OMG plc

Year ended 30 September 2005

Company number;
3998880

OMG™

REPORT & ACCOUNTS 2005

OMG plc is the **global leader** in the three-dimensional capture and analysis of movement, providing tools and services for life sciences, entertainment and engineering applications. Based in Oxford UK, California USA and Colorado USA, OMG has customers in over 35 countries and is listed on AIM, a market operated by the London Stock Exchange. The Group trades through a number of operating subsidiaries in the name of Vicon Peak, 2d3 and House of Moves in the UK and USA, and through a network of distributors in other major countries.

www.omg3d.com

www.viconpeak.com

www.2d3.com

www.moves.com

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Highlights

- Turnover increased 30% to £14.2m (2004: £10.9m)
- Operating profit before goodwill amortisation and exceptional items increased by 193% to £923,000 (2004: £315,000)
- Earnings per share increased by 65% to 1.27p (2004: 0.77p)
- Cash balances increased during the year by £0.3m to £4.4m
- Strong recovery in the second half in the important North American market with annual revenue growth of 37% excluding the acquisition of Peak Performance Technologies Inc.'s business ("Peak")
- *Strong performance in the Far East led by the Japanese market with 83% revenue growth*
- Positive contribution from Peak, acquired in February, with revenues of £1.3m and operating profit before goodwill amortisation and exceptional items of £185,000
- Major order for premium MX camera system in excess of $3m
- New development agreement signed by subsidiary 2d3 with QinetiQ to provide key technology for recovering 3D information from airborne video imagery
- Investment commences in radical diversification project

"For the Group to be reporting these very satisfactory results after such a slow start to the year is a tribute to the inspiration and hard work of the entire OMG team, and provides a strong foundation on which to build the coming year of growth and diversification."

Nick Bolton
Chief Executive

OMG is a business with an exciting present and enticing future

The year ended 30 September 2005 has been one of change. Change in terms of revenue performance between the two halves of the year – £9.4m second half versus £4.8m first half. Change in terms of product – a dozen new product releases and upgrades across the Group. Change in terms of management – Julian Morris passing on the role of Chief Executive to Nick Bolton.

We believe OMG is a business with an exciting present and enticing future. The present is a Group of companies in strong or dominant global market positions, with distributed geographical and sector risk. The future is one of realisable opportunities in both core and diversified business based on a deep pool of technology.

Financial Summary

Group turnover, including acquisitions, rose 30% to £14.2m (2004: £10.9m). Turnover excluding the acquisition of Peak Performance Technologies, Inc.'s business ("Peak") grew 19% to £12.9m.

Gross profits improved from 56% of turnover to 60% due to higher volume and lower manufacturing costs of the new MX motion capture system. However, the improvement in gross margin was partially offset by the sale of earlier product lines at lower margins.

Operating profit before amortisation of goodwill and exceptional items increased by 193% to £923,000 (2004: £315,000) and after goodwill *amortisation and exceptional items, increased by 107% to £593,000* (2004: £286,000).

The exceptional items amounting to £216,000 comprise one-off costs relating to the cost of rationalising distribution channels following the acquisition of Peak and the cost of *changes within senior management.*

Profit before tax improved by 51% to £690,000 (2004: £457,000). Earnings per share increased by 65% to 1.27p (2004: 0.77p).

The Group's strong cash position further improved during the year to £4.4m (2004: £4.1m).

Business Review

Second Half Turnaround

Group full-year profit before tax of £690,000 contrasts dramatically with the reported first half loss of £549,000. Stand-alone second half profit before tax was a healthy 13% of equivalent revenues. The turnaround was achieved by a major improvement in revenues and tight control and selective reduction of costs.

Sales management has been completely reorganised with more direct and regular reporting of UK and US sales teams. Product lines, services, procedures and infrastructure are being consolidated across all operations within the Group. *Manufacturing costs are being further reduced by higher* volume production of standard products.

Global Revenue Growth

Revenue growth for the year was strong across all markets, with the exception of UK which, as previously reported, enjoyed exceptional revenues in the previous year.

For the first time in the Group's history, North America delivered over half (58%) of global revenues. Including eight months of sales from Peak, the Group's second US acquisition, revenues from North America increased by 62%. Excluding Peak, revenues from North America rose 37%. In the second half year, several large individual orders – one for over $3m for a very large installation of the new MX40 motion capture system – were won in the highly competitive US entertainment market.

Far Eastern and Continental European markets also grew well with revenues up by 83% and 16% respectively. In particular, Japanese revenues were up 109%, with strong growth across all market sectors.

Acquisition of Peak & other Corporate Investment

The Group's core business was significantly strengthened by the acquisition of the business of Peak based in Denver, Colorado in February 2005. Peak is a specialist in motion capture for sports science and human and animal motion research using video image recording.

Within 45 days of completion, the two existing companies' product ranges were combined and re-branded under the name Vicon Peak. Within 60 days, the Peak Motus motion capture software was re-engineered to use Vicon's MX cameras. Within 90 days, the first Vicon orders were taken through a former Peak sales channel and global distribution channels were rationalised, allowing access to all markets.

Peak's product range for its well-established sports and animal science markets in North America is now considerably extended. In Europe, the response of the academic sports science market to the merger of two well-respected companies and the availability of a combined optical and video motion capture system has been particularly strong. As a result, since joining OMG, Peak's sales have increased while its costs are reduced, giving the business new focus as a profitable operation.

During the year, the Group has taken a 12% stake in Munich-based start-up Contemplas GmbH. Contemplas produces software for simple 2D and 3D motion capture and analysis based on video (DV) recording. Their aim is to bring the technology into consumer-driven markets such as running-shoe selection and fitness assessment.

Marketing Led, Engineering Driven

Global sales channels for the Group's core products, built around motion capture and camera tracking, are well established. Applications cover an extraordinary range from *continued*

Although at a very early stage, the new opportunities for diversification look exciting

the production of feature films and computer games to military training; from medical research and treatment to engineering ergonomics; and from sports performance to the study of the neural control of the gait of millipedes.

During the year the Group has increased its marketing resource, bringing systematic analysis and planning to the process of prioritising and specifying the Group's product development.

Industry Awards

In February 2005, Vicon Motion Systems was awarded a Scientific & Technical Academy Award, a "Technical Oscar", by the Academy of Motion Picture Arts & Sciences for contributions made through optical motion capture to the film industry.

The Company's other leading product for the entertainment industry, 2d3's boujou automatic camera tracker, was used in 4 out the 7 films nominated for the Oscar for Best Visual Effects, including the winning film Lord of the Rings.

New Product Introductions

The Vicon Peak MX product range has been enhanced by the introduction of MX Bridge and Reference Video. MX Bridge allows many older models of Vicon camera to be used alongside the new MX cameras. Customers wishing to upgrade their systems can now do so gradually, without having to discard existing cameras.

As well as the integration of MX cameras into the Peak Motus system, Vicon software has also been enhanced to allow simultaneous video capture from a range of DV and digital machine vision cameras with a range of resolutions and frame rates.

Vicon Peak motion capture systems are frequently used in applications where accurate 3-dimensional tracking of targets, ranging from surgical and medical devices to performing actors and animals, is required in "real time". During the year, the development of a combination of new tracking algorithms and software engineering for parallel processing on multi-processor computers has dramatically increased real-time performance. The possibility of a director viewing a live multi-character animation as it is performed removes one of the remaining separators between motion capture and traditional film making.

2d3's original automatic camera tracker, boujou, used mainly in the movie industry has been considerably enhanced and upgraded with the release during the year of versions 3.0 and 3.1. A simpler version of boujou, aimed at video and educational markets, is now sold under the name bullet.

Radical Diversifications

During the year, the Group tasked a team, comprising the past and present Chief Executives and a full-time Business Development manager, to evaluate opportunities for radical diversification of the Group's business. The main criteria were:

- Market potential well above the combined markets of the Group's current products
- Expectation of taking and holding market leadership and dominance
- Gain leverage from existing in-house or accessible new technologies

From several dozen potential business areas, a short list of opportunities has emerged, winning the unanimous support of the Board.

One opportunity in a defence application of 2d3's "structure-from-motion" IP has moved forward with the recently-announced development agreement with QinetiQ. Another, based on IP from both Vicon and 2d3, concerns management and maintenance of key national infrastructure. For reasons of commercial sensitivity it is not possible to give more details of these developments at present.

Dividend Policy
As in previous years, the Directors are not declaring a dividend, although the dividend policy will be kept under review.

Comment & Outlook
Despite the marked contrast between the first and second halves, the Group's overall financial performance in 2004/5 was very satisfactory, with excellent revenue growth, market diversification, good control of costs and cash, and increasingly healthy profits.

The Group's plan is to continue this pattern of profitable growth in two ways. Firstly, through business execution in our core markets, where market activity appears well able to support this plan. Secondly, through a structured business diversification programme. Although at a very early stage, the new opportunities for diversification look exciting.

Currently the Company has adequate internal resources to progress these diversifications and has already committed an initial investment of £0.2m so far this year. Details of progress with diversifications will be made available in due course.

Trading in the current year is making a strong start and we will review progress at the Annual General Meeting.

Anthony Symonds-Gooding
Chairman

Nick Bolton
Chief Executive

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

Principal activity
The principal activity of the Group is the development, production and sale of systems and related services for 3D capture and analysis of movement for life sciences, entertainment and engineering applications.

Business review
The consolidated profit and loss account for the year is set out on page 13.

A review of developments affecting the Group during the year and its prospects for the future appears in the Chairman and Chief Executive Statement.

Full details of changes in share capital during the year are shown in note 16 to the financial statements. As in previous years, the directors are not declaring a dividend, although the dividend policy will be kept under review.

Research and development
During the year, the Group expensed £1,607,000 (2004: £1,399,000) in research and development costs. Research and development activities are discussed in the Chairman and Chief Executive Statement.

Directors
The interests of the directors in the shares of the Company and their interest in options over the shares of the Company at 30 September 2005 are disclosed in the report on remuneration.

The directors who served during the year were as follows:

Anthony Simonds-Gooding
Julian Morris
Nick Bolton (appointed 27 May 2005)
Peter Wharton
Catherine Robertson
Christopher Steele (resigned 25 May 2005)
Brian Nilles

At the Annual General Meeting of the Company, Anthony Simonds-Gooding and Julian Morris, representing one third of the Board, will retire and, being eligible, offer themselves for re-election. Nick Bolton, appointed by the Board during the year, will retire in accordance with the Company's Articles of Association and, being eligible, offers himself for re-election.

Supplier payment policy
The policy of the Group and Company is to settle terms of payment with suppliers when agreeing the terms of each transaction to ensure that suppliers are made aware of the terms of payment and abide by the terms of payment. The Group's average creditor payment period at 30 September 2005 was 36 days (2004: 73 days).

Employees
The Group ensures that all employees are kept informed, as far as is practical, with regard to the activities of the Group. This is achieved through the use of staff briefings, and electronic communications. It is the Group's aim that recruitment and development of staff should be determined solely on ability and other relevant requirements of the job. Disabled persons and those who become disabled are given the same consideration as others and, depending on their skills, will enjoy the same prospects as other staff.

The Group's policies on Health & Safety are continually under review, ensuring that current practices comply with the laws applicable in the countries in which it operates.

Substantial shareholdings

As at 30 November 2005, the Company had been notified, in accordance with Sections 198 to 209 of the Companies Act 1985, of the following interests over 3% in the ordinary share capital of the Company.

	Number	Percentage
Julian Morris	14,009,320	23.86
Herald Investment Trust plc	4,676,750	7.97
Peter Walton	3,503,129	5.97
Valerie Meddings	2,200,124	3.75
Thomas Shannon	2,089,129	3.56
Graham Klyne	2,031,529	3.46

Charitable donations

During the year the Group made charitable donations of £2,000 to a national tsunami appeal and £2,000 to a local children's charity. In the previous year £17,125 was donated for cancer research and educational purposes.

Auditors

PricewaterhouseCoopers LLP offer themselves for reappointment as auditors in accordance with Section 385 of the Companies Act 1985.

BY ORDER OF THE BOARD

Catherine Robertson
Secretary

16 December 2005

Directors statement on corporate governance

The Board of Directors is accountable to shareholders for the good corporate governance of the Group. Under the AIM rules for companies, the Group is not required to comply with the Combined Code of Corporate Governance published in July 2003. However, the Board is aware of the best practice defined by the Code and will seek to adopt procedures to institute good governance insofar as is practical and appropriate for a group of its size while retaining its primary focus on the entrepreneurial success of the business. The Group does not comply with all the provisions of the code and this statement sets out how certain principles of the code are applied to OMG plc.

Application of principles

Directors

The composition of the Board is set out on page 6. The Board comprises a non-executive Chairman and five executive Directors. Consideration continues to be given to the appointment of a second independent non-executive director, which would assist the Group in meeting the requirements of the code.

The Board meets bi-monthly and is provided with relevant information on financial, business and corporate matters prior to meetings. The Board has a formal schedule of matters reserved to it and is responsible for overall Group strategy, acquisition and divestment policy, approval of major capital expenditure projects and consideration of significant operational and financial matters. The Board has established both an Audit and Remuneration Committee. Given the small size of the Board, it is not considered necessary to constitute a separate Nominations Committee. All members of the Board are fully consulted on the potential appointment of a new director. All directors are subject to re-election every three years.

Accountability and audit

The Audit Committee comprises the independent non-executive director and the finance director. The Committee has specific terms of reference which deal with its authority and duties. The Committee overviews the adequacy of the Group's internal controls, accounting policies and financial reporting and provides a forum through which the Group's external auditors report to the non-executive director.

Going concern

After making relevant enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Internal control

The Board has overall responsibility for ensuring that the Group maintains systems of internal control to provide it with reasonable assurance regarding the reliability of financial information used within the business and that the assets of the business are safeguarded. It is acknowledged that such systems can only provide reasonable and not absolute assurance against material misstatement or loss. Key areas of internal control are listed below:

- The preparation of monthly financial information which provides a comparison to budget and forecast and identifies and explains significant variances and also highlights emerging trends in the business.

- The preparation of an annual budget showing projected revenues, costs, funding requirements and operational targets. The Board is responsible for approving the budget. Forecasts are produced to update the budget for any significant change in Group performance.

- Significant capital expenditure projects, acquisitions, and contracts require Board approval.

Statement of Directors' responsibilities

United Kingdom Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss of the Group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- 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 which disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The directors are also responsible for ensuring that the Directors' Report and the financial information included in the annual report is prepared in accordance with company law in the United Kingdom.

Financial information is published on the Company's website. The maintenance and integrity of the OMG plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters, and accordingly the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

It should be noted that legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors Remuneration Report Regulations are not a requirement for AIM listed Companies. Set out below are *disclosures which are consistent with certain, but not all, of the requirements under these regulations.*

Remuneration committee
The remuneration committee is made up of the non-executive director and the Deputy Chairman. The terms of reference of the committee are to review and make recommendations to the Board regarding the terms and conditions of employment of the executive directors.

Service agreements
No director has a service agreement with a notice period that exceeds 12 months.

Policy on directors' remuneration
The remuneration is set by comparison to market rates at levels to attract, retain and motivate the best staff, recognising that they are key to the ongoing success of the business.

Directors' remuneration
The remuneration of directors who served during the year was as follows:

Details of emoluments are:

	Salary and bonuses £'000	*Benefits in kind £'000*	*Compensation for loss of office £'000*	***2005* Total £'000**	**2005 *Pension* contributions £'000**	*2004* Total £'000	*2004 Pension* contributions £'000
A Simonds-Gooding	22	–	–	**22**	–	19	–
J Morris	102	1	–	**103**	**13**	84	12
P Wharton	98	–	–	**98**	**6**	88	–
N Bolton	47	–	–	**47**	–	–	–
C Robertson	44	4	–	**48**	**6**	42	5
C Steele	60	1	64	**125**	**7**	76	10
B Nilles	137	–	–	**137**	**8**	6	–
	510	6	64	**580**	**40**	315	27

The remuneration of N. Bolton is from his appointment on 27 May 2005 and that of B. Nilles in 2004 from his appointment on 14 September 2004.

Directors' share options
Interests in share options for directors who served during the year were as follows:

	Exercise price	At 1 October 2004 Number	Granted during the year Number	Exercised during the year Number	Lapsed during the year Number	At 30 September 2005 Number	Exercise period
A Simonds-Gooding	6.5p	65,000	–	–	–	65,000	June 2004 to December 2012
P Wharton	12.75p	800,000	–	–	–	800,000	December 2004 to September 2013
C L Robertson	0.4425p	751,600	–	751,600	–	–	At any time up to February 2005
C L Robertson	2.5975p	600,000	–	–	–	600,000	June 2002 to January 2011
N Bolton	12.53p	–	1,200,000	–	–	1,200,000	June 2006 to June 2015
		2,216,600	1,200,000	751,600	–	2,665,000	

The vesting of options takes place proportionally over time which is typically a period of three years. The vesting of options is not subject to any performance criteria.

The table below shows the gains made by individual directors from the exercise of share options during the year. The gains are calculated as at the exercise date, although the shares may have been retained.

	2005 Total £'000	2004 Total £'000
P Meddings	–	339
C L Robertson	**181**	49
C Steele	–	168
	181	556

Directors' interests

The directors who held office at the end of the financial year had the following beneficial interests in the ordinary share capital of OMG plc at 30 September 2005 and at 1 October 2004 or date of appointment if later according to the register of directors' interests.

	Ordinary shares of 0.25p		Percentage of issued share capital	
	2005 Number	2004 Number	**2005 %**	2004 %
J Morris	**14,009,320**	14,366,462	**23.86**	26.02
C Robertson	**1,422,032**	670,432	**2.42**	1.21
N Bolton (appointed 27 May 2005)	**357,142**	–	**0.61**	–
A Simonds-Gooding	**54,054**	54,054	**0.09**	0.10
P Wharton	**20,000**	20,000	**0.03**	0.04
B Nilles	**266,667**	266,667	**0.45**	0.48

BY ORDER OF THE REMUNERATION COMMITTEE

Anthony Simonds-Gooding
Chairman

16 December 2005

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF OMG PLC

We have audited the financial statements which comprise the consolidated profit and loss account, the consolidated and company balance sheets, the consolidated cash flow statement, the statement of Group total recognised gains and losses and the related notes which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies.

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only, directors' report, the report on remuneration, the chairman and chief executive statement and the corporate governance report.

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

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

Opinion
In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 30 September 2005 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered accountants and
registered auditors
Uxbridge

16 December 2005

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 30 September 2005

	Note	2005 Continuing Operations £'000	2005 Continuing Operations – Acquisitions £'000	2005 Total £'000	2004 Continuing Operations £'000
Turnover	2	12,930	1,283	14,213	10,895
Cost of sales		(5,173)	(447)	(5,620)	(4,818)
Gross profit		7,757	836	8,593	6,077
Sales, support and marketing costs		(2,977)	(327)	(3,304)	(2,360)
Research and development		(1,542)	(65)	(1,607)	(1,399)
Administrative expenses		(2,756)	(333)	(3,089)	(2,146)
Grant income		–	–	–	114
Operating profit before goodwill amortisation and exceptional items	3	738	185	923	315
Goodwill amortisation	3	(86)	(28)	(114)	(29)
Exceptional items	3	(170)	(46)	(216)	–
Operating profit		482	111	593	286
Interest receivable and similar income				97	171
Profit on ordinary activities before taxation	3			690	457
Tax credit/(charge) on profit on ordinary activities	5			46	(51)
Retained profit for the financial year	17			736	406
Basic earnings per ordinary share	6			1.27p	0.77p
Diluted earnings per ordinary share	6			1.22p	0.71p

There is no material difference between the profit on ordinary activities before taxation and the retained profit for the financial year stated above and their historical cost equivalents.

STATEMENT OF GROUP TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 30 September 2005

	2005 £'000	2004 £'000
Retained profit for the financial year	736	406
Exchange differences on retranslation of opening net assets of overseas subsidiaries	9	(7)
Total recognised gains and losses for the year	745	399

The notes on pages 16 to 30 form part of these financial statements.

CONSOLIDATED AND COMPANY BALANCE SHEETS

at 30 September 2005

	Note	**Group 2005 £'000**	Group 2004 £'000	**Company 2005 £'000**	Company 2004 £'000
Fixed assets					
Intangible assets	8	**1,353**	891	**132**	56
Tangible assets	9	**970**	863	**169**	195
Investments	10	**69**	–	**978**	645
		2,392	1,754	**1,279**	896
Current assets					
Stocks	11	**1,739**	1,712	**–**	–
Debtors	12	**3,637**	3,239	**2,366**	2,794
Cash at bank and short term deposits		**4,371**	4,096	**3,525**	3,152
		9,747	9,047	**5,891**	5,946
Creditors: amounts falling due within one year	13	**(2,902)**	(2,558)	**(279)**	(240)
Net current assets		**6,845**	6,489	**5,612**	5,706
Total assets less current liabilities		**9,237**	8,243	**6,891**	6,602
Creditors: amounts falling due after more than one year	14	**–**	(82)	**–**	–
Net assets		**9,237**	8,161	**6,891**	6,602
Capital and reserves					
Share capital	16	**147**	138	**147**	138
Shares to be issued	17	**241**	241	**–**	–
Share premium account	17	**5,692**	5,370	**5,692**	5,370
Profit and loss account	17	**3,157**	2,412	**1,052**	1,094
Total equity shareholders' funds	18	**9,237**	8,161	**6,891**	6,602

The financial statements were approved by the Board of Directors on 16 December 2005 and signed on their behalf by

Nick Bolton
Director

Peter Wharton
Director

The notes on pages 16 to 30 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 30 September 2005

	Note	2005 £'000	2004 £'000
Net cash inflow from operating activities	20	**1,015**	236
Returns on investments and servicing of finance			
Interest received		**97**	169
Taxation		**8**	164
Capital expenditure and financial investment			
Purchase of tangible fixed assets		**(897)**	(780)
Disposal of tangible fixed assets		**282**	43
		(615)	(737)
Acquisitions			
Purchase of subsidiary undertaking		**(342)**	(629)
Net cash acquired with new subsidiary		**111**	–
Other investment acquired		**(69)**	–
		(300)	(629)
Net cash inflow/(outflow) before financing		**205**	(797)
Financing			
Issue of ordinary share capital		**61**	78
Increase/(decrease) in cash	21	**266**	(719)

The notes on pages 16 to 30 form part of these financial statements.

1. Accounting policies

Basis of preparation

The 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 in the United Kingdom. The principal accounting policies, which have been applied consistently throughout the year, are stated below.

Basis of consolidation

The consolidated financial statements consolidate those of the Company and all of its subsidiary undertakings drawn up to 30 September 2005. Acquisitions of subsidiaries are dealt with by the acquisition method of accounting from the date of acquisition.

Turnover

Turnover represents the amounts derived from the provision of goods and services to third party customers, net of VAT, and trade discounts. Revenue is recognised on the delivery of the product, with a deferral made for the fair value of any remaining future obligation under the terms of the sale. Revenue not recognised in the profit and loss account under this policy is classified as deferred income in the balance sheet. Revenue from services is recognised as the work is performed. Revenue is only recognised where there is appropriate evidence of an arrangement, where the consideration is fixed and determinable and where collectability is reasonably assured.

Research and development

Research and development expenditure is principally the cost of employees engaged in research and development activities. All such expenditure is written off as incurred.

Government grants

Government grants of a revenue nature are credited to the profit and loss account in the same period as the related expenditure.

Goodwill and intangible assets

Purchased goodwill (representing the excess of fair value of the consideration given and associated costs over the fair value of the separable net assets acquired) is capitalised and amortised to nil by equal annual instalments over its estimated useful economic life. This is considered to be 10 years for House of Moves and Peak Performance Technologies. The directors believe this to be the most appropriate policy because of the enduring reputation that both House of Moves and Peak Performance Technologies have built up in their respective field of motion capture.

Intangible assets are capitalised at cost and amortised to nil by equal annual instalments over their estimated useful economic life of 4 years from completion of the integration of the product with Group core software. The directors believe 4 years to be the useful economic life over which to write off the acquired intellectual property.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated to write down the cost less estimated residual value of all tangible fixed assets by equal annual instalments over their expected useful lives. The rates applicable are:

Computers and equipment	25% or 50%
Furniture and fixtures	20% or 50%
Motor vehicles	25%
Demonstration equipment	25%
Leasehold improvements	Over the lower of 10 years, and remaining period of the lease.

Investments

Investments are included at cost less provision for permanent diminutions in value.

1. Accounting policies *continued*

Stocks

Stocks are stated at the lower of historical cost and net realisable value, on a first in first out basis, after making allowance for obsolete and slow moving items.

Deferred taxation

Deferred tax is recognised on all timing differences where the transactions or events that give the Group an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised to the extent that is regarded as more likely than not that they will be recovered. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is not provided on unremitted earnings of subsidiaries where remittance of these earnings as dividends has not been accrued or where no binding agreement to distribute exists. Deferred tax is measured on an undiscounted basis.

Foreign currency

Transactions in foreign currencies are recorded at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

For consolidation purposes assets and liabilities of foreign subsidiaries are translated at the rates of exchange ruling at the balance sheet date. Profit and loss accounts of such undertakings are translated at the average rates of exchange during the year. Exchange differences arising on these translations are taken to reserves.

Contributions to pension schemes

The Group operates defined contribution pension schemes for both its UK and US employees. The pension costs charged against profits represent the amount of the contributions payable to the scheme in respect of the accounting period.

Employee share option schemes

The Group recognises as a charge to the profit and loss account the amount by which fair value of any shares or share options issued exceeds their respective issue or exercise price on the date of the grant. Options used under current approved and unapproved schemes were issued at market value and therefore there is no charge in the current year (2004: £nil). See note 16 for details of options outstanding.

Operating leases

Rentals applicable to operating leases are charged to the profit and loss account on a straight line basis over the lease term.

Financial instruments

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction or, where forward foreign currency contracts have been taken out, at contractual rates. Monetary assets and liabilities are retranslated at the rates of exchange ruling at the balance sheet date or at a forward contractual rate if applicable. Exchange gains and losses are taken to the profit and loss account.

Forward currency contracts used to reduce exposure to revaluation of monetary assets and liabilities are revalued to year end exchange rates. Any gain or loss arising on revaluation is recognised in the profit and loss account.

2. Turnover and segmental analysis

The directors consider there to be only one class of business, that of motion capture.

An analysis of turnover destination by geographical market is given below:

	2005 £'000	2004 £'000
United Kingdom	**673**	2,217
Continental Europe	**2,021**	1,746
North America	**8,245**	5,082
Far East	**3,089**	1,691
Other	**185**	159
	14,213	10,895

An analysis of turnover by origin is given below:

	2005 £'000	2004 £'000
United Kingdom	**6,166**	5,965
North America	**8,047**	4,930
	14,213	10,895

An analysis of operating profit and net assets by geographical origin is given below:

	Operating profit		Net assets	
	2005 £'000	2004 £'000	**2005 £'000**	2004 £'000
United Kingdom	**494**	177	**8,767**	8,147
North America	**99**	109	**470**	14
	593	286	**9,237**	8,161

All turnover, operating profit and net assets attributable to acquisitions is from North America.

Interest earned in the year of £97,000 is attributable to the UK (2004: £157,000).

3. Profit on ordinary activities before taxation

The profit on ordinary activities before taxation is stated after charging/(crediting):

	2005 £'000	2004 £'000
Auditors' remuneration:		
Audit services	**47**	35
Non-audit services: Other assurance services	**12**	4
Taxation services	**66**	13
Loss/(profit) on disposal of tangible fixed assets	**14**	(4)
Depreciation of tangible fixed assets – owned (note 9)	**546**	239
Amortisation of goodwill (note 8)	**114**	29
Amortisation of intellectual property and software (note 8)	**32**	–
Operating lease charges – other than plant and machinery	**317**	309

Audit services include £15,000 in respect of the Company (2004: £20,000).

Exceptional costs of £216,000 (2004: nil) comprise the cost of reorganising distribution channels and management changes relating to the acquisition of Peak Performance Technologies, Inc.'s business, and other senior management changes within the Group.

4. Directors and employees

Staff costs during the year were as follows:

	2005 £'000	2004 £'000
Wages and salaries	4,614	3,118
Social security costs	434	294
Other pension costs	200	181
	5,248	3,593

The average number of employees of the Group during the year was:

	2005 Number	2004 Number
Development	23	22
Sales and customer support	31	23
Production and Production Services	18	9
Management and administration	23	16
	95	70

Details of the directors' aggregate emoluments, compensation for loss of office, pension contributions and the emoluments of the highest paid director are included on page 10 within the Report on Remuneration.

Exercise of directors' share options

During the year one director (2004: three directors) exercised share options. The aggregate of the gains made on these exercises, calculated on the difference between the option price and the mid market price at the time of exercise, was £181,000 (2004: £556,000).

5. Tax on profit on ordinary activities

The tax (credit)/charge is based on the profit for the year and represents:

	2005 £'000	2004 £'000
United Kingdom corporation tax at 30% (2004: 30%)	8	–
Overseas taxation	–	51
Adjustments in respect of prior year	(54)	–
	(46)	51

At 30 September 2005, the Group had an undiscounted deferred tax asset of £283,000 (2004: £255,000), which has not been recognised. The asset comprises accelerated capital allowances of £41,000 (2004: £124,000), and the accumulated unrelieved tax losses of £904,000 (2004: £725,000) available to subsidiary undertakings of the Group, to offset against future taxable trading profits of the same trade. Unrelieved tax losses in respect of prior years were increased by £775,000, principally due to the submission of claims for R&D tax credits. Tax losses amounting to £596,000 have been utilised during the year. Due to the risks and uncertainty over the subsidiaries' timing and extent of future trading profits, the deferred tax asset has not been recognised.

5. Tax on profit on ordinary activities *continued*

The tax assessed for the year is lower than the standard rate of corporation tax in the UK of 30% (2004: 30%). The differences are explained as follows:

	2005	2004
	£'000	£'000
Profit on ordinary activities before tax	**690**	457
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2004: 30%)	**207**	137
Effect of:		
Expenses not deductible for tax purposes	**62**	10
Accelerated capital allowances	**(5)**	(53)
Utilisation of losses	**(179)**	–
Tax effect of prior year adjustment	**–**	(68)
Adjustments to tax charge in respect of prior year	**(54)**	–
Higher rates on overseas taxation	**–**	15
Unrecognised deferred tax on losses	**–**	50
Research and development tax credit	**(77)**	(40)
Current (credit)/charge for the year	**(46)**	51

6. Earnings per share

	Earnings £'000	**2005 weighted average number of shares**	**Per share amount pence**	Earnings £'000	2004 weighted average number of shares	Per share amount pence
Basic earnings per share						
Earnings attributable to ordinary shareholders	**736**	**58,065,827**	**1.27**	406	52,887,870	0.77
Dilutive effect of securities						
Options	**–**	**2,265,211**	**(0.05)**	–	4,222,384	(0.06)
Diluted earnings per share	**736**	**60,331,038**	**1.22**	406	57,110,254	0.71

7. (Loss)/profit of the holding company

The Company has taken advantage of the exemption allowed under section 230(1) of the Companies Act 1985 and has not presented its own profit and loss account in these financial statements. The loss of the Company for the year was £42,000 (2004: profit of £48,000).

8. Intangible fixed assets

Group	Intellectual Property £'000	Goodwill £'000	Total £'000
Cost			
At 1 October 2004	56	864	920
Additions	108	461	569
Translation difference	–	39	39
At 30 September 2005	**164**	**1,364**	**1,528**
Amortisation			
At 1 October 2004	–	29	29
Charge for the year	32	114	146
At 30 September 2005	**32**	**143**	**175**
Net book value at 30 September 2005	**132**	**1,221**	**1,353**
Net book value at 30 September 2004	56	835	891

Company	Intellectual Property £'000
Cost	
At 1 October 2004	56
Addition	108
At 30 September 2005	**164**
Amortisation	
Charge for the year	32
At 30 September 2005	**32**
Net book value at 30 September 2005	**132**
Net book value at 30 September 2004	56

9. Tangible fixed assets

Group	Computers and equipment £'000	Furniture and fixtures £'000	Motor vehicles £'000	Demonstration equipment £'000	Leasehold improvements £'000	Total £'000
Cost						
At 1 October 2004	970	322	66	409	25	1,792
Additions	312	29	25	526	5	897
On acquisition (note 19)	27	12	–	–	1	40
Disposals	(67)	(1)	–	(367)	–	(435)
Translation differences	13	4	–	6	1	24
At 30 September 2005	**1,255**	**366**	**91**	**574**	**32**	**2,318**
Depreciation						
At 1 October 2004	559	206	38	124	2	929
Charged for the year	256	54	18	212	6	546
Disposals	(66)	(1)	–	(72)	–	(139)
Translation differences	6	4	–	2	–	12
At 30 September 2005	**755**	**263**	**56**	**266**	**8**	**1,348**
Net book value at 30 September 2005	**500**	**103**	**35**	**308**	**24**	**970**
Net book value at 30 September 2004	411	116	28	285	23	863

Company	Computers and equipment £'000	Furniture and fixtures £'000	Total £'000
Cost			
At 1 October 2004	164	115	279
Additions	32	24	56
At 30 September 2005	**196**	**139**	**335**
Depreciation			
At 1 October 2004	59	25	84
Charged for the year	44	38	82
At 30 September 2005	**103**	**63**	**166**
Net book value at 30 September 2005	**93**	**76**	**169**
Net book value at 30 September 2004	105	90	195

10. Fixed assets investments

	Group 2005 £'000	Group 2004 £'000	**Company 2005 £'000**	Company 2004 £'000
Investment in subsidiary undertakings – cost				
At 1 October 2004	–	–	**645**	107
Capital contribution	–	–	**264**	538
At 30 September 2005	–	–	**909**	645
Other investment – cost				
Addition in the year	**69**	–	**69**	–
At 30 September 2005	**69**	–	**69**	–
Total fixed asset investments	**69**	–	**978**	645

Details of the Company's subsidiary undertakings, all of which are wholly owned, are as follows:

Name of entity	***Principal activity***	***Country of incorporation***
Vicon Motion Systems Limited	Development, production and sale of computer software and equipment	England and Wales
2d3 Limited	Development and sale of computer software	England and Wales
Vicon Motion Systems Inc.	Sales, marketing and customer support	United States of America
House of Moves Inc.	Motion capture services	United States of America

During the year the Company made a further capital contribution of £264,000 to Vicon Motion Systems Inc.

Other investment

The Company acquired 12% of the equity in a business start-up incorporated in Germany in return for a capital injection of €100,000. The agreement with the Company provides for a further €80,000 to be advanced by way of loan, on which interest will be chargeable, against achievement of agreed milestones defined in the business plan.

11. Stocks

	Group 2005 £'000	Group 2004 £'000	**Company 2005 £'000**	Company 2004 £'000
Component parts	**1,649**	1,696	–	–
Work-in-progress	**90**	16	–	–
	1,739	1,712	–	–

12. Debtors

	Group 2005 £'000	Group 2004 £'000	**Company 2005 £'000**	Company 2004 £'000
Trade debtors	**3,327**	2,958	**–**	–
Amounts owed by other Group undertakings	**–**	–	**2,234**	2,653
Other debtors	**73**	55	**11**	11
Prepayments and Accrued income	**237**	226	**121**	130
	3,637	3,239	**2,366**	2,794

13. Creditors: amounts falling due within one year

	Group 2005 £'000	Group 2004 £'000	**Company 2005 £'000**	Company 2004 £'000
Trade creditors	**782**	1,315	**35**	138
Amount owed to other Group undertaking	**–**	–	**107**	–
Corporation taxation	**8**	47	**8**	
Social security and other taxes	**87**	122	**–**	–
Other creditors	**117**	26	**–**	–
Contingent consideration	**136**	25	**–**	–
Accruals and deferred income	**1,772**	1,023	**129**	102
	2,902	2,558	**279**	240

The contingent consideration relates to the acquisitions made in the current and prior years (see notes 19 and 24).

14. Creditors: amounts falling due after more than one year

	Group 2005 £'000	Group 2004 £'000	**Company 2005 £'000**	Company 2004 £'000
Contingent consideration	**–**	82	**–**	–

The contingent consideration relates to the acquisition made in the prior year.

15. Derivatives and financial instruments

Within the definitions of Financial Reporting Standard 13, the Group's financial instruments comprise cash and short term deposits, and debtors and creditors that arise directly from its operations, and forward contracts. The risks associated with these financial instruments and the Group's policies for managing those risks are outlined below.

Short term debtors and creditors have been excluded from the following disclosures except for those relating to currency risk.

Interest rate risk of financial assets

Surplus cash funds are deposited with UK clearing banks on a short term basis. The floating interest rates earned are compared with those available from other financial institutions of comparable credit status.

	2005				2004			
	GBP	**Euro**	**US$**	**Total**	GBP	Euro	US$	Total
	£'000	**£'000**	**£'000**	**£'000**	£'000	£'000	£'000	£'000
Cash at bank and in hand	**2,668**	**–**	**1,703**	**4,371**	3,115	24	957	4,096

As disclosed in note 10 the Group has an equity investment of £69,000 (2004: nil) denominated in Euros.

The Group does not have any longer term foreign currency cash holdings.

Interest rate risk and Borrowing facilities

The Group has no financial liabilities or borrowings.

Liquidity risk

At 30 September 2005 the Group's cash and short term deposits amounted to £4,371,000 (2004: £4,096,000), and no financial borrowing obligations.

Credit risk

Sales are made on bases designed to minimise so far as possible the risk of non-payment in each case. Balances owing from customers are reviewed at least monthly, and action is taken where considered appropriate with a view to achieving timely settlement.

Foreign currency risk

The Group's foreign exchange transaction exposure arises principally in the UK subsidiaries from trading with US subsidiary undertakings and third parties in Europe and the Far East. The Group's policy is to reduce exposure to revaluation of monetary assets and liabilities. Under the policy, material outstanding foreign currency balances arising from transactions in currencies other than a company's functional currency, are hedged using forward contracts. Gains and losses arising on the forward contracts used to hedge the currency exposures, together with gains and losses on those monetary assets or liabilities are recognised in the profit and loss account.

The table below shows the extent, net of forward contracts, to which Group companies have monetary assets in currencies other than their local currency, which arise due to the short term timing difference between the asset or liability arising and the adjustment of level of forward contracts.

	2005			2004		
	US$	**Euro**	**Total**	US$	Euro	Total
	£'000	**£'000**	**£'000**	£'000	£'000	£'000
Functional currency of group operation (below):						
Sterling	**229**	**35**	**264**	627	24	651

Only UK Group companies maintain foreign currency monetary assets.

As disclosed in notes 13 and 14, there is contingent consideration payable in respect of the acquisitions of House of Moves and the net assets of Peak Performance Technologies. This liability is currently estimated to be £136,000 (2004: £107,000).

15. Derivatives and financial instruments *continued*

Hedges

At the year end, forward contracts outstanding for the sale of foreign currencies amounted to a contractual value of £3,395,000 (2004: £2,674,000) which when revalued using year end exchange rates amount to £3,410,000 (2004: £2,664,000). Gains or losses arising on revaluation to year end rates have been recognised in the profit and loss account.

These forward contracts mature within one year from 30 September 2005 (30 September 2004: one year).

Fair value of financial assets and financial liabilities

Book values of financial assets and liabilities are not materially different from their fair values.

Financial instruments held for trading purposes

The Group does not trade in financial instruments.

16. Share capital

	2005	2004
	£'000	£'000
Authorised		
100,000,000 ordinary shares of 0.25p	**250**	250
Allotted, called up and fully paid		
58,710,352 shares of 0.25p (2004: 55,213,142 ordinary shares of 0.25p)	**147**	138

During the year 2,419,593 ordinary shares of 0.25p were issued for cash in respect of share options exercised at exercise prices of 0.4425p, 2.5975p, 0.25p and 6.5p. In addition 1,077,617 shares were issued as consideration for the acquisition of the trade and assets of Peak Performance Technologies, Inc. The aggregate nominal value of the shares issued was £9,000 and the total consideration received was £331,000. The difference between the proceeds and the nominal value of the shares issued has been credited to share premium.

At 30 September 2005 options were outstanding over 4,132,343 ordinary shares of 0.25p each (2004: 5,128,603) including those held by directors as follows:

Number of shares over which options granted	**Exercise price**	**Exercise period**
708,333	2.5975p	June 2002 to January 2011
138,667	0.25p	June 2002 to March 2011
408,000	2.5975p	June 2002 to March 2011
607,343	6.50p	June 2004 to February 2013
800,000	12.75p	December 2004 to September 2013
20,000	23.50p	June 2004 to June 2014
250,000	25.00p	December 2005 to July 2014
1,200,000	12.53p	June 2006 to June 2015

The market price of the ordinary shares at 30 September 2005 was 16.75p (2004: 27.7p) and the range during the year was 11.25p to 30.25p (2004: 14.5p to 37.0p).

17. Movement in reserves

Group	Share premium account £'000	Profit and loss account £'000	Shares to be issued £'000	Total £'000
At 1 October 2004	5,370	2,412	241	8,023
Retained profit for the year	–	736	–	736
Currency translation differences on foreign currency net investment	–	9	–	9
Premium on issue of shares	322	–	–	322
At 30 September 2005	**5,692**	**3,157**	**241**	**9,090**

Company	Share premium account £'000	Profit and loss account £'000	Shares to be issued £'000	Total £'000
At 1 October 2004	5,370	1,094	–	6,464
Retained loss for the year	–	(42)	–	(42)
Premium on issue of shares	322	–	–	322
At 30 September 2005	**5,692**	**1,052**	**–**	**6,744**

The shares to be issued of £241,000 representing 1,133,598 shares, arise from the Group's acquisition of the business assets of House of Moves LLC during the year ended 30 September 2004. Of these, 965,927 shares, representing a value of £205,000 are due to be issued on completion of the legal formalities, following the achievement of the financial targets set for the 12 months ended 31 May 2005. The remaining 167,671 shares with a value of £36,000 will be issued on achievement of specified revenue targets in the 12 months ending 31 May 2006. The Company has reserved the option to discharge this contingent liability in cash rather than shares.

18. Reconciliation of movements in shareholders' funds

	Group 2005 £'000	Group 2004 £'000	**Company 2005 £'000**	Company 2004 £'000
Retained profit/(loss) for the financial year	**736**	406	**(42)**	48
Issue of shares	**331**	78	**331**	78
Contingent shares to be issued (see note 17)	**–**	241	**–**	–
Currency movements	**9**	(7)	**–**	–
Net movements in shareholders' funds	**1,076**	718	**289**	126
Shareholders' funds at 1 October 2004	**8,161**	7,443	**6,602**	6,476
Shareholders' funds at 30 September 2005	**9,237**	8,161	**6,891**	6,602

19. Acquisition

On 9 February 2005 the Group completed the acquisition of the trade and net assets of Peak Performance Technologies, Inc. for a total consideration of £593,000. This includes a contingent cash consideration element of up to £53,000 subject to certain performance conditions.

The total goodwill arising upon acquisition was £461,000, which is being written off over 10 years.

The fair value of the net assets acquired was as follows:

	Book value £'000	Adjustment £'000	**Provisional fair value £'000**
Fixed Assets	40	–	**40**
Intangible Assets	–	108	**108**
Stock	89	–	**89**
Trade debtors	46	–	**46**
Prepayments and accrued income	9	–	**9**
Cash	111	–	**111**
Trade creditors	(14)	–	**(14)**
Accruals and deferred income	(197)	(15)	**(212)**
Net business assets acquired	84	93	**177**
Consideration:			
Cash			**270**
Share consideration			**270**
Contingent cash consideration			**53**
Total provisional consideration			**593**
Costs of acquisition			**45**
Provisional purchase consideration and costs of acquisition			**638**
Provisional goodwill arising			**461**

The contingent cash consideration is dependent upon a final review of the fair value of the net assets acquired to be performed after 30 September 2005. The maximum amount payable under this arrangement will be £53,000 although £27,000 has already been paid following a fair value review of certain of the assets. This review has not yet been completed. The directors have made use of all the information available at the year end in order to estimate the likely value of the contingent cash consideration.

The fair value of the intellectual property acquired has been assessed by the Company and valued at £108,000, being a revaluation fair value adjustment. Other fair value adjustments represent the finalisation of amounts.

In the financial year to 30 September 2004, Peak Performance Technologies, Inc. had revenues of £1.8 million and made a profit before tax of £25,000. In the period from 1 October 2004 to 8 February 2005, Peak Performance Technologies, Inc. had revenues of £425,000 and made a loss before taxation of £34,000. The profit or loss after taxation is not available for this period.

20. Reconciliation of operating profit to net cash inflow from operating activities

	2005 £'000	2004 £'000
Operating profit	**593**	286
Depreciation & amortisation	**692**	268
Loss/(profit) on disposal of fixed assets	**14**	(4)
Decrease/(increase) in stock	**68**	(347)
Increase in debtors	**(296)**	(837)
(Decrease)/increase in creditors	**(56)**	870
Net cash inflow from operating activities	**1,015**	236

21. Reconciliation of net cash flow to movements in net funds

	2005 £'000	2004 £'000
Increase/(decrease) in cash in the year	**266**	(719)
Currency movements	**9**	(11)
Movement in net funds in the year	**275**	(730)
Net funds at 1 October 2004	**4,096**	4,826
Net funds at 30 September 2005	**4,371**	4,096

22. Analysis of changes in net funds

	At 1 October 2004 £'000	Cash flows £'000	Exchange Movements £'000	**At 30 September 2005 £'000**
Net funds				
Cash at bank and short term deposits	4,096	266	9	**4,371**

23. Capital commitments

The Company had no capital commitments at 30 September 2005 and 30 September 2004.

24. Contingent liabilities

The contingent consideration disclosed in note 13 within creditors falling due within one year, includes a liability of £110,000 in respect of the estimated value of the potential earn out payment in connection with the acquisition of the business trade and assets of House of Moves LLC which was completed in 2004. This liability is based on directors' estimate of the future performance of the acquired business up to 31 May 2006. However, should its performance exceed expectations, such liability could be higher. The maximum amount payable is capped at US$2m. The company has reserved the right to settle this additional consideration with up to 25% in allotted shares.

There were no other contingent liabilities at 30 September 2005 and 30 September 2004.

25. Pensions

The Company operates a defined contribution pension scheme for the benefit of the UK employees. The assets of the scheme are administered by trustees in a fund independent from those of the Group. The amount charged under this scheme to the profit and loss account during the year was £159,000 (2004: £162,000).

Pension contributions are also paid for the benefit of US employees under the 401k savings plan scheme, a US government savings scheme. The amount charged under this scheme to the profit and loss account during the year was £41,000 (2004: £19,000).

26. Commitments under operating leases

At 30 September 2005 the Group had annual commitments under operating leases, which all relate to land and buildings, as follows:

	2005	2004
	£'000	£'000
Operating leases which expire:		
In one year or less	**–**	68
Between one and five years	**370**	154
In more than five years	**–**	80
	370	302

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 2006 Annual General Meeting of OMG Plc will be held at 14 Minns Business Park, West Way, Oxford, OX2 0JB on Wednesday 22 February 2006 at 4pm for the following purposes:

1. To receive and adopt the directors' report and financial statements for the year ended 30 September 2005.

2. To reappoint PricewaterhouseCoopers LLP as auditors of the company and to authorise the directors to fix their remuneration.

3. To re-elect Anthony Simonds-Gooding as a director, who retires by rotation in accordance with the Company's Articles of Association.

4. To re-elect Julian Morris as a director, who retires by rotation in accordance with the Company's Articles of Association.

5. To re-elect Nicholas Bolton as a director, who was appointed as a director by the Board on 27 May 2005 and retires in accordance with the Company's Articles of Association.

6. That, in place of all existing authorities, the directors be generally and unconditionally authorised in accordance with section 80 of the Companies Act 1985 (the 'Act') to exercise all the powers of the Company to allot relevant securities (as defined in section 80(2) of the Act) up to an aggregate nominal amount of £73,409 provided that this authority shall expire on 21 February 2011 save that the Company may, at any time prior to the expiry of such authority, make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities pursuant to any such offer or agreement as if this authority had not expired.

7. **Special Resolution.** That, in place of all existing powers, the directors be empowered pursuant to section 95 of the Act and to the section 80 authority described in resolution 6 above to allot equity securities (as defined in section 94 (2) of the Act) for cash as if section 89 of the Act did not apply to such allotment. This power:

   a) expires on 21 February 2011, but the Company shall be entitled to make offers or agreements before the expiry of such power which would or might require equity securities to be allotted after such expiry and the directors shall be entitled to allot equity securities pursuant to any such offer or agreement as if the power conferred hereby had not expired; and

   b) shall be limited to:
      i) the allotment of equity securities in connection with a rights issue, open offer or other offer of securities in favour of the holders of ordinary shares of 0.25 pence each in the Company on the register of members at such record date(s) as the directors may determine where the equity securities respectively attributable to the interests of the ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares of 0.25 pence each in the Company held or deemed to be held by them on any such record date, subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with fractional entitlements or legal or practical problems arising under the laws of any overseas territory or the requirements of any regulatory body or stock exchange or by virtue of shares being represented by depository receipts or any other matter whatever; and

      (ii) the allotment (otherwise than pursuant to (i) above) of equity securities up to an aggregate nominal amount of £14,682.

8. **Special Resolution.** That the Company be generally and unconditionally authorised for the purposes of section 166 of the Companies Act 1985 to make market purchases (within the meaning of section 163(3) of the Companies Act 1985) of ordinary shares of 0.25 pence each in the Company ('ordinary shares') provided that:

   (a) the maximum number of ordinary shares authorised to be purchased is 5,872,702

   (b) the minimum price which may be paid for an ordinary share is 0.25 pence;

   (c) the maximum price which may be paid for an ordinary share is an amount equal to 105% of the average of the middle market quotations for an ordinary share in the Company derived from The London Stock Exchange Daily Official List for the five business days immediately preceding the day on which that ordinary share is contracted to be purchased (exclusive of associated expenses);

   (d) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company or 18 months from the date of this Resolution, whichever is the earlier; and

   (e) the Company may make a contract to purchase ordinary shares under this authority before the expiry of the authority which will or may be completed wholly or partly thereafter and a purchase of shares may be made in pursuance of any such contract.

By order of the Board

Catherine Robertson
Secretary

16 December 2005

Registered office:
14 Minns Business Park
West Way
Oxford OX2 0JB

Notes:

1. A member entitled to attend and vote at this meeting is entitled to appoint a proxy or proxies to attend and, on a poll, to vote instead of him. A proxy need not be a member of the company. A form of proxy is enclosed. To be valid, the form must be lodged with the company's registrars, Capita IRG, not later than 48 hours before the time fixed for the meeting. Completion of a form of proxy does not preclude members from attending the meeting and voting in person if they so wish.

2. Copies of directors' service contracts and the register of directors' interests in the shares of the company are available for inspection at the registered office during normal business hours (Saturdays and Sundays excepted), until the Meeting and at the Meeting for a period of 15 minutes before the commencement until the conclusion of the Meeting.

3. The company, pursuant to Regulation 34 of the Uncertificated Securities Regulations 1995, specifies that only those shareholders registered in the register of members of the company at close of business on 20 February 2006 shall be entitled to attend or vote at the Meeting in respect of the number of shares registered in their name at that time. Any changes to the register of members after such time shall be disregarded in determining the rights of any person to attend or vote at the Meeting.

SHAREHOLDER NOTES

FORM OF PROXY

For use at the Annual General Meeting
to be held on Wednesday 22 February 2006

I/We ....

of ....

being (a) member(s) of OMG Plc hereby appoint the Chairman of the Meeting or (see Note 1)

....

as my/our proxy to vote for me/us at the Annual General Meeting of the company to be held on Wednesday 22 February 2006 at 4pm and at any adjournment thereof, and I/we direct my/our proxy to vote as indicated below:

	RESOLUTION	*FOR*	*AGAINST*
1.	Adoption of Annual Report		
2.	Reappointment of PricewaterhouseCoopers LLP as auditors		
3.	Re-election of Anthony Simonds-Gooding as a Director		
4.	Re-election of Julian Morris as a Director		
5.	Re-election of Nicholas Bolton as a Director		
6.	Authorisation of Directors to allot equity securities under Section 80 of the Companies Act		
7.	Authorisation of Directors to allot equity securities for cash under Section 95 of the Companies Act (Special Resolution)		
8.	Authorisation of Directors to make market purchase of equity securities in the Company under Section 163(3) of the Companies Act 1985 (Special Resolution)		

Signature(s) .... Date 2006

Notes:

1. If you wish to appoint some other person as your proxy, please delete the words "the Chairman of the Meeting or" and insert the full name of your proxy in the space provided.
2. Please indicate how you wish your proxy to vote by placing a tick in the appropriate box. Unless so instructed your proxy will vote or abstain at his/her discretion. This proxy will be used only in the event that a poll should be directed or demanded.
3. To be valid, the completed form of proxy must reach the company's registrars not later than 48 hours before the time of the meeting.
4. In the case of a corporation, the form of proxy should be under the common seal or under the hand of a duly authorised officer or attorney.
5. In the case of joint holders, the vote of the first named person in the Register of Members in respect of the holding will be accepted to the exclusion of the other joint holder(s).

SECOND FOLD

BUSINESS REPLY SERVICE
Licence No. MB122

1

Capita Registrars (Proxies)
PO Box 25
Beckenham
Kent
BR3 4BR

FIRST FOLD

THIRD FOLD

COMPANY INFORMATION

Company registration number:	3998880
Registered office:	14 Minns Business Park West Way Oxford OX2 0JB
Directors:	Anthony Simonds-Gooding (Non-executive Chairman) Julian Morris (Deputy Chairman) Nick Bolton (Chief Executive) Peter Wharton (Finance Director) Catherine Robertson (Executive Director) Brian Nilles (Executive Director)
Secretary:	Catherine Robertson
Bankers:	National Westminster Bank plc 121 High Street Oxford OX1 4DD
Solicitors:	Taylor Wessing Carmelite 50 Victoria Embankment London EC4Y 0DX
Broker:	Evolution Securities 100 Wood Street London EC2V 7AN
Registrars:	Capita IRG Plc Balfour House 390/398 High Road Ilford Essex IG1 1NQ
Auditors:	PricewaterhouseCoopers LLP West London Office The Atrium 1 Harefield Road Uxbridge UB8 1EX
Nominated adviser:	Smith & Williamson Corporate Finance Limited 25 Moorgate London EC2R 6AY

OMG

Registered office:
14 Minns Business Park
West Way
Oxford
OX2 0JB