28 November 2005

Detica Group plc

Interim results

For the six months ended 30 September 2005

Detica Group plc ("Detica", "the Company" or "the Group"), the specialist IT consultancy, today announces interim results for the six months ended 30 September 2005.

Key points:

- Revenue up 35% to £43.5 million (2004: £32.3 million)
    - Government up 44% to £30.0 million.
    - Commercial up 17% to £13.5 million.
- Strong profit before tax performance
    - Core UK PBT up 32% to £6.8 million.
    - Group PBT up 18% to £4.6 million.
- Core UK operating margins stable at 14.8% (2004: 14.9%).
- Strong group cash position at £18.0 million (2004: £16.1 million).
- Diluted earnings per share up 43% to 18.0 pence (2004: 12.6 pence) including the impact of R&D tax credits.
- Interim dividend up 19% to 2.5 pence (2004: 2.1 pence).
- Acquisition of Evolution, a consultancy and system integrator in the Financial Services sector, for approximately £8.5 million in cash.
- Insurance Fraud Bureau signs five-year contract for fraud detection service.
- US regulatory approvals received, first contract signed, sales pipeline building.
- Significant progress with StreamShield Networks
    - CSG-3100 product development completed.
    - First commercial deployment commenced and four additional trials or evaluations in progress.

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

"This is a very pleasing set of results. Our strong revenue growth underlines the forward momentum of the Group and has allowed us to continue with our investments in the US and in StreamShield, both of which are proceeding well.

The successful integration of Extraprise during the half year proceeded as planned and when coupled with the acquisition of Evolution after the period end, means that we are achieving critical mass in our Commercial business to complement our strong performance in Government. The Group is trading well and our investments continue to show significant promise. The Board remains confident of another good year."

All results are presented under IFRS with the appropriate restated comparatives.

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All results are presented under IFRS with the appropriate restated comparatives.

Introduction

Detica has delivered an excellent first half, with increases in both revenues and profits reflecting continued impressive performances from both our Government and Commercial businesses. In the six months to 30 September 2005, revenue increased by 35% to £43.5 million (2004: £32.3 million). Group profit before tax grew by 18% to £4.6 million (2004: £3.9 million). This growth was achieved after an investment of £1.8 million in StreamShield Networks (2004: £1.0 million) and £0.3 million in our US business (2004: £0.2 million) both of which were expensed. The underlying operating margin in the core UK business remained stable at 14.8% (2004: 14.9%).

During this half we have successfully completed the integration of Extraprise UK, following the acquisition in April. Also, today we are announcing that we have agreed terms for the acquisition of Evolution Consulting Group plc ("Evolution"), a consultancy and systems integrator focused on the Capital Markets sector, for a consideration of approximately £8.5 million. We also recently acquired the assets of a small electronic products business operating in the National Security sector for a consideration of up to £0.6 million.

Our investments in StreamShield, our internet content security business, and our US operation are progressing well. StreamShield has delivered its first solution platform to a UK managed security service provider and is running a number of trials with potential customers and partners. In September, our US operation gained the necessary regulatory approvals to contract directly with the US Government, is already working on its first assignment, and is building a strong pipeline of opportunities. During the half year, revenues from US Government clients (serviced by our core UK business) increased by 48% to £2.5 million.

Detica UK

The core UK business delivered an excellent performance, with revenues and operating profits increasing by 35% to £43.5 million and 34% to £6.4 million respectively. The operating profit margin was similar to last year at 14.8% (2004: 14.9%).

Government business

Continuing the trend of recent years, the Government business (comprising Public Sector and National Security) was the outstanding performer with revenues increasing by 44% to £30.0 million.

Our Public Sector business, which focuses principally on central government departments, had a strong first half with revenues increasing by 28% to £4.8 million. A significant fraction of current Government spending on consulting is being channelled through a small number of major programmes and a key element of our strategy is to gain significant involvement in these. We are pleased therefore to have been able to secure client-side advisory roles within the road pricing team at the Department for Transport and in the new Single Non-Emergency Number (SNEN) programme run by the Home Office and Office of the Deputy Prime Minister. Our involvement in SNEN is expected to run for up to three years and yield revenues of more than £1.0 million in the first year.

Our National Security business continues to benefit from strong UK and US Government spending on counter-terrorism and on the prevention of organised crime. This part of our business delivered an excellent performance with revenues increasing by 48% to £25.2 million. Our rapidly increasing scale means we are now a credible bidder for major consulting and systems integration programmes within the National Security sector and, during the first half, we were selected by an existing client to build an information intelligence system under a contract that is expected to be worth several million pounds over the next three years.

Our National Security products business (included in the figures above) has delivered an outstanding first half performance, with revenues increasing 58% to £6.0 million. This business involves the sale of bespoke communications and signal processing equipment to clients in the UK and US Governments. The products business is underpinning our entry to the US National Security market (see below) and we are now jointly developing a series of next-generation communications products with clients from both countries.

Commercial business

Our Commercial business increased revenues by 17% to £13.5 million in the half, with Extraprise contributing revenues of £1.1 million.

Our Telecoms, Media and Technology ("TMT") unit, which grew revenues by 123% to £6.0 million, continues to build strong account relationships. Of particular note is our growing and successful relationship with Vodafone where we are successfully delivering a range of services at a Global and UK level. These services have extended beyond the traditional disciplines of business intelligence, data governance and security into the business consulting disciplines of business analysis, change management and organisational design. A good example of this is the work we are undertaking with Vodafone UK to create an Information Management Organisation to enhance their business intelligence and decision-making efficacy.

BT has also become a significant client during the past six months and we are currently working with BT to tackle the challenges arising from the recent Ofcom Telecoms Strategic Review and the consequent creation of BT's new access business, Openreach.

Performance in Financial Services was also strong, with revenues increasing 22% to £5.9 million. New clients during the first half included the Royal Bank of Scotland and Reuters and our relationships with existing clients such as Nationwide Building Society continue to develop well.

Looking forward within Financial Services, we have been awarded a strategically important contract worth £3.5 million over five years to provide a managed fraud detection service to the UK's retail insurance industry. The contract has been awarded by the Insurance Fraud Bureau (IFB), an umbrella organisation representing many of the UK's retail insurers. Detica will analyse combined UK insurance claims data to identify potential cases of organised and serious fraud, and will supply fraud intelligence to IFB investigators on an ongoing basis. In delivering the service, Detica will deploy a series of advanced fraud detection techniques which were developed in-house by our Technology Innovations Group. This is a striking example of how targeted investment in developing intellectual property is differentiating our market offering.

Furthermore, our proposed acquisition of Evolution which is expected to complete in January, strengthens significantly our Financial Services business as detailed in "Acquisitions" below.

As expected revenue in our Corporate Accounts business declined to £1.6 million (2004: £4.0 million) reflecting the previously announced reduction in Centrica's IT spending and our reduced focus in this area. We decided some time ago that our strategic interest in the Commercial market would be focused on TMT and Financial Services and, going forward, our Corporate Accounts unit will be absorbed into our TMT practice.

Acquisitions

We announced today that we have agreed terms for the acquisition of Evolution in January 2006 for approximately £8.5 million in cash, subject to certain conditions being satisfied. Evolution is a consultancy and systems integrator focused on the Capital Markets sector and employs 105 staff. In the financial year ending 31 August 2005 Evolution generated revenues of £8.8 million and operating profits before exceptional items of £0.7 million. Evolution's key clients include UBS, Goldman Sachs and Lehman Brothers. With a strong technical heritage similar to our own and an entirely complementary client base, Evolution represents an excellent strategic fit with our existing Financial Services business. It will provide Detica both with a strong position in the Capital Markets sector and with increased scale and management capability to support our existing operations in retail banking and insurance. The acquisition is expected to be earnings enhancing in the first full financial year post acquisition.

In October 2005 we also acquired for a consideration of up to £0.6 million in cash the assets of a small company that provides specialist electronic products to the National Security market. As a result, five staff were integrated with our existing National Security business and will broaden our penetration of both the domestic and overseas National Security client bases.

As previously reported, in April 2005 we acquired the assets of Extraprise UK, a consultancy and systems integrator focusing on the CRM market, for a consideration of £0.2 million in cash. As a result, 35 talented staff joined Detica and thus far, this acquisition has proved extremely successful providing a range of valuable new skills and propositions as well as introductions into several new clients, including Reuters.

Detica US

Detica US has made substantial progress in establishing a solid base from which to grow our US revenues. In September 2005, somewhat later than expected, we obtained the approvals necessary to contract directly with the US Government for National Security projects, a major achievement for a British-owned company. Our sales pipeline is now growing strongly and is focused around our expertise in data analytics, business process improvement and high-speed communications technologies.

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

Since achieving regulatory approval in September, our US business has commenced its first direct contract with a US National Security client and is also now well advanced in negotiations for additional engagements. In addition to building the sales pipeline, our US operation is now focused on the recruitment of talented staff to build the business. Our US business currently employs six staff and we expect this to increase to nearer 20 by the end of the financial year. Net investment into our US operation totalled £0.3 million during the first half and we expect to invest up to a further £0.7 million in the second half.

StreamShield Networks

StreamShield has made substantial progress in the critical areas of product development and sales during the first half. The StreamShield product solution, based around our CSG-3100 content security gateway, is now complete and delivers clean internet services including high speed web filtering, anti-virus, anti-spyware and anti-adware. StreamShield has filed four patents to protect the technology used in its products, and the Company has an on-going patent filing programme.

StreamShield's solution is currently being used to provide a commercial service by a managed security service provider. It is also being evaluated or trialled by four other companies including service providers and network equipment vendors in the UK and North America. Its initial trial in the consumer space with PlusNet, an innovative and rapidly-growing UK internet service provider started earlier this year and is progressing well. Following this, Inty, a UK-based business-to-business managed security service provider, announced a commercial web protection service based on StreamShield's products, to complement its existing email protection service. We are also now pleased to announce that testing by a large tier 1 European carrier commenced this month and we expect to undertake additional trials and commercial roll-outs through the second half of the year.

During the first half, StreamShield signed an agreement with BT to work together to investigate a security proposition for the service provider marketplace. BT has now completed market research into consumer and small business requirements for network-based security services and the findings of this research support our clean internet proposition. BT Wholesale and StreamShield have signed a commercial heads of terms agreement to enable BT to resell StreamShield's products and services to its service provider customers.

Networking equipment vendors represent an important route to market for StreamShield and we are pleased therefore to announce that StreamShield has been accepted onto the Cisco Technology Developer Partner programme, subject to the successful completion of interoperability testing.

StreamShield has therefore achieved its principal short-term goals of completing the CSG-3100 development and commencing commercial roll-out although timescales have slipped from our original plans which in turn delays the anticipated breakeven date. The focus of the business is now shifting from product development to sales and the Board believes that, in order for StreamShield to fully capitalise on its strong position, it must scale quickly. We have therefore taken a decision to accelerate StreamShield's progress by increasing the size and geographic reach of its sales force and hence increase our planned investment for this financial year from the £3.0 million previously announced to £4.0 million, of which £1.8 million has been spent in the first half.

The very positive reaction of potential customers to StreamShield's proposition, coupled with significantly heightened industry interest in clean-internet solutions over the past six months, has enhanced our confidence in the market opportunity going forward. The Board is therefore considering what next steps are required to ensure that Detica capitalises fully on StreamShield's current global technology leadership position.

Financial review

Profits and margins

Group operating profit grew by 19% to £4.3 million and profit before tax grew by 18% to £4.6 million. In the core UK business, annualised revenues per head were up 6% on last year at £136,000 but increased staff costs resulted in a stable operating margin at 14.8% (2004: 14.9%).

The table below highlights the effect of our investments in Detica US and StreamShield Networks ("SSN") on Group profits and margins.

	6 months ended 30 September 2005				6 months ended 30 September 2004			
	Core UK	**US**	**SSN**	**Group**	Core UK	US	SSN	Group
	£'m	**£'m**	**£'m**	**£'m**	£'m	£'m	£'m	£'m
Revenue	**43.5**	**-**	**-**	**43.5**	32.3	-	-	32.3
Costs	**(37.1)**	**(0.3)**	**(1.8)**	**(39.2)**	(27.5)	(0.2)	(1.0)	(28.7)
Operating profit	**6.4**	**(0.3)**	**(1.8)**	**4.3**	4.8	(0.2)	(1.0)	3.6
Operating margin (%)	**14.8%**	**-**	**-**	**9.8%**	14.9%	-	-	11.1%
Profit before tax	**6.8**	**(0.3)**	**(1.8)**	**4.6**	5.1	(0.2)	(1.0)	3.9
Diluted EPS (pence)	**24.9p**	**(1.5p)**	**(5.4p)**	**18.0p**	16.5p	(0.9p)	(3.0p)	12.6p

Taxation

The Group's effective tax rate for the half was 14.6% (2004: 31.0%) and benefited from the impact of our initial claim for research and development tax credits. Ignoring the credit for the three previous years to 31 March 2005 (£0.6 million), the Group's effective tax rate would have been 28.0%.

Earnings per share

Diluted earnings per share grew by 43% in the period to 18.0p (2004: 12.6p). Adjusting for the impact of the prior year R&D claim, the growth was a more modest 21% to 15.2p.

Cash

The net cash position at 30 September 2005 remained strong at £18.0 million (2004: £16.1 million) despite our increased investments in the US and StreamShield and our acquisition of Extraprise UK. The annual cash generation profile of the Group still shows seasonality, primarily as a result of the spending profile of Government clients, generally resulting in stronger second half cash flows.

All results are presented under IFRS with the appropriate restated comparatives.

Dividends

The Board is pleased to announce an interim dividend up 19% to 2.5 pence per share. This will be paid on 10 January 2006 to shareholders on the register at the close of business on 9 December 2005, with an ex-dividend date of 7 December 2005.

Staff

We finished the first half with 694 staff (2004: 529) up 31% on the prior year and our current headcount is over 750. StreamShield accounted for 30 (2004: 23) and Detica US 2 (2004: nil) of the staff numbers respectively. Staff retention for the period showed a welcome improvement, with rolling 12-month fee-earner attrition to September 2005 falling to 19% from 23% for the 12-month period to March 2005.

Outlook

The Board is very pleased with the strong performance during the first half and the outlook for the full year is encouraging. Our Government business is performing particularly strongly and we expect our Commercial unit to improve its position as the full benefits of our focus on the TMT and Financial Services sub-sectors become apparent. In addition, the recent acquisitions of Extraprise and now Evolution should further enhance our position in the Commercial market.

Our US business shows significant promise with a building pipeline of sales and our first contract underway and is expected to contribute to profits next year. StreamShield has also made excellent progress and has undoubtedly achieved a technology leadership position in the global internet content security market. To build on this, the Board has decided to invest further in StreamShield through the second half and is considering what next steps are required to ensure that Detica capitalises fully on StreamShield's current global technology leadership position.

In summary, the Group is trading well and our investments continue to show significant promise. The Board remains confident of another good year.

Tom Black
Chief Executive
28 November 2005

All results are presented under IFRS with the appropriate restated comparatives.

Consolidated Income Statement (unaudited)

	Note	**2005 6 months ended 30 September £'000**	2004 6 months ended 30 September £'000	2005 Year ended 31 March £'000
Revenue	2	**43,466**	32,311	70,210
Operating expenses	3	**(39,193)**	(28,710)	(61,879)
Operating profit	2	**4,273**	3,601	8,331
Finance income		**396**	347	718
Finance costs		**(22)**	-	-
Profit before tax		**4,647**	3,948	9,049
Tax expense	5	**(681)**	(1,222)	(2,937)
Profit for the period		**3,966**	2,726	6,112
Attributable to				
Equity holders of the parent		**3,999**	2,726	6,160
Minority interest		**(33)**	-	(48)
		3,966	2,726	6,112
Earnings per share	6			
Basic		**18.4p**	12.9p	28.8p
Diluted		**18.0p**	12.6p	28.1p
Dividends paid and proposed				
Dividends paid and recognised in the period		**911**	787	1,242
Dividend per share paid and recognised in the period		**4.2p**	3.7p	5.8p
Dividends proposed but not recognised in the period		**547**	455	911
Dividend per share proposed but not recognised in the period		**2.5p**	2.1p	4.2p

All results are presented under IFRS with the appropriate restated comparatives.

Consolidated Balance Sheet (unaudited)

	Note	**2005 30 September £'000**	2004 30 September £'000	2005 31 March £'000
Assets				
Non-current assets				
Property, plant and equipment		**7,008**	4,365	5,739
Intangible assets	7	**2,806**	2,700	2,571
Deferred tax asset		**1,569**	1,244	1,177
		11,383	8,309	9,487
Current assets				
Inventories	8	**1,175**	519	920
Trade and other receivables	9	**22,786**	17,526	20,014
Cash and cash equivalents		**18,015**	16,075	21,501
		41,976	34,120	42,435
Total assets		**53,359**	42,429	51,922
Equity				
Share capital		**447**	447	447
Share premium		**17,196**	17,196	17,196
Capital redemption reserve		**747**	747	747
Retained earnings		**20,785**	12,824	16,569
Attributable to equity holders of parent company		**39,175**	31,214	34,959
Equity minority interests		**(42)**	-	(8)
Total equity		**39,133**	31,214	34,951
Liabilities				
Current liabilities				
Trade and other payables	10	**13,974**	10,741	16,153
Current income tax liabilities		**252**	474	818
Total liabilities		**14,226**	11,215	16,971
Total equity and liabilities		**53,359**	42,429	51,922

All results are presented under IFRS with the appropriate restated comparatives.

Consolidated Cash Flow Statement (unaudited)

	2005 6 months ended 30 September £'000	2004 6 months ended 30 September £'000	2005 Year ended 31 March £'000
Cash flows from operating activities			
Operating profit	**4,273**	3,601	8,331
Depreciation of property, plant and equipment	**1,179**	828	1,743
Loss on disposal of property, plant and equipment	**-**	-	101
Amortisation of intangible assets	**12**	-	-
Share-based payments	**386**	236	548
(Increase) / decrease in inventory	**(255)**	606	204
Increase in debtors and prepayments	**(2,829)**	(3,008)	(5,470)
(Decrease) / increase in creditors and accruals	**(2,218)**	(1,563)	3,035
Income tax paid	**(1,142)**	(816)	(869)
Net cash flows from operating activities	**(594)**	(116)	7,623
Cash flows from investing activities			
Purchase of property, plant and equipment	**(2,448)**	(1,517)	(3,907)
Acquisition of business	**(247)**	-	-
Interest received	**453**	347	692
Net cash flows used in investing activities	**(2,242)**	(1,170)	(3,215)
Cash flow from financing activities			
Dividends paid	**(911)**	(787)	(1,242)
Proceeds from disposal of own shares	**275**	408	555
Proceeds from issue of shares in subsidiary to minority interest	**-**	-	40
Interest paid	**(22)**	-	-
Net cash used in financing activities	**(658)**	(379)	(647)
Net (decrease) / increase in cash and cash equivalents	**(3,494)**	(1,665)	3,761
Cash and cash equivalents at 1 April	**21,501**	17,740	17,740
Effect of exchange rate changes on cash and cash equivalents	**8**	-	-
Cash and cash equivalents at end of period	**18,015**	16,075	21,501

All results are presented under IFRS with the appropriate restated comparatives.

Consolidated Statement of Changes in Shareholders' Equity (unaudited)

	Share Capital £'000	Share premium £'000	Capital redemption reserve £'000	Profit and loss reserve £'000	**Total equity £'000**
At 1 April 2004	447	17,196	747	10,180	**28,570**
Profit for the period	-	-	-	2,726	**2,726**
Dividend paid	-	-	-	(787)	**(787)**
Proceeds from disposal of own shares	-	-	-	408	**408**
Share-based payments	-	-	-	236	**236**
Tax on share options	-	-	-	61	**61**
Balance at 30 September 2004	447	17,196	747	12,824	**31,214**
Profit for the period	-	-	-	3,434	**3,434**
Dividend paid	-	-	-	(455)	**(455)**
Proceeds from disposal of own shares	-	-	-	147	**147**
Share-based payments	-	-	-	312	**312**
Tax on share options	-	-	-	307	**307**
Balance at 31 March 2005	447	17,196	747	16,569	**34,959**
Profit for the period	-	-	-	3,999	**3,999**
Dividend paid	-	-	-	(911)	**(911)**
Proceeds from disposal of own shares	-	-	-	275	**275**
Share-based payments	-	-	-	386	**386**
Tax on share options	-	-	-	499	**499**
Currency translation differences	-	-	-	(32)	**(32)**
Balance at 30 September 2005	**447**	**17,196**	**747**	**20,785**	**39,175**

All results are presented under IFRS with the appropriate restated comparatives.

Notes to the consolidated interim financial statements

1. Accounting policies

Basis of preparation
The Group has previously prepared its financial statements under UK generally accepted accounting principles ("UK GAAP"). For the year ended 31 March 2006, the Group is required to prepare its consolidated accounts in accordance with International Financial Reporting Standards ("IFRSs") adopted for use in the European Union.

The Group is required to apply all relevant standards and accounting policies that are in force at the first reporting date. However as some of these policies are still subject to change, the Directors have made assumptions about the accounting policies expected to be applied when the first annual IFRS financial statements are prepared for the year ended 31 March 2006. These accounting policies are therefore subject to changes due to interpretation, new standards and guidance.

The full set of accounting policies under IFRS is detailed below. An explanation of how the transition to IFRSs has affected the reported financial results is provided in note 12. The accounting policies have been consistently applied to all periods presented.

The financial information contained in this interim statement does not amount to statutory financial statements within the meaning of section 240 Companies Act 1985. The financial information contained in this report is unaudited but has been reviewed by Ernst & Young LLP. The financial statements for the year ended 31 March 2005, from which information has been extracted, were prepared under UK GAAP and have been delivered to the Registrar of Companies. The report of the auditors was unqualified and did not contain a statement under section 237 (2) or (3) Companies Act 1985.

Basis of consolidation
The Group accounts consolidate the accounts of Detica Group plc and all its subsidiary undertakings (together "the Group") drawn up to 30 September 2005. The results of subsidiaries acquired are included from the date at which control passed to the Group.

Intangible assets
With the exception of goodwill, all intangible assets are stated at cost less accumulated amortisation and if necessary any accumulated impairment losses. Goodwill is carried at cost less any accumulated impairment losses.

Goodwill
Purchased goodwill arising on the acquisition of subsidiary undertakings is the difference between the fair value of the Group's interest in the net assets acquired and the fair value of consideration paid. Goodwill recognised under UK GAAP prior to the date of transition to IFRS (1 April 2004) is stated at net book value as at this date and no longer amortised. Goodwill is tested for impairment annually and when events or changes in circumstance indicate the carrying value may be impaired. It is carried at cost less accumulated impairment losses.

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

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

Development costs not meeting these criteria are expensed in the income statement as incurred. Capitalised development costs are amortised on a straight line basis over their useful economic lives once the related software and hardware products are available for use.

Other intangible assets
Intangible assets acquired from a business acquisition are capitalised at fair value as at the date of acquisition and amortised over their useful economic life.

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

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

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

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

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

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

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

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

Income tax
The charge for current taxation is based on the results for the period as adjusted for items which are non-assessable or disallowed.

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

Deferred tax liabilities are recognised on all temporary differences except in respect of investments in subsidiaries where the Group is able to control the reversal of the temporary difference and it is probable that it will not reverse in the foreseeable future. The deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognised either to the extent that it is probable that future taxable profit will be available against which the temporary difference can be utilised, or in the case of deferred tax on employee share options that appropriate tax credits will arise on employees' exercise of share options (see below). Their carrying amount is reviewed at each balance sheet date on the same basis.

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

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

Derivative instruments

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

Derivative instruments - 1 April 2004 to 31 March 2005
The Group uses forward foreign currency contracts to reduce exposure to foreign exchange rates. The Group's criteria for forward foreign currency contracts are:

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

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

Derivative instruments - 1 April 2005 onwards
Derivatives such as forward foreign currency contracts are initially recognised at fair value on the date a contract is entered into and are subsequently re-measured at fair value. The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The gain or loss on remeasurement is taken to the income statement except where the derivative is part of a designated cash flow hedge.

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

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

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

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

Assets and liabilities of overseas companies are translated into sterling at the exchange rate prevailing on the balance sheet date. Income, expenditure and cash flows of overseas companies are translated at the average rate for the period. The exchange differences on the translation at closing rates of the overseas companies' net assets and the differences arising between the translation of profits at average and closing exchange rates are recorded as movements in the translation reserve.

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

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

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

Revenue from recharging to clients the cost of specialist managed subcontractors and the purchase of software or hardware for client assignments, together with associated mark-up, is recognised as these costs are incurred. Where the Group acts as agent in the transaction (that is, where it is not exposed to the majority of the benefits and risks associated with the transaction), only the mark up is recognised as Group revenue. No revenue is recognised in respect of travel and subsistence expenses recharged to clients.

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

Employee benefits

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

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

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

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

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

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

Lease commitments and hire purchase contracts
Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term. Operating lease incentives are recognised as a reduction in the rental expense over the lease term.

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

2. Segment information

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

	2005 30 September £'000	2004 30 September £'000	2005 31 March £'000
Revenue			
IT services and solutions	**43,462**	32,311	70,208
StreamShield	**4**	-	2
Total revenue	**43,466**	32,311	70,210
Operating profit / (loss)			
IT services and solutions	**6,104**	4,587	11,005
StreamShield	**(1,831)**	(986)	(2,674)
Total operating profit	**4,273**	3,601	8,331

The tables below provide additional disclosures of revenue and operating profit by geographical market.

	2005 30 September £'000	2004 30 September £'000	2005 31 March £'000
Revenue by destination			
United Kingdom	**40,771**	29,693	63,981
United States of America	**2,492**	1,743	4,796
Rest of Europe	**203**	712	1,072
Rest of World	**-**	163	361
	43,466	32,311	70,210
Revenue by origin			
United Kingdom	**43,466**	32,311	70,210
United States of America	**-**	-	-
	43,466	32,311	70,210
Operating profit / (loss) by origin			
United Kingdom	**4,617**	3,805	8,810
United States of America	**(344)**	(204)	(479)
	4,273	3,601	8,331

All results are presented under IFRS with the appropriate restated comparatives.

3. Operating expenses

	2005 30 September £'000	2004 30 September £'000	2005 31 March £'000
Staff costs - salaries	**19,909**	14,414	31,157
Staff costs - social security	**2,130**	1,573	3,253
Staff costs - pensions	**1,469**	1,125	2,366
Staff costs - share based payments	**386**	236	548
Project costs	**6,500**	4,464	10,187
Depreciation of property, plant and equipment	**1,179**	828	1,743
Amortisation of licenses	**12**	-	-
Operating lease expense	**1,049**	800	1,609
Other operating expenses	**6,559**	5,270	11,016
Total operating expenses	**39,193**	28,710	61,879

Research and development costs

Research and development costs consist of £1,601,000 (2004: £1,467,000) charged directly to the income statement. No development costs qualified for capitalisation in the period (2004: £nil).

Employee numbers

The number of employees (excluding Non-Executive Directors) during the period was as follows:

	2005 30 September Number	2004 30 September Number	2005 31 March Number
Revenue earners	**569**	444	461
Support staff	**102**	75	80
Average number of employees	**671**	519	541
Number of employees at period end	**694**	529	582

4. Share-based payments

The Group grants share incentives to employees in the form of options and LTIP awards under a number of incentive schemes. A description of each type of share-based payment can be obtained from the 2005 Annual Report.

During the period the Group granted 264,717 awards under the Group's LTIP scheme with an exercise price of 2p and 19,364 options with an exercise price of 808p. The options and LTIPs are exercisable in the period ended 31 March 2009 to 31 March 2016.

A charge of £386,000 (6 months to 30 September 2004: £236,000) has been made in the income statement to spread the fair value of the options and LTIPs over the three and four years service obligations of those incentives. The Group has taken advantage of the transitional provisions of IFRS 2 and has applied IFRS 2 only to those awards granted after 7 November 2002 which had not vested by 1 January 2005. In calculating the fair value of these incentives, the Group has used a Monte Carlo model in the case of options and Black Scholes in the case of LTIPs using the following inputs:

Expected option life	5 - 6 years depending on vesting period
Volatility	34% - 49% depending on date of grant
Risk free rate	3.6% - 5.2% depending on date of grant
Dividend yield	0.8% - 1.2% depending on date of grant

5. Tax

The charge for tax for the six months ended 30 September 2005 has been calculated based on the anticipated effective tax rate for the year ended 31 March 2006.

	2005 30 September £'000	2004 30 September £'000	2005 31 March £'000
UK Corporation tax			
Current tax on income of this year	**1,395**	1,119	2,799
Adjustments in respect of prior years (see below)	**(621)**	22	22
	774	1,141	2,821
Deferred tax			
Deferred tax on income of this year	**(93)**	81	136
Adjustments in respect of prior years	**-**	-	(20)
	(93)	81	116
	681	1,222	2,937

The Group's effective tax rate for the half was 14.6% (2004: 31.0%) and benefited from the impact of our initial claim for research and development tax credits. Ignoring the credit which relates to the three previous years to 31 March 2005 (£621,000), the Group's effective tax rate was 28.0%.

The impact of the share options tax credit, previously recorded as exceptional under UK GAAP, no longer appears in the income statement under IFRS as this is now gradually accrued as a deferred tax asset through the profit and loss reserve in line with changes in the Company's share price at each balance sheet date. This was not previously reflected in the Group's provisional IFRS reconciliations published in May 2005. Further details are given in note 12.

6. Earnings per share

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

	2005 30 September £'000	2004 30 September £'000	2005 31 March £'000
Profit attributable to shareholders	**3,999**	2,726	6,160
	Number of shares ('000)	Number of shares ('000)	Number of shares ('000)
Weighted average number of shares in issue	**22,353**	22,353	22,353
Weighted average shares held by the Employee Benefit Trust	**(632)**	(1,161)	(956)
Basic weighted average shares in issue	**21,721**	21,192	21,397
Dilutive effect of share options	**542**	515	526
Diluted weighted average shares in issue	**22,263**	21,707	21,923

7. Intangible assets

	Goodwill £'000	Licenses £'000	**Total £'000**
At 1 April 2004	2,829	-	**2,829**
Utilisation of tax losses	(129)	-	**(129)**
At 30 September 2004	2,700	-	**2,700**
Utilisation of tax losses	(129)	-	**(129)**
At 31 March 2005	2,571	-	**2,571**
Acquisition of Extraprise	197	50	**247**
Amortisation	**-**	(12)	**(12)**
At 30 September 2005	2,768	38	**2,806**

On 1 April 2005, the Group acquired the assets and trade of Extraprise UK Limited for total consideration of £247,000. As part of the acquisition, licenses of £50,000 were acquired with a useful life of two years. The remaining excess of purchase consideration over fair value of net assets acquired of £197,000 has been capitalised as goodwill and is attributable to anticipated synergies and the value of the workforce. No cash was acquired.

Goodwill has been allocated to cash-generating units and is tested annually for impairment. As at 30 September 2005, no impairment losses have arisen.

8. Inventories

	2005 30 September £'000	2004 30 September £'000	2005 31 March £'000
Work in progress	**1,175**	519	920

9. Trade and other receivables

	2005 30 September £'000	2004 30 September £'000	2005 31 March £'000
Trade receivables	**13,757**	10,399	15,198
Prepayments and accrued income	**1,746**	1,670	1,044
Amounts recoverable on contracts	**6,948**	5,163	3,454
Other receivables	**335**	294	318
	22,786	17,526	20,014

10. Trade and other payables

	2005 30 September £'000	2004 30 September £'000	2005 31 March £'000
Trade payables	**2,762**	2,978	3,572
Accruals	**4,970**	3,039	5,622
Deferred income	**661**	350	595
Payments received on account	**1,613**	1,502	2,515
Social security and other taxes	**3,968**	2,872	3,849
	13,974	10,741	16,153

11. Post balance sheet events

The Group announced today that terms have been agreed for the acquisition of the fully diluted share capital of Evolution for approximately £8.5 million in cash subject to a limited adjustment up or down once Evolution's working capital at completion has been determined. The acquisition is subject to the satisfaction of certain pre-conditions which relate principally to the re-registration of Evolution as a private company and there having been no material adverse change in the business prior to completion. Completion is expected to take place in January 2006. The total acquisition cost, including fees and a working capital adjustment, is expected to be approximately £9.5 million.

In its audited accounts for the year ended 31 August 2005, Evolution reported revenues of £8.8 million, operating profits before exceptional items of £0.7 million and profits before tax of £0.6 million, and, as at that date, it had gross assets of £3.4 million and net assets of £1.7 million.

In October 2005 the Group acquired the assets and trade of a small company that provides specialist electronic products to the National Security market for a consideration of up to £0.6 million in cash. The business reported revenues of £0.4 million and profits after tax of £0.1 million in its financial year ending 31 December 2004. Consideration of £0.3 million was paid on completion and a second instalment of £0.3 million will be paid in 2008 if certain conditions are met.

12. Explanation of transition to IFRS

In accordance with IFRS 1 "First-time Adoption of International Financial Reporting Standards" the Group is required to present reconciliations of its equity at the date of transition to IFRS (1 April 2004), at the previous year's interim date (30 September 2004), and at the date of the most recent annual financial statements (31 March 2005) (see note 12b). Reconciliations of the Group's profit for the period ended 30 September 2004 and the year ended 31 March 2005 are also required (see note 12a).

There was no effect on the underlying cash generation and expenditures of the Group, however there were some presentational changes on the adoption of IAS 7 "Cash Flow Statements".

12a. Effect of IFRS adoption on profit for the prior periods

	Note	6 months to 30 September 2004 £'000	Year ended 31 March 2005 £'000
Profit for the period reported under UK GAAP		2,913	6,871
Share-based payments	A	(69)	(319)
Holiday accrual movement	B	74	(66)
Goodwill amortisation	C	326	653
Tax movement on share options (note (i))	D	(367)	(741)
Deferred tax on holiday pay accrual	D	(22)	20
Utilisation of tax losses	D	(129)	(258)
Profit for the period reported under IFRS		2,726	6,160

All results are presented under IFRS with the appropriate restated comparatives.

12b. Effect of IFRS adoption on equity

	Note	1 April 2004 £'000	30 September 2004 £'000	31 March 2005 £'000
Total equity reported under UK GAAP (note (ii))		26,844	29,881	33,140
Goodwill amortisation	C	-	326	653
Dividends payable	E	792	455	911
Holiday pay accrual	B	(532)	(456)	(598)
Deferred tax asset – share based payments (note (i))	D	1,306	1,000	932
Deferred tax asset – holiday pay accrual	D	160	137	179
Utilisation of tax losses	D	-	(129)	(258)
Total equity reported under IFRS		28,570	31,214	34,959

(i) An adjustment relating to deferred tax on share options has been made to the provisional IFRS figures included in the 2005 Annual Report, as a result of a change in the interpretation of IAS 12 "Income taxes".

(ii) Total equity under UK GAAP has been adjusted to reflect UITF 38 "Accounting for ESOP trusts" and UITF 17 "Employee Share Schemes". Further details are provided in the 2005 Annual Report.

12c. Explanatory notes to the IFRS adjustments

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

- The Group has elected not to apply retrospectively the provisions of IFRS 3 "Business Combinations", to acquisitions that occurred prior to the Group's transition date of 1 April 2004 (namely the acquisition of Rubus in August 2003); and
- The Group has elected not to apply the provisions of IFRS 2, Share-based Payments, to share options granted on or before 7 November 2002 which had not vested on or before 1 January 2005.
- The Group has elected not to apply IAS 39, Financial Instruments, to the comparative period.

The adjustments between UK GAAP and IFRS for the six month period to 30 September 2004 and the year ended 31 March 2005 are detailed below.

A. Share-based payments (IFRS 2)
An additional charge of £69,000 for the period ended 30 September 2004 (year ended 31 March 2005: £319,000) has been made in the IFRS income statement to spread the fair value of share options and LTIPs over the three and four year service obligations of those incentives. In calculating the fair value of options, the Group has used a Monte Carlo model with the inputs detailed in note 4 above. LTIPs have been valued on the basis of a Black-Scholes model using the same inputs.

B. Holiday accruals (IAS 19)
Accruing for holiday pay was not required under UK GAAP but is required under IFRS. A credit of £74,000 (year ending 31 March 2005: charge of £66,000) relating to the movement in holidays that have accrued to employees but have not yet been taken at the balance sheet date is recorded in the IFRS profit and loss account reconciliation.

C. Goodwill (IAS 36)

Under IFRS, goodwill has an indefinite life and is only written down when an annual impairment test suggests that the carrying value is overstated. The Rubus goodwill amortisation charge of £326,000 for the period to 30 September 2004 (year ended 31 March 2005: £653,000) under UK GAAP is reversed under IFRS following an annual impairment review of the Rubus goodwill.

D. Taxation effect of IFRS adjustments (IAS 12)

Under IAS 12 the following tax adjustments are required and result in a £518,000 net increase in the tax charge for the period ended 30 September 2004 (year ended 31 March 2005: £979,000):

- the tax impact of brought forward Rubus losses amounting to a credit of £129,000 for the period ended 30 September 2004 (year ended 31 March 2005: £258,000) in the UK GAAP tax charge is treated under IFRS as a reduction in Rubus goodwill;

- a deferred tax asset is established for the holiday pay accrual; and

- the temporary difference between the recognition of the IFRS 2 charge for share based payments and the Group's expected future tax deduction under UK tax legislation ("Schedule 23") is established as a deferred tax asset under IFRS calculated by reference to the intrinsic value of all unexercised share options at each balance sheet date (including those issued prior to November 2002 and not otherwise valued under the IFRS transitional arrangements). The resultant credit in the tax charge is restricted to the tax effect of the cumulative IFRS 2 charge with the difference credited directly to the profit and loss reserve. This restriction also impacts the Schedule 23 tax credit previously recorded as an exceptional tax credit in the income statement under UK GAAP. The resulting additional tax charge in the IFRS income statement for the period to 30 September 2004 is £367,000 (year ended 31 March 2005: £741,000). This latter adjustment was not recorded in the Group's provisional IFRS reconciliations published in May 2005.

E. Dividends (IAS 10)

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