Software
Radio Technology

Software Radio Technology plc

Annual Report and Accounts 2006

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Directors and Advisers

Directors
Shamus Kelly (appointed 16/9/05)
Simon Tucker (appointed 20/9/05)
Matthew Rogers (appointed 16/9/05)
Simon Rogers (appointed 20/9/05)
Andrew Lapping (appointed 20/9/05)
Richard Moon (appointed 20/9/05)

Secretary
Matthew Rogers (appointed 16/9/05)

Registered Office
Wireless House
Westfield Industrial Estate
Midsomer Norton
Bath
BA3 4BS

Bankers
Royal Bank of Scotland
10 Gordon Street
Glasgow
G1 3PL

Auditors
Nexia Smith & Williamson
Chartered Accountants
25 Moorgate
London EC2R 6AY

Tax Advisers
Smith & Williamson
Chartered Accountants
25 Moorgate
London EC2R 6AY

Solicitors
CMS Cameron McKenna
Mitre House
160 Aldersgate Street
London
EC1A 4DD

Nominated Adviser & Broker
Westhouse Securities LLP
Clements House
14-18 Gresham Street
London
EC2V 7NN

Registrars
Computershare Investor Services plc
PO Box 82
The Pavilions
Bridgwater Road
Bristol
BS99 7NH

Company's registered number 5459678

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Summary

Financial Highlights

- Turnover increased 122% to £3.13m (2005: £1.41m)
- Gross profit up 126% to £1.56m (2005: £0.69m)
- Loss before tax (before exceptional item) slightly better than forecast at £0.82m (2005: £1.02m)
- Successful flotation on AIM in November 2005, raising £4m (before expenses).

Operational Highlights

- Strong business development with TETRA licence contracts with HYT in China, Unimo/Mercury in South Korea and EMMT in Taiwan
- The successful launch of SRT's low cost marine Automatic Identification System (AIS) Class B device at the London Boat Show in January 2006
- A further placing of £4.25m (before expenses) completed on 20 June 2006, specifically to provide funding to address the significant market opportunity which the Directors believe is available in the AIS Class B market.

Chairman's Statement

Overview

The Software Radio Technology plc (SRT) Group of companies design and develop complex wireless technology products, known as "reference designs" which combine hardware and software to create a complete core technology platform. The blue-print designs conform to international standards and provide clients with a fully compliant design on the basis of which a final product can be built.

SRT licenses its designs to major electronics companies and charges its customers an initial fee for the technology transfer and design development costs, then an ongoing royalty for its single source ASIC chip component, without which the device would not work.

The Company has focused its energies on two distinct business opportunities – TETRA and AIS. TETRA is the secure, digital professional mobile radio standard, used predominantly by security forces, which is currently being rolled out in over 75 countries. AIS is a marine identification system which allows sea-going vessels to be recognised by radar systems. SRT has developed a low-cost Class B system, suitable for smaller vessels, such as fishing boats and leisure craft. Further information about each business division can be found below.

Financial Review

Revenues for the 12 months were £3.13m (2005: £1.41m), up 122% from 2005, due primarily to the recognition of initial fees on new TETRA contracts signed during the period, as well as development and exclusivity fees payable on existing TETRA contracts. Gross profit increased 126% to £1.56m (2005: £0.69m) in line with the growth in turnover.

The increase in administrative expenses reflected the growth in the scale of activity as well as the addition of plc costs from November onwards.

Loss before tax (and before exceptional item) of £0.82m (2005: £1.02m) was slightly better than market forecasts published prior to the Company's admission to AIM.

As at 31 March 2006, cash resources were £1.23m (2005: £1.07m). This will be supplemented by the proceeds of the recent placing, further details of which are set out below.

Placing

The Company has recently raised £4.25m (before expenses), through a placing of 9,042,552 ordinary shares at 47p per share. The funds will be used to take advantage of the significant opportunity which has developed in the AIS Class B market.

Operations

TETRA *(Professional Mobile Radio)*

The key objectives within SRT's TETRA business have been, firstly, to provide the necessary support to our existing customers in order for their handsets to reach volume production as soon as possible and, secondly, to gain additional customers.

SRT now has TETRA handset development contracts with five customers, all of whom are anticipating volume end-user orders and volume production of handsets, thereby generating royalties for SRT, during the Company's current financial year ending 31 March 2007.

Chairman's Statement
continued

There are an estimated 32 million professional mobile radio (PMR) users worldwide including TETRA, approximately 85% of which are still operating on analogue systems. The overall PMR market is growing by approximately 5% per annum, primarily driven by national security concerns and the resulting government investment. However, the digital element of the PMR market, in which SRT operates, is growing more rapidly, due to the migration from analogue to digital systems. The directors of SRT estimate that global demand will increase from around 500,000 units in 2004 to four million users per annum by 2010.

SRT continues to work closely with its customers to advance the development of their handsets.

A key development this year was the award of a contract for the supply of TETRA handsets by a major agency of the Chinese Government to Tianjin Communication & Broadcasting Group (TCB), one of SRT's customers. TCB has already placed an order with SRT for a small quantity of ASIC chips to enable a pre-production run of TETRA handsets. The directors anticipate that TCB will commence volume production within the next five months.

Shenzhen HYT Science & Technology Co. Ltd, another TETRA customer, has also placed an order of ASIC chips for pre-production manufacturing.

The Company's contract with Hisense Co. Ltd has not progressed as quickly as anticipated. SRT has agreed to devote further resources to support the customer, thereby minimising the delay and ensuring the customer enters full production by the end of the year.

***AIS** (Automatic Identification System for ships and boats)*

The directors have been particularly encouraged by the developments in the AIS Class B market. The launch of SRT's low cost AIS Class B product in January 2006 has stimulated much greater market interest than anticipated and a range of customer negotiations are underway, the largest of which involve national AIS systems.

National AIS projects are currently being implemented in a number of countries, including the USA, Mexico, Saudi Arabia, South Korea, China and the UK and other European Union countries. The directors estimate that the potential global market for AIS Class B is 26,950,000 vessels, of which the vast majority are leisure vessels.

The marine business is now a separately defined business within SRT with a specialist team seeking to maximise the emerging AIS opportunity.

SRT has adopted a dual strategy in addressing the AIS Class B market. As with SRT's TETRA business, the Company offers customers a reference design model, under which SRT's design is licensed to manufacturers in return for licence and product development fees and ongoing royalties. In the case of AIS Class B, however, SRT is also marketing the Class B design as a complete product, which is manufactured on the Company's behalf by a major electronics Company in China.

Work has already commenced on the next generation of SRT's AIS Class B product, which will be smaller and cheaper to manufacture, increasing SRT's net margin per unit. We will also seek to develop an AtoN (aid to navigation) product, which is suitable for use on buoys and other off-board navigational tools.

Outlook

The directors believe that the Company is extremely well placed to benefit from the current and forecast growth in investment in homeland security around the world.

Our reference designs for both TETRA and AIS Class B product will be moving into production phases and, supported by customer orders, product royalty payments will result.

Having raised additional funds, we are now in a strong position to continue the development of the existing products. Work is underway to reduce the costs of both our TETRA and AIS designs substantially to our customers, ensuring that our designs are cost competitive and provide a rapid route to market for our customers.

Richard Moon

Chairman

Directors' Report
for the period ended 31 March 2006

The directors present their report and the audited financial statements for the period ended 31 March 2006.

Activities

The principal activity of the Company is that of a holding Company. The principal activity of the Company's trading subsidiaries was that of electronic hardware and software engineering and licensing of technology reference designs.

Group Restructuring, Conversion to Public Company and Admission to AIM

The Company was incorporated on 23 May 2005 as Intercede 2047 Limited.

On 6 September 2005, the Company's name was changed to Software Radio Technology Holdings Limited.

On 19 October 2005, the Company acquired, by means of a share for share exchange, the entire issued share capital of Software Radio Technology (UK) Limited.

On the same date, Software Radio Technology (UK) Limited transferred its investment in Software Radio Technology Trading Limited (formerly Software Radio Technology Limited) to the Company.

On 21 September 2005, the Company was re-registered as a public limited company and its name was changed to Software Radio Technology plc.

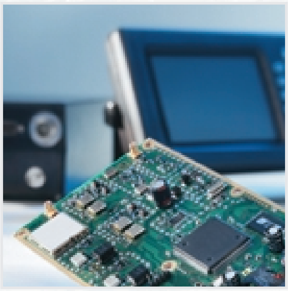
On the 2 November 2005, the Company's shares were admitted to trading on AIM.

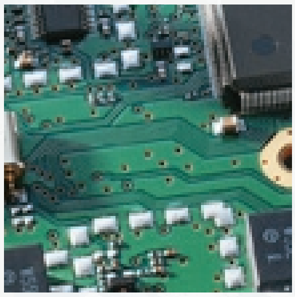
Operational Review

For SRT, the past year has been one of continued success for our wireless technology reference design and licensing business model, targeted at the growing Homeland Security marketplace. Further contracts have been signed for both of SRT's TETRA, and AIS based reference designs.

Alongside this, through the last year SRT has grown into a public limited company and as a result has been able to attract an increasingly experienced and talented technical team. The highlights of the past year were:

- Launching on the London Alternative Investment Market (AIM) in November 2005 raising £3.5m net
- Turnover increasing 122% to £3.13m (2005:£1.41m)
- Gross profit up 126% to £1.56m (2005: £0.69m)
- Loss before tax (before exceptional item) slightly better than forecast at £0.82m (2005: £1.02m)
- The signing of additional TETRA reference licence contracts with HYT in China, with Unimo/Mercury in South Korea and with EMMT in Taiwan




- The successful launch of SRT's low cost marine Automatic Identification System, (AIS) Class B reference design at the London Boat Show in January 2006
- Organisationally, creating and staffing a dedicated Marine business unit and specialist team to maximise the emerging AIS opportunity as maritime authorities deploy AIS systems worldwide
- Throughout the year we have continued to work closely with all regulatory and export authorities both in the UK and in Asia, and SRT has been awarded appropriate export licences for our overseas customers as they have been requested
- SRT is continuing to build its specialist protocol stack and digital signal processing (DSP) software skills with the establishment from early in 2006 of a software development team in Trivandrum, India.

The decision to launch SRT on to the AIM market in November 2005 was taken to ensure that the Company could grow and to accelerate support for our customers and their products that utilise SRT reference designs. Through the year our Delivery team has grown to 15 people all of whom have the specialist skills to support our customers. In addition we have made further investments to enhance the TETRA reference design, making it easier for our customers to implement. This has included the provision of a framework man machine interface (MMI), and additional support to enable deployment of the full encryption capability of the TETRA international standard.

SRT's TETRA customers are nearing the final stages of development and testing and are anticipating winning end user customer orders before the end of the calendar year. In addition the very strong interest in our Class B reference design is putting healthy pressure on the full testing and early introduction of this product to the market in the summer 2006.

In summary the directors believe that the Company is well placed to benefit from the growth in investment in homeland security expenditures that is forecast in coming years.

Our reference designs for both TETRA and AIS Class B product will be moving into production phases and, supported by customer orders, product royalty payments will result. Through 2005 our overall strategy, that of providing licensed reference designs that generate royalty payment, remains substantially the same as it was when we launched the Company on the Alternative Investment Market.

Given recent investment funds raised SRT is in a strong position to continue the next generation of development of our existing reference designs. Work is underway to substantially reduce the costs of both our TETRA and AIS designs to our customers, ensuring that our designs are always a cost competitive and a rapid route to enable our customers to capture their markets.

A recent fund raising, post period end, was very well received by existing and new investors, and raised £4.25m (before expenses), enabling SRT to commit investment funds to the support of our dedicated



Marine business and its future product development.

Results for the Period and Dividends

The loss for the period after taxation and an exceptional item was £1,301,519 (2005: £651,141). The directors do not recommend the payment of a dividend.

An exceptional non-cash accounting charge of £675,820 in respect of share options has been charged to the profit & loss account as detailed in note 3.

Post Balance Sheet Events

In April 2006, the Company granted options over 530,000 0.1p Ordinary shares to certain employees under its approved EMI share option scheme. Such options were granted at an exercise price of 57p vest and are exercisable on the same terms as those options granted to directors and employees on flotation as disclosed in note 18.

During May 2006, the Company undertook a placing of 9,042,552 shares at 47p raising £4,250,000 before costs. The placing was approved at an extraordinary general meeting on 19 June 2006.

Directors and their Interests

The directors who served during the period and their interests in the share capital of the Company as at 31 March 2006 and at the date of their appointment as directors of the Company, together with their interests in the share capital of Software Radio Technology (UK) Limited at 31 March 2005, were:

	2006	2005 and on appointment of Software Radio Technology plc		
	Ordinary 0.1p shares	Ordinary 1p shares	Ordinary 'A' 1p shares	Ordinary 'B' 1p shares
Non Executives				
Simon Rogers	14,241,400	7,302	297,888	–
Andrew Lapping	1,081,080	–	–	27,027
Richard Moon	–	–	–	–
Executives				
Shamus Kelly	–	–	–	–
Simon Tucker	–	–	–	–
Matthew Rogers	–	–	–	–

Dates of appointment are as shown on the inside front cover.

All directors benefit from the provision of directors' personal indemnity insurance policies.

Share options have been granted to one non-executive director and all of the executive directors. All are detailed in note 4 to the accounts.

No directors have any interest in warrants issued by the Company on flotation.

Financial Instruments

The main risks arising from the Company's financial instruments are set out in Note 28 to the accounts.

Payments of Creditors

The Company's policy for all suppliers is to abide by the suppliers terms of payment when entering into a business transaction. At 31 March 2006, the number of day's trade creditors was 50 (2005: 53 days).

Disclosure of Information to the Auditors

Each director of the Company has confirmed that in fulfilling their duties as a director they have:

- taken all the necessary steps in order to make themselves aware of any information relevant to the audit and to establish that the auditors are aware of that information
- so far as they are aware, there is no relevant audit information of which the auditors have not been made aware.

Auditors

After the period end our auditors, Nexia Audit Limited, changed their name to Nexia Smith & Williamson Audit Limited and now trade as Nexia Smith & Williamson.

In accordance with section 385 of the Companies Act 1985, a resolution proposing that Nexia Smith & Williamson be reappointed as auditors of the Company will be put to the Annual General Meeting.

Approved by the Board of Directors and signed on behalf of the Board

S Kelly

Director

Statement of Directors' Responsibilities in Respect of the Accounts

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year. In preparing those accounts, 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 departure disclosed and explained in the accounts
- Prepare the accounts on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Corporate Governance Report
for the period ended 31 March 2006

The directors recognise the importance of, and are committed to, high standards of corporate governance. Whilst under the AIM rules full compliance with the Combined Code is not required, the directors believe that the Company applies the recommendations insofar as is practicable and appropriate for a public company of its size.

The Board of Directors

The Board of Directors at the date of this report consists of three executive and three non-executive directors who qualify as independent non-executive directors as defined in the Combined Code.

The Board believes that the composition and breadth of experience of the Board are appropriate for the Company. The Board meets at least ten times throughout the year and through its chairman and executive directors in particular, maintains regular contact with its advisers and public relations consultants in order to ensure that the Board develops an understanding of the views of major shareholders about the Company.

The Board is responsible for such key matters as the approval or monitoring of strategic plans, the annual trading budget, major capital expenditure, treasury policies and financial performance. It delegates responsibility for the day to day operation of the business to the executive directors who are charged with consulting the Board on all significant financial and operational matters.

Audit Committee

The Audit Committee comprises Simon Rogers and Andrew Lapping, as Chairman. Its terms of reference indicate at least two regular meetings per year and its first formal meeting, to review the 2006 audit, took place on 1 June 2006. The Finance Director and a representative of the external auditors are normally invited to attend meetings. Other directors or staff may be invited to attend, as considered beneficial by the committee.

The Audit Committee's primary responsibilities are to review the effectiveness of the Company's systems of internal control, to review with the external auditors the nature and scope of their audit and the results of that audit, and to evaluate and select external auditors.

Remuneration Committee

The Remuneration Committee plans to meet at least twice per year. It has met twice since it was set up during the preparation for the move to AIM. Its members are Andrew Lapping (Chairman), Simon Rogers and Richard Moon.

The Remuneration Committee's principal objective is to attract and retain executives and provide them with appropriate incentives to encourage enhanced performance and ensure that, in a fair and responsible manner, they are rewarded for their individual contributions to the success of the Company. Non-executive fees are considered and agreed by the Board as a whole.

Nomination Committee

Richard Moon (Chairman), Simon Rogers and Andrew Lapping are the members of the Nomination Committee. The Committee has yet to meet and until the Company becomes substantially larger, the directors are of the opinion that the Nomination Committee would only need to be convened in unusual circumstances.

Going Concern

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

Independent Auditors' Report to the Shareholders of Software Radio Technology plc

We have audited the Company and Group accounts of Software Radio Technology plc for the period ended 31 March 2006 which comprise the Profit and Loss Account, the Company and Group Balance Sheets, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses, and the related notes 1 to 29. These accounts have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an 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

As described in the Statement of Directors' Responsibilities the Company's directors are responsible for the preparation of the accounts in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the accounts 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 accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We state in our report whether in our opinion the information given in the Directors' Report is consistent with the accounts. We also 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 the information specified by law regarding directors' remuneration and transactions with the Company is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited accounts. This other information comprises only the Directors' Report and the Corporate Governance Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. 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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

Opinion

In our opinion:

- the accounts give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's and Group's affairs as at 31 March 2006 and of the group's loss for the period then ended;
- the accounts have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the accounts.

Nexia Smith & Williamson
Chartered Accountants
Registered Auditors

25 Moorgate
London
EC2R 6AY

23 June 2006

Profit and Loss Account
for the period ended 31 March 2006

	Notes	2006 £	Exceptional 2006 £	Total 2006 £	2005 £
Turnover	2	**3,125,270**	**–**	**3,125,270**	1,408,786
Cost of sales		**(1,569,125)**	**–**	**(1,569,125)**	(714,504)
Gross profit		**1,556,145**	**–**	**1,556,145**	694,282
Administrative expenses	3	**(2,389,906)**	**(675,820)**	**(3,065,726)**	(1,650,686)
Operating Loss		**(833,761)**	**(675,820)**	**(1,509,581)**	(956,404)
Interest receivable		**35,243**	**–**	**35,243**	1,014
Interest payable	6	**(18,616)**	**–**	**(18,616)**	(62,079)
Loss on ordinary activities before taxation	7	**(817,134)**	**(675,820)**	**(1,492,954)**	(1,017,469)
Tax on profit on ordinary activities	8	**191,435**	**–**	**191,435**	366,328
Retained loss for the financial period	19	**(625,699)**	**(675,820)**	**(1,301,519)**	(651,141)
Loss per share (basic and diluted)	26			**(2.25)p**	(1.47)p

All of the Company's operations are classed as continuing.

There were no gains or losses in either period other than those included in the above profit and loss account.

The results included in the profit and loss account consolidate the results of the parent undertaking from the date of incorporation to 31 March 2006 and the results of the subsidiary undertakings for the year ended 31 March 2006.

Consolidated Balance Sheet
as at 31 March 2006

	Notes	2006 £	2005 £
Fixed assets			
Intangible assets	10	**2,860,875**	1,551,743
Tangible assets	11	**324,199**	162,503
		3,185,074	1,714,246
Current assets			
Stocks	13	**290,091**	134,737
Debtors	14	**1,903,977**	635,866
Cash at bank and in hand		**1,233,431**	1,067,650
		3,427,499	1,838,253
Creditors: amounts falling due within one year	15	**(890,347)**	(789,583)
Net current assets		**2,537,152**	1,048,670
Total assets less current liabilities		**5,722,226**	2,762,916
Creditors: falling due after more than one year, including convertible debt	16	–	(439,743)
Net assets		**5,722,226**	2,323,173
Shareholders' equity			
Called up share capital	18	**69,045**	12,475
Share premium account	19	**3,659,873**	–
Profit and loss account	19	**(3,731,204)**	(3,105,505)
Other reserves	19	**5,724,512**	5,416,203
		5,722,226	2,323,173

The accounts were approved by the Board of Directors on 19 June 2006 and were signed on its behalf by:

S Kelly

Director

Company Balance Sheet
as at 31 March 2006

	Notes	2006 £
Fixed assets		
Investments	12	**11,306,180**
		11,306,180
Current assets		
Debtors	14	**3,482,583**
		3,482,583
Creditors: amounts falling due within one year	15	**(10,880,041)**
Net current liabilities		**(7,397,458)**
Total assets less current liabilities		**3,908,722**
Net assets		**3,908,722**
Shareholders' equity		
Called up share capital	18	**69,045**
Share premium account	19	**3,659,873**
Profit and loss account	19	**(116,512)**
Other reserves	19	**296,316**
		3,908,722

The accounts were approved by the Board of Directors on 19 June 2006 and were signed on its behalf by:

S Kelly

Director

Cash Flow Statement

for the period ended 31 March 2006

	Notes	2006 £	2005 £
Net cash outflow from operating activities	23	**(1,878,024)**	(1,411,510)
Returns on investments and servicing of finance			
Interest received		**35,243**	1,014
Interest paid		**(18,616)**	(62,079)
		16,627	(61,065)
Net cash outflow from returns on investments and servicing of finance		**(1,861,397)**	(1,472,575)
Taxation			
Corporation tax received		**191,435**	366,328
		(1,669,962)	(1,106,247)
Capital expenditure			
Payments to acquire intangible fixed assets		**(1,455,418)**	(813,403)
Payments to acquire tangible fixed assets		**(293,850)**	(86,543)
Receipts from sales of tangible fixed assets		–	198
		(1,749,268)	(899,748)
Net cash outflow for capital expenditure and financial investment		**(3,419,230)**	(2,005,995)
Cash outflow before financing		**(3,419,230)**	(2,005,995)
Financing			
Issue of ordinary share capital		**4,093,497**	2,544,856
Issue cost of ordinary shares issued		**(518,486)**	(36,537)
New long-term loans		**10,000**	524,995
Issue cost of loans introduced		–	(85,252)
Net cash inflow from financing		**3,585,011**	2,948,062
Increase in cash in the period	24	**165,781**	942,067

Notes to the Accounts
for the period ended 31 March 2006

1. Accounting policies

The accounts have been prepared in accordance with United Kingdom Generally Accepted Accounting Practices. A summary of the more important accounting policies adopted are described below.

Basis of accounting

The accounts have been prepared under the historical cost convention.

Basis of consolidation

On 19 October 2005, the Company acquired the entire issued share capital of Software Radio Technology (UK) Limited by means of a share for share exchange. On the same date, Software Radio Technology (UK) Limited transferred its investment in Software Radio Technology Trading Limited (formerly Software Radio Technology Limited) to the Company. Both transactions have been accounted for as Group reconstructions under FRS 6 "Acquisitions and mergers" using merger accounting. The transfer of Software Radio Technology Trading Limited to the Company does not meet all the criteria for a Group reorganisation in FRS 6 because the fair value of any non-equity consideration exceeded 10% of the nominal value of the shares issued. However, the directors consider that the alternative approach of acquisition accounting, with restatement of separable assets and liabilities to fair values, the creation of goodwill and inclusion of post-reorganisation results only, would not give a true and fair view of the Group's results and financial position. The substance of the transaction was not the acquisition of a business but a group reconstruction under which an existing subsidiary has been transferred between two Group companies.

The adoption of merger accounting presents Software Radio Technology plc as if it had always been the parent undertaking of the Group. As Software Radio Technology plc did not trade in the year ended 31 March 2005, the comparative results shown for the year ended 31 March 2005 and the financial position at that year end are those presented previously as the audited consolidated results of Software Radio Technology (UK) Limited except that the share premium account and capital redemption reserve of Software Radio Technology (UK) Limited have been classified as other reserves.

The results included in the profit and loss account for the period ended 31 March 2006 consolidate the results of the parent undertaking from the date of incorporation to the 31 March 2006 and the results of its subsidiary undertakings for the full year to 31 March 2006.

Goodwill

Acquired goodwill is written off in equal annual instalments over its estimated useful life of five years.

Research and development

Research expenditure is written off to the profit and loss account in the year in which it is incurred. Development expenditure is written off in the same way unless the directors are satisfied as to the technical, commercial and financial viability of individual projects. In this situation, the expenditure is deferred and amortised over the period during which the Company is expected to benefit, currently considered to be five years.

Development expenditure capitalised represents time spent by Company employees and sub-contractor costs valued at cost.

1. Accounting policies (continued)

Investments

Fixed asset investments are stated at cost less provision for diminution in value.

Fixed assets

Depreciation is provided on cost or revalued amounts in equal annual instalments over the estimated useful lives of the assets concerned. The following annual rates are used.

Plant and machinery – 2 – 10 years

Deferred taxation

Deferred tax is provided for on a full provision basis on all timing differences which have arisen but not reversed at the balance sheet date. A deferred tax asset is not recognised to the extent that the transfer of economic benefit in future is uncertain. Any assets and liabilities recognised have not been discounted.

Convertible debt

Convertible debt instruments outstanding as at 31 March 2005 have been recorded within creditors at their fair value net of issue costs.

Finance costs are charged to the profit and loss account at a constant rate of interest on the outstanding amount of debt.

The comparatives have not been restated to reflect the presentation requirements of FRS 25. Had the presentation requirements been applied to comparative information an adjustment would have been required to allocate this balance between liabilities and equity as appropriate.

Pension costs

Contributions to defined contribution schemes are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

Leases

Rental costs under operating leases are charged to the profit and loss account on a straight-line basis over the lease term.

Foreign currencies

Transactions denominated in a foreign currency are translated into sterling at the rate of exchange ruling at the date of the transaction. At the balance sheet date, monetary assets and liabilities denominated in foreign currency are translated at the rate ruling at that date. All exchange differences are dealt with in the profit and loss account.

Stocks

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

1. Accounting policies (continued)

Taxation

Corporation tax recoverable in respect of research and development expenditure is accounted for on a cash basis.

Long term contracts

Amounts recoverable on long term contracts, which are included in debtors, are stated at net sales value of the work done after provision for contingencies and anticipated future losses on contracts, less amounts received as progress payments on account. Excess progress payments are included in creditors as payments on account.

Share options

Share options have been accounted for in accordance with UITF 17; Employee Share Schemes.

Turnover

Turnover represents amounts receivable for goods and services supplied in the period net of VAT and trade discounts.

Profit is recognised on long term contracts if the final outcome can be assessed with reasonable certainty by including in the profit and loss account turnover and related costs as contract activity progresses. Turnover is calculated as that proportion of total contract value which hours to date bear to total expected hours for that contract.

2. Turnover

	2006	2005
	£	£
Segmental analysis by geographical destination:		
UK	**50,224**	117,468
Europe	**637,453**	413,173
Asia	**2,437,593**	878,145
	3,125,270	1,408,786

3. Exceptional item

Included in the profit and loss account is an exceptional charge of £675,820, calculated in accordance with UITF 17, arising on the grant of share options with an exercise price at a discount to market value at the date of grant. Full details of share options granted in the period are given in note 4 to the accounts.

4. Directors' emoluments – year ended 31 March 2006

	2006 £	2005 £
Executive		
S Kelly	**94,332**	12,600
S Tucker	**131,500**	91,000
M Rogers	**60,687**	–
Non-Executive		
R Moon	**16,667**	–
S Rogers	**6,250**	–
A Lapping	**6,250**	–
Total emoluments	**315,686**	103,600

Included in total directors' emoluments above are amounts paid to consultancy companies controlled by directors as disclosed in note 22.

Company pension contributions to money purchase schemes

	2006 £	2005 £
S Kelly	**4,417**	667
M Rogers	**1,971**	–
	6,388	667

Directors' emoluments since appointment to Software Radio Technology plc

	2006 £
Executive	
S Kelly	**44,167**
S Tucker	**58,000**
M Rogers	**28,997**
Non Executive	
R Moon	**16,667**
S Rogers	**6,250**
A Lapping	**6,250**
Total emoluments	**160,331**

4. Directors' emoluments (continued) – year ended 31 March 2006

Company pension contributions to money purchase schemes

	2006 £
S Kelly	**2,083**
M Rogers	**1,145**
	3,228

Share Options

Executive	*Granted in the period*	*Exercise price*	*Exercise date*	*Expiry date*
S Kelly	740,000	0.1p	2 November 2006	2 November 2015
	493,333	35p	2 November 2007	2 November 2015
	493,333	35p	2 November 2008	2 November 2015
	493,334	35p	2 November 2009	2 November 2015
S Tucker	940,000	0.1p	2 November 2006	2 November 2015
	733,333	35p	2 November 2007	2 November 2015
	733,333	35p	2 November 2008	2 November 2015
	733,334	35p	2 November 2009	2 November 2015
M Rogers	100,000	0.1p	2 November 2006	2 November 2015
	106,666	35p	2 November 2007	2 November 2015
	106,666	35p	2 November 2008	2 November 2015
	106,667	35p	2 November 2009	2 November 2015

Non-Executive	*Granted in the period*	*Exercise price*	*Exercise date*	*Expiry date*
R Moon	1,040,000	24.5p	2 November 2006	2 November 2015

An insurance premium of £2,779 (2005: £nil) was paid in respect of directors and officers liability.

Retirement benefits are accruing to two (2005: one) directors under the Company's money purchase pension scheme.

5. Employee information

The average number of persons, including directors employed by the Company during the period was:

	2006 Number	2005 Number
Technical	31	27
Administration and sales	12	9
	43	36

	£	£
Staff costs for the above persons were:		
Wages and salaries	2,049,069	944,823
Social security costs	110,538	88,934
Pension costs – defined contribution schemes	30,219	31,830
	2,189,826	1,065,587

Total wages and salaries, as stated above, exclude costs capitalised and included within deferred development expenditure amounting to £938,940 (2005: £650,805). This figure includes expenses.

Wages and salaries also include £675,820 in respect of share options granted at a discount to the market price as detailed in note 3.

6. Interest payable and similar charges

	£	£
Bank loans and overdrafts	**3,304**	84
Debentures and other loans	**15,312**	61,995
	18,616	62,079

7. **Loss on ordinary activities before taxation** is stated after charging/(crediting):

	2006	2005
	£	**£**
Amortisation		
– intangible assets	146,286	87,044
Depreciation	132,154	129,045
Auditors' remuneration		
– audit (including £11,000 (2005: £1,750) in respect of the parent Company)	26,000	12,500
– non-audit services (paid to related companies of the auditors)	10,265	12,100
Exchange loss/(profit)	2,876	(1,199)
Operating lease rentals	56,677	58,742
Loss on disposal of tangible assets	–	997
Exceptional item (note 3)	675,820	–

In addition to the fees paid by the Group to the auditor in respect of other services, £76,000 (2005: £nil) in relation to admission to AIM has been charged to the share premium account.

8. **Tax on profit on ordinary activities**

	£	**£**
(a) UK corporation tax at 30% (2005: 30%)		
Current	–	–
Over-provision in respect of prior years	(191,435)	(366,328)
	(191,435)	(366,328)

(b) Factors affecting tax charge for period

	£	£
Loss on ordinary activities before tax	**(1,492,954)**	(1,017,469)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK 30% (2005: 30%)	**(447,886)**	(305,241)
Effects of:		
Expenses not deductible for tax purposes	**10,222**	20,971
Exceptional item (note 3)	**202,746**	–
Depreciation in excess of capital allowances	**24,573**	1,696
Utilisation of tax losses	**210,345**	282,579
Chargeable disposals	–	299
Other tax adjustments	–	(304)
Adjustments to previous periods – R&D tax credit	**(191,435)**	(366,328)
Current tax credit for period	**(191,435)**	(366,328)

8. Tax on profit on ordinary activities (continued)

(b) Factors affecting tax charge for period (continued)

The Group has estimated losses of £12,389,237 (2005: £11,937,565) available for carry forward against future trading profits.

No provision has been made in the accounts for a potential net deferred tax asset of £3,716,771 (2005: £3,620,301) resulting from the excess of depreciation over accelerated capital allowances and carry forward trading losses. A deferred tax asset would only be recognised where there is reasonable certainty that suitable taxable profits will be generated in the future and that the Group will be able to claim capital allowances in excess of depreciation in the future or where a balancing allowance would arise on disposal of the asset.

9. Loss for the financial period

As permitted by section 230 of the Companies Act 1985, the holding Company's profit and loss account has not been included in these financial statements. The loss for the period is £792,332.

10. Intangible fixed assets – Group

	Goodwill	Development Costs	Total
	£	£	£
Cost or valuation			
At 1 April 2005	336,478	1,392,037	1,728,515
Additions	–	1,455,418	1,455,418
At 31 March 2006	**336,478**	**2,847,455**	**3,183,933**
Depreciation			
At 1 April 2005	157,024	19,748	176,772
Charge for the period	67,296	78,990	146,286
At 31 March 2006	**224,320**	**98,738**	**323,058**
Net book value			
At 31 March 2006	**112,158**	**2,748,717**	**2,860,875**
At 31 March 2005	179,454	1,372,289	1,551,743

11. Tangible fixed assets – Group

	Plant and machinery £
Cost	
At 1 April 2005	1,756,746
Additions	293,850
At 31 March 2006	**2,050,596**
Depreciation	
At 1 April 2005	1,594,243
Charge for the period	132,154
At 31 March 2006	**1,726,397**
Net book value	
At 31 March 2006	**324,199**
At 31 March 2005	162,503

12. Fixed asset investments – Company

	Shares in Group undertakings £
Additions	11,306,180
Cost as at 31 March 2006	**11,306,180**

Holdings of more than 20%

The Company holds more than 20% of the share capital of the following companies:

Company	Country of incorporation	Shares held	
Subsidiary undertakings		**Class**	**%**
Software Radio Technology (UK) Limited	England	Ordinary	100
Software Radio Technology Trading Limited	England	Ordinary	100

The principal activity of these undertakings for the last relevant financial period was as follows:

	Principal activity
Software Radio Technology (UK) Limited	Non-trading
Software Radio Technology Trading Limited	Electronic hardware and software engineering and licensing of technology reference designs

In addition to the above, the Company has a further wholly owned subsidiary, Software Radio Technology (Marine Technology) Limited. This Company has been dormant since incorporation but commenced trading on 1 April 2006.

13. Stocks – Group

	2006	2005
	£	£
Raw materials and consumables	84,307	–
Finished goods	205,784	134,737
	290,091	134,737

14. Debtors – Group

	£	£
Trade debtors	**703,001**	395,941
Amounts recoverable on contracts	**984,547**	12,863
Other debtors	**136,124**	23,102
Prepayments and accrued income	**80,305**	203,960
	1,903,977	635,866

Amounts falling due after more than one year and included within trade debtors above amount to £107,143.

Debtors – Company

	£
Amounts owed by Group Company	**3,472,473**
Other debtors	**10,110**
	3,482,583

15. Creditors: amounts falling due within one year – Group

	£	£
Payments received on account	**7,102**	364,266
Trade creditors	**427,503**	288,884
Other taxation and social security	**60,161**	53,856
Other creditors	**19,224**	10,176
Accruals and deferred income	**376,357**	72,401
	890,347	789,583

£16,974 (2005:£9,571) has been included in “other creditors” and charged to the profit & loss account for pension contributions to defined contribution pension schemes to be paid by the Company.

15. Creditors: amounts falling due within one year – Company

	2006 £	2005
Amounts owed to Group undertakings	**10,815,957**	
Accruals and deferred income	**64,084**	
	10,880,041	

16. Creditors: amounts falling due after more than one year – Group

	£	£
Debenture loans (note 17)	–	439,743
	–	439,743

17. Borrowings – Group

	£	£
Falling due within one year		
8.75% convertible loan notes	–	–
Falling due after more than one year		
8.75% convertible loan notes	–	439,743
Loan maturity analysis		
In more than two years but not more than five years	–	219,872
In more than five years	–	219,871

Other creditors include convertible debt of £nil (2005: £439,743). The aggregate value of the convertible loan notes issued on 8 March 2005 was £439,743, net of issue expenses of £85,252 and the loan notes carried interest at 8.75%. These loan notes could be converted into C Ordinary 1p shares at the option of the holder at any time in the year following the date of issue.

The loan, if not converted, was repayable in two equal annual instalments of £262,497 on 8 March 2010 and 2011.

The loan notes were secured by a floating charge over the assets of the Company.

On 19 October 2005, the Company, Software Radio Technology (UK) Limited and the loan note holders entered into an agreement relating to (1) the transfer of the outstanding loan notes issued by Software Radio Technology (UK) Limited to the Company by the holders; (2) the issue of new loan notes by the Company to the holders in the same principal amount of the loan notes transferred to the Company. In connection therewith, the Company issued £524,995 nominal amount 8.75 per cent Convertible Secured loan notes 2010/11, on the same terms as the original loan notes.

On 28 October 2005, the Company received a conversion notice from the holders in relation to all of the new loan notes. On 2 November 2005, the loan notes were converted into 1,975,520 0.1p Ordinary shares, with an aggregate nominal value of £1,976. On conversion of the loan notes, issue expenses of £85,252 were transferred to the share premium account.

18. Called up share capital

	2006 £	2005 £
Authorised		
120,000,000 Ordinary shares of 0.1p each (2005: 664,513 Ordinary shares of 1p each)	**120,000**	6,645
(2005: 1,050,998 A Ordinary shares of 1p each)	–	10,510
(2005: 698,775 B Ordinary shares of 1p each)	–	6,988
(2005: 300,000 C Ordinary shares of 1p each)	–	3,000
(2005: 285,714 Deferred shares of 1p each)	–	2,857
	120,000	30,000
Allotted, called up and fully paid		
69,044,530 Ordinary shares of 0.1p each (2005: 154,600 Ordinary shares of 1p each)	**69,045**	1,546
(2005: 744,124 A Ordinary shares of 1p each)	–	7,442
(2005: 327,600 B Ordinary shares of 1p each)	–	3,275
(2005: 21,167 C Ordinary shares of 1p each)	–	212
	69,045	12,475

Share Capital

The Company was incorporated on 23 May 2005 with an authorised share capital of £100 made up of 100 Ordinary shares of £1 each, one subscriber share with a nominal value of £1 was issued on incorporation.

Since incorporation there have been the following changes to the share capital of the Company:

On 19 October 2005, the authorised share capital was increased to £60,000 comprising 60,000 Ordinary shares of £1 each. On the same day the authorised share capital was sub-divided into 6,000,000 shares of 1p each and the shares were re-designated as 3,250,000 'A' Ordinary shares of 1p each; 1,500,000 'B' Ordinary shares of 1p each; 300,000 'C' Ordinary shares of 1p each and 950,000 Ordinary shares of 1p each.

On 19 October 2005, the Company issued 2,976,496 'A' Ordinary shares of 1p each with an aggregate nominal value of £29,765; 1,328,280 'B' Ordinary shares of 1p each with an aggregate nominal value of £13,283; 84,668 'C' Ordinary shares of 1p each with an aggregate nominal value of £847 and 658,500 Ordinary shares of 1p each with an aggregate nominal value of £6,585 in consideration for the entire issued share capital of Software Radio Technology (UK) Limited.

On 28 October 2005, each of the authorised and issued 1p Ordinary shares; 1p 'A' Ordinary shares; 1p 'B' Ordinary shares and 1p 'C' Ordinary shares were sub-divided into ten shares of 0.1p each of the respective class.

On the same date, all of the authorised but unissued 1p Ordinary shares; 1p 'A' Ordinary shares, 1p 'B' Ordinary shares and 1p 'C' Ordinary shares were re-designated as Ordinary shares. Each of the authorised but unissued 1p Ordinary shares was sub-divided into ten 0.1p Ordinary shares.

On 28 October 2005, the Company's authorised share capital was increased from £60,000 to £120,000 by the creation of 60,000,000 0.1p Ordinary shares.

On 2 November 2005, immediately prior to admission to AIM, all of the issued 'A' Ordinary 0.1p shares, 'B' Ordinary 0.1p shares and 'C' Ordinary 0.1p shares were converted into a like number of Ordinary 0.1p shares.

18. Called up share capital (continued)

On 2 November 2005, immediately prior to admission to AIM, in accordance with a conversion notice issued under the terms of a convertible loan instrument dated 7 October 2005, the Company issued 5,036,720 0.1p Ordinary shares with an aggregate nominal value of £5,036 in satisfaction of a convertible loan with a book value of £10,000.

On 2 November 2005, immediately prior to admission to AIM, 1,975,520 0.1p Ordinary shares with an aggregate nominal value of £1,976 were issued in satisfaction of a convertible loan with a book value of £524,995 as detailed in note 17.

On 2 November 2005, the Company issued 11,552,850 0.1p Ordinary shares with an aggregate nominal value of £11,553 for total cash consideration of £4,043,498.

On 2 November 2005, the Company issued 11,552,850 warrants to all those participating in the placing. The warrants were issued with each share subscribed for as part of the placing and give the warrant holders the right to subscribe for Ordinary shares at a subscription price of 40p per Ordinary share. The warrants are freely transferable and may be exercised at any time from and including admission up to and including the second anniversary of admission or earlier in certain circumstances. Assuming all existing warrants were exercised, 11,552,850 additional Ordinary shares would be issued by the Company.

On 2 November 2005, the Company granted options over 7,580,000 0.1p Ordinary shares to certain executive and non-executive directors and staff. These options are exercisable from the first to the tenth anniversary of the date of grant. In addition to the options granted to directors as detailed in note 4, options over 760,000 0.1p Ordinary shares were granted to certain employees. These options vest in three equal tranches, one third on the first anniversary of the date of grant, one third on the second anniversary and one third on the third anniversary. The options are exercisable twelve months after the vesting date until the tenth anniversary of grant. These options have an exercise price of 35p.

As part of the placing agreement, the Company's broker, Westhouse Securities, was granted an option to subscribe for 690,445 Ordinary shares. The exercise price is equal to the placing price and the option is exercisable at any time between admission and the date which falls five years from admission. The option may be exercised in up to three tranches.

19. Reserves – Group

	Other reserves £	Profit and loss account £	Share premium account £
At 1 April 2005	5,416,203	(3,105,505)	–
Loss for the financial period	–	(1,301,519)	–
Premium on shares issued in period (net)	49,955	–	3,659,873
Bonus issue	(37,962)	–	–
Issue of warrants (net)	296,316	–	–
Share options to be exercised	–	675,820	–
At 31 March 2006	**5,724,512**	**(3,731,204)**	**3,659,873**

	Capital redemption reserve £	Warrants £	Merger £	Total £
Other reserves				
At 1 April 2005	2,857	–	5,413,346	5,416,203
Premium on shares issued in the period	–	–	49,955	49,955
Bonus issue	–	–	(37,962)	(37,962)
Issue of warrants (net)	–	296,316	–	296,316
	2,857	296,316	5,425,339	5,724,512

The premium on shares issued in the period arises in respect of the issue of 4,533 1p Ordinary shares by Software Radio Technology (UK) Limited prior to the group reconstruction. The shares had an aggregate nominal value of £45 and were issued for total cash consideration of £50,000.

Following an increase in the authorised share capital of Software Radio Technology (UK) Limited from £30,000 to £60,000, on 19 October 2005 Software Radio Technology (UK) Limited issued bonus shares in the ratio 3 new shares for each existing share held. Consideration for the bonus shares issued was satisfied by means of a transfer from the share premium account.

The movement on other reserves relating to warrants comprises an allocation of placing proceeds representing the deemed value of the warrants issued alongside the Ordinary shares (see note 18).

19. Reserves – Company

	Other reserves £	Profit and loss account £	Share premium account £
At 1 April 2005	–	–	–
Loss for the financial period	–	(792,332)	–
Premium on shares issued in period (net)	–	–	3,659,873
Issue of warrants in the period (net)	296,316	–	–
Share options to be issued	–	675,820	–
At 31 March 2006	**296,316**	**(116,512)**	**3,659,873**

20. Shareholders' funds – Group

	2006 £	2005 £
Loss for the financial period	**(1,301,519)**	(651,141)
Proceeds from issue of shares	**4,288,452**	2,544,856
Costs of share issue	**(560,016)**	(36,537)
Proceeds from issue of warrants	**340,039**	–
Costs of warrants issued	**(43,723)**	–
Share options to be exercised	**675,820**	–
	3,399,053	1,857,178
Opening shareholders' funds	**2,323,173**	465,995
Closing shareholders' funds	**5,722,226**	2,323,173

20. Shareholders' funds (continued)

Reconciliation of movements in Shareholders' funds – Company

	2006
	£
Loss for the financial period	**(792,332)**
Proceeds from issue of shares	**4,288,934**
Cost of share issue	**(560,016)**
Proceeds from issue of warrants	**340,039**
Cost of warrants issued	**(43,723)**
Share options to be exercised	**675,820**
	3,908,722
Opening shareholder's funds	**–**
Closing shareholders' funds	**3,908,722**

21. Operating lease commitments

At 31 March 2006 the Group had annual commitments under operating leases as follows:

	2006		2005	
	Land and buildings	**Other**	Land and buildings	Other
	£	**£**	£	£
For leases expiring:				
Within one year	–	–	–	2,868
Between two and five years	–	3,200	–	2,946
After five years	51,630	–	51,630	–
	51,630	3,200	51,630	5,814

22. Transactions with directors

Software Radio Technology Limited entered into an overdraft facility of up to £500,000 on 6 July 2005 with The Royal Bank of Scotland. The facility was secured by way of personal guarantees provided to RBS by each of Andrew Lapping (for £100,000), Simon Rogers (for £125,000), both directors of Software Radio Technology plc and others for £225,000. This overdraft was repaid in full by 30 November 2005 and the Guarantors were entitled to an aggregate fee of £50,000 payable pro-rata to the amount of guarantee provided. In accordance with this agreement £10,000 was paid to Andrew Lapping and £12,500 to Simon Rogers on 5 December 2005.

Included within directors' emoluments is £nil (2005: £70,000) in respect of directors' services provided by S Tucker. This amount was invoiced by Abercrombie & Associates, an entity in which S Tucker has an interest. There was no amount owing to Abercrombie & Associates at the period end. (2005: £nil).

Included within directors' emoluments is £nil (2005: £12,600) in respect of directors' services provided by S Kelly. The amount was invoiced by NetInfo Limited, an entity in which S Kelly has an interest, There was no amount owing to NetInfo Limited at the period end (2005: £nil). During the year the Company invoiced NetInfo Limited £21,000 (2005: £3,500) for services provided by S Kelly.

Each of the non-executive directors invoices the Company for their services through their respective businesses. During the period an amount of £6,250 (2005: £nil) was payable to Andrew Lapping, an amount of £6,250 (2005: £nil) was payable to Newton Court Partnership for services provided by Simon Rogers and £23,333 (2005: £nil) was paid to Synergie Business Limited for services provided by Richard Moon. As at the period end £2,500 (2005: £nil) was owed to Andrew Lapping, and £6,666 (2005: £nil) was owed to Synergie Business Limited. There were no amounts due to Newton Court Partnership in either year.

23. Reconciliation of operating profit to net cash outflow from operating activities

	£	£
Operating loss	**(1,509,581)**	(956,404)
Depreciation	**132,154**	129,045
Amortisation	**146,286**	87,044
Exceptional item	**675,820**	–
Loss on sale of tangible fixed assets	–	997
(Increase) in stocks	**(155,354)**	(130,047)
(Increase)/decrease in debtors	**(1,268,113)**	46,858
Increase/(decrease) in creditors	**100,764**	(589,003)
Net cash outflow from operating activities	**(1,878,024)**	(1,411,510)

24. Reconciliation of net cash flow to movement in net debt

	2006 £	2005 £
Increase in cash in the period	**165,781**	942,067
Change in net funds resulting from cash flows	**165,781**	942,067
Movement in net funds in the period	**165,781**	942,067
Net funds at 1 April 2005	**1,067,650**	125,583
Net funds at 31 March 2006	**1,233,431**	1,067,650

25. Analysis of net funds

	At 1 April 2005 £	Cash flow £	Other non cash changes £	**At 31 March 2006 £**
Cash in hand, at bank	1,067,650	165,781	–	**1,233,431**
	1,067,650	165,781	–	**1,233,431**
Debt due after one year	(439,743)	–	439,743	–
Total	627,907	165,781	439,743	**1,233,431**

26. Earnings per share

The basic earnings per share has been calculated on the loss on Ordinary activities after taxation of £1,301,519 (2005: £651,141) divided by the weighted number of Ordinary shares in issue of 57,786,194 (2005: 44,393,295). The weighted average number of shares in issue has been adjusted to reflect the bonus issue and share sub-division that took place during the period.

In accordance with Financial Reporting Standard Number 22, the warrants and share options issued during the period are not considered dilutive as their inclusion would increase the loss per share. Similarly share options granted post period end as disclosed in note 27 are not considered dilutive. For these reasons the diluted earnings per share calculation is not required. In 2005 there were no warrants or share options in issue.

27. Post balance sheet events

In April 2006 the Company granted options over 530,000 0.1p Ordinary shares to certain employees under its approved EMI share option scheme. Such options were granted at an exercise price of 57p vest and are exercisable on the same terms as those options granted to directors and employees on flotation and disclosed in note 18.

During May 2006 the Company undertook a placing of 9,042,552 shares at 47p raising £4,250,000 before costs. The placing was approved on the passing of resolutions at the extraordinary general meeting on 19 June 2006.

28. Financial instruments

At the balance sheet date, the activities of the Company are funded out of working capital and do not include the use of derivatives or financial instruments other than cash. The Company has financial instruments in the form of long and short term debtors and short term creditors which arise in the normal course of business and are not discounted or offered as security in any way. Prior to 2 November 2005, the company was partly financed through convertible loan notes as detailed in note 17.

The main risks arising from the Company's financial instruments are credit risk and foreign currency risk. Operations during the period were financed through cash resources derived from shareholder subscriptions, debtors and creditors. The Company conducts a review of the potential credit risk exposure on entering into a contract with a new customer.

The Company's currency exposure comprises monetary assets and liabilities that are denoted in currencies other than sterling, principally those denominated in US Dollars.

Such transactions give rise to net currency gains and losses recognised in the profit and loss account. At the period end this exposure comprised £648,224 of assets denominated in US Dollars, £50,665 of assets denominated in Euros and £145,831 of liabilities denominated in Euros and £24,368 of liabilities denominated in US Dollars. The Company does not hedge against this exposure.

	2006	2005
	£	£
Cash at bank	**1,233,431**	1,067,650

The Company earns interest on such balances payable quarterly in arrears with reference to the sterling LIBOR.

29. Guarantee

Under a guarantee dated 9 November 2005, Software Radio Technology plc has granted security against bank borrowings in the name of Software Radio Technology Trading Limited up to a maximum amount of £500,000. At 31 March 2006, the outstanding balance due to the bank was £nil.

Any such borrowings are secured by an all monies debenture granted by Software Radio Technology Trading Limited dated 6 January 2006.

Notice of Annual General Meeting

NOTICE is hereby given that the Annual General Meeting of the Company will be held at the offices of CMS Cameron McKenna LLP at Mitre House, 160 Aldersgate Street, London EC1A 4DD at 11.00am on 7 August 2006 for the purpose of considering and, if thought fit, passing the following ordinary resolutions (in the case of resolutions 1 to 9) and special resolution (in the case of resolution 10):

ORDINARY RESOLUTIONS

1 To receive the audited financial statements of the Company for the financial year ended 31 March 2006, the Directors' Report and the Auditors' Report on those Financial Statements.

2 To re-appoint Nexia Smith & Williamson as the auditors of the Company to hold office from the conclusion of this meeting until the conclusion of the next general meeting of the Company at which audited accounts are laid and to authorise the directors to fix their remuneration.

3 To re-appoint Richard James Moon as a director of the Company.

4 To re-appoint Shamus Kelly as a director of the Company.

5 To re-appoint Simon Richard Tucker as a director of the Company.

6 To re-appoint Matthew David Rogers as a director of the Company.

7 To re-appoint Andrew Christopher Lapping as a director of the Company.

8 To re-appoint Simon Francis Rogers as a director of the Company.

9 To consider and, if thought fit, to pass the following resolution which will be proposed as an Ordinary Resolution:

THAT the directors be generally and unconditionally authorised to exercise all powers of the Company to allot relevant securities (within the meaning of section 80(2) of the Companies Act 1985) up to an aggregate nominal amount of £26,029 provided that this authority shall expire (unless previously varied, revoked or renewed by the Company in general meeting) on the expiry of the earlier of (a) the conclusion of the next Annual General Meeting of the Company or (b) 15 months following the date on which this resolution is passed, except that the Company may before such expiry 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 in pursuance of such offer or agreement as if the authority conferred by this resolution had not expired, and this authority shall be in addition to the authority conferred by the ordinary resolution of the Company passed on 19 June 2006.

SPECIAL RESOLUTION

10 To consider and, if thought fit, to pass the following resolution which will be proposed as a Special Resolution:

THAT the directors be empowered pursuant to section 95 of the Companies Act 1985 to allot equity securities (as defined in section 94(2) of that Act) for cash pursuant to the general authority conferred on them by resolution 9 above and/or to sell equity securities held as treasury shares for cash pursuant to section 162D of that Act, in each case as if section 89(1) of that Act did not apply to any such allotment or sale, provided that this power shall be limited to:

(a) any such allotment and/or sale of equity securities in connection with an issue or offer by way of rights or other pre-emptive issue or offer, open for acceptance for a period fixed by the directors, to holders of Ordinary shares (other than the Company) on the register on any record date fixed by the directors in proportion (as nearly as may be) to the respective number of Ordinary shares deemed to be held by them, subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements, legal or practical problems arising in any overseas territory, the requirements of any regulatory body or stock exchange or any other matter whatsoever; and

(b) any such allotment and/or sale, otherwise than pursuant to sub-paragraph (a) above, of equity securities having, in the case of relevant shares (as defined in section 94(5) of the Act), an aggregate nominal value or, in the case of other equity securities, giving the right to subscribe for or convert into relevant shares having an aggregate nominal value, not exceeding the sum of £7,808.

This authority shall expire, unless previously revoked or renewed by the Company in general meeting, at such time as the general authority conferred on the directors by resolution 9 above expires, except that the Company may at any time before such expiry make any offer or agreement which would or might require equity securities to be allotted or equity securities held as treasury shares to be sold after such expiry and the directors may allot equity securities and/or sell equity securities held as treasury shares in pursuance of such an offer or agreement as if the power conferred by this resolution had not expired.

By order of the Board

Matthew Rogers
Company Secretary
7 August 2006

Registered Office:
Wireless House
Westfield Industrial Estate
Midsomer Norton
Bath BA3 4BS

Notes:

1 A member of the Company entitled to attend and vote at the above meeting may appoint a proxy to attend and (on a poll) vote instead of him. A proxy need not be a member of the Company.

2 Completion and return of a form of proxy does not preclude a member from attending and voting at the meeting in person should he so wish.

3 A form of proxy is enclosed and to be valid must be completed and returned so as to reach the Company's registrars, Computershare Investor Services PLC, PO Box 1075, Bristol BS99 3ZZ (together with a letter or power of attorney or other written authority, if any, under which it is signed or a notarially certified or office copy of such power or written authority) not later than 48 hours before the time fixed for holding the meeting or any adjournment thereof.

4 In accordance with regulation 41(1) of the Uncertificated Securities Regulations 2001, the Company specifies that only those shareholders registered in the Company's register of members at close of business on 5 August 2006 (or in the case of adjournment 48 hours before the time of the adjourned meeting) will be entitled to attend or vote at the meeting.

Explanatory Notes for Shareholders

Resolution 1 – Directors' Report and audited Financial Statements for year ended 31 March 2006

The directors are required to present to the Annual General Meeting the accounts and the reports of the directors and auditors for the year ended 31 March 2006. They are contained in the Company's Annual Report and Financial Statements.

Resolution 2 – Re-appointment of auditors and auditors' remuneration

This resolution proposes the re-appointment of Nexia Smith & Williamson as auditors of the Company and gives authority to the directors to determine their remuneration.

Resolutions 3 to 8 – Directors re-appointment

The Company's Articles of Association requires any director appointed by the board to retire at the Annual General Meeting following appointment. Under this provision each member of the Board, namely Richard James Moon, Shamus Kelly, Simon Richard Tucker, Matthew David Rogers, Andrew Christopher Lapping and Simon Francis Rogers, is required to retire at this year's Annual General Meeting, and they are listed at resolutions 3 to 8.

Resolution 9 – Authority to allot shares

The Companies Act 1985 provides that the directors may not allot shares unless empowered to do so by the shareholders. Such a power cannot be given for longer than five years at any one time and the total nominee value of shares which can be allotted must be specified. In respect of unissued shares in the Company it is accordingly proposed that the directors be granted general authority at any time prior to the expiry of the earlier of (a) the conclusion of the next Annual General Meeting of the Company or (b) 15 months following the forthcoming Annual General Meeting to allot shares up to an aggregate nominal amount of £26,029. The directors have no current plans to make use of this authority, other than the issue of shares pursuant to employee share schemes.

Resolution 10 – Disapplication of pre-emption rights

This resolution gives the directors' authority to implement rights issues without complying fully with the technical requirements of section 89 of the Companies Act 1985 (relating to the allotment of shares for cash). It also gives the directors authority to allot shares for cash other than by way of rights to existing shareholders up to an aggregate nominal amount of £7,808 representing approximately 10% of the Company's issued share capital as at the date of the notice of Annual General Meeting. This power will provide the directors with the flexibility to take advantage of business opportunities as they arise. If given, this authority will last until the expiry of the earlier of (a) the conclusion of the next Annual General Meeting of the Company or (b) 15 months following the forthcoming Annual General Meeting.

Notes

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Radio Technology

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