

AXEON TECHNOLOGIES LIMITED
REPORT OF THE DIRECTORS AND
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

Ritson Smith
Chartered Accountants
16 Carden Place
Aberdeen
AB10 1FX

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AXEON TECHNOLOGIES LIMITED

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FOR THE YEAR ENDED 31 DECEMBER 2006**

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AXEON TECHNOLOGIES LIMITED

COMPANY INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2006

DIRECTORS:

H Grant
D J Campbell
L Berns
C L Matthews

SECRETARY:

D J Campbell

REGISTERED OFFICE:

8 Clifford Street
London
W1S 2LQ

REGISTERED NUMBER:

3460977

ACCOUNTANTS:

Ritson Smith
Chartered Accountants
16 Carden Place
Aberdeen
AB10 1FX

AXEON TECHNOLOGIES LIMITED

**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2006**

The directors present their report with the financial statements of the company for the year ended 31 December 2006.

PRINCIPAL ACTIVITY

The principal activity of the company continues to be the development of products based on its unique learning algorithm intellectual property. Since 1998 the company has developed its core technology, developed specific products from this and developed customer case studies.

REVIEW OF BUSINESS

The results for the year and financial position of the company are as shown in the annexed financial statements. During 2006 the company continued to generate revenue from the sale of engineering services on larger development projects and product tool kits. In addition the company researched the integration of its technology with the architectures of the main electronic suppliers to this market. Commercially, the company has furthered technology licensing negotiations with both significant global customers and their key electronic suppliers.

As a developer of solutions that deploy new techniques into the automotive market, the company is exposed to a technology risk in overcoming all technical issues as a prerequisite to market entry.

DIVIDENDS

No dividends will be distributed for the year ended 31 December 2006.

RESEARCH AND DEVELOPMENT

Research in the year has been centred around the ongoing application solutions development, using the company's core technologies. Further research was undertaken on the integration of these technologies with the standard platforms found in their key markets.

FUTURE DEVELOPMENTS

The company plans to develop its revenue from the sale of engineering services. It also expects to continue its progress in customer application development and technology licensing arrangements.

DIRECTORS

The directors during the year under review were:

H Grant
M Briant-Evans - resigned 13.6.06
D J Campbell
L Berns
C L Matthews

No share options were exercised by the directors during the year.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

Company law requires the directors to prepare the financial statements for each financial period that give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing these financial statements the directors are required to:

AXEON TECHNOLOGIES LIMITED

**REPORT OF THE DIRECTORS - continued
FOR THE YEAR ENDED 31 DECEMBER 2006**

- select suitable accounting policies and 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.

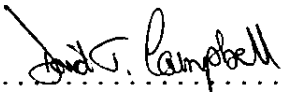
The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets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

Under applicable law and regulations, the directors are also responsible for preparing a Directors' Report that complies with that law and those regulations.

STATEMENT AS TO THE DISCLOSURE OF INFORMATION TO AUDITORS

So far as the directors are aware, there is no relevant audit information (as defined by s234ZA of the Companies Act 1985) of which the company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

ON BEHALF OF THE BOARD:


.....
D J Campbell - Secretary

Date: 26 March 2007

AXEON TECHNOLOGIES LIMITED

**REPORT OF THE INDEPENDENT AUDITORS TO THE SHAREHOLDERS OF
AXEON TECHNOLOGIES LIMITED**

We have audited the financial statements of Axeon Technologies Limited for the year ended 31 December 2006 on pages 6 to 17. 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 financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out on page three.

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 Report of the Directors 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 the Report of the Directors and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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.

AXEON TECHNOLOGIES LIMITED

REPORT OF THE INDEPENDENT AUDITORS TO THE SHAREHOLDERS OF
AXEON TECHNOLOGIES LIMITED

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 31 December 2006 and of its profit 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 Report of the Directors is consistent with the financial statements.

Ritson Smith

Ritson Smith
Registered Auditors
Chartered Accountants
16 Carden Place
Aberdeen
AB10 1FX

26 March 2007

AXEON TECHNOLOGIES LIMITED**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2006**

	Notes	2006 £	2005 £
TURNOVER	2	371,494	243,324
Cost of sales		<u>18,589</u>	<u>-</u>
GROSS PROFIT		352,905	243,324
Administrative expenses		<u>1,251,435</u>	<u>1,303,774</u>
OPERATING LOSS	4	(898,530)	(1,060,450)
Interest receivable and similar income		<u>-</u>	<u>2,558</u>
		(898,530)	(1,057,892)
Interest payable and similar charges	5	<u>18,718</u>	<u>308,773</u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(917,248)	(1,366,665)
Tax on loss on ordinary activities	6	<u>(150,942)</u>	<u>(147,609)</u>
LOSS FOR THE FINANCIAL YEAR AFTER TAXATION		<u>(766,306)</u>	<u>(1,219,056)</u>

CONTINUING OPERATIONS

None of the company's activities were acquired or discontinued during the current year or previous year.

TOTAL RECOGNISED GAINS AND LOSSES

The company has no recognised gains or losses other than the losses for the current year or previous year.

The notes form part of these financial statements

AXEON TECHNOLOGIES LIMITED

BALANCE SHEET
31 DECEMBER 2006

		2006		2005	
	Notes	£	£	£	£
FIXED ASSETS					
Intangible assets	7		21,864		5,626
Tangible assets	8		<u>24,630</u>		<u>15,099</u>
			46,494		20,725
CURRENT ASSETS					
Stocks	9	202		18,513	
Debtors	10	287,942		415,830	
Cash at bank		<u>107,287</u>		<u>14,847</u>	
		395,431		449,190	
CREDITORS					
Amounts falling due within one year	11	<u>4,675,166</u>		<u>3,865,262</u>	
NET CURRENT LIABILITIES			(4,279,735)		(3,416,072)
TOTAL ASSETS LESS CURRENT LIABILITIES			(4,233,241)		(3,395,347)
CREDITORS					
Amounts falling due after more than one year	12		<u>229,216</u>		<u>310,623</u>
NET LIABILITIES			<u>(4,462,457)</u>		<u>(3,705,970)</u>
CAPITAL AND RESERVES					
Called up share capital	15		915,023		915,023
Share premium	16		5,923,092		5,923,092
Other reserves	16		15,226		-
Profit and loss account	16		<u>(11,315,798)</u>		<u>(10,544,085)</u>
SHAREHOLDERS' FUNDS	19		<u>(4,462,457)</u>		<u>(3,705,970)</u>

The financial statements were approved by the Board of Directors on 26 March 2007 and were signed on its behalf by:


.....
D J Campbell - Director

The notes form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

1. ACCOUNTING POLICIES

Fundamental accounting concept

The financial statements have been prepared on the going concern basis, which assumes that the company will be able to continue on operational existence for the foreseeable future and to meet its liabilities as they fall due. The company continues to receive support from its parent company, Axeon Holdings plc, which allows the company to continue its operations.

Accounting convention

The financial statements have been prepared under the historical cost convention and are in accordance with applicable accounting standards.

Turnover

Turnover represents net invoiced sales of goods, excluding value added tax.

Intangible assets

Intangible assets acquired separately from a business are capitalised at cost. Intangible assets created within the business are not capitalised and expenditure is charged against profits in the year in which it is incurred.

Intangible assets are amortised in a manner calculated to write off the cost, in equal annual proportions, over the effective life of the underlying patent or intellectual property rights (IPR), usually around 5-6 years in the electronics industry. In the event that a patent is abandoned or is considered to have suffered an impairment in value before the expiry of its life, the balance of unamortised expenditure is written down to its recoverable value.

Tangible fixed assets

Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life.

Office and computer equipment	- 20-50% on cost
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Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition as follows:

Raw materials, consumables and goods for resale	- purchase cost on a first-in, first-out basis
---	--

Work in progress and finished goods	- cost of direct materials and labour plus attributable overheads based on a normal level of activity
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Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

1. ACCOUNTING POLICIES - continued

Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date.

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.

Research and development

Expenditure on research and development is written off in the year in which it is incurred.

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of transaction. Exchange differences are taken into account in arriving at the operating result.

Pensions

The company operates a defined contribution pension scheme. Contributions payable for the year are charged in the profit and loss account.

Operating leases

Payments made under operating leases are charged to the profit and loss account on a straight line basis over the period of the lease.

Statement of cashflows

The company has taken advantage of the exemption in Financial Reporting Standard No 1 from preparing a statement of cashflows on the grounds that it is a subsidiary undertaking where 90% or more of the voting rights are controlled by its parent undertaking and the results of this company are included in the consolidated financial statements of the group.

Financial Instruments

Financial assets and financial liabilities are recognised in the company's balance sheet when the company becomes a party to the contractual provisions of the instrument.

Trade and other receivables are stated at their nominal values less impairment losses, if required.

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2006

1. ACCOUNTING POLICIES - continued

Share based payments

The share option programme allows group employees to acquire shares in the holding company, Axion Holdings plc. The fair value of share options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date, using an appropriate pricing model taking into account the terms and conditions on which the options were granted, and it is spread over the period during which the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest. This policy has been adopted with effect from 1 January 2006 and applies to all options granted on or after 7 November 2002 that are unvested at the adoption date. The figures for the comparative period have been restated to show the effect of the new policy.

2. TURNOVER

The turnover and loss before taxation are attributable to the one principal activity of the company.

An analysis of turnover by geographical market is given below:

	2006 £	2005 £
United Kingdom	214,868	191,500
Overseas sales	<u>156,626</u>	<u>51,824</u>
	<u>371,494</u>	<u>243,324</u>

Turnover is attributable solely to continuing operations, the sale of development boards and engineering services.

3. STAFF COSTS

	2006 £	2005 £
Wages and salaries	669,131	622,709
Social security costs	32,078	57,723
Pension costs and other emoluments	<u>23,404</u>	<u>19,576</u>
	<u>724,613</u>	<u>700,008</u>

The average monthly number of employees during the year was as follows:

	2006	2005
Administration	1	2
Research and development	9	9
Sales and marketing	<u>1</u>	<u>3</u>
	<u>11</u>	<u>14</u>

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2006

4. OPERATING LOSS

The operating loss is stated after charging/(crediting):

	2006	2005
	£	£
Depreciation - owned assets	11,662	11,881
Loss on disposal of fixed assets	-	1,942
Intellectual Property amortisation	9,996	24,840
Auditors' remuneration	21,600	9,000
Non audit services	8,175	9,425
Foreign exchange differences	3,150	(8,540)
Operating lease rentals	44,474	41,805
Funding Fees	-	11,190
Research and development expenditure written off	<u>715,395</u>	<u>570,594</u>
Directors' emoluments	-	69,190
Directors' pension contributions to money purchase schemes	<u>-</u>	<u>2,021</u>

The number of directors to whom retirement benefits were accruing was as follows:

Money purchase schemes	<u>-</u>	<u>1</u>
------------------------	----------	----------

There were no amounts included in emoluments (2005 - £28,780) which were payable to third parties for the services of directors.

5. INTEREST PAYABLE AND SIMILAR CHARGES

	2006	2005
	£	£
Bank interest payable	18,718	6,790
Other interest payable	-	1,424
Shareholder loan interest	-	61,758
Shareholder loan redemption premium	<u>-</u>	<u>238,801</u>
	<u>18,718</u>	<u>308,773</u>

6. TAXATION

Analysis of the tax credit

The tax credit on the loss on ordinary activities for the year was as follows:

	2006	2005
	£	£
Current tax:		
UK corporation tax	(130,000)	(118,398)
Prior year adjustment	<u>(20,942)</u>	<u>(29,211)</u>
Tax on loss on ordinary activities	<u>(150,942)</u>	<u>(147,609)</u>

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2006

6. TAXATION - continued

Factors affecting the tax credit

The tax assessed for the year is higher than the standard rate of corporation tax in the UK. The difference is explained below:

	2006 £	2005 £
Loss on ordinary activities before tax	<u>(917,248)</u>	<u>(1,366,665)</u>
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2005 - 19%)	(275,174)	(259,666)
Effects of:		
Expenses not deductible for tax purposes	462	16
Capital allowances in excess of depreciation	(159)	(1,861)
Other fixed asset differences	-	5,233
Utilisation and movement on tax losses	110,884	153,723
Research and development uplifts	(85,117)	(50,824)
Other timing differences	(59)	(44)
Surrender of tax losses for credit refund	119,163	152,472
Research & development tax credit	-	(118,398)
Group relief	-	951
Adjustments in respect of prior years	<u>(20,942)</u>	<u>(29,211)</u>
Current tax credit	<u>(150,942)</u>	<u>(147,609)</u>

Deferred tax

The deferred tax asset not recognised in the accounts is as follows:

	2006 £	2005 £
Depreciation in advance of capital allowances	10,077	6,418
Short term provisions	808	549
Tax losses available	<u>2,130,176</u>	<u>1,311,654</u>
	<u>2,141,061</u>	<u>1,318,621</u>

The unrecognised deferred tax asset will be recoverable when the company generates taxable profits.

AXEON TECHNOLOGIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2006

7. INTANGIBLE FIXED ASSETS

	Patents £	Intellectual Property £	Totals £
COST			
At 1 January 2006	-	138,570	138,750
Additions	<u>26,234</u>	<u>-</u>	<u>26,234</u>
At 31 December 2006	<u>26,234</u>	<u>138,570</u>	<u>164,804</u>
AMORTISATION			
At 1 January 2006	-	132,944	132,944
Charge for year	<u>4,370</u>	<u>5,626</u>	<u>9,996</u>
At 31 December 2006	<u>4,370</u>	<u>138,570</u>	<u>142,940</u>
NET BOOK VALUE			
At 31 December 2006	<u>21,864</u>	<u>-</u>	<u>21,864</u>
At 31 December 2005	<u>-</u>	<u>5,626</u>	<u>5,626</u>

Intangible assets comprise intellectual property relating to learning algorithms.

8. TANGIBLE FIXED ASSETS

	Office & computer equipment £
COST	
At 1 January 2006	194,864
Additions	<u>21,193</u>
At 31 December 2006	<u>216,057</u>
DEPRECIATION	
At 1 January 2006	179,765
Charge for year	<u>11,662</u>
At 31 December 2006	<u>191,427</u>
NET BOOK VALUE	
At 31 December 2006	<u>24,630</u>
At 31 December 2005	<u>15,099</u>

9. STOCKS

	2006 £	2005 £
Raw materials	-	5,995
Work-in-progress	202	-
Finished goods	<u>-</u>	<u>12,518</u>
	<u>202</u>	<u>18,513</u>

AXEON TECHNOLOGIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2006

10. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2006 £	2005 £
Trade debtors	-	4,549
Research and development tax credit	261,506	297,609
VAT	2,970	9,727
Prepayments and accrued income	<u>23,466</u>	<u>103,945</u>
	<u>287,942</u>	<u>415,830</u>

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2006 £	2005 £
Bank loans and overdrafts (see note 13)	-	30,000
Other loans (see note 13)	71,000	72,384
Trade creditors	674	83,540
Amounts owed to group undertakings	4,498,425	3,618,094
Social security and other taxes	13,901	16,691
Other creditors	2,594	2,891
Accruals and deferred income	<u>88,572</u>	<u>41,662</u>
	<u>4,675,166</u>	<u>3,865,262</u>

12. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2006 £	2005 £
Bank loans (see note 13)	-	17,500
Other loans (see note 13)	<u>229,216</u>	<u>293,123</u>
	<u>229,216</u>	<u>310,623</u>

13. LOANS

An analysis of the maturity of loans is given below:

	2006 £	2005 £
Amounts falling due within one year or on demand:		
Bank loans	-	30,000
Other loans	<u>71,000</u>	<u>72,384</u>
	<u>71,000</u>	<u>102,384</u>
Amounts falling due:		
Bank loans - 1-2 years	-	17,500
Other loans - 1-2 years	142,454	293,123
Other loans - 2-5 years	<u>86,762</u>	-
	<u>229,216</u>	<u>310,623</u>

AXEON TECHNOLOGIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2006

13. LOANS - continued

The original bank loan was £150,000 payable over 5 years at £2,500 per month. The final repayment date was due to be 18 July 2007 but an early lump sum repayment was made in August 2006 to clear this loan.

Included in other loans is a loan which was originally for £400,000 payable over a period of 5 years in equal monthly instalments with interest at a rate of 6.5% per annum (payable monthly in arrears). Suspension of the repayments on this loan was granted for thirteen months from January 2005. Repayments therefore continued being made from February 2006.

14. OPERATING LEASE COMMITMENTS

The following operating lease payments are committed to be paid within one year:

	Land and buildings		Other operating leases	
	2006 £	2005 £	2006 £	2005 £
Expiring:				
Within one year	-	32,625	4,590	-
Between one and five years	-	-	-	9,180
	<u>-</u>	<u>32,625</u>	<u>4,590</u>	<u>9,180</u>

15. CALLED UP SHARE CAPITAL

Authorised:

Number:	Class:	Nominal value:	2006 £	2005 £
1,000,000	Ordinary	£1	<u>1,000,000</u>	<u>1,000,000</u>

Allotted, issued and fully paid:

Number:	Class:	Nominal value:	2006 £	2005 £
915,023	Ordinary	£1	<u>915,023</u>	<u>915,023</u>

16. RESERVES

	Profit and loss account £	Share premium £	Other reserves £	Totals £
At 1 January 2006	(10,544,085)	5,923,092	-	(4,620,993)
Prior year adjustment	(5,407)	-	5,407	-
Deficit for the year	(766,306)	-	-	(766,306)
Share based payments	-	-	9,819	9,819
At 31 December 2006	<u>(11,315,798)</u>	<u>5,923,092</u>	<u>15,226</u>	<u>(5,377,480)</u>

AXEON TECHNOLOGIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2006

17. ULTIMATE PARENT COMPANY

The company's ultimate parent undertaking is Axeon Holdings plc, a company registered in England. The consolidated financial statements of Axeon Holdings plc are those of both the smallest and largest group of which the company is a member and for which the group financial statements are prepared. Copies of these financial statements are available on the group's website at www.axeon.com or from its registered office, 8 Clifford Street, LONDON, W1S 2LQ.

18. RELATED PARTY DISCLOSURES

The company has taken advantage of exemptions under Financial Reporting Standard No 8 'Related Party Transactions' not to disclose transactions with other group undertakings.

19. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2006	2005
	£	£
Loss for the financial year	(766,306)	(1,219,056)
Share based payments	<u>9,819</u>	<u>(40,021)</u>
Net reduction of shareholders' funds	(756,487)	(1,259,077)
Opening shareholders' funds	<u>(3,705,970)</u>	<u>(2,446,893)</u>
Closing shareholders' funds	<u>(4,462,457)</u>	<u>(3,705,970)</u>
 Equity interests	 <u>(4,462,457)</u>	 <u>(3,705,970)</u>

20. EMPLOYEE BENEFITS

The company operates an Inland Revenue approved share option scheme in connection with the holding company (Axeon Holdings plc).

The scheme is open to all employees, including executive and non-executive directors. The grant of options is at the discretion of the directors upon recommendation by the Remuneration Committee. The latest date for exercise of options under both schemes is ten years from the date of grant. The earliest date is dependent on achievement of performance criteria.

The performance criteria for options granted up to 31 December 2005 require that the group has achieved cumulative revenue of:

- £1 million for 20% of the options to vest;
- £3 million for 40% of the options to vest;
- £5 million for 70% of the options to vest;
- £10 million for 100% of the options to vest.

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2006

20. EMPLOYEE BENEFITS continued

In addition, on a listing of the shares on AIM 50% of the unvested options at that time vested. In the event of a sale of the company, the purchaser can choose to replace options with equivalent options or they will vest.

At 31 December 2006 the total number of shares over which options had been granted to directors, former directors and employees was 90,000 representing 0.36% of the allotted share capital of the holding company as follows:

Grant Date	Number of directors/Employees	Number of shares	Exercise price pence
June 2005	6	90,000	56.0

Fair Value of share options granted

The fair value of services received in return for share options granted is measured by reference to the fair value of options granted. The estimate of the fair value of the services received is based on the Binomial model. The assumptions used for the Binomial model for each issue of options to which this policy applies are as follows:

Option arrangement	Fair value at measurement date	Share price	Exercise price	Expected volatility	Risk free rate
Approved share option June 2005	48.5p	70.0p	56.0p	75%	4.31%

The lives of the options were assumed to be an average of 7.5 years as in practice it is expected that they would be exercised before their ten year life ended.

The forecast future volatility is based upon a three year historical volatility of the company and a comparator group of companies.

A dividend yield of nil has been assumed for the years to 2010. Thereafter a 3% yield has been assumed.

	2006	2005 Restated
	£	£
Share options granted in 2005	34,785	19,155
Share options granted in 2006	-	-
	<u>34,785</u>	<u>19,155</u>