

LitComp plc

Company Registration No: 04336531 (England and Wales)

Annual Report & Accounts

31st March 2007



elite insurance
company ltd

LitComp plc and Subsidiary Undertakings

Company Information

Directors	Mr. J. A. Smart Mr. P. A. Lavender Dr. C. H. Nemeth Mr. D. A. Smith
Company Secretary	Mr. P.A. Lavender
Company number	04336531
Registered office	Newton Chambers Newton Business Park Isaac Newton Way Grantham Lincolnshire NG31 9RT
Auditors	UHY Hacker Young LLP 22 The Ropewalk Nottingham NG1 5DT
Business address	Newton Chambers Newton Business Park Isaac Newton Way Grantham Lincolnshire NG31 9RT
Bankers	Lloyds TSB Bank plc Homer House Sibthorp Street Lincoln Lincolnshire LN5 7SL
Solicitors	Finers Stephens Innocent LLP 179 Great Portland Street London W1W 5LS
Financial PR	Bishopsgate Communications Ltd 2nd Floor 5-11 Worship Street London EC2A 2BH
Web	www.litcomp-plc.com

LitComp plc and Subsidiary Undertakings

Contents

	Page
Company Information	inside front cover
Chairman's Report	1-2
Report of the Directors	3-8
Report of the Independent Auditors	9-10
Consolidated Profit and Loss Account	11
Consolidated Balance Sheet	12
Company Balance Sheet	13
Consolidated cash flow statement	14
Notes to the cash flow statement	15-16
Notes to the Financial Statements	17-31

LitComp plc and Subsidiary Undertakings

Chairman's Report

For the year ended 31 March 2007

CHAIRMAN'S STATEMENT

I am pleased to announce the final results for the 12 months ended 31 March 2007. The Group has been transformed from a medico-legal reporting focused Group with a turnover of £2.95M in the year ended 31 March 2006 to a litigation services Group with a turnover which has more than doubled to £6.23M. Elite has made particularly significant progress in the year under review. Gross premium income has increased to £4.42M compared to £0.17M in the previous year. The Board is confident that the Group's performance will continue to improve and the prospects for the future are excellent.

Financials

	2007	2006
Profit before tax	£0.83M	£(0.58M)
Operating profit/(loss)	£1.26M	£(0.26M)
Earnings/(loss) per share	11.67p	(11.42)p
Fully Diluted Earnings Per Share (calculated on basis of full conversion of 10% convertible loan stock, and extant share options)	<u>5.09p</u>	<u>(11.42)p</u>

Review and current prospects

Elite

Elite has continued to experience significant growth in gross premium income in the second half of the financial year under review. The Directors are confident that this growth will be maintained in the current financial year. The 'After Event Insurance' (AEI) business which Elite has written is diversified across a number of types of cover including: personal injury; road traffic accident; commercial; loan protection; Right-To-Buy; and insolvency.

In June 2007, Elite successfully negotiated a quota share and surplus treaty reinsurance programme with a leading international AA minus rated re-insurer. This is of particular note as this reinsurance will significantly increase Elite's underwriting capacity. It is a considerable achievement for a company as young as Elite to have successfully concluded this reinsurance programme, at such an early stage in its development, with one of the World's top re-insurers. As part of this arrangement Elite will naturally have to cede a percentage of its revenues to the re-insurer. However, the programme includes a significant element of profit commission returned to Elite if it hits projected claims ratios. The programme will enable Elite to write larger commercial AEI policies, for which it has hitherto lacked the underwriting capacity.

Elite now insures through nine leading specialist brokerages and works with two providers of specialist litigation funding.

Although the Directors' principal effort is concentrated on building the business organically, the Directors will consider acquisitions or strategic partnerships which demonstrably add value to Elite.

Medico-Legal Reporting

LitComp UK achieved turnover of £1.81M (2006: £2.78M).

Conditions in the medico-legal reporting sector were extremely difficult in the year under review, mainly because of uncertainty in the marketplace resulting from the appeal against the Wollard Judgement by insurers, who withdrew the appeal in May 2007. This means that medico-legal agency fees are admissible in litigation claims and therefore uncertainty has now been removed. The Directors are confident that these

LitComp plc and Subsidiary Undertakings

Chairman's Report (continued)

For the year ended 31 March 2007

developments will have a positive impact on LitComp UK's business and are already seeing an improvement in the rate of nominations. However, because of the long lead time from nomination to sales invoicing, the benefit of these increases will not be reflected in increased sales until late in the current financial year.

Additionally, LitComp UK has recently entered into two marketing ventures which are expected to have a beneficial impact in the second half of the current financial year.

The Directors believe that there will be opportunities for consolidation in the medico-legal reporting market and will consider suitable opportunities to add value and reduce risk.

I would like to thank our staff, business partners and shareholders for their continued support and look forward to continuing to develop the business going forward.

Douglas Smith

Non Executive Chairman

27th September 2007

LitComp plc and Subsidiary Undertakings

Directors' Report

For the year ended 31 March 2007

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

PRINCIPAL ACTIVITY

The principal activity of the group in the year under review was that of litigation services comprising the provision of medico-legal reports and 'after-event' insurance cover.

REVIEW OF BUSINESS

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

The consolidated profit and loss account has been prepared for the year ended 31 March 2007 and shows the consolidated results of LitComp Plc and its subsidiary undertakings for that period. Comparatives, prepared on the same basis, relate to the year ended 31 March 2006.

The Chairman's Statement on pages 1 to 2 contains a review of the group's trading in the year, and of its current prospects.

Key Performance Indicators

- (i) After the Event Insurance (Elite)
- Gross Premium Income has increased to £4.424m from £0.169m.
 - Claims represent 17.4% of Gross Premium Income; these are arrived at after writing back reserves for settled cases, which have reduced this ratio below the level which would normally be anticipated.
 - Comparison with the previous year's results is not meaningful as Elite did not commence trading fully until March 2006. Elite has shown considerable growth, in line with forecasts, during the year.
- (ii) Medico Legal Reporting (LitComp UK)
- Sales of £1.81m were down from £2.78m in 2006. This is principally the result of uncertainty in the market place because of the appeal against the Wollard judgement by Insurers, which has recently been withdrawn.
 - Gross Margin has been maintained at 42%.
 - LitComp UK traded cash positively in the year: its borrowings were reduced from £0.594m to £0.39m.
 - LitComp UK traded behind forecast during the year.
 - Current sales are showing signs of improvement.

Risks

- (i) After the Event Insurance (Elite)
- Competitive pressure
 - Regulatory changes
-

LitComp plc and Subsidiary Undertakings

Directors' Report (continued)

For the year ended 31 March 2007

- Unexpectedly high incidence of claims
- Loss of key staff

As an insurer Elite's capacity to write business may be adversely affected by unexpectedly high rates of claims, or by changes in Regulatory Solvency requirements for the type of business transacted.

Elite protects against these risks by:

- Maintaining an effective sales team and building strong relationships with key brokers; offering a flexible and price competitive product and quality service
- Monitoring regulatory and compliance issues diligently; maintaining close contact with regulatory departments; prompt reporting
- Employing a highly experienced underwriting team, supported by an independent underwriting committee
- Utilising a reinsurance programme
- Rewarding staff adequately and providing a positive working environment

(ii) Medico Legal Reporting (LitComp UK)

- Competitive pressure
- Industry pressure on pricing
- Reduced availability of funding to solicitor customers from lenders
- Loss of key staff

LitComp UK protects against these risks by:

- Maintaining an effective sales team and building strong relationships with key clients; offering an efficient quality service
- Sourcing medico legal reports at competitive prices
- Maintaining effective credit control
- Rewarding staff adequately and providing a positive working environment

DISCLOSURE TO AUDITORS

In the case of each current director as at 27 September 2007:

- So far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- He has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

DIVIDENDS

No dividends will be distributed for the year ended 31 March 2007 (2006: Nil).

LitComp plc and Subsidiary Undertakings

Directors' Report (continued)

For the year ended 31 March 2007

DIRECTORS

The directors during the year under review were:

J A Smart
P A Lavender
Dr C H Nemeth JP
D A Smith

The beneficial interests of the directors holding office on 31 March 2007 in the issued share capital of the company were as follows:

	<i>Ordinary £0.10 shares</i>	
	<i>31 March 2007</i>	<i>31 March 2006</i>
J A Smart	866,767	866,767
P A Lavender	500	500
Dr C H Nemeth JP	–	–
D A Smith	16,393	16,393

In addition to the ordinary shares the directors have a beneficial interest in the convertible 10% Secured Loan Stock as follows:

	<i>Convertible 10% Loan Stock of £1 each</i>	
	<i>31 March 2007</i>	<i>31 March 2006</i>
J A Smart	82,500	82,500
P A Lavender	17,500	12,500
Dr C H Nemeth	5,000	5,000
D A Smith	–	–

FINANCIAL INSTRUMENTS

Options & Warrants

The following options have been granted to directors enabling them to subscribe for ordinary shares of 10p each in the company:

	<i>Number</i>	<i>Subscription price per share</i>	<i>Period within which options are exercisable</i>
P A Lavender	20,000	60p	20 October 2005 to 20 October 2007
	5,000	30p	20 October 2005 to 20 October 2007
J Smart	50,000	60p	20 October 2005 to 20 October 2007
	10,000	30p	20 October 2005 to 20 October 2007

Invoice discounting

The group uses an invoice discounting facility secured against the medico-legal debtors to provide working capital. At the year end this amounted to £0.390m, down from £0.594m in the previous year. Directors utilize this financing because of the flexibility it offers and do not consider that it presents an unusual degree of risk for this type of business. Cash at 31st March 2007 in the group was £2.76m.

Other financial instruments

The group does not use any derivatives or hedge instruments. However the group has previously issued loan notes as detailed in Note 15 below.

LitComp plc and Subsidiary Undertakings

Directors' Report (continued)

For the year ended 31 March 2007

CORPORATE GOVERNANCE

Board of Directors' Responsibilities

The Board currently comprises two Executive Directors and two Non-Executive Directors. The Board notes that the Combined Code guidance recommends that at least half the Board should comprise independent Non-Executive Directors. The Board has determined that Douglas Smith and Dr. Cyril Nemeth are independent in character and judgement and that there are no relationships or circumstances which could materially affect or interfere with the exercise of their independent judgement. The Board is satisfied with the balance between Executive and Non-Executive Directors which allows it to exercise objectivity in decision making and proper control of the group's business. The Board considers its composition is appropriate in view of the size and requirements of the group's business and the need to maintain a practical balance between Executives and Non-Executives.

The Board's primary objective is to focus on adding value to the assets of the group by identifying and assessing business opportunities and ensuring that potential risks are identified, monitored and controlled. The Board operates to a formally defined Constitution which sets out those matters which need to be authorised or reported to the Board; these include acquisitions and disposals, significant recruitments and appointments, major strategic matters and transactions outside the normal course of business and material capital expenditure. In making commercial assessments the Directors review financial viability reports that, among other things, detail the impact of proposals in respect of return on capital and the likely impact on the profit and loss account, cashflows and gearing.

Company Information Disclosure

Group budgets are set annually including net assets and cashflow projections and are reviewed against performance on a monthly basis. A reforecast is usually prepared at the half year. In addition the Executive Directors monitor cashflows on a weekly basis. The Board meet at least four times during the year and is responsible to the shareholders for the strategy and future development of the group and the management of its resources. Board members communicate regularly between Board meetings. Directors are, where necessary, able to obtain independent professional advice at the group's expense and have access to the services of the Company Secretary.

Committees Responsibilities

The Audit Committee

This comprises two non-executive Directors, Douglas Smith and Dr. Cyril Nemeth. The principal duties of the committee are to review the half-yearly and annual financial statements before their submission to the Board and to consider any matters raised by the auditors. The Committee also reviews the independence and objectivity of the auditors. The terms of reference of the Committee reflect current best practice, including authority to:

- Recommend the appointment, re-appointment and removal of the external auditor
- Ensure the objectivity and independence of the auditors including occasions when non-audit services are provided
- Ensure appropriate 'whistle-blowing' arrangements are in place

The non-executive directors may seek information from any employee of the group and obtain external professional advice at the expense of the group if considered necessary. Due to the relatively low number of

LitComp plc and Subsidiary Undertakings

Directors' Report (continued)

For the year ended 31 March 2007

personnel employed within the group, the nature of the business and the current control and review systems in place, the Board has decided not to establish a separate internal audit department.

Remuneration committee

The group has established a formal and transparent procedure for fixing the remuneration packages of individual directors. No director is involved in deciding his own remuneration.

The remuneration committee is made up of Douglas Smith and Dr. Cyril Nemeth. The committee considers the employment and performance of individual Executive Directors and determines their terms of service and remuneration. It also has authority to grant options under the Company's Executive Share Option Scheme. The Committee meets at least once a year.

The Board of Directors has considered the appointment of a separate Nomination Committee, as recommended by the 2003 code, however due to the size and nature of the group, this function is carried out by the Remuneration Committee with the Non-Executive Chairman.

Directors' Responsibilities

The Chairman is responsible for overseeing general strategy, advising on significant commercial issues and chairing the Board; he is also involved in investor relations and monitoring the group's performance.

The Chief Executive is responsible for the implementation of the group strategy and has overall responsibility for the operation of the subsidiaries, sales and marketing, Group IT, underwriting, reinsurance and risk assessment (Elite Insurance Company Limited). Some of these responsibilities are delegated to the Chief Operating Officer and other executives.

The Finance Director and Secretary assists the Chief Executive and is responsible for finance, secretarial matters, corporate finance, investor relations and property matters.

The Chief Executive and Finance Director both sit on the Underwriting Committee of Elite Insurance Company Limited.

CREDITOR PAYMENT POLICY

The group does not follow any specified code or standard on payment practice. However, it is the group's policy to negotiate terms with its suppliers to maximise credit without detriment to the business and to ensure that they are aware of the terms of the payment when business is agreed. Every effort is made to adhere to these terms and payment is made when it can be confirmed that goods and/or services have been provided in accordance with the relevant contract conditions.

EMPLOYEES

Employee Involvement

The group's policy is to consult and discuss with employees matters likely to affect employees' interests.

Information on matters of concern to employees is given through company meetings which seek to achieve a common awareness on the part of all employees of the financial and economic factors affecting the group's performance.

LitComp plc and Subsidiary Undertakings

Directors' Report (continued)

For the year ended 31 March 2007

Disabled Persons

The group recognises its obligations towards disabled persons and gives full and fair consideration to applications for employment by such persons.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

AUDITORS

On 30 April 2007 the company's auditors, UHY Hacker Young, transferred their business to a limited liability partnership, UHY Hacker Young LLP ("the LLP"), and the office of auditor has passed to the LLP. In accordance with Section 385 of the Companies Act 1985, a resolution proposing that UHY Hacker Young LLP be reappointed as auditors of the company will be put to the Annual General Meeting.

On Behalf of the Board:

Mr P A Lavender

Director

27th September 2007

Independent Auditors' Report
To the Shareholders of LitComp plc
For the year ended 31 March 2007

We have audited the financial statements on pages 11 to 31 for the year ended 31 March 2007. These financial statements have been prepared under the historical cost convention and 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities on page 8 the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985, and whether in our opinion the information given in the directors' report is consistent with the financial statements. 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 information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of opinion

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

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

Independent Auditors' Report
To the Shareholders of LitComp plc (continued)
For the year ended 31 March 2007

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and company's affairs as at 31 March 2007 and of the group's profit for the year then ended;
 - the information given in the director's and chairman's report is consistent with the financial statements; and
 - the financial statements have been properly prepared in accordance with the Companies Act 1985.

UHY Hacker Young LLP
Chartered Accountants

Registered Auditors

27th September 2007

LitComp plc and Subsidiary Undertakings

Consolidated Profit and Loss Account

For the year ended 31 March 2007

		2007	<i>Restated</i> 2006
	<i>Notes</i>	£	£
TURNOVER	2	6,231,164	2,950,267
Cost of sales		<u>(3,572,041)</u>	<u>(1,686,324)</u>
GROSS PROFIT		2,659,123	1,263,943
Administrative expenses		<u>(1,396,250)</u>	<u>(1,524,694)</u>
OPERATING PROFIT/(LOSS)	4	1,262,873	(260,751)
Cost of restructuring company debt		<u>(114,538)</u>	<u>(171,777)</u>
		1,148,335	(432,528)
Interest receivable and similar income		<u>117,885</u>	<u>36,502</u>
		1,266,220	(396,026)
Interest payable and similar charges	5	<u>(438,634)</u>	<u>(186,663)</u>
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		827,586	(582,689)
Tax on profit/(loss) on ordinary activities	6	<u>(231,493)</u>	<u>–</u>
PROFIT/(LOSS) FOR THE FINANCIAL YEAR AFTER TAXATION		<u>596,093</u>	<u>(582,689)</u>
Earnings/(loss) per share (pence)	23	<u>11.67</u>	<u>(11.42)</u>
Diluted per share (pence)	23	<u>5.09</u>	<u>(11.42)</u>

CONTINUING OPERATIONS

None of the group's activities were acquired or discontinued during the current year or previous year.

TOTAL RECOGNISED GAINS AND LOSSES

The group has no recognised gains or losses other than the profit for the current year and the loss for the previous year plus the prior year adjustment as set out in Note 24 below.

The notes on pages 15 to 31 form part of these financial statements

LitComp plc and Subsidiary Undertakings

Consolidated Balance Sheet

As at 31 March 2007

	Notes	£	2007 £	£	Restated 2006 £
FIXED ASSETS					
Intangible assets	8		437,835		462,764
Tangible assets	9		42,494		33,988
			<u>480,329</u>		<u>496,752</u>
CURRENT ASSETS					
Stocks	11	15,204		16,992	
Debtors	12	5,286,152		3,633,007	
Prepayments and accrued income		63,160		64,009	
Cash at bank		2,759,949		3,271,911	
		<u>8,124,465</u>		<u>6,985,919</u>	
CREDITORS					
Amounts falling due within one year	13	(3,566,445)		(3,190,836)	
NET CURRENT ASSETS			<u>4,558,020</u>		<u>3,795,083</u>
TOTAL ASSETS LESS CURRENT LIABILITIES					
			5,038,349		4,291,835
CREDITORS					
Amounts falling due after more than one year	14		(3,235,598)		(3,260,177)
PROVISIONS FOR LIABILITIES	17		<u>(9,062)</u>		<u>(9,062)</u>
NET ASSETS			<u>1,793,689</u>		<u>1,022,596</u>
CAPITAL AND RESERVES					
Called up share capital	18		510,668		455,668
Share premium	19		837,803		717,803
Other reserves	19		240,623		240,623
Profit and loss account	19		204,595		(391,498)
SHAREHOLDERS' FUNDS	22		<u>1,793,689</u>		<u>1,022,596</u>

The financial statements were approved by the Board of Directors on 27th September 2007 and were signed on its behalf by:

Mr J A Smart
Director

Mr P A Lavender
Director

The notes on pages 15 to 31 form part of these financial statements

LitComp plc and Subsidiary Undertakings

Company Balance Sheet

As at 31 March 2007

			2007		Restated
	Notes	£	£	£	2006
					£
FIXED ASSETS					
Intangible assets	8		88,061		108,808
Investments	10		439,591		439,591
			<u>527,652</u>		<u>548,399</u>
CURRENT ASSETS					
Debtors	12	2,663,002		2,639,849	
Prepayments and accrued income		16,575		5,912	
Cash at bank		658,172		1,024,481	
		<u>3,337,749</u>		<u>3,670,242</u>	
CREDITORS					
Amounts falling due within one year	13	(319,570)		(60,809)	
NET CURRENT ASSETS					
			<u>3,018,179</u>		<u>3,609,433</u>
TOTAL ASSETS LESS					
CURRENT LIABILITIES					
CREDITORS					
Amounts falling due after more than one year	14		(3,224,715)		(3,260,177)
NET ASSETS					
			<u>321,116</u>		<u>897,655</u>
CAPITAL AND RESERVES					
Called up share capital	18		510,668		455,668
Share premium	19		837,803		717,803
Other reserves	19		240,623		240,623
Profit and loss account	19		(1,267,978)		(516,439)
SHAREHOLDERS' FUNDS					
	22		<u>321,116</u>		<u>897,655</u>

The financial statements were approved by the Board of Directors on 27th September 2007 and were signed on its behalf by:

J A Smart
Director

P A Lavender
Director

The notes on pages 15 to 31 form part of these financial statements

LitComp plc and Subsidiary Undertakings

Consolidated Cash Flow Statement

For the year ended 31 March 2007

	Notes	£	2007 £	£	Restated 2006 £
Net cash inflow/(outflow)					
from operating activities	1		262,528		(166,538)
Returns on investments and servicing of finance	2		(320,749)		(129,590)
Taxation			(465)		(76,004)
Capital expenditure and financial investment	2		(54,383)		(396,315)
			(113,069)		(768,447)
Financing	2		152,501		3,505,284
Increase in cash in the period			<u>39,432</u>		<u>2,736,837</u>
Reconciliation of net cash flow to movement in net debt	3				
Increase in cash in the period		39,432		2,736,837	
Cash outflow/(inflow) from decrease/(increase) in debt and lease financing		(12,965)		4,931	
Other funding		147,656		77,189	
Loan notes		35,462		(3,260,177)	
Change in net debt resulting from cash flows			<u>209,585</u>		<u>(441,220)</u>
Movement in net debt in the period			209,585		(441,220)
Net (debt) at 1 April 2006			<u>(1,119,869)</u>		<u>(678,649)</u>
Net (debt) at 31 March 2007			<u>(910,284)</u>		<u>(1,119,869)</u>

The notes on pages 15 to 31 form part of these financial statements

LitComp plc and Subsidiary Undertakings

Notes to the Cash Flow Statement

For the year ended 31 March 2007

1. RECONCILIATION OF OPERATING PROFIT/(LOSS) TO NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES

	2007	2006
	£	£
Operating profit/(loss)	1,262,873	(260,751)
Restructuring company debt	(114,538)	(171,777)
Depreciation charges	42,877	39,129
Amortisation charges	27,929	9,157
Share based payments	–	240,623
Decrease in stocks	1,788	2,370
Increase in debtors	(1,652,296)	(65,125)
Increase in creditors	693,895	39,836
Net cash inflow/(outflow) from operating activities	<u>262,528</u>	<u>(166,538)</u>

2. ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN THE CASH FLOW STATEMENT

	2007	2006
	£	£
Returns on investments and servicing of finance		
Interest received and similar income	117,885	36,502
Interest paid	(438,277)	(165,038)
Interest element of finance leases	(357)	(1,054)
Net cash (outflow) for returns on investments and servicing of finance	<u>(320,749)</u>	<u>(129,590)</u>
Taxation		
Corporation tax	(465)	(76,004)
Capital expenditure and financial investment		
Purchase of intangible fixed assets	(3,000)	(381,419)
Purchase of tangible fixed assets	(51,383)	(14,896)
Net cash (outflow) for capital expenditure and financial investment	<u>(54,383)</u>	<u>(396,315)</u>
Financing		
Capital element of finance leases	12,963	(4,936)
Issue of equity share capital	55,000	62,377
Share premium on issue of equity shares	120,000	264,856
Other funding	(35,462)	3,182,987
Net cash inflow from financing	<u>152,501</u>	<u>3,505,284</u>

LitComp plc and Subsidiary Undertakings

Notes to the Cash Flow Statement (continued)

For the year ended 31 March 2007

3. ANALYSIS OF CHANGES IN NET DEBT

	<i>At</i> <i>1 April</i> 2006 £	<i>Cash flow</i> £	<i>At</i> <i>31 March</i> 2007 £
Net cash:			
Cash at bank	3,271,911	(511,962)	2,759,949
Bank overdraft	(593,666)	551,394	(42,272)
	<u>2,678,245</u>	<u>39,432</u>	<u>2,717,677</u>
Debt:			
Finance lease agreements	(409)	(12,965)	(13,374)
Advances on book debts	(537,528)	147,656	(389,872)
Loan notes	(3,260,177)	35,462	(3,224,715)
	<u>(3,798,114)</u>	<u>170,153</u>	<u>(3,627,961)</u>
Total	<u>(1,119,869)</u>	<u>209,585</u>	<u>(910,284)</u>

LitComp plc and Subsidiary Undertakings

Notes to the Financial Statements

For the year ended 31 March 2007

1. ACCOUNTING POLICIES

Accounting convention

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

Basis of consolidation

On 1 January 2002, the company issued 23,959,000 ordinary shares of £0.01 each at par in consideration for the acquisition of the entire share capital of Perfect Consulting Limited. This transaction has been accounted for in the consolidated accounts as a merger.

As the company was formed to facilitate this group reconstruction the directors believe this presentation is necessary in order for the consolidated accounts to show a true and fair view of the group's activities.

On 20 March 2003, the company purchased the whole of the issued share capital of Cox Associates Limited, a company established with the sole purpose of purchasing Cox Associates. This transaction has been accounted for in the consolidated accounts as an acquisition.

On 22 November 2005, the company purchased the entire issued share capital of Fairmont (Holdings) Limited, the parent company of Elite Insurance Company Limited. This transaction has been accounted for in the consolidated accounts as an acquisition.

Comparatives have been prepared on the same basis and relate to the year ended 31 March 2006.

Turnover

Turnover is recognised upon the issue of the medico-legal reports to the clients, on a case by case basis.

Insurance premiums are included in turnover. Premiums written are accounted for from the inception date of the policy to which they relate. Premiums are disclosed gross of commission payable to intermediaries and exclude taxes based on premiums.

Premiums are payable on the inception of the policy other than for deferred policies where payment is due when the claim has been settled.

Unearned premiums reserve

The unearned premium reserve comprises the proportions of gross premiums written which are to be earned in the following or subsequent financial years.

In respect to business written where the period of insurance is not finite, premiums are fully earned on the inception date of the policy and an appropriate loss reserve is immediately created.

Claims

Claims incurred comprise claims paid during the financial year together with the movement in the provision for outstanding claims, including claims incurred but not reported.

LitComp plc and Subsidiary Undertakings

Notes to the Financial Statements (continued)

For the year ended 31 March 2007

Claims outstanding

A provision for claims outstanding is made on an individual basis and is based on the ultimate cost of all claims notified but not settled by the balance sheet date, together with a provision for related claims handling costs. The provision also includes the estimated cost of claims incurred but not reported at the balance sheet date which is based on statistical methods.

Amortisation and goodwill

Goodwill, is being amortised evenly over its estimated useful life. Goodwill purchased is written off over fifteen years. Patents and licences acquired in 2007 are being written off over their estimated useful life of six years.

Depreciation and fixed assets

Fixed assets are stated at cost less depreciation. Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Plant & machinery	33½% per annum straight line
Fixtures & Fittings	33½% per annum straight line
Motor vehicles	33½% per annum straight line

Stocks and work in progress

Work in progress is valued on the basis of direct costs plus attributable overheads based on normal levels of activity. Provision is made for any foreseeable losses where appropriate. No element of profit is included in the valuation of work in progress.

Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date.

Hire purchase and leasing commitments

Assets acquired under hire purchase agreements are capitalised and depreciated in accordance with the above depreciation policy. Where the group enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a finance lease. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over the shorter of the lease term and estimated useful life. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account at a constant rate of charge on the balance of capital repayments outstanding, and the capital element which reduces the outstanding obligation for future instalments.

Pensions

The group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the group in an independently administered scheme. Contributions payable for the year are charged in the profit and loss account.

Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor, are charged against profits on a straight line basis over the period of the lease.

LitComp plc and Subsidiary Undertakings

Notes to the Financial Statements (continued)

For the year ended 31 March 2007

Share based payments

The group has adopted Financial Reporting Standard No. 20 Share based payments in these financial statements. The effect of the changes on previous reported results, assets and liabilities for the comparative year are set out within Note 24 to these financial statements.

2. TURNOVER AND SEGMENTAL REPORTING

The turnover and profit (2006 – loss) before taxation are attributable to the principal activities of the group as follows: –

	2007 £	2006 £
Medico-Legal reports	1,806,724	2,781,237
Insurance premiums	4,424,440	169,030
	<u>6,231,164</u>	<u>2,950,267</u>

All turnover is generated within the United Kingdom albeit the insurance policies are underwritten in Gibraltar.

Gross profit is analysed by the principal activities of the group as follows:

	2007 £	2006 £
Medico-Legal reports	778,869	1,125,255
Insurance policies	1,880,254	138,688
Gross profit	<u>2,659,123</u>	<u>1,263,943</u>

A segmental analysis of the results before taxation and net operating assets has not been presented.

3. STAFF COSTS

	2007 £	2006 £
Wages and salaries	686,179	538,609
Other pension costs	7,429	7,222
	<u>693,608</u>	<u>545,831</u>

The average monthly number of employees during the year was as follows:

	2007	2006
Administration	20	20
Management	4	4
	<u>24</u>	<u>24</u>

LitComp plc and Subsidiary Undertakings

Notes to the Financial Statements (continued)

For the year ended 31 March 2007

4. OPERATING PROFIT/(LOSS)

The operating profit (2006 – operating loss) is stated after charging:

	2007	2006
	£	£
Auditors remuneration – audit services	13,000	13,273
Auditors remuneration – non audit services	3,500	3,000
Depreciation – owned assets	40,659	34,198
Depreciation – assets held under finance leases	2,218	4,931
Goodwill amortisation	27,431	9,157
Patents and licences amortisation	498	–
Formation costs	–	1,783
	<hr/>	<hr/>
Directors' emoluments	161,180	162,398
Company pension contributions to money purchase scheme	5,628	5,200
	<hr/>	<hr/>
	166,808	167,598
	<hr/>	<hr/>

5. INTEREST PAYABLE AND SIMILAR CHARGES

	2007	2006
	£	£
Interest payable on bank borrowings	103	85
Finance charges	92,355	57,193
Loan note interest	345,819	128,331
Hire purchase interest	357	1,054
	<hr/>	<hr/>
	438,634	186,663
	<hr/>	<hr/>

LitComp plc and Subsidiary Undertakings

Notes to the Financial Statements (continued)

For the year ended 31 March 2007

6. TAXATION

Taxation reconciliation

	2007	2006
	£	£
Domestic current year tax		
UK Corporation Tax	231,493	–
Current tax charge	231,493	–
Deferred tax	–	–
	<u>231,493</u>	<u>–</u>
Factors affecting the tax charge for the year		
Profit/(loss) on ordinary activities before taxation	827,586	(582,689)
Profit/(loss) on ordinary activities before taxation multiplied by standard rate of UK Corporation Tax of 30% (2006: 19%)	248,276	(110,711)
Effects of:		
Non deductible expenses	149	–
Depreciation add back	8,711	–
Capital allowances	(5,737)	–
Tax losses utilised	(19,308)	–
Other tax adjustments	(598)	110,711
Current tax charge	<u>231,493</u>	<u>–</u>

7. LOSS OF PARENT COMPANY

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the parent company is not presented as part of these financial statements. The parent company's loss for the financial year was £751,539 (2006 – £325,666).

LitComp plc and Subsidiary Undertakings

Notes to the Financial Statements (continued)

For the year ended 31 March 2007

8. INTANGIBLE FIXED ASSETS

Group

	<i>Goodwill</i> £	<i>Patents and licences</i> £	<i>Totals</i> £
COST			
At 1 April 2006	481,656	–	481,656
Additions	–	3,000	3,000
At 31 March 2007	<u>481,656</u>	<u>3,000</u>	<u>484,656</u>
AMORTISATION			
At 1 April 2006	18,892	–	18,892
Amortisation for year	27,431	498	27,929
At 31 March 2007	<u>46,323</u>	<u>498</u>	<u>46,821</u>
NET BOOK VALUE			
At 31 March 2007	<u>435,333</u>	<u>2,502</u>	<u>437,835</u>
At 31 March 2006	<u>462,764</u>	–	<u>462,764</u>

Company

	<i>Goodwill</i> £
COST	
At 1 April 2006 and 31 March 2007	<u>111,281</u>
AMORTISATION	
At 1 April 2006	2,473
Amortisation for year	20,747
At 31 March 2007	<u>23,220</u>
NET BOOK VALUE	
At 31 March 2007	<u>88,061</u>
At 31 March 2006	<u>108,808</u>

LitComp plc and Subsidiary Undertakings

Notes to the Financial Statements (continued)

For the year ended 31 March 2007

9. TANGIBLE FIXED ASSETS

Group

	<i>Plant and machinery</i> £	<i>Fixtures and fittings</i> £	<i>Motor vehicles</i> £	<i>Computer equipment</i> £	<i>Totals</i> £
COST					
At 1 April 2006	136,192	52,442	–	–	188,634
Additions	15,187	10,208	15,967	10,021	51,383
At 31 March 2007	<u>151,379</u>	<u>62,650</u>	<u>15,967</u>	<u>10,021</u>	<u>240,017</u>
DEPRECIATION					
At 1 April 2006	113,724	40,922	–	–	154,646
Charge for year	24,822	14,806	2,218	1,031	42,877
At 31 March 2007	<u>138,546</u>	<u>55,728</u>	<u>2,218</u>	<u>1,031</u>	<u>197,523</u>
NET BOOK VALUE					
At 31 March 2007	<u>12,833</u>	<u>6,922</u>	<u>13,749</u>	<u>8,990</u>	<u>42,494</u>
At 31 March 2006	<u>22,468</u>	<u>11,520</u>	<u>–</u>	<u>–</u>	<u>33,988</u>

Finance lease agreements

Included within the above net book value is £13,749 (2006: £418) relating to assets held under finance lease agreements and hire purchase contracts. The depreciation charged to the financial statements in the year in respect of such assets amounted to £2,218 (2006: £4,931).

LitComp plc and Subsidiary Undertakings

Notes to the Financial Statements (continued)

For the year ended 31 March 2007

10. FIXED ASSET INVESTMENTS

Company	<i>Shares in group undertakings £</i>
COST	
At 1 April 2006 and 31 March 2007	439,591
NET BOOK VALUE	
At 31 March 2007	439,591
At 31 March 2006	439,591

The company holds more than 20% of the issued share capital of the companies listed below:

<i>Principal related Undertakings:</i>	<i>Country of Incorporation</i>	<i>Share Holding</i>	<i>Proportion Held</i>	<i>Nature of Business</i>
Perfect Consulting Ltd.	England & Wales	Ordinary Shares of £1	100%	Medico-Legal reports
Legal Reports and Services Ltd.	England & Wales	Ordinary Shares of £1	100%	Medico-Legal reports
Cox Associates Ltd.	England & Wales	Ordinary Shares of £1	100%	Psychology reports
Elite Litigation Funding Ltd.	England & Wales	Ordinary Shares of £1	100%	Dormant
Elite Business Development Ltd.	England & Wales	Ordinary Shares of £1	100%	Marketing
Fairmont (Holdings) Ltd	England & Wales	Ordinary Shares of £1	100%	Holding Company
Elite Insurance Company Ltd	Gibraltar	Ordinary Shares of £1	100%	Provider of Insurance

All subsidiary undertakings are included in the consolidated accounts.

11. STOCKS

	<i>GROUP</i>		<i>COMPANY</i>	
	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
	£	£	£	£
Work in progress	15,204	16,992	–	–

LitComp plc and Subsidiary Undertakings

Notes to the Financial Statements (continued)

For the year ended 31 March 2007

12. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	<i>GROUP</i>		<i>COMPANY</i>	
	2007	2006	2007	2006
	£	£	£	£
Trade debtors	5,202,579	3,576,335	–	–
Amounts owed by group undertakings	–	–	2,663,002	2,639,849
Other debtors	83,573	56,672	–	–
	<u>5,286,152</u>	<u>3,633,007</u>	<u>2,663,002</u>	<u>2,639,849</u>

The group's business terms state that sales invoices are due for payment on completion or settlement of the personal injury claim. This period may be in excess of 12 months and accordingly an element of the trade debtor balance will fall due more than 12 months from the balance sheet date.

The amounts owed to the company by subsidiary undertakings at the year end are due after more than 1 year.

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	<i>GROUP</i>		<i>COMPANY</i>	
	2007	2006	2007	2006
	£	£	£	£
Bank loans and overdrafts (see note 15)	42,272	593,666	–	–
Hire purchase contracts (see note 16)	2,491	411	–	–
Trade creditors	2,085,855	1,771,770	–	–
Corporation tax	231,028	–	231,028	–
Social security and other taxes	41,695	36,602	–	–
Other creditors	619,564	667,535	–	–
Accruals and deferred income	543,540	120,852	88,542	60,809
	<u>3,566,445</u>	<u>3,190,836</u>	<u>319,570</u>	<u>60,809</u>

Included within other creditors is £389,872 (2006 – £537,528) of funding which is secured on the book debts of the companies within the group.

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

	<i>GROUP</i>		<i>COMPANY</i>	
	2007	2006	2007	2006
	£	£	£	£
Hire purchase contracts (see note 16)	10,883	–	–	–
Loan notes (see note 15)	3,224,715	3,260,177	3,224,715	3,260,177
	<u>3,235,598</u>	<u>3,260,177</u>	<u>3,224,715</u>	<u>3,260,177</u>

LitComp plc and Subsidiary Undertakings

Notes to the Accounts (continued)

For the year ended 31 March 2007

15. LOANS

An analysis of the maturity of loans is given below:

	<i>GROUP</i>		<i>COMPANY</i>	
	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
	<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>
Amounts falling due within one year or on demand:				
Bank overdrafts	<u>42,272</u>	<u>593,666</u>	<u>–</u>	<u>–</u>
Amounts falling due between one and two years:				
Debentures – 1-2 years	<u>3,224,715</u>	<u>3,260,177</u>	<u>3,224,715</u>	<u>3,260,177</u>

The debentures shown in the financial statements relate to loan stock secured over the assets of the company (including a charge on the shares held in Fairmont (Holdings) limited and Elite Insurance Company Limited) together with a charge over the keyman policy of J. A. Smart, director, and a cross guarantee over the subsidiary companies (excluding Elite Insurance Company Limited). The loan stock carries a 10% coupon rate and is redeemable at 31 October 2008.

Bank loans and overdrafts and other loans are secured on the assets of the company.

The loan stock is convertible into equity shares by the holders at any quarter end before redemption. For each £1 of loan stock converted 3.3 Ordinary shares of £0.10 each would be issued. However the terms of the loan stock are such that any equity element is considered negligible.

16. OBLIGATIONS UNDER HIRE PURCHASE CONTRACTS

Group

	<i>Hire purchase contracts</i>	
	<i>2007</i>	<i>2006</i>
	<i>£</i>	<i>£</i>
Net obligations repayable:		
Within one year	2,491	411
Within 2 to 5 years	<u>10,883</u>	<u>–</u>
	<u>13,374</u>	<u>411</u>

LitComp plc and Subsidiary Undertakings

Notes to the Accounts (continued)

For the year ended 31 March 2007

17. PROVISIONS FOR LIABILITIES

	<i>GROUP</i>	
	2007	2006
	£	£
Deferred tax	9,062	9,062
	<u> </u>	<u> </u>
Group		
		<i>Deferred tax</i>
		£
Balance at 1 April 2006		9,062
Movement in year		–
Balance at 31 March 2007		<u>9,062</u>

The deferred tax liability relates to accelerated capital allowances.

18. CALLED UP SHARE CAPITAL

Authorised:

<i>Number:</i>	<i>Class:</i>	<i>Nominal value:</i>	2007	2006
			£	£
30,000,000	Ordinary	£0.10	<u>3,000,000</u>	<u>3,000,000</u>

Allotted, issued and fully paid:

<i>Number:</i>	<i>Class:</i>	<i>Nominal value:</i>	2007	2006
			£	£
5,106,683 (2006 – 4,556,683)	Ordinary	£0.10	<u>510,668</u>	<u>455,668</u>

550,000 Ordinary shares of £0.10 each were allotted during the year at a premium of around £0.22 each.

On 6 March 2006 the company converted the ordinary share capital of £0.01 each to £0.10 each as a part of a re-categorisation of the company's issued share capital. As a result, the share options and share movements below have been adjusted to reflect this re-categorisation.

Share options

The following share options have been granted to subscribe for Ordinary shares of 10p each in the company as follows:

<i>Number</i>	<i>Subscription price per share</i>	<i>Period within which options are exercisable</i>
155,000	60p	20 October 2005 to 20 October 2007
25,000	30p	20 October 2005 to 20 October 2007
20,000	40p	14 February 2006 to 14 February 2011
25,000	30p	5 October 2006 to 5 October 2008
20,000	30p	21 June 2007 to 21 June 2009
921,606	30p	21 November 2005 to 20 November 2010
<u>1,166,606</u>		

LitComp plc and Subsidiary Undertakings

Notes to the Accounts (continued)

For the year ended 31 March 2007

18. CALLED UP SHARE CAPITAL (continued)

On 16 November 2005, Mr J A Smart, Mr R G Smart and Mr P A Lavender became participants in the Option Scheme under which they may become eligible to purchase shares from a pool of up to 1,400,000 ordinary shares at a price of 30 pence per ordinary share. The exact number of shares to be available in the pool will be determined by the Remuneration Committee by reference to the annual pre-tax profits of Elite Insurance Company in the period of two years from 1 April 2006 with different number of shares being available at specific thresholds. These options will be exercisable by the relevant executive giving notice to the company within the exercise pool. No allocation of shares under the option scheme has yet been made.

19. RESERVES

Group

	<i>Share Premium</i> £	<i>Other reserves</i> £	<i>Profit & loss account</i> £	<i>Total</i> £
At beginning of year as previously stated	717,803	–	(150,875)	566,928
Prior year adjustment	–	240,623	(240,623)	–
At beginning of year as restated	717,803	240,623	(391,498)	566,928
Share premium	120,000	–	–	120,000
Profit for the year	–	–	596,093	596,093
At end of year	<u>837,803</u>	<u>240,623</u>	<u>204,595</u>	<u>1,283,021</u>

Company

	<i>Share Premium</i> £	<i>Other reserves</i> £	<i>Profit & loss account</i> £	<i>Total</i> £
At beginning of year as previously stated	717,803	–	(275,816)	441,987
Prior year adjustment	–	240,623	(240,623)	–
At beginning of year as restated	717,803	240,623	(516,439)	441,987
Share premium	120,000	–	–	120,000
Loss for the year	–	–	(751,539)	(751,539)
At end of year	<u>837,803</u>	<u>240,623</u>	<u>(1,267,978)</u>	<u>(189,552)</u>

LitComp plc and Subsidiary Undertakings

Notes to the Accounts (continued)

For the year ended 31 March 2007

20. OTHER FINANCIAL COMMITMENTS

At 31 March 2007 the group had annual commitments under non-cancellable operating leases as set out below.

	2007		2006	
	<i>Land & Buildings</i>	<i>Other Items</i>	<i>Land & Buildings</i>	<i>Other Items</i>
	£	£	£	£
GROUP ONLY				
Operating leases which expire:				
Within 1 year	–	–	–	1,518
Within 2 to 5 years	–	2,571	–	2,571
Over 5 years	20,000	–	20,000	–
	<u>20,000</u>	<u>2,571</u>	<u>20,000</u>	<u>4,089</u>

21. RELATED PARTY DISCLOSURES

Amounts due and from group undertakings are aggregated as permitted by FRS8 and shown separately in debtors and creditors.

In accordance with FRS8, exemption is taken not to disclose transactions in the year between group undertakings where 90% or more of the voting rights are controlled within the group or of amounts eliminated on consolidation and the consolidated financial statements are publicly available.

The company has contracted for a 15 year lease on its current premises, which are owned by 9NBP Limited, a company wholly owned by Mr J Smart who is also a director of LitComp Plc. The cost to the company is £20,000 per annum.

LitComp plc and Subsidiary Undertakings

Notes to the Accounts (continued)

For the year ended 31 March 2007

22. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2007	2006
Group	£	£
Profit/(Loss) for the financial year	596,093	(342,066)
New equity share capital	55,000	62,377
New premium on new share capital	120,000	264,856
Net addition/(reduction) to shareholders' funds	<u>771,093</u>	<u>(14,833)</u>
Opening shareholders' funds	1,022,596	1,037,429
Closing shareholders' funds	<u>1,793,689</u>	<u>1,022,596</u>
	2007	2006
Company	£	£
Loss for the financial year	(751,539)	(275,816)
New equity share capital	55,000	62,377
New premium on new share capital	120,000	264,856
Net (reduction)/addition of shareholders' funds	<u>(576,539)</u>	<u>51,417</u>
Opening shareholders' funds	897,655	846,238
Closing shareholders' funds	<u>321,116</u>	<u>897,655</u>

23. EARNINGS PER SHARE

Basic earnings per share

The calculation of basic earnings per ordinary share is based on earnings of £596,093 (2006: £582,689 restated loss) for the year and on 5,106,683 (2006: 3,952,658) being the weighted average number of shares in issue during the year.

Diluted earnings per share

The calculation of diluted earnings per ordinary share is based on earnings of £596,093 for the year adjusted for convertible loan note interest. The weighted average number of ordinary shares for calculating the diluted earnings per share for the year ended 31 March 2007 includes 1,866,607 share options and the £3,455,000 of 10% convertible loan notes converted at the applicable price of £0.30 amounting to 11,516,666 potential ordinary shares. The adjusted number of ordinary shares in issue after exercise of share options and convertible loan notes was 18,489,956.

The loss for the year ended 31 March 2006 and the weighted average number of ordinary shares for calculating the diluted loss per share are identical to that used for the basic loss per share. This is because the share options and convertible loan stock would have the effect of reducing the loss per ordinary share and would therefore not be dilutive under the terms of Financial Reporting Standard No. 22.

LitComp plc and Subsidiary Undertakings

Notes to the Accounts (continued)

For the year ended 31 March 2007

24. PRIOR YEAR ADJUSTMENT

In Accordance with Financial Reporting Standard No.20 (share based payments) the Group has accounted for the fair value of the share options granted since 7 November 2002. The fair value has been calculated at £240,623 using the Black Scholes model with a volatility rate of 50% and 5% interest. The fair value has been reflected within administrative expenses in the consolidated profit and loss account for the year ended 31 March 2006. No share options have been granted during the year to 31 March 2007 and therefore no corresponding entry is reflected within this years results.

25. POST BALANCE SHEET EVENTS

On 19 July 2007 the company approved the issue of 225,000 Ordinary share options to the directors at an exercise price of £0.65 per share. In addition, 100,000 ordinary share options were issued to a subsidiary company director at the same price.

The company has also issued 30,000 Ordinary share options to key staff in June 2007 at an exercise price of 0.495 per share.

The exercise period for the ordinary share options is 2 to 5 years after the date of issue.