Appian Technology plc

Annual Report and Financial Statements

Year Ended 30 September 2006

Company No 4020918

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DIRECTORS AND OTHER INFORMATION

Board of Directors

P Ryan	(Executive Chairman)
D Hearn	(Finance Director)
T Keene	(Commercial Director)
F Newton	(Non -executive)
J Finan	(Non-executive)

Bankers

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Berkshire
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Secretary and Registered Office

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Buckinghamshire
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Registered Number: 4020918

Solicitors

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Auditors

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Brokers

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London Wall
LONDON
EC2M 5TA

Nominated Advisor

John East & Partners Limited
Crystal Gate
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EC2A 2AH

Registrar

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Fenay Bridge
HUDDERSFIELD
West Yorkshire
HD8 0LA

CHAIRMAN'S STATEMENT

Introduction
It gives me great pleasure to report on Appian and the progress the Group has made over the last year. The year has been very positive for the Group, which is demonstrated in the financial results which show our inaugural profit.

Overview
- Turnover up 77.5% to £5.15 million (2005: £2.90 million)
- Gross profit up to 52.4% at £2.70 million (2005: 49.1% and £1.43 million)
- Profit after tax of £106,000 (2005: loss of £941,000)
- Market for traffic management and terror related surveillance technology is growing
- Substantially increased order intake in the UK particularly amongst government bodies and police forces
- Further progress in international markets with sales to police and security customers in Canada, USA, Mexico and a number of Middle Eastern countries
- Acquisition of Genesis UK Limited (Genesis) in July 2006 for an initial £1.40 million giving enhanced product range and client base and fundraising of £2.33million
- Broadened core middle management team to cater for increased business
- Listed on AIM in January 2006 raising £2.08 million before expenses
- Well positioned to take advantage of continued growth in UK and international Automatic Number Plate Recognition (ANPR) related markets
- New COBRA camera recently introduced and other ANPR based products in development

Appian operates in the rapidly expanding security and traffic management markets supplying a range of products based on its leading Talon ANPR engine and its recently acquired Shark ANPR products and back office systems. Customers are mainly police forces, national and local governments as well as corporations both in the UK and internationally. Our initial focus was on the UK market where we now have a wide presence. We continue to broaden our penetration into international markets which show good growth potential. Appian has an excellent research and development team who are committed to keeping our products at the forefront in their markets and applications.

Results
The year ended 30 September 2006 was another year of significant progress for Appian and one which saw the Group make an inaugural profit after tax. Order intake increased significantly, rewarding the investment we have made in recent years in sales, marketing and product development.

Turnover increased to £5.15 million (2005: £2.90 million), and gross profit margin increased to 52.4% (2005: 49.1%).

Profit after tax for the year was £106,000 (2005: loss £941,000) which is equivalent to £0.001 per share (2005: loss £0.016 per share).

Other operating expenses increased to £2.65 million (2005: £2.40 million). The increase in operating expenses of £0.25 million included the operating expenses of Genesis of £0.16 million for the period since its acquisition on 20 July. The increase in operating expenses in Appian of £0.09 million related principally to costs associated with improving operational management, research and development and sales and marketing.

Market
In my report last year I stated that, as a Group specialising in security products, we have a market opportunity that is large and at an early stage in its lifecycle. This remains valid and is reinforced by the substantial increase in order intake during the last year and the continuing pipeline of potential business.

The UK market has shown growth during the past year, where our business is primarily focused on providing fixed and mobile ANPR systems to a range of police forces and commercial customers. The acquisition of Genesis in July 2006 has expanded our customer base and introduced the Group to new markets particularly in petrol forecourt surveillance. The Directors believe the outlook for these markets is positive.

Appian has also made very good progress in the international market during the last year and the prospects for the Group remain positive. The Group has increased its exposure to world markets, making sales to police and security customers in Canada, USA and Mexico, as well as a number of Middle Eastern countries. Prospects for sales growth in the international market remain very good and the Group is currently tendering for a number of international contracts. Genesis was successful in its tender with joint venture partners to provide a road user charging scheme for Malta, which will be an excellent reference site and provide us with avenues into other countries.

CHAIRMAN'S STATEMENT - continued

Spending on sales and marketing in international markets has been increased to deliver sales increases going forward. The Group also intends to increase its focus on the traffic and transport markets in forthcoming years.

As a result of the above activity, we are positive about future market growth.

Products and Research & Development

Research & Development was focused during the year on continuing improvements and internationalising our core ANPR engine, improving its ease of use and user interface, bespoke developments for specific customers and continuing specialist camera development, particularly our new Cobra Camera. We are also investing in new ANPR based products which are expected to increase our sales and margins, which we will be introducing in the current year.

The acquisition of Genesis in July 2006 broadened the Group's product range especially with a new, easy to use hand held ANPR device and back office systems which can make valuable use of the data captured by ANPR cameras.

Management

Development of the management team continues as the Group grows. We have experienced considerable growth during the past two years and we expect this to increase in years to come. With this in mind, the focus of management team development is now to ensure that core senior and middle management is effective in:

- ensuring that our sales and marketing efforts are effectively manned
- delivering the sales growth
- supporting our maintenance customers
- managing research and development and
- ensuring financial management and systems effectively deal with the increased workload

Increasing our senior and core middle management team and sales resources has resulted in a necessary increase in costs. The acquisition and integration of Genesis also increased our staffing and added additional valuable management resource to the Group.

We have recently strengthened our management team in research and development, operations and maintenance and customer service.

AIM and Placing

In order to increase our market awareness and raise our profile internationally, Appian was admitted to trading on AIM in January 2006. At that time we raised £1.68 million net of expenses in additional equity in order to fund the expansion of our business and take advantage of the business opportunity in ANPR.

Acquisition of Genesis and Placing

In July 2006 Appian acquired ANPR developer and supplier Genesis (UK) Ltd for an initial consideration of £1.40 million. The acquisition was paid for by £699,000 in cash before acquisition expenses and the remainder by issue of ordinary shares in Appian. Deferred consideration of up to £1.55 million based on the profits before tax of Genesis for the years ending 31 December 2006 and 2007 may be payable. At the discretion of the Company, up to 50 per cent of the deferred consideration is to be satisfied by the issue of new ordinary shares at the prevailing market price subject to a minimum price of £0.0925 per new ordinary share, with the balance to be satisfied in cash.

At the time of the acquisition the Group raised £2.33 million by way of placing.

This acquisition expanded our market penetration in the UK and internationally and significantly strengthened the Group's strategic customer base in the UK police market. It also increased Appian's product range and service offering with back office and hand held systems in the policing, security; counter terrorism, traffic management and commercial markets.

Board

Since the announcement of the Group's preliminary results on 11 December 2006 I am pleased to report that the Board have appointed Mr Peter D Coyle as an additional director. As he has been appointed since the date of the last AGM he will be formally considered for election as a director of the Company in accordance with the articles of association at the annual general meeting of the Company to be held on 26 January 2007.

CHAIRMAN'S STATEMENT - continued

Peter, aged 59, has a master's degree in economics and has extensive international negotiating and business development experience. As an Executive Director of the Irish Government's industrial development agency he was responsible for all global trade development beyond Europe and has deep experience of negotiations at the highest levels in international business and government. He has led and actively participated in a successful programme to actively scale up high potential technology businesses and provide strategic advice and guidance to them at chief executive officer and board level.

John Finan who has served as a non-executive director with Appian since 1999 has, following a review of his portfolio of work, decided to step down as a non-executive director on the Board of Appian. We thank him for his contribution to Appian and wish him well.

It is intended to appoint a further non-executive director in the coming months.

Outlook

The outlook going forward is very positive. There is considerable growth potential in our markets in the UK and Internationally. We have an excellent product range which we are expanding with complimentary and margin enhancing products. Business in hand to date is ahead of last year and the Group has a growing pipeline. We are looking forward to a further increase in sales in the year to September 2007, which gives the management and Board at Appian the confidence to look forward very positively to the future.

Pat Ryan
Executive Chairman and CEO
8 December 2006

FINANCIAL REVIEW

Introduction

I am very pleased to announce a year of good financial progress with a significant increase in sales, the successful placing and admission to AIM in January, the acquisition of Genesis and institutional placing in July and the delivery of a profit after tax of £106,000 compared to a loss after tax of £941,000 in the previous year.

Results

Group turnover was £5.15 million for the year, up 77.5% on the previous year's turnover of £2.90 million. The contribution from Genesis to sales was £588,000. The majority of the increase arose from higher sales of Appian's core ANPR products. Our customer base continues to widen and Appian has achieved growth in the international market.

The gross profit for the year at £2.70 million was significantly higher than the £1.43 million achieved last year. Excluding Genesis, gross margins in Appian for the first 6 months were 51.1% and for the second 6 months increased to 55.2% producing an overall average margin for the year of 53.5% compared to 49.1% last time. Including Genesis, the gross margin at 52.4% was up on last year's margin of 49.1%, and would have been higher but for a significant contract delivered by Genesis of £225,000 with high sub-contract costs at a margin of 33%.

Other operating expenses at £2.65 million are higher than last years costs of £2.40 million, primarily due to additional costs from Genesis of £158,000 and the additional cost of strengthening management within the delivery and maintenance departments, together with extra investment in the development of new products. Staff increased from 31 in 2005 to 38 at the end of 2006. In the year ending 30 September 2007 costs will increase in the sales and marketing to support international sales and product delivery.

Overall the Group turned around last year's loss after tax of £941,000 to a profit after tax of £106,000, an overall improvement of £1.05 million. The Group's earnings per share was £0.001 per share (2005: loss of £0.016 per share).

Taxation

No liability to UK or overseas corporation tax has arisen during 2006, due to the availability of tax losses brought forward (2005: £Nil). The Group benefited from a tax credit of £89,000 (2005: £82,000) in respect of the UK Research and Development Tax Credit scheme.

Research and Development

The Group incurred £491,000 (2005: £391,000) on research and development which was written off during the year. A significant proportion of the investment continued to be on new PC platforms for Appian's Talon recognition software, as well as continuing to train and customise the recognition engine for reading international number plates to support the international market. Expenditure of £131,000 relating to the development of new specialised ANPR products was capitalised. This expenditure will be written off against future revenues generated by these products.

Acquisitions

On 20 July 2006 the Group acquired the entire issued share capital of Genesis for the sum of £2.15 million paid in £699,000 in shares, £756,000 in cash and £694,000 payable in deferred cash and shares. At the discretion of Appian, up to 50% of the deferred consideration may be satisfied by the issue of new ordinary shares at the prevailing market price subject to a minimum price of £0.0925 per new ordinary share, with the balance to be satisfied in cash or cash backed loan notes.

Balance sheet

The consolidated net assets as at 30 September 2006 were £4.43 million.

Goodwill of £2.06 million arising from the acquisition of Genesis in July 2006 has not been amortised and the Directors will review the value of this annually.

Funding

In May 2006 the Group secured new banking facilities of £600,000 with a leading UK bank, which are utilised in funding Appian's working capital requirements and in July 2006 a further £425,000 of bank facilities as a result of its acquisition of Genesis.

In November 2005 the Group raised additional capital of £441,000 net of expenses prior to listing on AIM. The Group placed 9,200,000 ordinary shares of £0.01 for a cash price of £0.05 each to institutional and other investors. The placing proceeds were used to strengthen the balance sheet and for additional working capital.

FINANCIAL REVIEW - continued

In January 2006 the Group raised £1.68 million net of expenses, of additional capital on admission to AIM. The Group placed 41,580,000 ordinary shares of £0.01 each for a cash price of £0.05 each to institutional and other investors. The funds raised are being used to increase the Group's sales in the UK and internationally in markets that are expanding in response to rising security and traffic congestion issues worldwide, and to provide additional working capital.

In July 2006 the Group raised £2.18 million net of expenses, of additional capital. The Company placed 26,670,744 ordinary shares of £0.01 each for a cash price of £0.0875 each to institutional and other investors. £756,000 of the funds raised was used to fund the initial cash element and professional fees incurred in the acquisition of Genesis. The balance of the funds is being used to fund sales and marketing expansion, development of new products and to provide additional working capital to the enlarged Group.

In July 2006 the Group also issued 7,556,767 ordinary shares of £0.05 to the shareholders of Genesis being at an issue price of £0.0925 as the balance of the initial consideration.

During the year the Group took on new finance leases of £9,000 (2005: £59,000) to fund its purchase of tangible fixed assets and demonstration stock.

Working Capital

The value of debtors at the year end increased by some £1.43 million over the previous year as a result of significantly higher sales during the Group's last quarter as compared with last year and the addition of Genesis trade debtors. Genesis trade debtors accounted for £810,000 of the increase in debtors. The Group collected more than half of this increase during the month of October.

The stock value increased by £360,000 over the previous year, of which £186,000 related to stock and work in progress in Genesis. The remainder of the increase was accounted for by an increase of £100,000 in maintenance stock to support customer contracts and £74,000 in finished goods for resale.

Included in creditors due within one year is deferred income of £331,000 (2005: £149,000) which is non refundable and will be recognised as revenue in the year ending 30 September 2007.

Cash flow

The Group absorbed £1.37 million (2005: £851,000) from operating activities and working capital movements of which £1.12 million arose from the increase in debtors at the year end as a result of the higher sales activity in the last quarter as compared to the same quarter last year and the inclusion of Genesis trade debtors. The Group also absorbed £4,000 (2005: £24,000) from investments and servicing of finance. The purchase of tangible fixed assets, net of disposal proceeds from the sale of tangible fixed assets, a further £22,000 (2005: £30,000) and the development costs absorbed a further cash outflow of £131,000 (2005: £Nil).

The Group received £4.12 million net of expenses from the issuing of shares during the year.

Currency exposure

The foreign sales are priced in sterling and invoiced in sterling, with the exception of those sales made to the USA which are priced in sterling, but are invoiced in US Dollars. The Group policy is to reduce currency exposures on any balance not expected to mature within 30 days of its arising through the use of an exchange rate which will always allow the Group sufficient margin to manage the risk.

Financial Management

The financial management remains focused on ways of improving margins, good cash and cost management and strengthening the financial stability of the Group.

David Hearn
Finance Director
8 December 2006

DIRECTORS' REPORT

The directors submit their report together with the audited financial statements for the year ended 30 September 2006.

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.

United Kingdom 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 the Group and of the profit or loss of the Group for that period. In preparing those financial statements, the directors' are required to:

- select suitable accounting policies and apply them consistently
- make judgments 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 entity 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 Group and enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The directors are also responsible for the preparation of the directors' report and other information in the annual report.

In so far as the directors are aware:

- there is no relevant audit information of which the Group's auditor is unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements, may differ from legislation in other jurisdictions.

Principal activities and review of the business
The Group has a complementary range of state of the art software products focused on the growing vehicle guidance, access control and enforcement markets. The technologies are Talon, Shark, mShark, Big Fish, Navigator Zone Specific Guidance System and Toltec.

Talon is a proven system in many areas of overt and covert surveillance. It provides rapid and accurate identification of vehicles, 24 hours a day, in all but the worst weather conditions. The system can be used to match passing vehicles against a target list which can either be held in the systems integral database or within a central computer. When a target vehicle passes the camera an immediate warning is given.

The Big Fish back office server system is a powerful 'central' server application software module that is designed to manage and control multiple ANPR assets, ANPR vehicle fleets, multiple fixed ANPR camera systems, handheld ANPR devices and portable ANPR devices.

The mShark Handheld ANPR System can be integrated into handheld devices such as mobile phones and PDA's. The system is delivered to customers on a SD card which is then inserted into the device and is the world's smallest ANPR system.

Shark is an ANPR system that is used for mobile and static ANPR systems. It is designed to run on a variety of PC's and uses a unique 'spiral' recognition engine.

The Navigator Zone-Specific Guidance System is a parking guidance information solution for customers with multi-storey car park facilities. This system enables the operator to provide customers with valuable assistance in their parking search process as they circulate through the parking facility, and ensures that drivers locate an available parking space more quickly and efficiently.

DIRECTORS' REPORT -continued

Key Performance Indicators (KPIs)
Appian uses several performance indicators, both financial and non-financial, to monitor its progress. The focus of the company continues to be improving efficiency levels, margins and customer service within a constantly changing and rapidly expanding market.

a) Financial KPIs

Sales
The Group actively pursues increased sales

Gross profit margin
The Group continually strives to improve its gross profit margin and succeeded in increasing it from 49.1% last year to achieved 52.4% this year ended 30 September 2006.

Cost control
The Group continually measures its costs against pre-determined budgets and investigates variances. The future focus continues to be improving efficiency levels and driving down operating costs, whilst maintaining high standards of customer service and developing the skills and effectiveness of its employees.

b) Non-financial KPIs

Customer service standards
The continuing focus will be to improve our customer support and this is monitored by customer feedback together with reviewing performance against our service level agreements.

Maintenance
The maintenance performance is measured by statistical analysis of our call outs.

Acquisition
On 20 July 2006 the Group completed the acquisition of Genesis for an initial consideration of £1.45 million comprising £756,000 in cash (funded through the placing of 26,670,744 new ordinary shares of £0.01 each at £0.0875 per share) and the remainder satisfied by the issue of a further 7,556,757 new ordinary shares of £0.01 each to the vendors. Further deferred consideration of £694,000 has been provided on the basis that certain financial targets are achieved for the years ending 31 December 2006 and 2007. At the discretion of the Company, up to 50 per cent of the deferred consideration is to be satisfied by the issue of new ordinary shares at the prevailing market price subject to a minimum price of £0.0925 per new ordinary share, with the balance to be satisfied in cash or cash backed loan notes.

Staff
The Group employed an average of 38 (2005: 31) people during the year. The Board wishes to record its appreciation of the efforts made by the staff during the year under review.

Result for the period
The profit and loss account for the year ended 30 September 2006 is set out on page 17.

Research and development
The Group continued to undertake research and development of the products it acquired during August 2000 and July 2006.

Transfer of business and assets
During the year ended 30 September 2005 certain assets and business of Messenger Vehicle Identification Systems Limited, ("MVI") a wholly owned subsidiary, were transferred to the Company.

During the year ended 30 September 2006 the remaining assets and liabilities of MVI were transferred to the company.

Creditor payment policy and practice
It is the Company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Company and its suppliers, providing that all trading terms and conditions have been complied with. The payment period for the Company at 30 September 2006 was 54 days (2005: 91 days).

DIRECTORS' REPORT -continued

Financial risk management objectives and policies
The Group uses various financial instruments. These include loans, cash, equity investments, preference shares and various items, such as trade debtors and trade creditors that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations (see note 14).

The existence of these financial instruments exposes the Group to a number of financial risks, which are described in more detail below.

The main risks arising from the Group's financial instruments are market risk, cash flow interest rate risk, credit risk and liquidity risk. The directors review and agree policies for managing each of these risks and they are summarised below. These policies have remained unchanged from previous years.

Market risk
Market risk encompasses three types of risk, being currency risk, fair value interest rate risk and price risk. The Group's policies for managing fair value interest rate risk are considered along with those for managing cash flow interest rate risk and are set out in the subsection entitled "interest rate risk" below. The directors are of the view that price risk is not a material risk to the business.

Currency risk
The foreign sales are priced in sterling and invoiced in sterling, with the exception of those sales made to the USA which are priced in sterling, but are invoiced in US Dollars. The Group policy is to reduce currency exposures on any balance not expected to mature within 30 days of its arising through the use of an exchange rate which will always allow the Group sufficient margin to manage the risk.

Liquidity risk
The Group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. Short-term flexibility is achieved by overdraft and other bank facilities.

Interest rate risk
The Group finances its operations through a mixture of bank borrowings and the issue of ordinary shares. The Group exposure to interest rate fluctuations on its borrowings is managed by the use of floating facilities.

Credit risk
The Group's principal financial assets are cash and trade debtors. The credit risk associated with the cash is limited as the counterparties have high credit ratings assigned by international credit-rating agencies. The principal credit risk arises therefore from its trade debtors.

In order to manage credit risk the directors set limits for customers based on a combination of payment history and third party credit references. Credit limits are reviewed by the credit controller on a regular basis in conjunction with debt ageing and collection history.

Directors
The names of the persons who were directors at any time during the year ended 30 September 2006 are set out below. Unless otherwise stated the directors served for the entire year.

P Ryan
J Finan
D Hearn
F Newton
T Keene
K Kelly (resigned as a non-executive director effective 27 November 2005)

DIRECTORS' REPORT -continued

Directors' shareholdings
The beneficial interests, including family interests, of the directors in office at 30 September 2006 in the share capital of the Company at 30 September 2006 were:

	Ordinary £0.01 shares at 30 September 2006	Warrants 30 September 2006	Options at 30 September 2006	Ordinary £0.01 shares at 1 October 2005	Warrants 1 October 2005	Options at 1 October 2005
P Ryan	5,025,619	2,228,572	800,000	3,225,619	2,228,572	-
J Finan	741,167	475,000	-	741,167	475,000	-
F Newton	381,000	475,000	-	381,000	475,000	-
D Hearn	479,642	89,286	1,500,000	479,642	89,286	700,000
T Keene	-	-	1,500,000	-	-	600,000

In addition, 6,697,000 shares in Appian Technology plc are held by National Avionics Limited in which P Ryan is a director and has an interest. D Hearn is also a director in National Avionics Limited.

Going Concern
The Board regularly review the Group's resources to ensure they are sufficient to continue trading for the foreseeable future. It is therefore considered appropriate to use the going concern basis to compile these financial statements

Substantial shareholdings
At 30 September 2006 the directors had been notified of the following interests, amounting to 3% or more of the issued voting ordinary share capital of the Company.

Name of holder	Number of shares	Percentage held
ISIS EP LLP	15,714,000	10.79%
Universities Superannuation Scheme Limited	14,160,262	9.72%
Invesco Perpetual Aim VCT Plc	9,501,000	6.52%
Fidelity International Limited	9,269,178	6.36%
National Avionics Limited	6,697,000	4.60%
Patrick N Ryan	5,025,619	3.45%
Harris Allday	4,633,763	3.18%
First State Investment Management (UK) Limited	4,450,000	3.06%

Auditors
Grant Thornton UK LLP were appointed auditors during the year to fill a casual vacancy in accordance with section 388(1) of the Companies Act 1985.

Grant Thornton UK LLP offer themselves for reappointment as auditors in accordance with section 385 of the Companies Act 1985

BY ORDER OF THE BOARD

D Hearn
Company Secretary
8 December 2006

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF APPIAN TECHNOLOGY PLC

We have audited the group and parent company financial statements (the "financial statements") of Appian Technology Plc for the year ended 30 September 2006 which comprise the accounting policies, the consolidated profit and loss account, the consolidated and company balance sheets, the consolidated cash flow statement, and notes 1 to 31. 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 auditor's 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 auditor

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, whether they are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's Statement, Financial Review and the Directors' 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 group's and 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 group's and the parent company's affairs as at 30 September 2006 and of the group's 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 Directors' Report is consistent with the financial statements for the year ended 30 September 2006.

Grant Thornton UK LLP

GRANT THORNTON UK LLP
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS
OXFORD
8 December 2006

ACCOUNTING POLICIES

Basis of preparation
The financial statements have been prepared in accordance with accounting standards generally accepted in the United Kingdom and under UK GAAP (UK statute comprising the Companies Act, 1985).

Historical cost convention
The financial statements are prepared on the going concern basis, under the historical cost convention and in accordance with the Companies Act 1985 and applicable standards.

The principal accounting policies are set out below. The policies have remained unchanged from the previous year except that:

In preparing the financial statements for the current year, the Group has adopted the presentation requirements of FRS 25 'Financial Instruments: Disclosure and Presentation'. FRS 25 requires financial instruments to be presented with regard to their substance. Therefore shares, which previously were always presented as part of shareholders' funds regardless of the substance of the instrument, may now be presented as a liability when in substance that share is equivalent to a liability. As a result of this change in recognition criteria, there is no longer a requirement to disclose the apportionment of shareholders' funds between equity and non-equity. The preference shares in issue have been classed as equity. There has been no financial impact of the change in accounting policy.

As an AIM Listed Company, the Group must adopt IFRS for accounting periods commencing on or after 1 January 2007. The Group is considering the impact of IFRS in the meantime and reporting where appropriate.

Basis of consolidation
The Group financial statements consolidate those of the company and of its subsidiaries (see Note 32) drawn up to 30 September 2006. Acquisitions are dealt with by the acquisition method of accounting.

As permitted by Section 230 of the Companies Act 1985, the Company has not presented its own profit and loss account. The loss incurred by the Company for the year amounted to £5,059,134 (2005: loss of £508,086).

Revenue recognition
For both hardware and software maintenance contracts, income is credited to the profit and loss account over the period to which it relates. Costs associated with these contracts are expensed as incurred.

Engineering services, not the subject of an ongoing maintenance contract, such as repair, training and consultancy, are recognised when the services are performed.

Revenue and profit generated from fixed-price contracts whilst the contract is in progress, is recognised having regard to the proportion of the total contract which has been completed at the balance sheet date. Provision is made in full for any expected losses on uncompleted contracts.

Research and development expenditure
Research expenditure is written off in the period in which it is incurred. Development expenditure is also written off, except where the directors are satisfied as to the technical, commercial and financial viability of individual projects. In such cases, the identifiable expenditure is deferred and amortised over the period during which the Group is expected to benefit. This period is between three and five years. Provision is made for any amortisation on a straight line basis.

Tangible fixed assets
Tangible fixed assets are shown at cost less accumulated depreciation.

Depreciation is calculated in order to write off the cost of tangible fixed assets over their estimated useful lives by equal annual instalments.

The estimated useful lives of tangible fixed assets by reference to which depreciation has been calculated are as follows:

Furniture, fittings and equipment	*3 years*
Motor vehicles	3 years

ACCOUNTING POLICIES

Goodwill and other intangible assets
Goodwill arising from the acquisition of subsidiary undertakings, representing the difference between the purchase consideration and fair value of net assets acquired, has been capitalised in accordance with the requirements of FRS 10.

The directors have considered the appropriate method of accounting for goodwill. They are of the opinion that reviewing goodwill on an annual basis is a more suitable method than writing it off over a specific number of years. The subsidiary was acquired with specific brand names and customer bases. The company has continued to increase profits and the Group is committed to maintaining the value of the brand names and to constantly reviewing the product portfolio. An impairment review is carried out every 12 months based on projected future cash flows discounted at an appropriate discount rate based on the Group's weighted average cost of capital. In accordance with FRS 10 and 11, the carrying value of intangible assets will continue to be reviewed for impairment on the basis stipulated in FRS 11 and adjusted should this be required. The individual circumstances of each future acquisition will be assessed to determine the appropriate treatment of any related goodwill.

The financial statements depart from the requirement of companies' legislation to amortise goodwill over a finite period in order to give a true and fair view, for the reasons outlined above. If the goodwill arising on all acquisitions had been amortised over a period of twenty years, operating profit would have decreased by £43,000 (2005: £nil).

Other intangible assets, which consist of software intellectual property rights, are amortised over seven years, reflecting the directors' estimate of their economic life.

Leases
Where tangible assets are financed by leasing agreements which give rights approximating to ownership ("finance leases") they are treated as if they had been purchased outright at the present values of the minimum lease payments and the corresponding leasing liabilities are shown in the balance sheet as finance leases.

Depreciation on leased assets is calculated on a straight line basis over the estimated useful lives of the individual assets. Interest arising on finance leases is charged to the profit and loss account in proportion to the amounts outstanding under the leases.

Rentals in respect of operating leases are charged to the profit and loss in equal amounts over the lease term.

Foreign currencies
Monetary assets and liabilities denominated in other currencies are translated into sterling at the exchange rates ruling at the balance sheet date and revenues, costs and non monetary assets at the exchange rates ruling at the dates of the transactions, except that where a transaction is covered by a forward exchange contract, the contracted exchange rate is used.

Profits and losses arising from other currency translations and on settlement of amounts receivable and payable in other currencies are dealt with in the profit and loss account. Monetary assets are money held and amounts to be received in money, all other assets are non monetary assets.

Stocks and work in progress
Stocks are stated at the lower of cost and net realisable value.

Cost is based on normal levels of cost and activity and comprises cost of purchase and, where applicable, cost of conversion to current condition.

Net realisable value comprises the actual or estimated selling price (net of trade but before settlement discounts) less all further costs to completion and less all costs to be incurred in marketing, selling and distribution.

Work in progress is valued on the basis of direct costs. Provision is made for any foreseeable losses where appropriate. No element of profit is included in the valuation of work in progress.

ACCOUNTING POLICIES

Taxation
Corporation tax is provided, where applicable, at current rates. Deferred taxation is provided on a full provision basis on timing differences, arising from the different treatment of items for accounts and taxation purposes, which are expected to reverse in the future, calculated at rates at which it is estimated that tax will arise. The deferred taxation balance has been measured at the rate expected to apply when timing differences reverse. Deferred tax assets are recognised to the extent that it is regarded as more likely than not they will be recovered.

Timing differences are temporary differences between profits as computed for timing differences and profits as stated in the financial statements. They arise because certain items of income and expenditure are dealt with in different periods for taxation purposes than as they are dealt with in the financial statements.

Liquid Resources
The group class cash as well as overdrafts as liquid resources.

Financial Liabilities
Financial liabilities are obligations to pay cash or other financial instruments and are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest-related charges are recognised as an expense in "finance cost" in the profit and loss account. Bank loans are raised for support of long term funding of the Group's operations. They are recognised at proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption, and direct issue costs are charged to the profit and loss account on an accruals basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Financial Instruments
Financial assets are recognised in the Balance Sheet at the lower of cost and net realisable value. Provision is made for diminution in value where appropriate.

Income and expenditure arising on financial instruments is recognised on the accruals basis, and credited or charged to the profit and loss account in the financial period to which it relates.

Investments
Investments are included at cost less amounts written off.

CONSOLIDATED PROFIT AND LOSS ACCOUNT
Year Ended 30 September 2006

	Notes	2006 £	2006 £	2005 £	2005 £
Turnover					
Continuing operations	1	4,561,674		2,902,294	
Acquisitions		588,461		-	
			5,150,135		2,902,294
Cost of sales			(2,453,602)		(1,477,056)
Gross profit			2,696,533		1,425,238
Other operating expenses		(2,648,739)		(2,399,271)	
Depreciation		(20,537)		(22,926)	
Amortisation of goodwill and intangible assets		(5,574)		(2,138)	
Operating expenses			(2,674,850)		(2,424,335)
Operating profit/(loss)					
Continuing operations		(71,412)		(999,097)	
Acquisitions		93,095		-	
			21,683		(999,097)
Interest receivable			54,446		1,126
Interest payable	4		(58,351)		(25,415)
Profit/(loss) on ordinary activities before taxation	2		17,778		(1,023,386)
Taxation	5		88,654		82,052
Profit/(loss) for the financial year	18		106,432		(941,334)
Basic and diluted profit/(loss) per ordinary 1p share	6		0.001		(0.016)

There were no recognised gains or losses in the financial year other than those dealt with in the profit and loss account. Accordingly, no statement of total recognised gains and losses is prepared.

The accompanying accounting policies and notes form an integral part of these accounts.

CONSOLIDATED BALANCE SHEET
As at 30 September 2006

	Notes	2006 £	2005 £
Fixed assets			
Intangible assets	7	2,247,024	-
Tangible assets	8	60,622	42,606
		2,307,646	42,606
Current assets			
Stock	10	837,953	477,837
Debtors	11	2,630,486	1,203,948
Cash at bank and in hand		2,768,412	3,710
		6,236,851	1,685,495
Creditors - Amounts falling due within one year	12	(3,270,934)	(2,105,529)
Net current assets /(liabilities)		2,965,917	(420,034)
Total assets less current liabilities		5,273,563	(377,428)
Creditors - Amounts falling due after more than one year	13	(847,816)	(117,436)
Net assets /(liabilities)		4,425,747	(494,864)
Capital and reserves			
Called up share capital	15	1,506,550	656,475
Share premium account	18	10,290,347	6,949,675
Merger reserve	18	623,432	-
Profit and loss account	18	(7,994,582)	(8,101,014)
Shareholders' funds/(deficit)	19	4,425,747	(494,864)

These financial statements were approved by the directors on 8 December 2006 and are signed on their behalf by:

P Ryan

D Hearn

The accompanying accounting policies and notes form an integral part of these accounts.

COMPANY BALANCE SHEET
As at 30 September 2006

	Notes	2006 £	2005 £
Fixed assets			
Intangible assets	7	119,038	-
Tangible assets	8	52,184	24,023
Investments	9	3,921,209	3,633,278
		4,092,431	3,657,301
Current assets			
Stock	10	652,352	477,837
Debtors	11	1,898,012	4,712,009
Cash at bank and in hand		2,575,977	735
		5,126,341	5,190,581
Creditors: Amounts falling due within one year	12	(2,182,064)	(2,284,682)
Net current assets		2,944,277	2,905,899
Total assets less current liabilities		7,036,708	6,563,200
Creditors: Amounts falling due after more than one year	13	(835,899)	(117,436)
Net assets		6,200,809	6,445,764
Capital and reserves			
Called up share capital	15	1,506,550	656,475
Share premium account	18	10,290,347	6,949,675
Merger reserve	18	623,432	-
Profit and loss account	18	(6,219,520)	(1,160,386)
Shareholders' funds	19	6,200,809	6,445,764

These financial statements were approved by the directors on 8 December 2006 and are signed on their behalf by:

P Ryan

D Hearn

The accompanying accounting policies and notes form an integral part of these accounts.

CONSOLIDATED CASH FLOW STATEMENT
Year Ended 30 September 2006

	Notes	2006 £	2005 £
Net cash outflow from operating activities	20	(1,369,382)	(850,566)
Return on investments and servicing of finance	21	(3,905)	(24,289)
Taxation		88,654	82,052
Capital expenditure and financed investments	22	(152,457)	(30,312)
Acquisitions and disposals	23	(622,215)	-
Cash outflow before financing		(2,059,305)	(823,115)
Financing	24	4,078,104	460,009
Increase/(decrease) in cash in the year	26	2,018,799	(363,106)

The accompanying accounting policies and notes form an integral part of these accounts.

NOTES TO THE FINANCIAL STATEMENTS

1 Segmental reporting

The directors consider that the disclosure of segmental information would be prejudicial against the Group.

The total figures for continuing operations in 2006 include the following amounts relating to acquisitions: cost of sales £331,343; gross profit £257,118; and, net operating expenses £164,023 (comprising other operating expenses of £157,794, depreciation £654 and amortisation £5,574).

2 Profit/(loss) on ordinary activities before taxation

	2006 £	2005 £
Profit/(loss) on ordinary activities before taxation has been arrived at after charging:		
Depreciation and other amounts written off tangible fixed assets	10,854	14,131
Depreciation and other amounts written off tangible fixed assets – held under finance leases	9,683	8,795
Amortisation of intangible fixed assets	5,574	2,138
Operating lease payments	139,412	120,540
Research and development	490,703	391,186
Auditors' remuneration		
Fees payable to the Group's auditor for the audit of the company's annual accounts	13,000	15,000
Fees payable to the Group's auditor for other services:		
For audit of the Group's subsidiaries pursuant to legislation	19,500	15,000
Other services pursuant to legislation		
Tax services	7,000	9,400
Services relating to corporate finance transactions entered into by the Company	25,000	101,000
Other	4,500	7,170

Fees paid to Grant Thornton UK LLP for non-audit services to the company itself are not disclosed in the individual *subsidiary accounts because the Group's consolidated accounts are required to disclose such fees on a consolidated* basis.

	30 September 2006		30 September 2005	
	Non- executive directors £	Executive directors £	Non- executive directors £	Executive directors £
Directors' emoluments:				
Fees/emoluments	16,000	157,810	5,000	112,977
Fees/emoluments to third parties	20,500	78,333	10,000	71,550
Other remuneration	-	-	-	1,084
	36,500	236,143	15,000	185,611

	2006 £	2005 £
Remuneration of the highest paid director	78,383	77,184

NOTES TO THE FINANCIAL STATEMENTS - continued

3 Employees

	2006 Number	2005 Number
The average number of employees during the year was as follows:	38	31

The aggregate payroll costs of these persons were as follows:

	£	£
Wages and salaries	1,448,340	1,308,521
Social security costs	170,279	157,196
	1,618,619	1,465,717

4 Interest payable and similar charges

	2006 £	2005 £
Bank interest	34,209	12,081
Finance lease interest	2,818	3,531
Other	21,324	9,803
	58,351	25,415

5 Taxation

	2006 £	2005 £
(a) Analysis of credit in period:		
Taxation credit	88,654	82,052

The tax credit arises on research and development.

(b) Factors affecting tax credit for period	2006 £	2005 £
Profit/(loss) on ordinary activities before tax	17,778	(1,023,386)
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2005: 30%)	5,333	(307,016)
Expenses not deductible for tax purposes	36,765	79,596
Capital allowances for period in excess of depreciation	(3,101)	4,820
Utilisation of group tax losses	(39,995)	-
Tax losses carried forward	988	222,600
Research and development tax credit for the prior year	88,654	82,052
Total current taxation (a)	88,654	82,052

The group has carried forward tax losses of £3,600,000 (2005: £3,550,000). The group has not recognised any deferred tax asset in respect of these losses or accelerated capital allowances due to there being insufficient certainty regarding their recovery.

NOTES TO THE FINANCIAL STATEMENTS - continued

6	**Profit/(loss) per ordinary 1p share**	2006	2005
	Profit/(loss) after taxation - £	106,432	(941,334)
	Weighted average number of ordinary shares in issue during the year	105,978,955	58,599,240
	Profit/(loss) per ordinary 1p share - £	0.001	(0.016)

Loss per share has been calculated on the "net basis".

Diluted earnings per share takes account solely of the potential future exercise of share options and warrants granted and is based on a weighted number of shares in issue of 109,906,422 (2005: 60,647,494). Diluted earnings per share has the same value as earnings per share when rounded to three decimal places.

7	**Intangible assets**	Goodwill	Research and development	Software	Total
		£	£	£	£
	Group				
	Cost				
	At 30 September 2005	-	-	19,642	19,642
	Acquisitions	-	61,559	-	61,559
	Additions	2,060,201	130,838	-	2,191,039
	At 30 September 2006	2,060,201	192,397	19,642	2,272,240
	Amortisation				
	At 30 September 2005	-	-	19,642	19,642
	Charge for the year	-	5,574	-	5,574
	At 30 September 2006	-	5,574	19,642	25,216
	Net book value				
	At 30 September 2005	-	-	-	-
	At 30 September 2006	2,060,201	186,823	-	2,247,024
	Company				
	Cost				
	At 30 September 2005	-	-	-	-
	Additions	-	119,038	-	119,038
	At 30 September 2006	-	119,038	-	119,038
	Amortisation				
	At 30 September 2005	-	-	-	-
	Charge for the year	-	-	-	-
	At 30 September 2006	-	-	-	-
	Net book value				
	At 30 September 2005	-	-	-	-
	At 30 September 2006	-	119,038	-	119,038

NOTES TO THE FINANCIAL STATEMENTS - continued

8 Tangible fixed assets

Group	Furniture fittings and equipment £	Motor vehicles £	Total £
Cost			
At 30 September 2005	146,939	18,500	165,439
Acquisitions	8,041	-	8,041
Additions	30,929	-	30,929
Disposals	(417)	-	(417)
At 30 September 2006	185,492	18,500	203,992
Depreciation			
At 30 September 2005	118,722	4,111	122,833
Charge for year	14,371	6,166	20,537
Eliminated on disposals	-	-	-
At 30 September 2006	133,093	10,277	143,370
Net book value			
At 30 September 2005	28,217	14,389	42,606
At 30 September 2006	52,399	8,223	60,622

Included above are the following amounts in respect of motor vehicles and furniture, fittings and equipment held under finance leases:

	2006 £	2005 £
Net book amount at 30 September	18,773	29,567
Depreciation charge for year	9,683	8,795

Company	Furniture fittings and equipment £	Motor vehicles £	Total £
Cost			
At 30 September 2005	10,967	18,500	29,467
Additions	29,878	-	29,878
Acquired from subsidiary	18,583	-	18,583
Disposals	(417)	-	(417)
At 30 September 2006	59,011	18,500	77,511
Depreciation			
At 30 September 2005	1,333	4,111	5,444
Charge for the year	13,717	6,166	19,883
Eliminated on disposals	-	-	-
At 30 September 2006	15,050	10,277	25,327
Net book value			
At 30 September 2005	9,634	14,389	24,023
At 30 September 2006	43,961	8,223	52,184

NOTES TO THE FINANCIAL STATEMENTS - continued

8 Tangible fixed assets - continued

Included above are the following amounts of motor vehicles and furniture, fittings and equipment held under finance leases:

	2006 £	2005 £
At 30 September	18,773	23,607
Depreciation charge for year	9,683	8,795

9 Investments (see note 32 for details of subsidiaries)

	Investment in group undertakings £
Cost	
At 30 September 2005	3,633,278
Additions (note 27)	2,148,905
At 30 September 2006	5,782,183
Amounts written off	
At 30 September 2005	-
Provided in the year	1,860,974
At 30 September 2006	1,860,974
Net book value	
At 30 September 2005	3,633,278
At 30 September 2006	3,921,209

10 Stock

	2006 £	2005 £
Group		
Raw materials	705,037	464,390
Work in progress	132,916	13,447
	837,953	477,837
Company		
Raw materials	638,876	464,390
Work in progress	13,476	13,447
	652,352	477,837

11 Debtors

	2006 £	2005 £
Group		
Trade debtors	2,148,671	582,018
Called up share capital not paid (note 15)	37,500	37,500
Prepayments and accrued income	413,642	576,606
Other debtors	30,673	7,824
	2,630,486	1,203,948

NOTES TO THE FINANCIAL STATEMENTS - continued

11 Debtors (continued)

	2006 £	2005 £
Company		
Trade debtors	1,452,243	557,144
Amounts owed by Group undertakings	11,872	3,545,159
Called up share capital not paid (note 15)	37,500	37,500
Prepayments and accrued income	369,187	572,206
Other debtors	27,210	-
	1,898,012	4,712,009

12 **Creditors** – Amounts falling due within one year

	2006 £	2005 £
Group		
Bank overdraft	1,067,230	333,243
Trade creditors	1,224,015	897,951
Social security and other taxes	278,431	259,438
Other creditors	9,928	79,217
Deferred consideration	38,192	38,192
Accruals and deferred income	630,102	460,734
Amounts due under finance leases	23,036	36,754
	3,270,934	2,105,529

	2006 £	2005 £
Company		
Bank overdraft	612,443	333,213
Trade creditors	925,887	889,164
Payments due to Group undertakings	-	271,977
Social security and other taxes	191,862	233,945
Other creditors	8,023	75,397
Deferred consideration	38,192	38,192
Accruals and deferred income	382,621	409,808
Amounts due under finance leases	23,036	32,986
	2,182,064	2,284,682

NOTES TO THE FINANCIAL STATEMENTS - continued

13 Creditors - Amounts falling due after one year

	2006 £	2005 £
Group		
Bank loans	11,916	-
Amounts due under finance leases	6,350	20,814
Convertible unsecured loan notes	87,457	87,457
Deferred consideration	694,000	-
Accruals and deferred income	48,093	9,165
	847,816	117,436

	2006 £	2005 £
Company		
Amounts due under finance leases	6,350	20,814
Convertible unsecured loan notes	87,457	87,457
Deferred consideration	694,000	-
Accruals and deferred income	48,092	9,165
	835,899	117,436

The issued convertible unsecured loan notes attract interest at seven per cent per annum and are convertible into ordinary shares at an exercise price of seven pence. If the holders decide not to convert then the loan notes are repayable on 31 December 2007.

The deferred consideration is payable on 28 February 2008. It is based upon the profit before tax for Genesis UK Limited for the years ending 31 December 2006 and 2007.

14 Financial Instruments

The Group uses financial instruments such as borrowings, cash, liquid resources, trade debtors and trade creditors that arise directly from its operations.

The main risks arising from the above are interest rate risk, currency exchange risk and liquidity risk. All policies to control such risks are regularly reviewed and approved by the Board.

Short term debtors and creditors

Short term debtors and creditors have been excluded from the following disclosures, other than currency risk disclosures.

Liquidity Risk

The use of instant access deposits ensures sufficient working capital is available at all times.

Currency Exchange Risk

The foreign sales are priced in sterling and invoiced in sterling, with the exception of those sales made to the USA which are priced in sterling, but are invoiced in US Dollars. The Group policy is to reduce currency exposures on any balance not expected to mature within 30 days of its arising through the use of an exchange rate which will always allow the Group sufficient margin to manage the risk.

Financial Assets

The Group finances its operations through a mixture of bank borrowings and the issue of ordinary shares.

NOTES TO THE FINANCIAL STATEMENTS - continued

14 Financial Instruments (continued)

Borrowings:	Group		Company	
	2006	2005	2006	2005
	£	£	£	£
Bank overdrafts (payable on demand)	1,054,230	333,243	612,443	333,213
Bank loans	24,916	-	-	-
Sub-total	1,079,146	333,243	612,443	333,213
Obligations under finance leases	29,386	57,568	29,386	53,800
Convertible unsecured loan notes	87,457	87,457	87,457	87,457
Total	1,195,989	478,268	729,286	474,470
The finance leases are repayable as follows:				
In one year or less	23,036	36,754	23,036	32,986
Between one and two years	6,350	19,746	6,350	19,746
Between two and five years	-	1,068	-	1,068
	29,386	57,568	29,386	53,800
The convertible unsecured loan notes are repayable as follows:				
Between one and two years	87,457	-	87,457	-
Between two and five years	-	87,457	-	87,457
	87,457	87,457	87,457	87,457
Bank loans are repayable as follows:				
In one year or less	13,000	-	-	-
Between two and five years	11,916	-	-	-
	24,916	-	-	-

Interest on the bank loan is chargeable at 3.5% above the bank base rate.

The Group has overdraft and ancillary bank facilities of £1,079,146 (2005: £325,000), over all the property assets and undertakings of Appian Technology Plc. All borrowings are denominated in sterling and have interest rate terms varying from 2% to 3.5% above the bank base rate.

There are no material differences between the book values and fair values of the financial assets and liabilities of the Group.

NOTES TO THE FINANCIAL STATEMENTS - continued

15 Called up share capital	2006 Number	2006 £	2005 Number	2005 £
Authorised:				
Ordinary shares of £0.01 each	250,000,000	2,500,000	250,000,000	2,500,000
Redeemable preference shares of £1 each	50,000	50,000	50,000	50,000
	250,050,000	2,550,000	250,050,000	2,550,000
Called up share capital:				
Ordinary shares of £0.01 each	145,654,995	1,456,550	60,647,494	606,475
Redeemable preference shares of £1 each	50,000	50,000	50,000	50,000
	145,704,995	1,506,550	60,697,494	656,475
Called up and fully paid:				
Ordinary shares of £0.01 each	145,654,995	1,456,550	60,647,494	606,475
Redeemable preference shares of £1 each	12,500	12,500	12,500	12,500
	145,667,495	1,469,050	60,659,994	618,975

Preference share capital
The redeemable preference shares rank pari passu for participation in the profits and assets of the Company and entitle the holders to receive notice of and to attend and vote at any general meeting of the Company.

The Company may at any time give not less than 24 hours previous notice in writing to the holders of the redeemable preference shares of its intention to redeem all or any part of these shares which have been issued and are fully paid up on in so far as they are paid up.

The redeemable preference shares can only be redeemed out of distributable profits or from the proceeds of a fresh issue of shares made for the purposes of the redemption.

Appian Technology plc issued 50,000 redeemable preference shares in July 2000 on incorporation of the Company.

Ordinary share capital
On 11 November 2005 the Company raised £441,000 net of expenses, through the placing of 9,200,000 ordinary shares of £0.01 each for a cash price of £0.05 each to institutional and other investors. The proceeds were for additional working capital.

On 4 January 2006 the Company was admitted to AIM and on admission issued 41,580,000 ordinary shares of £0.01 each for a cash price of £0.05, raising £1,680,000 net of expenses. The proceeds were raised to increase the company's sales in the UK and internationally in markets that are expanding in response to rising security and traffic congestion issues worldwide, and to provide additional working capital.

On 20 July 2006 the Company acquired the entire issued share capital of Genesis (UK) Limited, a company incorporated in the United Kingdom. The acquisition was satisfied in part by the issue of 7,556,757 ordinary shares of £0.01 at a deemed price of £0.0925. In addition the Company issued a further 26,670,744 ordinary shares of £0.01 each at a price of £0.0875 per share thereby raising £2,180,000 net of expenses to fund the cash element of the acquisition amounting to £756,000 and to provide additional working capital for the enlarged Group.

NOTES TO THE FINANCIAL STATEMENTS - continued

16 Share option scheme

Under the 2000 executive share option scheme, options may be exercisable over ordinary shares of £0.01 each at prices varying from £0.05 to £0.225 all within three to ten years of the dates on which the options were granted.

There was no exercise of share options during the year. The outstanding share options as at 30 September 2006 were as follows:

Date of grant	Number of shares under options	Option price per share £
9 March 2001	1,190,000	0.085
14 September 2001	270,000	0.090
12 October 2001	200,000	0.135
20 December 2001	50,000	0.225
1 May 2002 (200,000 lapsed during the year)	10,000	0.220
15 November 2002	50,000	0.150
21 March 2003	30,000	0.155
29 May 2003	100,000	0.195
12 December 2003	150,000	0.1225
23 March 2004 (130,000 lapsed during the year)	500,000	0.1125
23 September 2004	350,000	0.090
16 February 2005	160,000	0.0725
15 March 2005 (180,000 lapsed during the year)	340,000	0.0850
12 July 2005	500,000	0.0800
12 August 2005 (100,000 lapsed during the year)	30,000	0.0875
4 January 2006	3,400,000	0.0500
11 May 2006	100,000	0.0912
	7,430,000	

During the year the Company set up an EMI Scheme, but did not issue any share options under this scheme.

17 Share warrants

During the year the Company issued 4,110,000 warrants, to certain advisers used during the placing made on 11 November 2005, to subscribe for ordinary shares in Appian at a price of £0.05 exercisable at any time between 15 November 2005 and 14 November 2010.

During the year the Company issued 600,000 warrants on Appian gaining admission to AIM and as a replacement for 600,000 warrant's issued during earlier dates. The warrants were issued at an exercise price of £0.05 and are exercisable for periods ranging between 30 April 2012 to 20 March 2013. These warrants replaced 600,000 warrants with exercise prices ranging from £0.155 to £0.22 and exercisable by dates ranging from 30 April 2012 to 20 March 2013.

During the year the company issued 400,000 warrants, to certain consultants used during Appian's admission to AIM, to subscribe for ordinary shares in Appian at a price £0.05 exercisable at any time between 4 January 2006 and 4 January 2011.

NOTES TO THE FINANCIAL STATEMENTS - continued

17 Share warrants – continued

The following table shows the movement in share warrants during the year:

	Price £	As at 30 September 2005 Number	Exercised in year Number	Lapsed in year Number	Issued in year Number	As at 30 September 2006 Number
To be exercised by 26 September 2006	0.14	500,000	-	(500,000)	-	-
To be exercised by 25 February 2007	0.28	780,000	-	-	-	780,000
To be exercised by 14 September 2008	0.09	270,000	-	-	-	270,000
To be exercised by 1 May 2009	0.22	100,000	-	-	-	100,000
To be exercised by 2 December 2010	0.07	775,000	-	-	-	775,000
To be exercised by 2 December 2010	0.09	750,000	-	-	-	750,000
To be exercised by 8 March 2011	0.085	100,000	-	-	-	100,000
To be exercised by 13 September 2011	0.09	1,150,000	-	-	-	1,150,000
To be exercised by 30 April 2012	0.22	400,000	-	(400,000)	-	-
To be exercised by 20 March 2013	0.155	200,000	-	(200,000)	-	-
To be exercised by 11 December 2013	0.1225	1,225,000	-	-	-	1,225,000
To be exercised by 20 February 2008	0.07	960,887	-	-	-	960,887
To be exercised by 29 February 2008	0.07	321,429	-	-	-	321,429
To be exercised by 11 July 2015	0.08	125,000	-	-	-	125,000
To be exercised by 14 November 2010	0.05	-	-	-	4,110,000	4,110,000
To be exercised by 11 January 2011	0.05	-	-	-	400,000	400,000
To be exercised by 30 April 2012	0.05	-	-	-	400,000	400,000
To be exercised by 20 March 2013	0.05	-	-	-	200,000	200,000
		7,657,316	-	(1,100,000)	5,110,000	11,667,316

NOTES TO THE FINANCIAL STATEMENTS - continued

18 Reserves

	Share premium account 2006 £	Merger reserve 2006 £	Profit and loss account 2006 £	Share premium account 2005 £	Profit and loss account 2005 £
Group					
Balance at beginning of year	6,949,675	-	(8,101,014)	6,652,682	(7,159,680)
Retained profit/(loss) for the year	-	-	106,432	-	(941,334)
Arising from issue of shares in the year	4,098,183	623,432	-	307,755	-
Expenses of equity share issues	(757,511)		-	(10,762)	-
Balance at end of year	10,290,347	623,432	(7,994,582)	6,949,675	(8,101,014)
Company					
Balance at beginning of year	6,949,675	-	(1,160,386)	6,652,682	(652,300)
Retained loss for the year	-	-	(5,059,134)	-	(508,086)
Arising from issue of shares in the year	4,098,183	623,432	-	307,755	-
Expenses of equity share issue	(757,511)	-	-	(10,762)	-
Balance at end of year	10,290,347	623,432	(6,219.520)	6,949,675	(1,160,386)

The merger reserve arose on the acquisition of Genesis (UK) Limited. The merger reserve resulted from the issue of 7,556,757 shares in the consideration of the purchase of Genesis and the premium that arose on those shares. These shares were issued at £0.0925.

19 Reconciliation of movements in shareholders' funds

	2006 £	2005 £
Group		
Shareholders' (deficit)/ funds at beginning of year	(494,864)	98,184
Profit/(loss) for the financial year	106,432	(941,334)
Share capital issued	850,075	51,293
Net share premium from issued shares	3,964,104	296,993
Shareholders' funds/(deficit) at end of year	4,425,747	(494,864)
Company		
Shareholders' funds at beginning of year	6,445,764	6,605,564
Loss for the financial year	(5,059,134)	(508,086)
Share capital issued	850,075	51,293
Net share premium from issued shares	3,964,104	296,993
Shareholders' funds at end of year	6,200,809	6,445,764

NOTES TO THE FINANCIAL STATEMENTS - continued

20 Reconciliation of operating profit/(loss) to net cash outflow from operating activities

	2006 £	2005 £
Operating profit/(loss)	21,683	(999,097)
Depreciation	20,537	22,926
Amortisation of intangible assets	5,574	2,138
Increase in debtors	(1,116,952)	(323,417)
Increase in stocks	(59,793)	(84,599)
(Decrease)/increase in creditors	(240,431)	531,483
Net cash outflow from operating activities	(1,369,382)	(850,566)

21 Returns on investment and servicing of finance

	2006 £	2005 £
Interest received	54,446	1,126
Interest paid	(55,533)	(21,884)
Finance lease interest paid	(2,818)	(3,531)
Net cash outflow from returns on investment and servicing of finance	(3,905)	(24,289)

22 Capital expenditure and financial investment

	2006 £	2005 £
Receipts from disposal of tangible fixed assets	417	-
Payments to acquire tangible fixed assets	(22,036)	(30,312)
Payments to acquire intangible fixed assets	(130,838)	-
Cash outflow from capital expenditure and financial investments	(152,457)	(30,312)

23 Acquisitions and disposals

	2006 £	2005 £
Purchase of subsidiary	(755,905)	-
Bank balances acquired on purchase of subsidiary	161,856	-
Bank overdrafts acquired on purchase of subsidiary	(28,166)	-
Net cash outflow from acquisitions and disposals	(622,215)	-

24 Financing

	2006 £	2005 £
Proceeds from share issue	4,872,690	359,048
Share issue costs	(757,511)	(10,762)
Receipts from issue of convertible loan notes	-	87,457
Finance lease receipts	-	59,343
Capital element of finance lease repayments	(37,075)	(35,077)
Net cash inflow from financing	4,078,104	460,009

NOTES TO THE FINANCIAL STATEMENTS - continued

25 Analysis of changes in net cash position

	30 September 2005 £	Cash flow £	Non cash items £	30 September 2006 £
Cash at bank	3,710	2,764,702	-	2,768,412
Bank overdraft	(333,243)	(745,903)	-	(1,079,146)
	(329,533)	2,018,799	-	1,689,266
Finance lease	(57,568)	37,075	(8,893)	(29,386)
	(387,101)	2,055,874	(8,893)	1,659,880

26 Reconciliation of net cashflow to movement in net funds/(debt)

	2006 £	2005 £
Increase/(decrease) in cash in the year	2,018,799	(363,106)
Inception of finance leases	(8,893)	(59,343)
Cash outflow from lease financing	37,075	35,077
Movement in net funds/(debts) in year	2,046,981	(387,372)
Net (debt)/funds at beginning of year	(387,101)	271
Net funds/(debt) at end of year	1,659,880	(387,101)

NOTES TO THE FINANCIAL STATEMENTS - continued

27 Acquisition

On 20 July 2006 the Group acquired the entire issued share capital of Genesis for the sum of £2.15 million paid in £699,000 in shares, £755,905 in cash and £694,000 payable in deferred cash and shares. The results of Genesis have been consolidated from the date of acquisition.

Net assets acquired	Genesis (UK) Limited
Tangible fixed assets	8,041
Intangible fixed assets	61,559
Stocks	300,323
Cash at bank and in hand	161,856
Debtors	309,586
Creditors	(724,495)
Bank overdrafts	(28,166)
Net assets acquired at fair value	88,704
Goodwill	2,060,201
Consideration	2,148,905
Satisfied by	
Shares allocated	699,000
Cash	699,000
Acquisition costs	56,905
Deferred consideration	694,000
	2,148,905

The fair values attributed to the above are equal to the book values at the date of acquisition. The Group has 12 months to review the fair values of the assets acquired.

The deferred consideration is calculated on the following basis:

- *for the year ending 31 December 2006: 6.2 times profits before tax (PBT) for that year (subject to a maximum* PBT based upon management accounts of £290,000) less £1,323,000
- *for the year ending 31 December 2007: additional 6.7 times* PBT for that year (*subject to a maximum* PBT based upon management accounts of £440,000) less £1,323,000 and any deferred consideration paid in respect of the year ended 31 December 2006.

The results of Genesis (UK) Limited after tax prior to acquisition were as follows:

	Period from 1 Jan 2006 to 20 July 2006	**Year end 31 Dec 2005**
	£	**£**
Turnover	1,167,973	1,127,154
Operating profit	57,999	53,853
Tax	-	-
Profit after tax	19,970	34,837

The subsidiary undertakings acquired during the period absorbed £406,619 from the group's net operating cash flows, paid £1,062 in respect of net returns on investments and servicing of finance and paid £12,851 to capital expenditure.

NOTES TO THE FINANCIAL STATEMENTS - continued

28 Financial commitments

The Group is committed to make annual payments under non-cancellable operating leases as follows:

	Other	Buildings	Total
	£	£	£
Operating leases which expire:			
Within one year	4,090	15,619	19,709
Between two and five years	47,878	58,500	106,378
After more than five years	-	22,098	22,098
	51,968	96,217	148,185

The annual commitment of £22,098 included above is in respect of premises situated in Dublin which is leased by Appian Technologies Limited until 31 January 2024. Based on the current and expected level of business in Ireland and professional advice received in respect of the rental market relating to the property, the directors believe that the economic benefit of this lease is in excess of its costs. The directors will continuously review the Group's property requirements with a view to improving its financial performance.

There was a capital commitment of £210,000 relating to assets which are going to be supplied in the year ending September 2007 to a Maltese consortium.

29 Guarantees

Appian Technology Plc entered into committed facilities with Lloyds TSB Commercial Finance Limited on 16 December 2004. This facility is secured by fixed and floating charges over all the property assets and undertakings of Appian Technology Plc. There are cross guarantees between all Appian Technology Plc subsidiaries with the exception of Genesis (UK) Limited. The bank loan and overdraft facility for Genesis is secured by debentures over all the assets of Genesis.

30 Related party transactions

Transactions with other companies within the Group are not disclosed as the Group has taken advantage of the exemption available under Financial Report Standard No.8 - "Related Party Disclosures".

Fees of £78,333 (2005: £71,550) were charged by Wranton Limited a company which has Patrick Ryan as a director relate to services provided by Wranton Limited. £6,667 (2005: £25,222) remained outstanding at 30 September 2006.

Fees of £4,500 (2005: £13,000) were charged by Solway Consultancy Services which has Fred Newton as a director. £5,901 (2005: £8,198) remained outstanding at year end.

Fees of £16,000 (2005: £11,000) were charged by Finan Consulting. £3,924 (2005: £29,876) remained outstanding at 30 September 2006.

NOTES TO THE FINANCIAL STATEMENTS - continued

31 Subsidiary undertakings

The following are wholly owned subsidiary undertakings of Appian Technology plc and have been consolidated in the Group accounts.

Name	Registered office	Country of incorporation	Description of shares held	Principal activity
Appian Traffic Technologies plc	Arthur Cox House Earlsfort Terrace Dublin	Ireland	16,068,800 ordinary shares of £0.01 each	Holding company and sales and distribution
Appian Technologies Ltd	Arthur Cox House Earlsfort Terrace Dublin	Ireland	2 ordinary shares of €1.269734 each	Sales and distribution
Appian Technologies (UK) Ltd	Appian House Unit 4 Wessex Road Bourne End Buckinghamshire	United Kingdom	2 ordinary shares of €1.269734 each	Sales and distribution
Messenger Vehicle Identification Systems Limited	Appian House Unit 4 Wessex Road Bourne End Buckinghamshire	United Kingdom	5,500,000 ordinary shares of £1 each	Dormant
Resero Technology Systems Limited	Appian House Unit 4 Wessex Road Bourne End Buckinghamshire	United Kingdom	262,589 ordinary shares of £1 each	Research and development
MVI Systems Limited	Appian House Unit 4 Wessex Road Bourne End Buckinghamshire	United Kingdom	2 ordinary shares of £1 each	Dormant

NOTES TO THE FINANCIAL STATEMENTS - continued

Genesis (UK) Limited	Appian House Unit 4 Wessex Road Bourne End	United Kingdom	100 ordinary shares of £1 each	Sales and distribution
Appian Technology Inc	1209 Orange Street, City of Wilmington, DE, County of New Castle, 19801 USA	USA	100 ordinary shares of $1 each	Sales and distribution