

ART VPS LIMITED
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005
(Registered number 4461295)



Certified a true copy

[Signature]
Director 21.02.2006

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DIRECTORS

Graham Wylie - Chairman
Brian Tyler - Chief Executive
Julia Baddeley - Non-executive
John Sanderson - Non-executive
Thomas Vaughan - Non-executive

SECRETARY AND REGISTERED OFFICE

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Cambridge
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COMPANY NUMBER

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CHAIRMAN'S STATEMENT

In the year to 30 June 2005, ART VPS Limited completed the development of a new range of hardware products, based on 64 bit PC architecture, which are more powerful and more cost effective and are better able to exploit our core chip technology. The products were launched in June 2005 and have had an immediate impact on the sales revenues with monthly orders now running at record levels. We believe that if we can sustain the increased sales momentum then the company will be trading profitably in the short term.

For the year under review sales revenues increased by some 88% and average gross margins rose from 60% to 70%, however these were offset by increased operating costs resulting in an operating loss of £629k for the year.

We continue to believe that increased investment in the technology – we have recruited additional software engineers this year – and in particular in marketing spend will in due course benefit the company and hasten profitability but in the short term there is still some pain to be endured.

We are particularly grateful for the continued support of the investors as evidenced by the response to our cash call at the end of 2004. We cannot say for certain that we have made the last cash call but if the current levels of trading are sustained through the year then we believe we can continue to operate within our current resources.

In January 2005 the Board decided to investigate the feasibility of securing a strategic partnership with a major player in our sector or in a related market. Early discussions with potential partners have been initiated and they are ongoing. We are hopeful that some agreement will be reached this year and we will keep investors fully informed on progress.

In further developing our photorealistic visualization solutions in response to market demand we have extended our rendering model to include two important new illumination technologies, namely High Dynamic Range Images (HDRI) and Global Illumination (GI). We can now offer full support for HDRI images used as backgrounds and light sources in our renderer, and as a global partner of Spheron in Germany, we are making sales of the digital spherical camera technology used to record HDRI images on location.

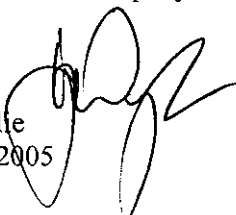
In September we will be releasing our Global Illumination (GI) solution for existing, supported customers. GI is an advanced lighting model, which accurately simulates complex lighting effects caused by secondary reflections off surfaces - an especially important requirement for architects designing building interiors.

These two new techniques will further improve the photorealism obtainable from 3D data, and HDRI in particular is essential for creatives working with automotive data to recreate location shots.

We intend to position ourselves as an expert resource on using these HDR images and will offer a range of visualisation services, products and technologies to companies involved in virtual product photography.

Brian Tyler and the ART team have worked hard throughout the year to achieve success for the technology and the company – and we are now seeing the positive results of their efforts

Graham Wylie
23rd August 2005



REPORT OF THE DIRECTORS FOR THE PERIOD ENDED 30 JUNE 2005

The directors present their report together with the unaudited financial statements for the year ended 30 June 2005.

Results and dividends

The profit and loss account for the year is set out on page 6 and shows the result for the year.

The directors do not recommend the payment of a dividend.

Principal activities, review of business and future developments

The company's continuing business involves the development and marketing of high performance 3D rendering systems for the production of photo realistic computer generated images for product designers and advertisers.

On 25 November 2004, the company resolved that every 10 of the entire issued and unissued A and B Ordinary shares of £0.0001 each in the capital of the company be consolidated into 1 A or B Ordinary share of £0.001 each. In addition it was resolved to increase its authorised share capital to £6091 by the creation of 18,190,000 B Ordinary shares of £0.0001.

On 13 December 2004 the company issued 1,723,567 B Ordinary shares at £0.30 per share.

The company has outstanding employee options over a total of 256,000 (2004 109,750) B Ordinary shares at par. During the year options were exercised over a total of 100,750 B Ordinary shares at par.

£287,231 (2004 £287,010) has been expended on research and development activities for the year ended 30 June 2005.

Directors and their interests

The directors of the company throughout the year and their beneficial interests in the Ordinary share capital of the company at 30 June 2005, were as follows:

	30 June 2005		30 June 2004	
	A Ordinary Shares	B Ordinary Shares	A Ordinary Shares	B Ordinary Shares
Graham Wylie	8,000	375,157	8,000	173,490
Brian Tyler	Nil	135,000	Nil	81,667
Julia Baddeley	1,200	39,791	1,200	23,811
Thomas Vaughan	6,667	152,384	6,667	85,717
John Sanderson (note 1)	Nil	68,334	Nil	41,667

Note: 1. JFWS Ltd Pension Fund holds Mr. Sanderson's shares.

At 30 June 2005 (and at 30 June 2004), Graham Wylie, Brian Tyler and Julia Baddeley had outstanding loans to the company of £34,500, £7,500 and £10,000 respectively. These loans together form part of the Loan Capital set out in detail in Note 10 to the accounts.

At 30 June 2005 Brian Tyler had options exercisable at par over 140,000 (2004 20,000) B ordinary shares.

In April 2005 Graham Wylie exercised options at par over 85,000 B ordinary shares issued to him since 30 June 2004.

REPORT OF THE DIRECTORS FOR THE PERIOD ENDED 30 June 2005 (continued)**Basis of preparation**

These financial statements have been prepared in accordance with the special provisions relating to small companies under s246 Companies Act 1985 and with the Financial Reporting Standard for Smaller Entities (effective June 2000).

Approval

This report was approved by the board of directors on 24th August 2005 and signed on its behalf by Graham Wylie and Brian Tyler



24th August 2005

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 as at the end of the financial year and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

PROFIT AND LOSS ACCOUNT**For the year ended 30 June 2005**

		Year ended 30 June 2005	Period ended 30 June 2004
	Notes	£'000	£'000
Turnover	1	590	313
Cost of sales		(179)	(125)
Gross profit		411	188
Operating expenses	14	(1,040)	(746)
Operating loss	2	(629)	(558)
Interest receivable, payable and similar charges		(25)	(3)
Loss on ordinary activities before taxation		(654)	(561)
Taxation on ordinary activities	3	53	69
Loss on ordinary activities after taxation, being retained loss for the financial year transferred to reserves		(601)	(492)

BALANCE SHEET AT 30 June 2005

	Note	30 June 2005 £'000	30 June 2005 £'000	30 June 2004 £'000	30 June 2004 £'000
Fixed assets					
Tangible assets	6		27		40
Current assets					
Stocks	7	100		61	
Debtors	8	86		81	
Cash at bank and in hand		178		207	
		<u>364</u>		<u>349</u>	
Creditors: amounts falling due within one year	9	<u>(176)</u>		<u>(89)</u>	
Net current assets			188		260
Total assets less current liabilities			<u>215</u>		<u>300</u>
Creditors; amounts falling due after one year					
Long term loan	10		<u>(406)</u>		<u>(406)</u>
Net liabilities			<u>(191)</u>		<u>(106)</u>
Capital and reserves					
Called up share capital	11		4		3
Share premium account	13		1,356		841
Profit and loss account	13		<u>(1,551)</u>		<u>(950)</u>
Shareholders' deficit – all equity			<u>(191)</u>		<u>(106)</u>

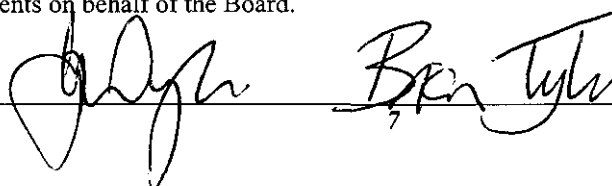
Note;

The directors are satisfied that the company is entitled to the exemption from the provisions of the Companies Act 1985 (the Act) relating to the audit of the accounts for the year by virtue of s249A (1), and that no member or members have requested an audit pursuant to s249B (2) of the Act.

These financial statements have been prepared in accordance with the special provisions relating to small companies under s246 Companies Act 1985 and with the Financial Reporting Standard for Smaller Entities (effective June 2000).

The directors acknowledge their responsibilities for ensuring that the company keeps accounting records that comply with s221 Companies Act 1985. The directors also acknowledge their responsibilities for preparing financial statements which give a true and fair view of the state of affairs of the company as at the end of the financial year and of its profit or loss for the financial year in accordance with s226 Companies Act 1985, and which otherwise comply with the requirements of that Act relating to financial statements, so far as applicable to the company.

The Board approved the financial statements on 24th August 2005 and Graham Wylie and Brian Tyler signed the financial statements on behalf of the Board.



STATEMENT OF ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and are in accordance with the special provisions relating to small companies under s246 Companies Act 1985 and with the Finance Reporting Standard for smaller entities (effective June 2000). The following principal accounting policies have been applied consistently throughout the year and preceding period.

Going concern

The financial statements have been prepared on a going concern basis, which assumes that the company will continue in operational existence for the foreseeable future. Financial projections have been prepared for the year to September 2006 which show that without the support of the shareholders in providing additional funds the company will not be able to meet its debts as they fall due for the whole of that year and for a period of not less than twelve months from the date of approval of these financial statements. The Directors are of the opinion that such support will be forthcoming and that the company will be able to meet its debts as they fall due.

Turnover

Turnover (excluding VAT) comprises the sale of hardware products, and revenues from annual software licenses and support agreements. Revenue from the sale of hardware products is recognised when goods are delivered. Revenues from annual software licenses and support agreements are recognised in full at the date of invoice.

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets at the rate of 33% per annum to write off the cost, less estimated residual value, of each asset on a straight line basis over its expected useful life as follows.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost is based on the cost of purchase on a first in, first out basis. Net realisable value is based on estimated costs to completion and disposal. Provision is made for obsolete, slow moving or defective items where appropriate.

Foreign currency

Foreign currency transactions are translated at the rates ruling when they occurred. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date or, if appropriate at the forward contract rate. Any resulting exchange gains or losses are included in the profit and loss account.

Research and development

Expenditure on pure and applied research, and development costs, are charged to the profit and loss account in the period in which they are incurred.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and law that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Leased assets

Where assets are financed by leasing agreements that give rights approximating to ownership (finance leases), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable over the term of the lease and this is depreciated over the shorter of the lease term and the useful economic life of the asset. The corresponding leasing commitments are shown as amounts payable to the lessor.

Lease payments are analysed between capital and interest components. The interest element of the payment is charged to the profit and loss account over the period of the lease and is calculated so that it represents a constant proportion of the balances of capital repayments outstanding. The capital element reduces the amounts payable to the lessor.

All other leases are treated as operating leases. Their annual rentals are charged to the profit and loss account on a straight-line basis over the term of the lease.

Pension costs

Contributions to the company's defined contribution pension schemes are charged to the profit and loss account in the period in which they become payable.

NOTES TO THE ACCOUNTS

For the year ended 30 June 2005

1. TURNOVER

	Year ended 30 June 2005	Year ended 30 June 2004
£'000		
Analysis by class of business:		
Hardware systems	539	258
Software and other sales	<u>51</u>	<u>55</u>
	<u>590</u>	<u>313</u>
Analysis by geographical market:		
UK	223	103
Rest of Europe	81	58
USA	208	102
Rest of the world	<u>78</u>	<u>50</u>
	<u>590</u>	<u>313</u>

2. OPERATING LOSS

	Year ended 30 June 2005	Year ended 30 June 2004
£'000		
This is arrived at after charging:		
Depreciation on owned assets	38	31
Depreciation on assets held under finance leases	5	4
Operating lease rentals	5	4
Research and development	<u>287</u>	<u>287</u>

3. TAXATION ON ORDINARY ACTIVITIES

The amount shown for the year as taxation on Ordinary activities represents the Research and Development Tax Credit received by the company in respect of the period to 30 June 2004. A similar claim is expected to be made in respect of the year ended 30 June 2005.

4. EMPLOYEES

	Year ended 30 June 2005	Year ended 30 June 2004
The average number of employees of the company during the year, including executive directors, was as follows		
	Number	Number
Research and development	6	7
Board, sales and administration	8	5
	<u>14</u>	<u>12</u>
Staff costs for all employees, including executive directors, consist of:	£'000	£'000
Wages and salaries	507	440
Social security costs	55	44
Pension costs	1	1
	<u>563</u>	<u>485</u>

5. DIRECTORS

£'000	Year ended 30 June 2005	Year ended 30 June 2004
Directors' emoluments consist of:		
Fees and remuneration for management services	<u>108</u>	<u>98</u>
Emoluments of the highest paid director:		
Emoluments	<u>68</u>	<u>58</u>

6. TANGIBLE ASSETS

£'000	Motor vehicles	Fixtures, fittings, and computer equipment	30 June Total
Cost at 1 July 2004	14	94	108
Additions	<u>-</u>	<u>30</u>	<u>30</u>
At 30 June 2005	<u>14</u>	<u>124</u>	<u>138</u>
Depreciation as at 1 July 2004	7	61	68
Charge for year	<u>5</u>	<u>38</u>	<u>43</u>
At 30 June 2005	<u>12</u>	<u>99</u>	<u>111</u>
Net book value at 30 June 2005	<u>2</u>	<u>25</u>	<u>27</u>
Net book value at 30 June 2004	<u>7</u>	<u>33</u>	<u>40</u>

The net book value of assets held under finance leases as at 30 June 2005 is £1,917 (200 £6,517).

7. STOCKS

£'000	June 2005	June 2004
Raw materials and work in progress	76	29
Finished goods	19	18
Evaluation units with customers	5	14
	<u>100</u>	<u>61</u>

In the opinion of the directors there is no material difference between the balance sheet value of stock and its replacement cost.

8. DEBTORS

£000	June 2005	June 2004
Trade debtors	45	60
Prepayments	20	18
VAT recoverable	21	3
	<u>86</u>	<u>81</u>

9. CREDITORS

£000	June 2005	June 2004
Amounts falling due within one year		
Obligations under finance leases and hire purchase contracts	2	7
Trade creditors	115	50
Taxation and social security	20	15
Other creditors	39	17
	<u>176</u>	<u>89</u>

10. LOAN CAPITAL

At 30 June 2005 (and 30 June 2004) the company had £406,000 outstanding by way of Loan Capital carrying the right of repayment at anytime within the next four years. Interest at the rate of 6.5% per annum commenced on 1 June 2004.

11. SHARE CAPITAL

Authorised	June 2005	June 2005	June 2004	June 2004
	Number	£	Number	£
A Ordinary shares of £0.001 each	180,000	180	180,000	180
B Ordinary shares of £0.001 each	5,911,000	5,911	4,092,000	4,092
	6,091,000	6,091	4,272,000	4,272
Allotted, called up and fully paid	June 2005	June 2005	June 2004	June 2004
	Number	£	Number	£
A Ordinary shares of £0.001 each	93,600	94	93,600	94
B Ordinary shares of £0.001 each	4,327,292	4,327	2,502,975	2,503
	4,420,892	4,421	2,596,575	2,597

Note: The numbers of shares at 30 June 2004 have been adjusted to reflect the 1:10 consolidation in November 2004.

All classes of share are entitled to one vote.

On a return of assets on liquidation, winding-up or capital reduction or otherwise, the assets of the company remaining after the payment of its liabilities shall be distributed first in paying to the holders of A Ordinary shares the subscription price thereof including any premium paid together with any dividend accrued or declared but not yet paid. The balance of such assets shall be distributed amongst the holders of all classes of shares *pari passu* as if they constituted one class of share. This provision also applies in the event of a sale of all or substantially all the assets of the company.

On 13 December 2004 the company issued 1,723,567 B Ordinary shares at £0.30 per share resulting in proceeds of £517,070 net of expenses. The new capital was raised to provide working capital for the continuing operations of the company.

During the year options were exercised over a total of 100,750 B Ordinary shares at par and £100.75p was received in settlement.

Share Options

At 30 June 2005 the company had issued options over a total of 256,000 (2004 109,750) B Ordinary Shares to a director and certain employees under the terms of the ART VPS Ltd Enterprise Management Incentive Share Option Scheme.

12. COMMITMENTS UNDER OPERATING LEASES

As at 30 June 2005 and 30 June 2004, the company had annual commitments under non-cancellable operating leases totalling £24,670 of which £20,480 relates to land and buildings, and £4,190 relates to a motor vehicle. The operating lease relating to land and buildings expires in September 2005 and the motor vehicle lease expires in October 2005.

13. MOVEMENTS ON RESERVES

£'000	Share premium account	Profit and loss account
At 30 June 2004	841	(950)
Loss for the year	-	(601)
Issue of shares	515	-
At 30 June 2005	<u>1,356</u>	<u>(1,551)</u>

14. DETAILED PROFIT & LOSS ACCOUNT

	Year ended 30 June 2005	Period ended 30 June 2004
	£000	£000
Turnover	590	313
Less; Cost of sales	(179)	(125)
Gross Profit	<u>411</u>	<u>188</u>
Deduct: Operating expenses		
Staff costs, including benefits	571	493
Non-executive Directors' fees	24	16
Travelling and mileage charges	64	36
Office costs	47	43
Communications	34	17
Insurance	13	12
Legal & Professional fees	68	30
Marketing costs	116	38
Depreciation	42	35
Recruitment	17	-
Other costs	44	26
Total Operating Costs	<u>1,040</u>	<u>746</u>
Operating loss	<u>(629)</u>	<u>(558)</u>

15. CONTROLLING PARTY

A total of 29 shareholders have an equity interest in the share capital of the company and no one person or entity has an effective controlling interest in the company.

1	ART-M-01	56	ART-M-56	1	ART-CAM-M-01	1	ART-CAM-W-04
2	ART-M-02	57	ART-M-57	2	ART-CAM-M-02	2	ART-CAM-W-05
3	ART-M-03	58	ART-M-58	3	ART-CAM-M-03	3	ART-CAM-W-06
4	ART-M-04	59	ART-M-59	4	ART-CAM-M-04	4	ART-CAM-W-10
5	ART-M-05	60	ART-M-60	5	ART-CAM-M-05	5	ART-CAM-W-11
6	ART-M-06	61	ART-M-61	6	ART-CAM-M-06	6	ART-CAM-W-12
7	ART-M-07	62	ART-M-62	7	ART-CAM-M-07		
8	ART-M-08	63	ART-M-63	8	ART-CAM-M-08	1	ART-CAM-D-01
9	ART-M-09	64	ART-M-64	9	ART-CAM-M-09	2	ART-CAM-D-03
10	ART-M-10	65	ART-M-65	10	ART-CAM-M-10	3	ART-CAM-D-04
11	ART-M-11	66	ART-M-66	11	ART-CAM-M-11		
12	ART-M-12	67	ART-M-67	12	ART-CAM-M-12		
13	ART-M-13	68	ART-M-68	13	ART-CAM-M-13	1	ART-CAM-S-01
14	ART-M-14	69	ART-M-69	14	ART-CAM-M-14	2	ART-CAM-S-03
15	ART-M-15	70	ART-M-70	15	ART-CAM-M-15		
16	ART-M-16	71	ART-M-71	16	ART-CAM-M-16		
17	ART-M-17	72	ART-M-72	17	ART-CAM-M-17		
18	ART-M-18	73	ART-M-73	18	ART-CAM-M-18		
19	ART-M-19	74	ART-M-74	19	ART-CAM-M-19	1	M 90
20	ART-M-20	75	ART-M-75	20	ART-CAM-M-20	2	M 91
21	ART-M-21	76	ART-M-76	21	ART-CAM-M-21	3	M 92
22	ART-M-22	77	ART-M-77	22	ART-CAM-M-22	4	M 93
23	ART-M-23	78	ART-M-78	23	ART-CAM-M-23	5	M 94
24	ART-M-24	79	ART-M-79	24	ART-CAM-M-24	6	M 95
25	ART-M-25	80	ART-M-80	25	ART-CAM-M-25		
26	ART-M-26	81	ART-M-81	26	ART-CAM-M-26		ARCHIVE-1-APR04
27	ART-M-27	82	ART-M-82	27	ART-CAM-M-27		
28	ART-M-28	83	ART-M-83	28	ART-CAM-M-28		D-0505
29	ART-M-29	84	ART-M-87	29	ART-CAM-M-29		
30	ART-M-30	85	ART-M-88	30	ART-CAM-M-30		ARCHIVE L-FLOOR PLAN OCT 2002
31	ART-M-31	86	ART-M-89	31	ART-CAM-M-31		
32	ART-M-32	87	ART-M-90	32	ART-CAM-M-32		OLD ART-CAM-D-06
33	ART-M-33	88	ART-M-91	33	ART-CAM-M-33		OLD ART-CAM-D-03
34	ART-M-34	89	ART-M-92	34	ART-CAM-M-34		
35	ART-M-35	90		35	ART-CAM-M-35		ARCHIVE OCT 2002 L-FLOORPLAN
36	ART-M-36	91		36	ART-CAM-M-36		
37	ART-M-37	92		37	ART-CAM-M-37		ART-CAM-W-01
38	ART-M-38	93	ART-M-96	38	ART-CAM-M-38		ART-CAM-W-02
39	ART-M-39	94	ART-M-97	39	ART-CAM-M-39		ART-CAM-W-03
40	ART-M-40	95	ART-M-98	40	ART-CAM-M-40		
41	ART-M-41	96	ART-M-99	41	ART-CAM-M-41		ART-CAM-D-02
42	ART-M-42	97	ART-M-100	42	ART-CAM-M-42		ART-CAM-D-07
43	ART-M-43	98	ART-M-101	43	ART-CAM-M-43		
44	ART-M-44			44	ART-CAM-M-44		
45	ART-M-45			45	ART-CAM-M-45		
46	ART-M-46						
47	ART-M-47						
48	ART-M-48						
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50	ART-M-50						
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