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**REPORT OF THE DIRECTORS AND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006
FOR
ART VPS LIMITED**



ART VPS LIMITED

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FOR THE YEAR ENDED 30 JUNE 2006**

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ART VPS LIMITED

COMPANY INFORMATION FOR THE YEAR ENDED 30 JUNE 2006

DIRECTORS: Graham Wylie -Chairman
Brian Tyler -Chief executive
Julia Baddeley -Non executive
Columb Harrington -Non executive
Thomas Vaughan -Non executive

SECRETARY: Eversecretary Limited

REGISTERED OFFICE: Kett House
Station House
Cambridge
CB1 2JY

REGISTERED NUMBER: 4461295 (England and Wales)

AUDITORS: Stanes Rand & Co
Chartered Accountants
& Registered Auditors
10 Jesus Lane
Cambridge
Cambridgeshire
CB5 8BA

OFFICE: 10 Science Park
Milton Road
Cambridge
CB4 0FQ

CONTACTS:

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Fax	+44 1223 424467
Web site	www.artvps.com
e-mail	info@artvps.com

ART VPS LIMITED

**CHAIRMAN'S REPORT
FOR THE YEAR ENDED 30 JUNE 2006**

The year to 30 June 2006 was one of mixed fortunes for ART VPS Limited.

Turnover, including the licence deal with Mental Images and the sale of a domain name, more than doubled to £1,278k from £590k in 2005. Operating losses were reduced from £634k in 2005 to £138k in 2006. The operating loss was arrived at after charging £122k of development charges for the AR500 chip development.

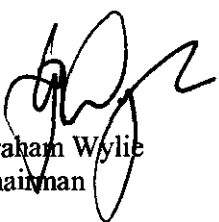
Following the launch in June 2005 of a new range of hardware products, based on 64 bit PC architecture, monthly sales grew to record levels but as news of the company's plans to develop a new and faster chip began to emerge we were unable to maintain the sales momentum through the year end.

The first prototypes of the new chip were received in September 2006 and we are delighted to report that early indications are that the new chip will enable our rendering technology to run at double the previous speed. We will launch the new product range - RenderServer and RayBoxes - before the end of 2006. Prototypes of the new products were very well received at the key industry trade show - Siggraph - held in Boston in August. We anticipate getting back to and exceeding the previous level of sales in 2007.

The research and development of the AR500 chip has stretched our technical resources but following completion of the project the company will be much better placed to undertake enhancements to the chip in the future.

In September 2006 certain investors agreed to provide further loan capital to help the company through the latter stages of the chip development. The Board are now satisfied that the AR500 chip is ready for volume manufacture and that it will provide the basis for the new products, which will take the company forward. The first order for the new chips was placed during October for delivery in December. In early October certain investors agreed to provide further loan capital, which is expected to see the company through to sustained profitability.

Photorealistic visualisation is increasingly being viewed as a viable alternative to photography and we continue to believe that ART VPS has the technology to capitalise on the market potential in terms of both speed and quality. Launch of the new products with the AR500 chip technology and the global illumination rendering technique, will give ART VPS the unique opportunity to position itself as the leading supplier of hardware based rendering technology systems.



Graham Wylie
Chairman

Date: 25th October 2006

ART VPS LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 30 JUNE 2006

The directors present their report with the financial statements of the company for the year ended 30 June 2006.

PRINCIPAL ACTIVITY

The principal activity of the company in the year under review was that of the development and marketing of high performance 3D rendering systems for the production of photo realistic computer generated images for product designers and advertisers.

REVIEW OF BUSINESS

The results for the year and financial position of the company are as shown in the annexed financial statements.

On 1st September 2006 the company completed a further Loan from investors - the First 2006 Investor Loan in the sum of £158,562. In addition on 25th October 2006 the company completed the Second 2006 Investor Loan in the sum of £250,000.

The company has outstanding employee options over a total of 266,000 (2005 256,000) B Ordinary shares at par.

DIVIDENDS

The directors do not recommend the payment of a dividend.

RESEARCH AND DEVELOPMENT

£412,258 (2005 £287,231) has been expended on research and development activities for the year ended 30 June 2006.

DIRECTORS

The directors of the company throughout the year and their beneficial interests in the Ordinary share capital of the company at 30 June 2006 were as follows:

	30 June 2006		30 June 2005	
	A Ordinary Shares	B Ordinary Shares	A Ordinary Shares	B Ordinary Shares
Graham Wylie	8,000	375,157	8,000	375,157
Brian Tyler	Nil	135,000	Nil	135,000
Julia Baddeley	1,200	39,791	1,200	39,791
Thomas Vaughan	6,667	152,384	6,667	152,384
Columb Harrington	6,667	169,050	6,667	169,050
(appointed 27.10.05)				
John Sanderson	(Note 1) Nil	68,334	Nil	68,334
(Resigned 01.02.06)				

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

At 30 June 2006 (and at 30 June 2005), Graham Wylie, Brian Tyler, Columb Harrington and Julia Baddeley had outstanding loans to the company of £34,500, £7,500, £25,000 and £10,000 respectively. These loans together form part of the Loan Capital at 30 June 2006.

Following completion of the First 2006 Investor Loan on 1st September 2006 Graham Wylie, Brian Tyler, Thomas Vaughan and Julia Baddeley had further outstanding loans to the company of £13,000, £5,000, £10,000 and £1,391 respectively.

At 30 June 2006 Brian Tyler had options exercisable at par over 140,000 (2005 140,000) B ordinary shares.

ART VPS LIMITED

**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 30 JUNE 2006**

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

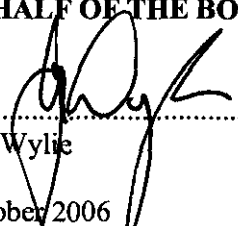
So far as the directors are aware, there is no relevant audit information (as defined by Section 234ZA of the Companies Act 1985) of which the company's auditors are unaware, and each director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

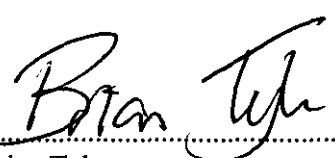
AUDITORS

The auditors, Stanes Rand & Co, will be proposed for re-appointment in accordance with Section 385 of the Companies Act 1985.

This report has been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies.

ON BEHALF OF THE BOARD:


.....
Graham Wylie
25th October 2006


.....
Brian Tyler
25th October 2006

REPORT OF THE INDEPENDENT AUDITORS TO THE SHAREHOLDERS OF ART VPS LIMITED

We have audited the financial statements of ART VPS LIMITED for the year ended 30 June 2006 on pages six to twelve. These financial statements have been prepared in accordance with the accounting policies set out therein and the requirements of the Financial Reporting Standard for Smaller Entities (effective January 2005).

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out on page four.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Report of the Directors is not consistent with the financial statements, if 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 Report of the Directors and the Chairman's Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice applicable to Smaller Entities, of the state of the company's affairs as at 30 June 2006 and of its loss for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.



Stanes Rand & Co
Chartered Accountants
& Registered Auditors

25th October 2006

The notes form part of these financial statements

ART VPS LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30 JUNE 2006

	Notes	2006 £'000	2005 £'000
TURNOVER	2	1,278	590
Cost of sales		<u>319</u>	<u>179</u>
GROSS PROFIT		959	411
Administrative expenses		<u>1,097</u>	<u>1,045</u>
 OPERATING LOSS	3	 (138)	 (634)
Interest receivable and similar income		<u>3</u>	<u>7</u>
		(135)	(627)
Interest payable and similar charges		<u>27</u>	<u>27</u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(162)	(654)
Tax on loss on ordinary activities	7	<u>(225)</u>	<u>(53)</u>
PROFIT/ (LOSS) FOR THE FINANCIAL YEAR AFTER TAXATION		<u>63</u>	<u>(601)</u>
RETAINED PROFIT/ (DEFICIT) FOR THE YEAR		<u>63</u>	<u>(601)</u>

The notes form part of these financial statements

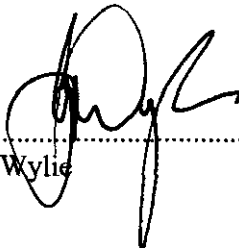
ART VPS LIMITED


**BALANCE SHEET
30 JUNE 2006**

	Notes	2006 £'000	2005 £'000	2005 £'000
FIXED ASSETS				
Tangible assets	8		30	27
CURRENT ASSETS				
Stocks		50		100
Debtors	9	330		86
Cash at bank		<u>87</u>		<u>178</u>
		467		364
CREDITORS				
Amounts falling due within one year	10	<u>219</u>		<u>176</u>
NET CURRENT ASSETS			<u>248</u>	<u>188</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			278	215
CREDITORS				
Amounts falling due after more than one year	11		<u>406</u>	<u>406</u>
NET LIABILITIES			<u>(128)</u>	<u>(191)</u>
CAPITAL AND RESERVES				
Called up share capital	13		4	4
Share premium	14		1,356	1,356
Profit and loss account	14		<u>(1,488)</u>	<u>(1,551)</u>
SHAREHOLDERS' FUNDS			<u>(128)</u>	<u>(191)</u>

These financial statements have been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies and with the Financial Reporting Standard for Smaller Entities (effective January 2005).

ON BEHALF OF THE BOARD:


.....
Graham Wylie


.....
Brian Tyler

Approved by the Board on 25th October 2006

The notes form part of these financial statements

ART VPS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

1. ACCOUNTING POLICIES

Accounting convention

The financial statements have been prepared under the historical cost convention and in accordance with the Financial Reporting Standard for Smaller Entities (effective January 2005).

Going Concern

The accounts have been prepared on the underlying assumption that the entity is a going concern, which assumes amongst other things the continued financial support of the shareholders.

Turnover

Turnover (excluding VAT) comprises the sale of hardware products and a domain name, and revenues from annual software licenses, a patent license, and support agreements. Revenue from the sale of hardware products is recognised when goods are delivered. Annual software license income is deferred over 12 months and released to the profit and loss accordingly.

Tangible fixed assets

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

Plant and machinery - 33%

Office equipment - 33%

Computer Equipment with a cost of less than £2,000 is written off in the year of expenditure.

Stocks

Stocks are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items.

Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date. Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Research and development

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

Foreign currencies

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

Pensions

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

ART VPS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 30 JUNE 2006

2. TURNOVER

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

An analysis of turnover by class of business is given below:

	2006 £'000	2005 £'000
Hardware Systems	892	539
Software and other sales	66	51
Sale of Domain name (note 6)	70	-
Technology license (note 6)	250	-
	<u>1,278</u>	<u>590</u>

An analysis of turnover by geographical market is given below:

	2006 £'000	2005 £'000
UK	461	223
Rest of Europe	401	81
USA	186	208
Rest of the world	230	78
	<u>1,278</u>	<u>590</u>

3. OPERATING LOSS

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

	2006 £'000	2005 £'000
Depreciation - owned assets	16	42
Profit on disposal of fixed assets	(3)	-
Auditors' remuneration	3	-
Foreign exchange differences	6	5
Pension costs	1	1
	<u>140</u>	<u>108</u>
	2006 £'000	2005 £'000
Directors' emoluments and other benefits etc	<u>140</u>	<u>108</u>

ART VPS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 30 JUNE 2006

4. EMPLOYEES

	2006	2005
The average number of employees of the company during the year, including executive directors, was as follows		
	Number	Number
Research and development	5	6
Board, sales and administration	9	8
	<u>14</u>	<u>14</u>
Staff costs for all employees, including executive directors, consist of:	£'000	£'000
Wages and salaries	567	507
Social security costs	63	55
Pension costs	1	1
	<u>631</u>	<u>563</u>

5. DIRECTORS

	2006	2005
Directors' emoluments consist of:	£'000	
Fees and remuneration for management services	<u>121</u>	<u>108</u>
Emoluments of the highest paid director:		
Emoluments	<u>100</u>	<u>68</u>

6. EXCEPTIONAL ITEMS

In the period ART VPS granted a license for technology for an indefinite period. The value of this License was £250,000. In addition the company sold the domain name ART.CO.UK for £70,000. These exceptional items are included in the turnover figure.

ART VPS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 30 JUNE 2006

7. TAXATION

Analysis of the tax credit

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

	2006 £'000	2005 £'000
Current tax:		
R&D Tax Credits	(62)	(53)
Deferred tax credit (note 9)	<u>(163)</u>	<u>-</u>
Tax on loss on ordinary activities	<u>(225)</u>	<u>(53)</u>

8. TANGIBLE FIXED ASSETS

	Plant and Machinery etc £'000
COST	
At 1 July 2005	138
Additions	18
Disposals	<u>(14)</u>
At 30 June 2006	<u>142</u>
DEPRECIATION	
At 1 July 2005	111
Charge for year	15
Eliminated on disposal	<u>(14)</u>
At 30 June 2006	<u>112</u>
NET BOOK VALUE	
At 30 June 2006	<u>30</u>
At 30 June 2005	<u>27</u>

ART VPS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 30 JUNE 2006

9. DEBTORS

	2006 £'000	2005 £'000
Amounts falling due within one year:		
Trade debtors	99	86
Other debtors	<u>68</u>	<u>-</u>
	<u>167</u>	<u>86</u>
Amounts falling due after more than one year:		
Other debtors	<u>163</u>	<u>-</u>
Aggregate amounts	<u>330</u>	<u>86</u>

The company has approximately £856,627 of tax losses to carry forward to offset against future corporation tax liabilities. The rate of tax used is 19%. The value of these tax losses has been included within other debtors due after more than one year. The directors are confident that these tax losses will be utilised in future years.

10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2006 £'000	2005 £'000
Trade creditors	152	115
Other creditors	<u>67</u>	<u>62</u>
	<u>219</u>	<u>177</u>

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

At 30 June 2006 the company had £406,000 (2005: £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 2005.

12. OPERATING LEASE COMMITMENTS

As at 30 June 2005 the company had a commitment under a non-cancellable operating leases totalling £106,749 relating to land and buildings, which was taken out in December 2005 and expires in September 2008. The previous lease relating to land and buildings was terminated on 31st December 2005. At 30 June 2006 and 2005 the company had another commitment under a non-cancellable operating Lease totalling £996 relating to a motor vehicle. The lease expires in October 2006.

ART VPS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 30 JUNE 2006

13. CALLED UP SHARE CAPITAL

Authorised:		Nominal value:	2006 £	2005 £
Number:	Class:			
180,000	A Ordinary Shares	.001	180	180
5,911,000	B Ordinary Shares	.001	<u>5,911</u>	<u>5,911</u>
			<u>6,091</u>	<u>6,091</u>

Allotted, issued and fully paid:		Nominal value:	2006 £	2005 £
Number:	Class:			
93,600	A Ordinary Shares	.001	<u>94</u>	<u>94</u>

Allotted and issued:		Nominal value:	2006 £	2005 £
Number:	Class:			
4,327,292	B Ordinary shares	.001	<u>4,327</u>	<u>4,327</u>

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 it's liabilities (including all Loans) 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.

Share Options

At 30 June 2006 the company had issued options over a total of 226,000 (2005 256,000) B Ordinary Shares to a director and certain employees under the terms of the ART VPS Ltd enterprise Management Incentive Share Option Scheme.

14. RESERVES

	Profit and loss account £'000	Share premium £'000	Totals £'000
At 1 July 2005	(1,551)	1,356	(195)
Retained profit for the year	<u>63</u>	<u>—</u>	<u>63</u>
At 30 June 2006	<u>(1,488)</u>	<u>1,356</u>	<u>(132)</u>

ART VPS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 30 JUNE 2006**

15. ULTIMATE 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.