the underlying results are slightly better than market expectations.

Centurion is now exclusively focused on the automotive market and has all the necessary processes in place to meet the rigorous demands of the industry.

Financial Performance

The year to 30 September 2006 has been one of transition. The trading loss reported at the half year to 31 March 2006, largely reflected the restructuring and exit from the high street sector. The second half however, saw a recovery in the automotive business, which moved into profitability. Overall, this produced a break-even second half performance.

Turnover in the period was £7.25 million against £14.01 million in 2005, which reflects our withdrawal from non-automotive activities.

Operating loss, pre-exceptionals was £0.43 million against a pre-exceptional loss of £2.14 million in 2005.

Exceptional charges in the period includes an exceptional credit of £1.01 million (2005: £nil) and relates to the write down of debt following the re-financing on 13 March 2006. Also included is an exceptional charge for redundancy and other costs following restructuring of £0.57 million (2005: £0.78 million) and a further charge of £0.09 million (2005: £0.48 million) relating to the disposal of certain fixed assets.

The comparative 2005 year reflects an exceptional charge of £5.92 million. The majority of this (£5.77 million) related to a stock write-down for obsolescence and valuation considerations resulting from issues previously reported in the supply chain management and stock purchase, categorisation and net realisable value procedures.

The loss on ordinary activities before taxation and pre-exceptionals was £0.69 million compared to a pre-exceptional loss of £2.76 million in 2005.

Basic loss per share pre-exceptionals during the period amounted to 8.81 pence per share, (2005: re-stated loss per share of 435.00 pence).

The statutory operating loss was £1.0 million, loss before tax was £0.26 million and loss per share 3.32p.

Net cash inflow from operating activities amounted to £0.36 million against £0.77 million in 2005. The cash flow implications relating to the exceptional items during the year being reported totalled £0.38 million (2005: £4.44 million).

Following the restructuring in February 2006, net debt has been reduced from £4.54 million at the start of the period to £0.53 million, whilst stocks have decreased by around £1.51 million to £0.62 million and debtors have reduced from £1.97 million to £1.74 million in the period.

Shareholders' funds amounted to £0.75 million against a deficit of £2.06 million in 2005.

Review

During the course of the financial year, the Company has remained firmly focused on developing and strengthening existing relationships with a number of high-profile car manufacturers, whilst also looking at new opportunities to add further marques to our portfolio.

Chairman's Statement (continued)

Through intensive hard work and commitment at both management and operational levels, the Company has, during the financial year, become increasingly well placed to build-on and exploit both new and existing opportunities within the automotive infotainment sector. The Company supplies a variety of in-car entertainment products to a total of 15 different vehicles across our customer base.

We have placed particular emphasis on maintaining high levels of service across our customer base, which includes leading marques such as the Toyota Group and Renault. On the whole, our customers have retained an encouragingly receptive view of our products and work closely with us to promote the installation of our products both commercially and geographically.

As a way of indicating our progress, it is very pleasing to report that trading with Toyota has progressed particularly well, which is witnessed through the significant increase in product sales during the last quarter of the financial year. We believe that Toyota remains a progressive installer of infotainment systems, although most European OEMs have also embarked on projects to launch a variety of systems. In addition, research shows that there is clear evidence that installation rates are increasing for rear seat entertainment systems overall.

Centurion has a number of opportunities in the pipeline to increase the range of its products being 'fitted as standard equipment', and as such, we remain confident that we will be able to further develop existing and new business relationships.

As part of this, we are already making satisfactory progress in the development of our first "factory fit" product for one of our key customers. This program, which is expected to commence during the first half of the new financial year, will see the introduction of a specifically designed rear seat infotainment system being installed on the assembly line directly into the vehicle.

Significant progress has also been made with our strategic supply partners. For example, during the second half of the financial year, we successfully introduced new Bluetooth headphone technology for automotive applications. This product was developed for a specific customer contract and to date we are pleased with initial customer feedback.

New Business

During the second half of the financial year, we successfully secured a number of new business contracts.

In April 2006, we secured contracts with a UK based luxury carmaker, to develop and supply an in-car entertainment system. We were particularly delighted as this contract added a further highly respected car manufacturer to our existing high profile client base.

The product, which consists of twin TFT headrest screens for rear seat passengers, displays images from DVD, Auxiliary Input and analogue TV sources. It has a unique wireless sound transmission system. Initially the systems are being fitted as optional equipment, but they will be installed directly into the vehicle at the automaker's vehicle assembly plant; this is planned for the first half of the financial year ending 2007.

In July 2006, we secured an additional contract to supply an integrated in-car entertainment system for one of Renault's new models being introduced in 2007.

This new vehicle to the Renault range will be offered with an optional twin 8" TFT screen seat back mounted system with integrated DVD loader, wireless headphones and remote control.

The system, which has been designed and developed in-house by our own skilled engineering and technical teams, is designed to offer independent viewing options for the rear passengers of the vehicle whilst also being compatible with the latest media formats.

It is anticipated that the entertainment systems will be supplied directly into Renault's supply chain and will contribute to revenues commencing during the fourth quarter of our financial year ending September 2007.

Chairman's Statement (continued)

Quality Accreditation

Our on-going commitment is to provide our customers with products that adhere to the highest standards of quality, reliability and performance. We continue to work with our approved accreditation body, TUV Product Services in order to achieve ISO/9001:2000 and ISO/TS16949 accreditation.

It is anticipated that the ISO/TS16949 accreditation will be completed by July 2007.

People

On behalf of the Board and all our Shareholders, I would like to welcome all staff who have joined the Company during the year and I would like to take this opportunity to thank all of our people for their on-going hard work, focus and commitment to the business.

Developing Strategy

Our on-going strategy is to further broaden our automotive business base whilst continuing to provide high-quality service and innovative products to all our customers. Negotiations continue to progress well with a number of highly-regarded global automakers for the supply of a variety of in-car infotainment systems.

Since the year end, the Company has opened an office in Hong Kong in order to support our on-going business growth strategy. The primary objective of this new Far East operation will be to establish closer supplier partnerships within this increasingly important geographic region, while also accelerating the identification and introduction of emerging technologies.

Outlook and Future Prospects

The directors believe Centurion is well placed to benefit from the changes made over the past 6 months. The relationships with our customers are strong and over the next year the directors expect additional volumes to be generated.

We are in discussions with a number of other leading manufacturers, which could extend significantly the number of manufacturers to which Centurion is the lead supplier.

It is the objective of the directors that Centurion become the leading supplier of in-car entertainment to the automotive industry and the board believes it is now strongly placed to achieve this objective over the medium term.

Ernst Kastner
Chairman

Financial Review

Overview

As described in the Chairman's statement this has been a year of transition, exiting from the specialist sector, reshaping the cost base of the business and concentrating on the core automotive customers. Subsequent refinancing of the business was concluded in March 2006

Turnover

Turnover for the year reduced by £6.75 million to £7.25 million. Prior year included sales to high street retail and specialist retail markets, both markets now exited, high street in 2005 and specialist during the first half 2006. There were automotive contract wins during 2006 which will impact subsequent year's turnover.

Profitability

The operating loss before tax and interest for the year was of £1.0 million (2005: loss of £8.8 million), while pre-exceptional loss before tax and interest for the year was £0.4 million (2005: loss of £2.1). This produced a loss per share of 3.3p compared to a loss per share of 1804.4p in 2005. The pre-exceptional loss per share was 8.8p compared to a loss per share of 435.0p in 2005.

The gross profit margin achieved on sales in 2006 has increased from that achieved in 2005 reflecting the refocus of the business having exited high street and specialist markets, whilst maintaining automotive gross margins.

The downward trend in administration costs in 2006 reflects the restructuring undertaken during the second half of 2005 and concluded during the first half of 2006, ensuring the company's cost base is aligned to the automotive strategy.

Exceptional charges in 2006 include an exceptional credit of £1.0 million and relates to the write down of debt following the re-financing on 13th March 2006. Also included is an exceptional charge for costs incurred following restructuring.

Earnings per share

The basic loss per share is 3.3p, fully diluted is also a loss of 3.3p. The basic pre-exceptional loss per share is 8.8p while the fully diluted pre-exceptional loss per share is also 8.8p.

Banking facilities, liquidity and financing

During 2005 the company's principle bankers have been HSBC Bank Plc; we have been supported by HSBC whilst reducing our level of debt. The company was advised by HSBC on 27th January 2006 that HSBC had entered an agreement with Portimao, under the terms of which Portimao acquired from HSBC all loans and debts owed by Centurion to HSBC. Centurion has been subsequently successfully re-financed through a placing of 510 million new ordinary shares raising £2.5 million (after expenses) and a further £1.0 million through the issue of a 7.5% convertible loan. As part of this re-financing Centurion had reached an agreement with Portimao to repay and cancel its debt.

As a result the company have no borrowings other than the £1.0 million convertible loan notes and up to a further £250,000 working capital facility which has been provided by Ravensworth (International) Limited. The resultant net cash retained within the business is sufficient to support the business and is in line with forecasts for the period.

Centurion's banking facilities are now with Fortis Bank, London

Corporate Governance Report

The company is supportive of the principles embodied in the combined code prepared and published by the Committee on Corporate Governance in June 1998, although the rules of the Stock Exchange do not require companies that have securities trading on the Alternative Investment Market to formally comply with the combined code. As a result, the directors have taken note of its provision insofar as they consider them appropriate to a company of this size.

The Board and its committees:

The Board

The Board currently comprises of the Chief Executive, three further executive directors, and two independent non-executive directors one of whom acts as Chairman. The Board is responsible to shareholders for the proper management of the company. A statement of the director's responsibilities in respect of the accounts is set out on pages 10-11.

The Board meets formally on a monthly basis and, in addition, ad hoc meetings are called to address specific issues requiring board approval. At formal meetings the Board reviews trading performance, cash flow, and set and monitor strategies for the company's development. To enable the Board to discharge its duties, all directors receive appropriate and timely information.

The following committees have been established by the Board:

Remuneration Committee

The company's remuneration committee comprises of one executive director, C Rhodes and two non executive directors, E Kastner and M Diamond. The committee is chaired by M Diamond. E Kastner replaced B Hendon on the remuneration committee, following the latter's resignation on 13 March 2006. It is responsible for making recommendations to the Board on the company's framework of executive remuneration and cost.

The overall policy of the committee is to provide pay and benefits packages to directors that are appropriate to retain and motivate them to meet the objectives set by the Board.

Audit Committee

The audit committee comprises of one executive director, C Rhodes, and two non-executive directors E Kastner and M Diamond. The audit committee is chaired by E Kastner. E Kastner replaced B Hendon on the audit committee, following the latter's resignation on 13 March 2006. The audit committee determines the application of the financial reporting and internal control principles, including reviewing the effectiveness of the company's financial reporting, internal control and risk management procedures and the scope, quality and results of the external audit.

Nomination Committee

The nomination committee comprises our two non-executive directors, M Diamond and E Kastner and is chaired by E Kastner. E Kastner replaced B Hendon on the nomination committee, following the latter's resignation on 13 March 2006. The committee is used to select and put forward candidates for Board appointment.

Relations with Shareholders

The Board recognises the importance of communication with the company's shareholders. There is a regular dialogue with institutional shareholders including presentations after the company's preliminary announcement of the year end results and at the half year. In addition and in order to help communication with private investors, all announcements are posted on the company's website at www.ceplc.net.

The Board uses the Annual General Meeting to communicate with private and institutional investors and welcomes their participation.

Internal Control and Risk Management

The Board is responsible for ensuring that the company maintains a system of internal financial controls, including suitable monitoring procedures. The objective of the system is to safeguard company assets, ensure proper accounting records are maintained and that financial information used within the business and for publication is reliable.

Internal financial control monitoring procedures undertaken by the Board include the approval of the annual budgets and forecasts, review of monthly financial reports and monitoring of performance, and the prior approval of all significant expenditure.

Report of the Directors
for the year ended 30 September 2006

The directors have pleasure in submitting their report and the audited financial statements for the year ended 30 September 2006.

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 on pages 2 to 4 and the financial review on page 5.

Results and Dividends

The profit and loss account is set out on page 14 and shows a loss for the year of £259,101 (2005 loss £8,896,292).

As set out in the Chairman's statement the directors do not recommend the payment of a final dividend (2005: 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:

	2006 Pre Exceptional £	**2006 Post Exceptional £**	**2005 Pre Exceptional £**	**2005 Post Exceptional £**
Turnover	7,251,962	7,251,962	14,006,539	14,006,539
Gross profit	2,986,319	2,986,319	(10,549,208)	(16,469,174)
Loss before tax	(686,249)	(259,101)	(2,763,822)	(9,515,388)
Basic loss per share	(7.16p)	(3.32p)	(435.00p)	(1,804.38p)

Opportunities: A number of automotive contract opportunities with new customers are underway, some of which are in the final proposal phase.

Risks: The impact of the current turmoil in the North American automotive industry is unclear at present and the potential impact on the growth of in-car entertainment. The supply to Renault of the iPod cradle is slowing but future predicted volumes are low. It is also important that we manage on time launch of the new programs.

Report of the Directors (continued)

for the year ended 30 September 2006

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 program, 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 becomes law in July 2007. Compliance with IMDS end of life legislation is also on track.

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 retained earnings, bank borrowings and leasing arrangements (predominantly operating leases related to company vehicles and leasehold premises). The company's bank borrowings and 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 by loan facilities. 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.

Directors

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

I Rees was appointed as a director of the company on 27 March 2006.

Subsequent to the EGM on 13 March 2006, Brian Hendon resigned as non executive chairman and Ernst Kastner was appointed to replace him.

The beneficial interests of the directors in the ordinary share capital of the company and options to purchase shares under the company's EMI scheme and unapproved share option scheme are set out in the remuneration report on page 9.

Report of the Directors (continued)

for the year ended 30 September 2006

Directors' Remuneration

Basic salary and benefits are determined by the remuneration committee by taking into account the performance of the individual and the performance of the company.

The directors are entitled to participate in the company's share option schemes and options are granted at the discretion of the remuneration committee.

Directors' interests in shares

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

	Ordinary 5p Shares 2006 Number	2005 Number Restated
C Rhodes	20,600	600
M Diamond	20,420	420
K Davis	20,100	100
M Harrison	100	100
I Rees	40,000	–

Directors' share options

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

	1 October 2005	Cancelled during the year	Re-issued during the year	30 September 2006
C Rhodes	487,803	487,803	145,454	145,454
K Davis	487,803	487,803	145,454	145,454
M Harrison	487,803	487,803	145,454	145,454

The options issued on 30 June 2005 were cancelled and re-issued on 3 April 2006 on the same terms following the company's restructure. They were also subject to the subsequent consolidation on 19 May 2006. No options were exercised in 2006.

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

	1 October 2005	Cancelled during the year	Re-issued during the year	30 September 2006
C Rhodes	731,700	731,700	218,180	218,180

The options issued on 30 June 2005 were cancelled and re-issued on 19 April 2006 on the same terms following the company's restructure. They were also subject to the subsequent consolidation on 19 May 2006.

No options under the unapproved scheme were exercised during 2005 or 2006.

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

Report of the Directors (continued)

for the year ended 30 September 2006

Changes in share capital

At the beginning of the year, the authorised share capital was £243,333 divided into 243.3 million ordinary shares of 0.1p each. At an Extraordinary General Meeting on 13 March 2006, the authorised share capital of the company was increased by £960,000 by the creation of 960 million new ordinary shares of 0.1p each. The resultant authorised share capital became £1,203,333 divided into 1,203.3 million shares of 0.1p. At the Annual General Meeting on 19 April 2006, the shareholders approved a share consolidation. As a result, with effect from this date, the authorised share capital changed to £1,203,333 divided into 24.07 million shares of 5p each.

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

Major Shareholders

At 30 September 2006, 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**
Portimao Investments Limited	2,400,000	17.54
Mr RG Persey & Family	3,627,800	26.52
Forest Nominees Limited	1,307,560	9.56
Rock (Nominees) Limited	1,131,425	8.27
The Bank of New York (Nominees) Limited	1,048,605	7.67
Electra Kingsway VCT Plc	1,038,982	7.59
Mellon Nominees (UK) Limited	880,024	6.43

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 2006 was 53 (2005: 55).

Donations

During the year the company did not make any charitable donations (2005: £2,000).

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.

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;

Report of the Directors (continued)

for the year ended 30 September 2006

- 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.

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

The auditors, Ernst & Young LLP, have expressed their willingness to continue in office. A resolution to reappointment Ernst & Young LLP as auditors will be proposed at the 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

M Harrison
Secretary

Date: 28 November 2006

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 2006 which comprise the primary financial statements such as 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 are responsible for the preparation of the Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as 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, are properly prepared in accordance with the Companies Act 1985 and whether the information given in the directors' report is consistent with the financial statements. The information given in the directors' report includes that specific information presented in the Chairman's Statement and Financial Review that is cross referred from the Business Review section of the directors' report.

We also 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, the Financial Review and the Corporate Governance 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 2006 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.

Report of the Independent Auditors (continued)

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 company managing its operations to achieve sufficient cash flows through meeting its sales forecasts. In view of the significance of this material uncertainty we consider that it should be brought to your attention, but our opinion is not qualified in this respect.

Ernst & Young LLP
Registered Auditors
Luton

Date: 28 November 2006

Profit and Loss Account
for the year ended 30 September 2006

	Notes	2006 Pre-exceptional £	2006 Exceptional* £	2006 Total £	2005 Pre-exceptional £	2005 Exceptional* £	2005 Total £
Turnover	2	7,251,962	–	7,251,962	14,006,539	–	14,006,539
Cost of sales		(4,265,643)	–	(4,265,643)	(10,549,208)	(5,919,966)	(16,469,174)
Gross profit/(loss)		2,986,319	–	2,986,319	3,457,331	(5,919,966)	(2,462,635)
Administrative expenses		(3,416,410)	(569,042)	(3,985,452)	(5,561,386)	(783,957)	(6,345,343)
Operating (loss)	3	(430,091)	(569,042)	(999,133)	(2,104,055)	(6,703,923)	(8,807,978)
Loss on disposal of fixed assets		–	(9,771)	(9,771)	–	(47,643)	(47,643)
Interest payable and similar charges		(256,158)	1,005,961	749,803	(659,767)	–	(659,767)
(Loss)/profit on ordinary activities before taxation		(686,249)	427,148	(259,101)	(2,763,822)	(6,751,566)	(9,515,388)
Taxation on (loss)/profit on ordinary activities		–	–	–	619,096	–	619,096
(Loss)/profit on ordinary activities after taxation		(686,249)	427,148	(259,101)	(2,144,726)	(6,751,566)	(8,896,292)
Earnings/(loss) per share	8						
Basic		(8.81p)	5.49p	(3.32p)	(435.00p)	(1,369.38p)	(1,804.38p)
Diluted		(8.81p)	5.49p	(3.32p)	(435.00p)	(1,369.38p)	(1,804.38p)

* Further details of exceptional items are disclosed in note 3

All recognised gains and losses for the year are included in the profit and loss account. All turnover and profit are derived from continuing activities.

Balance Sheet
at 30 September 2006

	Note	2006 £	2006 £	2005 £	2005 £
Fixed assets					
Intangible assets	9		44,286		–
Tangible assets	9		726,120		853,264
			770,406		853,264
Current assets					
Stocks	10	623,186		2,135,476	
Debtors	11	1,741,087		1,969,493	
Cash at bank and in hand		728,360		682,936	
		3,092,633		4,787,905	
Creditors: amounts falling due within one year	12	(1,996,918)		(7,598,484)	
Net current assets/(liabilities)			1,095,715		(2,810,579)
Total assets less current liabilities			1,866,121		(1,957,315)
Creditors: amounts falling due after more than one year	13	(1,116,090)		(100,534)	
			(1,116,090)		(100,534)
			750,031		(2,057,849)
Capital and reserves					
Called up share capital	15		880,681		221,481
Share premium account	16		7,139,660		4,731,879
Capital redemption reserve	16		130,000		130,000
Profit and loss account	16		(7,400,310)		(7,141,209)
Shareholders' funds – Equity	17		750,031		(2,057,849)

The financial statements were approved by the Board on 28 November 2006.

M Harrison
Director

The notes on pages 17 to 32 form part of these financial statements.

Cash Flow Statement

for the year ended 30 September 2006

	Note	2006 £	2006 £	2005 £	2005 £
Net cash inflow from operating activities	21		358,446		768,371
Returns on investments and servicing of finance					
Interest paid		(256,158)		(659,767)	
Net cash outflow from returns on investments and servicing of finance			(256,158)		(659,767)
Taxation					
UK corporation tax			–		(170)
Capital expenditure and financial investment					
Purchase of intangible fixed assets		(44,286)		–	
Purchase of tangible fixed assets		(142,054)		(297,883)	
Sale of tangible fixed assets		15,709		53,141	
			(170,632)		(244,742)
Equity dividends paid			–		(272,959)
Cash outflow before financing			(68,344)		(409,267)
Financing					
Short term import loans (paid)		(2,083,403)		(740,418)	
Bank loans repaid		(45,334)		(45,333)	
Loan note issued		1,000,000		–	
Other loans received		150,615		–	
Capital element of finance lease rental payments		(98,156)		(76,105)	
Share issues (net of expenses)		3,066,981		–	
Share options exercised		–		180,000	
			1,990,703		(681,856)
Increase in cash	22		1,922,359		1,091,123

The notes on pages 17 to 32 form part of these financial statements.

Notes Forming Part of the Financial Statements

for the year ended 30 September 2006

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 presentation requirements of FRS 25 – Financial Instruments: disclosure and presentation, FRS 28 corresponding amounts and FRS 21 Events after the balance sheet date.

FRS 21 Events the balance sheet date require that dividends, which are proposed after the balance sheet date to be disclosed and not recognised as a liability. As a result of the adoption of the standard, retained earnings have increased by £266,359 as at 30 September 2004. There was no effect on reported profit after tax for 2005 or 2006.

The following principal accounting policies have been applied:

Turnover

Turnover represents sales to outside customers at invoiced amounts less value added tax or local taxes on sales. 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 or valuation, less estimated residual values, of all tangible fixed assets, except for investment properties and freehold land, evenly 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 treated 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.

Notes Forming Part of the Financial Statements

for the year ended 30 September 2006 (continued)

Accounting policies (continued)

Foreign currency

Foreign currency transactions are translated at the rates ruling when they occurred or the contracted to forward exchange rate if appropriate. 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 2006, the company had bank and other loans. These were 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 except that:

- deferred tax is not recognised on timing differences arising on revalued properties unless the company has entered into a binding sale agreement and is not proposing to take advantage of rollover relief; and

- the recognition of deferred tax assets is limited to the extent that the company anticipates to make sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Deferred tax balances arising from underlying timing differences in respect of tax allowances on industrial buildings are reversed if and when all conditions for retaining those allowances have been met.

Deferred tax balances are not discounted.

Leased assets

Where assets are financed by leasing agreements that give rights approximating to ownership ('finance leases'), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable during the lease term. The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to the profit and loss account.

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.

1 Going concern

The company meets its day to day working capital requirements using funds raised from the issue of the convertible loan note, which is secured over certain assets of the company.

The nature of the company's business is that the sales revenue is dependent upon the OEM customers drawing down product in line with their existing forecasts for the period, which leads to variability in the timing of cash inflows. The directors have produced forecast cash flows for the next twelve months which indicate that the company can continue as a going concern and meet its liabilities as they fall due. However, the margin of available headroom is not large, 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 tangible fixed assets or provision for future liabilities which would result should the going concern basis not be appropriate.

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)

	2006 £	**2005** £
Depreciation of tangible fixed assets	243,718	246,006
Remuneration to former auditors' – audit services	–	16,211
Exceptional items (see below)	569,042	6,703,923
Operating leases – other than plant and machinery	168,593	152,388
Foreign exchange (gain)/loss	(244,609)	(675,083)

Exceptional Items

Included in interest payable and similar charges for the year ended 30 September 2006 is a credit of £1,005,961 (2005: £nil). This relates to a write down of debt following the re-financing that occurred on 13 March 2006. Also included in administrative expenses is an exceptional charge for redundancy and other costs following restructuring in the amount of £569,042 (2004: £783,957). A further charge of £9,771 (2005: £47,643) relates to the disposal of certain fixed assets.

The cash flow implications relating to the exceptional items during the year totalled £379,264, being redundancy £73,216, consulting costs £133,890 and other administrative costs £172,158. The effect of exceptional items on the taxation charge for 2006 is a charge of £128,144.

Included in cost of sales for the year ended 30 September 2005 is an exceptional charge of £5,919,966. Of this £5,772,440 relates to a stock write down for obsolescence and valuation considerations resulting from issues in the supply chain management and stock purchase, categorisation and net realisable value procedures. £147,526 relates to under declared duty as a result of the issues in the supply chain management. A further £783,957 is included in administrative expenses and relates to compensation costs paid to outgoing directors as well as consultants' costs and redundancy payments.

The cash flow implications relating to the exceptional items during the 2005 totalled £4,443,996

Notes Forming Part of the Financial Statements

for the year ended 30 September 2006 (continued)

3 Operating loss, exceptional items and auditor's remuneration (continued)

Auditors' remuneration

New requirements for the disclosure of remuneration paid by the company to is auditors were introduced in the Companies (Audit, Investigation and Community Enterprise) Act 2004 and regulations specifying these requirements were issues in 2005, and are mandatory for accounting periods beginning on or after 1 October 2005.

	2006 £	2005 £
Audit services	36,750	38,918
Taxation services	12,000	35,200
Corporate finance services in relation to share placing	31,000	–

The corporate finance fees have been off set against the share premium arising on the placing. Fees paid in 2005 to the former auditor have been excluded from the above analysis.

4 Employees

	2006 £	2005 £
Staff costs (including directors) consist of:		
Wages and salaries	1,554,285	1,839,506
Social security costs	173,318	231,399
Other pension costs	41,522	25,716
	1,769,125	2,096,621

The average number of employees, including directors, during the year was as follows:	Number	Number
Management and administration	9	13
Sales and distribution	17	18
Technical and engineering	16	14
	42	45

5 Directors' remuneration

	2006 £	2005 £
Aggregate emoluments	591,298	718,880
Compensation for loss of office	–	244,160
Company contributions made to money purchase pension scheme	33,970	20,000

Included within the aggregate emoluments is an amount in respect of the highest paid director of £169,817 (2005: £148,302).

There are four directors in the company's money purchase pension scheme (2005: three). Company contributions for money purchase pension scheme in respect of the highest paid director amounted to £16,055 (2005: 13,178).

During the year none of the directors (2005: two) exercised their share options (2005: gain of £203,000).

6 Interest payable and similar charges

	2006 £	2005 £
Invoice discounting charges	18,555	211,031
Bank loan and overdraft interest	234,326	439,156
Finance lease interest	3,277	9,580
Exceptional credit – write down of debt (see note 3)	(1,005,961)	–
	(749,803)	659,767

7 Taxation on loss on ordinary activities

	2006 £	2005 £
Current tax		
UK corporation tax on loss for the year	–	(567,223)
Adjustment in respect of previous years	–	761
Total current tax	–	(566,462)
Deferred tax		
Origination and reversal of timing difference	–	(52,634)
Adjustment in respect of previous years	–	–
Taxation on loss on ordinary activities	–	(619,096)

The tax assessed for the year is different from the standard rate of corporation tax in the UK of 30% (2005: 30%). The differences are reconciled below:

	2006 £	2005 £
(Loss) on ordinary activities before taxation	(259,101)	(9,515,388)
(Loss) on ordinary activities at the standard rate of corporation tax in the UK of 30% (2005: 30%)	(77,730)	(2,854,616)
Effects of:		
Expenses not allowable for tax purposes	7,561	7,536
Depreciation in excess of capital allowances	64,700	6,107
Adjustment to tax charge in respect of previous years	–	761
Unrelieved losses carried forward	11,469	2,237,750
Other timing differences	(6,000)	36,000
Current tax charge for year	–	(566,462)

The company has estimated trading losses of £8,214,893 (2005: £7,459,166) offset by other timing differences of £16,570 (2005: £215,597) available for offset against future profits. The company has not recognised the deferred tax asset of £2,459,497 (2005: £2,173,071) as it does not meet the recognition criteria for FRS 19.

Notes Forming Part of the Financial Statements

for the year ended 30 September 2006 (continued)

8 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 0.1 pence on 13 March 2006 and the subsequent consolidation of every fifty issued and unissued ordinary shares of 0.1 pence into one ordinary share of 5 pence each on 19 May 2006.

The weighted average number of equity shares in issue for the basic earnings per share calculation is 7,792,639 (2005 restated: 493,036) and the earnings, being (losses) after tax, are (£259,101) (2005: loss of £8,896,292).

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:

	2006	**2005 Restated**
Basic and diluted earnings per share denominator ordinary shares of 5 pence	7,792,639	493,036
	7,792,639	493,036

Earnings per share excluding exceptional items

The directors have also disclosed, for clarity, both basic and fully diluted earnings per share disclosures excluding exceptional items. For the purposes of these ratios the denominators are no different to those as set out above. The numerators for these additional ratios are (£686,249) (2005: £2,144,726) and have been calculated as the earnings, being (losses) after tax, less exceptional items (see note 3) for each year respectively. The effects of the exceptional items are shown in the table below.

	2006 Total Earnings £	**2006 Weighted average no. of shares**	**2006 Per Share**	**2005 Total Earnings £ Restated**	**2005 Weighted average no. of shares Restated**	**2005 Per Share Restated**
Basic EPS	(259,101)	7,792,639	(3.32p)	(8,896,292)	493,036	(1804.38p)
Diluted EPS	(259,101)	7,792,639	(3.32p)	(8,896,292)	493,036	(1804.38p)
Basic EPS (as above)	(259,101)	7,792,639	(3.32p)	(8,896,292)	493,036	(1804.38p)
Effect of stock write down	–	–	–	5,772,440	–	1170.79p
Effect of under declared duty	–	–	–	147,526	–	29.92p
Effect of compensation to directors for loss of office	–	–	–	783,957	–	159.00p
Effect of write down of debt	(1,005,961)	–	(12.91p)	–	–	–
Effect of redundancy and other restructuring costs	569,042	–	7.30p	–	–	–
Effect of loss on disposal of fixed assets	9,771	–	0.12p	47,643	–	9.67p
Basic EPS excluding exceptional items	(686,249)	7,792,639	(8.81p)	(2,144,726)	493,036	(435.00p)
Diluted EPS excluding exceptional items	(686,249)	7,792,639	(8.81p)	(2,144,726)	493,036	(435.00p)

9 Intangible fixed assets

	Development Costs £	Total £
Cost		
At 1 October 2005	–	–
Additions	44,286	44,286
At 30 September 2006	44,286	44,286
Amortisation		
At 30 September 2006 and 1 October 2005	–	–
Net book value		
At 30 September 2006	44,286	44,286
At 30 September 2005	–	–

This comprises of development and testing of a new product. It has not been amortised as the product is not yet in use.

9 Tangible fixed assets

	Tooling £	Motor Vehicles £	Fixtures & Fittings £	Office Equipment £	Total £
Cost					
At 1 October 2005	300,963	213,972	539,997	293,178	1,348,110
Additions	49,558	–	33,805	58,691	142,054
Disposals	–	(50,814)	–	–	(50,814)
At 30 September 2006	350,521	163,158	573,802	351,869	1,439,350
Depreciation					
At 1 October 2005	104,632	65,079	206,427	118,708	494,846
Provided for the year	83,580	26,264	69,619	64,256	243,719
Disposals	–	(25,334)	–	–	(25,334)
At 30 September 2006	188,212	66,009	276,046	182,964	713,230
Net book value					
At 30 September 2006	162,309	97,149	297,757	168,905	726,120
At 30 September 2005	196,331	148,893	333,570	174,470	853,264

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

Notes Forming Part of the Financial Statements

for the year ended 30 September 2006 (continued)

9 Tangible fixed assets (continued)

	2006 £	2005 £
Net book value		
Motor vehicles	97,149	148,893
Fixtures and fittings	12,742	14,529
Depreciation charged on these assets during the year was as follows:		
Motor vehicles	24,131	47,168
Fixtures and Fittings	1,787	1,787

10 Stocks

	2006 £	2005 £
Finished goods held for resale	623,186	2,135,476

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

11 Debtors

	2006 £	2005 £
Trade debtors	1,269,645	1,384,539
Other debtors	471,442	584,954
	1,741,087	1,969,493

12 Creditors: amounts falling due within one year

	2006 £	2005 £
Invoice discounting facilities	–	438,315
Bank and other loans and overdrafts (secured as per note 13)	185,783	4,573,317
Trade creditors	625,182	698,202
Other taxation and social security	54,937	56,612
Obligations under finance lease and hire purchase contracts	54,049	109,179
Other creditors	1,076,967	1,722,859
	1,996,918	7,598,484

13 Creditors: amounts falling due after more than one year

	2006 £	2005 £
Bank loans (secured – see below)	6,250	41,417
Convertible loan note	1,000,000	–
Obligations under finance leases	16,090	59,117
Other creditors	93,750	–
	1,116,090	100,534

	2006 £	2005 £
Bank and other loans are due:		
In one year or less or on demand	185,783	5,011,632
In more than one year but not more than two years	6,250	35,167
In more than two years but not more than five years	–	6,250
	192,033	5,053,049
Less: amounts included within creditors less than one year	(185,783)	(5,011,632)
	6,250	41,417

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

Convertible loan notes

	2006 £	2005 £
Obligations under convertible loan notes are due as follows:		
In more than two years but not more than five years	1,000,000	–
	1,000,000	–
Less: amounts included within creditors less than one year	–	–
	1,000,000	–

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.

Finance leases

	2006 £	2005 £
Obligations under finance leases are due as follows:		
In one year or less	54,049	109,179
In more than one year but not more than two years	16,090	34,366
In more than two years but not more than five years	–	24,751
	70,139	168,296
Less: amounts included within creditors less than one year	(54,049)	(109,179)
	16,090	59,117

Notes Forming Part of the Financial Statements

for the year ended 30 September 2006 (continued)

14 Deferred Tax

	Unprovided 2006 £	Unprovided 2005 £	Provided 2006 £	Provided 2005 £
Accelerated capital allowances	34,971	100,679	–	–
Other timing differences	(30,000)	(36,000)	–	–
Losses carried forward	(2,464,468)	(2,237,750)	–	–

15 Share capital

Authorised	2006 No.	2006 £	2005 No. Restated	2005 £ Restated
Equity share capital				
Ordinary shares of 5 pence each	24,066,660	1,203,333	4,866,660	243,333
Deferred shares of £1 each	196,667	196,667	196,667	196,667
	24,263,327	1,400,000	5,063,327	440,000

Allotted, called up and fully paid	2006 No.	2006 £	2005 No. Restated	2005 £ Restated
Equity share capital				
Ordinary shares of 5 pence each	13,680,295	684,014	496,295	24,814
Deferred shares of £1 each	196,667	196,667	196,667	196,667
	13,876,962	880,681	692,962	221,481

	Ordinary Shares of 5p each No.	£
In issue at 1 October 2005 restated	496,295	24,814
New shares issued	13,184,000	659,200
In issue at 30 September 2006	13,680,295	684,014

On 13 March 2006 the company issued 659,200,000 ordinary shares of 0.1 pence each for a consideration of 0.5 pence 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 0.1 pence each.

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

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 2006 the following share options were outstanding under the company's share option schemes in respect of the ordinary shares of 5 pence each:

15 Share capital (continued)

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	75.00pence
10/04/2006	517,348	27 June 2007 to 27 June 2015	68.75pence

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 2006 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 3 April and 19 April 2006 to directors (as per the directors report on page 9) the performance criteria upon which the options are exercisable are that 33.3% may be exercised in the event that the share price is over 134p, 66.6% may be exercised in the event that the share price is over 200p, and 100.0% may be exercised in the event that the share price is over 265p

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

16 Reserves

	Share premium account £	Capital redemption reserve £	Profit and loss account £
As previously reported at 1 October 2004	4,552,479	130,000	2,011,764
Prior Year adjustment	–	–	(256,681)
Prior period effect of adoption of FRS 21	–	–	266,359
As restated	4,552,479	130,000	2,021,442
Loss for the year	–	–	(8,896,292)
Exercise of share options 21 December 2004	104,650	–	–
Exercise of share options 2 February 2005	74,750	–	–
Equity Dividend paid	–	–	(266,359)
As at 30 September 2005	4,731,879	130,000	(7,141,209)
Loss for the year	–	–	(259,101)
Premium arising on share issue (net of expenses)	2,407,781	–	–
As at 30 September 2006	7,139,660	130,000	(7,400,310)

Notes Forming Part of the Financial Statements

for the year ended 30 September 2006 (continued)

17 Reconciliation of movements in shareholders' funds

	2006 £	2005 £
Loss on ordinary activities after taxation for the year	(259,101)	(8,896,292)
	(259,101)	(8,896,292)
Equity dividend paid	–	(266,359)
Nominal value of share capital issued	659,200	600
Premium arising on share issue (net of expenses)	2,407,781	179,400
Net addition to shareholders' funds	2,807,880	(8,982,651)
Opening shareholders' funds as previously reported	(2,057,849)	6,658,443
Prior period effect of adoption of FRS 21	–	266,359
Opening shareholders funds as restated	(2,057,849)	6,924,802
Closing shareholders' funds	750,031	(2,057,849)

18 Commitments under operating leases

As at 30 September 2006, the company had annual commitments under non-cancellable operating leases in respect of land and buildings and motor vehicles as set out below:

	2006 £	2005 £
Operating leases which expire:		
Within one year		
Motor vehicles	2,412	–
	2,412	–
In two to five years		
Land and buildings	131,112	145,674
Motor vehicles	37,482	42,603
	168,594	188,277

19 Related party transactions

There were no related party transactions in either year.

20 Financial instruments

The company's financial instruments comprise an unsecured bank loan, finance leases, the convertible loan note, a loan under the Government's small firm's loan guarantee scheme, and cash and short term deposits.

Forward exchange contracts are frequently used to hedge foreign exchange exposures arising on forecast receipts and payments in foreign currencies. The exchange gains or losses on these contracts which hedge general trading flows are taken to profit and loss in the period in which they arise.

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 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 base.

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 % 2006	Weighted average period for which rate is fixed Years 2006	Weighted average interest rate % 2005	Weighted average period for which rate is fixed Years 2005
Sterling:				
Less than one year	0.20	0.30	1.77	0.25
More than two years and less than five	7.02	2.34	2.71	0.94

The breakdown of borrowings between fixed rate and floating rate is set out below. Fixed rate borrowings consist of an unsecured bank loan, other loans, convertible loan note and finance lease liabilities.

	2006 £	2005 £
Fixed rate borrowings	1,230,922	198,796
Floating rate borrowings	31,250	5,022,549
	1,262,172	5,221,345

Bank and other loans and overdrafts	2006 £	2005 £
Financial liabilities are due:		
In one year or less or on demand	185,783	5,011,632
In more than one year but not more than two years	6,250	35,167
In more than two years but not more than five years	–	6,250
	192,033	5,053,049

Finance leases	2006 £	2005 £
Financial liabilities are due:		
In one year or less or on demand	54,049	109,179
In more than one year but not more than two years	16,090	34,366
In more than two years but not more than five years	–	24,751
	70,139	168,296

Notes Forming Part of the Financial Statements

for the year ended 30 September 2006 (continued)

20 Financial instruments (continued)

Total financial liabilities

	2006 £	2005 £
Financial liabilities are due:		
In one year or less or on demand	239,832	5,120,811
In more than one year but not more than two years	22,340	69,533
In more than two years but not more than five years	1,000,000	31,001
	1,262,172	5,221,345

Currency rate risk

As at 30 September 2006

Currrency	Non interest bearing liabilities £	Fixed Rate borrowings £	Floating Rate borrowings £	Total
Sterling	474,048	1,230,922	31,250	1,736,220
US Dollar	51,119	–	–	51,119
Euro	100,015	–	–	100,015
	625,182	1,230,922	31,250	1,887,354

As at 30 September 2005

Currency	Non interest bearing liabilities £	Fixed Rate borrowings £	Floating Rate borrowings £	Total
Sterling	671,107	198,796	3,062,428	3,261,224
US Dollar	1,003	–	1,960,121	1,960,121
Euro	26,092	–	–	–
	698,202	198,796	5,022,549	5,221,345

Currency	Non interest bearing assets 2006 £	Non interest bearing assets 2005 £	Floating Rate cash 2006 £	Floating Rate cash 2005
Sterling	228,871	637,159	79,944	–
US Dollar	–	–	123	56,368
Euro	1,040,774	747,380	648,293	626,568
	1,269,645	1,384,539	728,360	682,936

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 base rate.

20 Financial instruments (continued)

Liquidity risk

The re-financing in March 2006 saw £2.5 million (after expenses) being raised through the placing of 510 million new ordinary shares, and a further £1 million raised by way of an issue of 7.5% convertible loan. The remainder of shares (149,200,000) covered the expenses of the share issue. An additional working capital facility of up to £250,000 is being provided by Ravensworth (International) Ltd. Of this £250,000 facility, as at 30 September 2006, £150,000 has been drawn down (2005: nil). This refinancing will generate sufficient cash for the company's requirement for the foreseeable future, and allow 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.

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

	2006 £	**2005** £
Operating loss	(999,133)	(8,807,978)
Depreciation	243,719	246,006
Decrease in stocks	1,512,290	2,570,623
Decrease in debtors	228,406	6,335,359
(Decrease)/Increase in creditors	(626,836)	424,361
Net cash inflow from operating activities	358,446	768,371

22 Reconciliation of net cash inflow to movement in net debt

	2006 £	**2006** £	**2005** £	**2005** £
Increase/(decrease) in cash in the year	1,922,359		(1,091,123)	
Cash outflow from changes in debt and lease financing	1,076,276		861,856	
Change in net debt resulting from cash flows		2,998,635		(229,267)
New finance leases		–		(68,802)
Other non cash movement		1,005,961		–
Movement in net debt in the year		4,004,596		(298,069)
Net debt at start of year		(4,538,408)		(4,240,340)
Net debt at end of year (note 23)		(533,812)		(4,538,408)

Notes Forming Part of the Financial Statements

for the year ended 30 September 2006 (continued)

23 Analysis of net debt

	At 1 October 2005 £	Cash flow £	Other non-cash changes £	At 30 September 2006 £
Cash in hand and at bank	682,936	45,424	–	728,360
Bank overdrafts	(2,444,581)	1,438,620	1,005,961	–
Invoice discounting facility	(438,315)	438,315	–	–
	(2,199,960)	1,922,359	1,005,961	728,360
Debt due after 1 year	(41,417)	(964,833)	–	(1,006,250)
Debt due within 1 year	(2,128,736)	1,942,953	–	(185,783)
Obligations under finance leases	(168,295)	98,156	–	(70,139)
Total	(4,538,408)	2,998,635	1,005,961	(533,812)

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