



13th September 2005

System C Healthcare plc Preliminary results for the year ended 31 May 2005

System C Healthcare plc ("System C"), a leading independent provider of IT implementation solutions for the UK healthcare sector, announces its results for the year ended 31 May 2005.

Financial highlights

	Unaudited 2005	Audited 2004
Turnover	£18.2m	£5.6m
Profit/(loss) before tax and exceptional items	£3.5m	£(1.2)m
Profit/(loss) before tax	£2.5m	£(2.2)m
Operating cash inflow/ (outflow)	£4.2m	£(2.3)m
Adjusted earnings/(loss) per share – basic ¹	3.48p	(1.59)p
Adjusted earnings/(loss) per share – diluted ¹	3.08p	(1.59)p

Operating highlights

- Strong move to profit before tax of £2.5m (2004: loss £2.2m)
- Placing and admission to AIM in June 2005 raises net £8.4m for investment
- Significant investment in staff capability to create one of the UK's largest teams of dedicated healthcare IT specialists
- Successful delivery on first full year of our major contracts with Local Service Provider partners ("LSPs") on the National Programme for IT ("NPfIT")

¹ These EPS figures are calculated prior to the issue of 18,518,519 new shares issued pursuant to the flotation which occurred after the year end.

Commenting on the results, Jim Horsburgh, the Chairman said: "I am delighted to be able to report on a strong set of results. System C has made great progress in the delivery of IT products and implementation solutions in the UK's healthcare sector.

It is particularly pleasing to be able to announce these maiden results following our flotation on AIM in June, which raised £8.4m of net proceeds for the company.

We have created a strong team at System C and have increased our resources to deliver future business requirements and have developed a culture which is founded on delivery and a passion for what we do. With the increasing market awareness of System C's track record and capability, we are in a strong position to continue our growth."

Enquiries:

System C Healthcare plc
Jim Horsburgh, Chairman
Ian Denley, Chief Executive

01622 691616

Maitland
Neil Bennett
Brian Hudspith

020 7379 5151

A presentation was made on Tuesday 13 September at 9.30am at the offices of Collins Stewart (9th Floor, 88 Wood Street, London EC2V 7QR) to analysts and investors. A copy of this presentation is available from System C.

Chairman's statement

2005 marked a year of great change for System C. We enjoyed strong growth in profits, revenue and overall size and began playing an important part in what we believe will prove to be a world class IT programme for healthcare provision in England.

Better patient care is an imperative within the UK and it is now generally accepted that this cannot be achieved without modern, effective and integrated Information Systems. System C's investment and development of hands-on expertise in the implementation of healthcare IT over the last 14 years uniquely positions us to build a significant and profitable healthcare business that can take advantage of much improved central government funding.

Results

I am delighted to be able to report on an excellent set of results for the year ended 31 May 2005.

Turnover more than trebled to £18.2m (2004: £5.6m), underpinned by our established relationships with NHS hospitals and trusts where we have achieved a number of milestones in delivering improvements in IT systems leading to improved patient care and increased levels of efficiency. Within the NPfIT, we have increased the services delivered in partnership with our key LSP customers. This was our first full year working on this programme and I am delighted that System C has been associated with many of the successful early implementations which will drive the much needed improvements and patient benefits in the NHS.

The company has now moved into profitability, reflecting the benefits of increased scale and capitalising on our previous investment in our delivery capability. Profit before tax and exceptional items of £3.5m (2004: loss of £1.2m) was achieved whilst continuing to invest in the two key areas of our business that are critical for future successful growth – people and solutions.

The company generated £4.2m of operating cash inflow (2004: £2.3m outflow), reflecting our ability to convert operating profits into cash.

The Board is not declaring an ordinary dividend for the year ended 31 May 2005.

Flotation on AIM

I am particularly pleased to announce these results for a year in which we were also working towards our flotation on AIM. The flotation process was concluded after the year end in June 2005. The total value of the placing and employee offer was £27.4m of which £8.4m net proceeds was raised for future investment. This leaves the company, in net terms, with no gearing and the resources for future growth.

Board changes

During the year there were a number of changes to the Board of Directors.

I am pleased to welcome as non-executive directors John Forrest and Thomas Chambers who bring considerable experience to the Board. John Forrest is a non executive director at Interregnum plc having previously been a director of the venture capital company 3i plc from 1996 to 2004. He previously led the privatisation at NTL, becoming its first CEO. Thomas Chambers is Chief Financial Officer for Symbian Ltd and is Chairman of Swedish based UIQ Technology AB.

Steve Emery left the board in May due to illness, since when his role as Finance Director has been undertaken on an interim basis pending a permanent appointment.

Anji Gopal of Barclays Ventures left the board on 18 July 2004 and was replaced by Jeremy Morgan of Barclays Ventures who subsequently left the board post prior to IPO on 21 June. I want to thank them for their tremendous support and we wish them well for the future

Outlook

We believe that we are only at the start of a period of significant investment in UK healthcare IT. However, this is a challenging and complex nationwide IT project and we are realistic that the pace of development will vary as it progresses. Indeed, it is this complexity which presents opportunities as well as challenges for System C and we are well placed to continue to develop new business streams from our combined skills in both IT and healthcare. I am confident that in the medium to long-term the goals set by the National Programme will be met and that System C is in a strong position to continue growing and to become a leading solutions provider in the UK IT healthcare market.

Chief Executive's Review

The year ended 31 May 2005 was an important and successful year for System C. The company delivered strong organic growth and financial performance whilst at the same time preparing for our listing on AIM which completed successfully in June 2005. We have developed excellent relationships with our customers and have delivered against our operational commitments. We have also continued to build a cohesive and effective team of people.

Strategy

Our strategy is to establish a market leading position in the UK in healthcare IT solutions. In doing so, we aim to grow the business profitably by increasing and diversifying our customer base and by benefiting from the increasing market demand for IT in the healthcare sector.

In particular, we will:

- Leverage our significant experience of working directly with NHS hospitals and trusts over the last 14 years to further develop our services business, addressing in particular the NPfIT in England
- Build our product based business by developing new customer relationships with NHS hospitals and trusts
- Maintain a focused product development capability which is aligned with our long term customers

We have made good progress in the year and are aware of the considerable opportunity ahead of us. The NPfIT will inevitably bring significant challenges in the future, but we aim to build on our core position within the programme.

Markets

Significant and long term Government backed investment in healthcare IT is driving demand for specialist IT services. The NPfIT, which is being delivered by the new Department of Health agency Connecting For Health (CfH), has committed £6.2 billion to deliver an integrated IT infrastructure in the English NHS by 2010 (*source: Delivering NHS IT – The Next Five Years, Silicon Bridge Research, October 2004*). The National Programme is being implemented by four LSPs who are responsible for system deployment and integration in five regional “clusters”. System C has secured contracts with LSPs in three of the five regional clusters.

Outside the National Programme, in 2002 the Wanless Report highlighted the need for the more systematic use of IT to improve the efficiency and effectiveness of healthcare delivery more generally. In response to this, NHS IT spend is projected to grow to approximately £2.7 billion a year by 2008 from the current level of approximately £1.2 billion per annum.

System C is well placed to address this quite separate level of market demand by providing IT solutions and services to the many individual NHS hospitals and trusts directly. At the end of the financial year, we had 19 customer relationships with hospitals and trusts and we will build on this further in the coming year. We see growth coming from an increased demand for our services from existing customers as well as securing an increasingly larger share of the population of UK hospitals and trusts.

Operating review

System C is ideally structured to address two separate areas of market demand:

1. Services to LSP customers and on behalf of organisations whose end customer is either the NHS or other clinical organisations, and
2. Products provided directly to NHS Hospitals and Trusts.

Both are supported by our central development & support capability, which provides our people working on client sites with both logistical and technical support.

Services

	2005	2004
Turnover	£15.2m	£2.9m
Gross profit	£8.8m	£1.7m
Profit before tax	£6.9m	£1.2m

Services turnover increased by £12.3m and is driven by the contracts we have with LSPs that cover three of the five regional clusters in the National Programme described above. We have seen a strong demand for those services throughout 2005, significantly stepping up from 2004 when the National Programme began. Gross profit has grown broadly in line with turnover to £6.9m and is stated before taking into account the central support services whose costs are reported separately.

During the year System C specialists were involved in multiple projects on behalf of its LSP partners. Projects ranged from design, build and test activities for a variety of software applications, through to managing implementations of new systems across multiple healthcare settings, including GP surgeries, Primary Care Trusts, Mental Health and Community Trusts and Acute Hospital Trusts. Feedback from our LSP partners regarding System C's contribution has been positive and System C staff played key roles in the successful completion of many of the go-lives during the period.

Growth also came from additional contracts to provide data migration (converting and moving patient data from hospitals' previous computer systems ready for import into the new systems being provided under the National Programme) and systems interfacing services.

Products

	2005	2004
Turnover	£3.0m	£2.7m
Gross profit	£0.6m	£1.0m
Profit before tax, pre exceptional items	£0.4m	£0.9m

Turnover increased by £0.3 million following 4 new customer contracts as well as new IT implementations on some of our existing key NHS hospitals. However, profit before tax declined by £0.5 million due to significant installation of our MedWay product in 2004 which recognised a high level of profitability in that year. This was not repeated in 2005.

We have continued to enhance our MedWay Electronic Record (EPR) product range over the course of this year, and have delivered a number of new developments and enhancements to our customer sites. Significant go-lives have included: Paperless Communications; Clinical Noting; Electronic Document Management integration; and Electronic Prescribing integration. We are also in the official testing phase to achieve National Programme 'Choose and Book' compliance.

During the year, we have also invested in the development of products to meet new opportunities created by the National Programme. The HealthData Suite of products provides data validation, reporting and management information systems configured specifically to support the healthcare sector. Customer feedback on this range of products has been very positive.

Development and shared services

	2005	2004
Loss before tax, pre exceptional items	£(3.8)m	£(3.3)m

Costs increased in the support areas by 15% as a result of the increase in scale of the business. In particular, the cost of recruiting 87 new staff has been fully absorbed in the 2005 figures – a significant investment for the company.

£1.2m was invested in research and development during the year (£1.6m 2004) with a particular focus on the development of products to meet the new opportunities created by the National Programme. The HealthData Suite of products provides data validation, reporting and management information systems configured specifically to support the healthcare sector. Customer feedback has been very positive and we expect to see strong demand for these products in FY 2006.

People and organisation

System C's success relies on having talented and motivated teams of people. During the year we recruited an additional 87 people, which is a significant level of growth for a company which started the year with 132. I am pleased that we have integrated these new staff into the company successfully.

We have a comprehensive personal development programme available to all employees at all levels. In July 2005, our Training Academy gained the Institute of IT Trainers (ITT) accreditation. We are committed to maintaining a well trained and well motivated workforce which we see as critical to the continuing success of the company. The national Investors in People standard, first gained in 2001 was successfully re-approved in April 2004.

Prospects

We are at an early stage in the current financial year and sales in the first quarter have been steady. Although it is difficult to predict precise timing of the workflow arising from the National Programme, we expect the level of business to increase as the year progresses in line with customer requirements. We believe that System C remains well positioned within the IT healthcare market. Given the number of business opportunities that exist, we are confident of achieving a successful outcome for the current financial year and we have increased our staff capability accordingly.

Notes to the Editors:

About System C

System C Healthcare plc, established in 1983, specialises in the provision of information systems and solutions to the healthcare sector. Its team of professionals have an average of 14 years healthcare experience and can provide all aspects of systems design, development and deployment services. System C is founded upon the belief that IT solutions, when properly designed and effectively implemented, can significantly improve the standards of patient care that healthcare providers give.

System C has developed its own portfolio of healthcare applications, used by thousands of UK healthcare professionals to support patient care. The company's MedWay electronic patient record product supports a wide variety of functions from the management of outpatient clinics and waiting lists to the storage and retrieval of clinical images. Its HealthData Suite includes a number of healthcare-specific solutions, including HealthData Manager, a reporting and management information system configured specifically to support the healthcare sector. System C also offers a wide range of services to Local Service Providers, the NHS and third-party suppliers. These include programme/project/change management, design, build and test, implementation, training, data migration, interfacing and helpdesk/support services. System C has installed patient-focussed IT systems at over 30 NHS Trusts.

System C employs over 200 staff who are divided between the company's offices in Maidstone, Warrington and Swindon, as well as being located throughout the UK at customer sites. System C was recently voted 38th in the Sunday Times 100 best SMEs to work for in 2005. The company has ISO 9001 quality accreditation and encourages staff development through the Investors in People standard and is also accredited by the Institute of IT Training. System C is a member and benefactor of Health Level Seven UK (HL7 UK), a group of leading suppliers promoting effective and consistent implementation of healthcare information standards in the UK.

Profit and Loss Account for the year ended 31 May 2005

	Notes	Unaudited Year ended 31 May 2005 £	Audited (As restated) Year ended 31 May 2004 £
Turnover	2,3	18,228,185	5,600,135
Cost of sales	3	(8,757,318)	(2,881,247)
Gross profit	3	9,470,867	2,718,888
Administration expenses - normal	3	(5,978,204)	(3,675,019)
Administration expenses - exceptional	2,3,4	(986,004)	(921,000)
Administration expenses - total	3	(6,964,208)	(4,596,019)
Operating profit/(loss)		2,506,659	(1,877,131)
Interest receivable and similar income		351,830	305,524
Interest payable and similar charges		(326,914)	(578,917)
Profit/(loss) on ordinary activities before taxation		2,531,575	(2,150,524)
Tax (charge)/credit on profit/(loss) on ordinary activities	5	(421,882)	1,229,091
Profit/(loss) for the financial year		2,109,693	(921,433)
Dividends and appropriations	2,6	(66,742)	(55,850)
Retained profit/(loss) for the financial year	13	2,042,951	(977,283)
Earnings/(loss) per 1p ordinary share		Pence	Pence
- basic	7	5.15	(2.52)
- diluted	7	4.30	(2.52)
- basic (adjusted)	7	3.48	(1.59)
- diluted (adjusted)	7	3.08	(1.59)

The results above relate entirely to continuing operations. There is no difference between the results reported above and their historical cost equivalents. The Company has no recognised gains and losses other than the results above and therefore no separate statement of total recognised gains and losses has been presented. Details of the restatements are given in note 2 below.

Balance Sheet as at 31 May 2005

	Notes	Unaudited 31 May 2005 £	Audited (As restated) 31 May 2004 £
Tangible fixed assets		<u>2,017,883</u>	<u>1,945,276</u>
Current assets			
Stocks		-	7,902
Debtors	8	8,318,821	6,653,424
Cash at bank and in hand		1,223,242	471,397
		<u>9,542,063</u>	<u>7,132,723</u>
Creditors – Amounts due within one year	9	<u>(4,314,872)</u>	<u>(3,964,345)</u>
Net current assets		<u>5,227,191</u>	<u>3,168,378</u>
Total assets less current liabilities		7,245,074	5,113,654
Creditors – Amounts due after more than one year	10	(1,520,488)	(2,510,740)
Provisions for liabilities and charges	12	(233,895)	-
		<u>(1,754,383)</u>	<u>(2,510,740)</u>
Net assets		<u>5,490,691</u>	<u>2,602,914</u>
Capital and reserves			
Called up share capital		3,821,683	3,795,630
Share premium account	13	-	3,774,613
Special reserve	13	1,308,496	-
Capital redemption reserve	13	134	134
Profit and loss account	13	360,378	(4,967,463)
Total shareholders' funds		<u>5,490,691</u>	<u>2,602,914</u>

Details of the restatement are given in note 2 below.

Reconciliation of movements in shareholders' funds

	Unaudited Year ended 31 May 2005 £	Audited (As restated) Year ended 31 May 2004 £
Profit/(loss) for the financial year	2,109,693	(921,433)
Dividends and appropriations	(66,742)	(55,850)
	<u>2,042,951</u>	<u>(977,283)</u>
Credit arising on appropriation in respect of non-equity shares (note 6)	66,742	55,850
Accrual for appropriated dividends	(166,923)	-
UITF 17 charge on grant of share options (note 4)	806,645	-
Proceeds from equity shares subscribed at par	26,053	973
Proceeds from non-equity shares subscribed at par	-	1,142,867
Premium on new share capital subscribed	112,309	23,359
Issue costs	-	(19,998)
Net increase in shareholders' funds	<u>2,887,777</u>	<u>225,768</u>
Opening shareholders' funds	2,602,914	2,377,146
Closing shareholders' funds	<u>5,490,691</u>	<u>2,602,914</u>

Details of the restatement are given in note 2 below.

Cash flow statement for the year ended 31 May 2005

	Notes	Unaudited Year ended 31 May 2005 £	Audited Year ended 31 May 2004 £
Net cash inflow/(outflow) from operating activities	14	4,210,687	(2,322,620)
Returns on investments and servicing of finance			
Interest received		341,345	305,524
Interest paid		(326,914)	(578,917)
Net cash inflow/(outflow) from returns on investments and servicing of finance		14,431	(273,393)
Taxation		105,638	77,507
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(890,728)	(536,694)
Net cash outflow for capital expenditure and financial investment		(890,728)	(536,694)
Net cash inflow/(outflow) before financing		3,440,028	(3,055,200)
Financing			
Proceeds from issue of equity share capital		138,362	24,332
Proceeds from issue of non-equity share capital		-	1,142,867
Issue costs		-	(19,998)
Net repayment of financing loans		(912,502)	(765,564)
Net cash (outflow)/inflow from financing		(744,140)	381,637
Increase/(decrease) in net cash		2,665,888	(2,673,563)

Notes

1. Basis of preparation & financial statements

The Board of Directors approved these preliminary unaudited results on 12 September 2005 which with the exception of the restatements detailed in note 2 below, have been prepared using accounting policies that are consistent with those adopted in the financial statements for the year ended 31 May 2004.

The financial information set out above is abridged and does not constitute the Company's statutory financial statements for the years ended 31 May 2005 or 31 May 2004. Statutory financial statements for the year ended 31 May 2004 have been reported on by the Company's auditors and delivered to the Registrar of Companies. The statutory financial statements for the year ended 31 May 2005 will be posted no later than 28 October 2005 to shareholders and once approved will be delivered to the Registrar of Companies following the Annual General Meeting on 22 November 2005.

The report of the auditor for the year ended 31 May 2004 was unqualified and did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

Copies of the Annual Report and Financial Statements for the year ended 31 May 2005 will be available in due course from the Company Secretary, System C Healthcare plc, Brenchley House, Week Street, Maidstone ME14 1RF

2. Restatements

The results for the financial year ended 31 May 2004 have been restated in respect of the two matters described below:

Contract renegotiation

The prior year figures have been restated to reclassify the £921,000 write-off of accrued income as an exceptional administrative cost rather than as a reduction of turnover as previously reported. This restatement has no impact on the reported loss for that year and has no cash or balance sheet impact.

Finance costs on non-equity shares

The prior year figures have been restated to disclose £55,850 as an appropriation of dividends in respect of the Company's convertible participating preference shares and the redeemable preference shares. The level of appropriation has been calculated in accordance with FRS 4 "Capital instruments" to provide a constant rate of charge over the period starting from the date of issue to the date of conversion into ordinary shares (June 2005). Since the directors could not legally declare/accrue for such dividends due to the accumulated deficit on the profit and loss reserve at that time, £55,850 has been credited to profit and loss account reserves. This restatement has no impact on the overall net assets for the year.

3. Segmental Reporting

	Unaudited Year ended 31 May 2005				Audited (As restated) Year ended 31 May 2004			
	Products £	Services £	Development and shared services £	Total £	Products £	Services £	Development and shared services £	Total £
Turnover	2,966,764	15,261,421	-	18,228,185	2,741,185	2,858,950	-	5,600,135
Cost of sales	(2,330,372)	(6,426,946)	-	(8,757,318)	(1,707,308)	(1,173,939)	-	(2,881,247)
Gross profit	636,392	8,834,475	-	9,470,867	1,033,877	1,685,011	-	2,718,888
Administration expenses – normal	(272,981)	(1,918,823)	(3,786,400)	(5,978,204)	(111,902)	(506,754)	(3,056,363)	(3,675,019)
Administration expenses – exceptional	-	-	(986,004)	(986,004)	(921,000)	-	-	(921,000)
Operating profit/(loss)	363,411	6,915,652	(4,772,404)	2,506,659	975	1,178,257	(3,056,363)	(1,877,131)
Net interest	72,316	(62,666)	15,266	24,916	(7,120)	(18,575)	(247,698)	(273,393)
Profit/(loss) before tax	435,727	6,852,986	(4,757,138)	2,531,575	(6,145)	1,159,682	(3,304,061)	(2,150,524)
Net assets/(liabilities)	2,044,603	2,504,230	941,858	5,490,691	1,776,213	1,589,013	(762,312)	2,602,914

There is no difference between the geographical origin and destination of turnover, all of which arises in the United Kingdom.

4. Exceptional items

	Unaudited Year ended 31 May 2005 £	Audited (As restated) Year ended 31 May 2004 £
Contract renegotiation	-	921,000
UITF 17 charge	806,645	-
UITF 25 charge	179,359	-
	<u>986,004</u>	<u>921,000</u>

Contract renegotiation

An exceptional charge of £921,000 has been recognised in the financial year ended 31 May 2004 due to the re-scoping and renegotiation of one of the Company's contracts to supply EPR systems following the announcement by the NHS of The National Programme for IT. The charge arises from the adjustment to accrued income which will not be realised in the form of cash following the re-negotiation of one of the Company's contracts.

UITF 17 and UITF 25 charges

The charges above arise on the re-pricing of certain share options on 10 November 2004, together with the issue of additional share options during the year ended 31 May 2005.

5. Tax charge/(credit) on profit/(loss) on ordinary activities

(a) Analysis of tax charge/(credit) in the year

	Unaudited Year ended 31 May 2005 £	Audited Year ended 31 May 2004 £
Current tax		
United Kingdom corporation tax at 19%/30% on profit/(loss) for the year	3,887	-
Adjustments in respect of previous years	-	909
Total current tax charge (note 5b)	3,887	909
Deferred tax		
Origination and reversal of timing differences	417,995	(1,230,000)
Total deferred tax charge/(credit)	417,995	(1,230,000)
Tax charge/(credit) on profit/(loss) on ordinary activities	421,882	(1,229,091)

(b) Factors affecting the tax charge/(credit) in the year

The tax for the year differs from the standard rate of corporation tax in the UK (19% for the year ended 31 May 2005 and 30% for the year ended 31 May 2004). The differences are explained below:

	Unaudited Year ended 31 May 2005 £	Audited Year ended 31 May 2004 £
Profit/(loss) on ordinary activities before tax	2,531,575	(2,150,524)
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 19%/30%	<u>480,999</u>	<u>(645,157)</u>
Effects of:		
Expenses not deductible for tax purposes	22,671	4,467
Differences between capital allowances and depreciation	32,644	54,219
(Utilised)/unutilised losses	(686,505)	586,471
Other timing differences	154,078	-
Adjustments in respect of prior years	-	909
Current tax charge for the year	<u>3,887</u>	<u>909</u>

6. Dividends and appropriations

	Unaudited Year ended 31 May 2005 £	Audited (As restated) Year ended 31 May 2004 £
Appropriation of non-equity dividends		
£1 preference shares	<u>7</u>	<u>7</u>
5% £1 convertible participating preference shares	66,735	55,843
	<u>66,742</u>	<u>55,850</u>

The above dividend appropriations have been eliminated by crediting the profit and loss account reserves as the Company did not have sufficient distributable reserves to be able to accrue the dividends as payable. Following the capital reduction referred to in note 13, and subsequent generation of distributable profits the Company is legally able to declare these dividends as payable. Accordingly, £166,923 has been accrued as payable by debiting profit and loss reserves.

7. Earnings/(loss) per share

The calculation of the basic earnings/(loss) per ordinary share ("EPS") is based on the profit attributable to ordinary shareholders for the financial year of £2,042,951 (2004: loss of £977,283) and the weighted average number of ordinary shares in issue during the year of 39,657,440 (2004: 38,838,615). The profit/(loss) attributable to ordinary shareholders is after the appropriation of amounts totalling £66,742 (2004: £55,850) in respect of non-equity dividends on the Company's convertible participating preference shares and on its redeemable preference shares.

The calculation of the adjusted basic earnings/(loss) per ordinary share of 1p each has been based on the profit/(loss) for the financial year after adding back the appropriation in respect of the non-equity dividends on the Company's convertible participating preference shares. These dividends have been added back to the retained profit/(loss) for each financial year as the class of shares to which they relate converted into ordinary shares immediately prior to the admission of the Company's equity shares to AIM on 28 June 2005.

The weighted average number of shares used in the calculation of the adjusted basic earnings/(loss) per share is derived from the weighted average number of ordinary shares in issue during each year plus the weighted average number of ordinary shares that arose on the conversion of the Company's convertible participating preference shares. This reflects the changes to the share capital of the Company, as described in note 15, which were conditional on admission to AIM, and prior to the issue of the Placing Shares.

	Unaudited Year ended 31 May 2005		Audited Year ended 31 May 2004	
	Earnings £	Earnings per share Pence	Loss £	Loss per share Pence
Basic	2,042,951	5.15	(977,283)	(2.52)
Diluted	2,042,951	4.30	(977,283)	(2.52)
Basic - adjusted	2,109,686	3.48	(921,440)	(1.59)
Diluted - adjusted	2,109,686	3.08	(921,440)	(1.59)

The following table shows a reconciliation of the weighted average number of shares used for calculating the basic and diluted earnings/(loss) per share.

	Unaudited Year ended 31 May 2005		Audited Year ended 31 May 2004	
	EPS	Adjusted EPS	EPS	Adjusted EPS
	Number of shares	Number of shares	Number of shares	Number of shares
Used for calculating basic EPS	39,657,440	60,568,411	38,838,615	57,948,847
Dilution due to share options	7,890,523	7,890,523	7,788,409	7,788,409
Used for calculating diluted EPS	<u>47,547,963</u>	<u>68,458,934</u>	<u>46,627,024</u>	<u>65,737,256</u>

8. Debtors

	Unaudited 31 May 2005 £	Audited 31 May 2004 £
Trade debtors	3,399,174	2,189,621
Other debtors	28,705	109,696
Prepayments and accrued income	4,078,937	3,124,107
Deferred tax asset	812,005	1,230,000
	<u>8,318,821</u>	<u>6,653,424</u>

Other debtors at 31 May 2005 includes £nil recoverable in respect of research and development tax credits (2004: £104,729).

Prepayments and accrued income as at 31 May 2005 include £3,592,329 in respect of revenue that has been recognised by the Company but which had not been invoiced to the customer as at the year end (2004: £2,869,151). Of this amount, £1,923,372 is due in more than one year (2004: £1,264,935).

9. Creditors – Amounts due within one year

	Unaudited 31 May 2005 £	Audited 31 May 2004 £
Bank loans and overdrafts	12,762	1,926,805
Financing loans	933,163	855,413
Trade creditors	736,030	128,518
Other taxation and social security	1,311,804	528,751
Proposed dividends	166,923	-
Corporation tax	4,796	-
Accruals and deferred income	1,149,394	524,858
	<u>4,314,872</u>	<u>3,964,345</u>

Bank loans and overdrafts as at 31 May 2005 comprise £12,762 (2004: £1,319,750) in respect of overdrafts and £nil (2004: £607,055) relating to funds in respect of an invoice discounting facility advanced by the Company's principal bankers, a facility which expired on 31 March 2005 and has not been renewed.

10. Creditors – Amounts due after more than one year

	Unaudited 31 May 2005 £	Audited 31 May 2004 £
Financing loans	<u>1,520,488</u>	<u>2,510,740</u>

The financing loans represent the outstanding amount of gross borrowings of £4.5 million obtained in order to finance certain of the Company's contracts. The financing loans are secured over certain of the Company's fixed assets.

11. Net debt

	Unaudited At 31 May 2005 £	Audited At 31 May 2004 £
Cash at bank and in hand	1,223,242	471,397
Bank loans and overdrafts	(12,762)	(1,926,905)
Net cash/ (overdraft)	1,210,480	(1,455,408)
Financing loans due in less than one year	(933,163)	(855,413)
Financing loans due in more than one year	(1,520,488)	(2,510,740)
Net debt	(1,243,171)	(4,821,561)

12. Provisions for liabilities and charges

	Property dilapidations £	UITF 25 provision £	Total £
At 31 May 2004	-	-	-
Charged in the year	54,536	179,359	233,895
At 31 May 2005	54,536	179,359	233,895

The UITF 25 charge arises as a result of the re-pricing, on 10 November 2004, of the exercise price to 14p in respect of the options granted to employees over the 1p ordinary shares of the Company together with the additional options issued during the year ended 31 May 2005.

13. Share premium account and reserves

	Share premium account £	Capital redemption reserve £	Special reserve £	Profit and loss account £
As at 1 June 2004	3,774,613	134	-	(4,967,463)
Retained profit for the year	-	-	-	2,042,951
Premium on 1p ordinary shares issued	112,309	-	-	-
Credit on appropriation of non-equity dividends	-	-	-	66,742
Transfer on capital reduction (see below)	(3,886,922)	-	864,522	3,022,400
Additional transfer on capital reduction (see below)	-	-	443,974	(443,974)
UITF17 charge on grant of share options	-	-	-	806,645
Accrual for non-equity dividends	-	-	-	(166,923)
As at 31 May 2005	<u>-</u>	<u>134</u>	<u>1,308,496</u>	<u>360,378</u>

Capital reduction

As at 31 January 2005 the balance on the Company's profit and loss account was an accumulated loss of £3,022,400. This deficit would have been a fetter on the Company's ability to pay any dividends until eliminated either by future profits or as a result of a capital reduction. The elimination of this deficit also enabled the Company to re-register as a public limited company in advance of the proposed admission of the Company's ordinary shares to AIM.

An amount of £3,886,922 was standing to the credit of the Company's share premium account as at 31 January 2005 representing the aggregate of premiums at which shares of the Company have been issued. This amount could not be distributed by way of dividend but, with the approval, by special resolution, of the Company's shareholders in a general meeting and an order of confirmation of the High Court, it would be available to eliminate the deficit on the Company's profit and loss reserve.

Accordingly, on 4 April 2005 the directors made an application to the Court to reduce the amount standing to the credit of the share premium account of £3,886,922 to £nil, which would result in the elimination of the deficit by the transfer of £3,022,400 to the profit and loss account and £864,522 to a special non-distributable reserve, in accordance with the instructions of the Court.

In order to obtain the requisite confirmation from the Court for the reduction of the share premium account, the Company furnished the Court with the required undertakings to provide assurance in respect of the protection of the interests of the Company's creditors, which included the transfer of such profits earned by the company between 1 February 2005 and the effective date of the capital reduction to the afore-mentioned special reserve. Profits earned by the Company during this period amount to £443,974.

The capital reduction became effective on 27 April 2005 when the Registrar of Companies issued to the Company a certificate confirming the registration of the Order of the Court in connection with this matter.

The Company is entitled to use the special reserve for the same purposes it could use a share premium account. In addition to this, the Company is also entitled to eliminate any future deficit on its profit and loss reserve as set out in its financial statements, up to the maximum amount held to the credit of the special reserve, as at any future accounting reference date.

14. Reconciliation of operating profit/(loss) to net cash inflow/ (outflow) from operating activities

	Unaudited Year ended 31 May 2005 £	Audited Year ended 31 May 2004 £
Operating profit/(loss)	2,506,659	(1,877,131)
Depreciation	892,135	738,536
Loss on disposal of tangible fixed assets	17,498	-
Exceptional charge on share options (note 4)	986,004	-
Dilapidations provision	54,536	-
Decrease/(increase) in stocks	7,902	(4,610)
Increase in debtors	(2,177,636)	(1,563,534)
Increase in creditors	1,923,589	384,119
Net cash inflow/(outflow) from operating activities	<u>4,210,687</u>	<u>(2,322,620)</u>

15. Post balance sheet events

(a) Re-registration as a public limited company

In anticipation of the proposed admission of the Company's ordinary shares to AIM, and following the passing of a special resolution on 2 June 2005 that it is so re-registered, the Company made an application to the Registrar of Companies to re-register as a public limited company on 3 June 2005. This became effective on 3 June 2005 when the Registrar of Companies issued a certificate confirming the change in status of the Company.

(b) Changes to share capital prior to admission to AIM

Immediately prior to the first admission of the Company's ordinary shares to AIM on 28 June 2005 each convertible participating preference share converted into 6.27 1p ordinary shares and 93.73 1p non-voting deferred shares. In addition to this, the unpaid dividend on the Company's convertible participating preference shares will be settled by the issue of additional ordinary shares at the placing price to an equal value of the outstanding amount as at the date of admission to AIM.

Immediately following conversion the company repurchased the non-voting deferred shares for nil consideration, cancelled them and re-designated the un-issued non-voting deferred shares as 1p ordinary shares. The cancellation of these shares resulted in a credit to a capital redemption reserve.

The Company's redeemable preference shares were redeemed at par, plus the unpaid cumulative dividend three business days after the admission of the Company's ordinary shares to AIM.