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## PRELIMINARY RESULTS FOR THE YEAR ENDED 31 MAY 2006

Maxima Holdings plc, the AIM listed provider of IT solutions and managed services, today announces its preliminary results for the year to 31 May 2006.

### Highlights

- Revenues up 36% to £19.1m (2005: £14.1\*m)
- Recurring revenues up from 48% to 56% of turnover
- Gross margin up by 6 percentage points to 78% (2005: 72%\*)
- Operating profit before exceptional items and amortisation of goodwill up 54% to £3.4m (2005: £2.2m\*) an operating margin of 17.6% (2005: 15.5%)
- Profit before tax up by 47% to £1.5m (2005: £1.0m)
- Net debt at 31 May 2006 of £3.1m, after net cash outflows on acquisitions of £12.2m. A placing of shares in September 2005 raised £4.8m net.
- Adjusted earnings per share (before exceptional costs and goodwill amortisation) up 39% to 18.1p (2005: 13.0p)
- Final dividend of 2.5p per share proposed, making a total of 4p for the year (2005: 1.5p)
- Staff numbers doubled
- Four acquisitions made and successfully integrated
- Structured into two trading divisions – Maxima Solutions and Maxima Managed Services

\* Pro forma results for the prior year, as if Azur Holdings had been part of the group for a full 12 months (Maxima commenced trading when it acquired Azur, upon flotation in November 2004)

### Commenting on the results, Kelvin Harrison, Chief Executive, said:

“Maxima has had a successful first full year as a public company. Our November 2004 listing on AIM has enabled us to both attract acquisition targets and to finance those acquisitions. Whilst rapidly integrating the acquisitions, we have maintained strong internal management and control of our existing businesses, driving increased group profit and profitability. We continue to find attractive acquisition opportunities and expect to complete several more transactions this year.”

### For further information, please contact:

#### Maxima

Kelvin Harrison, Chief Executive

01242 211211

Linda Andrews, Group Finance Director

0141 880 1000

#### Seymour Pierce

Mark Percy/John Depasquale

0207 107 8000

#### Smithfield

Sara Musgrave

020 7903 0676

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## Notes to editors:

Maxima Holdings plc floated on AIM on 24 November 2004 at an issue price of 110p. Maxima was established to acquire businesses in the highly fragmented computer software and services market, with the objective of building a focused and significant IT services group. On flotation it immediately acquired Azur Holdings Ltd, bringing together a management team with the skill, experience and incentive to deliver significant shareholder value, through a combination of acquisitive and organic growth.

Maxima has since made a further four earnings enhancing acquisitions:

- August 2005 – Ringwood Group plc, specialists in content and document management solutions, based on Microsoft technologies
- September 2005 – Hanston Technology Partners Ltd, a fast growing managed services business providing applications support and consultancy services to Oracle users.
- February 2006 – The MFG/PRO business of Seabrook Research Ltd, the sole Irish distributor of MFG/PRO, a manufacturing package for which Maxima was already the sole UK distributor
- May 2006 – QED Business Systems Ltd, which provides managed services for critical mainframe and mid-range computer systems and applications software.

Maxima is divided into two trading arms - Maxima Solutions and Maxima Managed Services, operating from seven offices across the UK and one in the USA.

**Maxima Solutions** delivers and supports enterprise and document management software solutions based upon its own IPR and leading products from vendors such as SAP, QAD and Microsoft. It has been formed from Azur Group (acquired upon flotation of Maxima in November 2004), Ringwood Software (acquired in August 2005) and Seabrook (acquired in January 2006).

**Maxima Managed Services** offers 24x7 application management, principally around Oracle database, middleware and applications and mainframe/midrange system software and applications. It has been formed by the merger of Hanston Technology Partners (acquired in September 2005), and QED Business Systems (acquired in May 2006).

Maxima is an IT systems integration and managed services group delivering innovative and flexible IT solutions and services. Maxima's in-depth knowledge of industry and business, coupled with its skills and understanding of leading software suites such as Oracle, Microsoft and SAP ensures its solutions and services deliver significant business benefits. It prides itself on the quality of its services which lead to strong customer relationships and high retention rates.

## **CHAIRMAN'S STATEMENT**

### **Introduction**

It gives me great pleasure to report on a successful first full year for Maxima Holdings plc as a public quoted company. Maxima was established to acquire businesses in the highly fragmented computer software and services market, with the objective of building a focused and significant IT services group. Our progress has been good, with solid trading underpinning four earnings enhancing acquisitions. The businesses acquired have all been fully integrated and the group has been structured into two trading arms, Maxima Solutions and Maxima Managed Services.

### **Results**

Revenues have increased, gross and net margins have continued to improve as the proportion of revenues derived from services (as opposed to software sales) grows. Each of the acquisitions has been earnings enhancing. Although the balance sheet has moved from a position of net cash to net debt this is as a result of the cash outflows on acquisitions. It is testament to the operational processes and financial controls within the group, that these businesses have been efficiently integrated and that clear visibility of operational performance has been maintained.

### **Staff**

Staff numbers have doubled during the year, largely as a result of our acquisitions. It is our policy to make human resources issues a major priority, during integration planning and after completing acquisitions. This has ensured seamless customer service and has resulted in excellent staff and client retention rates. Over the course of the year management has been reinforced with several senior appointments from promotion, acquisitions and external hiring. I would like to take this opportunity to formally record my thanks to the management team and all staff for their enthusiasm and dedication during a busy year.

### **Prospects**

Market conditions continue to be challenging, with new business opportunities being fiercely competitive. However, I believe that Maxima will continue to deliver shareholder value by taking new initiatives in each area of the business, whilst carefully servicing all existing customers. Results for the coming year will benefit from a full 12 month contribution from the acquisitions made last year. In addition, we continue to find attractive acquisition opportunities and expect to complete several more transactions this year. The cash-generative nature of the business (enhanced by the acquisitions) and a low ratio of debt to operating profit still leaves us with borrowing power to finance future acquisitions.

### **Dividend**

The directors recommend a final dividend of 2.5p per share (2005: 1.5p), payable to shareholders on record as at 6 October 2006 on 30 October 2006, making a total of 4.0p per share for the year (2005: 1.5p, the Company only traded for the final six months). This is in line with the stated policy of a progressive dividend, whilst recognising the need to conserve cash in order to finance further acquisitions.

M J Brooke  
Chairman  
16 August 2006

## CHIEF EXECUTIVE'S REVIEW

### Introduction

This has been another transformational year for Maxima. After evaluating numerous opportunities, we have completed four acquisitions, all operating in our field of enterprise software and related services. They have broadened our skill and customer base and greatly increased the scale of our application management services. In particular, they have strengthened our skills in Oracle technologies, extended our intellectual property portfolio to include document and content management and increased our activities in the public sector and in financial services.

We have structured and branded our existing and acquired businesses into two trading arms, Maxima Solutions and Maxima Managed Services, operating from seven offices across the UK and one in the USA. We have common business processes and shared back office functions such as finance, administration and human resources across the group.

**Maxima Solutions** delivers and supports enterprise and document management software solutions based upon its own IPR and leading products from vendors such as SAP, QAD and Microsoft. It has been formed from Azur Group (acquired upon flotation of Maxima in November 2004), Ringwood Software (acquired in August 2005) and Seabrook (acquired in February 2006).

**Maxima Managed Services** offers 24x7 application management, principally around Oracle database, middleware and applications and mainframe/midrange system software and applications. It has been formed by the merger of Hanston Technology Partners (acquired in September 2005), and QED Business Systems (acquired in May 2006).

### Market Conditions

Market conditions have changed little from those reported last year. The independent analyst, Ovum Holway, reports overall UK Software & IT Services market growth of 6.1% in 2005 to £26b, and predicts growth of 5 – 6% p.a. for the next 5 years.

Maxima operates in three main market sectors, which together represent some 60% of the UK market:

- Manufacturing, which in 2005 represented 12% of the overall market (60% of Maxima revenues). This sector is in slow decline, reflecting the fortune of the UK manufacturing sector. We are finding that manufacturers of specialist high-tech and medical equipment (very high added value) and those in the food and beverage sectors (low value, high volume, short shelf-life) continue to do well, but those selling mid-priced goods are increasingly scaling back their UK operations to marketing and distribution with manufacturing moving off-shore.
- Public Sector, which in 2005 represented 29% of the overall market (23% of Maxima revenues), where the growth rate is in decline, it is still the highest of any sector. We are finding strong demand for software and services that allow public bodies such as police forces and hospitals to better serve their customers, whilst also demonstrating compliance with increasing legislation and regulation.
- Financial Services which in 2005 represented 21% of the overall market (6% of Maxima revenues) and is predicted to grow at better than the average market growth rate. We are again finding that compliance, both in control and promulgation of procedures and in archiving/retrieval is a key driver for banks and insurance companies.

If anything the market trends I reported last year have strengthened:

- **Consolidation of business application software vendors**: The three major providers SAP, Oracle and Microsoft, each with very different offerings, are increasing their dominance. However, despite

continuing consolidation the market remains very fragmented with the top 12 applications vendors having just 20% of the global market and the next 571 having just 40% (Source: Gartner, Microsoft Worldwide Partner Conference July 2006).

- **Consolidation of technologies:** Oracle database technology increasingly dominates the upper and mid-market, although Microsoft's SQL Server - which dominates the lower market - is moving upwards. Microsoft reported record sales results from its existing products (principally Windows and Office) for the year to 30 June 2006 and we anticipate this year it being even stronger with the release of Windows Vista and Office 2007. In addition, IBM continues to have a strong presence, particularly with its WebSphere integration middleware.
- **Driving value from existing systems:** We are finding that clients are much more willing to invest in system enhancements which extend life or change system functionality to reflect changes in their business, than to replace their systems which is perceived to be risky and expensive. They are also increasingly ready to consider outsourcing application management in order to improve system availability and effectiveness and to reduce costs.

## Maxima's Strategy

Our strategy, which we are successfully executing in both our existing operations and in seeking acquisitions, aims to achieve higher growth rates and operating margins than industry averages, by taking careful account of the market conditions and trends described above:

- Manufacturing is our biggest single market, and we are increasing our focus on providing those products and services for which there is greatest demand and concentrating on those market verticals where UK industry is strongest. Key verticals are contract manufacturing, service industries, medical and pharmaceutical and food & beverages.
- We are increasing our presence in other market sectors that have better overall growth prospects, primarily public sector and financial services.
- Compliance with legislation and directives in all kinds of contexts is the driver behind much IT investment, and our sales proposition in both business and document management software and services is therefore very much geared towards creating compliant processes and audit traceability for our clients.
- Sales of managed services, as opposed to new turnkey solution sales, are our principal means of winning new clients. This model increases the amount of recurring revenues, and with efficient processes can lead to very high utilisation levels and profitability.
- We are strengthening our relationships with Oracle, Microsoft, SAP and IBM, as we believe that their market positions will continue to dominate and we can benefit from their vast R & D and marketing budgets.

## Operational review

Our product and development investment continues to have two main thrusts:

- Firstly, applying skills in the latest versions of leading technologies from vendors such as IBM, Microsoft, Cognos and Oracle to ensure that our own software products are up-to-date providing maximum benefit to our clients' businesses.
- Secondly, building detailed knowledge of the applications software products from our partners such as SAP, Oracle and QAD into practical solutions for our clients, to enable us to provide unrivalled service levels.

In May 2006 we appointed Richard Last to the Group operations board as Sales & Marketing Director. Richard has spent the last ten years building teams selling managed services and prior to that worked in enterprise software sales. One of his major goals is to promote the cooperation between the sales teams; this takes the form of sharing intelligence (whilst respecting confidentiality agreements with our partners) and in

promoting cross-selling of software and services. Our marketing activities have now been centralised under Martin James, Group Marketing Manager, in order to allow each part of the business to benefit from the scale and breadth of the Group's activities.

The level of recurring revenues (from support and maintenance) has increased from 48% to 56% with a total of 94% of revenues coming from existing customers:

- **Maxima Solutions:** In enterprise software, the majority of new business sales (13) have come through our partnership with SAP on its Business One software product that targets the SME market. In December 2005 we terminated our agreement to distribute SAP All-in-One which targets larger organisations and withdrew from several client contracts. This caused some reduction in revenues and necessitated the absorption of compensation and redundancy costs. We continue to win substantial repeat business from customers of our own products and have enjoyed very low client attrition rates. In document management, we more closely aligned our offering with Microsoft .NET and Sharepoint and increased the emphasis on services, resulting in 12 new customers.
- **Maxima Managed Services:** In March 2006 the Oracle team (formerly Hanston Technology Partners) won its largest ever contract, worth up to £4m over 2 years to provide managed services to Network Rail. The Oracle team has won 9 new clients since its acquisition in September 2005. Since its acquisition in May 2006, the mainframe/mid-range team (formerly QED Business Systems) has already won a major Oracle managed service contract.

In project and service delivery and support, we are achieving benefits of scale as overall group revenues grow faster than overheads. We have improved our working environments and technical infrastructure, whilst reducing costs and incurring no exceptional costs, by leasing new offices for three of our acquired businesses. We are constantly improving our business processes, both to improve customer service and to increase efficiencies. In particular, increasingly we are sharing resources across different units resulting in higher staff utilisation levels and reduced costs.

The primary objective of Maxima is to grow by acquisition. Our principal criterion is that target businesses should be capable of fitting the business model and processes that we have successfully developed. We are acutely aware of the need to strike a sensible compromise between valuation and risk. Nevertheless, we believe that the assumption on which Maxima's strategy is based, namely that there are considerable opportunities to create shareholder value through consolidation opportunities in the IT services market, remains valid. We have continued to build a pipeline of opportunities and are in active negotiations with several potential targets.

## Conclusions

Maxima has had a successful first full year as a public company. Our November 2004 listing on AIM has enabled us to both attract acquisition targets and to finance those acquisitions. Whilst rapidly integrating the acquisitions, we have maintained strong internal management and control of our existing businesses, driving increased group profit and profitability. I should like to thank both long-serving and new members of the team for their commitment to Maxima and its clients. In particular, I should like to recognise the major contributions made by Ian Langridge, from 1997 Operations Director of Minerva our MFG/PRO business unit, who recently died after a long illness.

Kelvin F Harrison  
Chief Executive  
16 August 2006

## **FINANCIAL REVIEW**

### **Revenues**

Full year revenue increased 36% to £19.1m (2005\*: £14.1m) with recurring revenues from annual support and maintenance contracts increasing to 56% of total revenues from 48%\*. The four acquisitions that we completed during the year contributed £6.4m to revenues with each performing ahead of our expectations. These acquisitions have provided the Group with the opportunity for cross-fertilisation of sales techniques as well as cross-selling opportunities.

The acquisitions also continued the Groups focus on service provision, which has higher margins than software and hardware revenues. The decision to pull out of the SAP All in One practice, referred to in the Chief Executive's review, reduced revenues from the Azur business (acquired in November 2004) by £0.4m over 2005\*.

### **Profits**

Operating profit before amortisation and exceptional costs increased 54% to £3.4m (2005\*: £2.2m) with the operating profit percentage increasing 2.1 percentage points to 17.6% (2005\*: 15.5%). The gross margin percentage increased 6 percentage points to 78% (2005\*: 72%) reflecting the increasing shift to a services-based IT business. All staff costs are treated as overheads.

We incurred exceptional costs in the year of £0.2m, principally related to the restructuring of Ringwood Group Limited, acquired in August 2005. Goodwill amortisation rose to £1.5m as a result of the four acquisitions completed in the year, each of which are being amortised over 10 years from their date of acquisition.

### **Earnings per share and dividends**

Adjusted earnings per share (before exceptional costs and goodwill amortisation) increased 39% to 18.1p (2005\*: 13.0p).

An interim dividend of 1.5p per share was paid on 15 May 2006 and, subject to shareholder approval, a final dividend of 2.5p per share will be paid on 30 October 2006 to shareholders on the register at close of business on 6 October 2006. This makes a total dividend for the year of 4.0p, and compares to the dividend of 1.5p paid in respect of the 2005 results, which was for a period of six months.

### **Acquisitions**

The company paid £16.8m (including deferred consideration and expenses) for four acquisitions during the year represented by the issue of 1,037,516 ordinary shares to vendors and £14.6m of cash. To fund the acquisitions 3,030,303 shares were placed in September 2005, raising £4.8m net of expenses. It is our policy to maximise our flexibility in operating acquired businesses following their acquisition by minimising the amount of earn out included as part of the acquisition price. At the year end the maximum overall potential earn-out consideration is £0.7m.

Details of each of the acquisitions and their financing are set out in note 6.

### **Cash**

Net debt at the year end was £3.1m. Cash generated from operations was £2.2m (2005: £3.3m), after expending £14.6m of cash on acquisitions. We negotiated overall bank facilities of £9.0m with Barclays Bank to finance acquisitions and working capital. A five year term loan of £3.5m was drawn for the acquisition of Hanston Technology Partners Limited and a further £3.0m revolving credit facility was used for the acquisition

of QED Business Systems Limited. Part of the initial facility has expired and at the year end there was headroom of over £3.5m.

Earnings before interest, tax and amortisation (£3.1m) provided interest cover in excess of 8 times on an annualised basis.

### **Share Capital**

4,067,819 ordinary shares were issued during the year to finance acquisitions with 16,007,100 ordinary shares in issue at the year end.

No share options were granted or exercised in the year.

### **Taxation**

The taxation charge represents 21.4% of profits before taxation and goodwill amortisation. We have benefited from the utilisation of tax losses brought forward in now profitable businesses, share option deductions and research and development tax credits. We would expect a higher effective tax rate in future years.

### **IFRS**

The Group intends to adopt International Financial Reporting Standards (IFRS) with effect from 1 June 2006. The first set of accounts to be reported under IFRS will therefore be the interim accounts for the half year ending 30 November 2006.

We have been working to assess the impact of IFRS on our accounts and preparing for their implementation. The detailed impact has not been finalised, however the Directors are of the opinion that the principal area to be affected will be accounting for business combinations, goodwill and intangibles, including the likely treatment of the Company's first acquisition, Azur Holdings Limited, as a reverse acquisition for accounting purposes. Under IFRS, goodwill arising from acquisitions will be subject to impairment and not amortised.

\* pro forma results for the prior year as if Azur Holdings had been part of the Maxima group for a full 12 months. (Maxima commenced trading when it acquired Azur, upon flotation in November 2004).

Linda Andrews  
Finance Director  
16 August 2006

**MAXIMA HOLDINGS plc****CONSOLIDATED PROFIT AND LOSS ACCOUNT****Year ended 31 May 2006**

|  | <b>For the year ended<br/>31 May 2006</b> |                | <b>For the six month period<br/>ended 31 May 2005</b> |                 |
|--|---|----------------|---|-----------------|
|  | <b>£000</b>                               | <b>£000</b>    | <b>£000</b>   | <b>£000</b>     |
|  |   |                | <b>Restated</b>                                       | <b>Restated</b> |
| <b>TURNOVER</b>  |   |                |   |                 |
| Continuing operations                                    | 12,689                                    |                |   | 8,076           |
| Acquisitions   | <u>6,443</u>                              |                |   | <u>-</u>        |
|  |   | 19,132         |   | 8,076           |
| Cost of sales  |   | <u>(4,142)</u> |   | <u>(2,391)</u>  |
| <b>GROSS PROFIT</b>                                      |   | 14,990         |   | 5,685           |
| Other Administrative expenses                            | (11,720)                                  |                | (4,318)   |                 |
| Goodwill amortisation                                    | (1,533)                                   |                | (377)   |                 |
| Redundancy and re-organisation costs                     | <u>(236)</u>                              |                | <u>-</u>  |                 |
| Administrative expenses                                  |   | (13,489)       |   | (4,695)         |
| Other operating income                                   |   | <u>96</u>      |   | <u>58</u>       |
| <b>OPERATING PROFIT</b>                                  |   |                |   |                 |
| Continuing operations                                    | 1,114                                     |                | 1,048   |                 |
| Acquisitions   | <u>483</u>                                |                | <u>-</u>  |                 |
|  |   | 1,597          |   | 1,048           |
| Net interest payable                                     |   | <u>(73)</u>    |   | <u>(10)</u>     |
| <b>PROFIT ON ORDINARY ACTIVITIES<br/>BEFORE TAXATION</b> |   | 1,524          |   | 1,038           |
| Tax on profit on ordinary activities                     |   | <u>(655)</u>   |   | <u>28</u>       |
| <b>PROFIT FOR THE FINANCIAL YEAR</b>                     |   | <u>869</u>     |   | <u>1,066</u>    |
| <b>Earnings per share</b>                                |   |                |   |                 |
| Basic  |   | 6.0p           |   | 8.9p            |
| Diluted  |   | 5.9p           |   | 8.8p            |

There are no recognised gains or losses other than the profit for the period.

The 2005 results have been restated under FRS21 'Events After the Balance Sheet Date' for dividends declared after the end of the period. This is more fully disclosed in Note 2.

**MAXIMA HOLDINGS plc**

**CONSOLIDATED BALANCE SHEET**  
**31 May 2006**

|  | <b>2006</b>  |                 | <b>2005</b>     |
|--|--------------|-----------------|-----------------|
|  | <b>£000</b>  | <b>£000</b>     | <b>£000</b>     |
|  |              | <b>Restated</b> | <b>Restated</b> |
| <b>FIXED ASSETS</b>  |              |                 |                 |
| Intangible assets  | 28,904       |                 | 14,704          |
| Tangible assets  | <u>556</u>   |                 | <u>319</u>      |
|  |              | 29,460          | 15,023          |
| <b>CURRENT ASSETS</b>  |              |                 |                 |
| Stocks and Work in Progress                                    | 27           |                 | 14              |
| Debtors  | 6,437        |                 | 4,072           |
| Short term investments   | 23           |                 | -               |
| Cash at bank and in hand                                       | <u>3,006</u> |                 | <u>2,925</u>    |
|  |              | 9,493           | 7,011           |
| <b>CREDITORS: amounts falling due within one year</b>          |              | <u>(8,464)</u>  | <u>(3,439)</u>  |
| <b>NET CURRENT ASSETS</b>                                      |              | <u>1,029</u>    | <u>3,572</u>    |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>                   |              | <u>30,489</u>   | <u>18,595</u>   |
| <b>DEFERRED INCOME: amounts falling due within one year</b>    |              | (7,045)         | (4,900)         |
| <b>CREDITORS: amounts falling due after more than one year</b> |              | <u>(2,775)</u>  | <u>-</u>        |
| <b>NET ASSETS</b>  |              | <u>20,669</u>   | <u>13,695</u>   |
| <b>CAPITAL AND RESERVES</b>                                    |              |                 |                 |
| Called up share capital  |              | 160             | 119             |
| Share premium account  |              | 17,270          | 12,510          |
| Capital redemption reserve                                     |              | 50              | 50              |
| Merger Reserve   |              | 1,766           | -               |
| Profit and loss account  |              | <u>1,423</u>    | <u>1,016</u>    |
| <b>SHAREHOLDERS' FUNDS</b>                                     |              | <u>20,669</u>   | <u>13,695</u>   |

**MAXIMA HOLDINGS plc**

**CONSOLIDATED CASH FLOW STATEMENT**

**Year ended 31 May 2006**

|   | <b>Year ended<br/>31 May<br/>2006<br/>£000</b> | <b>For the six<br/>month period<br/>ended 31<br/>May 2005<br/>£000</b> |
|---|--|--|
| <b>Net cash inflow from operating activities</b>  | <u>2,187</u>                                   | <u>3,279</u>   |
| <b>Returns on investments and servicing of finance</b>                                    |  |  |
| Interest received   | 156  | 28   |
| Interest paid   | <u>(139)</u>                                   | <u>(38)</u>  |
| <b>Net cash inflow/(outflow) from returns on<br/>investments and servicing of finance</b> | 17   | (10)   |
| <b>Taxation</b>   |  |  |
| Corporation tax paid  | (193)  | (565)  |
| <b>Capital expenditure and financial investment</b>                                       |  |  |
| Payments to acquire tangible fixed assets   | (195)  | (16)   |
| Receipts from sales of tangible fixed assets  | <u>25</u>                                      | <u>7</u>   |
| <b>Net cash outflow from capital expenditure and<br/>financial investment</b>             | (170)  | (9)  |
| <b>Acquisitions and disposals</b>   |  |  |
| Purchase of subsidiary (net of cash and<br>overdraft)                                     | (14,410)                                       | (5,994)  |
| Net cash from purchase of subsidiary<br>undertaking                                       | 2,397  | 2,009  |
| Expenses paid in connection with acquisitions   | <u>(219)</u>                                   | <u>(159)</u>   |
| <b>Net cash outflow from acquisitions and disposals</b>                                   | (12,232)                                       | (4,144)  |
| <b>Equity dividends paid</b>  |  |  |
| Dividends paid  | <u>(469)</u>                                   | <u>-</u>   |
| <b>Net cash outflow before financing</b>  | (10,860)                                       | (1,448)  |
| <b>Financing</b>  |  |  |
| Issue of shares   | 5,000  | 4,890  |
| Expenses paid in connection with share issues   | (209)  | (504)  |
| Receipt from borrowings   | 3,500  | 2,000  |
| Repayment of borrowings   | (350)  | (2,000)  |
| Redemption of deferred shares   | <u>-</u>                                       | <u>(13)</u>  |
| <b>Net cash inflow from financing</b>   | <u>7,941</u>                                   | <u>4,373</u>   |
| <b>(Decrease)/increase in cash in the period</b>  | <u>(2,919)</u>                                 | <u>2,925</u>   |

## Reconciliation of Operating Profit to Net Cash Inflow from Operating Activities

|  | <b>2006</b> | <b>2005</b> |
|--|-------------|-------------|
|  | <b>£000</b> | <b>£000</b> |
| Operating profit                                     | 1,597       | 1,048       |
| Depreciation   | 180         | 64          |
| Amortisation   | 1,533       | 377         |
| (Increase)/Decrease in stocks and work in progress   | (38)        | 71          |
| (Increase)/Decrease in debtors                       | (131)       | 435         |
| (Decrease)/Increase in creditors                     | (1,203)     | 741         |
| Increase in deferred income                          | 249         | 543         |
|  | <hr/>       | <hr/>       |
| Net cash inflow from continuing operating activities | 2,187       | 3,279       |

## Reconciliation of Net Cash Flow to Movement in Net Debt

|   | <b>2006</b> | <b>2005</b> |
|---|-------------|-------------|
|   | <b>£000</b> | <b>£000</b> |
| (Decrease)/Increase in cash in the year       | (2,919)     | 2,925       |
| Cash inflow from bank debt                    | (3,500)     | (2,000)     |
| Cash outflow from repayment of debt           | 350         | 2,000       |
|   | <hr/>       | <hr/>       |
| Change in net funds resulting from cash flows | (6,069)     | 2,925       |
| Net funds at 1 June 2005                      | 2,925       | -           |
|   | <hr/>       | <hr/>       |
| Net debt at 31 May 2006                       | (3,144)     | 2,925       |

## Analysis of Changes in Net Debt

|                           | <b>At 1 June</b> | <b>Cash flow</b> | <b>At 31 May</b> |
|---------------------------|------------------|------------------|------------------|
|                           | <b>2005</b>      | <b>£000</b>      | <b>2006</b>      |
|                           | <b>£000</b>      | <b>£000</b>      | <b>£000</b>      |
| Cash at bank and in hand  | 2,925            | 81               | 3,006            |
| Revolving credit facility | -                | (3,000)          | (3,000)          |
|                           | <hr/>            | <hr/>            | <hr/>            |
|                           | 2,925            | (2,919)          | 6                |
| <u>Debt</u>               |                  |                  |                  |
| Bank loan                 | -                | (3,150)          | (3,150)          |
|                           | <hr/>            | <hr/>            | <hr/>            |
|                           | 2,925            | (6,069)          | (3,144)          |

## Notes

### 1. Basis of preparation

This preliminary statement was approved by the directors on 16<sup>th</sup> August 2006.

The financial information set out above does not constitute the company's statutory financial statements for the year ended 31 May 2006 but is derived from those financial statements. The comparative figures are those of the financial statements for the period ended 31 May 2005. The report of the auditors was unqualified and did not contain a statement under s.237 (2) or (3) Companies Act 1985. The statutory financial statements for the year ended 31 May 2006 will be delivered to the Registrar of Companies following the Company's Annual General Meeting.

The financial information contained in this Preliminary Statement does not constitute statutory accounts as defined by Section 240 of the Companies Act.

## 2. Changes in accounting policies

The particular accounting policies adopted are described below and have remained unchanged from the previous year apart from the adoption of the following Financial Reporting Standards:

### FRS21 'Events After the Balance Sheet Date'

The adoption of FRS 21 has resulted in a change in accounting policy in respect of proposed equity dividends. If the company declares dividends to the holders of equity instruments after the balance sheet date, the company does not recognise those dividends as a liability at the balance sheet date. Previously where these equity dividends were proposed after the balance sheet date but before authorisation of the financial statements they were recorded as liabilities at the balance sheet date. The aggregate amount of equity dividends proposed before approval of the financial statements, which have not been shown as liabilities at the balance sheet date, are disclosed in the notes to the financial statements.

### FRS 22 'Earnings per Share'

FRS 22 has been adopted the impact of this being to prescribe the calculation and presentation of earnings per share and the shares to be taken into account in dilutive earnings per share calculations. Adjusted earnings per share may no longer be shown on the face of the profit and loss account.

## 3. Segmental Analysis

An analysis of turnover by geographical destination market is given below:

|        | Turnover                             |   | Operating Profit/(Loss)              |   | Net Assets/(Liabilities)             |   |
|--------|--------------------------------------|---|--------------------------------------|---|--------------------------------------|---|
|        | Year ended<br>31 May<br>2006<br>£000 | Six month<br>period ended<br>31 May<br>2005<br>£000 | Year ended<br>31 May<br>2006<br>£000 | Six month<br>period ended<br>31 May<br>2005<br>£000 | Year ended<br>31 May<br>2006<br>£000 | Six month<br>period ended<br>31 May<br>2005<br>£000<br>Restated |
| UK     | 17,635                               | 7,744   | 1,635                                | 1,048   | 20,679                               | 13,695  |
| Europe | 552                                  | 228   | -                                    | -   | -                                    | -   |
| USA    | 936                                  | 100   | (38)                                 | -   | (10)                                 | -   |
| Other  | 9                                    | 4   | -                                    | -   | -                                    | -   |
|        | <u>19,132</u>                        | <u>8,076</u>  | <u>1,597</u>                         | <u>1,048</u>  | <u>20,669</u>                        | <u>13,695</u>   |

## 4. Dividends

|   | Year ended<br>31 May<br>2006<br>£000 | Six month<br>period ended<br>31 May 2005<br>£000<br>Restated |
|---|--------------------------------------|--|
| <b>Paid during the year</b>   |                                      |  |
| 2005 Final equity dividends of 1.5p per ordinary share                      | 235                                  | -  |
| 2006 Interim dividend of 1.5p per ordinary share                            | <u>234</u>                           | <u>-</u>   |
|   | <u>469</u>                           | <u>-</u>   |
| <b>Proposed after the year end</b>  |                                      |  |
| 2006 proposed final equity dividend of 2.5p (2005: 1.5p) per ordinary share | <u>400</u>                           | <u>179</u>   |

At the record date for the payment of the 2005 dividend there were an additional 3,712,789 shares in issue following vendor placings and a share placing after the year end. This resulted in an extra £56,000 being paid.

## 5. Earnings per Share

The calculation of basic earnings per share is based on the earnings attributable to ordinary shareholders and the weighted average number of ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on earnings per share attributable to ordinary shareholders and the weighted average number of ordinary shares that would be in issue, assuming conversion of all dilutive potential ordinary shares into ordinary shares.

Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below.

|   | <b>Year ended<br/>31 May<br/>2006<br/>£000</b> | <b>Six month<br/>period ended<br/>31 May<br/>2005<br/>£000</b> |
|---|--|--|
| <b>Earnings</b>                                   |  |  |
| Profit for the year attributable to shareholders  | 869  | 1,066  |
| Goodwill amortisation and exceptional costs       | <u>1,769</u>                                   | <u>377</u>   |
| Adjusted profit attributable to shareholders      | <u>2,638</u>                                   | <u>1,443</u>   |
|   | <b>No.<br/>000</b>                             | <b>No.<br/>000</b>   |
| <b>Weighted average number of ordinary shares</b> |  |  |
| For basic earnings per share                      | 14,550   | 11,939   |
| Dilutive share options                            | <u>286</u>                                     | <u>216</u>   |
| For diluted earnings per share                    | <u>14,836</u>                                  | <u>12,155</u>  |
| Basic earnings per share                          | 6.0p   | 8.9p   |
| Fully diluted earnings per share                  | <u>5.9p</u>                                    | <u>8.8p</u>  |
| Adjusted basic earnings per share                 | 18.1p  | 12.1p  |
| Adjusted diluted earnings per share               | <u>17.8p</u>                                   | <u>11.9p</u>   |

Adjusted earnings per share are based on the profit after tax, before goodwill amortisation of £1,533,000 (2005: £377,000) and exceptional costs of £236,000 (2005: nil).

## 6. Acquisitions

The Group acquired 100% of the issued ordinary share capital of three companies during the year and also acquired the trade, assets and liabilities of a company, Seabrook Research Limited, during the year.

The book and fair values of the companies acquired were as follows:

|                               | Ringwood              |                               |                       | Hanston               |                               |                       | Seabrook                          | QED                               | Total<br>£000 |
|-------------------------------|-----------------------|-------------------------------|-----------------------|-----------------------|-------------------------------|-----------------------|-----------------------------------|-----------------------------------|---------------|
|                               | Book<br>Value<br>£000 | Fair<br>Value<br>Adj.<br>£000 | Fair<br>value<br>£000 | Book<br>Value<br>£000 | Fair<br>Value<br>Adj.<br>£000 | Fair<br>value<br>£000 | Book and<br>Fair<br>Value<br>£000 | Book<br>and Fair<br>Value<br>£000 |               |
| Tangible Fixed<br>Assets      | 205                   | (24)                          | 181                   | 49                    | (31)                          | 18                    |                                   | 44                                | 243           |
| Debtors                       | 780                   | (18)                          | 762                   | 962                   |                               | 962                   | 1                                 | 505                               | 2,230         |
| Cash & Cash<br>equivalents    | 1,624                 |                               | 1,624                 | 570                   |                               | 570                   |                                   | 203                               | 2,397         |
| Creditors                     | (406)                 | (69)                          | (475)                 | (629)                 | (110)                         | (739)                 |                                   | (478)                             | (1,692)       |
| Deferred Income               | (1,305)               |                               | (1,305)               | (466)                 |                               | (466)                 | (137)                             | (153)                             | (2,061)       |
| Net<br>Assets/(Liabilities)   | <u>898</u>            | <u>(111)</u>                  | <u>787</u>            | <u>486</u>            | <u>(141)</u>                  | <u>345</u>            | <u>(136)</u>                      | <u>121</u>                        | <u>1,117</u>  |
| Goodwill                      |                       |                               | <u>2,193</u>          |                       |                               | <u>8,447</u>          | <u>640</u>                        | <u>4,405</u>                      | <u>15,685</u> |
| Consideration                 |                       |                               | <u>2,980</u>          |                       |                               | <u>8,792</u>          | <u>504</u>                        | <u>4,526</u>                      | <u>16,802</u> |
| Consideration<br>satisfied by |                       |                               |                       |                       |                               |                       |                                   |                                   |               |
| Shares                        |                       |                               | 700                   |                       |                               | 500                   |                                   | 600                               | 1,800         |
| Cash (including<br>expenses)  |                       |                               | 2,280                 |                       |                               | 8,292                 | 456                               | 3,601                             | 14,629        |
| Accrued<br>Consideration      |                       |                               | -                     |                       |                               | -                     | 48                                | 325                               | 373           |
|                               |                       |                               | <u>2,980</u>          |                       |                               | <u>8,792</u>          | <u>504</u>                        | <u>4,526</u>                      | <u>16,802</u> |
| No. of share<br>issued        |                       |                               | 400,000               |                       |                               | 282,486               |                                   | 355,030                           |               |
| Date of acquisition           |                       |                               | 11/08/05              |                       |                               | 26/09/05              | 24/02/06                          | 12/05/06                          |               |

### Ringwood Group Limited

The fair value of the net assets acquired has been considered and an adjustment of £111,000 has been made to bring depreciation and revenue recognition policies in line with those of the Group and to recognise additional creditor provisions.

### Hanston Technology Partners Limited

The fair value of the net assets acquired has been considered and an adjustment of £141,000 has been made to bring depreciation and revenue recognition policies in line with those of the Group and to recognise additional creditor provisions.

The Directors have reviewed the carrying value of the assets acquired of Seabrook and have determined that no fair value adjustments are required. Due to the timing of the acquisition of QED, the directors continue to review the carrying value of those assets.

### Seabrook Research Limited

The Directors have reviewed the carrying value of the assets acquired of Seabrook and have determined that no fair value adjustments are required.

There is a deferred consideration element based on trading in the 12 months following the acquisition to a maximum of €100,000. It is the directors' view that, based on current trading, this will not exceed €70,000.

### **QED Business Systems Limited**

Due to the timing of the acquisition of QED Business Systems Limited, the Directors continue to review the carrying value of the assets and liabilities acquired. These fair values are therefore provisional.

There is a deferred consideration element based on both the renewal of a major contract in April 2008 and the trading with that customer in the 12 months to September 2008 to a maximum of £650,000. The directors' consider that the consideration due is uncertain and therefore have provided for 50% of the potential additional consideration (£325,000).

An amount of £250,000 is held in escrow and the Company has a charge over the consideration shares in respect of a potential tax claim.

### **Deferred Considerations**

An amount of £48,000 was paid during the year in connection with a deferred consideration on the acquisition of the IBS business by Azur Holdings Limited from K3 Business Technology Group plc in March 2004.

The following table summarises the results of the material acquisitions of the Group in the year from the beginning of the acquired company's previous financial year to the date of acquisition and of its previous financial year.

|   | <b>Ringwood</b>                | <b>Hanston</b>                | <b>QED</b>                         |
|---|--------------------------------|-------------------------------|------------------------------------|
|   | 1 April to 11<br>August 05     | 1 April to 23<br>September 05 | 1 September<br>05 to 12 May<br>06  |
|   | £000                           | £000                          | £000                               |
| Turnover  | 1,031                          | 2,281                         | 1,859                              |
| Operating profit/(loss)                             | (62)                           | 589                           | 306                                |
| Profit/(loss) before tax                            | (44)                           | 598                           | 315                                |
| Tax   | -                              | (180)                         | (95)                               |
|   | <u>(44)</u>                    | <u>418</u>                    | <u>220</u>                         |
| Profit/(loss) after tax                             |                                |                               |                                    |
|   | Year ended<br>31 March<br>2005 | Year end 31<br>March 2005     | Year ended<br>30 September<br>2005 |
|   | £000                           | £000                          | £000                               |
| (Loss)/Profit after tax for previous financial year | <u>(28)</u>                    | <u>514</u>                    | <u>343</u>                         |

The material subsidiary undertakings acquired during the year made the following contribution to, and utilisation of, Group cash flows. Where acquisitions have been transferred into existing businesses it is not possible to separate their contribution to Group cash flows. This applies for the acquisitions of Ringwood Group Limited, Seabrook Research Limited and QED Business Systems Limited.

|  |                |
|--|----------------|
| <b>Maxima Managed Services Limited (formerly Hanston Technology Partners Limited)</b>    | <b>2006</b>    |
|  | <b>£000</b>    |
| Net cash inflow from continuing operating activities                                     | 1,519          |
| Returns on investments and servicing of finance  | 23             |
| Taxation   | (193)          |
| Capital expenditure and financial investment   | (142)          |
| Dividends paid   | (250)          |
|  | <u>957</u>     |
| Increase in cash   | <u>957</u>     |
| Analysis of net inflow of cash in respect of the purchase of the subsidiary undertaking: |                |
| Cash at bank and in hand acquired  | 570            |
| Cash consideration   | (8,250)        |
|  | <u>(7,680)</u> |

## 7. Called Up Share Capital

|   | 31 May 2006        |              | 31 May 2005        |              |
|---|--------------------|--------------|--------------------|--------------|
|   | No. of shares      | £000         | No. of shares      | £000         |
| <b>Authorised</b>                         |                    |              |                    |              |
| Ordinary shares of 1p each                | 95,000,000         | 950          | 95,000,000         | 950          |
| Redeemable deferred shares of 1p each     | <u>5,000,000</u>   | <u>50</u>    | <u>5,000,000</u>   | <u>50</u>    |
|   | <u>100,000,000</u> | <u>1,000</u> | <u>100,000,000</u> | <u>1,000</u> |
| <b>Called up, allotted and fully paid</b> |                    |              |                    |              |
| Ordinary shares of 1p each                | <u>16,007,100</u>  | <u>160</u>   | <u>11,939,281</u>  | <u>119</u>   |

### Allotments during the period

The Company made the following allotments of ordinary shares during the year:

| Date of Allotment | Number of shares | Reason for issue                                    |
|-------------------|------------------|---|
| 17 August 2005    | 400,000          | Vendor consideration - Ringwood                     |
| 22 September 2005 | 3,030,303        | Placing to raise finance for acquisition of Hanston |
| 27 September 2005 | 282,486          | Vendor consideration - Hanston                      |
| 19 May 2006       | 355,030          | Vendor consideration - QED                          |

The aggregate nominal value of the shares issued was £41,000 and the consideration received was £6,567,000 net of expenses.

### Contingent rights to the allotment of shares

The Company has granted option to directors and employees in respect of 803,834 new ordinary shares of 1p at 110p per share exercisable, subject to performance conditions, after 24 November 2007. At the end of the year the number of options remaining unexercised was 803,834.

|                   | No. Shares | Exercise price per share | Date from which exercisable | Expiry Date      |
|-------------------|------------|--------------------------|-----------------------------|------------------|
| EMI Scheme        | 318,834    | 1.10p                    | 24 November 2007            | 24 November 2014 |
| Unapproved scheme | 485,000    | 1.10p                    | 24 November 2007            | 24 November 2014 |

## 8. Movements in Shareholders' funds

| <b>The Group</b>                     | <b>Share<br/>Capital<br/>£000</b> | <b>Merger<br/>Reserve<br/>£000</b> | <b>Share<br/>premium<br/>account<br/>£000</b> | <b>Capital<br/>redemption<br/>reserve<br/>£000</b> | <b>Profit and<br/>loss<br/>account<br/>£000</b> | <b>2006<br/>Total<br/>£000</b> | <b>2005<br/>Total<br/>£000<br/>Restated</b> |
|--------------------------------------|-----------------------------------|------------------------------------|---|--|---|--------------------------------|---|
| At 1 June 2005                       | 119                               | -                                  | 12,510  | 50   | 837   | 13,516                         | -   |
| Prior year<br>adjustment             | -                                 | -                                  | -   | -  | 179   | 179                            | -   |
| <b>Sub Total</b>                     | <b>119</b>                        | <b>-</b>                           | <b>12,510</b>                                 | <b>50</b>  | <b>1,016</b>                                    | <b>13,695</b>                  | <b>-</b>                                    |
| Profit for the year                  | -                                 | -                                  | -   | -  | 869   | 869                            | 1,066                                       |
| Dividends paid                       | -                                 | -                                  | -   | -  | (469)   | (469)                          | -   |
| Foreign exchange<br>on consolidation | -                                 | -                                  | -   | -  | 7   | 7                              | -   |
| Issue of shares<br>(net of expenses) | 41                                | 1,766                              | 4,760   | -  | -   | 6,567                          | 12,629                                      |
| <b>At 31 May 2006</b>                | <b>160</b>                        | <b>1,766</b>                       | <b>17,270</b>                                 | <b>50</b>  | <b>1,423</b>                                    | <b>20,669</b>                  | <b>13,695</b>                               |
| <b>The Company</b>                   | <b>Share<br/>Capital<br/>£000</b> | <b>Merger<br/>Reserve<br/>£000</b> | <b>Share<br/>premium<br/>account<br/>£000</b> | <b>Capital<br/>redemption<br/>reserve<br/>£000</b> | <b>Profit and<br/>loss<br/>account<br/>£000</b> | <b>2006<br/>Total<br/>£000</b> | <b>2005<br/>Total<br/>£000<br/>Restated</b> |
| At 1 June 2005                       | 119                               | -                                  | 12,510  | 50   | 36  | 12,715                         | -   |
| Prior year<br>adjustment             | -                                 | -                                  | -   | -  | 179   | 179                            | -   |
| <b>Sub Total</b>                     | <b>119</b>                        | <b>-</b>                           | <b>12,510</b>                                 | <b>50</b>  | <b>215</b>                                      | <b>12,894</b>                  | <b>-</b>                                    |
| Profit for the year                  | -                                 | -                                  | -   | -  | 1,240   | 1,240                          | 265   |
| Dividends paid                       | -                                 | -                                  | -   | -  | (469)   | (469)                          | -   |
| Issue of shares<br>(net of expenses) | 41                                | 1,766                              | 4,760   | -  | -   | 6,567                          | 12,629                                      |
| <b>At 31 May 2006</b>                | <b>160</b>                        | <b>1,766</b>                       | <b>17,270</b>                                 | <b>50</b>  | <b>986</b>                                      | <b>20,232</b>                  | <b>12,894</b>                               |