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Property Management & Accounting

Trace Solutions is one of the UK's leading suppliers of computer software and services to the property sector. It specialises in property management and accounting software packages for all types of businesses and offers complementary bespoke design, development, support, hosting and consultancy services as well as full project management and implementation facilities. Additionally, the company offers property management and accounting resources, including the supply of permanent and temporary staff as well as a fully managed outsourced service.

Banking & Financial

Trace Financial focuses on the wholesale financial market place, especially the securities industry, delivering mission critical messaging and business solutions to its user base of blue chip financial institutions. Activities concentrate on support for industry led initiatives (including ISO15022/20022, CREST, SWIFT FIN, SWIFTNet, OMGEO, FIX, Euroclear Single Platform, TRAX and TRAX 2 etc.) and combine leading industry technologies (such as XML and Java) with line of business expertise and industry experienced consultants. Its portfolio of products includes data and application integration and sophisticated message transformation technology which have been SWIFTReady GOLD accredited for the past seven years. They also provide workflow based corporate actions solutions and real-time trading and feed management systems.

Insurance & Reinsurance Broking

Trace Isys specialises in application software and related services for insurance and reinsurance risk managers. Its core products centre on a life cycle package, focused in particular at commercial intermediaries operating in the global insurance market.

Payroll & HR

Trace Employer Services offers a complete range of payroll and HR solutions including a fully managed payroll service and traditional bureau facilities.

Recruitment

Prospect is a long established, specialist recruitment company staffed by professional consultants with an average of 10 years experience. It operates in the areas of business change, business development, technology, customer relationship management, decision support and operational research. Providing resourcing services specifically tailored to individual client needs, from board to graduate trainee level, Prospect places strong emphasis on developing mutually beneficial long term business relationships.

Directors	<p>Danny Chapchal (non-executive chairman) David Begg (senior independent non-executive) Colin Clarke (non-executive) Robin Woodall (non-executive) Peter Stolerman (finance director) Richard Wolfe (chief executive officer)</p>
Biography of non-executive directors	<p>Danny Chapchal qualified as an accountant with C.F. Middleton & Co., leaving the profession in 1970. He has held chief executive positions and directorships at several leading technology companies including Applied Research of Cambridge, Fifth Wave Technology, Integrierte Systeme Grafische Industrie (a subsidiary of Siemens Nixdorf), SQL Systems International Ltd. and Xenotron Holdings PLC. He has extensive international business experience of mergers and acquisitions, company restructuring, building organisations and managing growth and is currently CEO of venture strategists Turnmell. In this capacity he has provided CEO services to Bit Arts Labs, a software security company, and from 1996 to 2000 was Chief Executive of Cambridge Display Technology Ltd. He established a totally new business model for CDT based on licensing the technology and the company was subsequently sold to US investors for £70 million. He is currently Chairman of CamCon Technology Ltd, Acus Management Partners and TSSI Systems Ltd.</p> <p>David Begg studied economics at Cambridge, where he got a Double First and won the Adam Smith Prize. He read an MPhil in Economics at Oxford and won a Kennedy Scholarship to MIT, where he completed a PhD in Economics. Subsequently, he was Lloyds Fellow in Economics at Worcester College Oxford, Economic Policy Adviser at the Bank of England and Professor of Economics at Birkbeck College London. He has written extensively on exchange rate policy, monetary union, and transition economies and in 2003 he chaired the Begg Commission on The UK Outside the Euro set up by Britain in Europe, examining the consequences for the UK of not joining the single currency. Since its inception in 1984, he has been a Research Fellow of the Centre for Economic Policy Research, Europe's premier network of economists. He has also been an adviser to the Bank of England, the Treasury, the International Monetary Fund, the European Commission, the National Bank of Hungary, the Czech National Bank, and the Reserve Bank of Australia. David has also been a Visiting professor at INSEAD, Princeton, and MIT and served as Research Director of the Centre for Economic Forecasting at London Business School. David has been Principal of the Tanaka Business School since April 2003 and also serves on the Management Board of Imperial College London and is a director of Imperial College (S) PTE Limited.</p> <p>Colin Clarke co-founded Trace with Richard Wolfe in 1974. He was joint managing director for a number of years and acted as chairman for a short period. He was most actively involved as managing director of Trace Solutions and became a non-executive director on his retirement from full time work on 31st May 1999. His previous work experience included 10 years with Unisys, latterly as a sales manager.</p> <p>Robin Woodall has been in fund management for over 20 years. He started his career as an analyst at Swiss Reinsurance and by 1985 was responsible for running their UK equity funds. In 1987 he joined the Electricity Supply Pension Scheme as UK equity fund manager. He then became a senior fund manager and in 1995 was promoted to head of UK equities. Robin took a key role in the agreed merger with Foreign & Colonial Management in 1996 and was heavily involved in the subsequent integration of the businesses. He was made a Director of F&C and became head of UK equities in 2001. As part of this role, Robin was also responsible for relevant corporate governance matters. In 2004 F&C merged with ISIS and at the end of 2005 Robin decided to leave the company. Robin is a Cambridge graduate, he completed the Investment Management Programme at the London Business School and he is a fully qualified member of the UK Society of Investment Professionals.</p>
Secretary	Peter Stolerman, FCA
Head office and registered office	224-232 St John Street, London, EC1V 4QR.
Company registration number	2388822
Stockbroker	Shore Capital Stockbrokers, Bond Street House, 14 Clifford Street, London, W1S 4JU.
Auditors	Baker Tilly, 2 Bloomsbury Street, London, WC1B 3ST.
Solicitors	Fladgate Fielder, 25 North Row, London, W1K 6DJ.
Bankers	National Westminster Bank PLC, 135 Bishopsgate, London, EC2M 4RB.
Registrars and transfer office	Capita Registrars, Northern House, Woodsome Park, Fenay Bridge, Huddersfield, HD8 0LA

RESULTS



I am pleased to report that we have once again made steady progress, that our fundamentals remain good and that we remain in a healthy and strengthening financial position. Last year I explained that our growth plans would be mainly centred on a strategy of broadening and improving our portfolio of best of breed products through internal development and this strategy is continuing, with an increasing level of investment.

This financial year is the first in which we have prepared our financial statements under the new International Financial Reporting Standards ("IFRS") regime. Comparatives have been restated and full analyses and reconciliations to previously issued financial statements were issued in an announcement in February.

Our operating profit from continuing operations increased to £1.40 million (2005 - £1.25 million) and with our strong cash performance helping to improve our net finance income by £52,000 we are reporting a profit before tax from continuing operations of £1.56 million (2005 - £1.35 million). Basic earnings per share from continuing operations increased by 18% to 8.23p (2005 - 6.96p).

Revenues from continuing operations declined by £359,000 to £14.30 million. One-off package income was down by £900,000 but this was largely offset by improvements in revenues from our software development, maintenance and related service activities and we continue to see strong levels of interest and on-going demand for our services. Net recurring revenue, which remains a fundamental bedrock for our future, stood at £6.69 million, a small increase over the previous year and an amount which now covers 57% of all our operational costs compared with 54% last year. 70% of all direct employment costs are covered by recurring revenue, the same proportion as last year.

Gross profit from continuing operations improved from 21.41% to 23.28%, in the main due to efficiency improvements and our continuing tight control on costs. We aim to maintain this ratio, which we believe to be amongst the best in our industry.

During the year under review we have, in accordance with IFRS, capitalised internally generated intangible assets for the first time. We have taken a prudent approach to this exercise and the amount capitalised for all our software stands at £2.26 million (2005 - £1.47 million), a level that we feel is conservative given the strengths of our product sets. For a company such as Trace, one of whose major assets is the on-going and future realisable value of the software we write, the new reporting framework gives a better presentation of our financial position. The new standards have not of course impacted our underlying business model or how we operate, nor should they.

We continued to perform well on the cash front, generating £1.85 million from operations (2005 - £2.31 million). Tax payments were £351,000, significantly up on 2005, during which period we benefited from the receipt of historic R&D tax credits. As a result we had £1.49 million going towards our investing activities and in line with our stated strategy we invested £1.01 million on

software development, a significant acceleration and increase compared with last year. Also as a sign of our confidence in the underlying potential of the Group, £878,000 was applied to buying in shares for treasury. As a result our cash balances in overall terms reduced by £609,000 during the year but still stand at a healthy £2.42 million (2005 - £3.03 million). After deducting treasury shares from equity, our net assets improved slightly and now stand at £11.65 million, equivalent to a net asset value per share of 83p (2005 - 77p) of which some 81% is represented by net tangible assets.

Based on our improving results, the board is recommending a final dividend of 0.95p per share for the year ended 31st May 2006 (2005 - 0.85p). This is expected to be paid to shareholders on the register of members on 20th October 2006, shortly after approval at the AGM.

"...we have once again made steady progress, that our fundamentals remain good and that we remain in a healthy and strengthening financial position."

THE FUTURE

We began the current financial year in an optimistic frame of mind and we see no reason to change our attitude. Our recent trading pattern of a second half performance that is considerably better than the first half has been repeated with our results for the year showing a significant improvement. We have no grounds for believing that these trends will

not continue.

We will continue with our internal software development programme. Our products represent significant business processing systems investments, for ourselves and for our clients, and as such they are expected to remain current in the market for several years, evolving in response to market and client needs. Our product base and reputation continue to provide us with a good pipeline of opportunities and we are continuing to expand our sales and marketing activities to enable us to maximise the benefit of this position. Naturally our markets remain highly competitive but we believe we are well placed to respond to the challenges which are before us.

Our investment based approach should ensure that we remain in a healthy position. A strong product portfolio is vital to our ability to improve performance and generate significant future upward potential. Our mixed portfolio means that we are not overly dependent on any one area or excessively at risk should market conditions adversely affect any one of our sectors. Our investment based approach will not preclude us from considering acquisitions but current conditions and our own

experience have led us to conclude that this is a less likely growth path for Trace. Your board will pursue all sensible opportunities and strategies and our future activities remain targeted on improving our market position and increasing shareholder value.

I am delighted to welcome David Begg and Robin Woodall, who joined as non-executive directors during the year. They bring a wealth of experience to the board and we are already benefiting from their positive contributions.

On behalf of the Board I would like to extend my sincere thanks for the continued support of our shareholders and our clients and staff.

Danny Chapchal
CHAIRMAN
20th November 2006

Last year we commented that the strategy we were following was one of a continuing and increasing investment in our own products. Nothing has changed over the past 12 months to make us believe that this is anything but a sound strategy and one which will continue to be our business blueprint for the future. According to market surveys and competitors' reports, the overall demand in the IT software and services sector for commercial applications is flat and this is, to a large extent, the result of a matured market. Like our competitors, we operate under the normal market pressures of increasing competition and ever more discerning buyers. Investing sensibly in our products, we believe, is the most certain way to protect our user base, increase our market penetration, stay at the forefront of technological advances and outperform the averages. We are a niche operator in markets that are populated with some of the largest players. Our reputation for excellence is crucial and our approach will help us maintain our standing through having "best of breed" products. At the same time we ensure that our costs are kept at sensible levels and the use of our Indian operation, which is what remains of the Datawise operation which we closed during the year, helps to achieve this.

The traditional alternative - or complementary - strategy to achieve our aim of profitable growth is through acquisitions. In this area the last 12 months has been disappointing. We continue to look at all potential acquisitions, always by reference to the acquisition criteria which we have set ourselves. Our strategy is to only consider enterprises with similar business models to our own in order to reduce the risk of failure. We look for opportunities which can help us either grow our user base or increase the product set we can offer our clients or both. Our acquisition targets have to be specific to our business. We are not an investment company and the market is too full of examples of acquisitions which have not enhanced shareholder value. Over the last year we have considered several potential acquisitions but they have either failed to meet our criteria or have included terms which we felt were too onerous.

Our results have shown an increasing return on investment and margin but our top line figures have been disappointingly flat. Nevertheless we are now beginning to see growth from our stable client base and product investment. Growth would be greater through acquisitions but we will not acquire other companies purely to grow the top line. On the financial front we consider that companies such as ours should be able to achieve a 10% return on capital employed, a figure which we have regularly achieved, and we see no reason to alter either our view or target. We generate a significant positive cash flow which of course has the knock on impact of increasing the net worth of your company. In the last financial year we invested the cash we generated on increased software development, as well as returning cash to shareholders through share buybacks (spending £878,000 in acquiring shares for treasury) and in paying an increased dividend of 0.95p per share compared to 0.85p in the previous year. There are two key reasons behind our buying back shares. Firstly, we have recently revised and operated our various share option and incentive schemes and can use treasury shares, as well as those held in our ESOP, to satisfy these options. Secondly, if we wish to make acquisitions using shares we have scope to use treasury shares and in both cases there will be no dilution for current shareholders compared with their original position, though of course the earnings per share calculations will reflect the reissue of the shares. Most companies of our size and in our sector do not pay a dividend but reinvest their earnings to help generate capital growth. We do not fully subscribe to that view and wish to acknowledge the current ownership of the shares by the payment of a dividend. We are unlikely to become a yield stock but it is our intention to gradually increase the dividend, in line with increasing profits, subject to the other demands on our cash resources. We also judge ourselves by earnings per share. The growth this year of 18%

in our continuing businesses is of course positively impacted by share buy backs but we would nevertheless expect an underlying growth of at least 10%. A major change in the last 12 months has of course been the adoption of International Accounting Standards whose key impact has been to require us to capitalise internally developed software meeting the capitalisation criteria. This, together with the implementation of the other standards and new reporting requirements, has been an enormous task and one on which our views are mixed. Historically we never capitalised any software, mainly due to the inherent difficulty of calculating future economic benefits in fast moving and uncertain markets and so all software development was written off in the year it occurred. Our software of course does and did have value but any valuation would have an inherent uncertainty. Under the new framework the capitalised cost of our software now goes some way towards giving a reflection in our financial statements of our software's true value. At the year end the total in our accounts - which reflects the costs we have incurred on software development less amounts amortised - stands at £2.3 million which we believe is a prudent value.

There are no other significant intangible assets in our balance sheet. In future years we will see increasing amortisation costs in relation to our software investments. This will to some extent be balanced by the capitalisation of further software development, although in the short to medium term we expect to see a net benefit in our income statement, reflecting our increasing investment policy, together with the fact that the software we produce for the markets we serve is relatively "long" in terms of expected useful life.

TRACE ISYS

The start of the year was extremely busy with considerable effort going into the Guy Carpenter project. Not only was this a potentially key customer, but we also found ourselves facing extremely tight deadlines based on immovable issues surrounding people and real estate. Ultimately Guy Carpenter went live on TWINS on schedule thanks to the skill and dedication of all involved.

Last year the London insurance market was poised to begin a significant internal project - Accounting & Settlement - aimed at modernising the London Market settlement process by replacing bespoke electronic messages and paper with internationally compliant ACORD messages. Unfortunately this project failed to start, even though the technical solution was well defined and broadly agreed. Shortly after the postponement of the main project, the market service provider, Xchanging, announced a limited business process change based around the direct lodgement of the paper file in the market repository, a significant reduction in scope from the original vision. Whilst this deferral had a small impact on Isys, perhaps its biggest long term effect will be to delay significantly the point at which the London Market can gain the efficiency benefits both it and the global community consider essential. An additional consequence has been to give a spur to a number of "peer to peer" initiatives which may, over time, fundamentally change the London Market's service model. As part of the FSA's ongoing push for transparency in the commercial insurance environment, market participants, both insurers and brokers, have been set a series of targets aimed at the early provision of policy information to the customer and the advice of signed lines to the market. Collectively this process is known as Contract Certainty. To support our customers' ability to report on Contract Certainty, Isys has upgraded TWINS to capture the necessary data. As well as this, facilities are available for monitoring key milestones, an essential precursor to ensuring compliance.

Despite the failure of the main Accounting & Settlement initiative, there were a number of other market initiatives launched during the year. Isys and TWINS are playing a leading role in all of these, giving all our customers the option of participating in those initiatives they feel can specifically benefit their business. We are particularly pleased with our efforts in the Electronic Claim File and Accounting & Settlement Phase 1 projects, where we are the only software provider of broking systems participating.

To support these initiatives, Isys has launched a managed messaging service which is aimed at the market in general. At this point 5 brokers have signed up with Trace for this service with 3 others indicating an interest. This service is currently unique in the market and offers Isys the possibility of winning customers outside of our core TWINS market.

In May 2003 Isys began the process of redeveloping our flagship TWINS product. The main motivation was to take advantage of new technological developments and offer customers greater choice in deployment architecture. Isys is now 3 years into this major project and the core components of the new system are well advanced. When complete, Open TWINS will be the most technologically advanced solution available in the market and our customers will be able to truly lever the advantages offered by workflow concepts, mobile trading and data sharing, within the safety of the most functionally rich platform available.

TRACE FINANCIAL

The main products and market focus of Trace Financial remain the sale and support of financial messaging and corporate actions systems, both as separate lines of business and as synergistic products. 2006 was a good year for Trace Financial. The operation performed better than budget. Services revenues, based around our product set, were very strong and we established our Transformer messaging solution in a number of prestigious new clients with positive feedback on the benefits it delivered. The latest version of our corporate actions system, CAMS, containing significant enhancements, began live running at one site and a second implementation is in the final stage of user acceptance testing.

The marketplace is showing some signs of improvement. There are indications that some banks are looking to meet the demands of anticipated growth. This could lead to a requirement for enhancements to their technical infrastructure as well as improvements to straight through processing capacity which would translate to new budgets and new project opportunities. We are well placed to meet this potential demand with our new products coming on stream.

Sales remain competitive and the purchasing process continues to be keenly negotiated. Our arena of activity is likely to remain a buyers market, albeit with some loosening of purse strings. Our strategy for dealing with these parameters is to maintain focus, as described above, and to deliver quality solutions with added business value.

In the financial messaging market, new and changing messaging standards remain a key driver for new business opportunities. This is because new messaging standards cause users to review technologies without automatically reverting to existing methods of working. Our Transformer product always produces a positive response from potential users and we are confident that new deals will follow from increased market opportunity.

In the corporate actions market, the pressures of operational and regulatory considerations are key. Corporate actions departments can come under pressure to improve existing operations when there is a heavy reliance on manual procedures and the level of automation is low. We have been targeting this opportunity for some time and we, along with others in the industry, have been surprised at the slow pace of movement towards greater automation. We believe that this is attributable to the pervading climate of cost constraint amongst our target market over recent years. We are hopeful that the anticipated loosening of this attitude will lead to new opportunities. In particular we are combining our messaging and corporate actions technology to produce a new product, CAMSConnect, to address the business needs of the corporate actions department whilst working with the extremely complex SWIFT corporate actions messages. CAMSConnect will be an easy to install and use package and we will target the data vendors as well as end-users to assist our market activities.

Overall, the feedback that we receive on our product set and our service delivery remains positive. We secured SWIFTReady EAI GOLD accreditation for an unparalleled eighth successive year. With our strengthened product set now ready to market, we are increasing the size of our sales team for 2007. In the short term our strategy will remain focused on direct sales but we believe that success with direct clients will open up opportunities to sell via partners - initially based on Transformer. Transformer is the easiest product to establish with a partner because it can be sold with minimal implementation, no modification and is quick to learn. We envisage that CAMSConnect could also provide a commodity type solution, albeit a little more involved than Transformer. A full CAMS implementation is likely to involve more implementation support and as such is best handled by our own experienced staff.

We also continue to track relevant industry initiatives (e.g. MiFID, TRAX2 etc.) since these all tend to have a messaging component and could lead to opportunities for us. We have begun to analyse the opportunities that will potentially be available as a result of the migration from U.K. Crest settlement to the Euroclear Single Platform scheduled for 2008-2010 and we have initiated discussion with several clients about our plans, getting a positive response.

TRACE SOLUTIONS

Trace Solutions has had another good year. The high levels of turnover and contribution achieved in the previous financial year have continued and there was a continuous stream of orders from new clients as well as from the existing customer base. New orders were spread across all three property sectors in which we operate, with sales being made of BlueBox to investors, o6ix to our newer occupier market and TRAMPS to our traditional managing agent sector. These new orders came from companies such as GVA Grimley, Travis Perkins, Fitness First and John Lewis.

In order to increase our penetration in the newer investor and occupier sectors, we recruited six additional development staff in the year to enhance and extend the scope of our products. This will help us to attract new clients and to retain existing customers by providing them with the best and broadest systems that are available. In addition to increasing our U.K. based staff, we also utilised our offshore development facility in Delhi, which provides us with much skill and flexibility to take on additional software development on a cost effective basis.

Several clients started to use our software internationally and plans are now in place to extend the scope of our offerings in this area. We are also intending to gear up our implementation and support services to become a truly international supplier.

Trace Solutions has become a very pro-active participant within the PISCES community to help drive forward industry standards for the exchange of property data. It is also part of our strategy to enhance our products to allow users to benefit from other e-business initiatives around banking, sales and purchases. In addition to these e-business initiatives, we have linked our products to mobile technologies to allow our users to benefit from productivity gains that can be achieved through the use of mobile devices such as Blackberry.

Our web executive and FM modules, developed in the preceding year, are now fully featured, functional and in live use with several of our clients. We continue to place great emphasis on supporting existing clients through our implementation and ongoing support services, as well as providing them with leading edge products through our extensive product investment programme, at a level that few of our competitors can match.

TRACE EMPLOYER SERVICES

A challenging year resulted in revenue growth which was lower than anticipated, but still satisfactory, and the building blocks are now in place for an improving future.

There are two principal risks facing the business, being competition and customer attrition. Over the past 12 months the outsourced payroll market has become increasingly competitive with the 3 largest players, ADP, Ceridian and Northgate, continuing to seek to acquire the smaller operations. Additionally, software vendors who had previously specialised in the HR, accounting and time and attendance markets have spread their activities into the payroll market.

Vendors have placed much more emphasis on attracting new business through high technology features, particularly the use of the "web", and it is evident that this will continue, putting pressure on all suppliers to keep up with the pace of change or be left behind. However, the accuracy and reliability of the supplier remains the key differentiator and in this area Trace Employer Services has maintained its reputation at the top of the table, with a high quality service being delivered. This was confirmed during the year with another set of exceptional customer survey results.

Overall the principal uncertainties are sales performance and the expectation that the competition will continue to provide a less than satisfactory service to some of its customers some of the time. Generally organisations will only change payroll suppliers if the service they receive falls short of expectations. There are obviously a number of other factors, but there are so many risks attached to changing payroll suppliers that these decisions are often driven by frustration with poor performance. The market place seems to have subconsciously agreed on a reasonable price for delivering the service, so with competitive functionality, the success of the business relies firstly on maintaining a high quality service to retain credibility and provide reference sites, and secondly on having a skilled sales and marketing team.

The sales team was expanded at the start of the year and the performance of the new members of the team was encouraging. The increase in new business through our partnership channels was disappointing, though customer gains as a result of the poor performance of the competition continued to rise. The development of our payroll software, Phoenix, continued, with the emphasis on improvements in productivity and quality control together with enhanced features for marketability.

These software improvements, allied with a continuous review of processes and procedures, ensured we maintained ISO 9001 accreditation, with a payslip accuracy target of 99.85% (the highest in the market) being regularly achieved. During the year attrition was remarkably low while many of the competition suffered losses in double figure percentages. An increasing number of clients have agreed to act as reference sites for potential customers to talk to and receive an unbiased view of the Trace service.

PROSPECT

Prospect had a challenging year characterised by erratic trading patterns. Record figures were seen in peak months balanced by subsequent downturns. This was as a direct result of variable client demand. Vacancies were being temporarily put on hold and the resulting uncertainty in the job market made candidates more cautious about looking for a new position. This created an underlying risk to the business as it became more difficult to identify good candidates, at the level that clients will consider, who will commit to a career move.

At the beginning of the year we had plans to expand into the accounting recruitment market and an industry specialist was brought in, backed up by dedicated support staff and advertising presence. However, this venture was negatively impacted by market conditions, was slow to move into profit, and a decision to close it down was made and implemented before the end of the financial year.

The Company made a profit in the first half of the year. However the permanent recruitment process was markedly slower in the second half with clients taking longer to finalise new commitments that they had made in the early part of the year. Despite an expanding requirements portfolio and an increase in contract income, the company was moved to make additional cost reductions in both staff and overheads. Whilst the trading position began to improve by the end of the fourth quarter the company ended the financial year with a small loss.

The key risk to the recruitment business is uncertainty in the state of the economy, as perceived by the client base, which in turn creates fluctuations in demand and a varying urgency to fill registered positions. At the same time, clients are becoming even more selective with regard to the calibre of the candidates they will consider and the remuneration that they will pay.

The directors of Trace Group plc ("Trace" or "the Company") have pleasure in presenting their report together with the audited financial statements of the Company and its subsidiaries ("the Group") for the year ended 31st May 2006.

PRINCIPAL ACTIVITIES AND REVIEW OF DEVELOPMENTS

The principal activities of the Group are the provision of computer consultancy services, proprietary software products and a complementary range of other products and services. A review of the Group's business and future prospects is contained in the Review of Operations. The subsidiary undertakings principally affecting the profits or net assets of the Group in the year are listed in note 16 to the consolidated financial statements.

The Group's key performance indicators are return on capital employed and earnings per share. These, together with other performance indicators, are discussed in the review of operations and Chairman's statement. The Group's activities are technology based and its principal risks and uncertainties are in the area of technology change. Our markets are fast moving and influenced by regulation and so competition and regulation are also risk and uncertainty factors. These matters are also covered in the review of operations.

DIVIDENDS

The directors are proposing a final dividend of 0.95p per share for the year ended 31st May 2006 (2005 - 0.85p). If approved, the dividend is expected to be paid on or about 22nd December 2006 to shareholders on the register of members on 20th October 2006.

FIXED ASSETS

The directors commissioned a valuation of the Group's two freehold properties as at 31st May 2006 by Daniel Watney, Chartered Surveyors, who are independent valuers and not connected with the Group. The valuation complies with the RICS Appraisal and Valuation Standards issued by the Royal Institution of Chartered Surveyors and was undertaken in accordance with International Valuation Application 1 of the International Valuation Standards. As a result of this work, the property valuations in the accounts have been maintained at the same level as last year.

POLITICAL AND CHARITABLE CONTRIBUTIONS

The Group operates a give as you earn scheme whereby contributions to charities made by employees are matched by a contribution from the Group. During the year ended 31 May 2006, the Group contributed a total of £12,183 (2005 - £10,014) to support various charities. The Group made no political donations.

DISABLED EMPLOYEES

Applications for employment by disabled persons are always fully considered bearing in mind the aptitudes of the applicant concerned. In the event that members of staff become disabled, every effort is made to ensure that their employment with the Group continues and that training, if appropriate, is arranged. It is the Group's policy that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

SUBSTANTIAL SHAREHOLDINGS

As at 26th October 2006, the Company had been notified of the following shareholdings, other than in relation to the directors of the Company, in excess of 3% of its issued share capital:

	Number of shares	Percentage of issued share capital
M H Dixon	3,210,000	22.53
Herald Investment Trust plc	1,127,880	7.92
Z Levy	590,187	4.14

FINANCIAL RISK MANAGEMENT

The Group's financial instruments comprise cash, short-term bank deposits, bank overdrafts, available for sale investments, loan notes and various items within trade and other receivables and trade and other payables that arise directly from its operations. The Group has not traded in any financial instruments throughout the period under review. The Group operates in the United Kingdom and as such all of its financial assets and liabilities are denominated in Sterling. The main risk arising from the Group's financial instruments is interest rate risk. The board reviews and agrees the policy for managing interest rate risk. The Group is mainly financed through shareholders' funds and places surplus cash on short-term deposits which earn interest at variable market rates. The Group's loan notes are all at a capped floating rate and in total amount to £51,614. The directors consider that their policies keep financial risks at an acceptable level.

DIRECTORS AND THEIR INTERESTS

The directors at 31st May 2006 and their interests in the share capital of the Company were as follows:

	Ordinary Shares of 5p each	
	31st May 2006	1st June 2005*
Executive		
P.I. Stolerman	8,000	15,034
R.J. Wolfe	3,265,771	3,265,771
Non-executive		
D. R. Chapchal	10,000	–
C. A. Clarke	1,424,493	1,424,493
D. K. H. Begg (appointed 24th January 2006)	–	–
R. H. Woodall (appointed 2nd May 2006)	–	–

* - or date of appointment if later

On 25th November 2005, R. C. Carefull retired as a director.

All of the above shareholdings were beneficial and there have been no movements since the year end.

Details of directors' interests in share options are disclosed in the Directors' Remuneration Report.

All of the directors are regarded as having an interest in the 229,327 ordinary shares held in the Company's Employee Share Ownership Plan ("ESOP").

D.K.H. Begg and R.H. Woodall are both standing for election at the forthcoming Annual General Meeting. Since their appointment during the year they have both demonstrated a commitment to the role and made a positive contribution to the Board. The directors therefore believe it is in the Group's best interests that they both be elected.

EMPLOYEE CONSULTATION

The Group places considerable importance on the involvement of its employees and has continued its long-standing practice of keeping them informed on matters affecting them as employees and on the various factors affecting the performance of the Group. Employees are consulted on a variety of matters on a regular basis. There are regular formal and informal meetings covering all employees of the Group. The Group runs an employee Save as You Earn share option scheme which is open to all employees and which both allows and encourages members of staff to participate in the financial performance of the Group.

AUDITORS

In the case of each of the persons who are directors of the Company at the date when this report was approved:

- so far as each of the directors is aware, there is no relevant audit information (as defined in the Companies Act 1985) of which the Company's auditors are unaware; and
- each of the directors has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information (as defined) and to establish that the Company's auditors are aware of that information.

Baker Tilly have expressed their willingness to continue in office as auditors and a resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting in accordance with section 385 of the Companies Act 1985.

SPECIAL RESOLUTIONS

The notice convening the forthcoming Annual General Meeting of the Company is set out on pages 46 and 47. The two special resolutions to be dealt with at the meeting are summarised below:

- Shareholders will be asked to renew the authority of the Board to allot equity securities by way of a rights issue and/or for any other reason for cash up to a maximum aggregate of 5% of the current issued equity capital of the Company (resolution 9).
- Shareholders will be asked to renew the authority of the Company to make market purchases of ordinary shares of the Company, up to a maximum of 7½% of the issued equity capital of the Company from the date of the Annual General Meeting until the date of the Annual General Meeting to be held in 2007 (resolution 10).

SUPPLIER PAYMENT TERMS

It is the Company's normal practice to agree terms of transactions, including payment terms, with suppliers and provided that suppliers perform in accordance with the agreed terms it is the Company's policy that payment should be made accordingly. The period of credit taken from suppliers as at 31st May 2006 was 32 days (2005 - 28 days).

PURCHASE OF TREASURY SHARES

As a sign of the directors' confidence in underlying potential of the Group, during the year the Company purchased 939,846 ordinary shares of 5p each in the Company, representing 6.19% of the Company's issued share capital. The total consideration paid was £878,198.

DIRECTORS' INDEMNITIES

The directors are granted an indemnity from the Company to the extent permitted by law in respect of liabilities incurred as a result of their office.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and financial statements. The directors are required to prepare financial statements for the Group in accordance with International Financial Reporting Standards ("IFRS"). The directors have elected to continue to prepare financial statements for the Company in accordance with UK Generally Accepted Accounting Practice ("GAAP").

In the case of the UK GAAP financial statements the directors are required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

In the case of the IFRS financial statements, International Accounting Standard 1 requires that the financial statements present fairly for each financial year the Group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's "Framework for the preparation and Presentation of Financial Statements". In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards. The directors are also required to

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company and the Group, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a directors' report and directors' remuneration report which comply with the Companies Act 1985.

The directors are also responsible for the maintenance and integrity of the Trace Group plc website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board

P. Stolerman
Secretary
20th November 2006

INTRODUCTION

This report has been prepared in accordance with Schedule 7A to the Companies Act 1985. The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the board has applied the Principles of Good Governance relating to directors' remuneration. As required by the Act, a resolution to approve the report will be proposed at the Annual General Meeting of the company at which the financial statements will be approved.

The Act requires the auditors to report to the Company's members on certain parts of the directors' remuneration report and to state whether in their opinion those parts of the report has been properly prepared in accordance with the Companies Act 1985. The report has therefore been divided into separate sections for audited and unaudited information.

UNAUDITED INFORMATION

Remuneration committee

The remuneration committee comprises the non-executive directors and the chairman. The committee determines the level of remuneration of the executive directors. The chairman of the committee is Colin Clarke.

Remuneration policy

Executive remuneration packages are designed to attract, motivate and retain directors of the calibre needed to maintain the Company's position and to reward them for enhancing shareholder value. Performance measurement of the executive directors and the determination of their annual remuneration package is undertaken by the committee. No director takes part in discussions about his own remuneration. The remuneration of non-executive directors is determined by the executive members of the Board.

Executive directors' remuneration comprises annual salary, performance related bonus, participation in the Group's share option schemes and contributions to the Group's pension scheme. Basic salaries are determined by the remuneration committee at the beginning of each year and if an individual changes position or responsibility. Appropriate salary levels are set by reference to the performance, experience and responsibilities of each individual concerned and having regard to published information for similar jobs and generally prevailing market conditions. Performance related bonuses are based on the achievement of objectives that are set annually. Executive share options are granted with a view to motivating and retaining directors in the longer term. The current share option schemes were approved by shareholders in 2005. Participation in the Group's pension scheme is on the same basis as for any other employee. Directors also benefit from the death in service and permanent health insurance arrangements which exist for all members of staff.

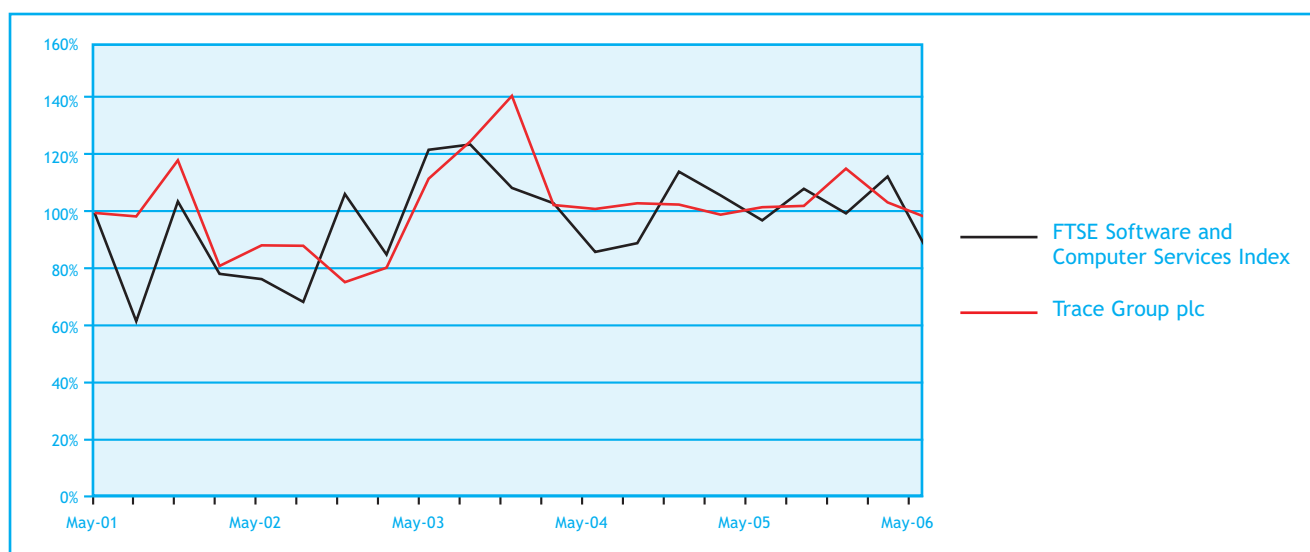
Directors' service contracts

Executive directors' contracts are determinable on one year's notice. Non-executive directors' contracts are for an initial period of one year and are then determinable on three month's notice. It is the Company's policy not to allow executive directors to accept appointments and retain payments from sources outside the Group.

	Current contract dated	Expiry
P.I. Stolerman	14th June 1989	12 months notice
R.J. Wolfe	14th June 1989	12 months notice
C.A. Clarke	29th November 2004	3 months notice
D.R. Chapchal	29th November 2004	3 months notice
D. K. H Begg	24th January 2006	23rd January 2007
R. H. Woodall	2nd May 2006	1st May 2007

On termination of a director's service contract, the company is required to pay basic salary or fees for the duration of his entitlement to notice.

Performance Graph



The graph above shows the total shareholder return of the Company compared to the total shareholder return for FTSE Software and Computer Services Index. This index has been used as a benchmark for comparison as the Company is a member of this sector.

AUDITED INFORMATION**Directors' Emoluments**

The breakdown of directors' emoluments is as follows:

	Salaries & fees £	Bonus £	Total Year ended 31st May 2006 £	Salaries & fees £	Bonus £	Total Year ended 31st May 2005 £
Executive Directors						
Peter Stolerman	108,517	7,500	116,017	105,342	6,000	111,342
Richard Wolfe	110,513	12,500	123,013	98,371	10,000	108,371
Non-executive Directors						
Bob Carefull	—	—	—	5,000	—	5,000
Danny Chapchal	30,000	—	30,000	15,000	—	15,000
Colin Clarke	10,000	—	10,000	10,000	—	10,000
Clive Ingham	—	—	—	15,000	—	15,000
John Perry	—	—	—	5,000	—	5,000
David Begg	3,564	—	3,564	—	—	—
Robin Woodall	795	—	795	—	—	—
	263,389	20,000	283,389	253,713	16,000	269,713

Directors' Share Options

Details of options for directors who served during the year are as follows:

	As at 1st June 2005	Granted or lapsed in the year	As at 31st May 2006	Exercise Price	Date from which exercisable	Expiry date
Peter Stolerman	35,000	(35,000)	—	123.5p	7.12.01	Cancelled
Peter Stolerman	15,000	(15,000)	—	94.0p	25.9.03	Cancelled
Peter Stolerman - LTIP scheme	—	16,667	16,667	0.01p	31.01.09	30.12.15
Peter Stolerman - EMI scheme	—	6,667	6,667	95.0p	31.01.09	31.01.16
Peter Stolerman - SAYE scheme	—	4,426	4,426	84.5p	01.11.08	30.04.09
Richard Wolfe - SAYE scheme	—	11,065	11,065	84.5p	01.11.08	30.04.09

Following the approval of a new LTIP and a new EMI scheme by shareholders at last year's annual general meeting, on 30th December 2005 options were granted as shown above. At the same time, all existing options under the former executive schemes were cancelled.

The SAYE options were granted, following the operation of the scheme for the Group as a whole, on 26th October 2005.

The value of a share in the Company on 31st May 2006 was 97p. The highest price during the year ended 31st May 2006 was 105p and the lowest price was 81.5p.

The LTIP and EMI options are subject to a performance condition. In order for either option to be exercised, the earnings per share of the Group over the 3 year period from 31st May 2005 must increase by at least 33.1%. The SAYE scheme options are not subject to any performance condition.

Directors' Pension Contributions

During the year ended 31 May 2006 the Group made payments into defined contribution pension schemes for Peter Stolerman and Richard Wolfe amounting to £12,099 (2005 - £11,632) and £17,664 (2005 - £26,860) respectively.

On behalf of the Board

C A Clarke
Chairman of the Remuneration Committee
20th November 2006

INTRODUCTION

In July 2003, the Financial Reporting Council issued a revised Combined Code on Corporate Governance ("the Code"). The company fully supports the principles of the Code and has adopted core values and group standards which set out the behaviour expected of staff in their dealings with shareholders, customers, colleagues, suppliers and other stakeholders of the group. However, in view of the size and nature of the group, the directors have taken into consideration the recommendations of The Quoted Companies Alliance on the Code.

DIRECTORS

Throughout the year, the Board of Directors comprised the Chairman, two executive and between one and three non-executive directors. Danny Chapchal and Bob Carefull were appointed on 29th November 2004 and Bob Carefull subsequently retired on 25th November 2005. David Begg was appointed a non-executive director on 24th January 2006 and Robin Woodall was appointed on 2nd May 2006.

The board met regularly throughout the year, holding seven meetings in total. The Board has a formal schedule of matters reserved to it which are dealt with at those meetings. The Board is responsible for overall group strategy, acquisition and divestment policy, approval of major capital expenditure projects and consideration of significant financing matters. It reviews the strategic direction of individual trading subsidiaries, their annual business plans, their progress towards achievement of those plans and their capital expenditure programmes.

The directors have delegated certain of their responsibilities to subsidiary boards and other committees, which operate within specific terms of reference and authority limits. The executive directors meet on a monthly basis and deal with decisions that do not require full Board approval. The directors believe that this process for making business decisions provides sufficient division of responsibility to meet the requirements of the Combined Code.

The Board ensures that all directors receive appropriate training on appointment and then subsequently as appropriate. All directors have access to the company secretary and are able to take independent professional advice in furtherance of their duties if necessary. All directors, in accordance with the Combined Code, will submit themselves for re-election at least once every three years.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The board considers Bob Carefull, David Begg and Robin Woodall to be independent. Bob Carefull was the senior independent director until he stepped down and was replaced by David Begg on his appointment. The senior independent director is always available to meet shareholders on request and to ensure that the Board is aware of shareholder concerns not resolved through existing mechanisms for investor communication.

The non-executive directors constructively challenge and help develop proposals on strategy. They also ensure that robust internal controls exist and monitor management performance against agreed goals and objectives.

REMUNERATION COMMITTEE

The Remuneration Committee meets at least once a year. Full details of the Remuneration Committee are set out in the Directors' Remuneration Report.

The chairman of the Committee is Colin Clarke.

BOARD COMMITTEE ATTENDANCE

All directors in office at the relevant times attended all board meetings with the exception of Bob Carefull, who attended two of the four meetings that took place whilst he was a member of the board, and Colin Clarke who attended six out of seven meetings. There were two Audit Committee meetings held during the year and these were attended by all of its members. There was one Remuneration Committee meeting held during the year which was attended by Colin Clarke, Bob Carefull and Danny Chapchal.

AUDIT COMMITTEE

The Audit Committee, comprising the Chairman and the non-executive directors, meets periodically with other directors attending by invitation. The Audit Committee is responsible for the relationship with the group's auditors, and its duties include monitoring the adequacy of the Group's internal controls as well as reviewing accounting policies and financial reporting, together with the scope and results of the audit, and assessing the cost-effectiveness of the audit and non-audit services provided to the Group.

The Audit Committee undertakes a formal assessment of the auditors' independence each year, which includes a review of non-audit services provided to the Group and the related fees. The Audit Committee also holds discussions with the auditors about any relationships with the Group or its directors that could affect auditor independence, or the perception of independence. Part of selected meetings of the Audit Committee are held between the non-executive directors and external auditors in private.

The Committee meets at least twice a year and, should it be necessary, would convene at other times.

The Audit Committee has reviewed the Group's system of internal controls and reviews the need for an internal audit function annually. Due to the size of the Group, the Audit Committee does not currently consider there is a need for an internal audit function.

Details of the amounts paid to the external auditors during the year for audit and other services are set out in the notes to the financial statements.

The chairman of the Committee was Bob Carefull until he stood down. He was replaced by David Begg on his appointment.

NOMINATION COMMITTEE

The Nomination Committee was established last year and comprises the non-executive directors and the Chairman. Its terms of reference, role and delegated authority have all been agreed by the full board. The committee meets on an as required basis. The chairman of the Committee is Danny Chapchal.

During the year, the Committee oversaw the appointment of two new non-executive directors. Several candidates were considered, with nominations being brought forward as a result of contacts of both non-executive and executive directors, as well as proposals from the Group's external advisers and other interested parties. As there was a sufficient number of appropriate candidates produced from these sources, the committee did not feel that there was a need to use the services of an external search consultancy or open advertising.

PERFORMANCE EVALUATION

The board has established a process for the annual evaluation of the performance of the Board, its principal committees, and individual directors, with particular attention to those who are due for re-appointment. The directors are made aware that their performance will be subject to an evaluation on appointment.

ACCOUNTABILITY AND AUDIT

The Board believes that the Annual Report and Accounts play an important part in presenting all shareholders with an assessment of the Group's position and prospects. This is achieved by the Chairman's Statement which contains a detailed consideration of the Group's position and prospects, together with the Operations Review which covers more detailed aspects of performance and prospects on a business by business basis.

GOING CONCERN

After making enquiries, the directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the financial statements.

INTERNAL CONTROL

The directors are responsible for the Group's system of internal control. Although no system of internal control can provide absolute assurance against material misstatement or loss, the Group's system as a whole is designed to provide the directors with reasonable assurance that problems are identified on a timely basis and dealt with appropriately.

There is a formal on-going process for identifying, evaluating, managing and reviewing the risks faced by the business. This process is under the control of the chief executive officer and is regularly reviewed by the board.

Key procedures that the Board has established and which are designed to provide effective internal control and risk management for the Group include:

- the Board has put in place an organisational structure with clearly defined lines of responsibility and delegation of authority to executive management. A committee has been established, under the chairmanship of the chief executive officer, with the aim of identifying current risks and best practice in all key operational areas of the Group's business, and then bringing forward recommendations for change. This will enable increasing standardisation of processes, the identification of risks at an early stage, and improvements in quality and efficiency throughout the Group.
- the Group has a comprehensive system for reporting financial results to the Board. Each operating unit prepares monthly results with a comparison against budget, and reforecasting is undertaken on a regular basis. Towards the end of each financial year each operating unit prepares a detailed business plan and budget for the following year together with an update of their rolling three year outline plans. Budgets and plans are reviewed by the Board before being adopted formally.
- much of the Group's financial and management information is processed by and stored on computer systems. Accordingly, the Group has established controls and procedures over the security of data held on computer systems. Also, the Group has put in place arrangements for computer processing to continue and data to be retained in the event of the complete failure of the Group's own data processing facility.

The directors have reviewed the effectiveness of the Group's internal controls and are satisfied that they have operated throughout the year. However, steps are continuing to be taken to embed internal control and risk management further into the operations of the business and to deal with areas of improvement which come to the attention of management and the Board.

RELATIONS WITH SHAREHOLDERS

The Company encourages two way communication with both its institutional and private investors and responds promptly to all enquiries. The chairman, chief executive and finance director hold regular meetings with the majority of institutional shareholders and with brokers' analysts and all other non-executive directors are made available to shareholders. All shareholders receive at least 20 working days notice of the Annual General Meeting at which the full Board is available for questions.

COMPLIANCE STATEMENT

Throughout the year ended 31st May 2006, the Company complied with the provisions of the Code, save for the exceptions outlined below:

- A.3.2 - The Code states that Trace, which meets the definition of a smaller company, should have at least 2 independent non-executive directors. The Chairman, from the date of appointment, falls outside of this definition and so the Company did not comply until Robin Woodall's appointment on 2nd May 2006. Whilst the Company now complies, it nevertheless believed that its overall composition met the spirit of the requirements and was appropriate to the Company, given its nature and size up until 2nd May 2006.
- A.3.3 - Because there was a gap between the date on which Bob Carefull ceased to be a director and David Begg was appointed, for a period of 59 days the Company did not have a senior independent director.
- A.4.1, B.2.1 & C.3.1 - The Nomination, Remuneration and Audit Committees each have the Chairman of the board and Colin Clarke, who are not regarded as independent, amongst their members. The inclusion of directors who are not independent on these committees means that they are not properly constituted. Since 2nd May 2006, each committee includes 2 independent non-executive directors, a separate requirement of these code provisions. However, the board believes that the composition of the committees has always met the spirit of the requirements and is appropriate to the Company, given its nature and size.
- A.4.1 - During the year, two new non-executive directors were appointed. However, at this point a separate nomination had not been constituted and so the advertising and search methods required by the Code were not fully followed.
- A.6.1 - The performance evaluation of the Board, its committees and its individual directors is undertaken by the Board as a whole and is not formally documented. The Board consider that the creation of the separate committees and formal procedures is unnecessary given the size of the Group.
- D.2.3 - Whilst the Chairman set the date of last year's AGM so that all directors would be able to attend, due to unforeseen circumstances the chairman of the audit committee did not attend.

We have audited the Group financial statements on pages 15 to 38.

We have reported separately on the parent company financial statements of Trace Group plc for the year ended 31st May 2006 and on the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) adopted by the European Union ("EU") are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Group financial statements give a true and fair view and whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the Group financial statements.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding director's remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited Group financial statements. The other information comprises only the Chairman's Statement, the Review of Operations, the Directors' Report, the unaudited part of the Directors' Remuneration Report and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the group financial statements. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group financial statements.

OPINION

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31st May 2006 and of its profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the group financial statements.

SEPARATE OPINION IN RELATION TO IFRSs

As explained in Note 2 to the Group financial statements, the Group in addition to complying with its legal obligation to comply with IFRSs as adopted by European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board.

In our opinion the Group financial statements give a true and fair view, in accordance with IFRSs, of the state of the group's affairs as at 31st May 2006 and of its profit for the year then ended.

BAKER TILLY

Registered Auditor

Chartered Accountants

2 Bloomsbury Street, London, WC1B 3ST

20th November 2006

	Note	Year ended 31st May 2006 £	Year ended 31st May 2005 £
CONTINUING OPERATIONS			
Revenue	4	14,297,452	14,655,880
Direct cost of sales		(1,932,100)	(2,111,609)
Gross margin		12,365,352	12,544,271
Sales and software service and support costs		(9,037,045)	(9,406,419)
Gross profit		3,328,307	3,137,852
Administrative expenses		(1,878,510)	(1,709,491)
Operating profit		1,449,797	1,428,361
Property rental income		368,961	411,960
Related property costs		(416,167)	(508,107)
Related onerous lease provision		–	(250,000)
Reversal of prior year impairment of freehold properties		–	168,143
Profit before interest and tax		1,402,591	1,250,357
Finance income	8	165,567	121,990
Finance costs	9	(11,051)	(18,983)
Profit before tax	6	1,557,107	1,353,364
Tax	10	(368,578)	(312,570)
Profit for the year from continuing operations		1,188,529	1,040,794
Loss for the year from discontinued operations	11	(150,035)	(202,293)
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	26	1,038,494	838,501
EARNINGS PER SHARE			
	13		
Continuing operations			
Basic earnings per share		8.23 p	6.96 p
Diluted earnings per share		8.19 p	6.96 p
Continuing and discontinued operations			
Basic earnings per share		7.19 p	5.61 p
Diluted earnings per share		7.15 p	5.61 p

	Note	31st May 2006 £	31st May 2005 £
Non-current assets			
Freehold land and buildings	15	6,997,800	6,985,000
Other property, plant and equipment	15	312,553	340,052
Intangible assets	14	2,256,956	1,471,570
Available for sale investments	17	766	766
Trade and other receivables	14	68,636	145,538
Deferred tax asset	20	168,671	311,002
		9,805,382	9,253,928
Current assets			
Inventories	18	175,975	165,842
Trade and other receivables	19	4,662,181	5,014,432
Cash and cash equivalents	19	2,417,242	3,025,610
		7,255,398	8,205,884
TOTAL ASSETS		17,060,780	17,459,812
Current liabilities			
Trade and other payables	21	(4,367,727)	(4,634,864)
Current tax liabilities		(26,030)	(332,051)
Provisions	22	(72,880)	(79,182)
		(4,466,637)	(5,046,097)
Net current assets		2,788,761	3,159,787
Non-current liabilities			
Long term provisions	22	(115,394)	(182,274)
Deferred tax liabilities	20	(833,265)	(654,800)
		(948,659)	(837,074)
TOTAL LIABILITIES		(5,415,296)	(5,883,171)
NET ASSETS		11,645,484	11,576,641
Equity			
Share capital	23	759,433	759,433
Share premium account		2,918,615	2,918,615
Revaluation reserve	24	1,846,969	1,841,268
Own shares	25	(1,136,060)	(257,862)
Capital redemption reserve		1,500	1,500
Other reserve		39,821	39,821
Retained earnings	26	7,215,206	6,273,866
TOTAL EQUITY		11,645,484	11,576,641

The financial statements were approved by the Board of directors and authorised for issue on 20th November 2006. They were signed on its behalf by:

D.R. Chapchal
Chairman

	Year ended 31st May 2006 £	Year ended 31st May 2005 £
OPERATING ACTIVITIES		
Operating profit from continuing operations	1,402,591	1,250,357
Operating loss from discontinued operations	(147,752)	(197,566)
Share option charge	30,000	–
Depreciation of property, plant and equipment	247,062	357,301
Reversal of prior year impairment of freehold property	–	(168,143)
Gain on disposal of property, plant and equipment	–	(4,214)
Impairment of goodwill	–	200,000
Amortisation of other intangible assets	224,172	488,407
(Increase)/decrease in inventories	(10,133)	432,209
Decrease/(increase) in trade and other receivables	429,152	(346,176)
(Decrease)/increase in trade and other payables	(250,135)	34,257
(Decrease)/increase in provisions	(73,183)	261,456
Cash generated from operations	1,851,774	2,307,888
Interest paid	(11,110)	(18,609)
Tax paid	(350,526)	(19,381)
Cash generated from operating activities	1,490,138	2,269,898
INVESTING ACTIVITIES		
Interest received	165,766	121,670
Proceeds on disposal of property, plant and equipment	8,083	15,113
Purchases of property, plant and equipment	(240,445)	(253,000)
Development expenditure	(1,009,558)	(589,759)
Net cash used in investing activities	(1,076,154)	(705,976)
FINANCING ACTIVITIES		
Dividends paid	(127,154)	(104,715)
Repayment of loan notes	(17,000)	(1,016,400)
Purchase of treasury shares	(878,198)	–
Net cash used in financing activities	(1,022,352)	(1,121,115)
Net change in cash and cash equivalents	(608,368)	442,807
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	3,025,610	2,582,803
CASH AND CASH EQUIVALENTS AT END OF YEAR	2,417,242	3,025,610

	Year ended 31st May 2006 £	Year ended 31st May 2005 £
Profit attributable to equity holders of the Company	1,038,494	838,501
Revaluation surplus	–	1,443,307
Deferred tax on property revaluation	5,701	(81,005)
Total recognised income and expense for the year	1,044,195	2,200,803
Share option charge	30,000	–
Dividends	(127,154)	(104,715)
Purchase of treasury shares	(878,198)	–
Net increase in shareholders' equity	68,843	2,096,088
Total shareholders' equity brought forward	11,576,641	9,480,553
Total shareholders' equity carried forward	11,645,484	11,576,641

1. GENERAL INFORMATION

Trace Group plc (“the Company”) is incorporated in the United Kingdom under the Companies Act 1985. The address of the registered office is given on page 2. The nature of the Group’s operations and its principal activities are set out in the Review of Operations on pages 4 to 6.

At the date of authorisation of these financial statements the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

IFRS 6 - Exploration for and Evaluation of Mineral Resources

IFRS 7 - Financial instruments: Disclosures; and the related amendment to IAS 1 on capital disclosures

IFRIC 4 - Determining whether an Arrangement contains a Lease

IFRIC 5 - Rights to Interest Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

IFRIC 7 - Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies

IFRIC 8 - Scope of IFRS 2 Share-based Payment

IFRIC 9 - Reassessment of Embedded Derivatives

IFRIC 11 - IFRS 2 - Group and Treasury Share transactions

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group when the relevant standards and interpretations come into effect.

2. SIGNIFICANT ACCOUNTING POLICIES

a) BASIS OF ACCOUNTING

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) for the first time. The disclosures required by IFRS 1 concerning the transition from UK Generally Accepted Accounting Principles (“GAAP”) to IFRSs are given in note 32. The financial statements have also been prepared in accordance with IFRSs adopted for use in the European Union and therefore comply with Article 4 of the EU IAS Regulation.

The financial statements have been prepared in accordance with the historical cost convention, modified to incorporate the revaluation of freehold land and buildings. The principal accounting policies adopted are set out below.

b) BASIS OF CONSOLIDATION

The Group financial statements consolidate the financial statements of the Company and all its subsidiary undertakings for the periods during which they were members of the Group. Subsidiary undertakings are those entities controlled directly or indirectly by the Company. Control arises when the Company has the ability to direct the financial and operating policies of an entity so as to obtain benefits from its activities.

Subsidiary undertakings are consolidated from the date of acquisition. Profits and balances arising on trading between Group companies are excluded from the financial statements. All companies within the Group make up their financial statements to the same date.

On acquisition, assets and liabilities of subsidiaries are measured at their fair values at the date of acquisition with any excess of the cost of acquisition over this value being capitalised as goodwill.

c) AVAILABLE FOR SALE INVESTMENTS

Available for sale investments are non-derivative financial assets that are designated as available for sale. The investments are held at fair value with gains and losses taken to equity. The gains and losses taken to equity are recycled through the income statement on realisation. If there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in the income statement. The amount removed from equity and recognised in the income statement is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in income.

d) REVENUE RECOGNITION

Revenue is the amount derived from the provision of goods and services falling within the Group’s ordinary activities after deduction of trade discounts and value added tax and excludes intra-Group transactions. Revenue is not recognised until the significant risks and rewards of ownership of the products and services sold have passed to the buyer, value can be reliably measured and the amount can be reasonably assured of being recovered.

The Group derives revenue from software licences, customer support and maintenance and the provision of other products and services. Software licence revenue is recognised when persuasive evidence of an agreement exists, such as a signed contract or purchase order, where delivery to and acceptance of the software by the customer has occurred and no future elements to be delivered are essential to the functionality of the delivered element, and when the price is determinable and collectibility is considered probable. Support and maintenance revenues are recognised on a straight line basis over the term of the relevant contract. Revenue not recognised in the income statement under this policy is classified as deferred income in the balance sheet.

All other revenues are recognised when products are delivered or services are provided. Larger contracts for the delivery of solution with multiple elements, typically involving licence, support and maintenance and other services, are unbundled, and revenue is recognised based on the accounting policy applicable to each constituent part.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)**d) REVENUE RECOGNITION (continued)**

Revenue for software development is assessed on a contract by contract basis and reflected in the income statement by recording turnover as contract activity progresses. Turnover is ascertained in a manner appropriate to the stage of completion of the contract and credit taken for profit earned to date when the outcome of the contract can be assessed with reasonable certainty. The amount by which turnover exceeds payments received on account is classified as amounts recoverable on contracts and to the extent that payments on account exceed turnover the excess is included as a deferred income.

e) LEASES

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the Group. All other leases are classified as operating leases.

Assets held under finance leases are capitalised as property, plant or equipment and depreciated accordingly. The capital element of future lease payments is included in borrowings and interest is charged in the income statement over each lease term to give a constant rate of charge on the remaining balance of the obligation.

Rentals payable under operating leases are charged to income in equal annual amounts over the periods of the leases.

f) FOREIGN CURRENCIES

Foreign currency transactions are translated into sterling at the rates of exchange ruling at the dates of the transactions. Year end assets and liabilities are translated at the rates of exchange ruling at the balance sheet date. Translation differences are dealt with in the income statement.

g) OPERATING PROFIT

Operating profit is stated before property related transactions, finance income, finance costs and tax.

h) RETIREMENT BENEFIT COSTS

The cost of pensions in respect of the Group's money purchase pension schemes is charged to the income statement as incurred.

i) PROVISIONS

Provisions are recognised for future committed property lease payments when the Group receives no benefit from the property through continuing usage and future receipts from any sub-letting arrangements are not in excess of the Group's future committed payments.

j) SHARE BASED PAYMENTS

The Group operates executive and employee share schemes. For all grants of share options, the fair value as at the date of grant is calculated using an option pricing model and the corresponding expense is recognised over the vesting period. The expense is recognised as a staff cost and the associated credit entry is made against equity.

k) EMPLOYEE SHARE OWNERSHIP PLAN AND TREASURY SHARES

The Group operates an ESOP trust and has de facto control of the shares held by the trust and bears its benefits and risks. The Group records the assets and liabilities of the ESOP as its own. Finance costs and administrative expenses are charged as they accrue. Own shares held by the ESOP or in treasury are deducted in arriving at total equity.

l) DIVIDENDS

A liability is recorded for a final dividend when the dividend is approved by the company's shareholders and for an interim dividend when the dividend is paid.

m) TAXATION

The charge for current taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. It is calculated using rates that have been enacted or substantively enacted by the balance sheet date.

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

Deferred tax liabilities are recognised for all taxable 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 the temporary difference will not reverse in the foreseeable future, and on the initial recognition of non-deductible goodwill.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary difference can be utilised. Their carrying amount is reviewed at each balance sheet date on the same basis.

Deferred tax is measured on an undiscounted basis and at the tax rates that are expected to apply in the periods in which the asset or liability is settled. Deferred tax is recognised in the income statement except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

The tax expense represents the sum of the tax currently payable and deferred tax.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)**n) FREEHOLD LAND AND BUILDINGS AND OTHER PROPERTY, PLANT AND EQUIPMENT**

Freehold land and buildings are stated at year end valuation. All other fixed assets are stated at historical cost less accumulated depreciation and any provision for impairment.

No depreciation is provided on freehold buildings, as, in the directors' opinion, the amount would be immaterial. A review for impairment of freehold buildings is carried out at each year end and any impairment is recognised immediately by a charge to the income statement to the extent that it exceeds the balance, if any, held in the revaluation reserve relating to a previous revaluation of that asset. For all other property, plant and equipment, depreciation is calculated so as to write down their cost to their estimated residual values, by equal annual instalments, over the period of their estimated useful economic lives which are considered to be:

- Leasehold improvements - the period of the lease
- Fixtures, fittings and office equipment - 4 to 7 years
- Computer equipment - 2 to 5 years
- Motor vehicles - 3 to 4 years

Residual values and useful lives are reviewed on an annual basis.

Any revaluation increase arising on the revaluation of freehold land and buildings is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of freehold land and buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the revaluation reserve relating to a previous revaluation of that asset.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised as income.

o) IMPAIRMENT OF ASSETS

The carrying values of property, plant and equipment and intangible assets are reviewed for impairment annually and when events or changes in circumstances 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.

p) INTERNALLY GENERATED INTANGIBLE ASSETS - SOFTWARE DEVELOPMENT EXPENDITURE

The Group considers that the regulatory, technical and market uncertainties inherent in the development of new products and technologies means that internal software development costs should not be capitalised as intangible assets until the commercial viability of a project is demonstrable and appropriate resources are in place to launch the product. Research and development expenditure prior to this point in time is expensed as incurred.

An intangible asset arising from development is only recognised if all of the following conditions are met:

- The intangible asset is considered to be technically feasible and the project to create it is sufficiently resourced to be capable of completion
- There is an intention to complete the asset and then both the intention and ability to sell it
- It is reasonably expected that the asset is likely to generate net future economic benefits
- Development costs in relation to the asset can be reliably measured

Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses. The expenditure capitalised includes the cost of materials and direct labour. Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of the products concerned.

q) INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost includes direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)**r) FINANCIAL INSTRUMENTS**

Financial assets and financial liabilities are recognised in the Group's balance sheet when a group becomes a party to the contractual provisions of the instrument.

Trade receivables - are measured at initial recognition at fair value and subsequently at amortised cost using the effective interest rate method, if material. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Cash and cash equivalents - comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities and equity - are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Trade payables - are initially measured at fair value and subsequently at amortised cost using the effective interest rate method, if material.

Equity instruments - issued by the Company are recorded at the proceeds received net of direct issue costs.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may ultimately differ from those estimates. The key source of estimation uncertainty at the balance sheet date derives from management assumptions in relation to the capitalisation and amortisation of internally generated software assets. The accounting policy in relation to this item is disclosed in note 2 above.

4. REVENUE

An analysis of the Group's revenue is as follows:

	Year ended 31st May 2006 £	Year ended 31st May 2005 £
Continuing operations		
Software packages, hardware, consumables and other goods	1,375,063	2,494,060
Software development, consultancy, maintenance and related services	9,855,676	9,499,670
Permanent and contract staff placement	1,654,970	1,326,391
Payroll services	1,411,743	1,335,759
Revenue per income statement	14,297,452	14,655,880
Property rental income	368,961	411,960
Interest income	165,567	121,990
	14,831,980	15,189,830
Discontinued operations	104,578	1,042,981
Total Revenue	14,936,558	16,232,811

5. BUSINESS AND GEOGRAPHICAL SEGMENTS**BUSINESS SEGMENTS**

For management purposes the Group is currently organised into six operating divisions. These divisions are the basis on which the Group reports its primary segment information and are as follows:

- plc - head office, central functions and investment holding company
- Insurance - Trace Isys, providing insurance broking and reinsurance broking software and related services
- Property - Trace Solutions, providing property management software and related services
- Finance - Trace Financial, providing financial messaging and corporate actions software and related services
- Payroll - Trace Employer Services, providing fully managed outsourced payroll services
- Staff - Prospect, providing permanent and contract staff

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

The Group was also previously involved, through Trace Datawise, in other areas of financial software. This operation was discontinued during the year.

Segment information about these businesses is presented below:

YEAR ENDED 31st MAY 2006	Insurance	Property	Finance	Payroll	Staff	Elimination	Ongoing Group
	£	£	£	£	£	£	£
REVENUE							
External sales	4,183,304	3,446,036	3,647,322	1,411,743	1,609,047	–	14,297,452
Inter-segment sales	–	30,000	50,400	8,920	88,220	(177,540)	–
Total revenue	4,183,304	3,476,036	3,697,722	1,420,663	1,697,267	(177,540)	14,297,452
Inter-segment sales are charged at prevailing market prices.							
RESULT							
Segment result	1,386,915	490,652	498,774	(459,041)	(51,435)	–	1,865,865
Unallocated corporate expenses							(463,274)
Profit before interest and tax							1,402,591
Finance income							165,567
Finance costs							(11,051)
Profit before tax							1,557,107
Tax							(368,578)
Profit after tax							1,188,529
OTHER INFORMATION							
Capital additions	467,422	329,634	282,221	151,846	19,093	–	1,250,216
Depreciation	59,060	48,980	36,085	78,276	14,804	–	237,205
Amortisation	53,287	61,848	107,019	2,018	–	–	224,172
BALANCE SHEET							
Segment assets	12,989,315	7,828,967	5,393,538	3,246,227	351,964	(13,305,269)	16,504,742
Unallocated corporate assets							556,038
Consolidated total assets							17,060,780
Segment liabilities	6,190,154	3,611,029	2,466,753	5,199,320	106,885	(12,724,124)	4,850,017
Unallocated corporate liabilities							565,279
Consolidated total liabilities							5,415,296

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

YEAR ENDED 31st MAY 2005	Insurance	Property	Finance	Payroll	Staff	Elimination	Ongoing Group
	£	£	£	£	£	£	£
REVENUE							
External sales	5,168,619	3,535,492	3,332,497	1,335,759	1,283,513	–	14,655,880
Inter-segment sales	180	16,800	30,996	8,648	45,750	(102,374)	–
Total revenue	5,168,799	3,552,292	3,363,493	1,344,407	1,329,263	(102,374)	14,655,880
Inter-segment sales are charged at prevailing market prices.							
RESULT							
Segment result	1,983,613	436,803	(306,264)	(314,452)	(29,103)	–	1,770,597
Unallocated corporate expenses							(520,240)
Profit before interest and tax							1,250,357
Finance income							121,990
Finance costs							(18,983)
Profit before tax							1,353,364
Tax							(312,570)
Profit after tax							1,040,794
OTHER INFORMATION							
Capital additions	784,476	92,407	48,950	147,249	10,016	–	1,083,098
Depreciation	91,524	65,368	56,515	103,559	22,206	–	339,172
Amortisation	50,165	104,688	331,536	2,018	–	–	488,407
BALANCE SHEET							
Segment assets	11,513,756	6,860,590	4,632,592	2,596,916	481,050	(9,336,936)	16,747,968
Unallocated corporate assets							438,125
Discontinued operations							273,719
Consolidated total assets							17,459,812
Segment liabilities	3,233,180	3,497,061	2,411,615	4,640,292	132,589	(8,857,215)	5,057,522
Unallocated corporate liabilities							619,139
Discontinued operations							206,510
Consolidated total liabilities							5,883,171

GEOGRAPHICAL SEGMENTS

All of the Group's operations and assets are located in the United Kingdom. The following table provides an analysis of Group sales by geographical market:

	Year ended 31st May 2006 £	Year ended 31st May 2005 £
United Kingdom	13,334,367	13,168,128
United States	122,649	217,349
Europe	807,805	1,109,255
Other	32,631	161,148
	14,297,452	14,655,880

6. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

	Year ended 31st May 2006 £	Year ended 31st May 2005 £
Net foreign exchange losses	62	5,708
Research and development costs	41,500	85,000
Depreciation of property, plant and equipment	237,205	339,172
Amortisation of intangible assets included in sales and software service and support costs	148,172	412,407
Amortisation of software licenses	76,000	76,000
Cost of inventories recognised as cost of sales	179,325	590,204
Staff costs	9,361,569	8,716,680
Auditors' remuneration for audit services	80,000	49,750

Amounts payable to Baker Tilly by the Group in respect of non-audit services were £43,100 (2005 - £26,400). A more detailed analysis of auditors' remuneration is provided below:

	Year ended 31st May 2006 £	Year ended 31st May 2005 £
Audit services - statutory audit	80,000	49,750
Further assurance services	6,750	1,925
Tax compliance services	20,750	22,400
Tax advisory services	10,695	2,075
Other financial advice	4,905	—
	123,100	76,150

A description of the work of the audit committee is set out in the Corporate Governance statement on page 12 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditors.

7. STAFF COSTS

The average monthly number of persons employed by the Group, including executive directors, within each category was:

	Year ended 31st May 2006 Number of Employees	Year ended 31st May 2005 Number of Employees
Management & administration	23	23
Production & services	146	137
Sales & distribution	18	14
	187	174

The costs incurred in respect of these employees were:

	Year ended 31st May 2006 £	Year ended 31st May 2005 £
Wages and salaries	8,163,519	7,618,721
Share option charge	30,000	—
Social security costs	911,821	843,411
Other pension costs	256,229	254,548
	9,361,569	8,716,680

8. FINANCE INCOME

	Year ended 31st May 2006 £	Year ended 31st May 2005 £
Interest on bank deposits	162,190	120,324
Other interest income	3,377	1,666
	165,567	121,990

The other interest income arose from the write back of an over accrual of loan note interest in previous years. As a result there is no charge for loan note interest in this year's financial statements.

9. FINANCE COSTS

	Year ended 31st May 2006 £	Year ended 31st May 2005 £
Interest payable on bank loans and overdrafts	6,055	374
Interest payable on loan notes	–	18,609
Other interest payable	4,996	–
	11,051	18,983

10. TAX

	Year ended 31st May 2006 £	Year ended 31st May 2005 £
Current tax:		
UK corporation tax	108,432	270,289
Adjustment in respect of prior years	(63,927)	(141,557)
Total current tax	44,505	128,732
Deferred tax:		
Origination and reversal of timing differences	324,073	140,816
Adjustment in respect of prior years	–	43,022
Total deferred tax	324,073	183,838
Total tax charge	368,578	312,570

Corporation tax is calculated at 30% (2005 - 30%) of the estimated assessable profit for the year. The tax charge for the year can be reconciled to the profit per the income statement as follows:

	Year ended 31st May 2006 £	Year ended 31st May 2005 £
Profit before tax	1,557,107	1,353,364
Tax at the UK corporation tax rate of 30% (2005 - 30%)	467,132	406,009
Expenses not deductible for tax purposes	27,309	14,568
Group relief claimed from discontinued operations	(46,660)	–
Other differences	(1,133)	–
Effect of small company tax rate	(14,143)	(9,472)
Adjustment in respect of prior years	(63,927)	(98,535)
Tax expense for the year	368,578	312,570

10. TAX (continued)

The adjustments in respect of prior years arise from enhanced research and development tax relief claimed in respect of work undertaken during the year ended 31st May 2005 (2005 - work undertaken during the year ended 31st May 2004). The directors expect to claim enhanced research and development tax relief for the year ended 31st May 2006 and future years.

11. DISCONTINUED OPERATIONS

At the beginning of the year the Group decided to wind down its Datawise operation. The immaterial remaining support contracts were transferred to other parts of the Group and by 31st May 2006 all Datawise activities had ceased. This action was taken, following rationalisation and reductions in scale in previous years, in order to bring to an end the losses that this business had incurred for the Group. The results of the discontinued operations which have been included in the consolidated income statement were as follows:

	Year ended 31st May 2006 £	Year ended 31st May 2005 £
Revenue	104,578	1,042,981
Expenses	(252,189)	(1,040,493)
Goodwill impairment	–	(200,000)
Loss before tax	(147,611)	(197,512)
Attributable tax expense	(2,424)	(4,781)
Net loss attributable to discontinued operations	(150,035)	(202,293)
Loss per share - basic	(1.04)p	(1.35)p
Loss per share - diluted	(1.04)p	(1.35)p

During the year Datawise contributed £179,328 (2005 - used £369,702) to the Group's net operating cash flow and paid £nil in respect of investing activities (2005 - £8,050).

12. DIVIDENDS

	Year ended 31st May 2006 £	Year ended 31st May 2005 £
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31st May 2005 (0.85p per share)	127,154	–
Final dividend for the year ended 31st May 2004 (0.7p per share)	–	104,715
	127,154	104,715

The directors are proposing a final dividend of 0.95p per share for the year ended 31st May 2006. This is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. The cost of the proposed dividend is estimated to be £133,000. This total excludes the dividend payable on the 229,327 shares in the ESOP since the entitlement to dividend on these shares will be waived by the Trustee of the ESOP, and it also excludes the dividend payable on the 939,846 shares in Treasury since the entitlement to dividend on these shares will be waived by the Company. If approved, the dividend is expected to be paid on or about 22nd December 2006 to shareholders on the register of members on 20th October 2006.

13. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	Year ended 31st May 2006 £	Year ended 31st May 2005 £
Profit for the year from continuing operations	1,188,529	1,040,794
Loss for the year from discontinued operations	(150,035)	(202,293)
Profit attributable to equity holders of the company	1,038,494	838,501
Weighted average number of ordinary shares for the purposes of basic earnings per share	14,443,518	14,959,334
Effect of dilutive potential ordinary shares to be issued	71,563	—
Weighted average number of ordinary shares for the purposes of diluted earnings per share	14,515,081	14,959,334

The weighted average number of ordinary shares for the purposes of basic earnings per share excludes the weighted average number of shares held in the Company's ESOP and in Treasury.

As the average fair value of a Trace share throughout the year has been less than the exercise price for outstanding EMI options there is no dilution effect this year. The dilutive potential relates to shares options under outstanding LTIPs together with shares that may be issued in relation to the Group's SAYE scheme.

14. INTANGIBLE ASSETS

	Goodwill £	Software licenses £	Internally generated software £	TOTAL £
COST				
At 1st June 2004	3,087,574	380,000	2,220,634	5,688,208
Additions	—	—	589,759	589,759
At 31st May 2005	3,087,574	380,000	2,810,393	6,277,967
Additions	—	—	1,009,558	1,009,558
At 31st May 2006	3,087,574	380,000	3,819,951	7,287,525
AMORTISATION				
At 1st June 2004	2,887,574	228,000	1,002,416	4,117,990
Charge for the year	—	76,000	412,407	488,407
Impairment charge	200,000	—	—	200,000
At 31st May 2005	3,087,574	304,000	1,414,823	4,806,397
Charge for the year	—	76,000	148,172	224,172
At 31st May 2006	3,087,574	380,000	1,562,995	5,030,569
CARRYING AMOUNT				
At 31st May 2006	—	—	2,256,956	2,256,956
At 31st May 2005	—	76,000	1,395,570	1,471,570

The amortisation period for internally generated software is calculated on a product by product basis and is reviewed on this basis annually. Currently the periods used vary between 3 and 9 years.

Goodwill, which arose from the acquisition of Datawise, was fully impaired as at 31st May 2005 (see note 11).

£380,000 of take on costs in relation to the Group's CLOVERLEAF Finance product were capitalised at 31st May 2001. These were amortised in equal amounts over a five year period.

15. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings £	Short leasehold improvements £	Fixtures, fittings and equipment £	Motor vehicles £	TOTAL £
COST OR VALUATION					
At 1st June 2004	5,370,000	64,881	2,041,285	135,079	7,611,245
Additions	3,550	—	196,561	52,889	253,000
Revaluation	1,611,450	—	—	—	1,611,450
Disposals	—	—	—	(92,209)	(92,209)
At 31st May 2005	6,985,000	64,881	2,237,846	95,759	9,383,486
Additions	12,800	—	211,085	16,560	240,445
Disposals	—	—	(95,496)	(22,885)	(118,381)
At 31st May 2006	6,997,800	64,881	2,353,435	89,434	9,505,550
DEPRECIATION					
At 1st June 2004	—	12,455	1,656,866	113,122	1,782,443
Charge for the year	—	13,486	290,514	14,361	318,361
Impairment charge	—	38,940	—	—	38,940
Disposals	—	—	—	(81,310)	(81,310)
At 31st May 2005	—	64,881	1,947,380	46,173	2,058,434
Charge for the year	—	—	228,782	18,280	247,062
Disposals	—	—	(95,449)	(14,850)	(110,299)
At 31st May 2006	—	64,881	2,080,713	49,603	2,195,197
CARRYING AMOUNT					
At 31st May 2006	6,997,800	—	272,722	39,831	7,310,353
At 31st May 2005	6,985,000	—	290,466	49,586	7,325,052

The impairment loss on short leasehold improvements in the year ended 31st May 2005 arose as a consequence of decision of the directors to provide for the estimated future costs under an onerous lease that expires in December 2008.

The directors commissioned a valuation of the group's two freehold properties as at 31st May 2006 by Daniel Watney, Chartered Surveyors, who are independent valuers and not connected with the Group. The valuation complies with the RICS Appraisal and Valuation Standards issued by the Royal Institution of Chartered Surveyors and was undertaken in accordance with International Valuation Application 1 of the International Valuation Standards. As a result of this work, the property valuations in the accounts have been maintained at the same level as last year.

If land and buildings had been stated at historical cost then they would have been included at £4,920,941 (2005 - £4,908,141).

16. SUBSIDIARIES

The trading companies in the Group were:

	Percentage of nominal value of issued ordinary shares held at 31st May 2006
Trace Isys Limited	100%
Trace Financial Limited	100%
Trace Datawise Financial Limited	100%
Prospect Recruitment Limited	100%
Trace Solutions Limited	100%
Trace Employer Services Limited	100%

All subsidiaries are consolidated in the Group accounts.

16. SUBSIDIARIES (continued)

Trace Financial Limited is 51% owned by Trace Isys Limited and 49% owned by the Company. Prospect Recruitment Limited is wholly owned by Prospect Holdings Limited which in turn is owned by Trace Isys Limited. Trace Employer Services Limited is wholly owned by G&G Computer Group Limited. All other shareholdings are directly held by the Company.

All of the above companies were incorporated in Great Britain and registered in England and Wales and have their principal operations in England. All of the above trading companies are involved in the provision of computer consultancy services, proprietary software products, computer hardware and a complementary range of other products and services.

Details of dormant companies, none of which is material to the financial statements, are omitted and a complete list will be attached to the forthcoming annual return.

17. AVAILABLE FOR SALE INVESTMENTS

The Group's non-current asset investments comprise the following:

Company Name	Date of Acquisition	No. of shares	Fair value £	% of issued capital
Property Computer Show Limited	30th October 1990	8	766	6.01
At 31st May 2006			766	

The above company has its principal place of business and was incorporated in Great Britain and is registered in England and Wales.

18. INVENTORIES

	31st May 2006 £	31st May 2005 £
Raw materials & consumables	9,715	9,597
Goods for resale	166,260	156,245
	175,975	165,842

19. OTHER FINANCIAL ASSETS**TRADE AND OTHER RECEIVABLES**

	31st May 2006 £	31st May 2005 £
Trade debtors	3,543,853	3,854,461
Other debtors	277,964	363,247
Prepayments & accrued income	294,082	241,177
Amounts recoverable on contracts	546,282	555,547
	4,662,181	5,014,432

Trade and other receivables included as non-current assets comprise certain ordinary sales transactions where deferred payment terms have been agreed.

The average credit period taken on sales of goods and services is 50 days. No interest is charged on overdue balances. An allowance is made for estimated irrecoverable amounts by reference to specific circumstances as well as past default experience and at 31st May 2006 this was £110,139 (2005 - £98,897).

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

19. OTHER FINANCIAL ASSETS (continued)**CASH AND CASH EQUIVALENTS**

The directors consider that the carrying amount of cash and cash equivalents approximates their fair value.

CREDIT RISK

The Group's principal financial assets are bank balances and cash, trade and other receivables and investments.

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

20. DEFERRED TAX

The following are the major deferred tax assets and liabilities recognised by the Group and movements thereon during the current and prior reporting period.

	Accelerated tax depreciation £	Revaluation of building £	Tax losses £	R & D £	Other timing differences £	TOTAL £
At 1st June 2004	223,749	(154,586)	107,642	(365,801)	108,016	(80,980)
Charges to income	7,220	—	(62,709)	(53,408)	(72,916)	(181,813)
Charges to equity	—	(81,005)	—	—	—	(81,005)
At 31st May 2005	230,969	(235,591)	44,933	(419,209)	35,100	(343,798)
Charges to income	(92,520)	—	(44,933)	(184,104)	(4,940)	(326,497)
Charges to equity	—	5,701	—	—	—	5,701
At 31st May 2006	138,449	(229,890)	—	(603,313)	30,160	(664,594)

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances, after offset, for financial reporting purposes:

	31st May 2006 £	31st May 2005 £
Deferred tax liabilities	(833,265)	(654,800)
Deferred tax assets	168,671	311,002
	(664,594)	(343,798)

21. OTHER FINANCIAL LIABILITIES

	31st May 2006 £	31st May 2005 £
Trade creditors	346,529	301,367
Loan notes	51,614	68,614
Other tax and social security	775,660	791,134
Accruals and deferred income	3,103,223	3,375,772
Other creditors	90,701	97,977
	4,367,727	4,634,864

Trade and other creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 32 days.

The directors consider that the carrying amount of trade and other creditors approximates to their fair value.

As part of the acquisition of Prospect Recruitment Limited, Trace Isys Limited issued non-convertible loan notes for £260,000 to the vendors of that company. These are repayable on two months' notice at any time. In any event they are to be repaid by 30th June 2009. Interest is payable monthly at the greater of 3% under the London Interbank Offered Rate ("LIBOR") or 10%. During the year, £17,000 of these loan notes were redeemed at par, bringing the total amount redeemed to date to £208,386.

22. PROVISIONS

	Onerous lease £
At 1st June 2005	261,456
Utilisation of provision	(73,182)
At 31st May 2006	188,274

	31st May 2006 £	31st May 2005 £
Included in current liabilities	72,880	79,182
Included in non-current liabilities	115,394	182,274
	188,274	261,456

The onerous lease provision represents management best estimate of the Group's likely net loss in relation to its lease in respect of premises at Scrutton Street, London EC2, which are not used for operational purposes. The lease expires in December 2008.

23. SHARE CAPITAL

	31st May 2006 £	31st May 2005 £
Authorised: 20,000,000 ordinary shares of 5p each	1,000,000	1,000,000
Called up, allotted and fully paid: 15,188,661 ordinary shares of 5p each	759,433	759,433

24. REVALUATION RESERVE

	Property revaluation £	Deferred tax £	Net revaluation reserve £
At 1st June 2004	633,552	(154,586)	478,966
Revaluation increase on land and buildings	1,443,307	–	1,443,307
Deferred tax arising on revaluation of land and buildings	–	(81,005)	(81,005)
Balance at 31st May 2005	2,076,859	(235,591)	1,841,268
Effect of indexation on deferred tax	–	5,701	5,701
Balance at 31st May 2006	2,076,859	(229,890)	1,846,969

25. OWN SHARES

	ESOP shares £	Treasury shares £	Total £
At 1st June 2004 and 2005	257,862	–	257,862
Acquired in year	–	878,198	878,198
Balance at 31st May 2006	257,862	878,198	1,136,060

The group operates an ESOP trust which owned 229,327 shares of 5p each in the Company throughout the year. These were acquired at a cost of £257,862. The market value of these shares as at 31st May 2006 was £222,447 (2005 - £186,902).

During the year the directors exercised the powers conferred on them at the last Annual General Meeting of the Company and acquired 939,846 shares of 5p each in the company. Purchases were made at prices which varied between 81p and 102.5p per share, averaging at 93.4p. The market value of these shares as at 31st May 2006 was £911,651.

The review of operations explains the proposed arrangements regarding the utilisation of the shares held in the ESOP and in treasury.

26. RETAINED EARNINGS

	£
At 1st June 2004	5,540,080
Dividends paid	(104,715)
Net profit for the year	838,501
Balance at 31st May 2005	6,273,866
Dividends paid	(127,154)
Net profit for the year	1,038,494
Credit to equity for share-based payments	30,000
Balance at 31st May 2006	7,215,206

27. OPERATING LEASE ARRANGEMENTS

At 31st May 2006, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	Land and buildings		Other	
	31st May 2006 £	31st May 2005 £	31st May 2006 £	31st May 2005 £
Within one year	366,500	362,000	220	659
In two to five years	837,667	1,097,667	—	220
After five years	433,583	540,083	—	—
	1,637,750	1,999,750	220	879

The lease payments made under operating leases recognised in income for the year totalled £366,720 (2005 - £362,659). Related property rental income earned during the year was £295,500 (2005 - £295,500). At 31st May 2006 the Group had contracted with tenants for the following future minimum lease payments:

	31st May 2006 £	31st May 2005 £
Within one year	295,500	295,500
In two to five years	662,417	877,417
After five years	147,583	228,083
	1,105,500	1,401,000

28. SHARE BASED PAYMENTS**SAVE AS YOU EARN SHARE OPTION SCHEME ("SAYE")**

In October 2005, the Company operated its SAYE scheme, approved by shareholders in 1998. On 26th October 2005 the Company granted options to employees over 314,683 ordinary shares. The option period is 3 years, at which stage the options vest, and the exercise price was fixed at 84.5p per share, a discount of 8.4% to the prevailing market price. Options may only be exercised during the 6 month period following vesting and if an employee leaves the Group before the date of exercise or vesting then options will normally lapse.

ENTERPRISE MANAGEMENT INCENTIVE SHARE OPTION PLAN ("EMI") AND LONG TERM INCENTIVE PLAN ("LTIP")

Following approval by shareholders at last year's AGM, the Company introduced an EMI plan and an LTIP plan in order to allow selected employees to share in the success of the Group. EMI options are exercisable at a price equal to the quoted market price of a Trace share on the date of grant. LTIP awards are exercisable, in total, for the nominal sum of £1 per employee. The vesting period for both plans is 3 years and the exercise period is generally between 3 and 6 years from the date of grant. If an employee leaves the Group before the date of exercise or vesting then options and awards will normally lapse.

Details of SAYE and EMI options and LTIP awards outstanding during the year were as follows:

	Number of share options LTIP	Number of share options EMI	Number of share options SAYE
Outstanding at beginning of year	—	—	—
Granted during the year	128,276	64,664	314,683
Lapsed during the year	—	—	(8,852)
Outstanding at the end of the year	128,276	64,664	305,831
Exercisable at the end of the year	—	—	—

The EMI options outstanding at 31st May 2006 had a weighted average exercise price of 95.5p. The SAYE options outstanding at 31st May 2006 had a weighted average exercise price of 84.5p. The LTIP awards are all exercisable at the nominal value of £1 per employee award. The EMI options and LTIP awards outstanding have a weighted average remaining contractual life of 9½ years. The SAYE options have a weighted average remaining contractual life of 3 years.

29. SHARE BASED PAYMENTS (continued)

The share based payments charge is calculated using the Black-Scholes method, the inputs into which are as follows:

	LTIP	EMI	SAYE
Weighted average share price	95.50p	95.50p	93.50p
Weighted average exercise price	–	95.50p	84.50p
Expected volatility	32.80%	32.80%	32.80%
Expected life	9.5 years	9.5 years	3.5 years
Risk free rate	4.40%	4.40%	4.40%
Expected dividends	1.00%	1.00%	1.00%

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous 5 years. The expected useful life used in the model has been adjusted, based on management's best estimates, for the effects of non-transferability, exercise restrictions and behavioural considerations.

30. PENSION SCHEMES

The Group operates a defined contribution retirement scheme for all qualifying employees. The scheme is in the form of a group personal pension plan and the assets are held separately from the Group in funds under the control of independent trustees. The total cost charged to income in respect of contributions to the plan at rates specified in the rules of the plan was £256,229 (2005 - £254,548).

31. RELATED PARTY TRANSACTIONS

Transactions between the Group companies, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

The remuneration of the directors, who are the key management personnel of the Group, is set out below:

	31st May 2006 £	31st May 2005 £
Short term employee benefits	283,389	269,713
Post employment benefits	29,763	38,492
Share based payment	2,500	–
Total	315,652	308,205

Information about the remuneration of individual directors is provided in the Directors' Remuneration Report.

32. EXPLANATION OF TRANSITION TO IFRSs

This is the first year that the Group has presented its financial statements under IFRS. The following disclosures are required in the year of transition. The last financial statements were under UK GAAP, were for the year ended 31st May 2005 and the date of transition to IFRSs was therefore 1st June 2004.

RECONCILIATION OF EQUITY AT 1ST JUNE 2004 (DATE OF TRANSITION TO IFRSs)

	UK GAAP	Effect of Transition To IFRSs	IFRSs
	£	£	£
Non-current assets			
Freehold land and buildings	5,370,000	–	5,370,000
Other property, plant and equipment	678,139	(219,337)	458,802
Intangible assets	352,000	1,218,219	1,570,219
Available for sale investments	766	–	766
Trade and other receivables	272,325	–	272,325
Deferred tax asset	265,589	65,801	331,390
	6,938,819	1,064,683	8,003,502
Current assets			
Inventories	598,051	–	598,051
Trade and other receivables	4,541,469	–	4,541,469
Cash and cash equivalents	2,582,803	–	2,582,803
	7,722,323	–	7,722,323
TOTAL ASSETS	14,661,142	1,064,683	15,725,825
Current liabilities			
Trade and other payables	(5,721,935)	104,715	(5,617,220)
Current tax liabilities	(215,829)	–	(215,829)
Provisions	–	–	–
	(5,937,764)	104,715	(5,833,049)
Net current assets	1,784,559	104,715	1,889,274
Non-current liabilities			
Long term provisions	–	–	–
Deferred tax liabilities	107,681	(520,052)	(412,371)
	107,681	(520,052)	(412,371)
TOTAL LIABILITIES	(5,830,083)	(415,337)	(6,245,420)
NET ASSETS	8,831,059	649,346	9,480,405
Equity			
Share capital	759,433	–	759,433
Share premium account	2,918,615	–	2,918,615
Revaluation reserve	633,552	(154,586)	478,966
Own shares	(257,862)	–	(257,862)
Capital redemption reserve	1,500	–	1,500
Other reserve	39,821	–	39,821
Retained earnings	4,736,000	803,932	5,539,932
TOTAL EQUITY	8,831,059	649,346	9,480,405

32. EXPLANATION OF TRANSITION TO IFRSs (continued)

RECONCILIATION OF EQUITY AT 31ST MAY 2005

	UK GAAP	Effect of Transition To IFRSs	IFRSs
	£	£	£
Non-current assets			
Freehold land and buildings	6,985,000	–	6,985,000
Other property, plant and equipment	804,081	(464,029)	340,052
Intangible assets	76,000	1,395,570	1,471,570
Available for sale investments	766	–	766
Trade and other receivables	145,538	–	145,538
Deferred tax asset	171,793	139,209	311,002
	8,183,178	1,070,750	9,253,928
Current assets			
Inventories	165,842	–	165,842
Trade and other receivables	5,014,432	–	5,014,432
Cash and cash equivalents	3,025,610	–	3,025,610
	8,205,884	–	8,205,884
TOTAL ASSETS	16,389,062	1,070,750	17,459,812
Current liabilities			
Trade and other payables	(4,762,018)	127,154	(4,634,864)
Current tax liabilities	(332,051)	–	(332,051)
Provisions	(79,182)	–	(79,182)
	(5,173,251)	127,154	(5,046,097)
Net current assets	3,032,633	127,154	3,159,787
Non-current liabilities			
Long term provisions	(182,274)	–	(182,274)
Deferred tax liabilities	(538)	(654,262)	(654,800)
	(182,812)	(654,262)	(837,074)
TOTAL LIABILITIES	(5,356,063)	(527,108)	(5,883,171)
NET ASSETS	11,032,999	543,642	11,576,641
Equity			
Share capital	759,433	–	759,433
Share premium account	2,918,615	–	2,918,615
Revaluation reserve	2,076,859	(235,591)	1,841,268
Own shares	(257,862)	–	(257,862)
Capital redemption reserve	1,500	–	1,500
Other reserve	39,821	–	39,821
Retained earnings	5,494,633	779,233	6,273,866
TOTAL EQUITY	11,032,999	543,642	11,576,641

32. EXPLANATION OF TRANSITION TO IFRSs (continued)

RECONCILIATION OF PROFIT FOR THE YEAR ENDED 31ST MAY 2005

	UK GAAP	Effect Of Transition to IFRSs	IFRSs
	£	£	£
CONTINUING OPERATIONS			
Revenue	14,655,880	–	14,655,880
Direct cost of sales	(2,111,609)	–	(2,111,609)
Gross margin	12,544,271		12,544,271
Sales and software service and support costs	(9,338,864)	(67,555)	(9,406,419)
Gross profit	3,205,407	(67,555)	3,137,852
Administrative expenses	(1,709,491)	–	(1,709,491)
Operating profit	3,205,407	(67,555)	3,137,852
Property rental income	411,960	–	411,960
Related property costs	(508,107)	–	(508,107)
Related onerous lease provision	(250,000)	–	(250,000)
Reversal of prior year impairment of freehold properties	168,143	–	168,143
Profit before interest and tax	1,317,912	(67,555)	1,250,357
Finance income	121,990	–	121,990
Finance costs	(18,983)	–	(18,983)
Profit before tax	1,420,919	(67,555)	1,353,364
Tax	(332,837)	20,266	(312,571)
Profit for the year from continuing operations	1,088,082	(47,289)	1,040,793
Loss for the year from discontinued operations	(202,293)	–	(202,293)
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	885,789	(47,289)	838,500

The adjustments made to the previously reported UK GAAP financial statements as a result of the adoption of IFRS were as follows:

- Property plant and equipment - certain software development costs previously capitalised as tangible fixed assets now fall to be treated as intangible assets under IAS 38 and so the net book value of such assets has been removed from other property, plant and equipment.
- Intangible assets - IAS 38 requires the Group to capitalise development costs that meet the criteria set out in the standard. As a result the Group has capitalised development costs previously expensed under UK GAAP and therefore has increased the carrying value of intangible assets.
- Deferred tax - IAS 12 requires that full provision be made for all taxable temporary differences except those arising on goodwill. Deferred tax liabilities and assets are classified as non-current irrespective of the expected timing of the reversal of the underlying taxable temporary difference. The principal impact of adopting IFRS has been to recognise deferred tax on property revaluation adjustments, together with the related tax impacts of the IAS 38 adjustments referred to above.
- Dividends - Under UK GAAP, dividends were recognised as an expense in the profit and loss account. An accrual was made for dividends that were proposed by directors after the balance sheet date but prior to the date of the signing of the financial statements and a corresponding expense was recognised. Distributions to shareholders are not recognised in the income statement under IFRS, but are disclosed as a component of the movement in shareholders' equity. A liability is recorded for a final dividend when the dividend is approved by the company's shareholders and for an interim dividend when the dividend is paid.

The transition from UK GAAP to IFRS did not have any material impact on the cash flows of the Group.

We have audited the parent company financial statements on pages 40 to 45. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

We have reported separately on the Group financial statements of Trace Group plc for the year ended 31st May 2006.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent company financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the Company financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent company financial statements. The other information comprises only the Chairman's Statement, the Review of Operations, the Directors' Report, the unaudited part of the Directors' Remuneration Report and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent company financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the parent company financial statements and the part of the Directors' Remuneration Report to be audited.

OPINION

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 May 2006;
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985;
- the information given in the Directors' Report is consistent with the company financial statements.

BAKER TILLY

Registered Auditor

Chartered Accountants

2 Bloomsbury Street, London, WC1B 3ST

20th November 2006

	Note	31st May 2006 £	31st May 2005 (restated) £
Fixed assets			
Tangible assets	5	7,093,752	7,058,113
Investments	6	1,749,422	1,749,422
		8,843,174	8,807,535
Current assets			
Debtors - due within one year	7	1,431,339	757,201
Debtors - due after more than one year	7	64,139	73,533
Cash at bank and in hand		2,489,535	3,075,605
		3,985,013	3,906,339
Creditors - amounts falling due within one year			
Bank overdrafts		(1,606,133)	(2,069,827)
Trade creditors		(105,447)	(41,312)
Other creditors	8	(3,227,564)	(1,717,038)
		(4,939,144)	(3,828,177)
Net current (liabilities)/assets		(954,131)	78,162
Total assets less current liabilities		7,889,043	8,885,697
Provisions for liabilities and charges	9	(188,274)	(261,456)
Net assets		7,700,769	8,624,241
Capital and reserves			
Called up share capital	10	759,433	759,433
Share premium account		2,918,615	2,918,615
Revaluation reserve		1,872,935	1,872,935
Capital redemption reserve		1,500	1,500
Profit and loss account	11	3,284,346	3,329,620
Shares held by ESOP and treasury shares	12	(1,136,060)	(257,862)
Equity shareholders' funds		7,700,769	8,624,241

The financial statements were approved by the Board of directors and authorised for issue on 20th November 2006. They were signed on its behalf by:

D.R. Chapchal
Chairman

1. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable accounting standards. The accounting policies adopted by the Company are consistent with those adopted in prior years except with regard to dividends and share based payments which are explained below.

a) ACCOUNTING CONVENTION

The financial statements have been prepared in accordance with the historical cost convention, modified to incorporate the revaluation of freehold land and buildings. The accounting policies that follow are consistent with those used in previous years.

b) TURNOVER

Turnover is the amount derived from the provision of goods and services falling within the Company's ordinary activities after deduction of trade discounts and value added tax.

c) TANGIBLE FIXED ASSETS AND DEPRECIATION

Freehold land and buildings are stated at year end valuation. All other fixed assets are stated at historical cost less any provision for impairment.

No depreciation is provided on freehold buildings, as, in the directors' opinion, the amount would be immaterial. A review for impairment of freehold buildings is carried out at the end of each reporting period and any impairment is recognised immediately by a charge to the profit and loss account. For all other tangible fixed assets, depreciation is calculated to write down their cost to their estimated residual values, by equal annual instalments, over the period of their estimated useful economic lives which are considered to be:

- Leasehold improvements – the period of the lease
- Fixtures, fittings and office equipment – 4 – 7 years
- Computer equipment – 2 – 5 years
- Motor vehicles – 3 – 4 years

d) LEASES

Assets held under finance leases and hire purchase contracts are recorded in the balance sheet at the fair value of the leased assets at the inception of the leases. The amounts by which the lease payments exceed the recorded lease obligations are treated as finance charges which are amortised over each lease term to give a constant rate of charge on the remaining balance of the obligation. Rental costs under operating leases are charged to the profit and loss account in equal annual amounts over the periods of the leases.

e) FIXED ASSET INVESTMENTS

Investments held as fixed assets are stated at cost less provision for impairment.

f) DEFERRED TAXATION

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements arising from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

g) PENSION COSTS

The cost of pensions in respect of the Company's money purchase pension scheme is charged to the profit and loss account as incurred.

h) EMPLOYEE SHARE OWNERSHIP PLAN

The Company operates an ESOP which holds shares in the Company. The Company records the assets and liabilities of the ESOP as its own. In accordance with UITF Abstract 38, own shares held, which include treasury shares, are deducted in arriving at shareholders' funds and are included in a separate negative reserve described as "Shares held by ESOP and treasury shares".

i) DIVIDENDS

A liability is recorded for a final dividend when the dividend is approved by the company's shareholders and for an interim dividend when the dividend is paid. This is a change to the previous policy which was to record a liability for all dividends when they were either proposed or declared. The impact of this change is to increase net assets and retained earnings at 31st May 2006 by £133,185 (2005 - £127,154).

j) SHARE BASED PAYMENTS

The Company operates executive and employee share schemes. For all grants of share options, the fair value as at the date of grant is calculated using an option pricing model and the corresponding expense is recognised over the vesting period. The expense is recognised as a staff cost and the associated credit entry is made against equity. This is a change from the previous policy which was to calculate the cost of share options as the difference between the fair value of the shares at the date the options were granted and the exercise price. The impact of this change is to reduce Company profit for the year by £2,500 (2005 - £nil).

2. PROFIT/(LOSS) FOR THE YEAR

The profit for the year dealt with in the financial statements of the Company was £79,380 (2005 - loss of £891,903). The Company has taken advantage of S230 of the Companies Act 1985 and consequently a profit and loss account for the Company alone is not presented.

The auditors' remuneration for all its services to the company was £25,000 (2005 - £20,000).

3. STAFF COSTS

The average monthly number of persons employed by the Company, including executive directors, within each category was:

	Year ended 31st May 2006 Number of Employees	Year ended 31st May 2005 Number of Employees
Management & administration	12	12
Production & services	1	—
Sales & distribution	2	2
	15	14

The costs incurred in respect of these employees were:

	Year ended 31st May 2006 £	Year ended 31st May 2005 £
Wages and salaries	650,010	624,835
Share option charge	2,500	—
Social security costs	86,721	87,825
Other pension costs	22,046	29,771
	761,277	742,431

Details of directors' remuneration is given in the directors' remuneration report.

4. DIVIDENDS

The directors recommend that a dividend of £133,185 (2005 - £127,154), representing 0.95p per share (2005 - 0.85p), is payable. The total proposed dividend excludes the dividend payable on the 229,327 shares in the ESOP since the entitlement to dividend on these shares will be waived by the Trustee of the ESOP. In addition, the total proposed dividend excludes the dividend payable on the 939,846 shares held as treasury shares since the entitlement to dividend on these shares will be waived by the Company. The total amount of the proposed dividend to be waived is £11,107 (2005 - £1,949). If approved, the dividend is expected to be paid on or about 22nd December 2006 to shareholders on the register of members on 20th October 2006.

5. TANGIBLE FIXED ASSETS

	Freehold land and buildings £	Short leasehold improvements £	Fixtures, fittings and equipment £	Motor vehicles £	TOTAL £
COST OR VALUATION					
At 1st June 2005	6,985,000	64,881	1,026,749	23,221	8,099,851
Additions	12,800	–	73,400	–	86,200
At 31st May 2006	6,997,800	64,881	1,100,149	23,221	8,186,051
DEPRECIATION					
At 1st June 2005	–	64,881	953,637	23,220	1,041,738
Charge for the year	–	–	50,561	–	50,561
At 31st May 2006	–	64,881	1,004,198	23,220	1,092,299
NET BOOK VALUE					
At 31st May 2006	6,997,800	–	95,951	1	7,093,752
At 31st May 2005	6,985,000	–	73,112	1	7,058,113

The directors commissioned a valuation of the group's two freehold properties as at 31st May 2006 by Daniel Watney, Chartered Surveyors and independent valuers not connected with the Group. The valuation complies with the RICS Appraisal and Valuation Standards issued by the Royal Institution of Chartered Surveyors and was undertaken in accordance with International Valuation Application 1 of the International Valuation Standards. As a result of this work, the property valuations in the accounts have been maintained at the same level as last year.

If land and buildings had been stated at historical cost then they would have been included at £5,124,865 (2005 - £5,112,065).

6. FIXED ASSET INVESTMENTS

Fixed asset investments comprise investments in Group companies. At 31st May 2006 these were stated at a cost of £5,583,488 (2005 - £5,583,488), less provisions for impairment of £3,834,066 (2005 - £3,834,066).

The trading companies in the Group were:

	Percentage of nominal value of issued ordinary shares held at 31st May 2006
Trace Isys Limited	100%
Trace Financial Limited	100%
Trace Datawise Financial Limited	100%
Prospect Recruitment Limited	100%
Trace Solutions Limited	100%
Trace Employer Services Limited	100%

All of the above companies were incorporated in Great Britain and registered in England and Wales and have their principal operations in England. All of the above trading companies are involved in the provision of computer consultancy services, proprietary software products, computer hardware and a complementary range of other products and services. Details of dormant companies are omitted and a complete list will be attached to the forthcoming annual return.

7. DEBTORS

	31st May 2006 £	31st May 2005 £
Due within one year:		
Trade debtors	214,850	114,915
Amounts owed by group undertakings	1,135,286	531,412
Other debtors	—	52,742
Prepayments & accrued income	81,203	58,132
	1,431,339	757,201

Debtors due after more than one year comprise deferred tax, made up as follows:

	31st May 2006 £	31st May 2005 £
Depreciation in excess of capital allowances	42,676	44,963
Other timing differences	21,463	28,570
	64,139	73,533

The deferred tax assets will be recovered against future trading profits.

8. OTHER CREDITORS

	31st May 2006 £	31st May 2005 (restated) £
Amounts owed to group undertakings	2,398,076	985,428
Other creditors	51,348	58,559
Corporation tax	8,142	8,143
Other tax and social security	251,601	261,643
Accruals and deferred income	518,397	403,265
	3,227,564	1,717,038

9. PROVISIONS FOR LIABILITIES AND CHARGES

	Onerous lease £
At 1st June 2005	261,456
Utilisation of provision	(73,182)
At 31st May 2006	188,274

The onerous lease provision represents management best estimate of the Group's likely net loss in relation to its lease in respect of premises at Scrutton Street, London EC2, which are not used for operational purposes. The lease expires in December 2008.

10. SHARE CAPITAL

	31st May 2006 £	31st May 2005 £
Authorised:		
20,000,000 ordinary shares of 5p each	1,000,000	1,000,000
Called up, allotted and fully paid:		
15,188,661 ordinary shares of 5p each	759,433	759,433

11. OTHER RESERVES

	Profit and loss account £
At 1st June 2005 (restated)	3,329,620
Profit for the year	79,380
Dividends paid during the year	(127,154)
Credit to equity for share based payments	2,500
At 31st May 2006	3,284,346

12. OWN SHARES

	ESOP shares £	Treasury shares £	Total £
At 1st June 2005	257,862	–	257,862
Acquired in year	–	878,198	878,198
Balance at 31st May 2006	257,862	878,198	1,136,060

The Company operates an ESOP trust which owned 229,327 shares of 5p each in the Company throughout the year. These were acquired at a cost of £257,862. The market value of these shares as at 31st May 2006 was £222,447 (2005 - £186,902).

During the year the directors exercised the powers conferred on it at the last Annual General Meeting of the Company and acquired 939,846 shares of 5p each in the Company. Purchases were made at prices which varied between 81p and 102.5p per share, averaging at 93.4p. The market value of these shares as at 31st May 2006 was £911,651.

The review of operations explains the proposed arrangements regarding the utilisation of the shares held in the ESOP and in treasury.

13. CONTINGENT LIABILITIES

Each trading company in the Group has entered into a composite cross guarantee in relation to every other company in the Group, such guarantee being in favour of the Group's bankers. At 31st May 2006, the Company had a bank overdraft of £1,606,133 (2005 - £2,069,827) that was covered by the composite cross guarantee. This overdraft was secured by fixed and floating charges over all of the Company's current and future assets. The Company had a contingent liability under the cross guarantee at 31st May 2006 of £418,215 (2005 - £nil).

14. FINANCIAL COMMITMENTS

At 31st May 2006, the Company had annual commitments under non-cancellable operating leases as set out below:

	Land and buildings	
	31st May 2006 £	31st May 2005 £
Operating leases which expire:		
- in two to five years	260,000	260,000
- in more than five years	80,500	80,500
	340,500	340,500

15. PENSION ARRANGEMENTS

The Company operates a defined contribution retirement scheme for all qualifying employees. The scheme is in the form of a group personal pension plan and the assets are held separately from the Company in funds under the control of independent trustees. The total cost charged to income in respect of contributions to the plan at rates specified in the rules of the plan was £22,046 (2005 - £29,771).

Notice is hereby given that the Annual General Meeting of Trace Group plc will be held at 224-232 St. John Street, London EC1V 4QR on Tuesday 19th December 2006 at 3.00 p.m. for the following purposes and to consider and if thought fit to pass the resolutions set out below.

AS ORDINARY BUSINESS

1. To receive the audited accounts and the Directors' and Auditors' reports for the year ended 31st May 2006.
2. To approve the Directors' Remuneration Report for the year ended 31st May 2006.
3. To approve the dividend for the year ended 31st May 2006 of 0.95p per share, as recommended by the directors.
4. To elect Mr D K.H.Begg as a director of the Company. A biography of Mr. Begg is given on page 2 of this Annual Report.
5. To elect Mr R H.Woodall as a director of the Company. A biography of Mr. Woodall is given on page 2 of this Annual Report.
6. To reappoint Messrs Baker Tilly as auditors of the Company and to authorise the directors to determine their remuneration.

AS SPECIAL BUSINESS

To consider and if thought fit to pass the following resolutions, those numbered 7 and 8 as ordinary resolutions and those numbered 9 and 10 as special resolutions:

ORDINARY RESOLUTIONS

7. That the directors be:
 - (i) authorised generally and unconditionally to exercise all powers of the Company to allot any relevant securities (as defined in Section 80(2) of the Companies Act 1985 ("Act")) of the Company to such persons, at such times and generally on such terms and conditions as the directors may determine. The authority hereby conferred shall be for a period expiring on the date of the Annual General Meeting of the Company to be held in 2007 unless previously renewed, varied or revoked by the Company in general meeting and the maximum amount of relevant securities which may be allotted pursuant to such authority shall be relevant securities up to an aggregate nominal amount of £253,144 being equal to one third of the issued share capital of the Company; and
 - (ii) empowered under the authority conferred by this resolution or under any renewal thereof to make at any time prior to the expiry of such authority any offer or agreement which would or might require relevant securities of the Company to be allotted after the expiry of such authority and the directors may allot relevant securities in pursuance of such offer or agreement as if the authority conferred by the resolution had not expired.

8. That the directors be authorised to exercise the powers contained in Article 127 of the Articles of Association of the Company so that, to the extent determined by the directors, the holders of Ordinary shares be permitted to elect to receive new Ordinary shares of 5p each in the capital of the Company credited as fully paid, instead of all or part of any dividend that may be declared up until the date of the Annual General Meeting of the Company to be held in 2007, and to exercise all necessary capitalisation and other powers in respect of the same without further sanction of the Company.

SPECIAL RESOLUTIONS

9. That pursuant to Section 95 of the Act the directors be empowered to allot any equity securities (within the meaning of Section 94(2) of the Act) in the capital of the Company pursuant to the authority conferred by resolution number 7 above as if Section 89(1) of the Act did not apply to such allotment provided that this power shall be limited to the allotment of:
 - (i) any equity securities by way of a rights issue; and/or
 - (ii) any equity securities otherwise than pursuant to subparagraph (i) above and for cash up to a maximum aggregate nominal amount of £37,972 representing 5% of the issued equity capital of the Company as shown in its latest published annual accounts and this power shall expire on the date of the Annual General Meeting of the Company to be held in 2007 save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such an offer or agreement as if the power conferred hereby had not expired. For the purpose of this resolution "rights issue" means any offer of equity securities to the holders of the Company's Ordinary shares on the Company's register of members on a date fixed by the directors pro rata in proportion (as nearly as may be) to the nominal value of their holdings of Ordinary shares. Any such rights issue shall be subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal to fractional entitlements, or directions from any holders of Ordinary shares to deal in some other manner with their respective entitlement, or legal or practical problems under the laws of, or the requirements of any recognised regulatory body, or any stock exchange, in any territory.

10. That the Company be and is hereby generally and unconditionally authorised to make market purchases (within the meaning of Section 163(3) of the Act) of Ordinary shares of 5p each in the capital of the Company ("Ordinary shares") subject to the following restrictions and provisions:-

- (i) the maximum number of Ordinary shares hereby authorised to be purchased is 1,139,000 being approximately 7½% of the issued equity capital of the Company;
- (ii) the minimum price which may be paid for an Ordinary share is 5p (exclusive of expenses);
- (iii) the maximum price which may be paid for an Ordinary share is an amount (exclusive of expenses) equal to 105% of the average of the middle market quotations for an Ordinary share as derived from The Stock Exchange Daily Official List for each of the five business days immediately preceding the day on which the Ordinary share is purchased;
- (iv) unless previously revoked, varied or renewed this authority shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2007; and
- (v) the Company may make a contract to purchase Ordinary shares under this authority before the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority, and may make a purchase of Ordinary shares pursuant to any such contract as if the said authority had not expired.

Notes:

1. A member of the Company who is entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote instead of him/her. A proxy for a corporation may vote on a show of hands. A proxy need not be a member of the Company.
2. A form of proxy is enclosed and to be valid must be lodged with the Company's Registrars not later than 48 hours before the time fixed for the meeting.
3. The following documents will be available for inspection at the registered office of the Company on any weekday (except Saturdays, Sundays and Bank Holidays) during normal business hours from the date of this notice until the date of the meeting and at the place of the meeting for a period of 15 minutes prior to the meeting until the conclusion of the meeting.
 - (i) A statement of transactions of directors (and of their family interests) in the share capital of the Company and any of its subsidiaries.
 - (ii) Copies of the directors' service agreements with the Company.

By Order of the Board

P. Stolerman
Secretary
20th November 2006