PROTON
POWER SYSTEMS PLC

Placing and Admission to AIM

By Bell Lawrie
(a division of Brewin Dolphin Securities Limited)

PROTON
POWER SYSTEMS PLC


FUEL CELL
POWERED


FUEL CELL
POWERED


Mit neuer Energie in die Zukunft!

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document or as to the action you should take, you should consult a person authorised under the Financial Services and Markets Act 2000 ("FSMA") who specialises in advising on the acquisition of shares and other securities. The whole of the text of this document should be read. You should be aware that an investment in the Company involves a high degree of risk and prospective investors should also carefully consider the section entitled "Risk factors" in Part II of this document before taking any action.

This document comprises an AIM admission document drawn up in accordance with the AIM Rules. This document does not constitute a prospectus within the meaning of section 85 of the FSMA and has not been drawn up in accordance with the Prospectus Rules, or approved by the United Kingdom Listing Authority or The Financial Services Authority. This document does not constitute an offer to the public within the meaning of the FSMA, the Act or otherwise.

The Directors of Proton, whose names appear on page 3 of this document, accept responsibility for the information contained in this document including individual and collective responsibility for compliance with the AIM Rules. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

Application has been made for the Ordinary Shares, issued and to be issued, to be admitted to trading on AIM. It is expected that Admission will become effective and that dealings will commence on AIM on 31 October 2006.

AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the UK Listing Authority. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. The AIM Rules are less demanding than those of the Official List of the UK Listing Authority. It is emphasised that no application is being made for admission of these securities to the Official List of the UK Listing Authority. Further, London Stock Exchange plc has not itself examined or approved the contents of this document. The Ordinary Shares are not dealt on any other recognised investment exchange.

Proton Power Systems plc

(Incorporated and registered in England and Wales with registered number 05700614)

Placing of 5,842,925 Ordinary Shares of 5p each at a price of 80p per Ordinary Share

and

Admission to trading on AIM

Nominated Adviser and Broker

Bell Lawrie

(a division of Brewin Dolphin Securities Limited)

Share capital immediately following Admission

Authorised		*Issued and fully paid*	
Amount	*Number*	*Amount*	*Number*
£3,250,000	65,000,000 Ordinary Shares of 5p each	£1,566,418.15	31,328,363 Ordinary Shares of 5p each

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The Placing Shares will rank *pari passu* in all respects with the Existing Ordinary Shares including the right to receive all dividends and other distributions declared, paid or made on the Ordinary Shares after Admission.

Bell Lawrie (a division of Brewin Dolphin Securities Limited, which is authorised and regulated by The Financial Services Authority) is acting as Nominated Adviser and Broker to the Company and no one else in connection with the Placing and Admission and will not be responsible to any person other than the Company for providing the protections afforded to customers of Bell Lawrie nor for providing advice in relation to the contents of this document or any matter, transaction or arrangement referred to in it.

The Placing described in this document is only being made in the United Kingdom. In particular, this document does not constitute an offer to buy or to subscribe for, or the solicitation of an offer to buy or subscribe for, Ordinary Shares in any jurisdiction in which such offer or solicitation is unlawful. The Ordinary Shares have not been, and will not be, registered under the United States Securities Act of 1933 (as amended) (the "Securities Act") or qualified for sale under the laws of any state of the United States or under the applicable laws of any of Canada, Australia, the Republic of South Africa, the Republic of Ireland or Japan and, subject to certain exceptions, may not be offered or sold in the United States or to, or for the account or benefit of, US persons (as such term is defined in Regulation S under the Securities Act) or to any national, resident or citizen of Canada, Australia, the Republic of South Africa, the Republic of Ireland or Japan. Neither this document nor any copy of it may be sent to or taken into the United States, Canada, Australia, the Republic of South Africa, the Republic of Ireland or Japan, nor may it be distributed to any US person (within the meaning of Regulation S under the Securities Act).

CONTENTS

DIRECTORS, SECRETARY AND ADVISERS

Directors	Bernard Robinson OBE DL, *Non-Executive Chairman* Felix Wieland Gotz Andreas Peter Heidelberg, *Chief Executive Officer* Benedikt Martin Gregor Eska, *Chief Operating Officer* John Wall, *Non-Executive Director* Per Erland Svantesson, *Non-Executive Director* *The business address for each of the above is:* Gautinger Strasse 6 D-82319 Starnberg Germany
Company secretary and registered office	John Wall 1 Park Row Leeds LS1 5AB
Nominated adviser and broker	Bell Lawrie (a division of Brewin Dolphin Securities Limited) 48 St Vincent Street Glasgow G2 5TS *and* 12 Smithfield Street London EC1A 9BD
Solicitors to the Company	Pinsent Masons Citypoint 1 Ropemaker Street London EC2Y 9AH
Reporting accountants	RSM Robson Rhodes LLP Bryanston Court Selden Hill Hemel Hempstead HP2 4TN
Auditors	ALR Treuhand GmbH Wirtschaftsprüfungsgesellschaft Nockherstrasse 2 81541 München Germany
Solicitors to the Placing	Shepherd+ Wedderburn 12 Arthur Street London EC4R 9AB
Financial public relations	Gavin Anderson & Company 85 Strand London WC2R 0DW
Registrars	Capita Registrars Northern House Woodsome Park Fenay Bridge Huddersfield HD8 0LA

DEFINITIONS

The following definitions and glossary terms apply throughout this document, unless the context otherwise requires:

"Act"	the Companies Act 1985 (as amended)
"Admission"	admission of the Ordinary Shares, issued and to be issued pursuant to the Placing and the Deferred Consideration, to trading on AIM becoming effective in accordance with Rule 6 of the AIM Rules
"Admission Document"	this document dated 23 October 2006
"AIM"	a market operated by the London Stock Exchange
"AIM Rules"	the rules published by the London Stock Exchange entitled "*AIM Rules for Companies*"
"Articles"	the articles of association of the Company
"Bell Lawrie"	Bell Lawrie, a division of Brewin Dolphin Securities, the Company's nominated adviser and broker (as defined in the AIM Rules)
"Board" or "Directors"	the directors of the Company whose names are set out on page 3 of this document
"Brewin Dolphin Securities"	Brewin Dolphin Securities Limited, which is authorised and regulated by the Financial Services Authority Limited
"Combined Code"	the Principles of Good Governance and Code of Best Practice published by the Financial Reporting Council in July 2003
"Company" or "Proton"	Proton Power Systems plc
"CREST"	the computerised settlement system to facilitate the transfer of title of shares in uncertificated form, operated by CRESTCo Limited
"CREST Regulations"	the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755) as amended
"Deferred Consideration"	the 14,224,999 Ordinary Shares to be issued by the Company pursuant to the acquisition by the Company of the entire issued share capital of Proton Motor, further details of which are set out in paragraphs 11.5-11.8 (inclusive) of Part V of this document
"DOE"	the US Department of Energy
"Existing Ordinary Shares"	the 10,600,001 Ordinary Shares in issue as at the date of this document
"Existing Shareholders"	shareholders holding Existing Ordinary Shares
"Fees Shares"	the 660,438 Ordinary Shares in aggregate to be issued by the Company to General Capital Group plc, Green Atlantic Partners Limited and Turquoise International Limited further details of which are set out in paragraphs 11.4, 11.10, 11.12 and 15.10 of Part V of this document
"FSA"	The Financial Services Authority
"FSMA"	The Financial Services and Markets Act 2000
"Group"	the Company and its subsidiaries
"IP"	intellectual property
"ISO"	International Organisation for Standardization
"L-3 Communications"	L-3 Communications Corporation
"Linde"	Linde AG
"Loan Facility"	the loan facility of up to £2 million provided by General Capital Group plc
"London Stock Exchange"	London Stock Exchange plc

"Magnet Motor"	Magnet-Motor GmbH
"New Ordinary Shares"	the 5,842,925 new Ordinary Shares to be issued by the Company and placed with subscribers pursuant to the Placing
"Official List"	the Official List of the UK Listing Authority
"Ordinary Shares"	ordinary shares of 5p each in the capital of the Company
"Placees"	subscribers for the New Ordinary Shares procured by Bell Lawrie (as agent for the Company) pursuant to and on the terms of the Placing Agreement
"Placing"	the arrangements for the procurement of subscribers for the New Ordinary Shares by Bell Lawrie on behalf of the Company pursuant to the Placing Agreement
"Placing Agreement"	the conditional agreement dated 23 October 2006 among the Company, the Directors and Bell Lawrie relating to the Placing, further details of which are set out in paragraph 11.1 of Part V of this document
"Placing Proceeds"	the aggregate amount of the monies raised under the Placing and the conversion of the loan pursuant to the agreement set out in paragraph 11.11 of this document
"Placing Price"	80p per Placing Share
"Placing Shares"	the New Ordinary Shares
"Proton Motor"	Proton Motor Fuel Cell GmbH, a subsidiary of the Company
"Share Option Scheme" or the "Scheme"	the Proton Power Systems plc Unapproved Share Option Scheme, further details of which are contained in paragraph 4.1 of Part V of this document
"Shareholder(s)"	the person(s) who are registered as holder(s) of Ordinary Shares from time to time
"subsidiaries"	a subsidiary as defined in the Act
"Trust"	the Proton Power Systems plc Employee Benefit Trust 2006, further details of which are contained in paragraph 4.3 of Part V of this document
"UK" or "United Kingdom"	the United Kingdom of Great Britain and Northern Ireland
"UK Listing Authority"	the Financial Services Authority acting in its capacity as the competent authority for the purposes of Part VI of FSMA
"uncertificated" or "in uncertificated form"	recorded on the register of Ordinary Shares as being held in uncertificated form in CREST, entitlement to which by virtue of the CREST Regulations, may be transferred by means of CREST
"US" or "United States"	United States of America, each state thereof, its territories and possessions and the District of Columbia
"US$" or "dollar"	United States dollar
"VAT"	Value Added Tax
"£" or "sterling"	United Kingdom pounds sterling
"€" or "Euro"	Euro, the basic unit of currency among participating European Union countries

GLOSSARY

The following glossary terms apply throughout this document, unless the context otherwise requires:

"anode"	the electrode of the fuel cell where hydrogen is split between electrons and protons
"APU"	auxiliary power unit
"balance of plant" or "BoP"	auxiliary equipment needed, in addition to the fuel cell stack to enable it to function in an integrated device, for example, pumps, blowers, condensers and heat exchanges
"bi-polar plates"	separator plates between cells in a conventional fuel cell stack that are electrically conductive, guide fuel and oxidant into the stack, and remove water and heat
"catalyst"	a substance that increases the speed, reduces the required temperature of a chemical reaction, does not appear in the final product and undergoes no permanent changes itself
"cathode"	the electrode of the fuel cell where oxygen is reduced to oxygen ions and where the recombination of hydrogen and oxygen to water takes place
"CHP"	combined heat and power
"CO2"	carbon dioxide
"density" or "power density"	power produced per unit volume or area, as the context requires
"electrode"	an electronic conductor through which an electric current enters or leaves a medium. Chemical change occurs at the interface of the electrode and electrolyte medium. A fuel cell contains two electrodes: an anode where oxidation of a fuel occurs and a cathode where reduction of oxygen occurs
"electrolyte"	the middle layer of a fuel cell, the function of which is to conduct ions between the electrodes
"electron"	an sub-atomic particle carrying a negative electrical charge
"energy storage unit"	a technology component which stores high specific power electrical energy to provide the peak power requirements of operation
"fuel cell"	fuel cells generate electricity and heat from a simple electrochemical reaction in which oxygen and hydrogen combine to form water
"fuel cell module" or "fuel cell stack"	Proton Motor's proprietary, standard 10kW module consisting of 40 fuel cells. A fuel cell stack is a 3-dimentional mechanical assembly of a number of individual fuel cells layered on top of each other, separated by gas flow channel plates, sealed with gaskets and including end plates with some form of fastening
"fuel cell system"	a combination of a fuel cell module plus other components, which enable the fuel cell to be employed effectively for specific applications
"GDL"	gas diffusion layer
"hybrid electric fuel cell system"	a system which utilises the combination of hydrogen powered fuel cells and an electrical energy storage unit for the system's electrical power requirements
"hydrogen economy"	the hydrogen economy describes a system in which energy needs are predominantly met by hydrogen, rather than fossil fuels. This type of economy would rely on renewable resources in the form of hydrogen gas and water, with the aim of changing pollution, electricity sources, infrastructure, engines, and international trade, without impacting the current quality of life

''kW''	unit symbol for kilowatts of electrical power (one kW equals one thousand watts)
''micro-controller''	a computer on a microchip, optimised to control electronic devices
''MW''	unit symbol for megawatts of electrical power (one MW equals one million watts)
''OEM''	original equipment manufacturer
''PEM''	a solid membrane or polymer electrolyte made from a chemical compound consisting of fluorine and carbon
''polymer''	a large molecule made by linking smaller molecules together
''proton''	a sub-atomic particle in an atom's nucleus with a positive electrical charge
''regenerative braking''	the storage of the braking energy in a storage system that uses such stored energy in the next acceleration phase
''UPS''	uninterruptible power supply
''watt''	basic unit of electrical power

PLACING STATISTICS

Placing Price	80p
Number of Existing Ordinary Shares in issue prior to the Placing	10,600,001
Number of Deferred Consideration shares and Fees Shares	14,885,437
Number of Placing Shares being issued pursuant to the Placing	5,842,925
Number of Ordinary Shares in issue on Admission, following the Placing and issue of Deferred Consideration and Fees Shares	31,328,363
Market capitalisation following the Placing and issue of Deferred Consideration and Fees Shares at the Placing Price	£25.06 million
Percentage of enlarged issued Ordinary Share capital being placed pursuant to the Placing	18.7 per cent.
Estimated gross proceeds of the Placing	£4.67 million
Estimated net proceeds of the Placing receivable by the Company	£3.98 million

EXPECTED TIMETABLE

Admission and dealings in the Ordinary Shares to commence on AIM on	31 October 2006
CREST accounts credited by	31 October 2006
Despatch of definitive share certificates in respect of the Placing Shares (where applicable) by	14 November 2006

KEY INFORMATION

The following information is extracted from and should be read in conjunction with the full text of this document. This summary is not complete and does not contain all of the information which a prospective investor should consider before making an investment decision with respect to the Ordinary Shares. Prospective investors should read the whole of this document, including the Risk factors which are set out in Part II of this document.

Introduction

Proton Motor has developed and produced a standard fuel cell module which is designed to enable the Group to provide OEMs with a complete fuel cell system that can be integrated into their product range with relative ease. The Group's standard 10kW fuel cell module is a combination of 40 fuel cells stacked together, designed and developed for simple and cost-effective volume manufacturing. These stacks are combined in a scalable, modular system in order to meet the power requirements of a particular application.

The Group has approached the development of commercial applications with a structure integrating its proprietary fuel cell module with an energy storage system, thereby creating a hybrid electric fuel cell system which can provide power during peak energy demand situations. Proton Motor has focused on industrial applications where *'back-to-base'* refuelling occurs, on site, at the end of each shift. These industrial applications, including forklift truck and bus operations, are primarily based around a single geographical point, such as a warehouse or depot. The Group's innovative, proprietary fuel cell systems (i) use hydrogen as a fuel source; (ii) efficiently manage energy and have lower fuel consumption than comparable commercial alternatives; (iii) produce zero harmful emissions; and (iv) can, the Directors believe, provide substantial long-term cost benefits, robustness, durability and reliability.

The Directors' analysis of the potential market opportunities led them to focus on the commercial exploitation of this environmentally friendly source of power, predominantly within the industrial applications sector of the power systems market. The Directors are confident that no further technology innovation is required and that the Group is well positioned to move towards commercial production levels generating volume orders. The Group's key IP portfolio comprises a mixture of granted patents, patent applications, trademarks, confidential information and know-how.

Background

Proton is the parent company of Proton Motor, a leading, independent fuel cell system developer, based in Germany. Prior to its acquisition by the Company, Proton Motor had historically secured external funding from Volvo Technology Transfer AB and other German institutional and private investors. These funds facilitated the undertaking of several pilot projects and, to date, over 100 fuel cell modules have been built, tested and / or commissioned. During early 2006, Proton Motor's ongoing commercial operations required further capital and the Company was formed in February 2006 as a vehicle to facilitate interim funding. The Company subsequently acquired Proton Motor in a share for share exchange in April and May 2006.

Products and sales

In September 2005, Proton Motor received an order from Linde AG, the second largest global manufacturer of material handling and forklift trucks and one of the largest hydrogen suppliers world wide, for four fuel cell systems (for delivery during the fourth quarter of 2006 to first quarter of 2007) and a letter of intent for the future order of up to 15 fuel cell systems.

In February 2006, Proton Motor entered into a licensing and joint development agreement with L-3 Communications, a military applications developer with an annual turnover in 2005 of over US$9 billion. Under the terms of this agreement relating to licensing, Proton Motor has already received an initial payment of €400,000 (of a total of €900,000 with the balance due to be paid in two instalments over the course of the next 18 months) in respect of a perpetual, world-wide licence for the use of Proton Motor's fuel cell system in military applications. Under the terms of this agreement relating to joint development, the Group has agreed to co-develop a fuel cell system specifically for use with select military applications in return for a total fee of €2,500,000 (to be paid, over the course of the next four years, under supplementary agreements to be entered into between the parties).

The Group currently has secured project-based development work from a number of OEMs and the Directors expect to receive approximately €4.2 million from this work. The €4.2 million is made up of

(i) the outstanding payments expected to be received pursuant to the L-3 Communications agreement (as referred to above); (ii) a contract with the Bavarian State Government; (iii) a contract for a fuel cell battery recharging unit with a third party electric bus manufacturer; and (iv) a number of public contracts. In addition, the Group is currently pursuing over 20 serious commercial enquiries for the application of its fuel cell systems.

Proton Motor is also a party to a joint development contract to develop a zero emissions passenger ferry in Hamburg through a consortium.

In addition to its ongoing projects with Linde and L-3 Communications, the Group has had a number of other key OEM relationships at varying stages in the sales cycle, including:

- a joint development project is underway with Skoda Electric S.R.O. for the supply of the first fuel cell bus in the Czech Republic. Skoda Electric is one of the leading, global manufacturers of electric buses;
- the supply of a hybrid electric fuel cell system to Volvo Bus Corporation is currently under development. This follows Proton Motor's initial 150kW bus project for Volvo during 2004;
- a joint development project with Eco Power Technology S.r.l. for the design and commissioning of a hybrid electric fuel cell powered bus. Eco Power Technology is a medium sized, Italian bus manufacturer;
- a fuel cell battery recharging unit was commissioned by a third party electric bus manufacturer in September 2005;
- the delivery of two fuel cell modules to a leading welding technology company (which is subject to confidentiality restrictions) was completed during 2005. A partnership relationship has been established for the preferred supply by Proton Motor of fuel cell modules for future use in this company's existing product line;
- a confidential supply arrangement with a major, global manufacturer of material handling trucks is currently under negotiation at board level;
- a non-operational, demonstration UPS electric fuel cell system was designed and built in March 2006 for Rittal GmbH & Co. Rittal is a leading global supplier of IT enclosure and housing technologies; and
- a co-operation project for a UPS electric fuel cell system is under development with AEG Power Supply Systems GmbH / Saft Group. AEG is a world leader in the provision of power for industrial and telecom applications.

Market potential

The Directors believe that there are a number of factors affecting growth in the power systems market, including:

- ongoing depletion of fossil fuel reserves - hydrogen has the potential to replace these finite resources;
- current and future air quality regulation surrounding environmentally harmful emissions, in particular, CO_2 reduction targets;
- growing industry and consumer demand for alternative sources of energy;
- energy security concerns and needs; and
- the potential long term competitiveness of the auto industry.

The Group has identified two initial market segments in which the Directors believe the advantages of hybrid electric fuel cell systems will lead to economic benefits for the end user - forklift trucks and buses.

Forklift trucks

In 2003, batteries for use in battery powered mobile manufacturing, warehousing and other ground handling equipment, primarily electric industrial forklift trucks generated more than US$1.5 billion in worldwide sales. In 2004, the global market for sales of material handling vehicles was in excess of approximately 700,000 units and it is anticipated that battery powered forklifts' share of the material handling market will steadily increase. The Directors believe that fuel cell conversion could be applicable to approximately 20 per cent. of this market. The Directors believe that this battery powered segment offers an immediately addressable market for hybrid electric fuel cell systems.

Buses

Global bus production has reached approximately 240,000 units per annum. The Directors believe that one of the first markets where a hybrid electric fuel cell system could achieve significant penetration is the local bus sector - those buses operating in built up areas and moving relatively short distances from base. The Directors have estimated that approximately 25 per cent. of this market could be addressed by a fuel cell solution with an average cost per application of approximately €25,000 and a total market value of approximately €1.5 billion per annum.

Competitive advantages

The Directors are confident that Proton's technology brings the following distinct combination of characteristics to the power systems market:

- zero harmful emissions;
- lower fuel consumption than comparable commercial alternatives;
- no recharge requirement, unlike batteries;
- silent operation;
- a standard fuel cell module for use in multiple applications; and
- a reliable, robust and durable technology (all fuel cell systems have been engineered, and the PEM has been tested, to operate for up to 20,000 hours).

Sales strategy

Although Proton Motor has been historically reliant on a small number of key customers, it has established strong relationships with key OEMs in its target market. The Group anticipates expanding this customer base as volume manufacturing capability increases. The Directors believe that effective execution with their OEM partners should enable Proton to be recognised as a global fuel cell technology platform.

Attractive primary markets and applications for the Group's fuel cell system, identified by the Group, generally display the following characteristics:

- early stage of development;
- need to reduce industrial emissions;
- potential material volume sales;
- *'back-to-base'* or stationary applications; and
- existing power generation technology applications with notable disadvantages, for example:
    - slow recharge time of battery technology as well as additional working capital infrastructure where continuous battery use is required;
    - combustion engines emit harmful emissions and noise pollution; and
    - external electric power is generally delivered by overhead cables, for example trolley buses, and has geographical and logistical limitations.

Manufacturing strategy

To date, the Group's fuel cell modules and fuel cell systems have been produced in relatively small volumes, on a project-by-project basis, largely utilising a combination of semi-automated processes and manual assembly. However, Proton Motor's technology development has been undertaken with the key objective of designing and manufacturing fuel cell systems for volume production. In order to seek to achieve this, the Directors have:

- identified target markets and commercial applications;
- established key commercial partnerships within these target markets;
- designed the Group's fuel cell systems to meet the engineering requirements for volume manufacturing;
- established quality control procedures;
- reviewed, risk assessed and secured supplier and component manufacturing relationships;
- identified and assessed major commercial factors, such as cost, availability, robustness and durability of components; and

- secured and properly documented necessary regulatory and operational approvals for each application.

Reasons for the Placing and use of proceeds

The Directors believe that the Placing and Loan Facility should provide the Company with the financial resources to make the transition from its research and development phase into volume sales and manufacturing. The Directors also consider that Admission will be an important step in the Group's development and that it should significantly enhance the Group's standing within its marketplace and its corporate profile. The funding required under the Placing to enable the Group to expand its operations and to seek to secure a significant share of the power systems market is approximately £3.98 million (net of expenses). The Directors intend to apply the net proceeds of the Placing and make use of the Loan Facility to:

- invest approximately £600,000 of capital investment in internal infrastructure and manufacturing automation;
- support the Group's strategy to exploit its commercial products through a further investment of approximately £800,000 in sales and marketing activities, including function demonstrators and increased sales support;
- ensure the Group's commercial position in the market is well protected by investing approximately £1.2 million in development activities including product and materials testing, on-going product improvements and strengthening the Group's IP position in key markets;
- fund the Group's ongoing working capital requirements (including investment in materials and components to allow for volume sales) of approximately £650,000;
- repayment of outstanding loan facilities of approximately £1 million, which have supported the business to date; and
- strengthen the Company's balance sheet to increase the Group's ability to negotiate with larger OEMs and enhance the Group's profile in its marketplace.

Prospects

The Group's principal objective, upon completion of the Placing, is to establish a volume manufacturing facility based upon solid sales orders. This should enable Proton to achieve an economically viable unit cost for its hybrid fuel cell systems. The funds available from the Placing should also enable the Group to continue to develop both new and existing relationships, and enhance its ability to take advantage of new opportunities as they arise. Initially, the Group will invest in increased operational and sales infrastructure appropriate to its ongoing growth. The Directors believe that the advanced stage of commercialisation of the Group's technology, coupled with the Group's existing partnerships, should allow the business to firmly establish itself as a leading, global, fuel cell system provider as a result of:

- the standard design of the Group's modular technology, designed to be suitable for a variety of commercial applications;
- a focused strategy on niche industrial applications for market entry with flexibility to allow further access to secondary markets;
- over 160 man years of combined experience and application in hybrid electric and fuel cell technology presently in the Group;
- production processes to be developed in parallel with the development of the Group's technology; and
- the Group's established quality control processes.

PART I

INFORMATION ON THE GROUP

1 Introduction and background

Proton is the parent company of Proton Motor, a leading, independent fuel cell system developer, based in Germany. The Group's innovative, proprietary fuel cell systems (i) use hydrogen as a fuel source; (ii) efficiently manage energy and have lower fuel consumption than comparable commercial alternatives; (iii) produce zero harmful emissions; and (iv) can, the Directors believe, provide substantial long-term cost benefits, robustness, durability and reliability.

Proton Motor has developed and produced a standard fuel cell module which is designed to enable the Group to provide OEMs with a complete fuel cell system that can be integrated into their product range with relative ease. The Directors' analysis of the potential market opportunities led them to focus on the commercial exploitation of this environmentally friendly source of power, predominantly within the industrial applications sector of the power systems market. Proton Motor has focused on industrial applications where *'back-to-base'* refuelling occurs, on site, at the end of each shift. These industrial applications, including forklift truck and bus operations, are primarily based around a single geographical point, such as a warehouse or depot.

The Directors are confident that no further technology innovation is required and that the Group is well positioned to move towards commercial production levels generating volume sales. The Group has approached the development of commercial applications with a structure integrating its proprietary fuel cell module with an energy storage system, thereby creating a hybrid electric fuel cell system. Although Proton Motor has been historically reliant on a small number of key customers, it has established relationships with several global OEMs and has been revenue generating since 1998 and has secured a number of material commercial orders, primarily for use in forklift trucks and buses.

The Directors believe that there are a number of factors affecting growth in the power systems market, including:

- ongoing depletion of fossil fuel reserves – hydrogen has the potential to replace these finite resources;
- current and future air quality regulation surrounding environmentally harmful emissions, in particular, CO_2 reduction targets;
- growing industry and consumer demand for alternative sources of energy;
- energy security concerns and needs; and
- the potential long term competitiveness of the auto industry.

The Directors are confident that Proton Motor's technology brings the following distinct combination of characteristics to the power systems market:

- zero harmful emissions;
- lower fuel consumption than comparable commercial alternatives;
- no recharge requirement, unlike batteries;
- silent operation;
- a standard fuel cell module for use in multiple applications; and
- a reliable, robust and durable technology (all fuel cell systems have been engineered, and the PEM has been tested, to operate for up to 20,000 hours).

The Group is at an early stage in the commercialisation and marketing of its technology. It operates an ongoing development and testing programme which, the Directors believe, will enable the Group to maintain its competitive and technological advantage, reduce manufacturing and assembly costs and exploit additional market opportunities. Proton Motor has 42 patents granted and has a further 32 patent applications pending covering various aspects of its fuel cell system. Importantly, Proton Motor has developed significant know-how in fuel cell technology, its potential applications and its integration with hybrid electric fuel cell systems. The Group's marketing strategy is to focus upon core product supply in the industrial applications sector of the power systems market and to actively monitor the economic viability and attractiveness of other market opportunities. The Directors may address other market opportunities through third party licensing arrangements.

The Group currently produces its fuel cell modules and assembles fuel cell systems at its operational base in Starnberg, near Munich, in Germany. Proton Motor's fuel cell module has been designed to conform to the fully automated production process necessary to meet the anticipated production requirements derived from the Group's current sales and marketing programme. This strategy is complemented by a structured procurement programme designed to secure relevant components, at competitive prices, from third party suppliers. The Directors believe that the Group's proposed investment in a bespoke production line should enable it to benefit from significant economies of scale, as volume production increases, and assist the Group to maintain its margins as the market matures.

The Group has established strong relationships with a number of key OEMs in its target market and anticipates expanding this customer base as volume manufacturing capability increases. Over the course of the past five years, a number of demonstration models and prototypes have been commissioned and launched, including:

- an electric hybrid fuel cell system powered bus which was demonstrated on public roads in Germany and remains in operation today;
- the delivery of a power generation system for the National Research Council of Italy;
- a hybrid fuel cell system for a minibus which was developed for SGL Technologies;
- a fuel cell system for a 150kW Volvo bus; and
- a hybrid fuel cell system for forklift trucks, which is currently being operationally tested at the cargo area of Munich Airport and which was developed in conjunction with Linde, one of the largest global manufacturers of material handling and forklift trucks and a leading international supplier of gas.

In September 2005, Proton Motor received an order from Linde for four fuel cell systems (for delivery during the fourth quarter of 2006 to the first quarter of 2007) and a letter of intent for the future order of up to 15 fuel cell systems.

In February 2006, Proton Motor entered into a licensing and joint development agreement with L-3 Communications, a military applications developer with an annual turnover in 2005 of over US$9 billion. Under the terms of this agreement relating to licensing, Proton Motor has already received an initial payment of €400,000 (of a total of €900,000 with the balance due to be paid in two instalments over the course of the next 18 months) in respect of a perpetual, world-wide licence for the use of Proton Motor's fuel cell system in military applications. Under the terms of this agreement in relation to joint development, the Group has agreed to co-develop a fuel cell system specifically for use with select military applications in return for a total fee of €2,500,000 (to be paid, over the course of the next four years, under supplementary agreements to be entered into between the parties). The Directors are confident that the success of this development project should lead to significant future fuel cell module sales to L-3 Communications.

The Group currently has secured project-based development work from a number of OEMs and the Directors expect to receive approximately €4.2 million from this work. The €4.2 million sum is made up of (i) the outstanding payments expected to be received pursuant to the L-3 Communications agreement (as referred to above); (ii) a contract with the Bavarian State Government; (iii) a contract for a fuel cell battery recharging unit with a third party electric bus manufacturer; and (iv) a number of public contracts.

Out of the €4.2 million referred to above, the Directors expect to receive payments of approximately €1.5 million in aggregate from public contracts. The nature of those public contracts is such that although Proton Motor is a party to the proposals put forward to the public authorities, it is not named as the lead partner and therefore it may not legally enforce the contract against the public authority. Proton Motor relies upon costs applications to be made by the lead partner to the public authority, which has to agree the costs. Such agreed costs are then paid to the lead partners, who pass on Proton Motor's share upon receipt.

In addition to the contracts referred to above, the Group is currently pursuing over 20 serious commercial enquiries for the applications of its fuel cell systems.

The Directors believe that the Group has been successful in applying its energy management experience to maximise the design integration and system interaction between the fuel cell module and the energy storage system. The Directors believe that the Group is uniquely positioned with over 160

man years of combined hybrid electric and fuel cell technology experience, which has allowed Proton Motor to develop an efficient system of power delivery.

Proton has elected to float on AIM and, conterminously, raise new funds to finance the commencement of volume production and the anticipated growth in its working capital requirements. In addition, the Company intends to repay certain outstanding development loan balances and other debts. The Directors believe that the raising of the Group's corporate profile following Admission, combined with access to additional financial resources, should accelerate the roll-out of its fuel cell systems. The Group's long term goal is to develop its technology into a versatile, global industry platform. The Directors are confident that the Group can become a significant supplier of fuel cell systems to OEMs throughout the world.

History

The Group's business has been created from initial development work originally commenced within Magnet Motor. Magnet Motor, which specialises in electric drive technology (primarily for use in military and bus applications), identified that fuel cell systems could be utilised as a critical element within electric drive systems. Initial research was undertaken in the period between 1994 and 1998, including the identification of the core materials for use in the production of fuel cells, the creation of Proton Motor's proprietary GDL technology and the development of a robust sealing technology. Initially, Proton Motor's technology was designed for industrial transportation and stationary off-grid applications and, as a result, the need for durability and robustness was a fundamental requirement.

Magnet Motor determined that further progress would be accelerated within a separately identified, independently managed company, which was solely focused on the commercial development of fuel cell technology and related electric drive systems. In 1998, all fuel cell related IP was spun out of Magnet Motor into Proton Motor. The components of the Group's fuel cell system have been continuously refined over the course of the past 10 years, during which time a number of technical co-operation and product evaluation partnerships have been formed, including:

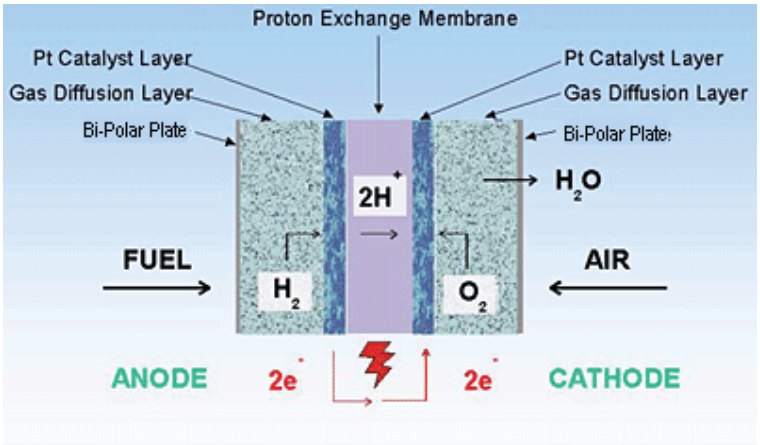
- Gore Associates, a global developer and manufacturer of technical membranes with a US$1.8 billion annual turnover in 2005, which works in the field of high performance PEMs which has already established two PEM production facilities – one in the US and one in Japan; and
- SGL Technologies, a subsidiary of SGL Carbon AG, one of the world's leading manufacturers of products made of carbon, graphite and composite materials for industrial and aerospace applications. SGL Technologies develops and commercialises carbon-based products for PEM fuel cells, bi-polar plates, foils and GDLs.

Since 2000, Proton Motor has historically secured external funding from Volvo Technology Transfer AB and other German institutional and private investors. These funds facilitated the undertaking of several pilot projects and, to date, over 100 fuel cell modules have been built, tested and / or commissioned. During early 2006, Proton Motor's ongoing commercial operations required further capital investment and the Company was formed in February 2006 as a vehicle to facilitate interim funding. The availability of these new funds has enabled the Group to execute a number of ongoing project-based orders which require it to develop, produce and commission hybrid electric fuel cell systems as a precursor to volume orders. The Company subsequently acquired Proton Motor in a share for share exchange in April and May 2006.

2 Technology and products

Fuel cell technology

A fuel cell is a device that converts the chemical energy of a fuel and an oxidant into electricity. In principle, it functions like a battery but does not require recharging so long as an ongoing fuel source, such as hydrogen, is available. Proton Motor's fuel cells produce electrical energy and water from hydrogen and air. The construction of PEM fuel cells includes the basic components of a fuel electrode (anode) and an oxidant electrode (cathode) separated by a membrane. Oxygen passes over one electrode and hydrogen over the other, thereby creating electricity and water. Most fuel cell systems are currently made by stacking individual fuel cells together to achieve the required level of power output.



The reactants, hydrogen and air, are delivered through channels in the bi-polar plate to a GDL which allows a pocket of hydrogen and air to be either side of the PEM. The PEM will allow a hydrogen proton to pass through but not the associated electron. This process splits the hydrogen supplied at the anode into negatively charged electrons and positively charged ions. The positively charged ions travel through the PEM and the electrons are forced to travel through an external circuit, thus creating electricity. At the cathode the ion and electron combine with air to form water, which flows out of the cell. The membrane is coated with a platinum catalyst which increases the reaction speed, and therefore the current density of the cell. The bi-polar plate is manufactured from a carbon / graphite mixture to enable the conduction of the electricity.

Fuel cell systems are widely regarded as a potential alternative to internal combustion engines, power from fossil fuels and battery technology. Fuel cell systems produce no noxious gases and pure hydrogen fuel cells produce no harmful emissions such as carbon dioxide. There are a number of types of fuel cell, classified by the type of electrolyte used, including alkali, molten carbonate, PEM, phosphoric acid, and solid oxide. Proton Motor has selected a PEM-based fuel cell as the Directors believe that, based on the PEM's power in operation, efficiency and operating temperature, it is the only technology able to meet the overall criteria which the Group has specified for its intended commercial applications.

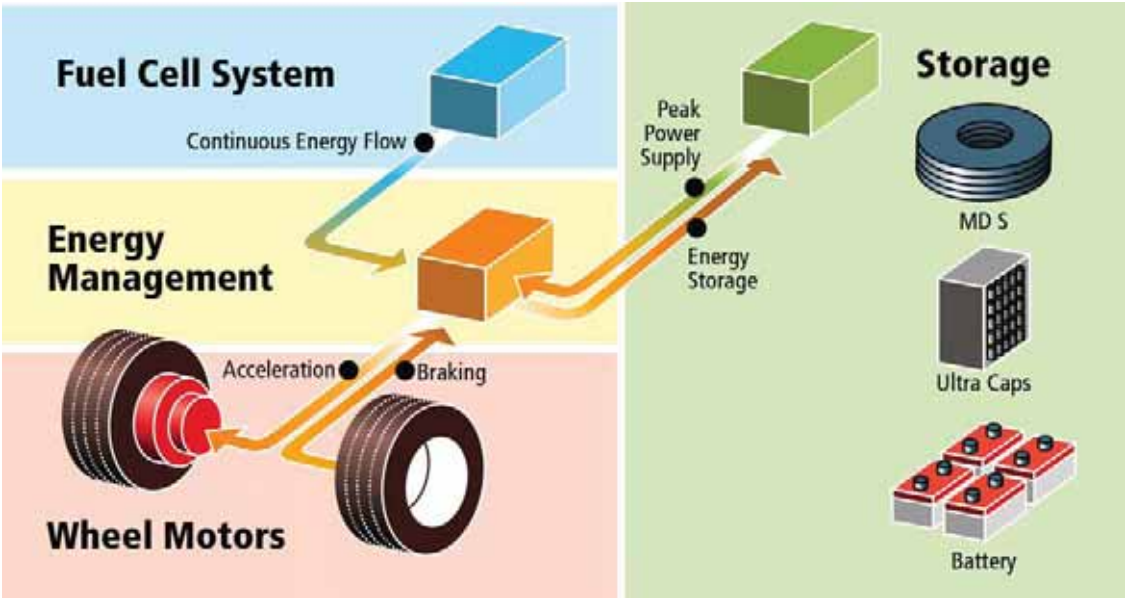
Hybrid electric fuel cell systems

The Group's standard 10kW fuel cell module is a combination of 40 fuel cells stacked together, designed and developed for simple and cost-effective volume manufacturing. These stacks are combined in a scalable, modular system in order to meet the power requirements of a particular application. The Directors are aware of competing technologies in the power systems market but are not aware of a product or technology which is wholly analogous with the Group's hybrid electric fuel cell system. The Directors are also currently aware of one company which is demonstrating a forklift unit at one of its investor's sites. However, the Directors believe that although the general components of any known competitor's may be the same as Proton Motor's, Proton Motor has advantages over competitors due to its electrical motor experience and its ability to make the technology efficient.

The principal features of Proton Motor's hybrid electric fuel cell system are the:

- fuel cells and balance of plant (or "BoP");
- energy storage system;

- energy management system; and
- hydrogen tank and ancillary components.



Fuel cells and balance of plant

The main components of the Group's fuel cell are the PEM, bi-polar plates, the GDL and the sealing system. The bi-polar plates were designed by Proton Motor and are produced by selected third party suppliers. The GDL and the sealing system, which were also designed by Proton Motor, are manufactured in-house as they are key, proprietary, patented components. The individual fuel cells are assembled by the Group, to its own specification, and are then combined into a sealed stack. The PEM, along with the catalytic layer, were designed in conjunction with Gore Associates and are supplied by them to the Group's technical requirements.

The BoP (including, for example, connections for gas and air flow, coolant, voltage monitoring and cable) is primarily comprised of standard industry components which are easily and readily sourced from a number of third party suppliers.

Energy storage system

In Proton Motor's fuel cell system, excess power generated during the course of a vehicle's operational cycle is stored. During the course of its development phase, Proton Motor examined a number of potential energy storage solutions, including batteries, flywheels and ultracapacitors. The storage device utilised is carefully chosen to suit the load characteristics of the application. The devices generally used to store energy are:

- ultracapacitors, which are electrochemical capacitors that have large amounts of energy storage capability relative to their size when compared to common capacitors. They allow very high rates of charge and discharge due to the utilisation of materials with high structural integrity and surface area;
- flywheel energy storage, which works by accelerating a rotor to a very high speed and maintaining the energy in the system as inertial energy. Energy is stored by using an electric motor to increase the speed of the spinning flywheel. The system releases its energy by using the momentum of the flywheel to power the motor or generator; and
- standard batteries devices, which operate by storing chemical energy and making it available in electrical form.

The Directors believe that ultracapacitors offer the optimum solution in many commercial applications as they allow up to 500,000 charging cycles, increasing the fuel cell system's robustness and durability. Ultracapacitors are also well suited to meet the peak power demands of industrial applications as they can charge and deliver power both quickly and efficiently.

Energy management system

An energy management system endeavours to ensure that the flow of power between the various components results in both an efficient system and a system where there is power in reserve when needed. For example, if a bus is travelling at maximum speed the next action would most likely be a regenerative braking cycle. The most efficient use of power would be to use power available from the storage device rather than the fuel cell. Conversely, if a bus is travelling at low speed, the probability of imminent acceleration is high and the storage device should be kept at a high level of charge.

Proton Motor's energy management system has been specified in-house and is manufactured by a third party supplier. The energy management control software has been written in-house and has been developed in conjunction with the Group's detailed know-how in order to maximise efficiency in the system. The Group is responsible for the software's installation in the micro-controller within the energy management system.

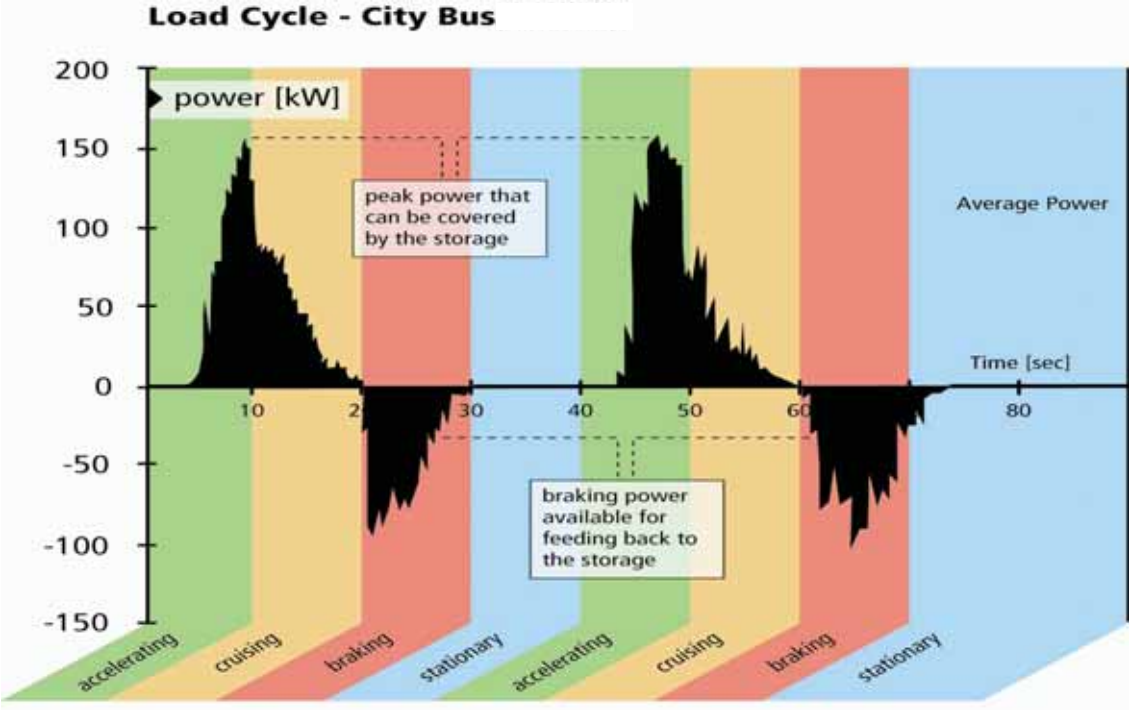
Hydrogen tank and ancillary components

The hydrogen storage tank is designed according to specifications provided to the OEM to suit the particular application. Hydrogen is stored in pressure vessels at either 200 or 350 bar depending on the space constraints and requirements of the user. The pressure is regulated and the flow controlled to meet the energy demand from the system. Regardless of the final system application, the remaining ancillary components, production process and quality assurance remain constant.

System operation

Proton Motor specialises in delivering a hybrid electric fuel cell system which utilises energy storage devices to provide power during peak demand situations. Energy is delivered to the storage devices from both regenerative braking and directly from the fuel cell. The energy stored allows the rated power of the fuel cell to be reduced, thus resulting in a capital cost saving. The ability to store the energy normally lost during breaking allows for fuel savings to be made.

A simple illustration of the power demands within an industrial application, such as a bus, is detailed in the diagram below. During a bus's operating cycle, there are typically short periods of peak power demand, such as when the bus is accelerating; longer periods of lower power demand, when the vehicle is moving at a relatively constant momentum; and periods of braking. Once moving, a bus requires significantly less power in order to maintain momentum and, during these periods, the fuel cell modules provide the vehicle with power. During periods of braking, excess energy generated is retained in an energy storage system for future use during periods of peak power demand.



The Directors believe that the Group's hybrid electric fuel cell system offers the following significant advantages over systems powered solely by fuel cells:

- an energy storage system is utilised for peak power demands (fuel cell modules not relied upon during this segment of power requirements) resulting in a smaller, more compact and efficient system;
- cost effectiveness is increased as a hybrid electric fuel cell system requires fewer fuel cell modules when connected to an energy storage system;
- reduced hydrogen consumption; and
- lower hydrogen tank and fuel cell module space requirements.

Fuel source and security of supply

Production

Hydrogen is currently produced for use in chemical production, petroleum refining, metal treatment and electrical applications. Steam methane reforming is the main process employed in the production of hydrogen. This is a catalytic process that involves reacting natural gas or other light hydrocarbons with steam to produce a mixture of hydrogen and carbon dioxide. Electrolysing water to produce hydrogen is not commonly used as it generally involves higher cost and produces lower efficiency. However, electrolysis of water would allow for more distributed hydrogen generation using electricity from renewable and nuclear sources at periods of low electricity demand.

Delivery

A central issue affecting hydrogen infrastructure is efficient transport of hydrogen gas from the point of production to the end user. Hydrogen is produced in a limited number of plants and transported by pipeline or road, via cylinders, tube trailers and cryogenic tanks. Pipelines are the most efficient method of transporting hydrogen. However, such pipelines are currently limited to the areas in the vicinity of oil refineries or in close proximity to chemical plants where manufacture and consumption reach such a critical density that they are able to support the fixed costs of infrastructure investment. There are plans for the construction of hydrogen refuelling networks in both Europe and the United States. For example, Arnold Schwarzenegger's Californian *'Hydrogen Highway'* and Linde's *'Hydrogen Autobahn'* are being discussed and developed in an effort to facilitate the move towards a *'hydrogen economy'*.

A study on the cost of a hydrogen economy, carried out on behalf of Linde, states that a filling station network for hydrogen vehicles would cost less than estimated in previous studies. The model assumes that 47 of Europe's largest urban centres with populations in excess of one million would be supplied with hydrogen filling stations. These centres would be connected gradually via *'corridors'* where one filling station would be constructed every 50 kilometres to facilitate longer journey distances. Approximately 2800 hydrogen stations, distributed throughout Europe, would be required to enable this vision to become a reality by 2020. This would give 120 million people, approximately a third of the current European population, an opportunity to make hydrogen their transport fuel of choice. In March 2006, a second hydrogen refuelling station was opened in Berlin.

Storage

A small proportion of the hydrogen produced today is used as an energy storage medium and can be stored as a discrete gas, liquid or chemical compound. Storage of compressed hydrogen in tanks is currently the most mature technology. However, the low density of hydrogen results in inefficient use of space on board a vehicle. Liquid hydrogen requires less space. However, cryogenic containers are required to store liquid hydrogen and the liquefaction process results in the loss of approximately one third of the energy content compared to gas.

Hydrogen can also be stored in high densities as reversible metal hydrides or absorbed on carbon structures. When needed, it can be released from these materials under certain temperature and pressure conditions. The advances in space-efficient storage that are being developed for mobile applications should benefit other areas of the hydrogen infrastructure.

Conversion and applications

Hydrogen engines are a well developed technology and have previously been used in space shuttles and unmanned rockets. Gas turbines and internal combustions engines designed specifically for using hydrogen fuel are in development as hydrogen can be combusted in a similar manner to petrol or natural gas. Hydrogen can be used in conventional power generation technologies, such as reciprocating internal combustion engines and gas turbines, or in fuel cells for stationary, mobile and portable power. Interest in PEM fuel cells has increased in recent years due to its compatibility with

mobile applications and most major automotive manufacturers are developing fuel cell concept cars. The Group has chosen hydrogen as its fuel source because of certain of its qualities, as follows:

- high energy content;
- non-toxic (when utilised in the Group's technology);
- zero harmful emissions (when utilised in the Group's technology);
- established supply and transport infrastructure for industrial hydrogen applications; and
- no requirement for additional equipment to prepare the fuel for fuel cell use.

Hydrogen production is a significant and growing industry – approximately 50 million metric tonnes of hydrogen were produced during the course of 2004 and current production rates demonstrate compound annual growth of approximately 10 per cent. The DOE has estimated that nine million tonnes of hydrogen would power 20-30 million vehicles for one year. By way of illustration, the Directors have calculated that approximately two tonnes of compressed hydrogen would be needed to operate 1000 forklift trucks for an average shift of eight hours.

In addition to being one of the Group's commercial partners, Linde is also one of the world's largest hydrogen suppliers and continues to work closely with the Group to address the Group's hydrogen security of supply and delivery requirements. The Directors estimate that current global non-utilised hydrogen production (for example, where hydrogen is produced as a by-product of other commercial activities and then flared, released into the atmosphere or fed to the natural gas grid) could satisfy the fuel cell industry's hydrogen requirements for the foreseeable future.

If hydrogen becomes more widely adopted as an energy source, in parallel with investment and infrastructure for the development of a *'hydrogen economy'*, the Directors anticipate that current fossil fuel based hydrogen production will be replaced by renewable hydrogen which can be obtained by electrolysis (extracting the hydrogen from water) utilising renewable energy sources such as solar and wind power.

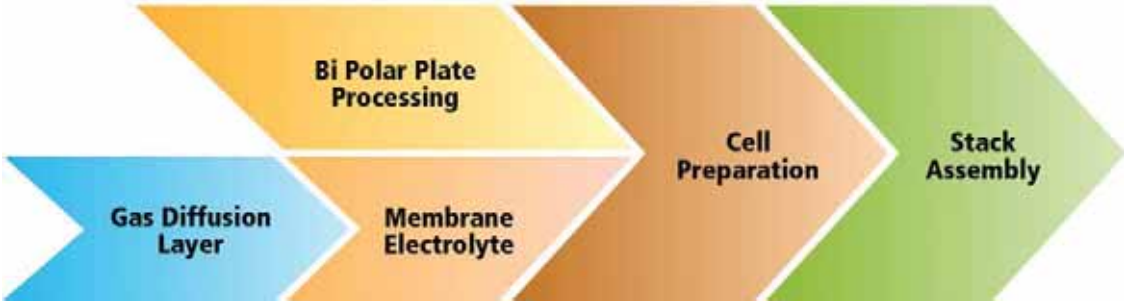
3 Production strategy

Manufacturing

To date, the Group's fuel cell modules and fuel cell systems have been produced in relatively small volumes on a project-by-project basis, largely utilising a combination of semi-automated processes and manual assembly. Proton Motor's technology development has been undertaken with the key objective of designing and manufacturing fuel cell systems for volume production. In order to seek to achieve this, the Directors have:

- identified target markets and commercial applications;
- established a number of key commercial partnerships within these target markets;
- designed the Group's fuel cell systems to meet the engineering requirements for volume manufacturing;
- established quality control procedures;
- reviewed, risk assessed and secured third party supplier and component manufacturing relationships;
- identified and assessed major commercial factors, such as cost, availability, robustness and durability of components; and
- secured and properly documented necessary regulatory and operational approvals for each application.

The Group's manufacturing, production and testing facility is housed within approximately 1,400 square metres of facilities, encompassing offices, test areas, production areas and an assembly area, across three separate sites, near Munich, in Germany. At present, the Group operates a relatively low volume assembly line with capacity of approximately 2,400 fuel cells per annum, equivalent to approximately 60 10kW fuel cell modules per annum. The Group's production strategy is based on the phased introduction of full automation over the course of the next two to three years, manufacturing the GDL on a single automated line, and then producing the fuel cell modules on a bespoke assembly line. The Directors believe that this approach will bring economies of scale and cost reduction. The Directors expect that full automation should support the production of approximately 860,000 fuel cells per annum, equivalent to approximately 21,500 10kW fuel cell modules per annum.



Supply

Standard industrial materials and components used in the Group's manufacturing, production and assembly process are competitively sourced from third party suppliers. Key components which are not manufactured in-house, such as the PEM and bi-polar plates, are dual sourced and supplied by specialist industrial manufacturers to the Group's quality and technical specifications.

Quality assurance

The Directors believe that commitment to quality is an inherent feature of the Group's corporate culture and that such commitment is evident throughout all its procedures, from receipt of initial enquiry, through to delivery of the completed product.

Throughout the production process, all fuel cell modules and fuel cell systems are inspected to the appropriate standards for operational quality. Proton Motor has set in place various methods of detecting non-conformities. These include incoming, process and final performance test procedures. In addition, measurement equipment is subject to scheduled calibration. Higher defined levels of quality control can be incorporated into the production process when specifically required by clients. Quality manufacturing, production and testing facilities and skilled employees assist the Group to minimise functional inaccuracies. In order to minimise waste and optimise assembly and test processes, the Group also intends to invest in the knowledge and skills required to implement manufacturing best practice techniques such as 5S, Lean manufacturing, Six Sigma and SPC. Proton Motor identifies each fuel cell and stack with unique reference numbers which are then traceable to results data stored during the appropriate characterisation and performance tests.

Proton Motor is currently creating an internal management system and working towards ISO 9001 accreditation. Proton Motor has displayed quality systems for supplier approval and its main supplier base is ISO 9001 accredited.

Technical

The Directors believe that the Group's ability to develop and provide fuel cell system solutions to meet a wide variety of customer-specific requirements sets the Group apart from other fuel cell solution providers. The Group's flexible, customer-driven service is highlighted by its commitment to develop fuel cell solutions to individual design criteria. To ensure on-going customer satisfaction, the Group adopts a versatile and innovative approach to product development.

Cost control

The Directors' current business model is based on the reduction of unit costs to a level that is, at most, equivalent to those that arise in similar conventional power systems when a full life cycle cost is considered. The Directors have identified several key actions which will be taken during the volume production process in order to reduce costs, including:

- cost reduction of key components through volume orders;
- automation of the manufacturing and production process from the current 39 steps to 19 steps (at full automation);
- amalgamating and expanding existing manufacturing, assembly and testing facilities in order to meet the requirements of volume manufacturing. In this regard, two sites have already been identified which could house the Group's future, enlarged operational facilities; and
- continuing to monitor, test and evaluate new components for improved efficiency and cost reduction.

Safety assessment

A German technical service company provides, amongst other functions, certification in areas of industry, mobility and people. Its certification relates to ensuring objectives in reliability, safety and quality as well as environmental protection and cost effectiveness.

Proton Motor has gained approval certification for their fuel cell systems which are being used on public highways, as required for road service under German law. The process involves a preliminary test where technical schematic, operational and safety documents are examined and then an acceptance test where the system is inspected to ensure it is installed and tested according to the documents which have been viewed at the preliminary testing.

Amongst other features, the certification ensures that the fuel cell system is designed to be failsafe. That is, in the event of a failure, all systems have to revert to a safe mode (for example, valves closing without electric current). The construction of Proton Motor's hybrid electric fuel cell system complies with industry safety standards, for example, the separation of high pressure hydrogen tanks from electrical components. Part of the process also involves a safety type failure modes and effects analysis. Proton Motor ensures their system also conforms to the draft requirements of the European Integrated Hydrogen Project. This body was set up to promote the safe introduction of the hydrogen vehicle and has released draft documents for proposals of new regulations for the approval of hydrogen fuelled road vehicles in Europe.

The Directors believe that, having already had systems approved, the time to market for Proton Motor's new fuel cell systems will be reduced, as many of the components will be standardised and the certification process should be similar to previous projects.

4 Market applications and sales strategy

Market drivers and challenges

Typically, air quality regulation is strong in developed countries where large modern cities have been identified as having high concentrations of airborne pollutants. This is especially true in Europe, the USA, Japan and other countries with large conurbations. The Directors believe that political policy-making, such as the implementation of energy regulations and global environmental agreements such as the 2005 US Energy Policy Act and the Kyoto Protocol present alternative transportation fuels with opportunities to significantly impact both the quality and economics of conventional energy sources in the coming years. Hydrogen offers a potential solution to air quality problems in cities, provided it is not produced locally from fossil fuels. There are near zero emissions at the point of use and the possibility of zero '*well to wheel*' emissions if the hydrogen is derived from electricity created from renewable sources.

With widespread acceptance that a reduction in CO_2 could allow significant defence against global warming, EU and worldwide CO_2 reduction targets on the pollutant are also driving funding and development of fuel cell technologies. The ability of hydrogen to act as a transportable and storable energy carrier is also becoming more attractive as fossil fuels, traditionally the most popular energy storage medium, begin to deplete and increase in price. Due to the increase of renewable and intermittent electricity production methods, the Directors believe that a dispatchable and controllable fuel such as hydrogen will be essential in balancing future demand and supply of electricity in a low CO_2 emissions world.

The DOE predicts that if fuel cell technology develops in line with expectations, and mass production volumes and techniques are achieved, fuel cells costs will be comparable to conventional engine costs by 2015. In March 2006, the German government announced that €500million would be made available over the next 10 years to fund fuel cell research. The DOE has announced a US$119 million funding programme for hydrogen and fuel cell research. Up to US$100 million will be distributed over the next four years for all aspects of fuel cell technology research, with the remaining US$19 million going to 12 projects devoted specifically to PEM development.

The German transport authorities have promised to introduce a fleet of 14 hydrogen-powered buses by 2007 in a bid to become the European *'capital'* for low-pollution technology. In the UK, London Mayor, Ken Livingstone, announced recently that 70 fuel cell vehicles will be made available to Londoners by 2010 as part of a £22 million green package. Fuel cell buses have also commenced operation at Centrair International Airport in Japan and two US grants were awarded for the partial conversion of seven buses to hydrogen.

Target customer group

The Directors' analysis of the potential market opportunities led them to focus on the commercial exploitation of hydrogen (an environmentally friendly source of power), predominantly within the industrial applications sector of the power systems market where advantages and opportunities exist in replacing lead acid batteries with fuel cell systems.

The Group's primary target customer base is composed of large, global OEMs who manufacture a suite of industrial products utilising existing power systems capable of being replaced by hybrid electric fuel cell systems. The Group has already commenced the process of targeting the leading OEM suppliers in each market application. The Group intends to leverage the OEMs' customer bases, service provision and product delivery systems by offering a strong partnership to assist with the seamless transfer of sales and technical know-how.

Primary market applications

The Directors have identified attractive primary market applications for the Group's fuel cell system, which generally display the following characteristics:

- early stage of development;
- need to reduce industrial emissions;
- potential material volume sales;
- *'back-to-base'* or stationary applications; and
- existing power generation technology applications with notable disadvantages, for example:
  - slower recharge time of battery technology as well as additional working capital infrastructure where continuous battery use is required;
  - combustion engines emit harmful emissions and noise pollution; and
  - external electric power is generally delivered by overhead cables, for example trolley buses, and has geographical and logistical limitations.

The Group has identified opportunities to replace lead-acid batteries with their PEM fuel cell systems and has identified niche markets in the materials handling and mass-transportation sectors that result from advantages in hybrid electric fuel cell systems compared to conventional engine technology and fuel cell only drive systems. The Group has identified two initial market segments in which the Directors believe the advantages of hybrid electric fuel cell systems will lead to economic benefits for the end user – forklift trucks and buses. In most cases, these vehicles operate within a defined radius or return to central points of operation.

Forklift trucks

In 2003, batteries for use in battery powered mobile manufacturing, warehousing and other ground handling equipment, primarily electric industrial forklift trucks generated more than US$1.5 billion in sales. In 2004, the global market for sales of material handling vehicles was in excess of approximately 700,000 units and it is anticipated that battery powered forklifts' share of the material handling market will steadily increase. The Directors believe that fuel cell conversion could be applicable to approximately 20 per cent. of this market. This battery powered segment offers an immediately addressable market for hybrid electric fuel cell systems as they provide the following distinct advantages:

- no equivalent requirement to recharge the battery – refuelling takes a matter of minutes as compared with hours typically required for battery recharging;
- reduced working capital implications – the end user of a battery powered forklift is required to have additional spare batteries on hand;
- improved shift productivity – it takes approximately 20 minutes to replace a depleted battery; and
- consistent levels of power delivery – generally, a battery will hold decreasing levels of charge over its life cycle.

Buses

Global bus production has reached approximately 240,000 units per annum. The Directors believe that one of the first markets where a hybrid electric fuel cell system could achieve significant penetration is the local bus sector – those buses operating in built up areas at relatively short

distances from base. The Directors have estimated that approximately 25 per cent. of the global bus production market could be addressed by a fuel cell solution with an average cost per application of approximately €25,000 and a total market value of approximately €1.5 billion. The Directors believe that hybrid electric fuel cell powered buses should be able to offer the following advantages over typical diesel combustion engine powered buses:

- reduced urban transport emission levels;
- significant reduction of fuel consumption;
- substantial reduction of noise pollution; and
- improved passenger ride and comfort as a result of smoother, enhanced electric drive systems.

Secondary market applications

Although the forklift truck and buses markets are the Group's immediate focus, there exist a number of additional markets which the Group has begun to address, including:

- other material handling applications (outside the forklift trucks market);
- APUs for applications such as lorries (providing electricity generation and power when the motor is not in operation);
- UPSs for applications within telecommunications, industry and public facilities;
- leisure boats and ferries;
- military applications; and
- local delivery vans.

The Directors believe that both the Group's primary and secondary markets also can be targeted effectively via the industrial battery market, with standardised fuel cell products being sold as replacements for industrial battery systems. The total market for automotive lead acid based battery products in 2003 was estimated at approximately US$1.5 billion and for stationary applications at approximately US$2.0 billion.

Sales process

The Directors are aware that the sale process with OEMs can be lengthy, combining elements of product demonstration, operational testing, small fleet orders, larger volume orders, market launch and product introduction. It is the Group's intention to seek to minimise the length of this sales cycle by:

- producing demonstration units / vehicles for customer test operations;
- utilising data from product demonstrations;
- implementing strategic pricing models;
- creating partnerships with mainstream vehicle leasing and financing partners; and
- enlarging the scope of its current sales and marketing activities.

The Group's transition from project-based revenues and operations to larger scale volume production levels will involve the completion of certain partnership projects and joint development agreements which are already underway and are discussed in more detail below, under the heading "*Partnership model*". The Directors are also confident that, co-terminously, they can expedite partnership discussions with new OEMs, focussing on accelerating the transition to volume sales.

Proton Motor has taken an active and public role to promote fuel cell technology through its regular participation in annual international conferences and trade exhibitions, including The Hanover Fair, and invitational speaking engagements. This conference and trade exhibition attendance is supplemented by various press relations initiatives which are often undertaken in conjunction with its key OEM partners.

Partnership model

The Group has adopted a strong partnership approach as a core element of its business strategy. The Directors firmly believe it is through established relationships that volume sales will emerge. The Directors consider that selling any industrial product into a global market requires OEM partnerships with worldwide reach. The Directors believe that efficient and successful execution with their OEM partners will enable Proton to be recognised as a global, hybrid fuel cell technology platform.

In addition to its ongoing projects with Linde and L-3 Communications, the Group has had a number of other key OEM relationships at varying stages in the sales cycle, including the following:

- a joint development project is underway with Skoda Electric S.R.O. for the supply of what is expected to be the first fuel cell bus in the Czech Republic. Skoda Electric is one of the leading, global manufacturers of electric buses;
- the supply of a hybrid electric fuel cell system to Volvo Bus Corporation is currently under development. This follows Proton Motor's initial 150kW bus project for Volvo during 2004;
- a joint development project with Eco Power Technology S.r.l. for the design and commissioning of a large, hybrid electric fuel cell powered bus. Eco Power Technology is a medium sized, Italian bus manufacturer;
- a fuel cell battery recharging unit was commissioned by a third party electric bus manufacturer in September 2005;
- the delivery of two fuel cell modules to a leading welding technology company (which is subject to confidentiality restrictions) was completed during 2005. A partnership relationship has been established for the preferred supply by Proton Motor of fuel cell modules for future use in this company's existing product line;
- a confidential supply arrangement with a major, global manufacturer of material handling trucks is currently under negotiation at board level;
- a non-operational, demonstration UPS electric fuel cell system was designed and built in March 2006 for Rittal GmbH & Co. Rittal is the leading global supplier of IT enclosure and housing technologies; and
- a co-operation project for a UPS electric fuel cell system is under development with AEG Power Supply Systems GmbH / Saft Group. AEG is a world leader in the provision of power for industrial and telecom applications.

Proton Motor is a party to a joint development contract to develop a zero emissions passenger ferry in Hamburg through a consortium.

5 Intellectual property

The Group has always recognised the commercial importance and value of protecting its IP and, therefore, the need to protect it wherever possible by way of patents and trademarks. The Group's key IP portfolio comprises a mixture of granted patents, patent applications, trademarks, confidential information and know-how.

In order to manage costs, the Group's patents have historically been filed nationally in the first instance and then processed through the Patent Co-operation Treaty into selected other regions, usually including France, Italy, United Kingdom, the United States and Canada. Other regions are selectively chosen to create appropriate coverage at a reasonable cost. The Group is aware of the importance of good quality filings for patents and uses the services of a Munich-based international patent attorney to draft, file and manage its patent portfolio. Proton Motor has 42 patents granted and has a further 32 patent applications pending covering certain areas of their fuel cell system:

- cell design;
- stack design;
- system design; and
- system operation.

To further leverage the Proton brand, the Group has applied for trademarks for the Proton Motor mark and logo and intend to require the Group's future licensees to apply the logo to all promotional material and capital equipment. The patents are intended to cover a much wider range of solutions than are actually implemented in order to prevent competitors from circumventing the Group's proprietary rights and to also increase the size and complexity of the barriers to market entry for potential competitors. The Directors believe that the key areas of the technology required to implement the Group's strategy are covered by granted patents, patent applications, trademarks and know-how. Save as disclosed in paragraph 13.3 of Part V of this document, the Directors are not aware of any objections or oppositions to either granted or applied for patents.

A key technical skill is the Group's in-depth knowledge of the differing properties of varying combinations of components of hybrid electric fuel cell systems. Certain of these processes are

deliberately not patented or published in any way. The Group is keen to ensure that no external party has knowledge of the processes deployed to achieve particular results. The Group's marketing strategy is to focus upon core product supply in the industrial applications sector of the power systems market and to actively monitor the economic viability and attractiveness of other market opportunities. The Directors may address other market opportunities through third party licensing and co-operation arrangements if the price is appropriate and reflects a commercially attractive multiple of the likely future revenue stream.

From time to time the Group has entered into cross-licence agreements (details of which are set out in paragraph 13 of Part V of this document) for the purposes of exploring with third parties the applicability of the Group's patents to other areas not of direct interest to Group and also giving the Group access to third party patents. The Directors consider these cross-licensing arrangements have also helped improve certain elements of their own technology and also has the additional advantage of increasing the international recognition for the Group's technology and capabilities. The Directors will consider further cross-licensing arrangements on their merits as and when the opportunities present themselves.

6 Current trading and future prospects

The Directors believe that a solid platform for growth has been achieved by the Group and that the Group has identified significant opportunities for the application of its technology within the expanding fuel cell market. The Directors also consider that there are significant prospects to expand into adjacent sectors by launching new products and entering into licensing arrangements. Given its overall market position and future prospects for growth, the Directors believe that there will be increasing demand for the Group's products and services for the foreseeable future.

The Group's principal objective upon completion of the Placing is to establish a volume manufacturing facility based upon solid sales orders. This should enable Proton to achieve an economically viable unit cost for its hybrid fuel cell systems. This should be achieved through a combination of:

- ordering components in economic order quantities;
- automating or de-skilling manufacturing and assembly operations;
- continuous improvement process; and
- refining quality control systems.

The Company has entered into an agreement with General Capital Group plc ("**GC**") whereby GC has agreed to lend up to £2 million for working capital and asset finance facilities to the Company (the "**Loan Facility**"). The Company has granted an all monies debenture in favour of GC. Further details of the Loan Facility are set out in paragraph 11.2 of Part V of this document.

The Directors believe that the funds available from the Placing and the Loan Facility should also enable the Group to continue to develop both new and existing relationships, and enhance its ability to take advantage of new opportunities as they arise. Initially, the Group will invest in increased operational and sales infrastructure appropriate to its ongoing growth.

The Directors believe that the advanced stage of commercialisation of the Group's technology, coupled with the Group's existing OEM partnerships, should allow the business to firmly establish itself as a leading, global, fuel cell system provider. The Directors believe that this statement is justified on the basis of the following:

- the standard design of the Goup's modular technology, designed to be suitable for a variety of commercial applications;
- a focused strategy on niche industrial applications for market entry with flexibility to allow further access to secondary markets;
- over 160 man years of combined experience and application in hybrid electric and fuel cell technology presently in the Group;
- production processes to be developed in parallel with the development of the Group's technology; and
- the Group's established quality control processes.

7 Reasons for the Placing and use of proceeds

The Directors believe that the Placing should provide the Company with the financial resources to make the transition from its research and development phase into volume sales and manufacturing. The Directors also consider that Admission will be an important step in the Group's development and that it should significantly enhance the Group's standing within its marketplace and its corporate profile. In addition, the Directors believe that Admission will act as a further incentive to management and employees through increased shareholding opportunity and the provision of a market for their Ordinary Shares.

The funding required under the Placing to enable the Group to expand its operations and to seek to secure a significant share of the power systems market is approximately £3.98 million (net of expenses).

The Directors intend to apply the net proceeds of the Placing and make use of the Loan Facility to:

- invest approximately £600,000 of capital investment in internal infrastructure and manufacturing automation;
- support the Group's strategy to exploit its commercial products through a further investment of approximately £800,000 in sales and marketing activities, including function demonstrators and increased sales support;
- ensure the Group's commercial position in the market is well protected by investing approximately £1.2 million in development activities including product and materials testing, on-going product improvements and strengthening the Group's IP position in key markets;
- to fund the Group's ongoing working capital requirements, including investment in materials and components to allow for volume sales, of approximately £650,000;
- repayment of outstanding loan facilities of approximately £1 million, which have supported the business to date; and
- strengthen the Company's balance sheet to increase the Group's ability to negotiate with larger OEMs and enhance the Group's profile in its marketplace.

The Directors expect that, should the Group perform in line with the current business model and their expectations, the Company will require to seek additional equity capital and / or third party funding.

8 Financial information

Financial information on the Group is contained in Part IV of this document and should be read in conjunction with the full text of this document. Investors should not rely solely on the key summarised information.

9 The Board and senior management

The Board currently consists of two Executive Directors and three Non-Executive Directors, brief biographies of whom are set out below. Details of relevant service contract provisions relating to the Directors are set out in paragraph 7 of Part V of this document.

Directors

Bernard Robinson OBE DL *(aged 66), Non-Executive Chairman*

Bernard worked for Thyssenkrupp Automotive Tallent Chassis Ltd for 42 years, working his way up from work / method study engineer through to his appointment to the board in 1974 as a director and works manager. He was appointed as chief executive in 1980 and, since then, has presided over a period of rapid expansion at the company including growth in employment from 180 to 1,600 employees and turnover increase from £1.5 million to £160 million per annum in the UK. The company also established manufacturing operations in Belgium, India and the United States. In 1997, the company won Barclay's Northern Business *'Company of the Year'* award and at the beginning of 1988, Bernard led a successful £11 million management buyout of the company.

Bernard was a Fellow of the Chartered Management Institute and, in 1988, was awarded the OBE in the New Years' Honours List and also presented with the 1988 North East Businessman of the Year Award by the Prime Minister. In 1994, Bernard was appointed a Deputy Lieutenant of County Durham and was chairman of the County Durham TEC from 1990 to 1999. He was also chairman of CBI Northern Region from 1998 to 2000.

Felix Wieland Gotz Andreas Peter Heidelberg *(aged 45), Chief Executive Officer*

Felix began his career with Proton Motor in 2000, initially working on the company's first fuel cell bus. He was appointed Chief Operating Officer in 2002 to guide product development and to manage the company's key relationships and strategic direction. Prior to joining Proton Motor, Felix had worked in the renewable energy industry since 1989. He began his career as a development engineer for super conducting energy storage systems and has also held sales positions within a wind turbine manufacturer and was involved in project management for the development of stirling CHP engines. In 1994 Felix was recruited as managing director of Regio-Tec, a €10 million annual turnover consulting firm for infrastructure and economics studies across the EU. Felix has a degree in applied physics from the University of Applied Science in Munich. He is an active member within the global fuel cell community, both through formal organisations, such as VDAM (a German engineering association) and Deutscher Fluessiggas Verband (a German natural gas association) and as a participant in regional and international consultations and events.

Benedikt Martin Gregor Eska *(aged 38), Chief Operating Officer*

Benedikt has a strong background in process management and has been with Proton Motor since 2001. He has primary responsibility for production processes including the planning, reporting, quality management and technical production lines necessary for both current production levels and to prepare for future production levels. From 1996 until 2001, Benedikt was a management consultant with Dr. Hans Golowski Portfoliomanagement and Fraunhofer Gesellschaft, working with large OEM clients, such as Siemens AG, on issues such as technology strategy and road maps, linking business strategy and patent strategy together and overall technology management. Benedikt has a degree in physics from the Technical University of Munich and is active as an industry expert in *'AK BERTA'*, an initiative of the German Ministry of Economics and Technology, where he works on strategic guidelines for hydrogen and fuel cells. Benedikt is also involved in the fuel cell group of the German Engineering Federation.

John Wall *(aged 52), Non-Executive Director*

John is a recently retired corporate finance partner at PricewaterhouseCoopers who, during the course of his career, participated in over 100 major transactions with an aggregate value of approximately £1.5 billion. John qualified as an accountant in 1979 and worked in various areas within PricewaterhouseCoopers, including investment banking and corporate finance in the Republic of Ireland, France and the United Kingdom. In 1998 he was appointed regional chairman of PricewaterhouseCoopers's UK corporate finance business with responsibility for all operations outside of London and he also sat on the UK corporate finance board. In 2004 he became chairman of the Albany RTA Group, an insurance outsourcing business in the UK. John is also a director of Adamson Developments (Quayside) Limited, a property development company, and of Waren Mill Management Company Limited, a property management company.

Per Erland Svantesson *(aged 46), Non-Executive Director*

Per has a strong track record in industrial manufacturing, industrial product development, logistics and quality service, with 22 years in the automotive manufacturing industry within Volvo AB, Valeo (a leading automotive component supplier), ESAB EU and Antiphon AB. Per has been with Volvo since 1999 and currently holds the position of president of Effpower AB, one of VTT's portfolio companies. Per's previous position within Volvo was as its senior vice president of product and industrial development within Volvo Bus Corporation, a 17 billion SEK annual turnover business which has produced over 11,000 buses in 19 factories worldwide. Per holds a degree of masters of science mechanical engineering and industrial organisation from the University of Technology, Gothenburg in Sweden.

Senior management

Dr Juergen Kraft *(aged 38), Research and Development director*

Juergen is a leading physicist with more than 12 years technology development experience. He joined Proton Motor in 2001 and is responsible for the research and development of Proton Motor's fuel cell and fuel cell stack, leading a team of four highly skilled engineers. During this time, Juergen has developed three generations of fuel cell modules, including the Group's current standard fuel cell module. In 1994, Juergen was with the University of Marburg and responsible for experimental studies at BESSY and HASYLAB. There he joined the largest German Bassic Sciences organisation, Max-Planck-Gesellschaft, and subsequently joined the Material Research Centre in the Albert-Ludwig-

University in Freiburg, working on nanotechnology applications focusing on coating processes. Juergen received his Ph.D. in physics from the Ludwig-Albrechts-University of Freiburg in 2000, focusing on material science and nanotechnology. He is also a member of the German Physics Society.

Dr Joachim Kroemer *(aged 52), Sales director*

Joachim joined Proton Motor in 2000 to focus on early stage sales and the development of key partnerships. He has 21 years experience of technology introduction for new applications in industrial fields such as car manufacturing, mining transportation and wind power generation. With experience in applied research, industrial development and commercial product introduction, his experience of bridging the gap between new technology development and market entry through partnerships has lead to Proton Motor's early sales in the fuel cell industry. Joachim holds a degree in physics from the University of Hanover and a Ph.D. in physics from the University of Bayreuth. He is a member of the German Physics Society.

Manfred Limbrunner *(aged 37), Senior Project director*

Manfred has over ten years experience in supply chain management and mechanical integration of components into commercial applications. Having joined Proton Motor in 2000, Manfred has focused on supply chain management mainly on the balance of plant components and on physical construction of the fuel cell system. He began his career at Hoebiger, a German supplier of pneumatic components where he worked on documentation and production quality of new components. In 1996 Manfred joined Safematic Schmiertechknik GmbH, a machinery supplier to the paper production industry as a project manager, focusing on the layout of components and packaging design as it relates to the specification of machinery with necessary quality controls as set by their end customer. Manfred has a degree in mechanical engineering from the University for Applied Science of Kempten and has received various project management certificates from the Verein Deutscher Ingeniere, a German engineering association.

Offices and employees

The Group operates from engineering, sales, manufacturing, procurement and service facilities located in Starnberg, near Munich, Germany. The Group currently employs a total of 18 staff (excluding the Directors), all of whom are based in Starnberg. Of these employees, five are involved in administration operations, 12 are employed in technical and / or engineering operations and one senior employee is responsible for sales and key accounts, supported in this role by the Directors.

Environment and health and safety

The Group strongly promotes best practice in safety at work. The Directors believe that the economic interests of the business are closely aligned will excellence in safety and employee welfare. The overall objective of the Group in relation to environmental and health and safety is to oversee the development and implementation of policies and best practices of the Group relating to environmental and health and safety issues in order to ensure compliance with applicable laws. The Directors endeavour to ensure that the Group has all of the necessary licences and approvals from customs and excise, environmental agencies, local authorities or health and safety executives to operate at its required locations. The Group operates a new employee induction programme which covers safety and training and is generally completed within three weeks of employment and further training is provided as required.

10 Dividends and dividend policy

The declaration of any payment by the Company of any future dividends on the Ordinary Shares and the amount of such dividends will depend on the results of the Group's operations, its financial condition, cash requirements, future prospects, profits available for distribution and other factors deemed to be relevant at the time. However, in view of the Group's early stage of development, the Directors do not envisage that the Company will pay dividends in the foreseeable future, but will continue to review this policy as the Company grows.

11 Details of the Placing and Admission

5,842,925 New Ordinary Shares are being placed, representing approximately 18.7 per cent. of the enlarged issued Ordinary Share capital of the Company following the Placing. This does not include (i) any Ordinary Shares reserved for the exercise of options to subscribe for Ordinary Shares pursuant

to Share Option Scheme, as described in paragraph 4 of Part V of this document, (ii) the Deferred Consideration, as described in paragraphs 11.5 to 11.9 (inclusive) of Part V of this document and (iii) Fees Shares, as described in paragraphs 11.4, 11.10, 11.12 and 15.10 of Part V of this document. At the Placing Price, the Placing of New Ordinary Shares will raise approximately £3.98 million (net of expenses) for the Company.

Bell Lawrie has agreed, pursuant to the Placing Agreement and conditional, *inter alia*, on Admission, to use its reasonable endeavours to place the Placing Shares with institutional and other investors. The Placing is conditional, *inter alia*, upon:

- the Placing Agreement becoming unconditional and not having been terminated in accordance with its terms prior to Admission; and
- Admission becoming effective not later than 31 October 2006, or such later date as Bell Lawrie and the Company may agree, being not later than 14 November 2006.

Application has been made to the London Stock Exchange for the Ordinary Shares to be admitted to trading on AIM. Admission is expected to become effective and dealings in the issued Ordinary Shares are expected to commence on 31 October 2006. No temporary documents of title will be issued. All documents sent by or to a Placee, or at his discretion, will be sent through the post at the Placee's risk. Pending despatch of definitive share certificates, instruments of transfer will be certified against the register of members of the Company. The Placing Shares will be placed free of expenses and will rank *pari passu* in all respects with the existing Ordinary Shares including the right to receive all dividends and other distributions declared paid or made after the date of issue.

Further details of the Placing Agreement are set out in paragraph 11 of Part V of this document.

12 Lock-ins and orderly market arrangements

All of the Directors, Existing Shareholders of the Company and General Capital Group plc have undertaken to the Company and/or to Bell Lawrie not to dispose of the Ordinary Shares held by each of them (or to be issued to them pursuant to Deferred Consideration or in respect of Fees Shares and their connected parties following Admission at any time prior to the first anniversary of Admission (subject to certain limited exceptions) (the "**Lock-in Period**").

Furthermore, all such persons have also undertaken to the Company and to Bell Lawrie not to dispose of their Ordinary Shares for twelve months following the end of the Lock-in Period other than through Bell Lawrie (or such other broker as the Company may appoint from time to time).

Further details of these lock in arrangements are contained in paragraph 11.2 of Part V of this document.

13 Corporate governance

The Directors intend, in so far as practicable given the Company's size and the constitution of the Board, to comply with the provisions of the Combined Code applicable to companies which are listed on the Official List.

The Directors have established a remuneration committee, nomination committee and an audit committee. The remuneration committee, consisting of Bernard Robinson as chairman, John Wall and Per Svantesson, will determine the terms and conditions of service of (including the remuneration and grant of options to) executive directors. The nomination committee, consisting of Bernard Robinson as chairman, John Wall and Per Svantesson, has been established to ensure that the Board has a formal and transparent appointment procedure and has primary responsibility for reviewing the balance and effectiveness of the Board and identifying the skills needed on the Board and those individuals who might best provide them. The audit committee, consisting of John Wall as chairman, Per Svantesson and Bernard Robinson, has primary responsibility for monitoring the quality of internal control and ensuring that the financial performance of the Group is properly measured and reported on and for reviewing reports from the Group's auditors relating to the Group's accounting and internal controls.

The Directors intend to comply with Rule 21 of the AIM Rules relating to Directors' and applicable employees' dealings in the Company's securities and to this end the Company has adopted an appropriate share dealing code.

14 Share Option Scheme and the Trust

The Directors believe that the success of the Group will depend to a high degree on the future performance of the management team. The Directors also recognise the importance of ensuring that employees are well motivated and identify closely with the success of the Group. Accordingly, the Company has established the Share Option Scheme, under which options over shares equivalent to a maximum of 10 per cent. of the issued share capital from time to time shall be made available to management and staff. Normally, options under the Share Option Scheme will be subject to specified performance criteria.

The Company intends to operate its employee shares schemes (including but not limited to the Scheme) in conjunction with employees' share trusts. Accordingly, the Company will set up the Trust.

Further details of the Scheme and the Trust are set out in paragraph 4 of Part V of this document.

The Directors' interests, following Admission, are set out in paragraph 6 of Part V of this document. In aggregate, the Directors will be interested in 1,100,000 Ordinary Shares following Admission, representing approximately 3.5 per cent. of the Company's enlarged issued Ordinary Share capital.

15 Taxation

Information regarding taxation in relation to the Placing and Admission is set out in paragraphs 9 and 10 of Part V of this document. If you are in any doubt as to your tax position, you should consult your own independent financial adviser immediately.

16 CREST

CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by a certificate and transferred otherwise than by a written instrument. The Articles permit the holding of Ordinary Shares under the CREST system. The Company has applied for the Ordinary Shares to be admitted to CREST and it is expected that the Ordinary Shares will be so admitted and accordingly enabled for settlement in CREST on the date of Admission. Accordingly, settlement of transactions in Ordinary Shares following Admission may take place within the CREST system if any shareholder so wishes.

17 Further information

Your attention is drawn to the additional information set out in Parts II to V of this document.

PART II

RISK FACTORS

Prospective investors should be aware that an investment in the Company involves a substantially high degree of risk. In addition to the other information contained in this document, the following risk factors should be considered carefully in evaluating whether to make an investment in the Company.

PRIOR TO INVESTING IN THE NEW ORDINARY SHARES OR CONDUCTING ANY TRANSACTIONS IN THE NEW ORDINARY SHARES, INVESTORS ARE ADVISED TO CONSULT PROFESSIONAL ADVISERS.

The following list of risks is not intended to be exhaustive. However, in particular, prospective investors should consider the following:

Limited operating revenues

Although the Directors have confidence in the Group's future revenue earning potential, there can be no certainty that the Group will achieve or sustain significant revenues, profitability or positive cash flow from its operating activities. This could impair the Group's ability to sustain operations or secure any required funding. To date, the Group has incurred substantial losses to date and expects losses and cash expenditure to continue until it achieves volume sales production.

Early stage of commercialisation

The Group is at an early stage in the commercialisation and marketing of its technology. A number of the relationships mentioned in Part I of this document are at an early stage and there is no assurance that any relationships will continue to result in revenue generating contracts with the Group. Continuing development of the Group's technology may be required and there can be no assurance that any of the Group's future technology will be commercially successful. The Group may encounter delays and incur additional research and development costs and expenses over and above those anticipated or allowed for by the Directors.

The success of the Group depends upon its generation of increased revenues by further exploitation of its existing technology, its successful commercialisation of further applications of its technology and the identification of new market opportunities for such applications.

Material contracts

The Group has been, and in the short to medium term will continue to be, dependent on a limited number of key customers. A concentrated client base places considerable dependence in meeting contracted operating performance levels. If a major client or a number of clients terminate their contracts or significantly reduce or modify their business relationships with the Group, the Group may not be able to replace the shortfall in revenues. Consequently, investors should not predict or anticipate the Group's future revenues based upon the clients it has currently, the size of its target client base or the number and size of its existing and prospective projects.

A number of the Group's material contracts are public contracts which may be dependent upon public grants and / or subsidies. The Group may not have control over payment of its costs under the public contracts since it is reliant upon the lead partner(s) to such public contracts making a claim for payment to the relevant public authority. Further, under the terms and conditions of public contracts, there may be a risk of claims for repayment from public authorities if the terms and conditions of such contracts are breached. In respect of the public contracts that Proton Motor has been involved in since incorporation, although the Directors are not aware of any breaches by Proton Motor of such contracts, the Directors estimate that there may be potential claim for repayment of up to approximately £1 million by public authorities if any such terms and conditions are breached.

Technology risk

A core component within the Company's product offering is its fuel cell module. This has undergone testing in prototype form but has not been tested at volume production. As with any new technology, there are risks associated with the performance and the long-term operational life of the product.

Competing power technologies

As the Group's fuel cell technology has the potential to replace existing power products, competition for the Group's products will come from current power technologies, from improvements to current power technologies and from new alternative power technologies, including other types of fuel cells or other self-contained energy systems. Each of the Group's target markets is currently serviced by existing manufacturers with existing customers and suppliers. These manufacturers use proven and widely accepted technologies such as internal combustion engines, turbines, batteries and overhead contact lines.

Additionally, there are competitors working on development technologies other than fuel cells (such as advanced batteries, ultracapacitors and hybrid battery / internal combustion engines) in each of the Group's targeted markets. Some of these technologies may be as capable of fulfilling existing and proposed regulatory requirements as Proton Motor's fuel cell technology.

Within the industrial applications sector of the fuel cell products markets there are a relatively small number of direct competitors. However, around the world, corporations, national laboratories and universities are actively engaged in the development and manufacture of fuel cell products and components in a wide variety of applications ranging from personal mobile applications (mobile phone and laptops) to applications providing power for powering large commercial buildings. Emerging or entirely new technologies, such as "cold fusion", may obviate the need for both existing methods of energy storage and electrical power generation and those proposed for the hydrogen economy such as electrolysers and fuel cells.

Many of the Group's competitors have financial resources, customer bases, businesses or other resources, which give them significant competitive advantages over the Group. Competitors and potential competitors may develop technologies and products that are less costly and / or more effective than the technology or products of the Group or which may make those of the Group obsolete or uncompetitive.

Governmental regulation

There may be a change in government regulations or policies, which could have a material adverse effect on the Group's activities.

The Group may be involved in intellectual property litigation that causes it to incur significant expenses or prevents it from developing or selling its products

The Group may become subject to lawsuits in which it is alleged that the Group has infringed the intellectual property rights of others or commence lawsuits against others who the Company believe are infringing the Group's rights. The Group's involvement in intellectual property litigation could result in significant expense, adversely affecting the development or sales of the challenged product or intellectual property and diverting the efforts of technical and management personnel, whether or not such litigation is resolved in the Group's favour. In the event of an adverse outcome as a defendant in any such litigation, the Group may, among other things, by required to:

- pay substantial damages;
- cease the development, manufacture, use, sale or importation of products that infringe upon other patented intellectual property;
- expend significant resources to develop or acquire non-infringing intellectual property;
- discontinue processes incorporating infringing technology; or
- obtain licenses to the infringed intellectual property.

There is no assurance that the Group would be successful in any development or acquisition of non-infringing intellectual property or that licences to the infringed intellectual property would be available upon reasonable terms. Any such development, acquisition or licence could require the expenditure of substantial time and other resources and could delay the commercialisation of the Group's products and have a material adverse effect on its business and financial results.

Volume manufacturing

If the Group succeeds in winning large contracts, Proton Motor's fuel cell modules and fuel cell systems will need to be manufactured in commercial quantities, in compliance with regulatory requirements and at acceptable cost. The Group may not be able to manufacture its products commercially or at a cost that is competitive with the products of its rivals.

Commercial Relationships

The success of the Group will depend on its ability to integrate the Group's fuel cell technology into products manufactured by OEMs. There is no guarantee that OEMs will manufacture appropriate products or, if they do manufacture such products, that they will choose to use Proton Motor fuel cell technology. Any integration, design, manufacturing or marketing problems encountered by OEMs could adversely affect the market for the Group's fuel cell technology and the Group's financial results.

Dependence on key personnel

The Group's success is largely dependent on the performance of its key management and technical personnel. The loss of one or more of these people could adversely affect Proton's business. Much of the Group's technology has been originated by its key employees and management.

In order to successfully implement the Group's anticipated growth, the Group will be dependent on its ability to hire and retain additional skilled and qualified personnel, particularly in relation to sales, sales support, technological development, management, marketing and technical personnel. There can be no assurance that the Group will be able to retain or hire necessary personnel.

Unforeseen factors and developments

The Group's ability to implement its business strategy may be adversely affected by factors that the Group cannot currently foresee, such as unanticipated costs and expenses, technological change or severe economic downturn. All of these factors may necessitate changes to the business strategy described in this document.

Reliance on third parties, including manufacturers

The Group relies on third party equipment manufacturers in the completion of its projects, and therefore does not always have complete control over the equipment and materials it requires to comply with its obligations under customer contracts. To the extent that the Group cannot acquire equipment or materials according to its plans and budgets, its ability to complete its work for its customers within the timetable laid down by the contract or at a profit may be impaired. If a manufacturer is unable to deliver the products for any reason, the Group may be required to purchase such equipment or materials from another source at a higher price. The resulting additional costs may be substantial and the Group may be in breach of its contracts with customers, which may result in a financial loss on a particular contract or a loss of business.

Future funding

Whilst the Directors believe that, taking into account the net proceeds of the Placing and the Loan Facility, the Group has sufficient working capital for its present requirements, that is for at least 12 months from the date of Admission, there can be no assurance that the Company would have sufficient resources to fund further development beyond that period.

Currency exchange rate fluctuations and overseas activities

The Group intends to conduct much of its business overseas in currencies other than sterling and as such its financial performance is subject to the effects of fluctuations in foreign exchange rates.

Foreign revenues are also subject to special risks that may disrupt markets, including the risk of war, terrorism, civil disturbances, embargo, and government activities. Revenue generating activities in certain foreign countries may require prior governmental approval in the form of an export license and otherwise be subject to tariffs and import / export restrictions. There can be no assurance that the Company will not experience difficulties in connection with future foreign revenues and, in particular, adverse effects from foreign currency fluctuations.

Conducting business in most countries will require the Group to become familiar with and to comply with foreign laws, rules, regulations and customs. The Group has limited experience conducting foreign business, and the Group cannot assure investors that it will be successful. Moreover, the Group's failure to comply with foreign laws, rules and regulations of which the Group is not aware may harm the development of the Group's business. Further, risks are inherent in international operations, including the following:

- customers' agreements may be difficult to enforce and receivables difficult to collect through a foreign country's legal system;

- foreign customers may have longer payment cycles;
- foreign countries may tax foreign income and tax rates in certain foreign countries may exceed those of the United Kingdom and foreign earnings may be subject to withholding requirements or the imposition of tariffs, exchange controls or other restrictions;
- intellectual property rights may be more difficult to enforce in foreign countries; and
- general economic conditions in the countries in which the Group seeks to trade could have an adverse effect on the Group earnings from operations in those countries.

Management of growth

The expansion of the Group's target markets will place additional demands upon the Group's technical, sales and marketing and administrative resources. Because the Group is at a comparatively early stage of its development, the ability of the Group to cope with these additional demands is uncertain. The failure to manage its growth appropriately may adversely affect the business, its financial condition and the future results of its operations.

Forward looking statements

This document contains forward looking statements, including, without limitation, statements containing the words ''believes'', ''anticipates'', ''expects'' and similar expressions. Such forward looking statements involve unknown risks, uncertainties and other factors which may cause the actual results, financial condition, performance or achievements of the company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in the other ''Risk Factors'' contained in this Part II of the document. Given these uncertainties, prospective investors are cautioned not to place any undue reliance on such forward looking statements. The Company disclaims any obligation to update any such forward looking statements in this document to reflect future events or developments.

Securities traded on AIM

The Ordinary Shares will be traded on AIM rather than the Official List. An investment in shares traded on AIM may carry a higher risk than an investment in shares listed on the Official List. Investors should be aware that the value of the Ordinary Shares may be volatile and may go down as well as up and investors may therefore not recover their original investment especially since the market in the Ordinary Shares on AIM may have limited liquidity.

The price at which investors may dispose of their shares in the Company may be influenced by a number of factors some of which may pertain to the Company and others of which are extraneous. Investors may realise less than the original amount invested.

Suitability

Investment in the Ordinary Shares may not be suitable for all readers of this document. Readers are accordingly advised to consult a person authorised under the FSMA who specialises in investments of this nature before making any investment decision.

Bell Lawrie, the Company's nominated adviser and broker, considers the Ordinary Shares to be a "high risk" investment according to its categories of investment. As the Directors have intimated that the Company is unlikely to pay dividends in the foreseeable future, the Ordinary Shares are, in particular, not suitable for investors requiring income.

PART III

EXPERT'S REPORT

The Directors
Proton Motor Fuel Cell GmbH
Gautinger Straße 6
D-82319 Starnberg
Germany

79 Coplaw Street
Glasgow
G42 7JG
UK

The Directors
Bell Lawrie
(a division of Brewin Dolphin Securities Limited)
48 St Vincent Street
Glasgow G2 5TS

23 October 2006

Dear Sirs

EXECUTIVE SUMMARY

SgurrEnergy Ltd has been instructed by Bell Lawrie to provide a technical assessment of the claims made for the Fuel Cell System and the manufacturing facilities of Proton Motor Fuel Cell GmbH. The Company claims that:

- The PEM fuel cell products are ready for commercialisation
- Their proposals for high volume manufacture of their fuel cell systems is achievable
- Fuel cell cost reduction estimates are realistic

Based upon the information made available, SgurrEnergy concludes that Proton Motor Fuel Cell GmbH has a hydrogen fuel cell technology that is sufficiently developed and protected by intellectual property rights to support the claim that their fuel cell products are ready for commercialisation from a technical perspective. In addition, SgurrEnergy finds that the claim made by Proton Motor in their proposal for the high volume manufacture of their fuel cell system is achievable given continued development of the manufacturing process plan and sufficient capital investment to realise these plans. SgurrEnergy is also in agreement that cost reductions will be achieved through product standardisation and large volume manufacturing and may anticipate cost reductions to be similar to, or greater than those claimed by Proton Motor assuming the effective implementation of a robust high volume manufacturing facility.

1 INTRODUCTION

SgurrEnergy Ltd is an independent engineering consultancy for the renewable energy sector. SgurrEnergy Ltd provides assessment, due-diligence, development, design and project management services for renewable energy projects, including; wind, bioenergy, hydro-energy, hydrogen, marine, solar and integrated hybrid technologies. With a client base of over 80 organisations from commercial blue-chip companies to SME's, government departments and communities, we are able to deliver a high value service attuned to the needs of the customer. This is delivered through staff with over 100 years experience in the energy provision industry.

SgurrEnergy Ltd has been instructed by Bell Lawrie to provide a technical assessment of the claims made for the Fuel Cell System and the manufacturing facilities of Proton Motor Fuel Cell GmbH which intends to float on the AIM market of the London Stock Exchange. Proton Motor has been developing and producing Polymer Electrolyte Membrane (PEM) fuel cells and PEM fuel cell systems since 1998. Possessing an in-depth knowledge of electric drive train equipment they offer the expertise to understand, specify and supply their customers with complete system solutions. The increasing drive towards a 'hydrogen economy' and advances in fuel cell technology present significant opportunities for a relatively low-cost, robust, efficient and load managed fuel cell system; Proton Motor is at the forefront of such fuel cell system development. They claim:

- The PEM fuel cell products are ready for commercialisation
- Their proposals for high volume manufacture of their fuel cell systems is achievable
- Fuel cell cost reduction estimates are realistic

This report attempts to assess these claims.

2 AIMS AND SCOPE

2.1 Aims

The primary aims of this assessment are understood to be as follows:

- To assess the claim made by Proton Motor Fuel Cell GmbH that their fuel cell products are ready for commercialisation from a technical viewpoint
- To assess the claim by Proton Motor Fuel Cell GmbH that their proposals for high volume manufacturing and associated cost reductions are achievable and realistic.

2.2 Scope

The material made available to SgurrEnergy Ltd explicitly states that the forklift truck and urban transport bus are the primary target markets for Proton Motor. This will form the main thrust of the assessment of claims by Proton Motor.

The material provided is limited to the documents and information made available to SgurrEnergy Ltd. The documents used are listed as references; these were supplemented by discussions with Proton Motor's staff and questionnaire responses from existing Proton Motor customers.

3 TECHNOLOGY REVIEW

3.1 Proton Motor Hydrogen Fuel Cell

Since inception in 1998 Proton Motor has built upon the knowledge and experience from its former parent company, Magnet Motor, to evolve its hydrogen fuel cell technology. Its first prototype project emerged in 1999 where it equipped a car with a fuel cell system for an automotive supplier. In May 2000 the first Proton Motor fuel cell bus was demonstrated for the Bavarian Ministry of Economic Affairs. Proton Motor was subsequently awarded with the Bavarian Energy Award 2002 for ongoing work in an innovative field. Further projects in mobile and stationary applications resulted in substantial know-how and the development of small series production facilities.

3.2 Proton Motor Fuel Cell System

Proton Motor specialises in delivering a hybrid fuel cell system which utilises energy storage devices to provide power during peak demand situations. Energy is delivered to the storage devices from both regenerative braking and directly from the fuel cell. The energy store allows the rated power of the fuel cell to be reduced, thus resulting in a capital cost saving. The ability to store the energy normally lost during braking allows a fuel saving to be made. The disadvantage of such a system is the addition of extra complexity and the situation where peak power cannot be delivered for prolonged periods, such as when long steep hills are encountered. However if the load profile of the application is understood, the correct amount of redundancy can be designed into the system.

The electrochemical reactions in the Proton Motor fuel cell are consistent with those in all PEM fuel cells. Hydrogen and air are delivered either side of a membrane where the hydrogen proton is split from the electron on passing through the membrane. The electron induces electrical current while the positively charge hydrogen ion reacts with oxygen in the air to produce water which flows out of the cell. A single cell produces a voltage of approximately 0.6V to 0.7V, therefore cells are combined in series and parallel into stacks to deliver the required voltage and current.

The hydrogen fuel is stored in pressure vessels (200 or 350 bar depending upon space and user needs) with regulated pressure and flow control to meet the required energy demand.

The energy storage device utilised is carefully chosen to suit the load characteristics of the application. For example, a forklift truck has frequent cycles of braking (generating power) and accelerating / lifting (consuming power) therefore only a short-term light weight storage device is needed; a bus which is required to accelerate on various gradients may require a higher capacity of storage such as from a flywheel or batteries.

The efficient flow of power between the various components and the maintenance of reserve power that can be accessed when needed are the key deliverables of the energy management system. For

example, if a bus is travelling at top speed, the next action is likely to be an energy regenerating braking cycle, therefore the most efficient use of power would be to use that available from the storage device rather than the fuel cell. Conversely, if a bus is travelling at low speed, the probability of imminent acceleration is high; therefore the storage device should be maintained at a high level of charge. This control is often bespoke for the required application and is programmed depending on the load profile of the transport system and the experience of the system integrator.

3.3 Electric Drive Train Experience

Proton Motor's experience of electric drive trains enables delivery of not just a fuel cell but an integrated working system. This know-how has been and is informally transferred from its sister company Magnet Motor, whose work is in the field of electric propulsion technology. Strong knowledge of electric drive trains can assist in optimising the fuel cell system, for example, the effect system voltage can have on drive train component costs and efficiencies. If these effects are understood and considered during initial design of the fuel cell the amount of adjustments necessary to commission the working system can be reduced.

New Anti-Idling Laws and Regulations can be adhered to by driving auxiliary systems electrically, therefore a good knowledge of the power requirements of various components will assist in correctly specifying the full system. Historically, many electric vehicles have used belts to drive auxiliary components mechanically; therefore little experience exists as to the reserve capacity required from such components.

4 CLAIMS BY PROTON MOTOR FUEL CELL GmbH

4.1 Claim 1: PEM Fuel Cell Products are ready for commercialisation

In this instance SgurrEnergy Ltd is viewing readiness for commercialisation from a technical capability perspective rather than a market perspective. Based on information provided there are a number of activities undertaken by Proton Motor that suggest the fuel cell technology and fuel cell system are approaching readiness for transition to commercialisation:

(1) Proton Motor is in a working relationship with Linde AG (a gas and engineering company and one of the World's leading suppliers of hydrogen fuel) in three project areas:

- A hybrid fuel cell system for forklift trucks, currently being tested in the cargo area of Munich Airport
- A fuel cell forklift truck for use at Hamburg harbour
- Three fuel cell systems for material handling equipment use in Northrhine-Westfalia. This has a planned second phase of an additional seven systems

Proton Motor has received a letter of intent from Linde AG for the delivery of up to fifteen fuel cell systems over the next 12 months (as of time of writing)

(2) Information gathered from two customers. One company has received fuel cell systems for forklift trucks and warehouse vehicles; the other is involved in a fuel cell bus project with Proton Motor. The feedback stated that the response and cooperation received before and after commissioning of a fuel cell system was good. Although one system required more support than envisaged from Proton Motor engineers they all proved to have a good level of durability with overall power output and running costs exceeding expectations. It was highlighted that in the customer's view 'with improved financing Proton Motor had the potential and technological skills to become a major market player'.

(3) Proton Motor presently possesses 42 patents that have allowed them to optimise the performance of their fuel cells while keeping production and part costs to a minimum. The Company has applied for 74 patents in total. The patents of primacy are:

- Gas Diffusion Electrode – a component that controls the water balance in the fuel cell to ensure peak efficiency. Proton Motor holds the patent for the production and the material composition of this component.
- Cell Sealing Concept – a concept for and production of a high quality seal around the membrane-electrode unit and improved production handling. This concept and procedure are considered suitable for high volume production. Proton Motor owns this patent.
- Media Supply – patent pending for the arrangement of cells for the flow of fuel and coolant supply.

- Catalytic Burner – applied to patent the process of reducing hydrogen fuel emissions from the fuel cell system through the use of catalytic burners to oxidise exhaust gases. Proton Motor claims this provides a more complete gas oxidisation than other systems.

- Ultracapacitor – applied to patent their set-up for maintaining power in the ultracapacitor energy storage system. It has a controllable pre-charging circuit, the electric drive source has a fuel cell unit that is connected in parallel with an ultracapacitor serving as a temporary storage unit, and thus the drive source does not need a direct voltage converter. This allows direct coupling of the storage system with the vehicle.

The many patents ensure that the technology and processes are well protected.

(4) Proton Motor has gained safety accreditation from a technical service company for their fuel cell systems which are being used on public highways, as required for road service according to German law. The technical service company provides certification in areas of industry, mobility and people. Their certification relates to ensuring objectives in reliability, safety and quality as well as ensuring that environmental protection and cost effectiveness are achieved. Proton Motor also ensures their system conforms to the draft requirements of the European Integrated Hydrogen Project (EIHP). The EIHP was set up to promote the safe introduction of hydrogen vehicles and has released draft documents for proposals of new regulations for the approval of hydrogen fuelled road vehicles in Europe.

In our view, the strong support from existing customers, the level of exclusive rights protection for many components and processes, and Proton Motor's commitment to and accreditation for the safety of their fuel cell system supports the Company's claim that their 'fuel cell products are ready for commercialisation' from a technical perspective.

4.2 Claim 2: Proton Motor's proposals for high volume manufacture of their fuel cell systems is achievable

SgurrEnergy Ltd understands the assessment of this claim to be focused purely at the manufacturing and quality issues of fuel cell production and not at the selection of appropriate premises and location of present or future manufacturing sites.

Current manufacture of Proton Motor products is a highly manual and small-scale process requiring on average 135 man hours to manufacture one fuel cell stack. As such, production rates are low with approximately 100 fuel cell stacks having been produced to date; this is not tenable for a mass market scenario. Proton Motor intends to increase production quantities and reduce costs exponentially over a 6 year period. By way of example, production quantities and Tact times (rate of manufacture) for the two major manufactured components (the stack and the cell) are shown in Table 1.[1]

Table 1 : Production quantities and Tact times for components

	Year 1	*Year 2*	*Year 3*	*Year 4*	*Year 5*	*Year 6*
No. of stacks per annum	39	135	501	1,488	7,250	21,400
Tact Time (mins / stack)	5,262	1,520	410	138	28	9.6
No. of cells per annum	1,567	5,425	20,134	59,798	291,355	860,000
Tact Time (mins / cell)	130.93	37.82	10.19	3.43	0.70	0.24

For products of this complexity it is generally regarded that quantities above 500,000 units / annum are classified as 'mass production'. Therefore, the rate at which cells are required may be unobtainable by merely scaling up laboratory production methods. The rate at which stacks are required might also warrant a degree of automation for a product of repeatable quality. As demand for Proton Motor's products increases the Company intends to raise their production capacity in a modular fashion. Some initial capital outlay will be required to purchase core machinery to remove the high labour content and reduce cycle time from bottleneck processes.

1 Cell and stack quantities interpolated from Proton Motor Introductory Presentation. Production rate calculations based on 228 working days / annum and 2 x 7.5hr shifts / day.

The main manufacturing constraints and possible solutions put forward by Proton Motor are discussed as follows:

(1) Gas Diffusion Layer (GDL) Manufacture – The gas diffusion layer is manufactured in-house. The material undergoes a series of treatment and inspection processes, the processes of coating / drying, pressing and inspection increase processing time significantly. This may be reduced by employing appropriate processing equipment such as a *Coatema Machine*, which is being considered by Proton Motor to automate the rolling, drying, sintering and cutting process.

(2) Bi-Polar Plates (BPP) Processing – BPP will be purchased, bonded and moulded to size. These can be washed in large batches to achieve the desired high production rates. Flatness and parallelism of bipolar plates is critical in controlling even distribution of the reactants and, therefore, the performance, durability and life of the fuel cell. Consequently, tolerance control and inspection are key components of the quality assurance process. The ability to manufacture plates without machining or grinding to assure flatness and parallelism is critical to minimising time and production costs. Proton Motor has developed a quality assurance procedure with their BPP supplier and uses processes to eliminate subsequent machining.

(3) Membrane Electrode Assembly (MEA) – The MEA process consists of a membrane supplied with the active catalyst pre-applied, and is sandwiched and sealed between two GDLs. Sealing the MEA assembly presently involves a clamping fixture where pressure is applied manually; consequently, labour and time can be significantly reduced by incorporating an automatic clamping solution. Due to the long drying time required for sealing, the Company plan to install two stations to achieve the required throughput by batch drying.

The Nafion® membrane is an expensive component of a fuel cell. Some alternative membrane materials, driven by cost reduction, such as Arkema and Polyfuel™ have been proposed but are currently unproven. Proton Motor expects the cost of its membrane to reduce due to increased manufacturing volumes and has written confirmation from their main supplier stating that the industry cost target of less than €10/kW MEA including catalyst can be achieved. Significant costs also exist in the precious metal used for the catalyst layer, namely platinum. The catalyst is typically applied to the carbon support using a batch wet chemistry method. There is potential for high throughput methods to decrease the cost of the supported catalyst manufacture. Proton Motor purchases the catalyst pre-applied so that specialist suppliers manage the deposition techniques. Proton Motor expects that a similar recycling procedure which exists for standard car catalytic converter catalyst material will become economically viable in the fuel cell industry. Therefore as volumes increase and industry standards develop only the losses, processes and the leasing rate for the catalysts will be chargeable.

(4) Cell Preparation and Inspection – Proton Motor intends to eliminate the cell preparation and inspection station by identifying critical inputs to the process in order to increase output control. This, they claim will enable a more reliable and repeatable process to deliver assembly of the cell directly into the stack with an acceptable level of rejects.

(5) Stack Assembly and Test – The assembly of cells into a stack and subsequent performance test is currently the most time consuming aspect of stack production. To combat this Proton Motor has planned to automate the cell stacking process using optical equipment to check alignment accuracy. The final test, which requires a lengthy procedure to warm up and prepare the cell for initial electricity production, cannot easily be significantly reduced. To alleviate this the Company intends to meet required production rates by installing duplicate final test machines each with the ability to test multiple stacks simultaneously. This will also enable a modular approach to increasing output volumes without high initial outlay for large, more complex, equipment. SgurrEnergy's view is that in designing these machines consideration of automatic loading and unloading of stacks may be advantageous as volumes increase. It is also our view that investigations of cycle time reduction should be implemented as utilising multiple identical pieces of machinery requires regular calibration and master component checks to ensure repeatability and reproducibility is achieved both in and between all the product testing machines.

The stacking of individual cells requires large quantities of sealant during manufacture, approximately 200m of sealant for each 10kW fuel cell. There is scope to reduce this cost by developing high speed sealing applications, or integrating seals into the MEA. Proton Motor has

made advances in this area to integrate a seal in the MEA as a consequence of their patented cell sealing concept; the standard module now has approximately 150m of sealant per 10kW fuel cell.

As a manual process, assembly of cells into the stack is currently time consuming. It requires precise indexing of cells and a controlled stacking pressure to ensure a uniformly distributed and aligned seal and prevent potentially destructive stresses. Design for manufacture and assembly may provide for a higher rate of construction of rugged fuel cell stack systems. The stacking and sealing requirements are related to the operating pressure of the stack. Present applications require low pressure operation and risks are controlled through tolerance control on bi-polar plates and their specially designed sealing concept. If the cell is constructed correctly and the tolerances of the components are achieved, Proton Motor believes their 3-point mechanical stop is sufficient to adjust the cells resulting in the easy application of a controlled stack pressure.

(6) Balance of Plant (BOP) Components – Increasing the manufacture and assembly of BOP equipment will provide Proton Motor with an opportunity to reduce the labour associated with integrating the fuel cell stack into a working system. Opportunities exist in reducing costs through volume orders and also buying in standard parts which are more readily assembled into the hydrogen energy system. For example, pipe work involved in the delivery of reactants is currently formed on site using manual pipe bending equipment. With standardisation these parts can be purchased pre-formed at reduced costs. The BOP equipment, which supplies and controls reactant and removal of by-products, receives little attention compared with fuel cell components. Due to low manufacturing volumes this is often made from off-the-shelf components that are not specifically designed for fuel cell applications, resulting in systems which compromise on weight, cost and efficiency. With increased production volumes there is potential to optimise designs and reduce costs. From a Company perspective, the cost reduction potential available through BOP components is lower than that of the fuel cell itself and subsequently not an immediate priority.

(7) Reactant Manifolds – External Manifolds, as employed by Proton Motor, require complex configurations to deliver high performance effectiveness of the fuel cell stack. Sealing this manifold is a critical component of this performance; some industry experts believe an opportunity exists to integrate the sealing process with the manufacture of manifolds. Proton Motor has considered this approach but believes that integration of the seal with the BPP has the significant disadvantage of requiring greater plate width and increased associated costs, volume and weight.

(8) Modelling and Simulation – Proton Motor uses various modelling and simulation techniques as part of their approach in the ongoing development of the Company, its products and production techniques. Proton Motor is also involved in technical projects with Institutes and Universities on 3D simulations of fuel cells.

In summary, Proton Motor has developed a plan for a line design to cope with expected production volumes; specific detail for automation and realisation of the line is in the planning stage. In essence, the Company plans to improve component design and manufacturing processes and reduce inspection procedures and frequencies. However, for this to be achieved long term capability needs to be proven with a high level of statistical confidence such that quality problems which could have been identified at an early stage in the process do not become costly rework procedures. To enable this, Proton Motor intends to embrace and implement quality and constant improvement techniques such as Statistical Process Control (SPC) and Six Sigma into their products and processes.

Based upon the information provided, it is SgurrEnergy's view that were Proton Motor to further develop their outline plans for; quality, design for manufacturing, production equipment and process control, the Company has a robust platform to develop facilities for large-scale manufacturing in the future.

4.3 Claim 3: Fuel Cell Cost Reduction estimates are realistic

SgurrEnergy Ltd understands the assessment of this claim to be focused purely at cost reduction as a consequence of improved manufacturing processes and not on market drivers and the business processes of Proton Motor.

Mass production permits very high rates of production per worker as waste, which is inherent in small volume manufacture, is eliminated from processes. The automation involved in modern mass production helps in reducing rework and failures by improving repeatability by better controlling

process variables. In addition, mass production is capitally intensive as it uses a high proportion of machinery in relation to workers. This allows economies of scale to decrease per unit cost as output increases.

As discussed in Section 4.2, Proton Motor has created outline plans to develop a robust high volume manufacturing process through labour content time reduction, increasing batch sizes and automation. To realise the development of such a facility requires significant capital investment and commitment from suppliers to the principles and requirements of the production processes. The Company has also been provided with quotations from suppliers that indicate reduced piece-part costs through larger order sizes. Proton Motor has reduced these values based on what they believe is reasonable for their anticipated production volumes. SgurrEnergy is of the opinion that suppliers should be re-engaged in order to update the costs quotation based on anticipated production volumes.

It should also be noted that some suppliers that provided components of the fuel cell stack are still in a development / cost reduction phase. These components, for example membranes, are only produced in the relatively small quantities as demanded by the existing fuel cell market. Therefore, cost predictions for future volumes are likely to be variable. In this case a letter of intent to supply and a cost goal in line with long term targets has been quoted. In relation to supplier costs, Proton Motor has proceeded with a level of caution, for example, in the case of membranes the high volume price quoted by the supplier has been increased by 374 per cent.

Proton Motor has established contacts with a number of suppliers for all the main components in their fuel cell and is currently testing, or has tested, their products. This effort includes continued tests of high value components to ensure delivery of the best possible results for their product. In addition, a number of components of the fuel cell stack and system are available as standard industrial components, for example pumps, sensors and fittings, from many supply companies.[2]

Proton Motor's target fuel cell stack cost in year 6 of production is approximately \$120 / kW.[3] Estimates from a US Department of Energy (DOE) workshop on manufacturing R&D for the hydrogen economy are \$45 / kW by 2010 and \$30 / kW by 2015 based upon technology development and manufacturing research and development.[4] This cost anomaly could reflect Proton Motor's lower production volumes or conservative approach.

Experience curves that relate unit costs to production are available for several industries. In considering the solar energy sector for photovoltaic cells the cost reduction over a 16 year period from product inception (1976 – 1992) shows a reduction in costs of approximately 85 per cent. This behaviour is typical of many technologies and may be anticipated to be similar for the hydrogen fuel cell industry.

Based upon the information available, SgurrEnergy is of the view that Proton Motor can reduce product cost by utilising the benefits available from mass production, through product standardisation and large volume manufacturing. Given the Company's conservative approach and forecast changes in demand and product costs in the hydrogen fuel cell industry from commercial, government and academic parties (DOE workshop), it is conceivable that cost reductions will be similar to, or greater than anticipated were their manufacturing facility plans to be realised.

5 CONCLUSIONS

In the opinion of SgurrEnergy Ltd, Proton Motor Fuel Cell GmbH has a hydrogen fuel cell technology that is sufficiently developed and protected by intellectual property rights to support the claim that their fuel cell products are ready for commercialisation from a technical perspective.

Based upon the information provided, SgurrEnergy finds that the claim made by Proton Motor in their proposal for the high volume manufacture of their fuel cell system is achievable given continued development of the manufacturing process plan and sufficient capital investment to realise these plans. SgurrEnergy is also in agreement that cost reductions will be achieved through product standardisation and large volume manufacturing and may anticipate cost reductions to be similar to, or greater than those claimed by Proton Motor assuming the effective implementation of a robust high volume manufacturing facility.

2 SgurrEnergy Ltd, Registered Email, 6373/001/I/Em/06/016 from Proton Motor, www.sgurrenergy.com.

3 \$120 / kW figure from cell material cost + labour cost in Email 6373/001/I/Em/06/015, www.SgurrEnergy.com

4 Roadmap on Manufacturing R&D for the Hydrogen Economy, July 13-14th 2005, Page 15-16 / 80, Page 20-21 / 80, http://www.hydrogen.energy.gov/pdfs/roadmap_manufacturing_hydrogen_economy.pdf

6 GLOSSARY OF TERMS

AIM	Alternative Investment Market
BOP	Balance of Plant
BPP	Bi-Polar Plate
DOE	US Department of Energy
EIHP	European Integrated Hydrogen Project
GDL	Gas Diffusion Layer
MEA	Membrane Electrolyte Assembly
OEM	Original Equipment Manufacturer
FC	Fuel Cell
PEM	Polymer Electrolyte Membrane
PM	Proton Motor
SPC	Statistical Process Control

Yours faithfully

Ian Irvine
Technical Director
SgurrEnergy Ltd

PART IV

FINANCIAL INFORMATION ON THE GROUP

(1) ACCOUNTANT'S REPORT ON PROTON POWER SYSTEMS PLC

RSM Robson Rhodes
Bryanston Court
Seldon Hill
Hemel Hempstead
HP2 4TN

23 October 2006

The Directors
Proton Power Systems plc
1 Park Row
Leeds
LS1 5AB

The Directors
Bell Lawrie
(a division of Brewin Dolphin Securities Limited)
48 St Vincent Street
Glasgow
G2 5TS

Dear Sirs

PROTON POWER SYSTEMS PLC ("THE COMPANY")

Introduction

We report on the financial information set out on pages 44 to 48 below. The financial information has been prepared for inclusion in the document dated 23 October 2006 (the "Admission Document")

Basis of preparation

The financial information set out in this report is based on the unaudited financial information of the company on the date of incorporation of 7 February 2006.

The basis of preparation and significant accounting policies used in the preparation of the financial information are shown in note 4 to the financial information.

Responsibility

The financial statements are the responsibility of the Directors of the company, who approved their issue.

The Directors of the company are responsible for the contents of the Admission Document in which this report is included.

It is our responsibility to form an opinion as to whether the financial information gives a true and fair view, for the purpose of the Admission Document, and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included assessment of significant estimates and judgements made by those responsible for the preparation of the financial

statements underlying the financial information and whether the accounting policies appropriate to the entity's circumstances are consistently applied and adequately disclosed.

We planned and performed our work 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 information is free from material misstatement, whether caused by fraud or other irregularity or error.

Opinion

In our opinion the financial information gives, for the purposes of the Admission Document dated 23 October 2006, a true and fair view of the state of affairs of the company as at the date stated and of its result, changes in equity, and cash flows for the period then ended in accordance with the basis of preparation set out in note 4 and in accordance with International Financial Reporting Standards as described in note 4 for the period then ended.

Declaration

For the purpose of Paragraph (a) of Schedule Two of the AIM rules we are responsible for this report as part of the AIM Admission Document and declare that we have taken all responsible care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contained no omission likely to affect its import. This declaration is included in the AIM Admission Document in compliance with Schedule Two of the AIM rules.

Yours faithfully

RSM ROBSON RHODES LLP

1 Income statement

The income statement of Proton on 7 February 2006 is set out below:

	Note	*7 February 2006* £
Operating expenses		—
Operating loss		—
Loss on before taxation		—
Tax on loss on ordinary activities		—
Loss for the period		—

2 Balance Sheet

The balance sheet of Proton as at 7 February 2006 is set out below:

	Note	*7 February 2006* £
ASSETS		
Current assets		
Trade and other receivables	4.3	2
Total assets		2
EQUITY AND LIABILITIES		
Share capital		
Called up share capital	4.4	2
Total equity		2
Total equity and liabilities		2

3 Statement of Changes in Equity

The statement of changes in equity of Proton on 7 February 2006 is set out below:

	Share capital £
Subscriber share capital issued on incorporation	2
Balance at 7 February 2006	2

4 Notes to the Financial Information

Notes to the financial information for Proton for 7 February 2006 are set out below:

4.1 Accounting Policies

Basis of preparation

The financial information set out in this report has been prepared in accordance with International Financial Standards ("IFRS") and is presented in £ sterling.

The financial statements for 7 February 2006 have been prepared in accordance with IFRS for the purpose of enabling the consistency of financial information in this Admission Document and in providing financial information in an accounting standards format that is acceptable to the AIM listing authorities.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are show in equity as a deduction, net of tax, from the proceeds.

4.2 Trade and Other Receivables

	7 February 2006 £
Other receivables	2

4.3 Share Capital

	Number of shares £	*Ordinary shares*
Shares issued on incorporation	2	2
At 7 February 2006	2	2

The total authorised number of shares is 50,000 with par value of £1 per share. On incorporation the company issued 2 ordinary shares of £1 each at par.

4.4 Post Balance Sheet Events

On 8 February 2006 each ordinary share of £1 each was subdivided into 20,000 ordinary shares of 0.005p each.

On 8 February 2006 the company's authorised share capital was increased by £100,000 from £50,000 to £150,000 by the creation of 1,000,000,000 ordinary shares of 0.005p each and 50,000 redeemable preference shares of £1 each.

On 10 February 2006 the company issued 50,000 redeemable preference shares of £1 each at par.

On 14 February 2006 the company's authorised share capital was increased by £1,853,000 from £150,000 to £2,003,000 by the creation of 37,000,000,000 ordinary shares of 0.005p each and 300,000 "A" redeemable preference shares of 1p each.

On 14 February 2006 the company issued 66,960,000 ordinary shares of 0.005p each at par.

On 14 February 2006 the company issued 290,000 "A" redeemable preference shares of 1p each at £1 per share. 140,000 of these shares were issued to Athena Technology Limited. Athena Technology Limited is a related party due to T Quigley and K L Hauck being directors of both Athena Technology Limited and the company up until 18 August 2006.

On 3 March 2006 and 6 March 2006 the company provided a combined loan amount of £100,000 to Proton Motor Fuel Cell GmbH.

On 15 March 2006 the company made a bonus issue of 49 ordinary shares for each ordinary share of 0.005p in issue. On the same date, the company consolidated every 100 ordinary shares of 0.005p each into one ordinary share of 0.5p each.

On 21 March 2006 the company consolidated every 10 ordinary shares of 0.5p each into one ordinary share of 5p each.

On 21 March 2006, the company's authorised share capital was increased by £1,300,000 from £2,003,000 to £3,303,000 by the creation of 26,000,000 ordinary shares of 5p each.

On 30 March 2006 as amended on 18 August 2006, General Capital Group plc ("GC") entered into an agreement with the company to lend £500,000 for the purpose of acquiring shares in Proton Motor Fuel Cells GmbH and for working capital purposes. Interest on the loan is payable quarterly in arrears at a rate of 15 per cent. per annum, with the first payment due on 30 November 2006. The company can repay the loan and outstanding interest at any time. If the loan is not prepaid, the loan shall be repaid on the date falling 365 days from the date of the agreement ("First Period") but in the event that Admission occurs before 31 October 2006, the company shall repay £562,500 in full and final satisfaction of the loan and all interest and fees payable in respect thereof. In addition, if Admission occurs within the First Period, the company shall issue to GC such number of Ordinary Shares at the Placing Price as shall be equal to £300,000. The company has also granted an all monies debenture in favour of GC.

On 6 April 2006, the company provided a loan of £500,000 to Athena Technology Limited.

On 26 April 2006 the company advanced to Karl Watkin the sum of £200,000. The loan is repayable within 30 days of Admission.

On 28 April 2006 the company issued 4,000,001 ordinary shares of 5p each to acquire 5 ordinary shares with a total nominal value of 81,000 Euro's in Proton Motor Fuel Cell GmbH.

On 15 May 2006 an existing loan arrangement under which Turquoise Capital LLP / Athena Technology Limited lent £500,000 to Proton Motor Fuel Cells GmbH, was assigned to the company.

On 15 May 2006 the company issued 2,650,000 ordinary shares of 5p each to acquire 1 ordinary share with a nominal value of 54,000 Euro's in Proton Motor Fuel Cell GmbH from Athena Technology Limited.

On 9 June 2006 the company converted 140,000 "A" redeemable preference shares of 1p each into 200,000 ordinary shares of 5p each.

On 26 July 2006 the company converted 50,000 redeemable preference shares of £1 each and 150,000 "A" redeemable preference shares of 1p each into 100,000 and 300,000 ordinary shares of 5p each respectively.

On 27 July 2006 the 50,000 Redeemable Preference Shares of £1 each and 300,000 "A" redeemable preference shares of 1p each in the authorised and unissued share capital of the company were cancelled and the authorised share capital of the company was reduced to £3,250,000 divided into 65,000,000 ordinary shares of 5p each.

On 14 August 2006 the company entered into an agreement with Athena assigning to the company the benefit of a loan agreement dated 14 August 2006 pursuant to which Athena advanced the sum of £695,000 to Proton Motor. The agreement takes effect if Admission takes place on or before 31 October 2006 and subject thereto the consideration for the assignment of the aforementioned loan will be the issue by the company to Athena of such number of Ordinary Shares at the Placing Price (rounded up to the nearest whole Ordinary Share) as shall have a value equal to £695,000.

Proton Motor Fuel Cell GmbH is a related party due to it being a wholly owned subsidiary of the company.

(2) ACCOUNTANTS REPORT ON PROTON MOTOR FUEL CELL GMBH

RSM Robson Rhodes
Bryanston Court
Seldon Hill
Hemel Hempstead
HP2 4TN

23 October 2006

The Directors
Proton Power Systems plc
1 Park Row
Leeds
LS1 5AB

The Directors
Bell Lawrie
(a division of Brewin Dolphin Securities Limited)
48 St Vincent Street
Glasgow
G2 5TS

Dear Sirs

PROTON MOTOR FUEL CELL GMBH ("PROTON")

Introduction

We report on the financial information set out on pages 49 to 65 below. The financial information has been prepared for inclusion in the document dated 23 October 2006 (the "Admission Document") relating to the proposed admission of the entire issued share capital of Proton's parent company, Proton Power Systems plc, to trading on AIM.

Proton was incorporated in April 1998 and prepares statutory financial statements to 31 December. The financial statements for the years ended 31 December 2003, 31 December 2004 and 31 December 2005 and the six month period ended 30 June 2006 were audited by ALR Treuhand GmbH of Munich, Germany. The audit reports for the three years ended 31 December 2005 and the six month period ended 30 June 2006 were unqualified.

Basis of preparation

The financial information set out in this report is based on the audited financial statements of Proton for the years ended 31 December 2003, 31 December 2004 and 31 December 2005 and for the six month period ended 30 June 2006.

The basis of preparation and significant accounting policies used in the preparation of the financial information are shown in note 5 to the financial information.

The financial information has been prepared after making such adjustments as we consider necessary. These include:

- In the years ended 31 December 2003, 31 December 2004 and 31 December 2005 and the six month period ended 30 June 2006 certain labour costs have been reclassified from operating expenses to cost of sales.
- In the year ended 31 December 2003 and 31 December 2004, revenues have been adjusted to remove amounts entered to correct revenues for the year ended 31 December 2002. These adjustments have been made to 1 January 2003 opening balances.
- In the year ended 31 December 2005 liabilities have been included for potential project penalty amounts and loan warranties to correctly reflect the net liability position of Proton as at that date.
- In the years ended 31 December 2003, 31 December 2004 and 31 December 2005, loan waivers from related parties have been reclassified from other operating income to interest income.

- In the six month period ended 30 June 2006 capitalised research and development costs have been expensed to the profit and loss account.
- An accrual for management and general consultancy services has been included as at 30 June 2006 for services in the six month period then ended.

Responsibility

The financial statements are the responsibility of the Directors of the company, who approved their issue.

The Directors of the company are responsible for the contents of the Admission Document in which this report is included.

It is our responsibility to compile the financial information set out in this report from the audited financial statements, to form an opinion on the financial information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that recorded by the auditors who audited the financial statements of the underlying financial information. It also included assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies appropriate to the entity's circumstances are consistently applied and adequately disclosed.

We planned and performed our work 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 information is free from material misstatement, whether caused by fraud or other irregularity or error.

Opinion

In our opinion the financial information gives, for the purposes of the Admission Document dated 23 October 2006, a true and fair view of the state of affairs of Proton as at the dates stated and of its losses, changes in equity, and cash flows for the periods then ended in accordance with the basis of preparation set out in note 5 and in accordance with International Financial Reporting Standards as described in note 5 for the periods then ended.

Declaration

For the purpose of Paragraph (a) of Schedule Two of the AIM rules we are responsible for this report as part of the AIM Admission Document and declare that we have taken all responsible care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contained no omission likely to affect its import. This declaration is included in the AIM Admission Document in compliance with Schedule Two of the AIM rules.

Yours faithfully

RSM ROBSON RHODES LLP

1. Income Statement

The income statement of Proton for the financial years ended 31 December 2003, 31 December 2004, and 31 December 2005 and for the six month period ended 30 June 2006 are set out below.

	Note	*6 month period ended 30 June 2006* KEUR	*Year ended 31 December 2005* KEUR	*Year ended 31 December 2004* KEUR	*Year ended 31 December 2003* KEUR
Revenue	5.4	1,043	387	1,635	1,104
Cost of goods sold		(440)	(879)	(1,099)	(1,426)
Gross profit / (loss)		603	(492)	536	(322)
Operating expenses		(1,279)	(1,100)	(1,053)	(1,093)
Other operating income	5.6	2	10	9	44
Operating loss	5.5	(674)	(1,582)	(508)	(1,371)
Finance costs – net	5.9	(20)	55	(10)	204
Loss profit before taxation		(694)	(1,527)	(518)	(1,167)
Taxation	5.10	—	—	—	—
Loss for the period		(694)	(1,527)	(518)	(1,167)

2. Balance Sheets

The balance sheets of Proton as at 31 December 2003, 31 December 2004 and 31 December 2005 and 30 June 2006 are set out below.

	Note	*30 June 2006 KEUR*	*31 December 2005 KEUR*	*31 December 2004 KEUR*	*31 December 2003 KEUR*
ASSETS					
Non current assets					
Property, plant and equipment	5.11	100	126	209	370
Intangible assets	5.12	7	10	15	20
Trade and other receivables	5.13	188	—	—	—
		295	136	224	390
Current assets					
Trade and other receivables	5.13	438	43	150	799
Other financial assets	5.14	19	19	128	135
Cash and cash equivalents	5.15	1	6	25	—
		458	68	303	934
Total assets		753	204	527	1,324
EQUITY					
Capital and reserves					
Share capital	5.16	4,724	4,724	3,884	3,884
Other reserves	5.17	1,360	1,360	1,360	1,360
Retained earnings		(8,666)	(7,972)	(6,445)	(5,927)
Total equity		(2,582)	(1,888)	(1,201)	(683)
LIABILITIES					
Current liabilities					
Trade and other payables	5.18	2,171	1,527	1,453	1,979
Borrowings	5.19	1,164	565	275	28
Total liabilities		3,335	2,092	1,728	2,007
Total equity and liabilities		753	204	527	1,324

3. Statement of Changes in Equity

The statement of changes in equity of Proton for the years ended 31 December 2003, 31 December 2004, and 31 December 2005 and for the six month period ended 30 June 2006 are set out below.

	Share capital *KEUR*	*Retained earnings* *KEUR*	*Other reserve* *KEUR*	*Total* *KEUR*
Balance at 1 January 2003	3,384	(4,760)	1,060	(316)
Issue of share capital	500	—	—	500
Capital contribution	—	—	300	300
Net loss for the year	—	(1,167)	—	(1,167)
Balance at 31 December 2003	3,884	(5,927)	1,360	(683)
Net loss for the year	—	(518)	—	(518)
Balance at 31 December 2004	3,884	(6,445)	1,360	(1,201)
Issue of share capital	840	—	—	840
Net loss for the year	—	(1,527)	—	(1,527)
Balance at 31 December 2005	4,724	(7,972)	1,360	(1,888)
Net loss for the period	—	(694)	—	(694)
Balance at 30 June 2006	4,724	(8,666)	1,360	(2,582)

4. Cash Flow Statements

The cash flow statements of Proton for the years ended 31 December 2003, 31 December 2004, and 31 December 2005 and for the six month period ended 30 June 2006 are set out below.

	Note	*6 month period ended 30 June 2006 KEUR*	*Year ended 31 December 2005 KEUR*	*Year ended 31 December 2004 KEUR*	*Year ended 31 December 2003 KEUR*
Cash flows from operating activities					
Net cash used in operations	5.21	(577)	(1,234)	(443)	(861)
Interest received		2	2	2	3
Interest paid		(22)	(22)	(12)	(4)
Net cash used in operating activities		(597)	(1,254)	(453)	(862)
Cash flows from investing activities					
Purchase of intangible assets		—	(2)	(2)	(20)
Purchase of tangible assets		(7)	(77)	(1)	(12)
Proceeds from sales of tangible assets		—	—	1	—
Net cash used in investing activities		(7)	(79)	(2)	(32)
Cash flows from financing activities					
Proceeds from issue of share capital		—	840	—	500
Proceeds from capital contributions		—	—	226	74
Increase in loan balances		849	365	250	230
Loans repaid		(250)	—	—	—
Reduction in other financial assets		—	109	7	45
Net cash generated from financing activities		599	1,314	483	849
Net (decrease) / increase in cash and cash equivalents		(5)	(19)	28	(45)
Opening cash, cash equivalents and bank overdrafts		6	25	(3)	42
Closing cash, cash equivalents and bank overdrafts		1	6	25	(3)

5. Notes To The Financial Information

Notes to the financial information for Proton for the years ended 31 December 2003, 31 December 2004 and 31 December 2005 and for the six month period ended 30 June 2006 are set out below:

5.1 General Information

The company is incorporated in Germany and is engaged in the development, production, application and testing of fuel cell systems and related technical components.

5.2 Accounting Policies

Basis of preparation

The financial information set out in this report has been prepared in accordance with International Financial Standards (IFRS) and is presented in Euros.

The financial statements for the three years ended 31 December 2003, 31 December 2004, and 31 December 2005 and for the six month period ended 30 June 2006 have been converted from German Accounting Standards into IFRS for the purpose of enabling the consistency of financial information in this Admission Document and in providing financial information in an accounting standards format that is acceptable to the AIM listing authorities. There were no significant adjustments required on the conversion from German Accounting Standards to IFRS.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

Revenue recognition

The company's revenue recognition policies by revenue type are as follows:

- Revenue from development projects are recognised in accordance with the company's accounting policy for development projects.
- Revenue from Government grants and subsidies are recognised in accordance with the company's accounting policy on Government grants and subsidies.
- Revenue from maintenance contracts is recognised on a straight line basis over the contract period.
- Revenue from Licence agreements are recognised when all material terms of the contract have been met.

Development projects

The company enters into contractual arrangements for the development, delivery and testing of fuel cell systems.

When the outcome of such contracts can be estimated reliably, contract revenue and costs are recognised by references to the degree of completion of each contracts as measured by costs incurred as a percentage of estimated total costs. When it is possible that total contract costs will exceed total contract revenues, the expected loss is recognised immediately.

Government grants and subsidies

Government grants and subsidies for expenses incurred are recognised as revenue and are credited to the profit and loss account when the claim for the grant or subsidy is submitted.

Segmental reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

The company currently operates wholly within one business segment and one geographical segment.

Intangible fixed assets

Purchased intangible assets are capitalised at cost at the date of purchase and are amortised over three years. Where there is evidence of impairment, the assets are written down to recoverable amount.

Tangible fixed assets

Tangible fixed assets are included at cost less depreciation. Cost includes any directly attributable expenses. Depreciation on tangible fixed assets is calculated so as to write off the cost over the estimated useful economic life of the asset. Where there is evidence of impairment, tangible fixed assets are reduced to recoverable amount. The principal annual rates used are as follows:

Leasehold property improvements	Over the period of the lease
Technical equipment, plant and machinery	20 per cent. straight line
Office equipment, fixtures and fittings	10 per cent. – 33 per cent. straight line

Trade and other receivables

Trade receivables are recognised initially at fair value. A provision for impairment of trade receivables is established when there is objective evidence that the company will not be able to collect all the amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

Cash and cash equivalents

Cash and cash equivalents include cash in hand and amounts held on deposit with banks. Where the company has used cash and cash equivalents as security for bank guarantees, those amounts restricted under the conditions of the guarantee are included as other financial assets.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are show in equity as a deduction, net or tax, from the proceeds.

Capital contributions from shareholders are included as capital reserves and are classified as equity.

Research and development

Research expenditure, including patent and intellectual property costs, is written off as incurred.

Development expenditure is capitalised if the product or process is technically and commercially feasible and the company has sufficient resources to complete the development any evidence of impairment. Where there is evidence of impairment, the assets are written down to their recoverable amounts.

Leases

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.

Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidation financial statements. However, if the deferred income tax arises from initial recognition of an asset of liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Income tax

Income tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws of the relevant countries that have been enacted or substantively enacted by the balance sheet date.

Employee benefits

The company operates defined contribution pension arrangements for certain employees. The company does not administer a pension plan and makes contributions to administered pension insurance plans on a mandatory, contractual or voluntary basis. The company has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due.

5.3 Financial Risk Management

The company's principal activities and funding position mean that the company is primarily exposed to liquidity risk. The company monitors its cash and cash equivalents to manage its ability to settle liabilities and the timing of payments made. The company currently does not have any significant exposures to foreign exchange, interest rate, credit or price risks.

5.4 Revenue

	6 month period ended 30 June 2006 KEUR	*Year ended 31 December 2005 KEUR*	*Year ended 31 December 2004 KEUR*	*Year ended 31 December 2003 KEUR*
Development projects, including licences of patent rights	944	250	1,228	647
Grants and subsidies	99	137	407	457
	1,043	387	1,635	1,104

5.5 Operating Expenses

Operating expenses by nature are as follows

	6 month period ended 30 June 2006 KEUR	*Year ended 31 December 2005 KEUR*	*Year ended 31 December 2004 KEUR*	*Year ended 31 December 2003 KEUR*
Depreciation of property plant and equipment and amortisation	36	167	169	189
Employee benefit expense	550	1,110	1,159	1,346
Raw materials and consumables used	93	124	375	561
Advertising costs	14	19	10	14
Occupancy costs	82	154	176	188
Patent costs	32	40	74	74
Legal, professional and other advisory costs	791	134	20	23
Other expenses	121	231	169	124
Total cost of goods sold and operating expenses	1,719	1,979	2,152	2,519

The following items have been included in arriving at operating loss:

	6 month period ended 30 June 2006 KEUR	*Year ended 31 December 2005 KEUR*	*Year ended 31 December 2004 KEUR*	*Year ended 31 December 2003 KEUR*
Auditors remuneration	11	48	15	—
Research and development	139	154	237	252
Operating lease rental				
– property	82	135	163	170
– other	2	3	2	3

5.6 Other Operating Income

	6 month period ended 30 June 2006 KEUR	*Year ended 31 December 2005 KEUR*	*Year ended 31 December 2004 KEUR*	*Year ended 31 December 2003 KEUR*
Rental income	—	—	—	26
Other income	2	10	9	18
	2	10	9	44

5.7 Employee Benefit Expense

Average monthly number of employees, including directors:

	6 month period ended 30 June 2006 KEUR	*Year ended 31 December 2005 KEUR*	*Year ended 31 December 2004 KEUR*	*Year ended 31 December 2003 KEUR*
Wages and salaries	459	924	956	1,140
Social security costs	89	180	197	200
Pension costs	2	6	6	6
	550	1,110	1,159	1,346

The average number of persons employed (including executive directors) by the company was as follows:

	6 month period ended 30 June 2006 Number	*Year ended 31 December 2005 Number*	*Year ended 31 December 2004 Number*	*Year ended 31 December 2003 Number*
Development and construction	17	18	21	22
Administration	4	4	4	4
	21	22	25	26

5.8 *Directors Remuneration*

	6 month period ended 30 June 2006 KEUR	*Year ended 31 December 2005 KEUR*	*Year ended 31 December 2004 KEUR*	*Year ended 31 December 2003 KEUR*
Wages and salaries	41	70	70	65
Social security costs	6	11	12	11
	47	81	82	76

5.9 *Finance Costs – Net*

	6 month period ended 30 June 2006 KEUR	*Year ended 31 December 2005 KEUR*	*Year ended 31 December 2004 KEUR*	*Year ended 31 December 2003 KEUR*
Interest income				
Interest income from deposits held	2	2	2	3
Loan waivers from related parties	—	75	—	205
Interest and similar income	2	77	2	208
Interest expense				
Interest payable on bank overdraft	—	—	(10)	(3)
Other bank charges	—	—	(2)	(1)
Interest on loan amounts from related parties	(22)	(22)	—	—
Interest and similar charges payable	(22)	(22)	(12)	(4)
Finance costs net	(20)	55	(10)	204

5.10 *Income Tax Expense*

	6 month period ended 30 June 2006 KEUR	*Year ended 31 December 2005 KEUR*	*Year ended 31 December 2004 KEUR*	*Year ended 31 December 2003 KEUR*
Current tax	—	—	—	—
Deferred tax	—	—	—	—
	—	—	—	—

The tax on the company's loss before tax differs from the theoretical amount that would arise using the tax rate applicable to profit of the company as follows:

	6 month period ended 30 June 2006 KEUR	*Year ended 31 December 2005 KEUR*	*Year ended 31 December 2004 KEUR*	*Year ended 31 December 2003 KEUR*
Loss before tax	(694)	(1,527)	(518)	(1,167)
Tax calculated at domestic tax rates applicable to profits	(255)	(562)	(191)	(445)
Tax losses for which no deferred income tax asset is recognised	255	562	191	445
Tax charge	—	—	—	—

5.11 Property, Plant and Equipment

	Leasehold improvements KEUR	*Assets under construction KEUR*	*Technical equipment and machinery KEUR*	*Office and other equipment KEUR*	*Total KEUR*
Cost					
At 1 January 2003	30	—	200	634	864
Additions	—	—	5	7	12
At 31 December 2003	30	—	205	641	876
Additions	—	—	—	1	1
Disposals	—	—	—	(1)	(1)
At 31 December 2004	30	—	205	641	876
Additions	—	39	33	5	77
Disposals	—	—	—	(2)	(2)
At 31 December 2005	30	39	238	644	951
Additions	—	1	3	3	7
At 30 June 2006	30	40	241	647	958
Depreciation					
At 1 January 2003	17	—	87	218	322
Charge for the year	6	—	41	137	184
At 31 December 2003	23	—	128	355	506
Charge for the year	4	—	35	123	162
Disposals	—	—	—	(1)	(1)
At 31 December 2004	27	—	163	477	667
Charge for the year	2	—	36	122	160
Disposals	—	—	—	(2)	(2)
At 31 December 2005	29	—	199	597	825
Charge for the period	—	—	16	17	33
At 30 June 2006	29	—	215	614	858
Net book value					
At 31 December 2003	7	—	77	286	370
At 31 December 2004	3	—	42	164	209
At 31 December 2005	1	39	39	47	126
At 30 June 2006	1	40	26	33	100

5.12 Intangible Assets

	Trademarks, copyrights and other intellectual property rights KEUR
Cost	
At 1 January 2003	16
Additions	20
At 31 December 2003	36
Additions	2
At 31 December 2004	38
Additions	2
At 31 December 2005	40
Additions	—
At 30 June 2006	40
Depreciation	
At 1 January 2003	11
Charge for the year	5
At 31 December 2003	16
Charge for the year	7
At 31 December 2004	23
Charge for the year	7
At 31 December 2005	30
Charge for the period	3
At 30 June 2006	33
Net book value	
At 31 December 2003	20
At 31 December 2004	15
At 31 December 2005	10
At 30 June 2006	7

5.13 *Trade and Other Receivables*

	30 June 2006 KEUR	*31 December 2005 KEUR*	*31 December 2004 KEUR*	*31 December 2003 KEUR*
Trade receivables	500	32	139	108
Amounts recoverable on contracts	—	—	—	455
Receivables from related parties	—	—	—	226
Prepayments and other receivables	126	11	11	10
	626	43	150	799

Trade receivables include Keur 188 falling due after more than one year.

5.14 *Other Financial Assets*

	30 June 2006 KEUR	*31 December 2005 KEUR*	*31 December 2004 KEUR*	*31 December 2003 KEUR*
Short term bank deposits	19	19	128	135

The bank has provided the company with guarantees required during the normal course of business. These guarantees are secured on the company's short term bank deposits which restricts the company's access to those funds during the period of the guarantee.

5.15 *Cash and Cash Equivalents*

	30 June 2006 KEUR	*31 December 2005 KEUR*	*31 December 2004 KEUR*	*31 December 2003 KEUR*
Cash at bank and in hand	1	6	25	—

5.16 *Share Capital*

	Number of shares	*Ordinary shares KEUR*	*Share premium KEUR*	*Total KEUR*
At 1 January 2003	4	67	3,317	3,384
Proceeds from share issue	1	14	486	500
At 31 December 2003 and 31 December 2004	5	81	3,803	3,884
Proceeds from share issue	1	54	786	840
At 31 December 2005 and 30 June 2006	6	135	4,589	4,724

On 25 November 2003, the company issued one ordinary share with a nominal value of EUR 13,700 at EUR 36.50 per share totalling EUR 500,000 to provide additional working capital.

On 16 February 2005, the company issued one ordinary share with a nominal value of EUR 54,000 at EUR 15.56 per share totalling EUR 840,000 to provide additional working capital.

5.17 *Other Reserves*

	Capital reserve KEUR
At 1 January 2003	1,060
Capital contribution	300
At 31 December 2003, 31 December 2004, 31 December 2005 and 30 June 2006	1,360

During 2003 the company issued a convertible loan of EUR 300,000 to provide working capital that was converted into a capital contribution on 25 November 2003.

5.18 *Trade and Other Payables*

	30 June 2006 KEUR	*31 December 2005 KEUR*	*31 December 2004 KEUR*	*31 December 2003 KEUR*
Trade payables	714	735	885	629
Payments on account of contracts	535	470	108	935
Social security and other taxes	42	96	103	93
Accrued expenses	880	226	357	322
	2,171	1,527	1,453	1,979

5.19 *Borrowings*

	30 June 2006 KEUR	*31 December 2005 KEUR*	*31 December 2004 KEUR*	*31 December 2003 KEUR*
Current				
Bank borrowings	—	—	—	3
Loan amounts due to related parties	1,057	465	250	—
Other loans	107	100	25	25
Total borrowings	1,164	565	275	28

Loan amounts due to related parties as at 31 December 2005 include EUR 250,000 which is secured on the existing patent and licence rights of the company. This loan amount has since been repaid.

5.20 *Commitments*

Lease commitments

The minimum annual rentals under non-cancellable operating leases are as follows:

	30 June 2006 KEUR	*31 December 2005 KEUR*	*31 December 2004 KEUR*	*31 December 2003 KEUR*
Property lease rentals				
Operating leases which expire:				
Within one year	80	135	145	168
Between one and five years	—	—	—	46
Other lease rentals				
Operating leases which expire:				
Within one year	1	7	7	—
Between one and five years	—	3	11	—

5.21 *Cash Used in Operations*

	6 month period ended 30 June 2006 KEUR	*Year ended 31 December 2005 KEUR*	*Year ended 31 December 2004 KEUR*	*Year ended 31 December 2003 KEUR*
Loss for the period	(694)	(1,527)	(518)	(1,167)
Adjustments for:				
Taxation	—	—	—	—
Depreciation and amortisation	36	167	169	189
Profit on disposal of plant and equipment	—	—	(1)	—
Interest income, including loan waivers	(2)	(77)	(2)	(208)
Interest expenses	22	22	12	4
Operating loss before change of net working capital	(638)	(1,415)	(340)	(1,182)
Receivables and other assets	(583)	107	422	46
Liabilities	644	74	(525)	275
Net cash used in operations	(577)	(1,234)	(443)	(861)

5.22 *Related Party Transactions*

During the years ended 31 December 2003, 31 December 2004 and 31 December 2005 and the six month period ended 30 June 2006 the company entered into the following related party transactions:

	6 month period ended 30 June 2006 KEUR	*Year ended 31 December 2005 KEUR*	*Year ended 31 December 2004 KEUR*	*Year ended 31 December 2003 KEUR*
Income / (expenses)				
Dr G Heidelberg loan waivers	—	25	—	—
Volvo Group loan interest and waivers	3	25	—	—
K F Kalmund interest and charges on loan amount	25	(22)	—	—
Muller Heidelberg & Partner legal expenses	—	—	—	(22)
Magnet Motor GmbH administrative services	3	8	20	28

At 31 December 2003, 31 December 2004, 31 December 2005 and 30 June 2006 the company had the following balances with related parties:

	30 June 2006 KEUR	*31 December 2005 KEUR*	*31 December 2004 KEUR*	*31 December 2003 KEUR*
Amounts owing from / (due to)				
Proton Power Systems plc – loan amounts	(857)	—	—	—
Dr G Heidelberg loan amount	—	—	(25)	—
Volvo Group – loan amount	(583)	(565)	(575)	—
K F Kalmund – loan amount	—	(250)	—	—
Muller Heidelberg & Partner	—	(2)	(15)	(22)
Magnet Motor GmbH	—	(7)	(20)	1

Dr G Heidelberg and Volvo Group provided the company with short term loan funding. The loans did not attract any interest. Dr G Heidelberg and Volvo Group are related parties by virtue of their shareholdings in the company.

K F Kalmund provided the company with short term loan funding. The loan attracts interest at 8 per cent. per annum. K F Kalmund is a related party by virtue of his share interest in Top Equity GmbH, which has a shareholding in the company.

Muller Heidelberg & Partner provide legal services to the company and is a related party by virtue of a relationship with Dr G Heidelberg.

Magnet Motor GmbH provided the company with administrative services and is a related party by virtue of Dr G Heidelberg's relationship with that company.

Proton Power Systems plc provided the company with short term loan funding. Proton Power Systems plc is a related party as it acquired the entire share capital of the company during the six month period ended 30 June 2006.

PART V

ADDITIONAL INFORMATION

1. INCORPORATION AND STATUS OF THE COMPANY

1.1 The Company was incorporated and registered in England and Wales under the Act on 7 February 2006 with registered number 5700614 as a public limited company with the name Future Power Systems plc. On 2 May 2006, the name of the Company was changed to Proton Power Systems plc.

1.2 The principal legislation under which the Company operates is the Act and the regulations made thereunder.

1.3 The Company was issued with a certificate pursuant to section 117 of the Act (allowing it to carry on business and to exercise its borrowing powers) on 6 April 2006.

1.4 The business of the Company, and its principal activity, is to act as a holding company of the Group.

1.5 The registered office of the Company is at 1 Park Row, Leeds, LS1 5AB with telephone number 0113 244 5000.

1.6 The liability of the members of the Company is limited.

1.7 The Company is the holding company of the Group with a wholly owned subsidiary, Proton Motor Fuel Cell GmbH, a company incorporated in Germany.

2. SHARE CAPITAL OF THE COMPANY

2.1 At the date of its incorporation, the Company had an authorised share capital of £50,000 divided into 50,000 ordinary shares of £1 each, of which two ordinary shares of £1 each were in issue nil paid.

2.2 On 8 February 2006, each ordinary share of £1 was subdivided into 20,000 ordinary shares of 0.005p each. The share capital of the Company was increased by £100,000 to £150,000 by the creation of 1,000,000,000 ordinary shares of 0.005p each and 50,000 Redeemable Preference Shares of £1 each.

2.3 On 10 February 2006, 50,000 Redeemable Preference Shares were issued fully paid for cash at par.

2.4 On 14 February 2006, pursuant to resolutions passed by the shareholders of the Company:-

2.4.1 the Company's authorised share capital was increased by £1,853,000 from £150,000 to £2,003,000 by the creation of 37,000,000,000 ordinary shares of 0.005p each and 300,000 "A" Redeemable Preference Shares of 1p each;

2.4.2 in substitution for all existing authorities, the Directors were generally and unconditionally authorised pursuant to section 80 of the Act to exercise all the powers of the Company to allot relevant securities (within the meaning of that section) up to an aggregate nominal amount of £1,952,998 for a period expiring (unless previously renewed, varied or revoked by the Company in general meeting) 15 months after the date of the passing of the resolution or at the conclusion of the next annual general meeting of the Company following the passing of the resolution, whichever first occurs but the Company may make an offer or agreement which would or might require relevant securities to be allotted after expiry of this authority and the directors may allot relevant securities in pursuance of that offer or agreement; and

2.4.3 in substitution for all existing authorities and subject to the passing of the resolution referred to in paragraph 2.4.2, the Directors were generally empowered pursuant to section 95 of the Act to allot equity securities (within the meaning of section 94(2) of the Act) pursuant to the authority conferred by the resolution referred to in paragraph 2.4.2 as if section 89(1) of the Act did not apply to the allotment. This power expires 15 months after the date of the passing of the resolution or at the conclusion of the next annual general meeting of the Company following the passing of the resolution, whichever first occurs, but the Company may make an offer or agreement which would or might require equity securities to be allotted after expiry of this authority and the directors may allot equity securities in pursuance of that offer or agreement.

2.5 On 14 February 2006, the Company issued 66,960,000 ordinary shares of 0.005p each at par and 290,000 "A" Redeemable Preference Shares at a premium of 99p per share.

2.6 On 15 March 2006, the Company made a bonus issue of 49 ordinary shares for every ordinary share of 0.005p in issue. On the same date, the Company consolidated every 100 ordinary shares of 0.005p each into one ordinary share of 0.5p each.

2.7 On 21 March 2006, the Company consolidated every 10 ordinary shares of 0.5p each into one Ordinary Share.

2.8 On 21 March 2006, pursuant to resolutions passed by the shareholders of the Company:-

2.8.1 the Company's authorised share capital was increased by £1,300,000 from £2,003,000 to £3,303,000 by the creation of 26,000,000 Ordinary Shares;

2.8.2 in substitution for all existing authorities, the Directors were generally and unconditionally authorised pursuant to section 80 of the Act to exercise all the powers of the Company to allot relevant securities (within the meaning of that section) up to an aggregate nominal amount of £3,082,598 for a period expiring (unless previously renewed, varied or revoked by the Company in general meeting) 15 months after the date of the passing of the resolution or at the conclusion of the next annual general meeting of the Company following the passing of the resolution, whichever first occurs but the Company may make an offer or agreement which would or might require relevant securities to be allotted after expiry of this authority and the directors may allot relevant securities in pursuance of that offer or agreement; and

2.8.3 in substitution for all existing authorities and subject to the passing of the resolution referred to in paragraph 2.8.2, the Directors were generally empowered pursuant to section 95 of the Act to allot equity securities (within the meaning of section 94(2) of the Act) pursuant to the authority conferred by the resolution referred to in paragraph 2.8.2 as if section 89(1) of the Act did not apply to the allotment. This power expires 15 months after the date of the passing of the resolution or at the conclusion of the next annual general meeting of the Company following the passing of the resolution, whichever first occurs, but the Company may make an offer or agreement which would or might require equity securities to be allotted after expiry of this authority and the directors may allot equity securities in pursuance of that offer or agreement.

2.9 On 28 April 2006, the Company issued 960,667 Ordinary Shares as initial consideration for the purchase of shares having nominal value €16,150 and €3,300 in the capital of Proton Motor.

2.10 On 28 April 2006, the Company issued 876,667 Ordinary Shares as initial consideration for the purchase of shares having nominal value €13,700 and €4,050 in the capital of Proton Motor.

2.11 On 28 April 2006, the Company issued 2,162,667 Ordinary Shares as initial consideration for the purchase of shares having nominal value of €43,800 capital in Proton Motor.

2.12 On 15 May 2006, the Company issued 2,650,000 Ordinary Shares as initial consideration for the purchase of shares having nominal value of €54,000 in the capital of Proton Motor.

2.13 On 9 June 2006, pursuant to a special resolution passed by shareholders, 140,000 "A" Redeemable Preference Shares were converted into 200,000 Ordinary Shares.

2.14 On 26 July 2006, pursuant to special resolutions passed by shareholders, 50,000 Redeemable Preference Shares and 150,000 "A" Redeemable Preference Shares were converted into 100,000 and 300,000 Ordinary Shares respectively.

2.15 On 27 July 2006, pursuant to a resolution passed by shareholders pursuant to section 121(2)(e) of the Act, 50,000 Redeemable Preference Shares and 300,000 "A" Redeemable Preference Shares in the authorised and unissued share capital of the Company were cancelled and the authorised share capital of the Company was reduced to £3,250,000 divided into 65,000,000 Ordinary Shares.

2.16 With effect immediately upon Admission, and pursuant to the authority given by the resolutions referred to in paragraph 2.8 above, 5,842,925 new Ordinary Shares will be allotted at the Placing Price pursuant to the Placing.

2.17 The Company's authorised and issued share capital, at the date of this document is and it is expected to be immediately following Admission:

	At the date of this document		*Following Admission*	
	Amount	*Number of Ordinary Shares*	*Amount*	*Number of Ordinary Shares*
Authorised	£3,250,000	65,000,000	£3,250,000	65,000,000
Issued and fully paid	£530,000.05	10,600,001	£1,566,418.15	31,328,363

2.18 Save as disclosed in this Part V no commissions, discounts, brokerages or other special terms have been granted by the Company or any of its subsidiaries in connection with the issue or sale of any share or loan capital of the Company or any of its subsidiaries.

2.19 Application has been made for the Ordinary Shares to be admitted to trading on AIM. The Ordinary Shares are not listed or traded on and no application has been or is being made for the admission of the Ordinary Shares to listing or trading on any other stock exchange or securities market.

2.20 With effect from Admission, all of the Ordinary Shares will be in registered form and, subject to the Ordinary Shares being admitted to and accordingly enabled for settlement in CREST, the Ordinary Shares will be capable of being held in uncertificated form. No temporary documents of title will be issued.

2.21 5,842,925 Ordinary Shares are being issued pursuant to the Placing at a price of 80p per Ordinary Share which represents a premium of 75p over their nominal value of 5p each. No expenses are being charged to any subscriber or purchaser.

2.22 Save in connection with the Placing or to fulfil options granted under the Share Option Scheme described in paragraph 4 below, there is no present intention to issue any share or loan capital in the company following Admission.

2.23 Save as set out in this document, no shares in the capital of the Company are under option or have been agreed, conditionally or unconditionally, to be put under option.

2.24 Reference is also made to paragraphs 11.5 to 11.9 below which give details of the Deferred Consideration and to paragraphs 11.4, 11.10, 11.12 and 15.10 below which give details of the Fees Shares.

2.25 Under the Act, the Directors require the authority of the Company's shareholders to allot any Ordinary Shares (or other equity securities (as defined in the Act)) for cash without first offering them to existing shareholders of the Company in proportion to their existing holdings of Ordinary Shares. Prospective investors should note that, at an extraordinary general meeting of the shareholders of the Company held on 21 March 2006, the shareholders in the Company authorised the Directors to issue equity securities up to an aggregate nominal amount of £3,082,598 without first offering such securities to existing shareholders, such authority to expire (unless previously renewed, varied or revoked by the Company in general meeting) on the earlier of the date falling 15 months after the date of the passing of the resolution or at the conclusion of the next annual general meeting of the Company. This was done to provide the Company and the Directors with maximum flexibility to implement pre-Admission restructuring. As a result of the passing of this resolution, 100 per cent. of the authorised but unissued Ordinary Shares in the Company immediately following Admission (which sum equals, in aggregate, 33,671,637 Ordinary Shares) is, in theory, capable of being allotted for cash on a non-pre-emptive basis by the Directors. The Directors are aware that the level of authority for non-pre-emptive cash allotments of equity securities which currently subsists will, following Admission, be in excess of the levels which represent usual market practice for AIM companies. The Directors intend only to allot Ordinary Shares for cash on a non-pre-emptive basis in accordance with usual market practice for AIM companies, which they believe is reflected in the terms agreed with Bell Lawrie in the Placing Agreement and summarised below in paragraph 11 of this Part V.

3. MEMORANDUM AND ARTICLES OF ASSOCIATION

3.1 The memorandum of association of the Company provides that the Company's principal object is to carry on business as a general commercial company. The objects of the Company are set out in full in clause 3 of its memorandum of association.

3.2 The articles of association of the Company which were adopted on 14 February 2006 (as amended on 15 and 21 March 2006 and 27 July 2006) contain provisions, *inter alia*, to the following effect:

3.2.1 *Voting Rights*

Subject to disenfranchisement as provided below and subject to any special terms as to voting on which any shares may be issued (no such shares currently being in issue), on a show of hands every member present in person (or, being a corporation, present by a duly authorised representative) shall have one vote and on a poll every member present in person or by proxy shall have one vote for every share of which he is the holder.

3.2.2 *Transfer of Shares*

The Ordinary Shares are in registered form and are capable of being held in uncertificated form.

A member may transfer all or any of his uncertificated shares by means of a relevant system, as defined in the CREST Regulations, which includes CREST. The directors may refuse to register any transfer of an uncertificated share where permitted by the CREST Regulations. If the directors refuse to register a transfer of an uncertificated share they shall, within two months of the date on which the transfer instruction relating to such a transfer was received by the Company, send to the transferee notice of the refusal.

All transfers of certificated shares must be effected by a transfer in writing in any usual form or any other form approved by the directors. The instrument of transfer shall be executed by or on behalf of the transferor and, in the case of a partly paid share, by or on behalf of the transferee. The directors may refuse to register any transfer of a partly paid share held in certificated form and may also refuse to register any transfer of a certificated share unless the instrument of transfer is:

(a) duly stamped (if so required), is lodged with the Company's registrars or at such other place as the directors may appoint and is accompanied by the certificate for the shares to which it relates and such other evidence as the directors may reasonably require to show the right of the transferor to make the transfer;

(b) in respect of only one class of shares; and

(c) in favour of not more than four transferees.

3.2.3 *Dividends*

The Company in general meeting may declare dividends in accordance with the respective rights of the members, provided that no dividend shall be payable in excess of the amount recommended by the directors. The directors may pay such interim dividends as appear to them to be justified. No dividend or other moneys payable in respect of a share shall bear interest as against the Company.

There are no fixed dates on which entitlement to dividends arises.

All dividends unclaimed for a period of twelve years after becoming due for payment shall be forfeited and shall revert to the Company.

3.2.4 *Disclosure of interests in shares*

If any member or other person appearing to be interested in shares of the Company is in default in supplying within 14 days after the date of service of a notice requiring such member or other person to supply to the Company in writing all or any such information as is referred to in section 212 of the Act, the directors may, for such period as the default shall continue, impose sanctions upon the relevant shares.

The sanctions available are the suspension of voting or other rights conferred by membership in relation to meetings of the Company in respect of the relevant shares and, additionally, in the case of a shareholding representing at least 0.25 per cent. by nominal value of any class of shares of the Company then in issue, the withholding of payment of any dividends on, and the restriction of transfers of, the relevant shares.

3.2.5 *Distribution of assets on liquidation*

On a winding-up, any surplus assets will be divided amongst the holders of the Ordinary Shares according to the respective numbers of shares held by them and in accordance with the provisions of the Act, subject to the rights of any shares which may be issued with special rights or privileges (no such shares presently being in issue). The Articles provide that the liquidator may, with the sanction of an extraordinary resolution and any other sanction required by the Act, divide amongst the members in specie the whole or any part of the assets of the Company in such manner as he may determine.

3.2.6 *Changes in share capital*

Without prejudice to any rights attached to any existing shares, any share may be issued with such rights or restrictions as the Company may by ordinary resolution determine, or in the absence of such determination as the directors may determine. Subject to the Act, the Company may issue shares which are, or at the option of the Company or the holder are liable, to be redeemed.

The Company may by ordinary resolution increase its share capital, consolidate and divide all or any of its share capital into shares of larger amount, subdivide its shares or any of them into shares of smaller amount or cancel or reduce the nominal value of any shares which have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amounts so cancelled or the amount of the reduction.

Subject to the Act, the Company may by special resolution reduce its share capital, any capital redemption reserve and any share premium account, and may also, subject to the Act, purchase its own shares.

3.2.7 *Variation of rights*

Whenever the capital of the Company is divided into different classes of shares, the rights attached to any class may (unless otherwise provided by the terms of issue of that class) be varied or abrogated either with the consent in writing of the holders of three-fourths of the issued shares of the class or with the sanction of an extraordinary resolution passed at a separate meeting of such holders.

3.2.8 *General Meetings*

The board may call a general meeting or convene a meeting on the requisition of members pursuant to the provisions of the Acts. Unless consent to short notice is obtained, a meeting to pass a special resolution shall be called by at least 21 clear days' notice and all other meetings shall be called by at least 14 days' notice. At meetings members may vote by proxy.

Business must be transacted at the general meeting by a quorum of two members. The chairman of the board or in his absence his deputy shall preside as chairman at every general meeting of the company. At any general meeting a resolution put to the vote of the meeting shall be decided in a show of hands unless before, or on the declaration of the result of, the show of hands, or on the withdrawal of any other demand for a poll, a poll is demanded by:

1. the chairman of the meeting; or
2. three members present in person or by proxy having the right to vote at the meeting; or
3. a member or members present in person or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting (excluding any voting rights attached to any shares held as treasury shares); or
4. a member or members present in person or by proxy holding shares in the Company conferring a right to vote at the meeting, being shares on which an aggregate sum has been paid up on all the shares conferring that right (excluding any shares conferring a right to vote at a meeting which are held as treasury shares); or
5. any member present in person or by proxy in the case of a resolution to confer, vary, revoke or renew authority or approval for an off-market purchase by the Company of its own shares.

In the case of an equality of votes the chairman shall be entitled to a casting vote.

A resolution in writing executed or approved in writing by or on behalf of each member who would have been entitled to vote upon it if it had been proposed at a general meeting at which he was present shall be effectual as if it had been passed at a general meeting duly convened and held.

3.2.9 *Directors' interests*

A director who is in any way, directly or indirectly, interested in a transaction or arrangement with the Company shall, at a meeting of the directors, declare in accordance with section 317 of the Act the nature of his interest.

(a) Provided that he has declared his interest, a director may be a party to or otherwise interested in any transaction or arrangement with the Company or in which the Company is otherwise interested and may be a director or other officer or otherwise interested in any body corporate promoted by the Company or in which the Company is otherwise interested. No director so interested shall be accountable to the Company, by reason of his being a director, for any benefit which he derives from such office or interest or any such transaction or arrangement.

(b) Any director may act by himself or his firm in a professional capacity for the Company (otherwise than as auditor) and he or his firm shall be entitled to remuneration for professional services as if he were not a director.

(c) A director shall not vote at a meeting of the directors in respect of a matter in which he has any material interest otherwise than by virtue of his interest in shares, debentures or other securities of, or otherwise in or through, the Company unless his interest arises only because the case falls within one or more of the following paragraphs:

(i) the giving to him of any guarantee, security or indemnity in respect of money lent or an obligation incurred by him at the request of or for the benefit of the Company or any of its subsidiary undertakings;

(ii) the giving to a third party of any guarantee, security or indemnity in respect of any obligation of the Company or any of its subsidiary undertakings for which he has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;

(iii) the subscription by him for shares, debentures or other securities of the Company or any of its subsidiary undertakings or by virtue of his participation in the underwriting or sub-underwriting of an offer of such shares, debentures or other securities for subscription, purchase or exchange;

(iv) any proposal concerning any other company in which he is interested, directly or indirectly, whether as an officer or shareholder or otherwise, provided that the shares in which he is interested do not represent one per cent. or more of any class of the equity share capital of such company or of the voting rights available to members of the relevant company;

(v) any proposal relating to an arrangement in whole or in part for the benefit of the employees of the Group which does not award to him as such any privilege or advantage not awarded to the employees to whom such arrangement relates;

(vi) any proposal concerning the purchase or maintenance of insurance against any liability which would otherwise attach to all or any of the directors.

(d) Where proposals are under consideration concerning the appointment of two or more directors to offices or employments with the Company or any company in which the Company is interested the proposals may be divided and considered in relation to each director separately and (if not otherwise precluded from voting) each of the directors concerned shall be entitled to vote and be counted in the quorum in respect of each resolution except that concerning his own appointment.

(e) The Company may by ordinary resolution suspend or relax these provisions to any extent or ratify any transaction not duly authorised by reason of a contravention of these provisions.

3.2.10 *Remuneration of directors*

(a) The ordinary remuneration of the directors (other than an executive director) shall be such amount as the directors shall from time to time determine (provided that unless otherwise approved by the Company in general meeting the aggregate of the ordinary remuneration of such directors shall not exceed £400,000 per year) to be divided among them in such proportion and manner as the directors may determine. The directors shall also be paid by the Company all travelling, hotel and other expenses as they may incur in attending meetings of the directors or general meetings or otherwise in connection with the discharge of their duties.

(b) Any director who, by request of the directors, performs special services or goes or resides abroad for any purposes of the Company may be paid such extra remuneration as the directors may determine.

(c) The emoluments and benefits of any executive director for his services as such shall be determined by the directors and may be of any description, including membership of any pension or life assurance scheme for employees or their dependants, or apart from membership of any such scheme, the payment of a pension or other benefits to him or his dependants on or after retirement or death.

3.2.11 *Retirement of director*

A director shall be capable of being appointed or reappointed a director despite having attained the age of 70 or any other age and shall not be required to retire by reason of his having attained any particular age and section 293 of the Act (relating to the appointment and retirement as directors of persons who are aged 70 or over) shall not apply.

3.2.12 *Borrowing Powers*

The Board shall restrict the borrowings of the Company and by the exercise of the Company's voting and other rights or powers of control over its subsidiary undertakings secure that they restrict their borrowings so that the aggregate amount at any time outstanding in respect of money borrowed by the Group shall not without the previous sanction of an ordinary resolution of the Company exceed a sum equal to three times the aggregate of the amount paid up or credited as paid up on the allotted or issued share capital of the Company and the amount standing to the credit of the consolidated capital and revenue reserves of the Company as shown by the latest audited consolidated balance sheet of the Group adjusted as specified in the Articles.

3.2.13 *Indemnity*

Directors and other officers of the Company (other than auditors) may be indemnified out of the assets of the Company against all Liabilities (as defined in the Company's Articles of Association) incurred by the director or officer in relation to the affairs of the Company or the execution of his duties, except to the extent that it would cause the Article to be void, or where a Liability arises from an act or omission of the director or officer which was in bad faith.

Save as disclosed in this document, neither the memorandum of association of the Company nor the Articles:-

(a) contain any provision that would have the effect of delaying, deferring or preventing a change of control of the Company; or

(b) contain any provision governing the ownership threshold above which shareholder ownership must be disclosed; or

(c) impose any condition governing changes in the capital that is more stringent than is required by law.

4. SHARE INCENTIVE ARRANGEMENTS

4.1 Share Option Scheme

Bavaria has established the Share Option Scheme in order to allow selected employees and directors to share in the success of the Company and promote motivation and retention. The terms of the Scheme are set out in summary below:

4.1.1 Eligibility

Any employee or director of the group is eligible to participate in the Scheme.

4.1.2 Grants of Options

Options may be granted at the discretion of the board. Options may be granted at any time save that after admission all grants must be made in accordance with the AIM Rules (and must therefore not be made in a close period as defined in the AIM Rules).

4.1.3 The Option Price

Unless the board determines otherwise the price per share at which the Ordinary Shares may be acquired on the exercise of options will be the market value of an Ordinary Share on the date of option grant as determined by the board, and if Ordinary Shares are to be acquired by subscription, shall not be less than the nominal value of an Ordinary Share.

4.1.4 Overall Limit on the issue of Ordinary Shares

No option may be granted under the Scheme if it would cause the number of new shares issued or issuable pursuant to options or awards granted in the preceding 10 years under any employees' share plan established by the Company to exceed 10 per cent. of the Company's issued share capital at the date of grant. Any options or other awards granted prior to or in connection with Admission are excluded from this calculation.

4.1.5 Exercise of Options

An option granted under the Scheme may be exercised at any time after the second anniversary of the date of grant unless the board shall in its discretion otherwise determine another vesting date which shall be specified at the date of grant. Options can not in any event be exercised after the tenth anniversary of the date of grant.

The board may impose performance conditions when options are granted and which will have to be satisfied before options may be exercised.

If an optionholder ceases to hold office or employment with the group all of that individual's options will normally lapse. However, the board will have discretion to allow individuals to retain their options on leaving.

4.1.6 Takeover, Reconstruction, Winding up and Demerger

Exercise of options within specified periods is permitted in the case of a takeover of the Company, on a reconstruction of the Company, in the event of a voluntary-winding up, or (at the discretion of the board) on a demerger.

In the circumstances of a takeover, a reconstruction, a voluntary winding-up or a demerger, an option may normally only be exercised to the extent that any relevant performance conditions have been fulfilled, unless the board determines otherwise.

4.1.7 Rights attaching to Ordinary Shares

Ordinary Shares issued on the exercise of options will rank equally in all respects with all other Ordinary Shares for the time being in issue (save as regards any rights attaching to Ordinary Shares with reference to a record date preceding the date of issue).

4.1.8 Variation of Share Capital

In the event of any variation of share capital including a capitalisation issue, a rights issue, a sub-division or consolidation of shares or a reduction in capital, payment of a capital dividend or (at the discretion of the board) in the event of a demerger, or similar event involving the Company, the board may make such adjustments as it considers appropriate to adjust the number of Ordinary Shares subject to an option, the option price and (if appropriate) the performance conditions.

4.1.9 Alteration of the Scheme

The board may alter or add to the Scheme, but may not make any alteration or addition to the advantage of present or future optionholders in respect of the rules concerning eligibility and overall limits on participation, the option price, variation of share capital or the alterations rule itself without the prior approval of the shareholders of the Company in general meeting, except for minor amendments for the purposes of administration of the

Scheme or to take into account any changes in legislation or to obtain or maintain favourable tax, exchange, control or regulatory treatment for present or future optionholders or any group company.

4.2 In addition to the options granted to the Directors as detailed in paragraph 6.1, as at 23 October 2006, being the last practicable date prior to the publication of this document, the Company has granted options over an aggregate of 110,000 Ordinary Shares at the Placing Price, conditional upon Admission. These options are exercisable in accordance with the terms of the Scheme.

4.3 The Employee Benefit Trust 2006

The Company intends to operate its employee share schemes (including but not limited to the Scheme) in conjunction with employees' share trusts. Accordingly, the Company will set up the Trust. The Trustees of the Trust will be an independent provider of trustee services. The class of beneficiaries is restricted to employees and former employees of companies within the Group (and their dependants) and, and a residual beneficiary, any charity. Up to 5 per cent. of the issued share capital of the Company maybe held at any time in the Trust. Details of shares held in the Trust will be given in the Company's annual report and accounts.

5. INFORMATION ON THE DIRECTORS

5.1 The names and functions of the Directors are as follows:

Name	*Function*
Bernard Robinson OBE DL	Non-Executive Chairman
Felix Wieland Gotz Andreas Peter Heidelberg	Chief Executive Officer
Benedikt Martin Gregor Eska	Chief Operating Officer
John Wall	Non-Executive Director
Per Erland Svantesson	Non-Executive Director

The business address of each of the Directors is Gautinger Strasse 6, D-82319, Starnberg, Germany.

5.2 The Directors hold or have held the following directorships or have been partners in the following partnerships within the five years prior to the date of this document:

Director	*Current directorships / partnerships*	*Past directorships / partnerships*
Bernard Robinson OBE DL	County Durham Foundation Stublick Estates Limited The Bowes Museum	Tallent Engineering Holding Corp. (US) Thyssenkrupp Automotive Tallent Chassis Limited Thyssenkrupp Automotive Tallent Services Limited Thyssenkrupp Camford Engineering plc Thyssenkrupp Camford Limited Thyssenkrupp JBM Private Ltd, (India) Thyssenkrupp UK plc Thyssenkrupp Automotive Chassis Products UK plc S.W. Durham Training Limited
Felix Wieland Gotz Andreas Peter Heidelberg	None	None
Benedikt Martin Gregor Eska	None	None
John Wall	Adamson Developments (Joint Ventures) Limited Adamson Developments (Quayside) Limited Adderstone Group Limited Beadnell Harbour Appeal Fund Coquet Leisure LLP Waren Mill Management Company Limited	Sandco 755 Limited

Director	*Current directorships / partnerships*	*Past directorships / partnerships*
Per Erland Svantesson	Impsys Digital Security AB Secured Email AB	Volvo Technology Transfer AB Volvo Mobility Systems AB Volvo Technology Development AB Carrus OY Volvo Busse Deutschland GmbH Volvo Polska Säpfle Karasseri AB Aabenraa Karrosseri Acrivia AB Prevost Inc.

5.3 Save as set out in paragraph 5.2 above, none of the Directors has any business interests or activities outside the Company which are significant with respect to the Company.

5.4 None of the Directors:

5.4.1 has any unspent convictions in relation to indictable offences;

5.4.2 has been made bankrupt or has made an individual voluntary arrangement with creditors or suffered the appointment of a receiver over any of his assets;

5.4.3 has been a director of any company which, whilst he was such a director or within 12 months after his ceasing to be such a director, was put into receivership, compulsory liquidation, creditors' voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with the company's creditors generally or with any class of creditors of any company or had an administrator or an administrative or other receiver appointed;

5.4.4 has been a partner in any partnership which, whilst he was a partner, or within 12 months after his ceasing to be a partner, was put into compulsory liquidation or had an administrator or an administrative or other receiver appointed or entered into any partnership voluntary arrangement;

5.4.5 has had an administrative or other receiver appointed in respect of any asset belonging either to him or to a partnership of which he was a partner at the time of such appointment or within the 12 months preceding such appointment; or

5.4.6 has received any public criticisms by statutory or regulatory authorities (including recognised professional bodies) or has ever been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

6. DIRECTORS' AND OTHER INTERESTS

6.1 By option agreements dated 23 October 2006 the Company granted to each of the following an option to subscribe at the Placing Price for the number of Ordinary Shares set out below (the "**Options**"), conditional upon Admission.

		Percentage of issued ordinary share capital before exercise of options	
Director	*Number of Ordinary Shares under option*	*As at the date of this document*	*Following Admission and issue of the Deferred Consideration and the Fees Shares*
Felix Wieland Gotz Andreas			
Peter Heidelberg	150,000	1.4%	0.5%
Benedikt Martin Gregor Eska	110,000	1.0%	0.4%
Per Erland Svantesson	200,000	1.9%	0.6%

The Options are exercisable in accordance with the terms of the Scheme, which are summarised in paragraph 4, above.

6.2 In addition to the Options referred to in paragraph 6.1 above, the interests (all of which are or will be beneficial unless otherwise stated) of each Director (including any interest known to that Director or which could with reasonable diligence be ascertained by him of any person connected with a Director within the meaning of section 346 of the Act (a "**Connected Person**")) in the share capital of the Company at the date of this document and as they will be immediately following Admission are as follows:

Director	*Number of Ordinary Shares currently held*	*Percentage of issued share capital currently held (%)*	*Number of Ordinary Shares to be held immediately following Admission and issue of the Deferred Consideration*	*Percentage of enlarged issued share capital to be held immediately following Admission and issue of the Deferred Consideration and the Fees Shares (%)*
Bernard Robinson	300,000	2.8	300,000	1.0
Felix Heidelberg	400,000	3.8	400,000	1.3
Benedikt Eska	200,000	1.9	200,000	0.6
John Wall	200,000	1.9	200,000	0.6

6.3 Save as disclosed in paragraphs 6.1 and 6.2 above, no Director, nor any Connected Person has at the date of this document, or will have immediately following Admission, any interest, whether beneficial or non-beneficial, in the share or loan capital of the Company or any of its subsidiaries or any related financial product referenced to the Ordinary Shares.

6.4 In addition to the interests of Directors disclosed in paragraphs 6.1 and 6.2 above, the Company is aware of the following existing shareholders of the Company who will be immediately following Admission and issue of the Deferred Consideration and the Fees Shares, interested, directly or indirectly, in 3 per cent. or more of the issued share capital of the Company:

Name	*Number of Ordinary Shares to be held immediately following Admission and issued of Deferred Consideration*	*Percentage of enlarged issued share capital to be held immediately following Admission and issue of Deferred Consideration and the Fees Shares (%)*
Dr Gotz Heidelberg	4,644,265	14.8
Vantania Holdings Ltd	3,250,000	10.4
Alchemy Capital Limited	3,101,305	9.9
Karl Watkin	2,288,989	7.3
Persian Trust	2,215,225	7.1
Thomas Quigley	2,138,989	6.8
Volvo Technology Transfer AB	2,007,478	6.4
Southern Blue 01 GmbH	1,831,946	5.9
Saad Investments Company Ltd	1,500,000	4.8
Kerri-Lynn Hauck*	1,242,007	4.0

* 621,003 Ordinary Shares are held by her spouse.

6.5 Other than as disclosed in the summary of the articles of association, the shareholders listed in paragraph 6.4 above do not have different voting rights.

6.6 The Company is not aware of any person or entity who, directly or indirectly, jointly or severally, will or could exercise control over the Company immediately following Admission and there are no arrangements the operation of which could result in a change of control of the Company.

6.7 Save as disclosed in paragraph 6.8 below, no Director has or has had any interest in any transaction which is or was unusual in its nature or conditions or significant to the business of the Company and was effected during the current or immediately preceding financial year or was effected during any earlier financial year which remains outstanding and unperformed in any respect.

6.8 There are no loans or guarantees granted or provided by the Company and / or any of its subsidiaries to or for the benefit of any of the Directors which are now outstanding.

7. LETTERS OF APPOINTMENT AND REMUNERATION OF THE DIRECTORS

7.1 The executive Directors (being Felix Heidelberg and Benedikt Eska) have entered into service contracts with Proton Motor on the following terms and conditions:

7.1.1 on 1 September 2006, Felix Heidelberg entered into a service agreement with Proton Motor. The service agreement is terminable upon either party giving the other party twelve (12) months' written notice. Felix Heidelberg is entitled to an annual salary of €131,565 (£90,000) (subject to annual review), an annual bonus (up to a maximum of €36,546 (£25,000), out-of-pocket expenses and 29 workings days' holiday each year. The service agreement also contains certain non-compete, non-solicitation restrictions on Mr Heidelberg following the termination of this employment subject to payment by Proton Motor. There are no other arrangements that require disclosure to enable investors to estimate the possible liability of the Group upon early termination of the service agreement; and

7.1.2 on 1 September 2006 Benedikt Eska entered into a service agreement with Proton Motor. The service agreement is terminable upon either party giving the other party twelve (12) months' written notice. Benedikt Eska is entitled to an annual salary of €109,638 (£75,000) (subject to annual review), an annual bonus (up to a maximum of €29,236.80 (£20,000), out-of-pocket expenses and 29 workings days' holiday each year. The service agreement also contains certain non-compete, non-solicitation restrictions on Mr Eska following the termination of this employment subject to payment by Proton Motor. There are no other arrangements that require disclosure to enable investors to estimate the possible liability of the Group upon early termination of the service agreement.

On 18 August 2006, each of Felix Heidelberg and Benedikt Eska were appointed as executive directors of the Company.

7.2 The non-executive Directors (being Bernard Robinson, John Wall and Per Svantesson) have entered into the following non-executive letters of appointment with the Company on the terms outlined below, conditional upon Admission:

7.2.1 on 18 August 2006, Bernard Robinson entered into a chairman's non-executive letter of appointment with the Company. His appointment is terminable by either party giving the other party three months' written notice. Bernard Robinson's remuneration is £40,000 per annum (subject to review from time to time);

7.2.2 on 18 August 2006, John Wall entered into a non-executive letter of appointment with the Company. His appointment is terminable by either party giving the other three months' written notice. John Wall's remuneration is £25,000 per annum (subject to review from time to time); and

7.2.3 on 18 August 2006, Per Svantesson entered into a non-executive letter of appointment with the Company. His appointment is terminable by either party giving the other three months' written notice. Per Svantesson's remuneration is £25,000 per annum (subject to review from time to time).

7.3 Save as set out in paragraphs 7.1 and 7.2 above, on Admission there will be no existing or proposed service agreements between the Directors and any Group Company. Furthermore, save as set out at paragraphs 7.1 and 7.2 above, and the share incentive arrangements described in paragraph 4 above, there are no commissions or profit-sharing arrangements with any of the Directors.

7.4 The Directors' aggregate remuneration payable by the Company (including benefits in kind but excluding any potential future bonuses payable) to the Directors in respect of the current financial year ending 31 December 2006 under the arrangements in force or proposed at the date of this document is expected to amount to approximately £88,750.

7.5 Save as set out in paragraph 7.4 above, there is no arrangement under which any Director has waived or agreed to waive future emoluments nor has there been any waiver of emoluments during the financial year immediately preceding the date of this document.

8. PRINCIPAL ESTABLISHMENTS

8.1 The Company's registered office is at 1 Park Row, Leeds, LS1 5AB.

8.2 The Group's principal place of business is at Gautinger Strasse 6, D-82319, Starnberg, Germany. This property is held under a rolling 6-month lease and can be terminated upon six months' notice. The rent payable is currently €6,207.67 per month.

8.3 One of the Group's current production sites is located at Geretsried, Germany and is held under a rolling 3-month lease and can be terminated upon four months' notice. The rent payable under this lease is €3,323.40 per month. The other production sites at Moosstrasse, Starnberg, Germany are held under three rolling 12-month leases and can be terminated upon 6 month's notice. The aggregate rent payable under these leases is €3,129.23 per month.

8.4 The Group also has an office / laboratory space located at Herten, Germany which is held under a short term lease expiring on 31 December 2006. The rent payable under this lease is €342.04 per month.

9. UNITED KINGDOM TAXATION

The following statements are intended only as a general guide to current UK tax legislation and to the current practice of HM Revenue and Customs (''HMRC'') and may not apply to certain shareholders in the Company, such as dealers in securities, insurance companies and collective investment schemes. They relate (except where stated otherwise) to persons who are resident and ordinarily resident in the UK for UK tax purposes, who are beneficial owners of Ordinary Shares and who hold their Ordinary Shares as an investment. Any person who is in any doubt as to his or her tax position, or who is subject to taxation in any jurisdiction other than that of the UK, should consult his or her professional advisers immediately.

9.1 Dividends

Under UK tax legislation, the Company is not required to withhold tax at source from dividend payments it makes.

Individual shareholders resident for tax purposes in the UK should generally be entitled to a tax credit in respect of any dividend received equal to one-ninth of the amount of the dividend.

An individual shareholder's liability to income tax will be calculated on the sum of the dividend and the tax credit (the ''gross dividend''). This will be regarded as the top slice of the individual's income and will be subject to UK income tax at the rates described below.

The tax credit equals 10 per cent. of the gross dividend and will be available to set against a shareholder's liability (if any) to income tax on that gross dividend.

Individual shareholders liable to income tax at no more than the basic rate will be liable to income tax on dividend income received at the rate of 10 per cent. of the gross dividend. This means that the tax credit will satisfy in full the individual shareholder's liability to pay income tax on the dividend received.

The rate of income tax applying to dividends received by a UK resident individual shareholder liable to income tax at the higher rate will be 32.5 per cent. of the gross dividend. After taking into account the 10 per cent. tax credit, a higher rate taxpayer will be liable to income tax of 22.5 per cent. of the gross dividend, which is equal to 25 per cent. of the cash dividend received.

For example, an individual shareholder receiving a dividend of £90 would receive a tax credit of £10. The gross dividend (the cash dividend plus the tax credit) would be £100. If the shareholder is a higher rate taxpayer, he would be taxed on the dividend at £32.50 (32.5 per cent. of £100), but can set against this the tax credit of £10. This leaves tax to pay of £22.50, which is 25 per cent. of the £90 dividend received.

Individual shareholders who are resident in the UK cannot claim payment of the tax credit from HMRC, even if the tax credit exceeds the liability of the shareholders to pay income tax on the dividend in question.

Trustees who are liable to income tax at the rate applicable to trusts (40 per cent.) will pay tax on the gross dividend at the Schedule F trust rate (32.5 per cent.) against which they can set the tax credit. To the extent that the tax credit exceeds the trustees' liability to account for income tax, the trustees will have no right to claim repayment of the tax credit.

A corporate shareholder which is resident for tax purposes in the UK and which is not a dealer in securities will not normally be liable to corporation tax on any dividends received, but cannot claim payment of the tax credit from HMRC.

United Kingdom pension funds and charities are generally exempt from tax on dividends which they receive but they are not entitled to claim repayment of the tax credit.

Generally non-UK residents will not be subject to any UK tax in respect of UK dividend income nor will they be able to recover the associated tax credit.

Non-UK resident shareholders may be subject to tax on UK dividend income under any law to which that person is subject outside the UK. Non-UK resident shareholders should consult their own tax advisers with regard to their liability to tax in respect of the dividend.

9.2 Chargeable gains

Shareholders who are resident or ordinarily resident in the UK for tax purposes and who dispose of their Ordinary Shares at a gain will ordinarily be liable to UK taxation on chargeable gains, subject to any available exemptions or reliefs. The gain will be calculated as the difference between the sale proceeds and any allowable costs and expenses, including the original acquisition cost of the Ordinary Shares.

Shareholders who are not resident or ordinarily resident in the UK for tax purposes but who carry on a trade, profession or vocation in the UK through a branch, agency or fixed place of business in the UK may be liable to UK taxation on chargeable gains on any gain on a disposal of their Ordinary Shares, if those Ordinary Shares are or have been held, used or acquired for the purposes of that trade, profession or vocation or for the purposes of that branch, agency or fixed place of business.

If an individual shareholder ceases to be resident or ordinarily resident in the UK and subsequently disposes of Ordinary Shares, in certain circumstances any gain on that disposal may be liable to UK capital gains tax upon that shareholder becoming once again resident or ordinarily resident in the UK.

Individual shareholders may, depending on the number of years for which they have held their Ordinary Shares, be entitled to reduce their capital gains tax liability through the operation of taper relief. Corporate shareholders should qualify for the indexation allowance.

9.3 Inheritance tax

The Ordinary Shares are assets situated in the UK for the purposes of UK inheritance tax. A gift of such shares by, or on the death of, an individual shareholder may (subject to certain exemptions and reliefs) give rise to a liability to UK inheritance tax.

9.4 Stamp duty and stamp duty reserve tax ("SDRT")

The statements below are intended as a general guide to the current position. Certain categories of person are not liable to stamp duty or SDRT and others may be liable at a higher rate or may, although not primarily liable for the tax, be required to notify and account for it under the Stamp Duty Reserve Tax Regulations 1986.

9.4.1 The allocation and issue of the new Ordinary Shares will not generally give rise to a liability to stamp duty or SDRT.

9.4.2 Any subsequent conveyance or transfer on sale of Ordinary Shares will usually be subject to stamp duty at a rate of 0.5 per cent. of the amount or value of the consideration (rounded up, if necessary, to the nearest £5). A charge to SDRT at the rate of 0.5 per cent. will also arise on an unconditional agreement to transfer such shares if it is not completed by a duly stamped instrument of transfer before seventh day of the month following the month in which the agreement is made, although the liability will be

cancelled and any SDRT already paid will be repaid if, within six years of the SDRT liability arising, a transfer is executed pursuant to the agreement and stamp duty is paid on that transfer.

9.4.3 A transfer of shares effected on a paperless basis through CREST will generally be subject to SDRT at the rate of 0.5 per cent. of the value of the consideration given.

10. GERMAN TAXATION

The following section contains a short summary of certain important German tax principles that may become relevant with respect to the acquisition, holding, or transfer of shares. This summary is not a comprehensive or exhaustive description of all tax considerations that may be relevant to shareholders. The summary is based upon the domestic German tax laws in effect as of the time of preparation and upon the double taxation treaties currently in force between Germany and other countries. Provisions in both areas may change, possibly with retroactive effect.

Prospective buyers of the shares therefore are advised to consult their tax advisors as to the tax consequences of the acquisition, the holding, as well as the sale and the gratuitous transfer of shares. Such tax advisors will be able to fully consider the particular tax situation of each shareholder.

10.1 General background to the Corporation Tax regime in Germany

German corporations are generally subject to corporate income tax at a uniform rate of 25 per cent. plus a solidarity surcharge of 5.5 per cent. thereon (resulting in a total of about 26.4 per cent.), whether profits are distributed or retained.

Dividends or other profit shares received by the Company from domestic or foreign corporations are generally exempt from corporate income tax. However, 5 per cent. of such income are considered lump-sum non-deductible businesses expenses and as such are subject to corporate income tax (plus solidarity surcharge). The same applies to profits earned by a Company from the sale of shares in a domestic or foreign corporation.

In addition, German corporations are subject to trade tax with respect to income from permanent establishments in Germany. The effective trade tax rate depends upon the local municipalities in which the Company maintains permanent establishments. Trade tax generally amounts to approx. 15 per cent. to 25 per cent. of the trade tax base pre-trade tax deduction, depending upon the "local multiplier" of the municipality. Trade tax qualifies as a deductible business expense for purposes of calculating the corporate income tax base and trade tax base.

Profit shares received from domestic or foreign corporations and capital gains from the sale of shares in other corporations generally are afforded the same treatment for trade tax purposes as for income tax purposes. However, 95 per cent. of profit shares are tax-exempt if the Company has held at least 10 per cent. of the registered share capital of the distributing corporation at the beginning of the relevant tax assessment period. Additional limitations apply to profit shares received from foreign corporations.

10.2 Taxation of Shareholders

Shareholders are taxed in connection with the holding of shares (taxation of dividends), the sale of shares (taxation of capital gains), and the gratuitous transfer of shares (inheritance and gift tax).

10.3 Taxation of Dividends

Taxation of dividends from a UK Company to German Resident Shareholders

If shareholders are individuals who are tax residents of Germany (i.e., persons whose residence or habitual abode is located in Germany), any dividend withholding tax withheld, paid and evidenced to the UK tax authorities is credited against the respective shareholder's personal income tax liability limited to certain maximum amounts.

If an individual who is a tax resident of Germany holds shares as non-business (private) assets, 50 per cent of all dividends are included in taxable investment income (so-called *Halbeinkunfteverfahren)*. Such taxable dividends are subject to a progressive income tax rate (up to 42 per cent from the year 2005 on), plus a 5.5 per cent. solidarity surcharge thereon (assuming that the maximum tax rate of 42 per cent. applies, the total tax burden would be

approx. 44.3 per cent.) and, if applicable, church tax is also levied at a rate of 8 per cent. or 9 per cent. on the fictious income tax not taking into account the preferential tax treatment of the Halbeinkunfteverfahren. Only one half of the expenses having an economic nexus with the receipt of such dividends (Werbungskosten) are tax-deductible.

Individuals who hold shares as non-business (private) assets are entitled to a so-called exclusion from net investment income (Sparerfreibetrag) in the amount of EUR 1,370 or EUR 2,740 (married couples assessed jointly) per calendar year. In addition, such persons are entitled to a lump-sum deduction in the amount of Euro 51 or EUR 102 (married couples assessed jointly) for income-producing expenses (Werbekostenpauschale), unless proof of higher income-producing expenses is furnished. Fifty percent of the shareholders dividends and other investment income are subject to taxation only if and to the extent they exceed the exclusion from net investment income after deduction of actual income-producing expenses (in the case of dividends, only a 50 per cent. deduction applies) or the lump-sum deduction for income-producing expenses.

If the shares in the UK corporation form part of a business property, taxation depends upon whether the shareholder is a corporation, sole proprietor, or partnership (co-entrepreneurship).

10.3.1 subject to certain exceptions dividends received by resident corporations are exempt from corporate income tax and the solidarity surcharge; however, 5 per cent. of dividends are considered lump-sum non-deductible business expenses and as such are subject to corporate income tax (plus solidarity surcharge). Apart from that, actual business expenses directly related to the dividends are deductible. No minimum shareholding limit or minimum holding period applies. If the shares form part of the business property of a commercial enterprise, the full amount of any dividends remaining after deduction of business expenses having an economic nexus to the dividends is, however, subject to trade tax, unless the corporation held at least 10 per cent. of the UK Company's registered share capital as of the beginning of the relevant tax assessment period and unless certain other requirements are met.

According to the German tax authorities, in a case where a German corporation held at least 10 per cent. at the beginning of the relevant tax assessment period, the lump-sum non deductible business expenses in the amount of 5 per cent. of the dividends are subject to German trade tax.

10.3.2 If the shares form part of the business property of a sole proprietor, 50 per cent. of dividends are considered income for purposes of calculating the shareholder's income tax burden. Only 50 per cent. of business expenses having an economic nexus to the dividends are tax-deductible.

If the shares form part of the business property of a permanent establishment maintained in Germany by a commercial enterprise, the dividends are, after deduction of any business expenses having an economic nexus to the dividends, furthermore subject to trade tax in the full amount, unless the taxpayer held at least 10 per cent. of the UK Company's registered share capital as of the beginning of the relevant tax assessment period and unless certain other requirements are met. In case the German entrepreneur held at least 10 per cent. at the beginning of the relevant tax assessment period, only 50 per cent. of the dividends after deductions of 50 per cent. of the business expenses having an economic nexus to the dividends are subject to German trade tax. Trade tax is credited against the shareholder's personal income tax burden accordance with a lump-sum tax credit method.

10.3.3 If a partnership is a shareholder, personal income tax or corporate income tax is assessed only at the level of each partner. Taxation depends upon whether the partner is a corporation or an individual: if the partner is a corporation, the dividends are generally tax-exempt and 5 per cent. are qualified as lump-sum non deductible business expense (see paragraph 10.3.1 above). If the partner is an individual, 50 per cent. of dividends are subject to personal income tax, plus solidarity surcharge (see paragraph 10.3.2 above). If the shares form part of the business property of a permanent establishment maintained in Germany by a commercial enterprise of the partnership, the dividends are, after deduction of any business expenses having an economic nexus to be dividends, also subject to trade tax at the level of the partnership, in the opinion of the German tax authorities, in the full amount, unless the partnership held at least 10 per cent. of the Company's registered share capital at the beginning of the relevant tax assessment period.

In case the partnership held at least 10 per cent. at the beginning of the relevant tax assessment period, the amounts which are subject to personal income tax or corporate income tax on the level of the shareholder are subject to German trade tax. If the partner is an individual, the attributable trade tax paid by the partnership is credited against the partner's personal income tax burden in accordance with a lump-sum tax credit method.

10.4 Taxation of Capital Gains

German resident shareholders selling shares in a UK corporation

Capital gains from the sale of shares held as non-business (private) assets by an individual who is a tax resident of Germany are generally subject to income tax, plus solidarity surcharge, if the shares are sold within one year of the date of acquisition. The tax base is generally 50 per cent. of the capital gains. Capital gains are not taxed if, in combination with other profits from personal sale transactions in the same calendar year, they total less than EUR 512. Losses from the sale of shares may be offset only by profits from personal sales transactions in the same calendar year or, absent such profits, by profits from personal sales transactions in the previous year or, subject to certain limitations, in subsequent years.

If the shares are held as non-business (private) assets of an individual who is a tax resident of Germany, generally 50 per cent. of capital gains from the sale of shares are subject to taxation based upon the applicable individual income tax rate, plus solidarity surcharge in the amount of 5.5 per cent. thereon, even after expiration of the aforementioned one-year period, if the individual or, in the event of a gratuitous transfer, the individual's legal predecessor or, in the event of several gratuitous transfers, any legal predecessor of the individual has, at any point in time during the five years immediately preceding the sale, held, directly or indirectly, at least 1 per cent. of the capital of the Company. Generally only 50 per cent. of losses from the sale of shares and 50 per cent. of expenses having an economic nexus thereto may be claimed as tax deductions.

If the shares form part of a business property, taxation depends upon whether the shareholder is a corporation, sole proprietor, or partnership (co-entrepreneurship).

10.4.1 Subject to certain exceptions, capital gains from the sale of shares earned by taxpayers resident in Germany and subject to corporate income tax are – generally irrespective of the amount of the investment and how long the sold shares were held – exempt from corporate income tax and solidarity surcharge. However, 5 per cent. of capital gains are considered lump-sum non-deductible business expenses and as such are subject to corporate income tax (plus solidarity surcharge) and, if the shares form part of the business property of a commercial enterprise, trade tax. Losses from the sale of shares or any other reductions of profits related to the shares do not quality as tax-deductible business expenses.

10.4.2 If the shares form part of the business property of a sole proprietor who is a tax resident of Germany, capital gains from the sale of shares are always subject to income tax, plus solidarity surcharge, and, if the shares form part of the business property of a permanent establishment maintained in Germany by a commercial enterprise, also to trade tax. The tax base is 50 per cent. of the capital gains from the sale of shares. Only 50 per cent. of losses from the sale of shares and 50 per cent. expenses having an economic nexus thereto may be claimed as tax deductions. Trade tax generally is credited against the shareholder's personal income tax burden in accordance with a lump-sum tax credit method. Provided that certain requirements are satisfied, capital gains from the sale of shares in corporations may, for a limited period of time, be deducted from the acquisition costs of certain other assets up to the amount of EUR 500,000.

10.4.3 If the shareholder is a partnership, personal income tax or corporate income tax is assessed only at the level of each partner. Taxation depends upon whether the partner is a corporation or an individual: if the partner is a corporation, capital gains generally are tax-exempt and 5 per cent. are qualified as lump-sum non deductible business expense (see paragraph 10.4.1 above). If the partner is an individual, capital gains are subject to income tax, plus solidarity surcharge (see paragraph 10.4.2 above). If the shares form part of the business property of a permanent establishment maintained in Germany by a commercial enterprise of the partnership, capital gains from the sale of shares are also subject to trade tax at the level of the partnership, in the aforementioned amounts. If the

partner is an individual, attributable trade tax paid by the partnership is generally credited against the partner's personal income tax burden in accordance with a lump-sum tax credit method.

10.5 Inheritance and Gift Tax

The transfer of shares to another person by gift or causa mortis generally is subject to the German inheritance or gift tax only if:

10.5.1 the decedent, donor, heir, beneficiary, or any other transferee maintains a residence or has his or her habitual abode in Germany at the time of the transfer, or

10.5.2 the shares are held by the decedent or donor as part of a business property for which a permanent establishment is maintained in Germany or for which a permanent representative in Germany has been appointed; or

10.5.3 the decedent or donor, either individually or collectively with related parties, holds, directly or indirectly, at least 10 per cent. of the Company's registered share capital at the time of the inheritance or gift.

Special rules apply to certain German citizens as well as certain former German citizens who maintain neither a residence nor their habitual abode in Germany.

10.6 Other taxes

No German transfer tax, value-added tax, stamp duty, or similar taxes are assessed on the purchase, sale or other transfer of shares. Provided that certain requirements are met, entrepreneurs may however opt for the payment of value-added tax on transaction that are otherwise tax-exempt. No net wealth tax is currently imposed in Germany. The transfer of shares will be subject to German Real Estate Transfer Tax at the rate of 3.5 per cent. if at least 95 per cent. of a company owning German real estate is directly or indirectly owned by one entity after the share transfer.

11. MATERIAL CONTRACTS

The following are the only contracts (not being contracts entered into in the ordinary course of business) which have been entered into by the Company within the two years immediately preceding the date of publication of this document and which are, or may be, material to the Company or have been entered into by the Company at any time and contain a provision under which the Company has any obligation or entitlement which is material to the Company at the date of this document:

11.1 The Placing Agreement contains the following terms:

11.1.1 the Company appoints Bell Lawrie as its agent to procure subscribers at the Placing Price of the Placing Shares and Bell Lawrie agrees (subject to the terms of the agreement) to use its reasonable endeavours to procure subscribers at the Placing Price for the Placing Shares;

11.1.2 the obligations of Bell Lawrie under the agreement are conditional, *inter alia*, on Admission occurring no later than 8.00 am on 31 October 2006 or such later date (being no later than 8.00 am on 14 November 2006) as Bell Lawrie and the Company may agree;

11.1.3 subject to Admission, the Company shall pay Bell Lawrie a corporate finance fee of £195,000.

11.1.4 the Company shall pay all the costs and expenses of and incidental to the Placing;

11.1.5 the Company and each of the Directors give certain warranties and undertakings to Bell Lawrie in relation, *inter alia*, to the accuracy of the information contained in this document, the financial position of the Group, the intellectual property rights held by the Group and to other matters in relation to the Group and its business. In addition, Bell Lawrie, its group companies and the directors, officers, employees and agents of such persons have the benefit of certain indemnities provided by the Company and each of the Executive Directors relating to certain losses and liabilities if they are incurred by such persons in the performance of their duties pursuant to the Placing, save to the extent that any such losses and liabilities arise from the fraud, negligence or wilful default of such persons or breach by Bell Lawrie of its obligations under the Placing Agreement; and

11.1.6 Bell Lawrie may terminate the Placing Agreement at any time prior to Admission in certain circumstances, including a breach of any of the warranties or undertakings contained in the Placing Agreement or upon the occurrence of certain *force majeure* events.

11.1.7 The Company and each of the Directors have, notwithstanding the authority granted to the Directors by the shareholders, agreed and undertaken to Bell Lawrie, that, in the period between the date of the Placing Agreement and the first annual general meeting of the Company, they shall only allot for cash, on a non- pre-emptive basis, such number of shares as is equivalent to, in aggregate, 10 per cent. of the issued share capital of the Company immediately following Admission (which sum equals, in aggregate, 3,132,836 Ordinary Shares) and that any other allotments for cash in excess of this amount shall be made as if the statutory rights of pre-emption contained in the Companies Act applied to those allotments, such that any shares proposed to be so allotted would first be offered to existing shareholders of the Company in proportion to their existing holdings of Ordinary Shares.

11.2 The Lock-in Agreements, dated 23 October 2006, pursuant to which each of the Directors, Existing Shareholders have undertaken to the Company and Bell Lawrie not to dispose of the Ordinary Shares held by each of them (or to be issued pursuant to Deferred Consideration or by respect of Fees Shares) and their connected persons prior to the Placing following Admission at any time prior to the date falling 12 months from the date of Admission (subject to certain limited exceptions) without the prior written consent of the Company and Bell Lawrie (the "**Lock-in Period**"). They have further undertaken to the Company and to Bell Lawrie that for a further 12 months following the end of the Lock-in Period they will only dispose of Ordinary Shares held by them or their connected persons through Bell Lawrie (or such other company as may be broker to the Company at that time) in such orderly manner as Bell Lawrie (or such other broker) shall reasonably determine.

11.3 The Company nominated Bell Lawrie as its nominated adviser and broker, pursuant to an engagement letter dated 17 October 2006. The agreement will continue unless terminated on three months notice by either party. Bell Lawrie's fees for acting as nominated adviser and broker are £75,000 (plus any applicable VAT and outlays) per annum. The first year's fees will be deducted from the Placing proceeds.

11.4 On 30 March 2006 (and amended by an agreement dated 18 August 2006), General Capital Group plc ("**GC**") entered into an agreement with the Company to lend £500,000 for the purpose of acquiring shares in Proton Motor and for working capital purposes (the "**GC Loan**"). Interest on the loan is payable quarterly in arrears at a rate of 15 per cent. per annum, save that the first payment is due on 30 November 2006. The Company can repay the loan and outstanding interest at any time. If the loan is not prepaid, the loan shall be repaid on the date falling 365 days from the original date of the agreement ("**First Period**") but in the event that Admission occurs before 31 October 2006, the Company shall repay £562,500 in full and final satisfaction of the loan and all interest and fees payable in respect thereof. In addition, if Admission occurs within the First Period, the Company shall issue to GC such number of Ordinary Shares at the Placing Price as shall be equal to £300,000. The Company has also granted an all monies debenture in favour of GC.

11.5 On 28 April 2006 as amended by deed of amendment on 7 August 2006, the Company entered into an agreement with Volvo Technology Transfer AB ("**VTT**") to purchase shares with a nominal value of €16,150 and €3,300 respectively in the capital of Proton Motor. The consideration payable by the Company under the agreement is:

11.5.1 the allotment and issue of 960,667 Ordinary Shares credited as fully paid to VTT by way of initial consideration; and

11.5.2 Deferred Consideration, to be paid on or within 14 days of Admission, by the issue of such number of Ordinary Shares credited as fully paid (such number of Ordinary Shares calculated by reference to the value of Proton Motor on Admission but prior to the Placing Shares being allotted and issued by the Company).

The total consideration payable to VTT is set out in paragraph 6.4 of Part V of this document.

It was further noted that the Company has granted VTT an option to reacquire the Proton Motor shares sold pursuant to this agreement for €1 on the occurrence of certain events, such as the non issue by the Company of the further consideration shares or Admission not occurring on or before 31 October 2006.

11.6 On 28 April 2006 as amended by a deed of amendment dated 10 August 2006, the Company entered into an agreement with Southern Blue 01 GmbH ("**SB**") to purchase shares with a nominal value of €13,700 and €4,050 respectively in the capital of Proton Motor. The consideration payable by the Company under the agreement is:-

11.6.1 the allotment and issue of 876,667 Ordinary Shares credited as fully paid to SB by way of initial consideration; and

11.6.2 Deferred Consideration to be paid on or within 14 days of Admission, by the issue of such number of Ordinary Shares credited as fully paid (such number Ordinary Shares calculated by reference to the value of Proton Motor on Admission but prior to the Placing Shares being allotted and issued by the Company).

The total consideration payable to SB is set out in paragraph 6.4 of Part V of this document.

It was further noted that the Company has granted to SB an option to reacquire the Proton Motor shares sold pursuant to this agreement for €1 on the occurrence of certain events, such as the non issue by the Company of the further consideration shares or Admission not occurring on or before 31 October 2006.

11.7 On 28 April 2006 as amended by a deed of amendment dated 2 August 2006, the Company entered into an agreement with Dr Gotz Heidelberg ("**GH**") to purchase a share with a nominal value of €43,800 in the capital of Proton Motor. The consideration payable by the Company under the agreement is:-

11.7.1 the allotment and issue of 2,162,667 Ordinary Shares in aggregate credited as fully paid to GH by way of initial consideration; and

11.7.2 Deferred Consideration, to be paid on or within 14 days of Admission, by the issue of such number of Ordinary Shares credited as fully paid (such number of Ordinary Shares calculated by reference to the value of Proton Motor on Admission but prior to the Placing Shares being allotted and issued by the Company).

The total consideration payable to GH is set out in paragraph 6.4 of Part V of this document.

It was further noted that the Company has granted to GH an option to reacquire the Proton Motor shares sold pursuant to this agreement for €1 on the occurrence of certain events, such as the non issue by the Company of the further consideration shares or Admission not occurring on or before 31 October 2006.

11.8 On 15 May 2006 as amended by a deed of amendment dated 8 August 2006, the Company entered into an agreement with Athena Technology Limited ("**Athena**") to purchase a share with a nominal value of €54,000 in the capital of Proton Motor. The consideration payable by the Company under the agreement is:-

11.8.1 the allotment and issue of 2,650,000 Ordinary Shares by way of initial consideration; and

11.8.2 Deferred Consideration, to be paid on or within 14 days of Admission, by the issue of such number of Ordinary Shares (such number of Ordinary Shares calculated by reference to the deduction from 25,200,000 of (i) all the Ordinary Shares in issue on or at Admission, (ii) the aggregate amount of the deferred consideration shares to be issued pursuant to the agreements referred to in paragraphs 11.5 to 11.7 inclusive and (iii) the shares (as referred to in paragraph 11.4 above) but excluding the Placing Shares).

It was further noted that the Company has granted to Athena an option to reacquire the Proton Motor shares sold pursuant to this agreement for €1 on the occurrence of certain events, such as the non issue by the Company of further consideration shares or Admission not occurring on or before 31 October 2006. Athena has 90 days from the date of the occurrence of any one such event in which to exercise its option.

11.9 On 26 April 2006, the Company advanced to Karl Watkin the sum of £200,000. The loan is repayable within 30 days of Admission.

11.10 On 19 July 2006 (as amended by an agreement, conditional upon Admission, dated 17 August 2006) Proton Motor entered into an agreement with Turquoise International Limited ("**TIL**") in respect of the provision of financial advisory services to Proton Motor for a corporate finance fee of £235,000. TIL has agreed that €150,000 of its corporate finance fee shall be satisfied by the Company allotting and issuing to TIL such number of Ordinary Shares at the Placing Price as is equal to €150,000. Proton Motor will also pay to TIL an outstanding invoice of £21,250 by 31 October 2006. If Admission does not occur on or before 31 October 2006, the amendment agreement dated 17 August 2006 shall become null and void and TIL shall be entitled to payment of a success fee amounting to a percentage of the aggregate of all funding received by Proton Motor during TIL's engagement and all funding receiving from TIL introductions within a period of 12 months of termination of the agreement. Proton Motor is also liable to pay TIL's reasonable costs and expenses in providing the financial advisory services.

11.11 On 14 August 2006 the Company entered into an agreement with Athena assigning to the Company the benefit of a loan agreement dated 14 August 2006 pursuant to which Athena advanced the sum of £695,000 to Proton Motor. The agreement takes effect if Admission takes place on or before 31 October 2006 and subject thereto the consideration for the assignment of the aforementioned loan will be the issue by the Company to Athena of such number of Ordinary Shares at the Placing Price (rounded up to the nearest whole Ordinary Share) as shall have a value equal to £695,000. For the avoidance of doubt the £695,000 loan shall form part of the Placing Proceeds.

11.12 On 17 October 2006, GC entered into a loan and asset finance facility agreement to lend up to £2 million for working capital and asset finance facilities (the "**Loan Facility**"). The Loan Facility is available for draw down for a period of 36 months from the date of the agreement. If GC determines (in its reasonable opinion) that some or all of the amount so drawn down are to be utilised for the purchase of fixed plant or equipment outside the UK ("**Equipment Funds**") then GC may require that the Equipment Funds are advanced to the Company as a hire purchase or finance lease facility. Interest on the Loan Facility is payable at a rate of 12.01% per annum. The Company will repay the Loan Facility by 36 fixed monthly capital and interest instalments of £32.92 per £1,000 drawn down at any time. The Company shall pay to GC (i) an arrangement fee of £100,000 payable on the date of the agreement and (ii) a conversion fee calculated in accordance with the Company issuing to GC such number of shares in the capital of the Company at the Placing Price as shall be equal to £50,000 (rounded down to the next whole number of shares). One of the conditions of draw down under the Loan Facility is the repayment in full of the GC Loan. The agreement also contains event of default provisions.

12. WORKING CAPITAL

Having made due and careful enquiry, the Directors are of the opinion that, taking into account the net proceeds of the Placing, the Company will have sufficient working capital available for their present requirements, that is, for at least the 12 months following the date of Admission.

13. INTELLECTUAL PROPERTY

Registered Rights

13.1 Proton Motor has been granted the following patents:

Patent No.	*Country*	*Date of Application*
ZL98803611.8	CN	06.03.1998
6 451 470	US	06.03.1998
1 027 672	HK	06.03.1998
0 966 770	EP	29.01.1998
ZL 98803580.4	CN	29.01.1998
6 475 656	US	29.01.1998
0 966 770	AT	29.01.1998
598 10 221.3	DE	29.01.1998
0 966 770	ES	29.01.1998
0 966 770	FR	29.01.1998
0 966 770	GB	29.01.1998
0 966 770	IE	29.01.1998
0 966 770	IT	29.01.1998

Patent No.	*Country*	*Date of Application*
0 966 770	NL	29.01.1998
0 966 770	SE	29.01.1998
1 008 200	EP	10.04.1997
ZL 97182102.X	CN	10.04.1997
6 376 110	US	10.04.1997
597 10 703.3	DE	10.04.1997
1 008 200	FR	10.04.1997
1 008 200	GB	10.04.1997
1 008 200	IT	10.04.1997
197 03 214	DE	29.01.1997
0 864 183	EP	28.11.1996
5 998 057	US	28.11.1996
ZL96199423.1	CN	28.11.1996
PI 9611783-4	BR	28.11.1996
712 037	AU	28.11.1996
0 864 183	AT	28.11.1996
0 864 183	BE	28.11.1996
0 864 183	CH	28.11.1996
596 06 133.1	DE	28.11.1996
0 864 183	DK	28.11.1996
0 864 183	ES	28.11.1996
0 864 183	FI	28.11.1996
0 864 183	FR	28.11.1996
0 864 183	GB	28.11.1996
0 864 183	IE	28.11.1996
0 864 183	IT	28.11.1996
0 864 183	NL	28.11.1996
0 864 183	SE	28.11.1996
196 48 995.4	DE	05.10.1996

13.2 Proton Motor has applied to register the following patents:

Patent No.	*Country*	*Date of Application*
10 2005 016 300	DE	08.04.2005
04 029 073.6	EP	08.12.2004
PCT / EP04 / 003676	WO	06.04.2004
04 725 906.4	EP	06.04.2004
103 57 198.1	DE	08.12.2003
PCT / EP03 / 10536	WO	22.09.2003
PCT / EP03 / 08545	WO	01.08.2003
03 784 144.2	EP	01.08.2003
PCT / EP03 / 04563	WO	30.04.2003
03 747 448.3	EP	30.04.2003
103 15 601.1	DE	06.04.2003
102 59 383.3	DE	18.12.2002
102 44 228.2	DE	23.09.2002
PCT / EP02 / 08944	WO	09.08.2002
02 794 593.0	EP	09.08.2002
102 35 431.6	DE	02.08.2002
102 19 384.3	DE	30.04.2002
PCT / EP01 / 09582	WO	20.08.2001
PCT / EP98 / 01307	WO	06.03.1998
98 913 673.4	EP	06.03.1998
2,282,434	CA	06.03.1998
538182 / 98	JP	06.03.1998
PCT / EP98 / 00479	WO	29.01.1998
2,279,206	CA	29.01.1998
531616 / 98	JP	29.01.1998
00106617.0	HK	29.01.1998

Patent No.	*Country*	*Date of Application*
PCT / EP97 / 01793	WO	10.04.1997
2,286,700	CA	10.04.1997
542282 / 98	JP	10.04.1997
197 09 199.7	DE	06.03.1997
2,238,945	CA	28.11.1996
520175 / 97	JP	28.11.1996

13.3 EP Patent (number EPO 966 770) was granted on 19 November 2003 and relates to a membrane-electrode unit (for a fuel stack) comprising a specific integrated sealing edge. The polymer electrolyte membrane ends flash with the electrodes. There is a sealing edge provided around the periphery of the membrane electrode unit. The sealing edge penetrates an edge portion of at least one of the two electrodes and adheres to the end faces of the membrane of at least one electrode. The patent further relates to a method for producing such a membrane electrode unit. An opposition notice was filed by a third party on 18 August 2004 citing 7 prior art documents (5 patent literature documents, 1 article and 1 report). After analysis of Proton Motor's patent and the contents of the prior art documents, a response was filed by Proton Motor in July 2005 setting out the differences between the subject matter of Proton Motor's patents and the subject matter of the objection notice and the claims of the Proton Motor's patent were not amended. No communication has been received from the European Patent Office regarding the opposition, which is usual for patent claims, and the Directors expect communication on this matter toward the latter part of this year or early next year. The Directors are confident that, having been advised by Proton Motor's patent attorney, there is a good prospect of maintaining the patent in the form granted and, if some restriction of the scope of independent claims of the patent was imposed by the European Patent Office, the chances of success in maintaining the modified patent is increased. The Directors are confident that even if the patent is required to be modified, the core technology of the patent will not be affected in any material respect.

13.4 Proton Motor has registered the following trade marks:

Trade mark	*Registration Classes*	*Date of Registration and Registration No.*	*Country of Registration*
PM Proton Motor (picture mark)	7 (electric drives), 9 (fuel cells) and 42 (development of systems for the conversion of energy)	15.11.2005; 78 / 073,392	USA
PM Proton Motor (picture mark)	In CH and RO: 7 (electric drives), 9 (fuel cells) and 42 (development of systems for the conversion of energy). In CN: 9 (fuel cells) In NO: 42 (development of systems for the conversion of energy)	22.11.2001; 767 953	CH, CN, NO, RU
Proton (word mark)	7 (electric drives), 9 (fuel cells) and 42 (development of systems for the conversion of energy)	06.09.2001; 763 056	AT, BX, CH,DK, FR, IT, PT, RU, SE
PM Proton Motor (picture mark)	7 (electric drives), 9 (fuel cells) and 42 (development of systems for the conversion of energy)	19.04.2001; 301 02 191	Germany
PM (picture mark)	7 (electric drives), 9 (fuel cells) and 42 (development of systems for the conversion of energy)	19.04.2001; 301 02 192	Germany

13.5 Proton Motor has applied to register the following trade mark:

	Registration Classes	*Date of Application and Application No.*	*Country of Application*
PM Proton Motor (picture mark)	7 (electric drives), 9 (fuel cells) and 42 (development of systems for the conversion of energy)	10.07.2001; 002296408	All countries of the EU

13.6 The European trade mark application (number 002296405) was filed on 10 July 2001. Two objections have been raised, one of which is pending and no further communication has been received. The other objection has been partly allowed by the European Patent Office at first instance and Proton Motor's appeal to this decision is pending. The parties are negotiating with a view to settlement in respect of the use of the "PM" mark.

13.7 Proton Motor has registered the following domain names:

Domain Name	*Registration Date*	*Renewal Date*
protonmotor.com	15 November 2000	15 November 2006
proton-motor.com	15 November 2000	15 November 2006

13.8 The Group's website is accessed through the domain name "www.proton-motor.de". This is registered in the name of Proton Motor GmbH.

Other material Unregistered Rights

13.9 The Company intends to undertake a strategic review to assess (i) the extent to which the material unregistered intellectual property rights which have been developed and / or acquired by the Group can be registered, and (ii) the benefits of obtaining such registration, including what the practical commercial benefits of obtaining any registrations will be in all the circumstances and whether such benefits are sufficient to justify the costs of registration.

13.10 On 16 December 2003, Proton Motor entered into a licence agreement with Magnet Motor, pursuant to which Magnet Motor will, upon the occurrence of certain conditions as set out below, grant to Proton Motor worldwide licences of various patents and patent applications relating to electric power engines for buses and for fans and compressors. Proton Motor shall pay the following licence fees to Magnet Motor:

13.10.1 €500,000 (with €100,000 paid as a lump sum on signing of the licence agreement, and the balance to be paid in two instalments, one prior to, and one upon, completion of transfer of know-how by Magnet Motor to Proton Motor); and

13.10.2 3.8 per cent. of the net sale price of all power engine systems which have been delivered and fully paid for.

Either party may terminate the licence agreement after five years from signing if the annual sales volume of products using the licensed technology does not exceed €2.5 million otherwise, the agreement will continue to run as long as any of the licensed German rights continue to exist. Payment of the amounts as set out above by Proton Motor is subject to Proton Motor ordering a certain number of products from Magnet Motor.

13.11 On 23 April 2003, Proton Motor entered into a cross-licence agreement with a Canadian PEM manufacturer, pursuant to which the parties granted each other worldwide, royalty-free, non-exclusive licences of certain patents and patent applications relating to gas diffusion layers and membrane electrode assemblies for fuel cells and water management in fuel cell stacks. The manufacturer has paid to Proton Motor licence fees of €225,000.

13.12 On 8 March 2006, Proton Motor entered into a licence agreement with L-3 Communications, pursuant to which Proton Motor granted L-3 Communications licences of patents relating to products containing proton exchange membrane fuel cells and fuel cell stacks and the right to adapt, manufacture, sell, distribute and service products containing such technology. Pursuant to the agreement, L-3 Communication shall pay the following licence fees to Proton Motor:-

13.12.1 €900,000 over the two years following execution of the agreement; and

13.12.2 a further annual licence fee of 2.75 per cent. of the price of the fuel cell stacks.

Under supplementary agreements to be entered into between the parties, L-3 Communications will purchase products from Proton Motor to the value of at least €2,500,000.

13.13 On 27 July 2005, Proton Motor signed a memorandum of understanding with a German battery supplier and Linde AG, also acting on behalf of its 100 per cent. subsidiary, STILL GmbH, pursuant to which the parties intend to enter into a development agreement in relation to fuel cell battery hybrids for floor conveyor vehicles. It is intended that the parties will be jointly entitled to all new inventions made during the course of the development project. Public funding of €1,745,065 has been conditionally granted to the parties for the project.

13.14 On 11 July 2005, Proton Motor entered into a consortium agreement to develop a biogas upgrading and reformer for production of hydrogen for PEM fuel, pursuant to which Proton Motor will contribute €56,659 to the development project and research work, and would be jointly and severally liable for any other consortium partner failing to pay its contribution. The project has been awarded funds by the European Commission, €18,000 of which has been allocated to Proton Motor.

14. LITIGATION AND ARBITRATION

Other than as disclosed in paragraphs 13.3, 13.6 and below, no Group Company is nor has any Group Company been involved in any legal or arbitration proceedings which may have, or have had during the 12 months preceding the date of this document, a significant effect on the Group's financial position or profitability, nor are there any such proceedings pending or threatened against the Group of which the Group is aware.

14.1 Proton Motor has received an order of the labour court of Munich on 18 January 2006 in respect of the dismissal of an employee. The costs risk as calculated by Proton Motor is approximately €5,000 to €6,000.

14.2 In March 2006, a settlement was reached, in the local court of Cologne, in respect of an invoice of a former consultant of Proton Motor whereby Proton Motor agreed to pay €10,500 in four equal instalments, the first of which has already been paid.

14.3 On 29 March 2006, Proton Motor settled a dispute with the Berlin Public Transportation Company ("**BVG**"), relating to payments under a project aborted in late 2004 due to management changes at BVG, whereby both parties agreed to waive any claims that they may have under the project agreement.

14.4 Proton Motor is in dispute regarding the delivery date of a bus with the city of Barth in respect of a public contract dated 27 March 2002. No court proceedings have been instigated yet. The bus was supposed to have been delivered by 30 April 2006 and was actually delivered on 27 July 2006. The commissioning was accepted by the city of Barth and the parties are in discussions on refinement of the bus which the Directors anticipate will conclude during October 2006. The Directors estimate that the costs risk to Proton Motor relating to a possible breach of contract for late delivery is approximately €102,000 to €256,000.

15. GENERAL

15.1 The gross proceeds of the Placing receivable by the Company are expected to be approximately £4.67 million. The total costs and expenses relating to Admission and Placing are £696,977 (excluding value added tax) which are all payable by the Company.

15.2 RSM Robson Rhodes LLP has given and has not withdrawn its written consent to the inclusion of references to it herein in the form and context in which it appears and to the inclusion of its report in this document; RSM Robson Rhodes LLP accepts responsibility for its report for the purposes of paragraph 1.2 of Annex I of the Prospectus Rules as required by Schedule Two of the AIM Rules. To the best of the knowledge of RSM Robson Rhodes LLP (who have taken all reasonable care to ensure that such is the case) the information contained in its report is in accordance with the facts and contains no omission likely to affect its import.

15.3 Bell Lawrie has given and has not withdrawn its written consent to the issue of this document with the inclusion herein of its name in the form and context in which it is included.

15.4 SgurrEnergy Ltd has given and has not withdrawn its written consent to the inclusion of its name herein in the form and context in which it appears and to the inclusion of its expert's report in this document; SgurrEnergy Ltd accepts responsibility for its report for the purposes of paragraph 1.2 of Annex I of the Prospectus Rules as required by Schedule Two of the AIM

Rules. To the best of the knowledge of SgurrEnergy Ltd (who have taken all reasonable care to ensure that such is the case) the information contained in its report is in accordance with the facts and contains no omission likely to affect its import.

15.5 The financial information set out in this document relating to the Company does not constitute statutory accounts within the meaning of section 240 of the Companies Act.

15.6 The Placing Price is payable in full in cash on acceptance.

15.7 Other than the current application for Admission, the Ordinary Shares have not been admitted to dealings on any recognised investment exchange nor has any application for such admission been made or refused nor are there intended to be any other arrangements for dealings in the Ordinary Shares.

15.8 Save as disclosed in this document, the Directors are not aware of any exceptional factors which have influenced the Company's activities.

15.9 The Directors are not aware of any patents or other intellectual property rights, licences or particular contracts which are or may be of fundamental importance to the Company's business, save as set out in paragraph 13 of Part V of this document.

15.10 On 12 April 2006, Proton Motor signed an engagement letter with Green Atlantic Partners Limited ("**GAP**"), which governs arrangements in relation to the management and general consulting services provided by GAP to Proton Motor since December 2005. GAP's consultancy fees for the period December 2005 to April 2006 are €250,000 which will be satisfied by the Company allotting and issuing to GAP such number of Ordinary Shares at the Placing Price as is equal to €250,000.

15.11 The Company's accounting reference date is 31 December.

15.12 Save as disclosed in this document, there has been no significant change in the trading or financial position of the Company since 7 February 2006, being the date to which the financial information contained in Part IV of this document was prepared.

15.13 Save as disclosed in paragraphs 12 and 14 above, no person (excluding the Company's professional advisers to the extent disclosed elsewhere in this document and trade suppliers) in the 12 months preceding the Company's application for Admission received, directly or indirectly, from the Company or has entered into any contractual arrangements to receive, directly or indirectly, from the Company on or after Admission any of the following:

15.13.1 fees totalling £10,000 or more;

15.13.2 securities in the Company with a value of £10,000 or more calculated by reference to the Placing Price; or

15.13.3 any other benefit with a value of £10,000 or more at the date of Admission.

15.14 Monies received from applicants pursuant to the Placing will be held by the Company's Registrars until such time as the Placing Agreement becomes unconditional in all respects. If the Placing Agreement does not become unconditional in all respects by 31 October 2006 (or such later date as Bell Lawrie and the Company may agree being not later than 14 November 2006), application monies will be returned to applicants at their own risk without interest prior to delivery of the shares.

15.15 Other than pursuant to the Placing, the Ordinary Shares have not been sold, nor are they available, in whole or in part, to the public in conjunction with the application for Admission.

15.16 Save as disclosed in this document, there have been no significant trends concerning the development of the Company's business since 7 February 2006, being the date of its incorporation.

16. DOCUMENT AVAILABLE FOR INSPECTION

Copies of this document will be available free of charge as the offices of Pinsent Masons, City Point, 1 Ropemaker Street, London EC2Y 9AH during business hours on any weekday (Saturdays and public holidays excepted) from the date of this document until the date following one month after the date of Admission.

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Mit neuer Energie in die Zukunft!

PROTON POWER SYSTEMS PLC
Gautinger Straße 6
D-82319 Starnberg
Germany

Phone: ++49-8151-268 64-0
Fax: ++49-8151-268 64-18
E-Mail: info@proton-motor.de
Web: www.proton-motor.de

PROTON
POWER SYSTEMS PLC