

5 June 2006

Detica Group plc

Preliminary results

For the year ended 31 March 2006

Detica Group plc ("Detica", "the Company" or "the Group"), the specialist IT consultancy, today announces preliminary results for the year ended 31 March 2006.

Key points:

- Revenue up 45% (38% organic) to £101.5 million (2005: £70.2 million)
 - Government up 50% (49% organic) to £68.5 million
 - Commercial up 34% (17% organic) to £32.8 million
- Strong profit before tax ("PBT") performance
 - Adjusted* core UK PBT up 38% to £16.8 million
 - Adjusted* Group PBT up 30% to £11.8 million after net investments of £4.0 million in StreamShield and £1.0 million in Detica Inc
 - Adjusted* diluted earnings per share up 54% to 43.3 pence (2005: 28.1 pence) including the impact of R&D tax credits (or up 36% excluding the impact of prior year R&D tax credits)
- Proposed final dividend of 5.5 pence (2005: 4.2 pence) making a total for the year of 8.0 pence (2005: 6.3 pence), an increase of 27%
- Bonus share issue of 4 for 1 proposed
- Three acquisitions completed in the year and all performing well
- US regulatory approvals received for Detica Inc, strong US board appointed, four contracts signed, sales pipeline building well
- Continued progress with StreamShield Networks with three commercial deployments, several trials in progress, sales pipeline building.

** Adjusted profit before tax and earnings per share is stated before deducting the amortisation of acquired intangibles of £141,000 (2005: £nil) and, following the reclaim of previously unrecognised acquired tax losses of £224,000 (2005: £258,000), the corresponding charge for the impairment of Rubus goodwill. The Directors consider that the adjusted measures better reflect the ongoing performance of the business.*

Commenting on these results, Dr Tom Black, Chief Executive of Detica said today:

"We are delighted with the performance of the Group over the past year.

The organic growth of our UK core business was very strong and was supplemented by the successful integration of our three acquisitions. Whilst National Security and TMT stand out as exceptional growth sectors, Public Sector and Financial Services have also both delivered healthy levels of growth.

It was against this strong core UK business performance that Detica continued its investment in StreamShield last year. Although the procurement cycles of major carriers are lengthy, the quantity and quality of opportunities in the sales pipeline and the universally positive market feedback from customers is encouraging. The Board has now concluded that, to accelerate its sales and marketing activities, StreamShield requires a further cash injection and has decided to explore raising external investment for the next stage of StreamShield's development.

Our US business made good progress, having achieved regulatory approval to contract directly with the US government and winning its first four contracts. The Board remains convinced that the US holds great promise for the future and the business enters the new financial year with good momentum.

The outlook for the Group is positive and we expect to perform well in the coming year."

For further information, please contact:

Detica Group plc Tom Black, Chief Executive Mandy Gradden, Finance Director	020 7831 3113 (5 June 2006) 01483 816 000 (thereafter)
Financial Dynamics Edward Bridges Cass Helstrip	020 7831 3113

Business review

Introduction

Detica has delivered an excellent performance for the year to 31 March 2006. We achieved significant increases in both revenue and profits, completed three acquisitions and made good progress in building our new operation in the US. StreamShield Networks, our internet content security business, has also achieved a number of key milestones and is now embarked on commercialising its offering.

Group revenues increased by 45% to £101.5 million (2005: £70.2 million) driven by both accelerating organic growth and the impact of in-year acquisitions. On an organic basis, Group revenues grew by 38% to £96.7 million. We have now grown both Group revenues and profits for more than ten consecutive years, with revenues having grown by an average of 31% per annum over the last five financial years.

Our profit performance was also highly satisfactory with adjusted* Group profit before tax increasing by 30% to £11.8 million (2005: £9.0 million). Our increased net investments of £4.0 million in StreamShield and £1.0 million in our US business resulted in an adjusted* operating margin of 10.9% (2005: 11.9%). On a like-for-like basis the operating margin of the core UK business remained exactly the same as the previous year at 16.7%, although following our acquisition of Evolution and the adoption of IFRS, the adjusted core UK operating margin was 15.9% (2005: 16.4%).

We continue to experience strong demand from clients across our chosen markets of National Security, Public Sector, Financial Services and Technology, Media and Telecoms ("TMT"). In each market, our specialism in Information Intelligence and our breadth of services ranging from business consulting to technology implementation is enabling us to take on mission-critical projects for our clients and take market share from our competitors.

Detica UK

Our core UK business delivered an excellent performance, with strong demand across our markets, led by TMT and National Security. As a result, revenue grew 44% to £101.3 million (2005: £70.2 million). Excluding acquisitions, the UK business grew organically by 38% to £96.5 million.

Notwithstanding this robust organic growth, acquisitions have also played an important strategic role in the UK business. This year we successfully integrated the Extraprise acquisition from April 2005 and the small National Security products business we bought in October 2005. The integration of Evolution Consulting, which we acquired in January 2006, is now also largely complete.

We have also delivered on our objective of improving staff retention, with staff turnover falling to 14% for the year (2005: 23%).

Notes

- This Business Review and Financial Review is an extract from that presented in the Group's Annual Report and Accounts approved by the Board on 2 June 2006.
- All figures in this report are presented under IFRS with the appropriate restated comparatives.
- The financial and non-financial performance indicators described in this report are used by the Directors to monitor the performance of the business on an ongoing basis.
- * Adjusted profit before tax and earnings per share is stated before deducting the amortisation of acquired intangibles of £141,000 (2005: £nil) and, following the reclaim of previously unrecognised acquired tax losses of £224,000 (2005: £258,000), the corresponding charge for the impairment of Rubus goodwill. The Directors consider that the adjusted measures better reflect the ongoing performance of the business.

Government business

Our Government business continued its excellent performance from the first half, with revenues increasing by 50% to £68.5 million (2005: £45.7 million) or by 49% on an organic basis.

National Security

Revenues from National Security clients include those from the defence, intelligence and counter organised crime sectors and these markets showed continued strength. This area of our business maintained its strong growth track record, increasing revenues by 51% to £57.5 million (2005: £38.1 million).

Our relationship with Her Majesty's Revenue and Customs ("HMRC") has continued to develop well and HMRC is now the Company's largest account. We have delivered a number of successful projects under the framework contract with HMRC that we announced in 2004 and which is yielding revenues in excess of our initial expectations. An example of these project successes is the delivery of a new system to enable HMRC to prioritise its investigations of incoming freight to the UK. The system has delivered a major return on investment for HMRC, despite only being in operation for five months.

This year we have also made progress in developing our defence market position, increasing the proportion of systems integration work alongside our traditional client-side system procurement role. For example, we were awarded a contract worth approximately £2.0 million to develop new data mining techniques to support the MoD's Intelligence, Surveillance, Target Acquisition and Reconnaissance (ISTAR) capabilities.

Our communications products business remains an important part of our National Security business, and contributed £13.9 million (2005: £9.1 million) to the total of £57.5 million of National Security revenues, an increase of 53% on last year.

Looking forward, we expect National Security market conditions to remain favourable in the face of ongoing international geopolitical instability and the domestic focus on counter terrorism and the prevention of organised crime.

Public Sector

Turning to other government markets, the Public Sector also performed well, with revenues increasing by 42% to £10.9 million (2005: £7.7 million).

We have a focus in this market place on central government departments and have strong relationships in place with clients such as the Home Office, the Department for Transport and Royal Mail Group. This year, Capgemini also became a client and we are now providing additional services to HMRC through their Aspire contract. In addition, we have won a prime contractor position on the Office of Government Commerce's Catalyst cross-government procurement catalogue.

The recently published "Transformational Government" paper is increasingly influencing Government strategy and investment in IT, particularly in areas such as the sharing of data and services across Government organisations. We are supporting the implementation of this strategy in a number of areas including, for example, our management of the Single Non Emergency Number (SNEN) programme, a contract win that we announced in our interim results in November 2005. This programme involves integrating call-centre services across police and local authorities to create a single consolidated and efficient service. The programme is expected to run for three years and will generate revenues to Detica of more than £1.0 million in the first year.

Fraud reduction is another target area for cost saving in Government and we are experiencing

strong interest in our NetReveal fraud detection solution. The solution has already been implemented by one Government client and is under evaluation by a number of others.

Commercial business

Our Commercial business performance was also good, with revenues increasing by 34% to £32.8 million (2005: £24.5 million) or 17% on an organic basis.

TMT

TMT continued its excellent performance from the first half, growing revenues by 110% to £15.9 million (2005: £7.6 million). The business continued to diversify its account base whilst enhancing relationships with key clients such as Vodafone and BT. Autotrader (part of Guardian Media Group), Sony and Disney became new clients in the year.

Two key trends are driving demand in TMT. The first is the industry's focus on timely, accurate and complete Management Information ("MI") to support growth and efficiency in a market which is experiencing slower revenue growth. This MI is being used to address opportunities in the areas of customer lifetime value analysis, revenue enhancement, asset optimisation and performance management. The second trend is the long-anticipated convergence of the telecoms, media and entertainment markets, with media and technology companies increasingly offering a portfolio of content and communications services directly to consumers. This direct customer relationship brings with it additional demands for customer management and customer intelligence, coupled with requirements for new capabilities such as marketing automation.

These trends are being reflected in the types of projects we are undertaking across the TMT market. As an example, Detica was asked by Vodafone to assist with the development of an IMO (Information Management Organisation) to support retention strategies by providing a more consistent view of its customers. Another example is a major marketing automation project we won during the year to support a client in developing and managing direct relationships with millions of consumers.

During the past year we have also significantly strengthened our relationship with BT. We have been successful in working together with Openreach to tackle the challenges arising from the Ofcom Telecoms Strategic Review ("TSR") and have helped them to achieve their first major delivery in this area. Openreach is a new business, established by BT as a result of the TSR, to enable local loop unbundling and ensure open competition in the broadband and retail fixed-line markets.

Financial Services

Our Financial Services business increased revenues by 48% to £14.5 million (2005: £9.8 million) or, on an organic basis, by 13%. The acquisition of Evolution has more than doubled the size of our Financial Services business and has increased our market reach to include the capital markets sector in addition to our existing retail banking and insurance business. Significant clients now include UBS and Lehman Brothers in capital markets, Nationwide Building Society and HBOS in retail banking and CFS, Aspen Re and the Insurance Fraud Bureau in the insurance sector.

In retail banking, our clients' interests have remained relatively similar to prior years with a focus on regulatory control and risk management, customer management and fraud prevention. As an example we recently commenced a new project for HBOS to define the business case for the development of a retail data warehouse.

In insurance, we have been awarded a contract by Aspen Re to improve the business processes surrounding insurance risk analysis. Also in insurance, we successfully delivered a major insurance application for esure where, having previously delivered a service-orientated architecture to this client, we partnered with them to deliver the entire online insurance solution for their new "Sheilas'

Wheels” product in a tight six-month time frame.

In the capital markets sector, regulatory control remains key, as does the long-term demand for trading system efficiency, with the attendant need for speed in market modelling, risk management and pricing.

Corporate Accounts

Revenues from our Corporate Accounts clients declined, as expected, to £2.5 million (2005: £7.1 million). This reflects our previously stated strategy of focusing our Commercial business in the Financial Services and TMT sectors.

Innovation and intellectual property

Our Technology Innovations Group (“TIG”) has continued in its role of developing new consulting propositions and reusable know-how and software to support the development of the core business. Much of the TIG’s focus during the year was in the area of fraud management, where we have developed a unique and highly effective technique for detecting and prosecuting collusive fraud.

Our fraud solution comprises a set of novel algorithms and reusable software components developed in-house, combined with a package of business and technical consulting services. The solution, which we are marketing under the name NetReveal, forms the core of our insurance industry fraud managed service and has already been sold to a number of other clients. We expect NetReveal to be an ongoing driver of future growth in our core business.

The TIG is also playing a leading role in developing the specialist information intelligence skills our people require and this year it has established its own training facility. The Datalab Academy will train 60 graduates over the next year.

Acquisitions

We made three acquisitions last year.

At our preliminary results last year we reported that in April 2005 we acquired the assets of Extraprise UK for £0.2 million. Extraprise UK was a consultancy and systems integrator focusing on the CRM market and was integrated immediately into our Commercial business. 35 staff joined Detica as a result of the acquisition, making a positive contribution to the development of our rapidly growing, business consulting capability and strengthening our business intelligence and analytical CRM skills base.

At the half year we announced the acquisition of a small products business in the National Security market for a consideration of £0.6 million. This acquisition is providing us with access to new National Security clients and is delivering growth and margins in line with our broader National Security business.

The largest acquisition of the year was of Evolution Consulting Group, which was completed in January 2006 for a consideration, including fees, totalling £9.5 million. Evolution is a consultancy and systems integrator focusing on the capital markets sector. In its last full year to 31 August 2005 prior to acquisition, it generated revenues of £8.8 million and profits before tax and exceptional items of £0.7 million.

The acquisition is an excellent strategic fit with our existing Financial Services business which has traditionally focused on the insurance and retail banking sectors. The two businesses have been fully integrated under a single management team, led by former Evolution CEO, Steve Mitchell and housed at Evolution’s offices in the City. Cross-selling of each business’ propositions and

interchange of staff into the other's markets is well underway and we are making good progress in achieving cost synergies and in improving day rates.

Detica Inc

Detica Inc has made significant progress during the year in establishing the necessary infrastructure to operate in the US National Security market and in building its sales pipeline. In September 2005 it obtained the approvals necessary to contract directly with the US Government for National Security projects, a major achievement for a British-owned start-up company.

Also in September 2005, we announced the appointment of a senior and talented board of Non-Executive Directors. General John Gordon (USAF, retired), former Homeland Security Advisor to President George W Bush and former Deputy Director for Central Intelligence has become Chairman of the US Board. General Gordon is joined on the US Board by Barbara McNamara, former Deputy Director of the National Security Agency and Ed Allen, former Deputy Assistant Director for Investigative Technologies at the Federal Bureau of Investigation.

Since the establishment of Detica Inc, the Group services US clients via two channels; through Detica Inc and through Detica UK (via our National Security unit – see commentary above). Overall, revenues from US National Security clients grew by 27% to £6.0 million, with Detica Inc contributing £0.1 million of this since it began trading in the later stages of the year.

Since September 2005, Detica Inc has won four contracts across three US Government clients. The contracts cover a range of service types, including advanced data analytics, organisational design and process improvement and the delivery of advanced communications products. In addition to these contract wins, the sales pipeline is continuing to develop well.

We have also made good progress in the recruitment of our US team and now have 19 staff based in Columbia, Maryland, who will be housed in new dedicated offices from July 2006. The team will include graduate hires whose training programme will include spending time in the UK at our new Datalab Academy.

StreamShield Networks

StreamShield has achieved a number of key milestones during the year and is now embarked upon commercialising its offering. The StreamShield clean internet solution, which comprises the CSG-3100 content security gateway, StreamShield Server software and StreamShield.Net threat update service, was completed during the year. The solution offers wide-ranging threat protection capabilities, including anti-virus and web filtering with anti-spyware and anti-adware, within service providers' and carriers' high-speed networks. The solution is proving highly effective in its initial commercial deployments and trials. StreamShield has continued its strategy of formally protecting its intellectual property rights, filing seven patents to date covering the unique operation and design of the solution.

Our relationship with Cisco is developing well. The CSG-3100 has successfully completed interoperability testing with Cisco network infrastructure equipment and StreamShield has been formally accepted onto the Cisco Technology Developer Partner programme. In addition, the StreamShield solution has been incorporated into Cisco's US Telecoms Solutions Laboratory.

During the year we released a version of the solution incorporating a broad range of features aimed at Managed Security Service Providers ("MSSPs"). Two MSSPs, intY and Email Systems, are using StreamShield's technology as part of their internet-based protection service aimed at business and education customers and we are in dialogue with several other organisations of this type.

PlusNet has successfully trialled the StreamShield solution and, at the end of the financial year,

purchased equipment for a first phase network implementation to allow it to test market a range of protection and parental control services to its business and residential customers.

Most significantly, the StreamShield solution has been under evaluation at a large European carrier for several months and it is anticipated that this will transition to a network-based trial shortly. In addition, StreamShield has responded to a number of tenders for network-based protection services and is working on a range of such opportunities with large US and European-based carriers. As a result, it is expected that a number of other trials with carriers will commence in the coming months. Although the procurement cycles of major carriers are lengthy, the quantity and quality of opportunities in the sales pipeline and the universally positive feedback from potential customers is encouraging.

Over the last six months, the Board has been considering how to ensure that Detica capitalises on StreamShield's clear and continuing global technology leadership position. The Board has now concluded that, to accelerate its sales and marketing activities, StreamShield requires a further cash injection and has decided to explore raising external investment for the next stage of StreamShield's development.

People

We invested significantly during the year in developing our people proposition, improving areas such as project allocation, staff communications and our equity incentives programme. As a result, we achieved a substantial improvement in staff retention, with staff turnover falling to 14% (2005: 23%), below our long-run average of 15%. This is a particularly pleasing result, given the ongoing strength of the recruitment market and the valuable skills and capabilities of our people.

We have also strengthened our HR team with the recruitment of Steve Bright as Group HR Director and the addition of experienced new HR team members to focus on areas such as senior recruitment, learning and development and remuneration. The new team will focus on improving our people proposition still further, such that we can continue to attract and retain the talent we need to sustain rapid organic and acquisitive growth in the future.

The average number of staff employed by the group increased by 39% to 751 (2005: 541). We completed the year with 937 staff which has increased to over 975 at the time of writing. The recruitment pipeline remains strong and we continue to select only the most able candidates to join the business.

The future

We are delighted with the performance of the Group over the past year.

The organic growth of our UK business was very strong and was supplemented by the successful integration of our three acquisitions. Whilst National Security and TMT stand out as exceptional growth sectors, Public Sector and Financial Services have also both delivered healthy levels of growth. We continue to invest in IP to differentiate our offering to clients with notable success last year with our NetReveal fraud detection offering.

It was against this strong core business performance that Detica continued its investment in StreamShield last year. Although the procurement cycles of major carriers are lengthy, the sales pipeline is growing steadily and the market feedback received is universally positive. This, coupled with its clear and continuing technology leadership, means that the Board remains confident of StreamShield's ultimate success. The Board has now concluded that, to accelerate its sales and marketing activities, StreamShield requires a further cash injection and has decided to explore raising external investment for the next stage of StreamShield's development.

Our US business made good progress, having achieved regulatory approval to contract directly with the US government and winning its first four contracts. Although the business delivered only modest revenues and was, as expected, loss making, the Board remains convinced that the US holds great promise for the future and the business enters the new financial year with good momentum.

Having now successfully acquired and integrated four businesses, and as we exploit the synergies which flow from these deals, we now regard this as an effective way of accelerating our growth. As a result, the Board continues to seek high quality businesses, both in the UK and the US, to join the Group.

The outlook for the Group is positive and we expect to perform well in the coming year.

Financial review

Detica has achieved another year of excellent growth with revenue up 45% to £101.5 million (2005: £70.2 million). On an organic basis (before accounting for our three acquisitions), revenue grew by 38% to £96.7 million (2005: £70.2 million).

Adjusted* Group profit before tax rose by 30% to £11.8 million (2005: £9.0 million) or by 38% to £16.8 million (2005: £12.2 million) before accounting for start-up losses of £4.0 million (2005: £2.7 million) in StreamShield and £1.0 million (2005: £0.5 million) in establishing our US operations. Profit before tax on an unadjusted basis was £11.4 million (2005: £8.8 million).

Diluted adjusted* earnings per share increased substantially by 54% to 43.3 pence (2005: 28.1 pence) although 5.0 pence was attributable to the prior year impact of our claim for R&D tax credits. Growth was 36% after adjusting for this prior year tax effect. Diluted earnings per share on an unadjusted basis were 42.7 pence (2005: 28.1 pence).

Revenue

The Group's revenue for the year was derived mainly from the UK core business although both of StreamShield and Detica Inc started to generate revenues and delivered £0.1m in each case. Notwithstanding this modest result from Detica Inc, we are pleased to report that Group revenues from US-based National Security clients grew by 27% to £6.0 million.

Turning to vertical market split, revenue in the UK Government business units grew strongly at 50% (49% organic) while the UK Commercial business units' growth was 34% (17% organic). Further commentary is given in the Business Review above. The revenues by primary and geographical segment and by vertical market were as set out below:

	2006 £'m	2005 £'m	Total growth	Organic growth
National Security	57.5	38.1	51%	50%
Public Sector	10.9	7.7	42%	42%
Total Government	68.5	45.7	50%	49%
Financial Services	14.5	9.8	48%	13%
TMT	15.9	7.6	110%	110%
Corporate Accounts	2.5	7.1	(65%)	(78%)
Total Commercial	32.8	24.5	34%	17%
IT services and solutions - UK	101.3	70.2	44%	38%
IT services and solutions – US	0.1	-	-	-
IT services and solutions – total	101.4	70.2	44%	38%
Internet content security	0.1	-	-	-
Group revenues	101.5	70.2	45%	38%

Notes

* Adjusted profit before tax, earnings per share, operating margin and tax is stated before deducting the amortisation of acquired intangibles of £141,000 (2005: £nil) and, following the reclaim of previously unrecognised acquired tax losses of £224,000 (2005: £258,000), the corresponding charge for the impairment of Rubus goodwill. The Directors consider that these measures better reflect the ongoing performance of the business.

Fees earned by Detica staff represented 83% of our revenues (2005: 86%). The balance of our revenues is derived from the use of specialist subcontractors, the sale of our specialist communications products and the resale of software and hardware purchased for client assignments. Over the last two years we have built our capacity in the project management and system development subcontract market to allow us to manage demand peaks and short-term skills shortages. Revenues in this area have almost doubled to £10.7 million (2005: £5.5 million).

Despite average day rates that remained consistent with last year, revenue per head increased by 5% to £142,000 on the back of strengthening utilisation as well as the growth in revenues from subcontractors.

The proportion of revenues derived from fixed-price contracts increased from 31% last year to 37% this year. Our strong project and risk management processes mean that we are comfortable with a mix of either fixed-price or time-and-materials assignments.

The mix of project work has remained relatively constant with last year. Consultancy projects increased by 2% to 56% of revenues in line with our focus on business consulting assignments, National Security Products revenues were up 1% to 14% of revenues and system integration reduced from 30% of revenues to 27%. The balance of our revenue was derived from post-implementation support of systems delivered as part of system integration assignments.

Profits

The table below highlights the effect of the net investments in StreamShield Networks ("SSN") and Detica Inc on adjusted* profits last financial year.

	Core UK £'m	US £'m	SSN £'m	2006				2005
				Group £'m	Core UK £'m	US £'m	SSN £'m	Group £'m
Revenue	101.3	0.1	0.1	101.5	70.2	-	-	70.2
Costs	85.2	1.1	4.1	90.4	58.7	0.5	2.7	61.9
Adjusted* operating profit	16.1	(1.0)	(4.0)	11.1	11.5	(0.5)	(2.7)	8.3
Adjusted* profit before tax	16.8	(1.0)	(4.0)	11.8	12.2	(0.5)	(2.7)	9.0
Adjusted* operating margin	15.9%	-	-	10.9%	16.4%	-	-	11.9%

Adjusted* Group operating margin declined by 1.0% to 10.9% impacted mainly by the growth in US and StreamShield losses which exceeded the growth in Core UK profits. In the UK, the decline in adjusted* operating margin is attributable to the acquisition of Evolution (0.1%) and the impact of a normal level of ongoing charge for share based payments (2006: £0.9m, 2005: £0.5m). On a like-for-like basis, under UK GAAP, the UK operating margin remained constant year-on-year at 16.7% (2005: 16.7%).

Half-year performance

The Group's half year performance showed a typical seasonality with the second half stronger than the first. Adjusting for acquisitions, 44% of revenue was generated in the first half (2005: 46%) and 56% in the second half (2005: 54%). On an organic basis second half revenue grew 43% year on year and 27% over the first half of the year.

Adjusted* operating margin in the core UK business followed a similar trend to revenues with the H1:H2 performance being 14.8%:16.8% as a result of traditionally stronger utilisation in the second half reflecting the predominantly first half holiday season.

Taxation

Tax charge in the income statement

The adjusted* Group tax charge of £2.1 million (2005: £2.9 million) resulted in an effective tax rate for the year of 18.0% (32.5%) and benefited from our claim for research and development tax credits for the four

years ending 31 March 2006. Ignoring the credit for the previous three years (£1.1 million) the Group's effective tax rate would have been 27.5%.

Tax credit taken directly to equity

Following the Group's adoption of IFRS on 1 April 2004, material tax credits are taken through equity much of which would, under UK GAAP, have previously been recognised as a reduction in the Group tax charge.

These relate to share-based payments and amounted to £1.3 million (2005: £0.4 million). This amount incorporates not only the tax deduction available against the profit made by employees on the exercise of share incentives but also the change in the intrinsic value of unexercised share incentives based on the Company's share price at each balance sheet date.

Unrecognised deferred tax assets

There continues to be uncertainty as to the timescale of the utilisation of the remaining acquired Rubus carried forward losses of £11.2 million and the accumulated unutilised US trading losses of £1.6 million. The Group has therefore not recognised the potential deferred tax asset of £3.9 million associated with these losses.

Earnings per share

Adjusted* diluted earnings per share increased substantially by 54% to 43.3 pence (2005: 28.1 pence) although 5.0 pence was attributable to the prior year impact of our claim for R&D tax credits. Growth was 36% after adjusting for this prior year tax effect.

The impact of the Group's net investment in Detica Inc and StreamShield is illustrated in the table below:

	2006	2005	Growth
	Pence	Pence	
Adjusted* diluted earnings per share			
UK	60.9	38.2	59%
US	(4.6)	(2.2)	
SSN	(13.0)	(7.9)	
Group	43.3	28.1	54%
Adjusted* diluted earnings per share excluding prior year R&D tax credit			
UK	55.9	38.2	46%
US	(4.6)	(2.2)	
SSN	(13.0)	(7.9)	
Group	38.3	28.1	36%

Other factors affecting adjusted* diluted EPS this year include an additional 384,000 shares previously held by the Employee Trust are being taken into the calculation as employees exercise options.

Dividends

The Board is recommending a final dividend of 5.5 pence per share making a total for the year of 8.0 pence (2005: 6.3 pence), up 27% on the prior year. This represents dividend cover of 4.7 times (2005: 4.5 times) based on adjusted* diluted EPS excluding the impact of the prior year R&D tax credit. The final dividend will, if approved by shareholders at the Annual General Meeting, be paid on 28 July 2006 to shareholders on the register at 30 June 2006, with an ex-dividend date of 28 June 2006.

Cash and treasury

The Group has continued to generate good cash flow with high cash conversion ratios maintained. At the operating level, the cash inflow for the year (before tax paid) of £11.6 million represents 105% of adjusted*

operating profit (2005: 102%). After accounting for net cash outflows of £8.5 million associated with the Group's three acquisitions, cash ended the year at £16.6 million (2005: £21.5 million).

Capital expenditure increased by 36% to £5.3 million (2005: £3.9 million) reflecting both the underlying growth of the business and the cost of fitting out our new London office which opened in May 2005.

The Group's policy is to fund its operations through the use of retained earnings, equity and bank debt, although its short-term borrowing facilities are currently undrawn.

International Financial Reporting Standards ("IFRS")

The Group is required to report its results in accordance with IFRS from 1 April 2005 and these are the first set of full year Financial Statements prepared on this basis. Note 11 gives details of the main IFRS differences that affect Detica's transition year to 31 March 2005.

In quoting "adjusted" profits, margins and tax figures in the Business Review and this Financial Review, the Group has made two adjustments to the figures presented on the face of the Income Statement because the Directors consider that it better reflects the ongoing performance of the Group. These relate to:

- the amortisation of acquired intangibles of £141,000 (2005: £nil) under IFRS 3 "Business Combinations"; and
- following the reclaim of previously unrecognised acquired tax losses of £224,000 (2005: £258,000), the resultant charge within operating expenses for the impairment of Rubus goodwill required by IAS 12 "Income Taxes".

Share capital

At the forthcoming AGM, it is proposed that a bonus issue be made so that shareholders will receive an additional four shares for each one currently held. Full details are given in the circular to Shareholders dated 2 June 2006.

Consolidated income statement

For the year ended 31 March 2006

	Note	2006 £'000	2005 £'000
Revenue	2	101,504	70,210
Operating expenses	3	(90,782)	(62,137)
Operating profit		10,722	8,073
Finance income		722	718
Finance costs		(25)	-
Profit before tax		11,419	8,791
Tax expense	5	(1,868)	(2,679)
Profit for the period		9,551	6,112
Attributable to			
Equity holders of the parent		9,551	6,152
Minority interest		-	(40)
		9,551	6,112
Earnings per share	6		
Basic		43.9p	28.8p
Diluted		42.7p	28.1p
Dividends paid and proposed	7		
Dividends paid and recognised in the period (£'000)		1,458	1,242
Dividend per share paid and recognised in the period (pence)		6.7p	5.8p
Dividends proposed but not recognised in the period (£'000)		1,206	911
Dividend per share proposed but not recognised in the period (pence)		5.5p	4.2p

Consolidated balance sheet

At 31 March 2006

	Note	2006 £'000	2005 £'000
Assets			
Non-current assets			
Property, plant and equipment		8,502	5,739
Goodwill		9,041	2,571
Other intangible assets		1,939	-
Deferred tax asset		2,638	1,177
		22,120	9,487
Current assets			
Inventories	8	1,940	920
Trade and other receivables	9	32,699	20,014
Cash and cash equivalents		16,619	21,501
		51,258	42,435
Non-current asset held for sale		829	-
Total assets		74,207	51,922
Equity			
Share capital		447	447
Share premium		17,196	17,196
Capital redemption reserve		747	747
Translation reserve		(57)	-
Retained earnings		27,298	16,561
Attributable to equity holders of Parent Company		45,631	34,951
Equity minority interests		-	-
Total equity		45,631	34,951
Liabilities			
Non-current liabilities			
Deferred tax liabilities		498	-
Provisions		300	-
		798	-
Current liabilities			
Trade and other payables	10	27,753	16,153
Current income tax liabilities		25	818
		27,778	16,971
Total liabilities		28,576	16,971
Total equity and liabilities		74,207	51,922

Consolidated statement of changes in equity

	Attributable to equity holders of the parent					Total £'000	Minority interests £'000	Total equity £'000
	Share capital	Share premium	Capital redemption reserve	Translation reserve	Profit and loss reserve			
	£'000	£'000	£'000	£'000	£'000			
At 1 April 2004	447	17,196	747	-	10,180	28,570	-	28,570
Tax on share options	-	-	-	-	368	368	-	368
Net income recognised directly in equity	-	-	-	-	368	368	-	368
Profit for the year	-	-	-	-	6,152	6,152	(40)	6,112
Total recognised income and expense for the year	-	-	-	-	6,520	6,520	(40)	6,480
Deemed profit on dilution of investment	-	-	-	-	-	-	40	40
Proceeds from disposal of own shares	-	-	-	-	555	555	-	555
Share-based payments	-	-	-	-	548	548	-	548
Dividends paid	-	-	-	-	(1,242)	(1,242)	-	(1,242)
Balance at 31 March 2005	447	17,196	747	-	16,561	34,951	-	34,951
Currency translation differences	-	-	-	(57)	-	(57)	-	(57)
Tax on share options	-	-	-	-	1,343	1,343	-	1,343
Net income recognised directly in equity	-	-	-	(57)	1,343	1,286	-	1,286
Profit for the year	-	-	-	-	9,551	9,551	-	9,551
Total recognised income and expense for the year	-	-	-	(57)	10,894	10,837	-	10,837
Proceeds from disposal of own shares	-	-	-	-	429	429	-	429
Share-based payments	-	-	-	-	872	872	-	872
Dividends paid	-	-	-	-	(1,458)	(1,458)	-	(1,458)
Balance at 31 March 2006	447	17,196	747	(57)	27,298	45,631	-	45,631

Consolidated cash flow statement

For the year ended 31 March 2006

	2006 £'000	2005 £'000
Cash flows from operating activities		
Operating profit	10,722	8,073
Depreciation of property, plant and equipment	2,495	1,743
Loss on disposal of property, plant and equipment	30	101
Amortisation of intangible assets	141	-
Impairment of Rubus goodwill as a result of utilisation of Rubus tax losses	224	258
Share-based payments	872	548
(Increase) / decrease in inventory	(925)	204
Increase in trade and other receivables	(10,453)	(5,470)
Increase in trade and other payables	8,534	3,035
Income tax paid	(2,502)	(869)
Net cash flows from operating activities	9,138	7,623
Cash flows from investing activities		
Purchase of property, plant and equipment	(5,252)	(3,907)
Proceeds from sale of property, plant and equipment	19	-
Acquisition of businesses and subsidiaries, net of cash acquired	(8,141)	-
Interest received	784	692
Net cash flows used in investing activities	(12,590)	(3,215)
Cash flow from financing activities		
Dividends paid	(1,458)	(1,242)
Proceeds from disposal of own shares	429	555
Repayment of borrowings assumed in acquisitions	(386)	-
Proceeds from issue of shares in subsidiary to minority interest	-	40
Interest paid	(25)	-
Net cash used in financing activities	(1,440)	(647)
Net (decrease) / increase in cash and cash equivalents	(4,892)	3,761
Cash and cash equivalents at the beginning of year	21,501	17,740
Effect of foreign exchange rate changes on cash and cash equivalents	10	-
Cash and cash equivalents at end of year	16,619	21,501

Notes to the consolidated financial statements

1. Accounting policies

Basis of preparation

This preliminary announcement was approved by the Board of Directors on 2 June 2006.

The financial information set out in this announcement does not constitute the Group's financial statements as defined by s240 of the Companies Act 1985 for the years ended 31 March 2006 or 2005. The results for the years ended 31 March 2006 and 2005 are extracted from the audited accounts of Detica Group plc, on which the auditors have issued an unqualified opinion which did not contain a statement under s237(2) or (3) Companies Act 1985.

The Group has prepared its consolidated financial statements in accordance with International Financial Reporting Standards ('IFRS') adopted by the European Union for the first time and consequently has applied IFRS 1 "First-time Adoption of International Financial Reporting Standards". An explanation of how the transition to IFRSs has affected the reported financial results is provided in note 11. The accounting policies have been consistently applied to all periods presented except where specific transitional exemptions in IFRS 1 "First-time Adoption of International Financial Reporting Standards" have been applied.

The audited financial statements for the year ended 31 March 2005 have been delivered to the Registrar of Companies. The Annual Report for the year ended 31 March 2006 will be mailed to shareholders in June 2006 and will be delivered to the Registrar of Companies following the Annual General Meeting which will be held on Thursday 20 July 2006 at the Company's registered office at Surrey Research Park, Guildford, Surrey, GU2 7YP. Copies will be available to the public from the Company's registered office.

Basis of consolidation

The consolidated financial statements include those of Detica Group plc and all of its subsidiary undertakings (together "the Group") drawn up at 31 March 2006.

Subsidiary undertakings are those entities controlled directly or indirectly by the Company. Control arises when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Subsidiaries are consolidated from the date of their acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases, using the same accounting policies as the Group. All business combinations are accounted for using the purchase method of accounting. All inter-company balances and transactions, including unrealised profits arising from them, are eliminated on consolidation.

Minority interests represent the portion of profit or loss and net assets in subsidiaries that is not held by the Group and is presented separately within equity in the consolidated balance sheet, separately from parent shareholders' equity.

Critical accounting estimates and judgements

In preparing the consolidated financial statements, management has to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities, income and expenses. The critical judgements and key sources of estimation uncertainty that have been made in preparing the consolidated financial statements are detailed below. These judgements involve assumptions or estimates in respect of future events which can vary from what is anticipated.

Revenue and profit recognition

Fixed price contracts are accounted for in accordance with IAS 11 "Construction Contracts". Revenue and profits are recognised on a percentage-of-completion basis, when the outcome of a contract can be estimated reliably. Determining whether a contract's outcome can be estimated reliably, requires management to exercise judgement, whilst the calculation of the contract's profit requires estimates of the total contract costs to completion. Cost estimates and judgements are continually reviewed and updated as determined by events or circumstances.

Intangible assets

In accordance with IFRS 3 "Business combinations" goodwill arising on the acquisition of subsidiaries is capitalised and included in intangible assets. IFRS 3 also requires the identification of other intangible assets acquired. Although the techniques used to value other intangible assets are in line with internationally used models, they do require the use of estimates which may differ from actual outcomes.

Impairment of goodwill

The determination of whether or not goodwill has been impaired requires an estimate to be made of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation includes estimates about the future financial performance of the cash-generating units, including management's estimates of long-term operating margins and long-term growth rates.

Income taxes

In recognising income tax assets and liabilities, management makes estimates of the likely outcome of decisions by tax authorities on transactions and events whose treatment for tax purposes is uncertain. Where the final outcome of such matters is different, or expected to be different, from previous assessments made by management, a change to the carrying value of income tax assets and liabilities will be recorded in the period in which such determination is made.

Intangible assets

Goodwill

Purchased goodwill arising on the acquisition of subsidiary undertakings is the difference between the fair value of the Group's interest in the assets, liabilities and contingent liabilities acquired and the fair value of consideration paid. Goodwill recognised under UK GAAP prior to the date of transition to IFRS (1 April 2004) is stated at net book value as at this date and is no longer amortised. The carrying value of goodwill at 1 April 2004 was tested for impairment and no impairment was required.

Goodwill arising on acquisition is allocated to cash-generating units. The recoverable amount of the cash-generating unit to which goodwill has been allocated is tested for impairment annually and when events or changes in circumstance indicate that it may be impaired. Where the recoverable amount of the cash-generating unit is less than the carrying amount of goodwill, an impairment loss is recognised.

Other intangible assets

Intangible assets acquired from a business acquisition are capitalised at fair value as at the date of acquisition and amortised on a straight line basis over their estimated useful economic life. An intangible asset acquired as part of a business combination is recognised outside goodwill if the asset is separable or arises from contractual or other legal rights and if its fair value can be measured reliably. The estimated useful lives of the intangible assets are as follows:

Customer relationships	3 – 9 years
Intellectual property	2 – 3 years

Intangible assets, other than development costs, created within the business are not capitalised and expenditure thereon is charged against profits in the period in which the expenditure is incurred.

The carrying value of other intangible assets is reviewed for impairment when events or changes in circumstance indicate that it may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The asset's recoverable amount is the higher of the asset's fair value less costs to sell and its value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which it belongs.

Research and development costs

Expenditure incurred in the development of software and hardware products, and their related intellectual property rights, is capitalised as an intangible asset only when:

- technical feasibility has been demonstrated;
- adequate technical, financial and other resources exist to complete the development, which the Group intends to complete and use;
- future economic benefits expected to arise are deemed probable; and
- the costs can be reliably measured.

Research costs and development costs not meeting these criteria are expensed in the income statement as incurred.

Capitalised development costs for assets which are not yet in use are tested for impairment annually. Capitalised development costs are amortised on a straight line basis over their useful economic lives once the related software and hardware products are available for use.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is charged on the following bases to reduce the cost of the Group's property, plant and equipment to their residual values over the estimated useful lives at the following rates:

Leasehold improvements	10% straight line
Office furniture and equipment	20% straight line
Computers, ancillary equipment and electronic test equipment	20-33% straight line

The carrying value of property, plant and equipment is reviewed for impairment when events or changes in circumstance indicate the carrying value may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of impairment loss. The asset's recoverable amount is the higher of the asset's fair value less costs to sell and its value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which it belongs.

Non-current assets held for sale

Non-current assets are classified as held for sale in the balance sheet if:

- their carrying amount will be recovered through a sale transaction rather than ongoing use by the Group; and
- the sale is highly probable and expected to complete within one year of the date of classification.

Non-current assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell, and no depreciation is charged.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes direct project costs and staff costs plus attributable overheads in bringing the inventory to its present location and condition based on a normal level of activity. Net realisable value represents the estimated selling price less costs of completion and the estimated costs necessary to make the sale.

Amounts recoverable on contracts

Amounts recoverable on contracts represent revenue recognised to date less amounts invoiced to clients. Full provision is made for known or anticipated project losses.

Trade and other receivables

Trade and other receivables are recognised and carried at the lower of their original invoiced value and recoverable amount. Provision is made where there is evidence that the Group will not be able to recover the balance in full. Balances are written off when the probability of recovery is assessed as being remote.

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

Deferred income

Deferred income represents amounts received in advance from clients less turnover recognised to date on support contracts.

Payments received on account

Payments received on account represent amounts invoiced to clients in excess of revenue recognised to date.

Income tax

The charge for current taxation is calculated on the results for the period as adjusted for items which are non-assessable or disallowed, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred taxation is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in computation of taxable profit.

Deferred tax liabilities are recognised on all temporary differences except in respect of investments in subsidiaries where the Group is able to control the reversal of the temporary difference and it is probable that it will not reverse in the foreseeable future. The deferred tax is not accounted for if it arises from the initial recognition of goodwill or from the

initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognised either to the extent that it is probable that future taxable profit will be available against which the temporary difference can be utilised, or in the case of deferred tax on employee share options that appropriate tax credits will arise on employees' exercise of share options (see below). Deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Where deferred tax assets are recognised subsequent to an acquisition, such as when the benefit of the acquiree's income tax loss carry forwards have since been realised, the deferred tax income is recognised in taxation and a corresponding reduction is made to goodwill which is recognised as an operating expense. The carrying amount of the deferred tax asset is reviewed at each balance sheet date.

In the UK, the Group is entitled to a tax deduction for amounts treated as remuneration on exercise of certain employee share options. As explained under "Employee benefits" below, a remuneration expense is recorded in the Group's income statement over the period from the grant date to the vesting date of the relevant options. As there is a temporary difference between the accounting and tax bases, a deferred tax asset is recorded. The deferred tax asset arising on share option awards is calculated as the estimated amount of tax deduction to be obtained in the future (based on the Group's share price at the balance sheet date) pro-rated to the extent that services of the employee have been rendered over the vesting period. If this amount exceeds the cumulative amount of the remuneration expense at the statutory rate, the excess is recorded directly in equity, against retained earnings. Similarly, current tax relief in excess of the cumulative amount of the remuneration expense at the statutory rate is also recorded in retained earnings. No remuneration charge is recorded in respect of options granted before 7 November 2002 which have not vested by 1 January 2005. Nevertheless, tax deductions have arisen and will continue to arise on these options. The tax effects arising in relation to these options are recorded directly in equity against retained earnings.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which the asset or liability is settled. This is based upon tax rates and laws enacted or substantively enacted at the balance sheet date.

Derivative instruments

The following policies for derivative instruments have been applied in the preparation of the Group's financial statements. For those policies that have changed on adoption of IAS 39 "Financial Instruments: Recognition and Measurement" on 1 April 2005, policies before and after adoption are given.

Derivative instruments - 1 April 2004 to 31 March 2005

The Group uses forward foreign currency contracts to reduce exposure to foreign exchange rates. The Group's criteria for forward foreign currency contracts are:

- the instrument must be related to a foreign currency asset or liability that is probable and whose characteristics have been identified;
- it must involve the same currency as the hedged item; and
- it must reduce the risk of foreign currency exchange movements on the Group's operations.

The rates under such contracts are used to record the hedged item. As a result, gains and losses are offset against the foreign exchange gains and losses on the related financial assets and liabilities or, where the instrument is used to hedge a committed, or probable, future transaction, gains and losses are deferred until the transaction occurs.

Derivative instruments - 1 April 2005 onwards

Derivatives such as forward foreign currency contracts are initially recognised at fair value on the date a contract is entered into and are subsequently re-measured at fair value. The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The gain or loss on remeasurement is taken to the income statement except where the derivative is part of a designated cash flow hedge.

The effective portion of changes in the fair value of derivatives that are designated and qualify as a cash flow hedge are recognised directly in equity, whilst the ineffective portion is recognised immediately in the income statement.

If the cash flow hedge results in the recognition of an asset or liability, then the associated gains or losses on the derivative that had previously been recognised in equity are included in the measurement of the asset or liability at the time the asset or liability is recognised. For all other cash flow hedges, the gains or losses that are recognised in equity are transferred to the income statement in the same period as the underlying transaction.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement in the year.

Foreign currency translation

Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation, at balance sheet date exchange rates, of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Assets and liabilities of overseas companies are translated into sterling at the exchange rate prevailing on the balance sheet date. Income, expenditure and cash flows of overseas companies are translated at the weighted average exchange rate for the period. The exchange differences on the translation at closing rates of the overseas companies' net assets and the differences arising between the translation of profits at average and closing exchange rates are recorded as movements in the translation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

The most important foreign currency for the Group is the US Dollar. The relevant exchange rates to pounds sterling were:

	2006		2005	
	Weighted Average	Closing	Weighted Average	Closing
£1 = US\$	1.77	1.73	1.86	1.89

Revenue

Revenue derived from professional fees billed to clients on a time and materials or fixed-price basis represents the value of work completed, including attributable profit, based on the stage of completion achieved on each project. For time and materials projects, revenue is recognised as services are performed. For fixed-price projects, revenue is recognised according to the stage of completion which is determined using the percentage-of-completion method based on the Directors' assessment of progress against key project milestones and risks, and the ratio of costs incurred to total estimated project costs.

Revenue from support contracts is spread evenly over the period of the support contract.

Revenue from the sale of products is recognised on delivery of the product to the client.

Revenue from recharging to clients the cost of specialist managed subcontractors and the purchase of software or hardware for client assignments, together with associated mark-up, is recognised as these costs are incurred. Where the Group acts as agent in the transaction, only the mark up is recognised as Group revenue. No revenue or expense is recognised in respect of travel and subsistence expenses recharged to clients.

Income is accrued where these revenue recognition policies result in the recognition of revenue before invoices are sent to clients. The cumulative impact of any revisions to the estimate of percentage-of-completion of any fixed-price contracts is reflected in the period in which such impact becomes known.

Segment reporting

The Group is organised into two business segments, namely the business of providing IT services and solutions and StreamShield, the internet content security business. These two business segments are the Group's primary reporting format for segment information. The Group's secondary reporting format is by geographical area.

Employee benefits

Retirement benefits

The Group operates a defined contribution pension scheme for certain Directors and employees and makes contributions to a group personal pension plan for the majority of employees. Pension costs are calculated annually and charged to the income statement as they arise.

Share-based payments

Certain employees (including Directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services in exchange for rights over shares under the Group's Executive Share Option Scheme and Long-Term Incentive Plan ("LTIPs").

The total amount to be expensed over the vesting period of the options and LTIPs is determined by reference to the fair value at the date at which the options or LTIPs are granted and the number of awards that are expected to vest. The fair value is determined by an external valuer using a Monte Carlo model in the case of options and a Black Scholes model in the case of LTIPs. The assumptions underlying the number of options expected to vest are adjusted to reflect conditions prevailing at the balance sheet date. At the vesting date, the cumulative expense recognised in the income statement is adjusted to take account of the awards that actually vest.

The Group has taken advantage of the transitional provisions of IFRS 2 in respect of options and LTIPs and has applied IFRS 2 only to those awards granted after 7 November 2002 which had not vested by 1 January 2005.

Holiday accrual

In accordance with IAS 19 "Employee Benefits", accruals are made in respect of holiday entitlements that have accrued to employees but have not been taken at the balance sheet date.

Employee share ownership trusts

The employee share ownership plan ("ESOP") trust, which purchases and holds ordinary shares of the Company in connection with employee share schemes, is consolidated in the Group financial statements. Any consideration paid or received by the ESOP trust for the purchase or sale of the Company's own shares is shown as a movement in shareholders' equity.

Lease commitments and hire purchase contracts

Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term. Operating lease incentives are recognised as a reduction in the rental expense over the lease term.

Dividends

Dividends payable to the Company's shareholders are recognised as a liability and deducted from shareholders' equity in the period in which the shareholders' right to receive payment is established.

Reserves

The translation reserve represents accumulated foreign exchange differences arising from the translation of the financial statements of foreign operations.

The capital redemption reserve is used when the Company buys back its own shares, as part of share reorganisations.

2. Segment information

Primary basis – business segments

The Group is organised into two primary business segments, namely the business of providing IT services and solutions and StreamShield, the internet content security business. These two business segments are the Group's primary reporting format for segment information.

Transfer prices between business segments are set on an arm's length basis. Segment revenue, expense and result includes transfers between business segments. Those transfers are eliminated on consolidation.

Year ended 31 March 2006

	IT services and solutions £'000	StreamShield £'000	Eliminations £'000	Total continuing operations £'000
Segment revenue	101,414	90	-	101,504
Segment operating profit	14,737	(4,015)	-	10,722
Finance income				722
Finance costs				(25)
Profit before tax				11,419
Tax expense				(1,868)
Profit after tax				9,551

Year ended 31 March 2005

	IT services and solutions £'000	StreamShield £'000	Eliminations £'000	Total continuing operations £'000
Segment revenue	70,208	2	-	70,210
Segment operating profit	10,747	(2,674)	-	8,073
Finance income				718
Finance costs				-
Profit before tax				8,791
Tax expense				(2,679)
Profit after tax				6,112

Secondary format – geographical segments

The following table presents an analysis of revenue and operating profit by country of origin.

	2006 £'000	2005 £'000
Revenue by origin – continuing operations		
United Kingdom	101,414	70,210
United States of America	90	-
	101,504	70,210
Operating profit/(loss) by origin – continuing operations		
United Kingdom	11,752	8,552
United States of America	(1,030)	(479)
	10,722	8,073

The following table provides disclosure of the Group's revenue analysed by geographical market based on the location of the customer.

	2006 £'000	2005 £'000
Revenue by destination		
United Kingdom	95,142	63,981
United States of America	6,016	4,796
Rest of Europe	346	1,072
Rest of World	-	361
	101,504	70,210

3. Operating profit

Operating profit is stated after charging / (crediting):

	2006	2005
	£'000	£'000
Staff costs – salaries	45,698	31,157
Staff costs – social security	4,673	3,253
Staff costs – pensions	3,324	2,366
Staff costs – share-based payments	872	548
Total staff costs	54,567	37,324
Net foreign exchange gains	(41)	-
Depreciation of property, plant and equipment	2,495	1,743
Amortisation of acquired intangible assets	141	-
Impairment of Rubus goodwill as a result of utilisation of Rubus tax losses	224	258
Materials and other external project costs	16,108	10,187
Operating lease payments – minimum lease payments	2,152	1,609
Auditors' remuneration		
- audit services	95	61
- non-audit services	143	120
Other operating expenses	14,898	10,835
	90,782	62,137

Significant items within other operating expenses include rent and rates, recruitment costs, marketing expenses and legal and professional fees.

Within operating expenses presented above is £3,649,000 (2005: £2,912,000) relating to the Group's research and development activities. No development costs qualified for capitalisation during the year (2005: £nil).

4. Employee numbers

The average number of employees (excluding Non-Executive Directors) during the year and the number at the end of the year was as follows:

	2006	2005
	Number	Number
Revenue earners	635	461
Support staff	116	80
Average number of employees	751	541
Number of employees at 31 March	937	582

5. Tax

	2006 £'000	2005 £'000
Current tax expense		
Current tax on income of this year	3,501	2,799
Adjustments in respect of prior years	(1,113)	22
Total current tax expense	2,388	2,821
Deferred tax credit		
Origination and reversal of temporary differences	(546)	(122)
Adjustments in respect of prior years	26	(20)
Total deferred tax credit	(520)	(142)
Total income tax expense in income statement	1,868	2,679

The Group's effective tax rate for the year was 16.4% (2005: 30.5%) and benefited from the impact of the Group's claim for research and development tax credits. Ignoring the credit which relates to the three previous years to 31 March 2005 (£1,113,000) and the tax credit which relates to the utilisation of pre-acquisition brought forward tax losses of £224,000, the Group's effective tax rate was 27.5%.

Reconciliation of effective tax rate

	2006 £'000	2005 £'000
Group profit before tax	11,419	8,791
Income tax using the UK corporation tax rate at 30% (2005: 30%)	3,426	2,637
Tax effects of:		
- Expenses not deductible for tax purposes	159	96
- US start up losses	328	176
- R&D tax credit	(531)	(100)
- R&D tax credit in respect of prior years	(1,113)	-
- Other differences	(177)	128
- Utilisation of pre-acquisition brought forward tax losses	(224)	(258)
Total income tax expense	1,868	2,679

6. Earnings per share

The calculation of earnings per share is based on the following:

	2006 £'000	2005 £'000
Profit attributable to shareholders	9,551	6,152
	Number of shares ('000)	Number of shares ('000)
Weighted average number of shares in issue	22,353	22,353
Weighted average number of shares held by the Employee Benefit Trust	(572)	(956)
Basic weighted average number of shares in issue	21,781	21,397
Dilutive effect of share options	574	526
Diluted weighted average number of shares in issue	22,355	21,923

7. Dividends

The Directors propose a final dividend in respect of the year ended 31 March 2006 of 5.5p per share (2005: 4.2p per share) totalling £1,206,000 (2005: £911,000) and payable on 28 July 2006. The proposed dividend is subject to approval by the Annual General Meeting on 20 July 2006 and has not been recognised as a liability in these financial statements.

The amounts recognised as distributions to equity holders were as follows:

	2006 p / share	2006 £'000	2005 p / share	2005 £'000
Interim dividends relating to 2006 / 2005	2.5	547	2.1	450
Final dividends relating to 2005 / 2004	4.2	911	3.7	792
	6.7	1,458	5.8	1,242

8. Inventories

	2006 £'000	2005 £'000
Work in progress	1,940	920

9. Trade and other receivables

	2006 £'000	2005 £'000
Trade receivables	24,393	15,198
Prepayments and accrued income	2,511	1,044
Amounts recoverable on contracts	5,626	3,454
Other receivables	169	318
	32,699	20,014

10. Trade and other payables

	2006 £'000	2005 £'000
Trade payables	5,204	3,572
Accruals	10,795	5,622
Deferred income	923	595
Payments received on account	4,187	2,515
Social security and other taxes	6,644	3,849
	27,753	16,153

11. Transition to IFRS

These are the Group's first consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") adopted by the European Union. The accounting policies referred to in note 1 have been applied in preparing the consolidated financial statements for the year ended 31 March 2006, the comparative information for the year ended 31 March 2005 and the preparation of the opening IFRS balance sheet at 1 April 2004, the date of transition to IFRS.

An explanation of how the transition from UK GAAP to IFRS has affected the Group's financial position and financial performance is set out in the following tables and notes accompanying them.

There have been no changes to the Group's cash flows as a result of the transition. The IFRS cash flow format is similar to UK GAAP but presents various cash flows in different categories and in a different order from the UK GAAP cash flow statement. All of the IFRS accounting adjustments net out within net cash flows from operating activities.

11a. Effect of IFRS adoption on profit for the prior year

	Note	Year ended 31 March 2005 £'000
Profit for the period reported under UK GAAP		6,863
Share-based payments	A	(319)
Holiday accrual movement	B	(66)
Goodwill amortisation	C	653
Tax movement on share options	D	(741)
Deferred tax on holiday pay accrual	D	20
Utilisation of tax losses	D	(258)
Profit for the period reported under IFRS		6,152

11b. Effect of IFRS adoption on equity

	Note	1 April 2004 £'000	31 March 2005 £'000
Total equity reported under UK GAAP		26,844	33,132
Goodwill amortisation	C	-	653
Dividends payable	E	792	911
Holiday pay accrual	B	(532)	(598)
Deferred tax asset – share-based payments	D	1,306	932
Deferred tax asset – holiday pay accrual	D	160	179
Utilisation of tax losses	D	-	(258)
Total equity reported under IFRS		28,570	34,951

11c. Explanatory notes to the IFRS adjustments

Transitional arrangements upon first time adoption of IFRS (IFRS 1)

IFRS 1 "First-time Adoption of International Financial Reporting Standards" sets out the transition rules, which must be applied, when IFRS is adopted for the first time. The standard sets out certain mandatory exemptions to retrospective application and certain optional exemptions. The most significant optional exemptions available and taken by the Group are as follows:

- The Group has elected not to apply retrospectively the provisions of IFRS 3 "Business Combinations", to acquisitions that occurred prior to the Group's transition date of 1 April 2004 (namely the acquisition of Rubus in August 2003);

- The Group has elected not to apply the provisions of IFRS 2, “Share-based Payments”, to share options granted on or before 7 November 2002 which had not vested before 1 January 2005; and
- The Group has elected not to apply IAS 39, “Financial Instruments”, to the comparative period (see note 1). As at 31 March 2004 and 31 March 2005 there were no outstanding cash flow hedges. If IAS 39 had been adopted for the comparative period, any changes in the fair value of derivatives would have been recognised in the income statement unless covered by a designated cash flow hedge.

The adjustments between UK GAAP and IFRS for the year ended 31 March 2005 are detailed below.

A. Share-based payments (IFRS 2)

An additional charge of £319,000 for the year ended 31 March 2005 has been made in the IFRS income statement to spread the fair value of share options and LTIPs over the three and four year service obligations of those incentives.

B. Holiday accruals (IAS 19)

Accruing for holiday pay was not required under UK GAAP but is required under IFRS. A charge of £66,000 made for the year ended 31 March 2005, relating to the movement in holidays that have accrued to employees but have not yet been taken at the balance sheet date, is recorded in the IFRS profit and loss account reconciliation.

C. Goodwill (IAS 36)

The Rubus goodwill amortisation charge of £653,000 for the year ended 31 March 2005 under UK GAAP is reversed under IFRS. An annual impairment review of the Rubus goodwill confirmed that no impairment charge was required under IFRS other than in respect of the utilisation of brought forward tax losses of £258,000 (see note D below).

D. Taxation effect of IFRS adjustments (IAS 12)

Under IAS 12 the following tax adjustments are required and result in a £979,000 net increase in the tax charge for the year ended 31 March 2005:

- the tax impact of brought forward Rubus losses amounting to a credit of £258,000 for the year ended 31 March 2005 in the UK GAAP tax charge is treated under IFRS as a reduction in Rubus goodwill and a corresponding charge to operating expenses;
- a deferred tax asset is established for the holiday pay accrual; and
- the temporary difference between the recognition of the IFRS 2 charge for share-based payments and the Group’s expected future tax deduction under UK tax legislation (“Schedule 23”) is established as a deferred tax asset under IFRS calculated by reference to the intrinsic value of all unexercised share options at each balance sheet date (including those issued prior to November 2002 and not otherwise valued under the IFRS transitional arrangements). The resultant credit in the tax charge is restricted to the tax effect of the cumulative IFRS 2 charge with the difference credited directly to the profit and loss reserve. This restriction also impacts the Schedule 23 tax credit previously recorded as an exceptional tax credit in the income statement under UK GAAP. The resulting additional tax charge in the IFRS income statement for the year ended 31 March 2005 is £741,000.

E. Dividends (IAS 10)

Dividends are not adjusting post-balance sheet events under IFRS and can only be accrued if they have been paid or formally approved at the balance sheet date.