Celoxica

# annual report and accounts 2007

## pure acceleration

Celoxica Holdings plc
31 December 2007

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www.celoxica.com Registered No. 3870674

## Celoxica is at the forefront of accelerated computing solutions.

Our IP lies in the unique Accelerator Card by Celoxica and our development of function-specific, optimised firmware which integrates into an industry standard server. Our solutions combine accelerated hardware, firmware, software, Application Programming Interfaces (APIs) and professional services.

Since our formation as a technology spin-out from Oxford University in 1996, a wide range of industries including oil, gas and the life sciences have used Celoxica's technology for their processor-intensive and performance-hungry tasks.

Today our focus is on addressing some of the most challenging problems facing the finance sector, such as the exponential development of electronic trading and growth of complex derivatives trading, where we can deliver advantage measured in milliseconds.

The need for speed is vital, but so too is the need for efficiency and a green IT approach in the data centre. Celoxica's high speed and low-latency solutions help to redress the balance of data volumes outstripping advances in CPU processing speeds; while our very low power/cooling requirements contribute to the goal of reducing IT's carbon footprint.

Headquartered in Abingdon, Oxfordshire and New York, Celoxica is a public company quoted on AIM at the London Stock Exchange.

## Ultra low-latency computing for capital markets

Celoxica's focus is now on accelerated computing for capital markets where a microsecond makes all the difference in a competitive electronic trading environment. Our solutions deliver the most distinctive competitor advantage: be first to read the market and first to trade. The new product portfolio is designed to enable proprietary traders and market makers to capture market data directly from trading exchanges faster than has been possible before. One proprietary trader in Chicago has already described our benchmarks as 'game changing'.

Where competitors talk of latency in milliseconds, we talk about under 2 microseconds. Where other solutions drop messages when the market spikes, we deliver constant low latency and guaranteed high message throughput.

The solutions portfolio will continue to develop and broaden. Wherever financial markets need ultra high speed, ultra low latency and ultra high efficiency, you're going to find Celoxica.

"under 2-microseconds"

ultra
low latency computing
fast bandwidth
high efficiency

Ceoxica's accelerated computing solutions are also changing the dynamics of discovery in the oil, gas and life science industries, by providing dynamic solutions to compute-intensive processing needs.

## Oil and gas exploration

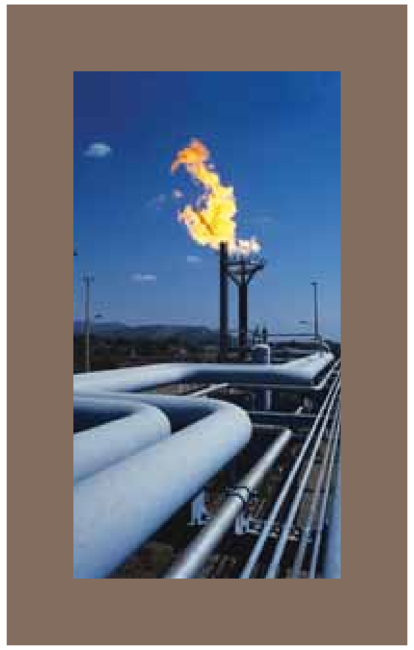
Global oil and gas companies are tapping into Celoxica's accelerated computing solutions to improve the accuracy of their exploration data systems. With multibillion dollar investment decisions becoming increasingly complex and business critical, companies are strengthening their competitive advantage by accelerating compute-intensive exploration applications, such as seismic data collection analysis.

Celoxica has been able to demonstrate a 16-fold performance improvement in finite difference acoustic modelling for seismic applications. In another benchmarked example, for an oil exploration algorithm, Celoxica demonstrated a reduction in the time taken from 28 minutes to 1 minute for one leading supplier.

## Life sciences

Substantially improving the rate of drug discovery is a critical business imperative for the life sciences industry. The average cost of developing a drug from target compound through animal models and clinical trials is estimated at more than $500 million and takes around 13 years. Many new drugs fall at the last approval hurdle and hopes of replacing revenue streams from drugs going off-patent are dashed. Celoxica's solutions alleviate the demands on data processing especially in genetic analysis. They are contributing to the bio-IT revolution which is already helping to reduce the time and cost taken to develop new drugs.

For example, working with a respected US life sciences company, Celoxica was able to accelerate the client's gene sequencing algorithm by a factor of 20, significantly reducing their analysis 'bottleneck'.





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**Celoxica Holdings plc**

31 December 2007


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The report of the directors on pages 11 to 13 and the directors' remuneration report on pages 16 to 17 have each been drawn up in accordance with the requirements of English law and liability in respect thereof is also governed by English law. In particular, the responsibility of the directors for these reports is owed solely to Celoxica Holdings PLC.

The directors submit to the members their report and financial statements of the group for the year ended 31 December 2007. Pages 4 to 17, including the chairman's review, chief executive's review, financial review, corporate governance report, directors and advisors, directors' report and directors' remuneration report form part of the report of the directors.

"The first of these issues is market data capture where Celoxica technology transforms the speed, accuracy and usability of key transactional data for trading organisations and stock exchanges by reducing latency."

## Overview

During the last year Celoxica has completed the transition from an Electronic Design Automation (EDA) company with activities primarily in the Embedded System Level (ESL) market to a highly focussed Accelerated Computing (AC) group. We believe this is where the true potential of our technology lies, there is a significant market demand and where the group can generate significant shareholder return.

The transformation of Celoxica culminated in January 2008 with the completion of the sale of the ESL business to Catalytic Inc based in the USA.

The sale of the ESL business, in addition to allowing total focus on the AC market, has also provided funds for future development and has caused a major reduction in the cost base of the group.

During the year, ESL revenues declined as more emphasis was placed on AC. Accordingly, AC revenues have more than doubled over the previous year which we believe is a good indication of the potential of the business, particularly given its highly scalable nature.

The AC revenues derive from business success in three sectors that we had highlighted previously as our initial focus, namely finance, oil & gas and life sciences. As we move into 2008 our focus will be almost entirely on the financial markets where we have defined a new range of products specifically targeted at this sector. So far, these products have demonstrated major benefits in customer benchmarking tests and are expected to be our primary source of revenue for the coming year.

## Financial results

The group's revenue was £1.8m, down 51% on 2006. This decline was due entirely to the ESL business, which was de-emphasised within the group in favour of the AC business. AC revenues increased by over 100% at £354k (2006: £166k).

In spite of the overall reduction in revenue, the operating loss was reduced by 7.1% to £3.9m compared with £4.2m in 2006.

Since my last review in September 2007, we completed a placing of shares with existing shareholders which raised £616k after expenses. This funding provided bridging finance to support the sale of the ESL business and the restructuring.

In January 2008 we completed the sale of the ESL business with gross proceeds of US $3.0m.

## Strategy

Our participation in the emerging AC market during 2007 has demonstrated that our technology has a wide range of applications over a number of different market sectors. In the latter few months, it has become obvious that the fastest returns will be achieved in the finance markets where our technology has been very favourably benchmarked and shown to address some current critical issues. The first of these issues is market data capture where Celoxica technology transforms the speed, accuracy and usability of key transactional data for trading organisations and stock exchanges by reducing latency. We believe that this market data capture opportunity will provide revenue growth in 2008, and the potential for recurring revenues in later years.

## Board changes

In July 2007, Lee Staines was appointed as chief executive officer. Ian Yeoman who had been interim CEO since January stepped down at that time. In October Ian resigned from his non-executive director position and I would like to thank him for his contribution to Celoxica both as a non-executive director and also for the period as interim CEO. In October 2007, Jean-Marc Bouhelier joined the board as a non-executive director and brings with him a wealth of industry expertise which has already been of great value to the group.

## Summary

Celoxica is now a small highly focussed AC group addressing initially critical issues in the finance sector, along with life sciences and oil & gas. We have demonstrated that our technology is superior in these areas to that currently available.

In market data capture we have identified one such issue which we believe will provide significant revenues in the short to medium term. With the resources from the sale of the ESL business, we view the future with confidence.

Finally, I would like to thank our customers, partners, shareholders and staff for their continued support.

Jack Fryer

Chairman

*"I believe our restructuring provides us with a platform to exploit unique advantages in a specific target market."*

Since joining Celoxica in July 2007 much work has been undertaken to restructure our business in line with our strategy to focus on AC. Over this period we have raised finance to support our restructuring, sold part of the non-core Celoxica business and have redefined our business strategy to concentrate on key applications in the financial services industry. We are already seeing the benefits of adopting a more acute focus on the finance sector, where, through the employing of AC technologies, organisations can realise rapid and tangible competitive advantage. A recent contract won with a major US Stock Exchange is evidence of the success of this strategy.

**Sale of ESL business**

In January 2008 we completed the sale of the embedded business to Agility Design Solutions Inc (previously Catalytic Inc) which included those Celoxica assets associated with the electronic design market. This sale has significantly reduced operational costs with eighteen of the thirty five Celoxica staff moving to Agility including engineers and sales resource who specialised in that business sector. The Celoxica offices in Austin, US and Yokohama, Japan also transferred to Agility further reducing operational overheads. The products sold included the DK tool set, Agility compiler and the RC range of hardware kits with Celoxica retaining the sole distribution rights to sell the DK design suite into the financial services sector.

**Celoxica business restructure**

In parallel to the ESL sale we have undertaken a complete restructuring of our business. The summary of this restructuring is as follows:

*Clarity of business strategy and focus*

In identifying financial services as our target market, Celoxica is moving from a technology company to a solution provider. In particular we have identified the demand for Accelerated Solutions within investment banks, market data providers and exchanges. These organisations specifically need both low-latency and high bandwidth solutions – two requirements that we believe are uniquely met with the implementation of Celoxica's acceleration solution.

*Value proposition*

Whilst our technology is without question at the forefront of accelerated computing techniques, I feel that it has in the past lacked a clear value proposition to our potential customers. We have now identified several scenarios where the 'Accelerator' series delivers a clear value proposition to the customer – often where ROIs can potentially be measured in minutes or even seconds. The first such environment is that of market data capture.

Our solutions comprise of hardware, firmware, APIs and services and offer a clear value proposition to trading firms: our low latency products enable users to capture market data faster than any alternative offering on the market today, and therefore empower the client to react to market conditions more quickly and trade faster than the competition. Early benchmark testing has shown that our solution can deliver sub 5 microsecond latency and extremely high bandwidth (over 10 million messages per second).

*Business model*

The new solution set will be provided as a service offering and will therefore enable Celoxica to build a recurring revenue stream to support the running of the business. We believe that not only is this model preferred by the market, it also reduces revenue volatility and risk which is in the best interests of our shareholders.

*Partnership*

It remains clear that our technology can be applied to other industry sectors and we will continue to support partners who specialize in providing solutions into those industry sectors and explore opportunities with new partners where an opportunity has arisen in an emerging sector such as life sciences or oil & gas.

**Board appointment**

I am very happy to welcome Jean-Marc Bouhelier to the board. Jean-Marc joined as a non-executive director in October 2007 and brings with him a wealth of experience in the financial services sector. His knowledge of both the investment banking and exchange businesses coupled with his understanding of the technology used to support these businesses, will be a huge asset to Celoxica moving forward.

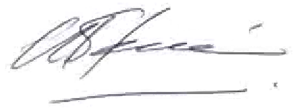
**Advisory Committee**

I am also pleased and proud to announce the formation of our new Technical Advisory Committee. This committee has already helped to define our product and solution roadmap for 2008 and will be headed by John Oddie. John brings a raft of experience to Celoxica, having worked at Goldman Sachs, Merrill Lynch and Instinet.

**Outlook**

I believe our restructuring provides us with a platform to exploit unique advantages in a specific target market. Timing is now right as companies appreciate that acceleration solutions are the right way to deliver competitive edge in high volume trading environments. Our initial feedback has been very encouraging with one Chicago based trading group describing our solution and bench marking results as 'game changing'.

I would like to thank our shareholders for their continued support. The year has started well and we look forward to 2008 and successfully executing the new Celoxica business strategy.



Lee Staines
Chief Executive Officer

*“The organisation made a decision to sell its ESL business early in the year and, as a result, has seen a period of change.”*

## Organisation

Through 2007, the group consisted of three primary operating subsidiaries; UK, US and Japan. The UK office, which is based near Oxford, England, supported sales within Europe, Middle East, Africa and India as well as housing our engineering development and research teams. The US office, based in Austin, Texas, supported sales throughout the US and Canada and the Japan office, based in Yokohama, supported sales throughout Asia Pacific, including China, Taiwan, South Korea and Singapore.

The organisation made a decision to sell its ESL business early in the year and, as a result, has seen a period of change. The sale completed on January 4 2008 and proceeds are not reflected within these financial statements. As a result of the sale, 18 employees transferred to the purchaser, along with both the US and Japan offices, although the group will maintain its presence within the US as it sees the US as a key market.

The group employed an average of 37 (2006: 58) employees during 2007 (including 2 executive directors). Of these 19 (2006: 31) or 51% of the total work in the engineering department, 12 (2006: 19) or 32% in sales and marketing and 6 (2006: 8) or 16% in administration.

Revenues are primarily through our direct sales team and this is augmented by a network of partners and distributors.

## Revenue

Revenue (excluding VAT) comprises the value of sales of licenses, revenue from support, maintenance, training and consulting contracts and the sale of hardware boards.

Total revenue for the year was £1.8m, down from £3.6m in 2006. The lower sales in the year were due to lower revenue from our embedded systems products (2007 £1.35m; 2006 £3.40m). Revenue from the AC market grew 113% from £166k in 2006 to £354k in 2007, with an increase in the number of revenue generating customers to 18.



## Gross profit

Gross profit, which represents the value of our revenue less associated cost of goods sold, was 51% in 2007 (2006: 52%). Gross margin for AC, before development costs included within cost of sales, was 66% (2006: 64%). The comparative figure for our embedded systems products was 56% (2006: 56%).

## Operating expenses

Operating expenses in the year were £4.7m, down from the 2006 expenses of £6.1m. Our expenses consist of staff and associated costs, property and related costs, external marketing costs (including expenses associated with exhibitions, seminars and public relations), legal and other costs and depreciation.

Overheads have been split between continuing and discontinued activities on the basis of whether the cost remains within the Celoxica group going forward, rather than which market they occurred in – this has resulted in a continuing overhead of £2.3m and a discontinued of £2.4m.

Salaries and associated costs included within administrative expenses represent approximately 62% (2006: 61%) of the total.

Depreciation of non-current assets amounted to £71k (2006: £88k) and relates primarily to office and associated equipment.

The group has also taken a provision for onerous contracts of £85k (2006: £nil) which relates to excess floor space within the UK office.

## Loss before tax

The loss before tax for the group is £3.9m – this splits as £2.2m (2006: £1.9m) for continuing activities and £1.7m (2006: £2.4m) for discontinued. The loss for continuing activities includes £121k of development costs and also represents the increasing levels of time spent within this market as the focus of the business changed from the previous year.

## Loss per share

The total loss per share for the group was 5.2p (2006: 7.8p).

## Pensions

UK pension contributions in respect of defined contribution pension schemes are charged to the income statement as incurred. We also contribute to schemes in other countries where we have subsidiaries: 401k plan in the US and the employees’ pension insurance in Japan.

## Research & development tax credit (R&D)

The group continues to claim the R&D tax credit available to SME’s. The total claimed in 2007 is £141k (2006: £230k).

## Balance sheet items

The balance sheet has been presented to disclose the carrying value of assets and liabilities held for sale, that transfer as part of the ESL sale. The group does not anticipate significant capital expenditure being required to replace any transferred assets.

## Cash flow

The group’s loan was repaid in full during the year, by payments of £525k (2006: £503k).

## International Financial Reporting Standards (IFRS)

This is the first year that the group will present its financial statements under IFRS. The last interim financial statements under UK GAAP were for the period ended 30 June 2006 and the date of transition to IFRS was 1 January 2006.

Transition to IFRS has not resulted in any adjustments to the previously reported results and balance sheets other than in respect of format and disclosure requirements.

Michelle Young

Finance Director

**Jack Fryer, Chairman**

Jack joined Celoxica as a non-executive director in April 2001 and was appointed non-executive chairman in December 2002. Following the de-merger of the defense business from GEC in November 1999, Jack was appointed technology and strategy director for Marconi, having joined GEC in 1996 as strategic planning director. Prior to joining GEC, he was with Lucas Industries for over 10 years, where he held a number of senior positions including managing director of Lucas Diesel Systems (formerly Lucas CAV). Jack also serves as a non-executive director of Northgate Information Solutions plc. Jack is chairman of the board and nominations committee.

**David Cheesman, non-executive director**

David was appointed to the board in September 2001. He has a background in electrical engineering and has spent 22 years within the technology industry. Prior to joining Advent Venture Partners in 1996 as a general partner, David successfully built an IT/electronics sector investment portfolio whilst responsible for 3i's High Technology unit. David is chairman of the audit committee.

**Jean-Marc Bouhelier, non-executive director**

Jean-Marc has over 20 years' experience leading technology and business organisations that have needed to adapt to new developments and changes in the financial markets, a key target market for Celoxica. Jean-Marc was chief executive officer at AEMS from 2004 to 2007 and previously held the position of chief operating officer for Instinet, the largest ECN and electronic broker in the US. Prior to these roles, Jean-Marc was global head of equity technology at Merrill Lynch between 1996 and 2000 and before that IT development manager at Banque Paribas. Jean-Marc is chairman of the remuneration committee.

**Lee Staines, Chief Executive Officer**

Lee joined Celoxica in July 2007 with over 20 years' experience of technology in the financial services industry. Lee originally trained as an analyst programmer for MasterCard, and then took on IT-related roles with Merrill Lynch and Kleinwort Benson, before moving into a sales career with SAS Institute and ADP Inc. Lee was most recently sales director for Atos Euronext Market Solutions Limited.

**Michelle Young, finance director**

Michelle is a Fellow of the Association of Chartered Certified Accountants and has been with Celoxica since November 1999. She has 7 years' experience in senior management roles covering various G&A functions within Celoxica, before being appointed finance director in February 2007. Prior to that, Michelle had held finance roles with Morland plc and had qualified in the audit practice of Grant Thornton UK LLP.



# Directors' report for the Year ended 31 December 2007

The directors present their report and the audited financial statements of the company and of the group for the year ended 31 December 2007.

**Principal activities**

The group's principal activity is the provision of technology within high performance computing systems for accelerated computing. The group's technology had previously been targeted at electronic system level design users in both the embedded systems and accelerated computing markets and covered a range of industries.

Since the group's withdrawal from the embedded systems market, it is now targeted at the specific markets of financial services, life sciences and oil & gas. Within these, market data acceleration for financial services is the key market as Celoxica's technology significantly reduces latency and improves efficiency when processing data feeds.

**Review of business and future developments**

The group announced its intention to withdraw from the embedded systems market in January 2007, followed by announcing its intention to look for a purchaser of the business in March 2007. This process completed on 4 January 2008 with the sale of its electronic system level design business to Agility Design Services, Inc (previously Catalytic Inc).

As a result of the strategic decision to concentrate solely on the accelerated computing market, the group has redesigned its product offering, culminating in its launch of the market data accelerator in February 2008. This uses the group's RCHTX acceleration card that was designed during the year.

The technology and product offerings are continuing to develop and the group believes it remains ahead of the market and any competitors. The recruitment of a chief executive officer and a non-executive director with considerable experience in financial services provides the group with the opportunity to expand its customer base and increase its trading levels.

The key performance indicators (KPIs) used by the directors and management are summarised below for continuing business :

| KPI | 2007 | 2006 |
|---|---|---|
| Revenue | £354k | £166k |
| Gross margin (pre development costs) | 66.3% | 64.5% |
| Funds used for operating activities | £3,250k | £3,777k |
| New customers | 14 | 9 |

**Directors**

The directors in office through the year and to the date of this report are as listed on page 10. Changes in the year were as follows:

| Name | Change | Effective date |
|---|---|---|
| Philip Bishop | resignation | 31 January 2007 |
| Bernard Morgan | resignation | 28 February 2007 |
| Ian Yeoman | resignation | 23 October 2007 |
| Michelle Young | appointment | 28 February 2007 |
| Lee Staines | appointment | 16 July 2007 |
| Jean-Marc Bouhelier | appointment | 23 October 2007 |

**Dividends**

The directors do not recommend the payment of a dividend for the year ended 31 December 2007 (2006: £nil).

### Going concern

The financial statements have been prepared on the going concern basis, under the historical cost convention, which is supported by the projected revenue and cash flow of the group. The projections reflect the expected increase in the level of sales from the group's main business activities. As a consequence of the change in focus, the directors recognise that the timing and amount of increases in sales activity are not guaranteed and that as a result the group's financial position cannot be certain. However, the directors have a reasonable expectation that the group will have sufficient working capital for the foreseeable future and consequently believe that it is appropriate for the financial statements to be prepared on a going concern basis. The directors have also reviewed strategic options, including discussions with providers of finance, to secure additional funding for the group.

As a result, the group also completed a Share Subscription round on 23 May 2008. This was at 1p per share and raised a total of £2,000,000 (pre-expenses).

The directors believe that this subscription, combined with the US $3m proceeds from the sale of the electronic system level design portion of its business, provide the group with sufficient capital for it to be considered a going concern. Details of both can be found in note 27.

The financial statements do not contain any adjustments that would arise if the financial statements were not drawn up on a going concern basis. If required these adjustments would be made to the balance sheets of the company and the group to increase or reduce the balance sheet values of assets to their recoverable amounts, to provide for further liabilities that might arise and to reclassify fixed assets and long term liabilities as current assets and liabilities.

### Research and development

The group continues to develop its products for the emerging accelerated computing market. Total spend in 2007 was £589k (2006: £977k).

### Policy on payment of creditors

It is the group's normal practice to make payments to suppliers in accordance with agreed terms, provided that the supplier has performed in accordance with the relevant terms and conditions. At 31 December 2007 the company had no trade creditors (2006: none).

### Financial instruments and financial risk management

Details regarding the group's use of financial instruments and financial risk management objectives and policies are given in note 20 to the financial statements.

### Directors' and officers' liability insurance

The group has, as permitted by S310(s) of the Companies Act 1985, maintained insurance cover on behalf of the directors and company secretary indemnifying them against certain liabilities which may be incurred by them in relation to the group.



Directors' report for the
Year ended 31 December 2007 (continued)

### Statement of directors' responsibilities

The directors are responsible for preparing the report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. The financial statements are required by law to give a true and fair view of the state of affairs of the group and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards as adopted by the European Union 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 group will continue in business.

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

In so far as the directors are aware:

- there is no relevant audit information of which the company's auditors are 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 auditors are aware of that information.

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

### Auditor

Grant Thornton UK LLP offer themselves for re-appointment as auditor in accordance with section 385 of the Companies Act 1985.

Company Secretary

On behalf of the Board

23 May 2008

## Combined code compliance

Celoxica Holdings plc is an AIM-listed company and, while the AIM rules do not require the group to comply with the Combined Code on Corporate Governance ("the Code"), the group agrees with the principles of the Code and adopts wherever size and resources permit.

## The Board

The Board structure is designed to include the appropriate range of skills and experience required to facilitate Celoxica's growth and success in line with expectations. The composition as at 31 December 2007 was that of two executive directors and three non-executive directors, one of whom is the chairman. The non-executive directors are independent of management and free from any business which could materially interfere with the exercise of their independent judgement. Biographies are as on page 10.

The Board meets monthly and receives a board pack containing trading and financial information (both current and forecast) along with any such information necessary for the board to meet its duties. In addition to the board meetings, there are a number of informal meetings between the non-executive directors and the executive directors.

The Board is responsible for reviewing and approving the group's strategic direction, financial budgets, risk management and acquisition/disposals. In addition, the Board is also required to approve financial transactions from ordinary trading that are above the authorisation limits of the executive directors alone.

## Board committees

The directors have established an audit committee, a remuneration committee and a nomination committee with formally delegated roles and responsibilities. Each of the committees currently comprises the non-executive directors. The audit committee meets at least twice each year and the remuneration and nominations committees meet at least once.

## Audit committee

The audit committee meets at least twice each year and is responsible for ensuring that the financial performance of the group is properly reported on and monitored and for meeting the auditor and reviewing the reports from the auditor relating to accounts and internal control systems. It meets at least once a year with the auditor without executive board members present. The audit committee comprises the non-executive directors of the company and is currently chaired by David Cheesman.

## Remuneration committee

The remuneration committee reviews the performance of the executive directors and sets and reviews the scale and structure of their remuneration and the basis of their remuneration and the terms of their service agreements with due regard to the interests of shareholders.

In determining the remuneration of executive directors, the remuneration committee seeks to enable the group to attract and retain executives of the highest calibre. The remuneration committee also makes recommendations to the Board concerning the allocation of share options to employees.

No director will be permitted to participate in discussions or decisions concerning his own remuneration. The remuneration committee comprises the non-executive directors and is currently chaired by Jean-Marc Bouhelier.

## Nominations committee

The nominations committee meets as required for the purpose of considering new or replacement appointments to the board. The nominations committee comprises the non-executive directors of the company and is currently chaired by Jack Fryer.

## Shareholder communications

The board meets with the group's institutional investors on a regular basis and communicates with its private investors wherever possible. It also encourages attendance at the AGM where a question & answer session is available.

The group's website (www.celoxica.com) also contains an investor relations section which includes all information required to comply with AIM Rule 26.





## Internal control and risk management

The Board is responsible for the group's internal control procedures and their effectiveness. Procedures in place are consistent with the group's stage of development and are consistently monitored to ensure they develop as necessary and eliminate, reduce or control risk wherever possible.

There is no internal audit function within the group currently. This is due to the size of the group, combined with the high level of director authorisations of transactions.

Financial budgets are compiled once a year and reviewed monthly by the board, with any necessary action taken as appropriate.

## Social, ethical and environmental policies

As well as responsibilities to shareholders, the group also endeavours to take into account the interests of all its stakeholders. This includes employees, customers, suppliers, local communities and the environments in which it operates.

The group strives for equal opportunities for all employees and has a policy of non-discrimination.

The group has no manufacturing operations and its premises therefore consist entirely of offices without the risk of hazardous waste or emissions. It continually monitors its impact on the environment and has a policy of recycling wherever possible – including paper, toner cartridges, aluminium cans, mobile phones and batteries.

## Health & safety

The safety of all employees and visitors to all Celoxica premises is a priority to the group. Each office is reviewed for potential risks regularly and necessary action taken.

The UK office is covered by a health & safety committee, compromising a chairman, the health & safety manager, an employee representative and the chief fire warden. Overseas offices have similar arrangements depending on local practices, customs and requirements.

## Going concern

The Board regularly reviews 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.

The group's withdrawal from the electronic system level design market led to the sale of that portion of its business. The sale completed on 4 January 2008 and raised US $3m. Full details can be found in note 27.

As a member of AIM, the group does not have to comply with the directors' remuneration report regulations 2002. However, the group agrees with the principles of the report and adopts where size and resources allow.

### Role of the remuneration committee

The remuneration committee is responsible for:

- determining the executive remuneration policy
- ensuring remuneration is at a level to attract and retain appropriate directors and management
- ensuring remuneration of directors and management is consistent with other employees.

The committee meets at least twice a year and currently comprises Jean-Marc Bouhelier as chairman with Jack Fryer and David Cheesman as supporting members. It covers all elements of remuneration, including salary, pension, bonus, share options and duration/notice periods. The committee has access to external professional advisers if required.

No director will be permitted to participate in discussions or decisions concerning his own remuneration.

### Salary

Salary reviews are annual unless due to a promotion. All annual reviews are effective 1 April each year and take into account both group and personal performance.

### Bonus

Performance related bonus is based on achievement of financial and other operating targets of the group as set by the remuneration committee.

### Share options

Share options form an integral part of remuneration packages within Celoxica. Every employee has options within one of the schemes, with the quantity being dependent on role and performance. Schemes available are:

- Approved Discretionary Share Option Scheme 2000 (UK)
- Unapproved Discretionary Share Option Scheme 2000 (UK)
- Unapproved Non-Employee Discretionary Share Option Scheme 2000 (UK)
- 2000 Stock Option Plan (US)
- Unapproved (EMI) Share Option Scheme 2002 (UK)

All options are issued in sterling at the average market price for the three days prior to grant. In line with the industry sector, none of the options have any performance criteria attached. Vesting periods range from 1 year to 3 years.

### Pension

The group does not operate its own pension scheme and instead contributes to a group personal pension plan for all UK employees. The contribution rate is 5% per annum for executive directors.

### Other benefits

Other benefits available are a car or car allowance, private fuel, life assurance, private medical insurance and permanent health insurance.

### Service agreements for executive directors

Executive directors' contracts are ongoing with a 6 month notice period by either party. Each contract contains a non-competition, non-solicitation clause for a period of 6 months after termination. In addition, each service agreement also contains a confidentiality obligation.

### Non-executive directors

Fees are set with reference to other groups of similar size and development, and with regard to the number of days expected to be worked per annum. Each of the non-executive directors has a rolling notice period of 2 months with terms & conditions of appointment rather than a formal service agreement.

Non-executive directors are not eligible to participate in bonus arrangements and their service does not qualify for pensions or other benefits.





### Directors' shareholdings

The directors in office at 31 December 2007 held the following interests in the company's shares:

| | **Ordinary shares of 1p each 31 December 2007** | Ordinary shares of 25p each 31 December 2006 |
|---|---|---|
| J Fryer | **695,743** | 1,664 |
| L Staines | **210,526** | - |
| M Young | **105,263** | - |
| J-M Bouhelier | **2,105,263** | - |
| P E Bishop | **-** | 29,200 |
| B O Morgan | **-** | 6,200 |

David Cheesman had no interests in the company's shares (2006: none).

### Interests in share options

The directors in office at 31 December 2007 held the following interest in options to purchase 1p ordinary shares of the company:

| | Number of options at 31 December 2006 | Granted | **Number of options at 31 December 2007** | **Exercise price** | **Earliest date of exercise** | **Expiry date** |
|---|---|---|---|---|---|---|
| **J Fryer** | | | | | | |
| | 43,816 | - | 43,816 | 25p | 01/06/05 | 31/05/14 |
| | 3,328 | - | 3,328 | 25p | 24/02/06 | 23/02/15 |
| | 4,856 | - | 4,856 | 25p | 28/02/06 | 27/02/15 |
| **L Staines** | | | | | | |
| | - | 3,000,000 | 3,000,000 | 8p | 20/07/08 | 19/07/17 |
| **M Young** | | | | | | |
| | 5,736 | - | 5,736 | 25p | 01/06/05 | 31/05/14 |
| | 14,000 | - | 14,000 | 25p | 12/10/05 | 11/10/14 |
| | 1,272 | - | 1,272 | 25p | 24/02/06 | 23/02/15 |
| | 10,992 | - | 10,992 | 25p | 28/02/06 | 27/02/15 |
| | - | 268,000 | 268,000 | 9.25p | 05/06/08 | 04/06/17 |

David Cheesman and Jean-Marc Bouhelier had no interests in the company's share options (2006: none).

### Directors' emoluments

| **Director** | **Salary £** | **Fees £** | **Benefits £** | **Pension £** | **Total 2007 £** | Total 2006 £ |
|---|---|---|---|---|---|---|
| J Fryer | - | 35,000 | - | - | **35,000** | 35,000 |
| L Staines | 74,347 | - | 4,875 | 3,717 | **82,939** | - |
| M Young | 70,833 | | 8,762 | 3,669 | **83,264** | - |
| D Cheesman | - | 25,000 | - | - | **25,000** | 25,000 |
| J-M Bouhelier | - | 4,367 | - | - | **4,367** | - |
| I C Yeoman | 97,407 | 16,283 | - | - | **113,690** | 25,000 |
| P E Bishop | 14,063 | - | 809 | 703 | **15,575** | 187,287 |
| B O Morgan | 20,000 | - | 3,073 | 1,000 | **24,073** | 141,363 |
| R K Hopkins | - | - | - | - | **-** | 1,667 |
| TOTAL | 276,650 | 80,650 | 17,519 | 9,089 | **383,908** | 415,317 |

Jean-Marc Bouhelier

Chairman of the remuneration committee

23 May 2008

# Report of the independent auditor to the members of Celoxica Holdings plc

We have audited the group financial statements (the "financial statements") of Celoxica Holdings Plc for the year ended 31 December 2007 which comprise the principal accounting policies, the consolidated income statement, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of recognised income and expense and notes 1 to 30. These group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of Celoxica Holdings plc for the year ended 31 December 2007.

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 auditors**

The directors' responsibilities for preparing the annual report and the group financial statements in accordance with United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the statement of directors' responsibilities.

Our responsibility is to audit the group 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 group financial statements give a true and fair view and whether the group financial statements have been properly prepared in accordance with the Companies Act 1985 and article 4 of the IAS Regulation. 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 group financial statements. The other information comprises only the chairman's review, the chief executive's review, financial review, directors' report and the directors' remuneration report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the group 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 group financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the group financial statements, and of whether the accounting policies are appropriate to the group'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 group 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 group financial statements.

**Opinion**

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2007 and of its loss for the year then ended;
- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the information given in the directors' report is consistent with the financial statements.

Grant Thornton UK LLP
Registered Auditor
Chartered Accountants Oxford

23 May 2008



# Consolidated income statement
Year ended 31 December 2007

| | Note | 2007 £ | 2006 £ |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | 2 | 353,908 | 166,285 |
| Cost of sales | | (240,300) | (173,526) |
| **Gross profit** | | 113,608 | (7,241) |
| Administrative expenses | | (2,278,100) | (1,874,795) |
| **Operating loss** | | (2,164,492) | (1,882,036) |
| Finance income | 6 | 22,800 | 37,740 |
| Finance costs | 7 | (25,943) | (52,766) |
| **Loss on ordinary activities before tax** | | (2,167,635) | (1,897,062) |
| Tax on loss on ordinary activities | 8 | 85,740 | 102,357 |
| **Loss for the year from continuing operations** | | (2,081,895) | (1,794,705) |
| **Discontinued operations** | | | |
| Loss for the year from discontinued operations | 11 | (1,647,873) | (2,240,011) |
| **Retained loss for the period** | | (3,729,768) | (4,034,716) |
| **Loss per share (pence)** | | | |
| From continuing operations | | | |
| Basic and diluted | 10 | (2.9p) | (3.5p) |
| From continuing and discontinued operations | | | |
| Basic and diluted | 10 | (5.2p) | (7.8p) |

# Consolidated statement of recognised income and expense
Year ended 31 December 2007

| | | 2007 £ | 2006 £ |
|---|---|---|---|
| Exchange differences on translation of foreign operations | | (2,412) | (6,292) |
| **Net expense recognised directly in equity** | 24 | (2,412) | (6,292) |
| **Loss for the year** | 24 | (3,729,768) | (4,034,716) |
| **Total recognised income and expense for the year attributable to equity holders of the parent** | 24 | (3,732,180) | (4,041,008) |

## Consolidated balance sheet
## 31 December 2007

| | Note | 2007 £ | 2006 £ |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 13 | 27,378 | 149,222 |
| | | 27,378 | 149,222 |
| **Current assets** | | | |
| Inventories | 14 | 27,747 | 161,888 |
| Trade and other receivables | 15 | 561,497 | 1,137,302 |
| Cash | 16 | 21,665 | 157,160 |
| | | 610,909 | 1,456,350 |
| Non-current assets classified as held for sale | 11 | 141,614 | - |
| **Total assets** | | 779,901 | 1,605,572 |
| **Current liabilities** | | | |
| Trade and other payables | 17 | (640,772) | (1,114,601) |
| Bank overdrafts and loans | 18 | (172,111) | (525,387) |
| Provisions | 19 | (85,399) | - |
| | | (898,282) | (1,639,988) |
| Liabilities directly associated with non-current assets classified as held for sale | 11 | (124,490) | - |
| **Net current liabilities** | | (411,863) | (183,638) |
| **Net liabilities** | | (242,871) | (34,416) |

| | Note | 2007 £ | 2006 £ |
|---|---|---|---|
| **Equity** | | | |
| Share capital | 22 | 13,215,359 | 12,887,796 |
| Share premium | 24 | 4,500,310 | 1,349,339 |
| Merger reserve | 24 | 23,729,845 | 23,729,845 |
| Share option reserve | 24 | 299,829 | 254,638 |
| Translation reserve | 24 | (8,704) | (6,292) |
| Retained earnings | 24 | (41,979,510) | (38,249,742) |
| **Total equity** | | (242,871) | (34,416) |

The financial statements were approved by the board of directors and authorised for issue on 23 May 2008. They were signed on its behalf by:

Lee Staines
Chief Executive Officer

Michelle Young
Finance Director

23 May 2008

## Consolidated cash flow statement
## Year ended 31 December 2007

| | 2007 £ | 2006 £ |
|---|---|---|
| **Cash flows from operating activities** | | |
| Loss before taxation – continuing and discontinued | (3,883,374) | (4,264,826) |
| Adjustments for: | | |
| Depreciation | 70,659 | 87,952 |
| Loss/(profit) on disposal of property, plant & equipment | 4,724 | (3,143) |
| Share based payments | 45,191 | 13,554 |
| Currency translation differences | (3,540) | 3,570 |
| Income tax received | 234,074 | 378,051 |
| Net interest | (3,713) | (37,492) |
| | (3,535,979) | (3,822,334) |
| Decrease in trade and other receivables | 448,120 | 532,190 |
| Decrease/(increase) in inventories | 102,074 | (7,661) |
| Decrease in trade and other payables | (263,939) | (479,070) |
| **Net cash outflow from operating activities** | (3,249,724) | (3,776,875) |
| **Cash flows from investing activities** | | |
| Proceeds on disposal of property, plant and equipment | 1,325 | 3,304 |
| Purchases of property, plant and equipment | (12,354) | (86,713) |
| **Net cash used in investing activities** | (11,029) | (83,409) |
| **Cash flows from financing activities** | | |
| Cash and cash equivalents at beginning of year | (525,387) | (502,591) |
| Issue of share capital | 3,478,534 | 2,666 |
| **Net cash from/(used in) financing activities** | 2,953,147 | (499,925) |
| **Net decrease in cash and cash equivalents** | (307,606) | (4,360,209) |
| Cash and cash equivalents at beginning of year | 157,160 | 4,517,369 |
| **Cash and cash equivalents at end of year** | (150,446) | 157,160 |

## 1. Accounting policies

Celoxica Holdings plc is a company incorporated in the United Kingdom under the Companies Act 1985. The address of the registered office is given on page 49. The nature of the group's operations and its principal activities are set out in the directors' report on pages 11 and 12. These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the group operates. Foreign operations are included in accordance with the policies set out below.

The group financial statements consolidate those of the company and its subsidiaries (together referred to as the "group"). The parent company financial statements present information about the company as a separate entity and not about its group.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these group financial statements and in preparing an opening IFRS Balance Sheet at 1 January 2006 for the purposes of the transition to EU Adopted IFRS.

### Transition to EU Adopted IFRS

The group is preparing its financial statements in accordance with EU Adopted IFRS for the first time and consequently has applied IFRS 1. An explanation of how the transition to EU Adopted IFRS has affected the reported financial position, financial performance and cash flows of the group is provided in note 30.

IFRS 1 grants certain exemptions from the full requirements of IFRS in the transition period. The following exemptions have been taken in these financial statements:

- Business combinations – business combinations that took place prior to 1 January 2006 have not been restated.
- Fair value or revaluation as deemed cost – at the date of transition, fair value has been used as deemed cost for property, plant and equipment assets previously measured at fair value.
- Cumulative translation differences – cumulative translation differences for all foreign operations have been set to zero at 1 January 2006.





### Basis of preparation

The financial statements have been prepared on the going concern basis, under the historical cost convention, which is supported by the projected revenue and cash flow of the group. The projections reflect the expected increase in the level of sales from the group's main business activities. As a consequence of the change in focus, the directors recognise that the timing and amount of increases in sales activity are not guaranteed and that as a result the group's financial position cannot be certain. However, the directors have a reasonable expectation that the group will have sufficient working capital for the foreseeable future and consequently believe that it is appropriate for the financial statements to be prepared on a going concern basis. The directors have also reviewed strategic options, including discussions with providers of finance, to secure additional funding for the group.

As a result, the group also completed a Share Subscription round on 23 May 2008. This was at 1p per share and raised a total of £2,000,000 (pre-expenses).

The directors believe that this subscription, combined with the US $3m proceeds from the sale of the electronic system level design portion of its business, provide the group with sufficient capital for it to be considered a going concern. Details of both can be found in note 27.

The financial statements do not contain any adjustments that would arise if the financial statements were not drawn up on a going concern basis. If required these adjustments would be made to the balance sheets of the company and the group to increase or reduce the balance sheet values of assets to their recoverable amounts, to provide for further liabilities that might arise and to reclassify fixed assets and long term liabilities as current assets and liabilities.

Non-current assets and disposal groups held for sale are stated at the lower of previous carrying amount and fair value less costs to sell.

Standards, interpretations and amendments to published standards that are not yet effective:

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory to accounting periods beginning on or after 2 January 2007 or later periods which the company has early adopted, as follows:

- IFRIC 11: IFRS 2: Group and Treasury Share Transactions (EU adopted)
  - No impact on financial statements from application

Standards, interpretations and amendments and interpretations to existing standards have been published that are mandatory to accounting periods beginning on or after 2 January 2007 or later periods have not been early adopted by the company as follows:

- Changes in standards or interpretations which are not currently relevant to the company's activities:
  - IAS 28: Investments in Associates (revised) (not yet EU adopted)
  - IAS 31: Interests in Joint Ventures (revised) (not yet EU adopted)
  - IFRIC 12: Service Concession Arrangements (not yet EU adopted)
  - IFRIC 13: Customer Loyalty Programmes (not yet EU adopted)
  - IFRIC 14: IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (not yet EU adopted)
- New standards / changes in standards which are not yet mandatory but effective from accounting periods beginning on or after 1 January 2009 or later periods:
  - IFRS 8: Operating Segments (EU adopted)
  - IAS 1: Presentation of Financial Statements – Comprehensive revision including requiring a statement of comprehensive income (not yet EU adopted)
  - IAS 23: Borrowing Costs – Comprehensive revision to prohibit immediate expensing (not yet EU adopted)
  - IFRS 3: Business Combinations (revised) (not yet EU adopted)
  - IAS 27: Consolidated and Separate Financial Statements (revised) (not yet EU adopted)

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and entities controlled by the company (its subsidiaries) made up to 31 December each year.

Intra-group sales and profits are eliminated fully on consolidation.

Control is achieved where Celoxica Holdings plc has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition.

Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill.

Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to profit or loss in the period of acquisition.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the group.

### Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is charged so as to write off the cost of assets less any residual value over their estimated useful lives, using the straight-line method, on the following bases:

| | |
|---|---|
| Short term leasehold improvements | 5 years |
| Plant and other equipment | 3 years |
| Fixtures and fittings | 3 years |

The residual value and the useful life of each asset are reviewed at least at each financial year-end and, if expectations differ from previous estimates, the change(s) are accounted for as a change in an accounting estimate.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.



Notes to the accounts
Year ended 31 December 2007 (continued)

### Internally generated intangible assets - research & development

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally generated intangible asset arising from the group's development is recognised only if all of the following conditions are met:

- An asset is created that can be identified;
- It is probable that the asset created will generate future economic benefits; and
- The development cost of the asset can be measured reliably.

Internally generated intangible assets are amortised on a straight-line basis over their estimated useful economic life, from the date at which they are available for use, using the straight-line method.

The amortisation charge is recognised within research and development expenses in the income statement.

Where no internally generated intangible assets can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

### Impairment of tangible and intangible assets

At each balance sheet date, the group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss.

If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Where the asset does not generate cash flows that are independent from other assets, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount.

An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

### Inventory

Inventory is stated at the lower of cost and net realisable value. Cost comprises direct material costs of purchase and where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition.

Net realisable value is based on estimated selling price less all further costs to completion and all relevant marketing, selling and distribution costs.

### Taxation

The charge for current tax is based on the results for the period as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or any discount on acquisition) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

### Pension costs

The group operates a number of defined contribution plans, whereby the group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The group has no further payment obligations once the contributions have been paid.

The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

### Short-term employee benefit costs

The undiscounted amount of short-term benefits attributable to services that have been rendered in the period are recognised as an expense, unless specifically required or permitted within the scope of IFRS reporting to be included in the cost of an asset.

Any difference between the amount of cost recognised and cash payments made is treated as a liability or prepayment as appropriate.

### Operating leases

Rentals in respect of operating leases are charged to profit or loss on a straight-line basis over the lease term.

Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.



Notes to the accounts
Year ended 31 December 2007 (continued)

### Revenue recognition

Turnover (excluding VAT) comprises the fair value of sales of licenses, revenue from support, maintenance, training and consulting contracts and the sale of hardware boards provided in the normal course of business, net of discounts and other sales related taxes.

License fees are recognised upon shipment of the software, based on customer purchase orders, provided that all significant obligations in respect of the software license are fulfilled (when the risks and rewards of ownership pass to the customer).

Where agreements involve multiple elements, the fee from such arrangements is allocated to each of the individual elements based on each element's fair value. Vendor-specific objective evidence of fair value is determined by reference to list price of sales to other customers where elements are sold separately.

When the outcome cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

In addition to the license fees, contracts generally contain an agreement to provide post contract support (support, maintenance and training) which consists of an identified customer contact at the group and telephonic or e-mail support. Fees for post contract support are specified in the purchase order. The fees are determined based on the group's price list as if sold separately. The price list is established and regularly reviewed by management.

Revenue for post contract support is recognised on a straight-line basis over the period for which services are contractually agreed by the group with the licensee.

The excess of licence fees invoiced over revenue recognised in respect of such fees is recorded as deferred income.

Revenue from consulting is recognised when the service has been provided and all obligations to the customer under the consulting agreement have been fulfilled. For larger consulting projects containing several project milestones, revenue is recognised as each milestone is achieved or on a percentage-to-completion basis unless management has doubt as to the recoverability of fees. Consulting costs are recognised when incurred.

Revenue from hardware development boards is recognised when obligations under the relevant purchase agreement have been met and delivery has taken place.

### Foreign currencies

Transactions in currencies other than the functional currency of the reporting entity are recorded at the rates of exchange prevailing on the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

Gains and losses arising on retranslation are included in net profit or loss for the period.

On consolidation, the assets and liabilities of the group's overseas operations are translated at exchange rates prevailing on the balance sheet date.

Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly. Exchange differences arising, if any, are classified as equity and transferred to the group's translation reserve.

Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

### 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. Financial liabilities are classified according to the substance of the contractual arrangements entered into. All interest-related charges are recognised as an expense in the income statement.

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 income statement 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.

Trade payables are not interest bearing and are stated at their nominal value.

### Dividends

Dividends are recognised as a liability in the period in which they are approved.

### Financial instruments

Financial assets are recognised on the group's balance sheet when the group becomes a party to the contractual provisions of the instrument and 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 income statement in the financial period to which it relates.

Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

### Share-based payments

The group issues share options to its employees. The group has applied the requirements of IFRS 2 Share-based Payments. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2005.

The group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant.

The fair value determined at the grant date of the equity-settled, share-based payments is expensed on a straight-line basis over the vesting period, based on the group's estimate of shares that will eventually vest.

Fair value of the equity-settled share-based payments is measured by use of a Black Scholes model.

### Provisions

A provision is recognised in the balance sheet when the group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.





### Non-current assets held for sale

Immediately before classification as held for sale, the measurement of the assets (and all assets and liabilities in a disposal group) is brought up-to-date in accordance with applicable IFRS. Then, on initial classification as held for sale, non current assets and disposal groups are recognised at the lower of carrying amount and fair value less costs to sell.

Impairment losses on initial classification as held for sale are included in profit or loss, even when there is a revaluation. The same applies to gains and losses on subsequent re-measurement.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

### Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the group's cash management are included as a component of cash and cash equivalents for the purpose only of the statement of cash flows.

### Accounting estimates and judgements

The preparation of financial statements in conforming with adopted IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and assumptions are based on historical experience and other factors considered reasonable at the time, but actual results may differ from those estimates. Revisions to these estimates are made in the period in which they are recognised.

In respect of continuing and discontinued operations, overheads that cannot be analysed between the two have been allocated in accordance with the proportion of revenues generated from that sector of the business.

A provision for onerous contracts has been made and relates to the rent, rates and service charge attributable to unutilised office space at the group's UK office. All amounts are due within 12 months.

### 2. Revenue

An analysis of the group's revenue is as follows:

| | 2007 | 2006 |
|---|---|---|
| | £ | £ |
| **Continuing operations :** | | |
| Provision of services | 118,836 | 149,118 |
| Sales of goods | 235,072 | 17,167 |
| | 353,908 | 166,285 |
| Other operating income | 39,000 | - |
| Investment income | 40,850 | 84,844 |
| | 433,758 | 251,129 |
| **Discontinued operations** | | |
| Sales | 1,349,432 | 3,397,626 |
| | 1,783,190 | 3,648,755 |

### 3. Business and geographical segments

The primary format used for segmental reporting by the group is geographical.

Segment results, assets and liabilities include items directly attributable to a segment as well as other shared items allocated on a reasonable basis.

Unallocated expenses comprise cash, borrowings, tax assets and liabilities and retirement benefit obligation. Inter-group trading is determined on an arm's length basis.

**Geographic segments**

The group comprises the following geographic segments:

**Europe, Middle East, Africa and India (EMEAI)**

**Asia Pacific (APAC)**

**The Americas (USA)**

The group was also previously involved in the electronic system level design (ESL) market. That operation was discontinued with effect from 4 January 2008 (see note 11). Revenues and costs directly attributable to that business and not ongoing are disclosed within Discontinued operations. Costs incurred within that business but not directly attributable or ongoing are not.

Segment information about these geographic areas is presented below.

| 2007 | EMEAI 2007 £ | APAC 2007 £ | USA 2007 £ | Discontinued operations 2007 £ | Consolidated 2007 £ |
|---|---|---|---|---|---|
| Revenue from external customers | 9,895 | 45,190 | 298,823 | 1,349,432 | 1,703,340 |
| Segment result | (162,444) | 35,791 | (127,618) | (1,713,248) | (1,967,519) |
| Unallocated corporate expenses | | | | | (1,910,224) |
| Operating loss | | | | | (3,877,743) |
| Net finance costs | | | | | (5,631) |
| Loss before tax | | | | | (3,883,374) |
| Tax | | | | | 153,606 |
| Net loss for the year | | | | | (3,729,768) |

| Other information | EMEAI 2007 £ | APAC 2007 £ | USA 2007 £ | Discontinued operations 2007 £ | Consolidated 2007 £ |
|---|---|---|---|---|---|
| Capital additions | 3,194 | - | 7,037 | 2,123 | 12,354 |
| Depreciation | 15,551 | 6,837 | 1,794 | 46,477 | 70,659 |
| **Balance sheet** | | | | | |
| **Assets** | | | | | |
| Segment assets | 507,573 | 62,863 | 67,851 | 141,614 | 779,901 |
| **Liabilities** | | | | | |
| Segment liabilities | (638,782) | (157,838) | (101,662) | (124,490) | (1,022,772) |

The segment result from discontinued operations stated above is equal to the profit before tax from discontinued operations disclosed in note 11 which provides a reconciliation to the net loss from discontinued operations.





| Other information | EMEAI 2006 £ | APAC 2006 £ | USA 2006 £ | Discontinued operations 2006 £ | Consolidated 2006 £ |
|---|---|---|---|---|---|
| Revenue from external customers | 83,035 | - | 83,250 | 3,397,626 | 3,563,911 |
| Segment result | (124,644) | | (227,580) | (2,349,010) | (2,701,234) |
| Unallocated corporate expenses | | | | | (1,529,812) |
| Operating loss | | | | | (4,231,046) |
| Net finance costs | | | | | (33,780) |
| Loss before tax | | | | | (4,264,826) |
| Tax | | | | | 230,110 |
| Net loss for the year | | | | | (4,034,716) |

| Other information | EMEAI 2006 £ | APAC 2006 £ | USA 2006 £ | Discontinued operations 2006 £ | Consolidated 2006 £ |
|---|---|---|---|---|---|
| Capital additions | 31,889 | - | 2,202 | 52,622 | 86,713 |
| Depreciation and amortisation | 18,698 | - | 717 | 68,537 | 87,952 |
| **Balance sheet** | | | | | |
| **Assets** | | | | | |
| Segment assets | 892,103 | 165,951 | 232,259 | 315,259 | 1,605,572 |
| **Liabilities** | | | | | |
| Segment liabilities | (1,242,073) | (25,308) | (138,484) | (234,123) | (1,639,988) |

The segment result from discontinued operations stated above is equal to the loss before tax from discontinued operations disclosed in note 11 which provides a reconciliation to the net loss from discontinued operations.

**Business segments**

The group has two principal business segments based on services provided through its subsidiary selling offices and through a distributor network.

The following table provides an analysis of the Group's sales by business segment:

| | Sales revenue by business segment 2007 £ | 2006 £ |
|---|---|---|
| Accelerated computing | 353,908 | 166,285 |
| Embedded systems | 1,349,432 | 3,397,626 |
| Consolidated | 1,703,340 | 3,563,911 |

Revenue from the group's discontinued operations was derived in totality from the embedded systems market.

**4. Expenses and auditors' remuneration**

Operating loss has been arrived at after charging/(crediting):

| | 2007 £ | 2006 £ |
|---|---|---|
| Depreciation of property, plant and equipment | 70,659 | 87,952 |
| (Loss)/profit on disposal of non-current assets | (4,724) | 3,143 |
| Rentals under operating leases | 212,744 | 144,701 |
| Research & development | 588,596 | 976,621 |
| Cost of inventories recognised as expense | 322,782 | 751,082 |
| Staff costs (see note 5) | 3,125,475 | 3,909,448 |
| Auditors' remuneration for audit services (see below) | 35,200 | 33,500 |

Research and development is expenditure incurred by the group in the development of its products including its range of software, hardware development boards and consulting services.

Auditor's remuneration for other services is in relation to the, tax compliance and advisory work. The company's audit fees are borne by another group company.

Amounts payable to Grant Thornton UK LLP and their associates by the company and its UK subsidiary undertakings in respect of non-audit services were £23,760 (2006 – Grant Thornton UK LLP £23,580).

A more detailed analysis of auditors' remuneration on a worldwide basis is provided below.

| | 2007 £ | 2007 % | 2006 £ | 2006 % |
|---|---|---|---|---|
| Audit services: | | | | |
| statutory audit | 35,200 | 59.7% | 33,500 | 58.7% |
| Tax services: | | | | |
| compliance services | 4,200 | 7.1% | 7,650 | 13.4% |
| Other services | 19,560 | 33.2% | 15,930 | 27.9% |
| | 58,960 | 100.0% | 57,080 | 100.0% |

**5. Staff costs and numbers**

The average monthly number of employees (including executive directors) was:

| | 2007 Number | 2006 Number |
|---|---|---|
| Engineering | 19 | 31 |
| Selling and distribution | 12 | 19 |
| Administration | 6 | 8 |
| | 37 | 58 |
| | £ | £ |
| Their aggregate remuneration comprised: | | |
| Wages and salaries | 2,686,953 | 3,370,165 |
| Social security costs | 300,958 | 398,435 |
| Other pension costs | 92,373 | 127,294 |
| Equity settled transactions | 45,191 | 13,554 |
| | 3,125,475 | 3,909,448 |





**Directors' emoluments**

| All directors | 31 December 2007 £ | 31 December 2006 £ |
|---|---|---|
| Aggregate emoluments | **374,819** | 400,880 |
| Pension contributions to defined contribution pension scheme | **9,089** | 14,437 |
| **Highest paid director** | | |
| Aggregate emoluments | **113,690** | 178,850 |
| Pension contributions to defined contribution pension scheme | - | 8,437 |

Included in the emoluments above are £25,000 (2006: £25,000) paid to Advent Ventures Partners in respect of David Cheesman.

Retirement benefits are accruing to 2 directors (2006: 2) under a defined contribution pension scheme.

Further details of directors' remuneration are given within the directors remuneration report.

**6. Investment income**

| | 2007 £ | 2006 £ |
|---|---|---|
| Interest on bank deposits – continuing | 22,800 | 37,740 |
| Interest on bank deposits – discontinued | 18,050 | 47,104 |
| | 40,850 | 84,844 |

**7. Finance costs**

| | 2007 £ | 2006 £ |
|---|---|---|
| Interest on bank overdrafts and loans – continuing | 25,943 | 52,766 |
| Interest on bank overdrafts and loans – discontinued | 20,535 | 65,858 |
| | 46,478 | 118,624 |

**8. Tax**

| Analysis of charge in period | 2007 £ | 2006 £ |
|---|---|---|
| Taxation on continuing operations | (85,740) | (102,357) |
| Taxation on discontinued operations | (67,866) | (127,753) |
| | (153,606) | (230,110) |

The tax for the period is lower (2006: lower) than the standard rate of corporation tax in the UK (30%, 2006: 30%). The differences are explained below:

| Reconciliation of the tax expense | 2007 £ | 2006 £ |
|---|---|---|
| Loss on ordinary activities before tax | (3,883,374) | (4,264,826) |
| Tax at the UK corporation tax rate of 30% (2006: 30%) | (1,165,012) | (1,279,448) |
| Effects of: | | |
| Adjustments to tax in respect of prior periods | (13,843) | (6,164) |
| Expenses not deductible for tax purposes | 58,484 | 11,366 |
| Adjustments in respect of foreign tax rates | 1,500 | 6,054 |
| Deferred tax assets not recognised | 929,987 | 964,479 |
| Research & development tax credit adjustment | 35,278 | 73,603 |
| Total taxation | | |

**9. Dividends**

The directors do not propose the payment of a dividend (2006: £nil).

## 10. Loss per share

**From continuing and discontinued operations**

The calculation of the basic and diluted loss per share is based on the following data:

| | 2007 | 2006 |
|---|---|---|
| **Analysis of charge in period** | £ | £ |
| Loss for the purposes of basic and diluted loss per share | 3,729,768 | 4,034,716 |
| | Number | Number |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purposes of basic losses per share | 71,846,612 | 51,546,679 |
| Effect of dilutive potential ordinary shares: Share options and warrants | 5,628,571 | 3,650,264 |
| Weighted average number of ordinary shares for the purposes of diluted losses per share | 77,475,183 | 55,196,943 |

| | 2007 | 2006 |
|---|---|---|
| **From continuing operations** | £ | £ |
| Net loss attributable to equity holders of the parent | (3,729,768) | (4,034,716) |
| Adjustments to exclude loss for the period from discontinued operations | 1,647,873 | 2,240,011 |
| Losses from continuing operations for the purpose of basic and diluted earnings per share excluding discontinued operations | (2,081,895) | (1,794,705) |

The denominators used are the same as those detailed above for both basic and diluted earnings per share from continuing and discontinued operations.

| | 2007 | 2006 |
|---|---|---|
| **From discontinued operations** | pence | pence |
| Basic and diluted | (2.3p) | (4.3p) |

## 11. Non-current asset held for sale

On 18 December 2007, the group announced the proposed sale of its ESL business to Catalytic Inc for an aggregate consideration of US$3 million (comprising of US$ 2.7 million paid at completion, with US$ 0.3 million held in escrow until the end of the warranty period in respect of non-IP claims, being 12 months after completion, subject to any subsisting warranty claims by Catalytic Inc at that time).

These operations classified as a disposal group held for sale and are therefore presented separately in the balance sheet.

The disposal was completed on 4 January 2008, on which date control of the electronic system level design business passed to the acquirer. This disposal was effected in order to generate cash flow for the expansion of the group's other businesses.

The operations are included in the ESL segment in the segmental analysis in note 3. The proceeds of disposal exceeded the book value of the related net assets and accordingly no impairment losses have been recognised on the classification of these operations as held for sale.

The results of the discontinued operations, which have been included in the consolidated income statement, were as follows:

| | 2007 | 2006 |
|---|---|---|
| **Analysis of charge in period** | £ | £ |
| Revenue | 1,349,432 | 3,397,625 |
| Expenses | (3,065,171) | (5,765,389) |
| Operating loss | (1,713,248) | (2,349,010) |
| Net Finance Costs | (2,491) | (18,754) |
| Loss before tax | (1,715,739) | (2,367,764) |
| Attributable tax income | 67,866 | 127,753 |
| Net loss attributable to discontinued operations | (1,647,873) | (2,240,011) |





During the year, the ESL business used £1.4million (2006: £2.3million) of the group's net operating cash flows, received £1,325 (2006: £49,318) in respect of investing activities and paid £nil (2006: £nil) in respect of financing activities.The major classes of assets and liabilities comprising the operations classified as held for sale are as follows:

| | 31 December 07 |
|---|---|
| | £ |
| Property, plant and equipment | 58,618 |
| Inventories | 32,067 |
| Trade and other receivables | 50,929 |
| Total assets classified as held for sale | 141,614 |
| Total liabilities associated with assets classified as held for sale | (124,490) |
| Net assets of disposal group | 17,124 |

## 12. Subsidiaries

Details of the company's subsidiaries at 31 December 2007 are given in note 4 to the company accounts.

## 13. Property, plant and equipment

| | Short-term leasehold improvements | Plant & other equipment | Fixtures & fittings | Total |
|---|---|---|---|---|
| **Cost** | £ | £ | £ | £ |
| At 1 January 2006 | 24,951 | 933,306 | 38,439 | 996,696 |
| Additions | 1,468 | 85,245 | - | 86,713 |
| Exchange differences | (2,820) | (16,830) | (4,854) | (24,504) |
| Disposals | - | (98,002) | - | (98,002) |
| At 1 January 2007 | 23,599 | 903,719 | 33,585 | 960,903 |
| Exchange differences | 723 | 538 | 328 | 1,589 |
| Additions | 1,994 | 10,360 | - | 12,354 |
| Disposals | - | (118,414) | - | (118,414) |
| Transfer to non-current assets held for resale | (20,938) | (369,012) | (33,913) | (423,863) |
| At 31 December 2007 | 5,378 | 427,191 | - | 432,569 |
| **Accumulated depreciation & impairment** | | | | |
| At 1 January 2006 | 7,398 | 806,038 | 22,776 | 836,212 |
| Charge for the year | 2,943 | 82,231 | 2,778 | 87,952 |
| Exchange differences | (728) | (11,079) | (2,835) | (14,642) |
| Eliminated on disposals | - | (97,841) | - | (97,841) |
| At 1 January 2007 | 9,613 | 779,349 | 22,719 | 811,681 |
| Exchange differences | 217 | 287 | (43) | 461 |
| Charge for the year | 2,046 | 66,565 | 2,048 | 70,659 |
| Eliminated on disposals | - | (112,365) | - | (112,365) |
| Transfer to non-current assets held for resale | (8,497) | (332,024) | (24,724) | (365,245) |
| At 31 December 2007 | 3,379 | 401,812 | - | 405,191 |
| **Carrying amount** | | | | |
| At 31 December 2007 | 1,999 | 25,379 | - | 27,378 |
| At 31 December 2006 | 13,986 | 124,370 | 10,866 | 149,222 |

## 14. Inventories

| | 2007 | 2006 |
|---|---|---|
| | £ | £ |
| Goods for sale | 27,747 | 161,888 |

The directors consider that the carrying amount of inventories approximates their fair value.

### 15. Trade and other receivables

| | 2007 | 2006 |
|---|---|---|
| | £ | £ |
| Trade receivables | 158,902 | 492,179 |
| Current tax receivables | 141,263 | 230,000 |
| Other receivables and prepayments | 261,332 | 415,123 |
| | 561,497 | 1,137,302 |

Trade and other receivables at the balance sheet date comprise amounts receivable from the sale of goods. Included in the figure above is a provision for bad debts of £48,210 (2006 £30,984).

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

### 16. Cash and cash equivalents

| | 2007 | 2006 |
|---|---|---|
| | £ | £ |
| Bank balances | 21,665 | 157,160 |
| Bank overdraft | (172,111) | - |
| Bank loans | - | (525,387) |
| Cash and cash equivalents | (150,446) | (368,227) |

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash held by the group and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

### 17. Trade and other payables

| | 2007 | 2006 |
|---|---|---|
| **Analysis of charge in period** | £ | £ |
| Trade payables | 278,812 | 516,290 |
| Non-trade payables and accrued expenses | 276,884 | 508,546 |
| Other taxation and social security | 72,799 | 77,811 |
| Other payables | 12,277 | 11,954 |
| | 640,772 | 1,114,601 |

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 31 days.

The directors consider that the carrying amount of trade payables approximates to their fair value.

### 18. Bank loans and overdrafts

| | 2007 | 2006 |
|---|---|---|
| | £ | £ |
| Overdrafts | 172,111 | - |
| Bank loans | - | 525,387 |
| | 172,111 | 525,387 |

All amounts are payable on demand or within one year. The directors estimate the fair value of the group's borrowings are the same as above.

The bank loan was taken out on 20 December 2004 and continued until 20 December 2007. The loan was secured with a debenture over the assets of the group and bore a fixed interest rate of 13.8% per annum. Repayments of £525k have been made in the year (2006 £503k).

### 19. Provisions

| | 2007 | 2006 |
|---|---|---|
| | £ | £ |
| Onerous contracts | 85,399 | - |

The onerous contracts provision relates to the rent, rates and service charge attributable to unutilised office space at the group's UK office. All amounts are due within 12 months.



Notes to the accounts
Year ended 31 December 2007 (continued)

### 20. Financial risk management

**Credit risk**

Credit risk is the risk that the counterparty will fail to discharge their obligation.

The group's principal financial assets are bank balances and cash and trade and other receivables, which represent the group's maximum exposure to credit risk in relation to financial assets.

The group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the group's management based on prior experience and their assessment of the current economic environment.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit rating agencies.

The group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

The group's short-term cash and cash equivalents are deposited with a high credit rated commercial banks (typically with credit ratings of A+ or higher).

New customers are subject to an initial credit assessment using external credit reference agencies and trade references are confirmed. These credit limits are reviewed on an on-going basis and subject to senior management oversight. The payment position of past due trade receivables is monitored daily and actively managed.

No collateral is held.

**Liquidity risk**

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

All financial liabilities are due within 1 to 12 months (2006: all within 1 to 12 months).

**Floating rate financial liabilities**

Sterling denominated borrowings bear interest at rates related to the sterling base rate.

**Fixed rate financial liabilities**

There are no fixed rate financial liabilities as at 31 December 2007. At 31 December 2006, the fixed rate financial liabilities amounted to £525,387 with an average interest rate of 13.8 per cent and a weighted average repayment term of 11 months.

**Interest risk**

The group finances its operations through a mixture of bank borrowings and share capital. Any surplus funds are deposited in funds with instant access so can be moved to reduce the impact of interest rate fluctuations.

The interest rate profile of the financial assets and liabilities of the group is as follows:

| | **31 December 2007** | | 31 December 2006 | |
|---|---|---|---|---|
| | **Floating rate financial liabilities** | **Floating rate financial assets** | Fixed rate financial liabilities | Floating rate financial assets |
| **Cost** | **£** | **£** | £ | £ |
| Sterling | **(172,112)** | **102** | (525,387) | 61,199 |
| Euro | **-** | **70** | - | 31 |
| US Dollar | **-** | **15,345** | - | 31,980 |
| Japanese Yen | **-** | **6,148** | - | 63,950 |
| Total | **(172,112)** | **21,665** | (525,387) | 157,160 |

**Sensitivity analysis**
The group has no sensitivity to interest rates.

**Foreign currency risk**

The group operates in overseas markets, both by use of overseas subsidiaries and directly from the UK. It is therefore subject to currency exposures on transactions. The group has access to a range of option contracts to balance the risk should any particular currency be a concern. There were no material contracts in place at the year end.

Regional cash flow forecasts are prepared to predict currency requirements and surpluses.

Financial instruments held by the group and their fair values as at 31 December 2007 were as follows:

| | GBP | EUR | USD | YEN | Total |
|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ |
| **Financial assets** | | | | | |
| Trade receivables | 31,405 | 24,718 | 67,996 | 34,783 | 158,902 |
| Cash at bank and in hand | 102 | 70 | 15,345 | 6,148 | 21,665 |
| | 31,507 | 24,788 | 83,341 | 40,931 | 180,567 |
| **Financial liabilities** | | | | | |
| Trade payables | 220,829 | 2,667 | 55,316 | - | 278,812 |
| Bank loans and overdrafts | 172,111 | - | - | - | 172,111 |
| | 392,940 | 2,667 | 55,316 | - | 450,923 |



Notes to the accounts
Year ended 31 December 2007 (continued)

Financial instruments held by the group and their fair values as at 31 December 2006 were as follows:

| | GBP | EUR | USD | YEN | Total |
|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ |
| Financial assets | | | | | |
| Trade receivables | 37,589 | 99,274 | 254,422 | 100,894 | 492,179 |
| Cash at bank and in hand | 61,199 | 31 | 31,980 | 63,950 | 157,160 |
| | 98,788 | 99,305 | 286,402 | 164,844 | 649,339 |
| Financial liabilities | | | | | |
| Trade payables | 443,337 | 6,707 | 66,246 | - | 516,290 |
| Bank loans and overdrafts | 525,387 | - | - | - | 525,387 |
| | 968,724 | 6,707 | 66,246 | - | 1,041,677 |

There is no material difference between book values and fair values calculated by discounting cash flows at prevailing interest rates.

**Sensitivity analysis**

Exchange rate applied as at 31 December 2007

| | EUR | USD | YEN |
|---|---|---|---|
| 1 Pound Sterling | 1.36 | 1.997 | 224.31 |

Exchange rate applied as at 31 December 2006

| | EUR | USD | YEN |
|---|---|---|---|
| 1 Pound Sterling | 1.49 | 1.959 | 233.30 |

**Market movements over the last year**

| | EUR | USD | YEN |
|---|---|---|---|
| Market high | 1.53 | 2.116 | 251.10 |
| Market low | 1.35 | 1.918 | 219.29 |
| Market average | 1.46 | 2.001 | 235.74 |

| 1% increase in GBP | EUR | USD | YEN |
|---|---|---|---|
| Effect on net loss | - | (54) | (226) |
| Effect on equity | - | 465 | (307) |

| 1% decrease in GBP | EUR | USD | YEN |
|---|---|---|---|
| Effect on net profit | - | 53 | 222 |
| Effect on equity | - | (457) | 300 |

## 21. Deferred tax

At the balance sheet date, the group has unused tax losses of £44 million (2006: £40.85 million) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. All losses may be carried forward indefinitely.

At the balance sheet date, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was £nil (2006: £nil). No liability has been recognised in respect of these differences because the group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.



Notes to the accounts
Year ended 31 December 2007 (continued)

## 22. Share capital

A shareholders meeting was held on 1st February 2007 that passed resolutions allowing the split of each ordinary 25p share into one ordinary share of 1p and one deferred share of 24p.

This was immediately following by the issue of 18,756,250 1p ordinary shares for 16p each, raising £3,001,000 gross of expenses (£2,851,000 net).

An extraordinary shareholders' meeting held on 10th October passed resolutions approving the issue of 16,625,000 1p ordinary shares at 4p per share, raising a total of £665,000 (before expenses).

| | Ordinary 25p shares number | Ordinary 1p shares number | 24p deferred ordinary shares number | Total number |
|---|---|---|---|---|
| **Authorised** | | | | |
| As at 31 December 2006 | 60,000,000 | - | - | 60,000,000 |
| Split of shares | (60,000,000) | 60,000,000 | 60,000,000 | 60,000,000 |
| Increase in authorised | - | 500,000,000 | - | 500,000,000 |
| **As at 31 December 2007** | **-** | **560,000,000** | **60,000,000** | **620,000,000** |

| | Ordinary 25p shares £ | Ordinary 1p shares £ | 24p deferred ordinary shares £ | Total £ |
|---|---|---|---|---|
| As at 31 December 2006 | 15,000,000 | - | - | 15,000,000 |
| Split of shares | (15,000,000) | 600,000 | 14,400,000 | |
| Increase in authorised | - | 5,000,000 | - | 5,000,000 |
| **As at 31 December 2007** | **-** | **5,600,000** | **14,400,000** | **20,000,000** |

| | Ordinary 25p shares number | Ordinary 1p shares number | 24p deferred ordinary shares number | Total number |
|---|---|---|---|---|
| **Issued and fully paid** | | | | |
| As at 31 December 2006 | 51,551,184 | - | - | 51,551,184 |
| Split of shares | (51,551,184) | 51,551,184 | 51,551,184 | 51,551,184 |
| Share issue | - | 32,756,250 | - | 32,756,250 |
| **As at 31 December 2007** | **-** | **84,307,434** | **51,551,184** | **135,858,618** |

| | Ordinary 25p shares £ | Ordinary 1p shares £ | 24p deferred ordinary shares £ | Total £ |
|---|---|---|---|---|
| As at 31 December 2006 | 12,887,796 | - | - | 12,887,796 |
| Split of shares | (12,887,796) | 515,512 | 12,372,284 | - |
| Share issue | - | 327,563 | - | 327,563 |
| **As at 31 December 2007** | **-** | **843,075** | **12,372,284** | **13,215,359** |

The deferred shares have:

a. no right to receive notice of, or to attend or vote at, any general meeting of the company; and

b. no right to participate in the profits of the company whether by way of dividend, distribution, return of capital (whether or not upon a winding-up) or otherwise, save that upon a return of capital upon a winding-up, the holders of deferred shares shall be entitled to the return of the nominal value of each deferred share held after £10,000,000 has been returned on each ordinary share;

Following the authority given by the passing of the resolution at the general meeting held on February 1st 2007, the company has irrevocable authority to execute a transfer of the deferred ordinary shares to a custodian and to retain the certificate(s) for those shares.

The rights attached to the deferred shares shall not be deemed to be varied or abrogated by the creation or issue of any new shares ranking in priority to or pari passu with or subsequent to the deferred shares.

## 23. Share based payments

### Equity-settled share option plans

### Options and warrants

The table below summarises the exercise terms of the various options and warrants over ordinary shares of 1p each which had been granted, and were still outstanding, as at 31 December 2007.

The principal assumptions used to calculate the value of options issued for compliance with FRS20 "Share Based Payments" are included below where applicable.

| Date of issue | Ordinary shares of 1p each number | Exercise price pence (unless otherwise stated) | Share price volatility | Risk free rate of return | Exercise details Earliest date | Latest date |
|---|---|---|---|---|---|---|
| **2002 EMI scheme** | | | | | | |
| 9 Sep 2002 | 18,820 | 75p | - | - | 9 Sep 2003[A] | 8 Sep 2012 |
| 9 Sep 2002 | 372 | 75p | - | - | 9 Sep 2003[D] | 8 Sep 2012 |
| 1 Jun 2004 | 174,164 | 25p | 57.0% | 5.20% | 1 June 2005[E] | 31 May 2014 |
| 1 Jun 2004 | 240,224 | 25p | 57.0% | 5.20% | 1 June 2005[B] | 31 May 2014 |
| 12 Oct 2004 | 19,980 | 25p | 57.0% | 4.69% | 12 Oct 2005E | 11 Oct 2014 |
| 25 Oct 2004 | 3,000 | 25p | 57.0% | 4.61% | 25 Oct 2005 [E] | 24 Oct 2014 |
| 24 Feb 2005 | 42,676 | 25p | 57.0% | 4.79% | 24 Feb 2006 [C] | 23 Oct 2015 |
| 28 Feb 2005 | 127,764 | 25p | 57.0% | 4.75% | 28 Feb 2006 [A] | 27 Feb 2015 |
| 16 Jul 2005 | 20,000 | 25p | 57.0% | 4.18% | 16 Jul 2006 [A] | 15 Jul 2015 |
| 29 Jun 2006 | 8,000 | 36.5p | 44.6% | 4.86% | 29 June 2007[F] | 28 Jun 2016 |
| 5 Jun 07 | 1,508,000 | 9.25p | 84.0% | 5.77% | 5 June 2008[F] | 4 Jun 2017 |
| 20 Jul 07 | 1,249,999 | 8.0p | 86.0% | 5.66% | 20 Jul 2008 [F] | 19 Jul 2017 |
| **2000 US Stock option plan** | | | | | | |
| 11 July 2002 | 4,000 | 75p | - | - | 11 July 2002[A] | 10 July 2012 |
| 9 Sep 2002 | 6,664 | 75p | - | - | 9 Sep 2002[A] | 8 Sep 2012 |
| 9 Sep 2002 | 3,332 | 75p | - | - | 9 Sep 2002[A] | 8 Sep 2012 |
| 1 June 2004 | 52,936 | 25p | 57.0% | 5.20% | 1 Jun 2004[E] | 31 May 2014 |
| 1 June 2004 | 241,600 | 25p | 57.0% | 5.20% | 1 Jun 2004[B] | 31 May 2014 |
| 24 Feb 2005 | 43,992 | 25p | 57.0% | 4.79% | 24 Feb 2005[C] | 23 Oct 2015 |
| 28 Feb 2005 | 78,472 | 25p | 57.0% | 4.75% | 28 Feb 2005[A] | 27 Feb 2015 |
| 5 Jun 2007 | 788,000 | 9.25p | 84.0% | 5.77% | 5 Jun 2008[F] | 4 Jun 2017 |
| **2000 Unapproved employee scheme** | | | | | | |
| 3 Aug 1999 | 19,412 | 75p | - | - | 3 Aug 1999 [D] | 2 Aug 2009 |
| 11 July 2002 | 2,696 | 75p | - | - | 11 July 2003[D] | 10 July 2012 |
| 9 Sep 2002 | 372 | 75p | - | - | 9 Sep 2003[D] | 8 Sep 2012 |
| 24 Feb 2005 | 4,096 | 25p | 57.0% | 4.79% | 24 Feb 2006 [C] | 23 Oct 2015 |
| 28 Feb 2005 | 5,096 | 25p | 57.0% | 4.75% | 28 Feb 2006[F] | 27 Feb 2015 |
| 5 Jun 2007 | 58,000 | 9.25p | 84.0% | 5.77% | 5 Jun 2008[F] | 4 Jun 2017 |
| 20 July 2007 | 1,750,001 | 8p | 86.0% | 5.66% | 20 Jul 2008[F] | 19 Jul 2017 |
| **2000 Unapproved non employee scheme** | | | | | | |
| 19 Jan 2000 | 800 | £41.25 | - | - | 19 Jan 2000 [D] | 18 Jan 2010 |
| 19 Jan 2000 | 800 | $125.00 | - | - | 19 Jan 2000 [D] | 18 Jan 2010 |
| 19 Jan 2000 | 800 | $187.50 | - | - | 19 Jan 2000 [D] | 18 Jan 2010 |
| 3 Feb 2000 | 1,036 | £41.25 | - | - | 3 Feb 2000 [D] | 2 Feb 2010 |
| 1 Apr 2000 | 2,160 | £165.00 | - | - | 1 Apr 2000 [D] | 31 Mar 2010 |
| 17 Oct 2001 | 800 | £20.25 | - | - | 17 Oct 2002[A] | 16 Oct 2011 |
| 27 Nov 2002 | 400 | 75p | 57.0% | 4.63% | 11 Oct 2003[A] | 26 Nov 2012 |
| 1 June 2004 | 137,616 | 25p | 57.0% | 5.20% | 1 Jun 2005[B] | 31 May 2014 |
| 24 Feb 2005 | 3,328 | 25p | 57.0% | 4.79% | 24 Feb 2006[C] | 23 Feb 2015 |
| 28 Feb 2005 | 4,856 | 25p | 57.0% | 4.75% | 28 Feb 2006[A] | 27 Feb 2015 |
| 19 Apr 2005 | 600 | 25p | 57.0% | 4.56% | 19 Apr 2006[A] | 18 Apr 2014 |
| **Warrants** | | | | | | |
| 21 December 2004 | 960,000 | 31.25p | - | - | 21 December 2004 | 21 December 2014 |

*Notes:*

A *Vesting over a three year period, as to one third after one year from a variable vesting commencement date and as to a further one twelfth every subsequent three months, but for US options, all are exercisable upon grant but are subject to a repurchase right on the employee leaving, which lapses on the same terms as the vesting period.*



Notes to the accounts
Year ended 31 December 2007 (continued)

B *As in A but with one third not exercisable until an initial public offering or a sale of a majority of the issued share capital*

C *Vesting 100% on first anniversary*

D *Vested 100% on grant*

E *Vesting over a three year period, as to one third after one year from a variable vesting commencement date and as to a further one twelfth every subsequent three months except that all options become exercisable in full immediately before and conditional upon, a Sale or Listing as defined in the Articles of Association in force at the date of grant.*

F *Vesting over a three year period, as to one third after one year from a variable vesting commencement date and as to a further one twelfth every subsequent three months.*

## 24. Reconciliation of movement in capital and reserves

| | Share capital £ | Share premium £ | Translation reserve £ | Share option reserve £ | Merger reserve £ | Retained losses £ | Total £ |
|---|---|---|---|---|---|---|---|
| At 1 January 2006 | 12,885,130 | 1,349,339 | - | 241,084 | 23,729,845 | (34,215,026) | 3,990,372 |
| Total recognised income and expense | - | - | - | - | - | (4,034,716) | (4,034,716) |
| Exchange differences | - | - | (6,292) | - | - | - | (6,292) |
| New shares issued | 2,666 | - | - | - | - | - | 2,666 |
| Share options expensed | - | - | - | 13,554 | - | - | 13,554 |
| At 31 December 2006 | 12,887,796 | 1,349,339 | (6,292) | 254,638 | 23,729,845 | (38,249,742) | (34,416) |
| Total recognised income and expense | - | - | - | - | - | (3,729,768) | (3,729,768) |
| Exchange differences | - | - | (2,412) | - | - | - | (2,412) |
| New shares issued | 327,563 | 3,150,971 | - | - | - | - | 3,478,534 |
| Share options expensed | - | - | - | 45,191 | - | - | 45,191 |
| At 31 December 2007 | 13,215,359 | 4,500,310 | (8,704) | 299,829 | 23,729,845 | (41,979,510) | (242,871) |

The merger reserve was created on the acquisition of Celoxica Limited by Celoxica Holdings plc in 2001, representing the balance on the share premium account of Celoxica Limited at that time.

## 25. Contingent liabilities

At 31 December 2007 and 31 December 2006, the group and company had no contingent liabilities.

## 26. Operating lease arrangements

The group as lessee

| | 2007 £ | 2006 £ |
|---|---|---|
| Minimum lease payments under operating leases recognised in the income statement for the year | 212,744 | 144,701 |

At the balance sheet date, the group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

| | 2007 £ | 2006 £ |
|---|---|---|
| Within one year | 81,355 | 35,208 |
| In the second to fifth years inclusive | 125,177 | 25,718 |
| | 206,532 | 60,926 |

Operating lease payments represent rentals payable by the group for its properties. Leases are negotiated for an average term of 3 years and rentals are fixed throughout each contract.

## 27. Events after the balance sheet date

The group completed the sale of its ESL business on 4 January 2008 to Agility Design Solutions, Inc (previously Catalytic Inc) for US $3m. All assets and liabilities disclosed as held for resale within these statements have been sold as part of the sale. Full details of the sale can be found in note 11.

The group also completed a Subscription round on 23rd May 2008. The round was at 1p per share and raised a total of £2,000,000 before expenses.

## 28. Related party transactions

Transactions between the company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

**Non-executive**

David Cheesman, a non-executive director, was paid £25,000 in fees. He was also a partner in Advent Venture Partners, a shareholder, until 31 December 2007.

All transactions took place under normal trading conditions and, at 31 December 2007, the company owed £nil (2006: £nil).

**Remuneration of key management personnel**

Information about the remuneration of individual directors is provided in note 5 and in the audited part of the directors' remuneration report on pages 15 and 16.

## 29. Capital management

The group consider their capital to be defined as all equity and reserves accounts, as disclosed in note 24.

To date, the group has relied on share issues and bank loans to finance the business but its overall aim remains to produce sufficient cash resources for this to be no longer necessary.

The group isn't subject to any external capital requirements.

## 30. Explanation of transition to IFRSs

This is the first year that the group will present its financial statements under IFRS. The last interim financial statements under UK GAAP were for the period ended 30 June 2006 and the date of transition to IFRS was 1 January 2006.

Transition to IFRS has not resulted in any adjustments to the previously reported results and balance sheets other than in respect.



# Report of the independent auditor to the members of Celoxica Holdings plc

We have audited the parent company financial statements of Celoxica Holdings plc for the year ended 31 December 2007 which comprise the principal accounting policies, the balance sheet, and notes 1 to 7. These parent company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the group financial statements of Celoxica Holdings plc for the year ended 31 December 2007.

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 parent company 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 parent company 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 parent company financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the directors' report is consistent with the parent company 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 parent company financial statements. This other information comprises only the chairman's review, the chief executive's review, financial review, directors' report and the directors' remuneration report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company 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 parent company financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the parent company 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 parent company 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 parent company financial statements.

## Opinion

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2007 and of its loss for the year then ended;
- the parent company 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.

Grant Thornton UK LLP
Registered Auditor
Chartered Accountants Oxford

23 May 2008

| | Note | 31 December 2007 £ | 31 December 2006 £ |
|---|---|---|---|
| **Fixed assets** | | | |
| Investments | 4 | **120,230** | 120,230 |
| **Current assets** | | | |
| Debtors | 5 | **7,829,313** | 12,589,780 |
| Cash at bank and in hand | | **2** | 61,001 |
| | | **7,829,315** | 12,650,781 |
| **Net assets** | | **7,949,545** | 12,771,011 |
| **Capital and reserves** | | | |
| Called up share capital | 7 | **13,215,359** | 12,887,796 |
| Share premium account | 7 | **4,500,310** | 1,349,339 |
| Profit and loss account | 7 | **(9,766,124)** | (1,466,124) |
| Shareholders' funds | 7 | **7,949,545** | 12,771,011 |

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

The financial statements were approved by the board of directors and authorised for issue on 23 May 2008. They were signed on its behalf by:

Lee Staines
Chief Executive Officer

Michelle Young
Finance Director

23 May 2008





## 1. Accounting policies

These financial statements have been prepared on the going concern basis, under the historical cost convention and in accordance with the Companies Act 1985 and applicable Accounting Standards.

The principal accounting policies of the company are set out below. The policies have remained unchanged from the previous year.

**Going concern**

Celoxica Holdings plc secured a further £1.5m of funding via the sale of its ESL business in January 2008 (see note 27 to the consolidated financial statements) which, the Board believes, provides adequate working capital for the group to continue trading for the foreseeable future. Therefore the directors are satisfied that it remains appropriate to prepare the financial statements on the going concern basis.

The financial statements do not include any adjustments that might be necessary were the company unable to continue as a going concern.

**Investments**

Investments held as fixed assets are stated at cost less provision for any impairment in value. Where merger relief has been taken advantage of, the cost represents the nominal value of the shares issued in exchange for the interest in the subsidiary.

**Related party transactions**

FRS 8 "Related Party Disclosures" requires the disclosure of the details of material transactions between the reporting entity and any related parties. However transactions between the company and its subsidiaries have not been disclosed in accordance with the exemption in FRS 8 paragraph 3(a).

**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.

**Share-based payments**

The company issues share options to its employees. In accordance with FRS20, the payments are measured at fair value at date of grant, using the Black Scholes pricing model. The fair value is then expensed on a straight line basis over the vesting period, based on the company's estimate of the number of shares that will eventually vest, updated at each balance sheet date.

The principal assumptions used to calculate the value of options issued are included in note 23.

## 2. Loss for the financial year

As permitted by section 230 of the Companies Act 1985, the profit and loss account of the parent company is not presented as part of these accounts.

The loss for the financial year of the parent company is £8,300,000 (2006: £4,000,000).

There was no separate audit fee for the audit of the company.

## 3. Dividends

The directors do not propose payment of a dividend (2006: £nil).

### 4. Fixed asset investments

| Company | Shares in subsidiary undertakings£ |
|---|---|
| **Cost and net book amount** | |
| At 1 January 2007 and 31 December 2007 | 120,230 |

**Interests in subsidiaries**

| Company name | Country of incorporation | Percentage equity held | Class of share | Nature of business |
|---|---|---|---|---|
| Celoxica Limited (1) | United Kingdom | 100% | Ordinary shares of 1p<br>Convertible deferred shares of 1p | (2) |
| Dash Technologies Ltd | United Kingdom | 100% | Ordinary shares of £1 | Dormant |
| Agility Computing Ltd | United Kingdom | 100% | Ordinary shares of £1 | Dormant |
| Celoxica, Inc. | USA | 100% | Common stock of US$0.01 | Re-seller |
| Nihon Celoxica KK | Japan | 100% | Ordinary stock of 50,000 yen | Re-seller |
| Embedded Solutions Ltd | United Kingdom | 100% | Ordinary shares of £1 | Dormant |

(1) Celoxica Limited is an investment held by Celoxica Holdings plc. All other investments are held by Celoxica Limited.

(2) Celoxica Limited's nature of business is the provision of hardware design automation tools, development boards, IP cores and design services.

### 5. Debtors

| | 2007<br>£ | 2006<br>£ |
|---|---|---|
| Amounts due from subsidiary undertakings | 7,829,313 | 12,589,780 |

### 6. Share capital

All disclosable details are as per note 22 in the consolidated accounts.
**Options and warrants**
The information required in accordance with FRS20 is identical to that required for IFRS2 and supplied in note 23 to the consolidated accounts.

### 7. Reconciliation of movements in equity shareholders' funds

| | Share Capital<br>£ | Share premium | Profit and loss account<br>£ | Total<br>£ |
|---|---|---|---|---|
| At 1 January 2006 | 12,885,130 | 1,349,339 | 2,533,876 | 16,768,345 |
| Loss for the year | - | - | (4,000,000) | (4,000,000) |
| Shares Issued | 2,666 | - | - | 2,666 |
| At 31 December 2006 | 12,887,796 | 1,349,339 | (1,466,124) | 12,771,011 |
| Loss for the year | - | - | (8,300,000) | (8,300,000) |
| Shares Issued | 327,563 | 3,150,971 | - | 3,478,534 |
| At 31 December 2007 | 13,215,359 | 4,500,310 | (9,766,124) | 7,949,545 |





**COMPANY SECRETARY**

Michelle Young (appointed 28 February 2007)

**DIRECTORS**

Lee Staines (appointed 16 July 2007)
Jean-Marc Bouhelier (appointed 23 October 2007)
David Cheesman
Jack Fryer
Michelle Young (appointed 28 February 2007)
Ian Yeoman (resigned 23 October 2007)

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