CEO's Newsletter

Dear Shareholder,

This is the first newsletter of 2007 which should be a year of considerable change. eCOG1X will start to make its contribution and we are expecting the China Tax Control terminals to start rolling out (see below). CyanIDE continues to improve with our fifth major release about to happen since we started in Jan 04. We have made in roads into the Korean market and our products have been well received; we are working on some significant relationships and opportunities with tier 1 companies. China continues to be our most dynamic market and the activity is increasing considerably.

eCOG1X

The eCOG1X chip is now shipping to some of our customers for prototyping and pre-production runs. A trade press release should be sent out next week and for those of you that have registered on our Investor Alert service will receive an email with a link to the news. We are exhibiting at the Nuremburg show from 13th to 15th of February and eCOG1X will be the main feature.

As you may be aware, silicon chips are extremely complex and eCOG1X contains several million transistors. A large number of these are in the memory parts of the chip but there are still a good couple of million transistors in the processor core and peripherals. Our rapid design processes and design methodology delivers accurate results in shorter times and with less people. It has come through its testing programme extremely well and will be able to be shipped to customers without a re-spin. This is an excellent achievement and maintains our record of "right first time chips" and lower R&D costs than the industry norm.

China Tax Control Terminals

I visited China earlier this month and I am please to report that we can see some progress now. Shanxi province has started a test phase and has chosen our China customer as their supplier with 300 terminals installed in petrol stations. The current view is that small provinces will have a TAM (total available market) of 300K to 500K units with the bigger provinces having a TAM of 10 million units. Guangdong, as part of the Pearl River Delta, is very large. Three years ago the TAM for this province was estimated at 20 million units and as you all know the GDP in China is growing very fast, so this number will now be quite a bit larger. All this seems to re-enforce the previous market information we had that China, as a whole, will need about 60 million units in the first three years of roll out. Everybody now seems to agree that 2007 will be the first year of the roll out. Our customer is well established in China as a supplier of electronic tills and has 32 offices around China for after sales service. He has 70% market share in Shenzhen (a city of about 8 million people) for label scales and about 40% in Guangzhou. As you can expect, we are providing a high level of support to this customer and have every intention have helping him become the largest supplier of tax control terminals in China, which he certainly has the potential to achieve.

China Visit

I visited China in the middle of the month and had some good meetings. Interest in our products is growing and CyanIDE continues to be a driving force in the sales process. We are now working with design houses and manufacturers as additional routes to business and we have already seen success from this approach. I will report in the future on some of these as they develop.

We have received the first order from a Chinese customer for the eCOG1K for use in a fixed line pay phone. First shipments are for a pre production run with full production expected to commence during the year.

MCU Market

We are collecting some interesting intelligence concerning the MCU market, particularly concerning 32 bit. During my last China visit a few customers had moved up from 8 bit to our 16 bit MCU. Now there are some saying that the industry will move directly from 8 bit to 32 bit but we have not seen much of this at all. Design engineers usually move away from 8 bit devices because they need more performance but go to 16 bit rather than 32 bit. The reason they all say, is that 32 bit is too expensive and much too complicated, in spite of what MCU suppliers would like to think. It is too big a jump in the design engineers mind. Their view of 16 bit is that it is like a bigger 8 bit device; feels much the same to develop with as an 8 bit but has the increased performance to do the job at only marginally increased cost. In the future we feel that the upgrade to 32 bit will be from 16 bit and when the time comes design engineers will feel more comfortable with that. This plays very nicely into the hands of CyanIDE as our SwitchChip technology allows design engineers to switch their project up and down our product range including jumping from 16 bit to 32 bit (eCOG2) and back.

Sales Metrics

We chart the number of people registering and downloading our tools as this bears a resemblance to the number of design wins we have or can expect. You will notice that in August we broke through 3,000 registrations and registrations are still steadily rising.

Currently the design wins we have would represent almost **3.1 million** units per annum if they were all in full production at the same time. If we converted all opportunities to design wins and then production they would represent an additional **36 million** units per annum.