Contents

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 are SWIFTReady accredited. 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. The company also hosts a Managed Service for their clients providing electronic message creation, transmission and tracking services.

Payroll & HR

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

Directors	Andrew Bell Colin Clarke (non-executive) Mick Flynn Julian Mancell-Smith John Murphy Peter Stolerman (finance director) Richard Wolfe (chief executive officer)
Secretary	Peter Stolerman, FCA
Head office and registered office	224-232 St John Street, London, ECIV 4QR.
Company registration number	2388822
Auditors	Baker Tilly UK Audit LLP, 2 Bloomsbury Street, London, WC1B 3ST.
Solicitors	Withers LLP, 16 Old Bailey, London EC4M 7EG,
Bankers	Fortis Bank SA/NV, 5 Aldermanbury Square, London, EC2V 7HR.

The year ended 31st May 2008 was the most significant in the history of Trace. Since 1989 we had enjoyed a full listing on the main market of the London Stock Exchange, so the decision to make the company private again was a major one to undertake. After a competitive bidding process, the MBO was successful, by the narrow margin of 0.06% of the issued share capital of the Company.

One of the aims of the MBO was to provide a significant return of capital to shareholders and the successful bid at 156p per share represented a premium of 75% compared to the price immediately before the announcement of our initial offer. The competitive – and losing - bid was 180p, but sufficient shareholders shared the aims and objectives of the MBO team to ensure the MBO was successful. The MBO team believed that the interests of our clients, staff and the company would be best served by maintaining our independence and that view remains unchanged. To achieve this, ownership would be transferred to the staff and this process is currently underway. Our clients also were extremely supportive during the MBO process, for which we thank them.

The MBO resulted in our obtaining full control of Trace and our re-registration as a private company was completed in October 2007. We had some concerns that the perception of Trace might suffer as a result of not having a listing, but the opposite appears to be the case. Clients and prospective clients appreciate that we are now far less likely to be subject to a hostile takeover and that we can resist any such approach.

In these generally difficult economic times cash is obviously of even more fundamental importance to businesses. We budget and monitor our cashflows on a regular basis, and the projections we prepared prior to the MBO have, overall, proved accurate. We work within our facilities and being a cash generative business, and generating profits with solid recurring revenues, our future should be assured.

In 2007-08 our turnover and profit stood up well, especially given the double impact of the disruption caused by the MBO and the downturn in the economy, and we achieved the results we had budgeted. Each area of our operation gives cause for satisfaction. Our recurring revenue, which is the bedrock of our company, was at an all time high and we use this income to provide as high a degree of support as possible. This in turn helps us to retain clients and gain new ones, thus ensuring the on-going future of Trace. We are market leaders in each of our chosen areas. We have continued to invest heavily in new products and we do not expect our level of investment to decrease. New software and improved features are fundamental to the on-going success of Trace and is what our clients can and should expect.

In the current financial year, markets have become even more difficult, so it is particularly pleasing to be able to report that 2008-09 has started well, almost counter intuitively so. We have a good degree of confidence that our profits are very likely to show a strong improvement over the previous year. The level is still too low, especially compared to a few years ago, but it gives a sense of satisfaction and security to be able to report this likely outcome in these times. Our prospective business book remains very good, though we naturally remain cautious, bearing in mind the overall economic position.

I would like to thank everyone we work with, our suppliers with whom we remain on friendly terms, our clients who I thank, whose custom we respect and without whom we would not exist, and of course in particular all who work at Trace. I would like to think that our environment is a good one to work in, and of course it is the staff that make it so.

Richard Wolfe
CEO
26th January 2009

TRACE ISYS

2007-08 was a busy year for Trace Isys. We have been involved in 4 main strands, being market initiatives, the Managed Message Service, bespoke enhancements for clients and the continuing development of OpenTWINS, the new replacement for our existing TWINS product suite. Overall financial performance was good, with both turnover and profits being maintained at similar levels to last year.

The London insurance market made significant progress this year, moving forwards with various initiatives aimed at modernising processes. The Accounting & Settlement (A&S) project continued and with Phase 3 being successfully developed and implemented this year. This built on the first 2 phases by adding new lines of business, including treaty statements, and support for reinstatement premiums. A&S replaces a paper-based process with a central market repository. The initial phases enable digital versions of documents to be logged in the central repository and shared by the market. The more comprehensive electronic message based solution originally envisaged is now actively under discussion. The first phases have enabled the market to build traction in the take-up of the initiative but the real business benefit lies in the total solution which removes the manual re-keying and duplication of effort in the current process.

The ePlacing project – G6 – is a peer-to-peer initiative between a few of the major intermediaries and carriers. Two of our clients in particular, Miller and Guy Carpenter, are early adopters of this initiative which represents a considerable shift in working practices for brokers. It aims to replace the traditional face-to-face process of placing risks in the insurance market with an electronic message based alternative. Phase 2 of this project, which we developed and implemented this year, is the introduction of 2-way messaging to the process. It is fair to say that the initiative is facing some resistance from the practitioners in the market place who see the changes to the present processes as negative. However, the pressure on costs, and a general desire in the market to streamline processes will hopefully mean that this initiative gains traction in the future.

The first new market development this year is an extension to the G6 initiative, being the standardisation of the endorsement document and, also in similar vein, the beginnings of the move towards replacing its agreement by email rather than by physical signature. While we have developed the software for both capabilities this year it is only the document changes which have been immediately adopted by the market generally. This initiative is generally seen as a desirable move to streamlining the agreement of the vast majority of endorsements which are very straight forward in business terms but labour intensive to conclude.

The other new development is the Electronic Back Office Trading (EBOT) project which is the equivalent of the A&S initiative but for non-bureau companies who can process ACORD standard accounting messages. We developed and implemented both the ACORD and email versions of this project.

All of these market initiatives are further extending the reach of our Managed Messaging Service which experienced a huge increase in the volume of messages and emails transmitted and received during the year.

Our development revenue held up well this year despite the fact that many of our clients began experiencing difficult trading conditions. This resulted in a decline in bespoke income in the last 2 months of the year, although we saw a slight recovery at the beginning of the new financial year. At the end of this financial year we successfully released version 17 of TWINS to all of our clients.

Our maintenance and FM revenue held up better than expected. One of our clients, Benfield, has been developing an internal system as a replacement for TWINS. The rollout of this was originally expected this year for their London office but was postponed, resulting in us continuing to support their use of TWINS throughout the year.

We are well advanced with the redevelopment of our flagship TWINS product. The main motivation continues to be to take advantage of new technological opportunities which will allow us to offer customers greater flexibility in their choice of technology infrastructure. Furthermore, as technology changes, our clients will not be forced to reinvest in new systems. Some clients have specific requirements to run their systems based upon particular databases – SQL Server or Oracle for example. With the current version of TWINS we have not been successful in bidding for certain business opportunities as a result of our being locked into particular technologies. OpenTWINS will give us much greater flexibility in this respect and open a wider range of opportunities to us.

Marketing of the new product began during the second half of 2008 with the product launch scheduled for the first quarter 2009. Several of our clients are already showing interest in the new product. When complete, OpenTWINS will be the most technologically advanced solution available in the market, combining the rich functionality of our existing product with the advantages offered by workflow concepts, ease of integration and true technical independence – all increasingly important requirements for today's systems.

TRACE FINANCIAL

During the year under review Trace Financial again made a significant positive contribution to the Group. New licence revenue was down compared with budget but services performed well and maintenance revenues were solid. Several significant orders which we had hoped to close by year end were delayed but have now been won and have given a very encouraging start to 2008-09.

General market conditions were slow throughout the year and clients were restricting themselves to essential projects or to projects that deliver benefits in the short term. We expect this market attitude to continue, but our messaging applications deliver significant short-term benefits and this, combined with our well established presence in this market, ensures opportunities are available, albeit reduced in number and competitive in nature. Our results support this belief.

We are tracking a major market initiative which will see the replacement of Crest with the new Euroclear Single Platform (ESP) for the settlement of equity transactions and we have agreements with four clients for an ESP solution based on our Trafic Crest applications. We also anticipate this initiative generating new opportunities for our messaging toolkit, which addresses the needs of those clients looking for message libraries and gateway connectivity to assist their ESP projects.

The first phase of ESP (2009) covers the area of corporate actions, which is another area of focus for us. However, although there has been significant internal pressure on clients to automate this area, they have not taken this further so we are cautious about expectations for short term success in this area.

Our relationship with OpenLink Financial has now generated seven transactions where we provide SWIFT messaging and network connectivity for their clients world-wide. Other partnership opportunities that deliver extra market presence or opportunity will be pursued, particularly with respect to our Transformer messaging technology.

New product development will remain targeted at the area of complex financial messaging (like our Trafic-ESP solution), adding libraries of message standards to increase the functional scope of our Transformer product and also delivering solutions as “services” that can be deployed in practically any client technology.

Our strategy remains focused where technology, messaging and business meet. We will continue to provide solutions that address this significant niche market and enhance our reputation and customer base in this sector.

We secured SWIFTReady accreditation in both the EAI and Message Data Services categories for 2008.

TRACE SOLUTIONS

The downturn in the economy hit the property sector earlier than other areas, as has historically been the case in the run up to a recession. This was reflected in a somewhat reduced level of trading activity in terms of new sales of our software package solutions from June 2007. Despite the deteriorating conditions, we gained twelve new clients in the year, which also helped to underpin growth in our recurring revenues. In addition, during the year we launched our new hosting service, offered in conjunction with our partner, CPMS, to provide high levels of system availability with inbuilt protection against system failure and we moved three clients on to this new service.

A key sale in the year was to Strettons, a major player in the managing agent market place. Strettons had tried to implement a competitive solution without success and turned to Trace to provide a reliable system backed up with industry leading support services. Strettons implemented a 20 user system which went fully live in November 2008 to their entire satisfaction.

Our drive into international markets continued to gather momentum with the main focus being on our client Estama GmbH. Estama is an asset and property management specialist with a head office in Berlin and regional offices in the west and south of Germany. The firm's particular focus is on international investors with property portfolios in Germany. We have responded to many of their requests to modify BlueBox to meet the needs of the German market and we continue to modify our software and support our clients who operate in several other parts of the world such as France and Bahrain.

We maintain a significantly sized software development team, based both in the UK and in Delhi. Our Indian office has continued to increase its contribution to our overall software development programme and is now a core part of our development resource. We have continued to develop new modules and to enhance our existing products in order to remain fully competitive and to bring improved business solutions to our existing client base. Our focus has remained on e-business, specifically targeted on PISCES for the exchange of property data, and the banks for electronic receipts and reconciliation.

Our work on industry standard data exchanges has continued, resulting in the publication of a standard by the PISCES organisation, from which Trace Solutions developed a pilot project. This was recently demonstrated at the PISCES conference and has created significant interest from investors, agents and lawyers around the industry. An industrial strength version of the import and export processes will be released in 2009 which will allow full property portfolio datasets to be readily exchanged between compliant systems. PISCES is an international data standards body that operates across the entire real estate sector, and is looking at how to bring about increased efficiency through the standardisation of data exchanges.

Clearly, many companies have cut their IT budgets during the current economic crisis and we await the return of business confidence and the ensuing orders from a position of strength, with our strong recurring revenues providing solid support for our company. During 2008-09, we will focus on the implementation of our TRAMPS software at Countrywide Managing Agents, probably the most significant order in our history, especially given the sheer scale of the project. The software will be used at two primary accounting centres with over 200 users. Countrywide, through its various stages of evolution, has been a client of Trace since 1976 and we were delighted when they chose to continue this relationship. This and other business bodes well for 2009-10.

We will continue to invest in the development of our products to be seen as a leading supplier not only at home, but also, in particular, for companies that have pan-European requirements for managing property.

TRACE PAYROLL SERVICES

Trace Payroll Services provides outsourced managed payroll services to organisations across a wide range of industry sectors. The demand for payroll outsourcing services continues to grow as more open and easily accessible systems allow organisations to take advantage of the services on offer from payroll specialists, without having to change other internal systems. The well known benefits of payroll outsourcing - such as transferring the responsibility for legislative compliance, meeting increasing HMRC obligations and paying employees - are even more relevant than ever as organisations continue the drive towards outsourcing non core activities.

During the year, our improved website and focused telemarketing team delivered a steady stream of good quality leads, resulting in a healthy influx of new and qualified prospects. A significant number of existing customers were converted to the new web enabled software and all new payrolls were implemented onto this software. The additional functionality available, which includes an Absence and an HR module, ensures we are able to compete with the larger payroll providers and minimize the risk of existing customers being lured away in this competitive market place.

Our highly personal and quality service continues to attract new business and is a major differentiator in the crowded payroll market. We carry out a continuous review of internal processes and analysis of problem situations and this work has resulted in reduced opportunities for - as well as instances of - errors and our overall service quality has remained high. This quality performance was highlighted by the retention of our BACS and ISO accreditations. We continue to invest significantly in staff training, specifically in the area of formal payroll qualifications.

Our remaining legacy non-payroll customer has delayed their plans to transfer to their own in-house alternative. It now seems likely that the final run will be towards the middle of 2009.

The challenges for the business for next year are similar to those for the last year. We need to continue to maintain high service levels whilst improving the features available to customers. We need to continue to gain profitable new business through focused telemarketing and managing the interest generated by our web site. The prospects for the coming year are encouraging.

The directors of Trace Group Limited ("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 2008.

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 14 to the consolidated financial statements.

The Group's key performance indicators are operating profit, recurring revenue and operating cash flow. 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.

Following a successful bid for the Company's entire issued share capital, Trace was acquired by Tulip Holdings Limited ("Tulip"). Tulip is a newly formed company which was set up with the intention of acquiring Trace. Tulip has one shareholder, Richard Wolfe, the CEO of Trace. Further details on the future direction of the group are given in the CEO's Report.

The Tulip offer was declared unconditional as to acceptances on 31st July 2007 and remained open up until 28th August 2007 at which stage Tulip announced that it either owned or had received acceptances for 97.49% of the issued share capital of Trace. Following this date Tulip applied the provisions of sections 974 to 991 of the Companies Act 2006 to acquire compulsorily the outstanding shares that it didn't own. On 6th September 2007, Trace's official listing on the London Stock Exchange was cancelled.

The 229,327 ordinary shares held in the Company's Employee Share Ownership Plan ("ESOP") were sold to Tulip during the acquisition, as a result of which the loan due from the ESOP to the Company has been repaid in full. The gain on the disposal has been applied by the Company to the payment to employees of a bonus under the Group's annual bonus scheme.

During the late Spring of 2007, the directors felt that conditions in the London commercial property market were such that it would be in the best interests of the Company to realise its principal property asset. As a result, on 24th September 2007 the Company sold its main office premises at 224-232 St John Street, London EC1 for £9.1 million. At the same time, the Company entered into a 15 year lease with the purchaser at an initial rent of £500,000 per annum, fixed for the first five years.

In October 2007, all of the meetings necessary to effect a whitewash of the Group's assets were convened and held and all necessary resolutions were passed and requirements were complied with. Following this, the Company made loans to Tulip of £14 million.

Following an extraordinary general meeting of the Company held on 1st October, Messrs Chapchal, Begg and Woodall were removed as directors of the Company.

The offer by Tulip caused all outstanding share options to crystallise and as a result, on 14th March 2008, the Company allotted 325,877 new ordinary shares of 5p each to option holders. These shares were all immediately purchased by Tulip under the terms of the Tulip offer.

DIVIDENDS

The directors are not proposing any dividend for the year ended 31st May 2008 (2007 - nil).

FIXED ASSETS

The directors commissioned a valuation of the Group's freehold property as at 31st May 2008 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 valuation in the accounts has been reduced by £215,000 to £1,110,000 for 53 Farringdon Road, London EC1. The reduction has been charged against the revaluation reserve.

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 31st May 2008, the Group contributed a total of £10,237 (2007 - £10,738) to support various charities. The Group made no political donations.

FINANCIAL RISK MANAGEMENT

The Group's financial instruments comprise cash, short-term bank deposits, bank overdrafts, available for sale investments, loan notes, finance lease liabilities 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 during the period under review. The Group's material operations and assets are in the United Kingdom and as such the majority 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 bank loans and overdrafts, loan notes, finance leases and shareholder loans. Bank loans, overdrafts and shareholder loans attract interest at variable market rates, subject to a cap. The Group's loan notes are at a capped floating rate and in total amount to £15,614. Finance lease liabilities are fixed. The directors consider that their policies keep financial risks at an acceptable level.

DIRECTORS AND THEIR INTERESTS

The directors who served during the year were as follows:

Executive
Andrew Bell (appointed 7th September 2007)
Mick Flynn (appointed 7th September 2007)
John Murphy (appointed 7th September 2007)
Peter Stolerman
Con Torley (appointed 7th September 2007, resigned 29th February 2008)
Richard Wolfe

Non-executive
David Begg (removed 1st October 2008)
Daniel Chapchal (removed 1st October 2008)
Colin Clarke
Robin Woodall (removed 1st October 2008)

On 11th June 2008 Julian Mancell-Smith was appointed a director in place of Con Torley.

SUPPLIER PAYMENT TERMS

It is the Group'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 Group's policy that payment should be made accordingly. The period of credit taken from suppliers as at 31st May 2008 was 39 days (2007 - 34 days).

AUDITOR

In the case of each of the persons who is a director 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 auditor is 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 auditor is aware of that information.

Baker Tilly UK Audit LLP has indicated its willingness to continue in office.

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.

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 Company and the Group have 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.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and financial statements. The directors have elected to continue to prepare financial statements for the Group in accordance with International Financial Reporting Standards ("IFRS") and 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 which complies with the Companies Act 1985.

The directors are also responsible for the maintenance and integrity of the Trace Group Limited 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
26th January 2009

We have audited the group and parent company financial statements on pages 10 to 41.

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 AUDITOR

The directors' responsibilities for preparing the Annual Report, and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union ("EU"), and for preparing 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 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 financial statements give a true and fair view and whether the financial statements 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 financial statements. The information given in the Directors' report includes that specific information presented in the Review of Operations that is cross referenced from the Review of Developments section of the Directors' Report.

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 financial statements. The other information comprises only the Chief Executive's Statement, the Review of Operations and the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the 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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and 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 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 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 2008 and of its profit for the year then ended;
- 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 parent company's affairs as at 31 May 2008;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

BAKER TILLY UK AUDIT LLP
Registered Auditor
Chartered Accountants
2 Bloomsbury Street
London WC1B 3ST

26th January 2009

	Note	Year ended 31st May 2008 £	Year ended 31st May 2007 £
CONTINUING OPERATIONS			
Revenue	4	**12,643,730**	13,488,185
Direct cost of sales		**(767,103)**	(1,303,481)
Gross margin		**11,876,627**	12,184,704
Sales and software service and support costs		**(9,211,963)**	(9,256,516)
Gross profit		**2,664,664**	2,928,188
Administrative expenses		**(2,067,384)**	(1,803,594)
Operating profit		**597,280**	1,124,594
Property rental income	4	**472,678**	448,502
Related property costs		**(466,579)**	(378,949)
Exceptional offer related costs	5	**(371,030)**	(187,500)
Gain on disposal of freehold property	13	**2,706,498**	–
Profit before interest and tax		**2,938,847**	1,006,647
Finance income	7	**159,345**	183,221
Finance costs	8	**(127,626)**	(12,659)
Profit before tax		**2,970,566**	1,177,209
Tax	9	**(4,741)**	(340,742)
Profit for the year from continuing operations		**2,965,825**	836,467
Loss for the year from discontinued operations	10	**–**	(83,137)
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	30	**2,965,825**	753,330

	Note	31st May 2008 £	31st May 2007 £
Non-current assets			
Freehold land and buildings	13	**1,110,000**	7,575,000
Other property, plant and equipment	13	**357,300**	479,120
Intangible assets	12	**3,462,982**	2,808,636
Available for sale investments	15	**766**	766
Trade and other receivables	17	**11,238**	57,302
Deferred tax asset	20	**348,751**	150,902
		5,291,037	11,071,726
Current assets			
Inventories	16	**52,989**	97,084
Trade and other receivables	17	**20,843,349**	4,182,502
Cash and cash equivalents	18	**634,054**	3,282,159
		21,530,392	7,561,745
TOTAL ASSETS		**26,821,429**	18,633,471
Current liabilities			
Bank loans and overdrafts	19	**(1,546,254)**	–
Trade and other payables	21	**(5,911,566)**	(4,314,269)
Current tax liabilities		**(132,511)**	(140,015)
Provisions	22	**(149,484)**	–
Finance lease liabilities	23	**(37,364)**	(29,290)
		(7,777,179)	(4,483,574)
Net current assets		**13,753,213**	3,078,171
Non-current liabilities			
Bank loans	19	**(1,512,000)**	–
Long term provisions	22	**–**	(186,171)
Deferred tax liabilities	20	**(1,152,907)**	(1,065,931)
Finance lease liabilities	23	**(17,667)**	(34,171)
		(2,682,574)	(1,286,273)
TOTAL LIABILITIES		**(10,459,753)**	(5,769,847)
NET ASSETS		**16,361,676**	12,863,624
Equity			
Share capital	25	**728,735**	759,433
Share premium account	26	**3,109,700**	2,918,615
Revaluation reserve	27	**627,357**	2,370,988
Own shares	28	**–**	(1,136,060)
Capital redemption reserve	29	**48,492**	1,500
Other reserve		**39,821**	39,821
Retained earnings	30	**11,807,571**	7,909,327
TOTAL EQUITY		**16,361,676**	12,863,624

The financial statements were approved by the Board of directors and authorised for issue on 26th January 2009. They were signed on its behalf by:

Richard Wolfe
Director

	Year ended 31st May 2008 £	Year ended 31st May 2007 £
OPERATING ACTIVITIES		
Profit before tax from continuing operations	**2,970,566**	1,177,209
Loss before tax from discontinued operations	**–**	(40,819)
Adjustments for:		
- Share option charge	**50,794**	74,028
- Depreciation of property, plant and equipment	**197,136**	187,272
- Gain on disposal of freehold property	**(2,706,498)**	–
- Loss/(profit) on disposal of other plant and equipment	**90**	(903)
- Net finance income	**(31,719)**	(170,562)
- Amortisation of intangible assets	**297,384**	229,198
Changes in working capital:		
- Decrease in inventories	**44,095**	78,891
- (Increase)/decrease in trade and other receivables	**(615,805)**	436,110
- Increase in trade and other payables	**678,721**	38,985
- Decrease in provisions	**(36,687)**	(2,103)
Cash generated from operations	**848,077**	2,007,306
Interest paid	**(127,626)**	(12,659)
Tax received/(paid)	**2,742**	(27,961)
Cash generated from operating activities	**723,193**	1,966,686
INVESTING ACTIVITIES		
Interest received	**159,345**	183,221
Proceeds on disposal of property, plant and equipment	**8,956,498**	–
Proceeds on disposal of other plant and equipment	**4,800**	24,327
Purchases of property, plant and equipment	**(52,126)**	(323,597)
Development expenditure	**(951,730)**	(780,878)
Cash inflow/(outflow) from sale of subsidiary	**111,587**	(29,597)
Loans to parent company	**(16,110,565)**	–
Net cash used in investing activities	**(7,882,191)**	(926,524)
FINANCING ACTIVITIES		
Dividends paid	**–**	(133,237)
Repayment of loan notes	**(18,400)**	(17,600)
Finance lease payments	**(36,509)**	(24,408)
Secured long term loan	**1,624,000**	–
Exercise of share options	**207,379**	–
Disposal of ESOP shares	**363,194**	–
Director’s loan	**936,975**	–
Net cash generated from/(used by) financing activities	**3,076,639**	(175,245)
Net change in cash and cash equivalents	**(4,082,359)**	864,917
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**3,282,159**	2,417,242
CASH AND CASH EQUIVALENTS AT END OF YEAR	**(800,200)**	3,282,159

	Note	Year ended 31st May 2008 £	Year ended 31st May 2007 £
Profit attributable to equity holders of the Company	30	**2,965,825**	753,330
Revaluation (deficit)/surplus	27	**(215,000)**	560,625
Deferred tax on property revaluation	27	**83,226**	(36,606)
Proceeds from issue of shares on exercise of share options	25	**207,379**	–
Proceeds from disposal of ESOP shares	28	**363,194**	–
Total recognised income and expense for the year		**3,404,624**	1,277,349
Share option charge	30	**93,428**	74,028
Dividends	30	**–**	(133,237)
Net increase in shareholders' equity		**3,498,052**	1,218,140
Total shareholders' equity brought forward		**12,863,624**	11,645,484
Total shareholders' equity carried forward		**16,361,676**	12,863,624

1. GENERAL INFORMATION

Trace Group Limited was 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 and 5.

The following standards and interpretations are effective for the current year:

IFRS 6 - Exploration for and Evaluation of Mineral Resources
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 IAS29 Financial Reporting in Hyperinflationary Economies
IFRIC 8 - Scope of IFRS 2 Share-based Payment
IFRIC 9 - Reassessment of Embedded Derivatives

The adoption of these standards and interpretations has not led to any changes in the Group's accounting policies used for these consolidated financial statements.

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 2 Share based Payment – Amendments relating to vesting conditions and cancellations
IFRS 3 Business Combinations – Amendments
IFRS 7 Financial Instruments: Disclosures – Consequential amendments arising from amendments to IAS 32
IFRS 8 Operating Segments (endorsed)
IAS 1 Presentation of Financial Statements – Revised
IAS 1 Presentation of Financial Statements - Amendments relating to Puttable Financial Instruments and obligations arising on liquidation
IAS 23 Borrowing costs – Amendment
IAS 27 Consolidated and separate Financial Statements – Consequential amendments arising from Amendments from IRFS 3
IAS 28 Investments in Associate – Consequential amendments arising from amendments to IFRS 3
IAS 31Interest in Joint Ventures – Consequential amendments arising from amendments to IFRS 3
IAS 32 Financial Instruments Presentation - Amendments relating to Puttable Financial Instruments and obligations arising on liquidation
IAS 39 Financial Instruments: Recognition and Measurement – Consequential amendments arising from amendments to IAS 32
IFRIC 11 IFRS 2 – Group and Treasury Share Transactions (endorsed)
IFRIC 12 Service Concession Arrangements
IFRIC 13 Customer Loyalty Programmes
IFRIC 14 IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction
Annual Improvements Project

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") 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 licenses, customer support and maintenance and the provision of other products and services. Software license 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 solutions with multiple elements, typically involving license, support and maintenance and other services, are unbundled, and revenue is recognised based on the accounting policy applicable to each constituent part.

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, exceptional costs, 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 less than 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

r) FINANCIAL INSTRUMENTS

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

Trade receivables - at initial recognition are measured 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 the income statement 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 change 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.

s) EXCEPTIONAL ITEMS

Exceptional items are items of income or expense which the directors consider, either individually or, if of a similar type, in aggregate, to be material and which require disclosure in order to provide additional information to assist the understanding of the financial information.

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 amounts, events 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 2008 £	Year ended 31st May 2007 £
Continuing operations		
Software packages, hardware, consumables and other goods	**1,131,888**	1,724,455
Software development, consultancy, maintenance and related services	**9,889,908**	10,145,216
Permanent and contract staff placement	**26,660**	95,823
Payroll services	**1,595,274**	1,522,691
Revenue per income statement	**12,643,730**	13,488,185
Property rental income	**472,678**	448,502
Interest income	**159,345**	183,221
	13,275,753	14,119,908
Discontinued operations	**–**	1,015,457
Total Revenue	**13,275,753**	15,135,365

All of the Group's material 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 2008 £	Year ended 31st May 2007 £
United Kingdom	**11,357,355**	12,384,286
United States	**154,041**	208,241
Europe	**1,110,496**	870,280
Other	**21,838**	25,378
	12,643,730	13,488,185

5. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

	Year ended 31st May 2008 £	Year ended 31st May 2007 £
Net foreign exchange losses	**4,863**	12,577
Research and development costs	**190,000**	25,000
Depreciation of property, plant and equipment	**197,136**	187,272
Amortisation of intangible assets included in sales and software service and support costs	**297,384**	229,198
Cost of inventories recognised as cost of sales	**174,838**	273,835
Staff costs	**9,059,543**	9,267,969
Exceptional offer related costs	**371,030**	187,500
Auditor's remuneration for audit services	**48,250**	75,000

As a result of the bids to acquire the Company's entire share capital by Tulip Holdings Limited and Microgen plc in April and May 2007, the Company incurred £371,030 of offer related costs during the period to 31 May 2008 (2007 - £187,500) to ensure compliance with the appropriate procedures under the Listing Rules. These expenses were of a one-off nature and have been disclosed separately on the face of the income statement.

Amounts payable to the Group's auditor and its related entities in respect of both audit and non-audit services are set out below:

	Year ended 31st May 2008 £	Year ended 31st May 2007 £
Fees payable to the Company auditor for the audit of the parent company and consolidated accounts	**24,500**	30,000
Fees payable to the Company auditor and its associates for other services:		
- the audit of the Company's subsidiaries pursuant to legislation	**23,750**	45,000
- tax services	**28,125**	24,495
- other services	**—**	9,725
	76,375	109,220

6. STAFF COSTS

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

	Year ended 31st May 2008 Number of Employees	Year ended 31st May 2007 Number of Employees
Management & administration	19	21
Production & services	141	145
Sales & distribution	14	16
	174	182

The costs incurred in respect of these employees were:

	Year ended 31st May 2008 £	Year ended 31st May 2007 £
Wages and salaries	7,849,550	8,243,688
Share option charge	50,794	74,028
Social security costs	856,215	874,318
Other pension costs	302,983	268,584
	9,059,542	9,460,618

7. FINANCE INCOME

	Year ended 31st May 2008 £	Year ended 31st May 2007 £
Interest on bank deposits	151,912	167,016
Other interest income	7,433	16,205
	159,345	183,221

8. FINANCE COSTS

	Year ended 31st May 2008 £	Year ended 31st May 2007 £
Interest payable on bank loans and overdrafts	114,463	4,900
Interest payable on loan notes	3,156	4,411
Finance lease interest	183	–
Other interest payable	9,824	3,348
	127,626	12,659

9. TAX

	Year ended 31st May 2008 £	Year ended 31st May 2007 £
Current tax:		
UK corporation tax	37,692	216,450
Adjustment in respect of prior years	(5,304)	(74,504)
Total current tax	32,388	141,946
Deferred tax:		
Origination and reversal of timing differences	24,347	205,850
Effect of decreased tax rate on opening deferred tax position	(43,234)	–
Adjustment in respect of prior years	(8,760)	(7,054)
Total deferred tax	(27,647)	198,796
Total tax charge	4,741	340,742

Corporation tax is calculated at 28% (2007 - 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 2008 £	Year ended 31st May 2007 £
Profit before tax	2,970,566	1,177,209
Tax at the UK corporation tax rate of 28% (2007 - 30%)	831,758	353,163
Expenses not deductible for tax purposes	112,518	68,221
Group relief claimed from parent undertaking	(83,206)	–
Profit on disposal eliminated by indexation allowance	(757,819)	–
Effect of decreased tax rate on opening deferred tax position	(43,234)	–
Other differences	(41,212)	916
Adjustment in respect of prior years	(14,064)	(81,558)
Tax expense for the year	4,741	340,742

10. DISCONTINUED OPERATIONS

Following a strategic review, on 12th February 2007, the Company completed the disposal of Prospect, the Group's non core recruitment business. The results of this discontinued operation which have been included in the consolidated income statement were as follows:

	Year ended 31st May 2008 £	Year ended 31st May 2007 £
Revenue	–	1,015,457
Expenses	–	(1,056,276)
Loss before tax	–	(40,819)
Attributable tax expense	–	(6,793)
Loss after tax	–	(47,612)
Loss on disposal of discontinued operations	–	(35,525)
Net loss attributable to discontinued operations	–	(83,137)

The cash consideration for the disposal was £112,034, payable by instalments over the period to 31st May 2008. The net assets of Prospect at the date of disposal were £147,559 meaning that there was a resultant loss on disposal of £35,525.

11. DIVIDENDS

	Year ended 31st May 2008 £	Year ended 31st May 2007 £
Amounts recognised as distributions to equity holders in the year: Final dividend for the year ended 31st May 2006 (0.95p per share)	–	133,237

The directors are not proposing any dividend for the year ended 31st May 2008.

12. INTANGIBLE ASSETS

	Goodwill £	**Software licenses £**	**Internally generated software £**	**TOTAL £**
COST				
At 1st June 2006	3,087,574	380,000	3,819,951	**7,287,525**
Additions	–	–	780,878	**780,878**
At 31st May 2007	3,087,574	380,000	4,600,829	**8,068,403**
Additions	–	–	951,730	**951,730**
At 31st May 2008	3,087,574	380,000	5,552,559	**9,020,133**
AMORTISATION				
At 1st June 2006	3,087,574	380,000	1,562,995	**5,030,569**
Charge for the year	–	–	229,198	**229,198**
At 31st May 2007	3,087,574	380,000	1,792,193	**5,259,767**
Charge for the year	–	–	297,384	**297,384**
At 31st May 2008	3,087,574	380,000	2,089,577	**5,557,151**
CARRYING AMOUNT				
At 31st May 2008	**–**	**–**	**3,462,982**	**3,462,982**
At 31st May 2007	–	–	2,808,636	**2,808,636**

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 8 years.

Goodwill, which arose from the acquisition of Datawise, was fully impaired as at 31st May 2005.

£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.

13. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings £	Short leasehold improvements £	Fixtures, fittings and equipment £	Motor vehicles £	TOTAL £
COST OR VALUATION					
At 1st June 2006	6,997,800	64,881	2,353,435	89,434	**9,505,550**
Additions	16,575	–	394,890	–	**411 ,465**
Revaluation	560,625	–	–	–	**560,625**
Disposals	–	–	–	(61,825)	**(61,825)**
On disposal of subsidiary	–	–	(192,318)	–	**(192,318)**
At 31st May 2007	7,575,000	64,881	2,556,007	27,609	**10,223,497**
Additions	–	–	80,206	–	**80,206**
Revaluation	(215,000)	–	–	–	**(215,000)**
Disposals	(6,250,000)	–	(45,453)	(16,560)	**(6,312,013)**
At 31st May 2008	1,110,000	64,881	2,590,760	11,049	**3,776,690**
DEPRECIATION					
At 1st June 2006	–	64,881	2,080,713	49,603	**2,195,197**
Charge for the year	–	–	179,644	7,628	**187,272**
Disposals	–	–	–	(38,401)	**(38,401)**
On disposal of subsidiary	–	–	(174,691)	–	**(174,691)**
At 31st May 2007	–	64,881	2,085,666	18,830	**2,169,377**
Charge for the year	–	–	193,246	3,890	**197,136**
Disposals	–	–	(45,452)	(11,671)	**(57,123)**
At 31st May 2008	–	64,881	2,233,460	11,049	**2,309,390**
CARRYING AMOUNT					
At 31st May 2008	**1,110,000**	**–**	**357,300**	**–**	**1,467,300**
At 31st May 2007	7,575,000	–	470,341	8,779	**8,054,120**

During the late Spring of 2007, the directors felt that conditions in the London commercial property market were such that it would be in the best interests of the Group to realise its principal property asset. As a result, on 24th September 2007 the Company sold its main office premises at 224-232 St John Street, London EC1 for £9.1 million. At the same time, the Company entered into a 15 year lease with the purchaser at an initial rent of £500,000 per annum, fixed for the first five years.

The directors commissioned a valuation of the Group's freehold property as at 31st May 2008 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 valuation in the accounts has been reduced by £215,000 to £1,110,000 for 53 Farringdon Road, London EC1. The reduction has been charged against the revaluation reserve.

If land and buildings had been stated at historical cost then they would have been included at £299,373 (2007 - £4,937,516).

Included in fixtures, fittings and equipment are assets on finance leases with a carrying amount as at 31st May 2008 of £96,660 (2007 - £83,935) and a depreciation charge for the year of £18,827 (2007 - £4,417).

14. SUBSIDIARIES

The trading companies in the Group were:

	Percentage of nominal value of issued ordinary shares held at 31st May 2008
Trace Isys Limited	100%
Trace Financial Limited	100%
Trace Solutions Limited	100%
Trace Payroll Services Limited	100%

All subsidiaries are consolidated in the Group accounts.

Trace Financial Limited is 51% owned by Trace Isys Limited and 49% owned by the Company. Trace Payroll 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.

15. 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 2008			766	

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

16. INVENTORIES

	31st May 2008 £	31st May 2007 £
Raw materials & consumables	**5,161**	8,375
Goods for resale	**47,828**	88,709
	52,989	97,084

17. OTHER FINANCIAL ASSETS

TRADE AND OTHER RECEIVABLES - CURRENT ASSETS

	31st May 2008 £	31st May 2007 £
Trade debtors	**3,335,354**	3,103,379
Other debtors	**510,318**	458,515
Amounts due from parent company	**16,110,565**	—
Prepayments & accrued income	**419,866**	254,233
Amounts recoverable on contracts	**467,246**	366,375
	20,843,349	4,182,502

Trade and other receivables included as non-current assets totalling £11,238 (2007 - £57,302) comprise certain ordinary sales transactions where deferred payment terms have been agreed.

The average credit period taken on sales of goods and services is 61 days (2007 - 54 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 2008 this was £102,145 (2007 - £92,153).

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

The amount due from parent company is an interest free loan which is repayable on demand.

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 carrying amount of financial assets recorded in the financial statements represents the Group's maximum exposure to credit risk without taking account of the value of any collateral obtained.

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

18. CASH AND CASH EQUIVALENTS

	31st May 2008 £	31st May 2007 £
Cash and cash equivalents per balance sheet	**634,054**	3,282,159
Bank overdrafts (note 19)	**(1,434,254)**	—
Cash and cash equivalents per cashflow statement	**(800,200)**	3,282,159

All of the Group's cash and cash equivalents at 31st May 2008 are in sterling and are at floating interest rates. The directors consider that the carrying amount of the cash and cash equivalents approximates their fair value.

Cash and cash equivalents includes £625,000 (2007 - £nil) of monies held in a ring fenced bank account as a rental guarantee for the St John Street property lease.

19. BANK LOANS AND OVERDRAFTS

	31st May 2008 £	31st May 2007 £
Bank overdrafts	1,434,254	–
Bank loans	1,624,000	–
	3,058,254	–

The borrowings are repayable as follows:

	31st May 2008 £	31st May 2007 £
In the second year	112,000	–
In the third to fifth years	336,000	–
After five years	1,064,000	–
	1,512,000	–
On demand or within one year	1,546,254	–
	3,058,254	–

All of the Group's borrowings at 31st May 2008 are in sterling, are at floating interest rates and bear interest at rates between 1.25% and 2% over bank base rate. The bank loans are secured on the Group's freehold property at 53 Farringdon Road, London, and overdraft facilities are subject to floating charges over the Group's business and assets and to a cross guarantee structure. The bank loan is repayable by equal monthly instalments with the final payment in November 2022. The bank overdraft facility of £2,500,000 has no fixed expiry, but is subject to periodic reviews. There have been no defaults on any of the loans during the year.

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 2006	138,449	(229,890)	–	(603,313)	30,160	(664,594)
Charges/(credit) to income - continuing operations	(17,894)	–	–	(196,122)	15,219	(198,797)
Charges to income - discontinued operations	(6,793)	–	–	–	–	(6,793)
On disposal of subsidiary	(8,239)	–	–	–	–	(8,239)
Charges to equity	–	(36,606)	–	–	–	(36,606)
At 31st May 2007	105,523	(266,496)	–	(799,435)	45,379	(915,029)
Credit/(charges) to income	16,332	–	202,930	(170,202)	(21,413)	27,647
Credit to equity	–	83,226	–	–	–	83,226
At 31st May 2008	121,855	(183,270)	202,930	(969,637)	23,966	(804,156)

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 2008 £	31st May 2007 £
Deferred tax liabilities	(1,152,906)	(1,065,931)
Deferred tax assets	348,750	150,902
	(804,156)	(915,029)

21. TRADE AND OTHER PAYABLES

	31st May 2008 £	31st May 2007 £
Trade creditors	**634,717**	378,521
Loan notes	**15,614**	34,014
Other tax and social security	**609,149**	590,700
Accruals and deferred income	**3,424,071**	3,235,107
Other creditors	**291,040**	75,927
Director's loan	**936,975**	–
	5,911,566	4,314,269

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 39 days (2007 - 34 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, £18,400 of these loan notes were redeemed at par, bringing the total amount redeemed to date to £244,386 (2007 - 225,986).

Richard Wolfe, a director of the Company has made a loan to the Company. The loan is unsecured, is repayable within the next 12 months and carries interest at base rate plus 2%.

22. PROVISIONS

	Onerous lease £
At 1st June 2007	**186,171**
Utilisation of provision	**(36,687)**
At 31st May 2008	**149,484**

	31st May 2008 £	31st May 2007 £
Included in current liabilities	**149,484**	–
Included in non-current liabilities	**–**	186,171
	149,484	186,171

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 expired in December 2008.

23. FINANCE LEASE LIABILITIES

	31st May 2008 £	31st May 2007 £
Included in current liabilities	**37,364**	29,290
Included in non-current liabilities	**17,667**	34,171
	55,031	63,461

The gross finance lease liability approximates the present value of the minimum lease payments. The finance lease liability is payable in monthly instalments with the final payment in December 2010.

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

INTEREST RATE RISK

The Group's activities expose it primarily to the financial risk of changes in interest rates. The Group is exposed to interest rate risk as it borrows and invests funds at fixed and floating interest rates. The Group's policy is to hedge interest rate exposure on any term loans through the use of interest rate management products including interest rate collars.

If interest rates had been 2% higher or lower and all other variables were held constant, the Group's profit for the year ended 31st May 2008 and its equity at 31st May 2008 would decrease or increase by approximately £10,000 in each case. This calculation is based on the Group's average net cash position each month of the financial year and the relevant interest rates at the end of each month. A 2% increase or decrease represents management's assessment of possible changes in interest rates.

The Group's financial assets and liabilities split by those bearing fixed and floating rates and those that are non interest bearing are as follows:

	Floating rate £	Non-interest bearing £	**Total £**
Available for sale investments	766	–	**766**
Cash and cash equivalents	634,054	–	**634,054**
Trade and other receivables	80,802	20,773,785	**20,854,587**
Total financial assets 31st May 2008	715,622	20,773,785	**21,489,407**

	Fixed rate £	Floating rate £	Non-interest bearing £	**Total £**
Bank loans and overdrafts	–	3,058,254	–	**3,058,254**
Trade and other payables	–	952,589	4,958,977	**5,911,566**
Finance lease liabilities	55,031	–	–	**55,031**
Total financial liabilities 31st May 2008	55,031	4,010,843	4,958,977	**9,024,851**

	Floating rate £	Non-interest bearing £	**Total £**
Available for sale investments	766	–	**766**
Cash and cash equivalents	3,282,159	–	**3,282,159**
Trade and other receivables	154,870	4,084,934	**4,239,804**
Total financial assets 31st May 2007	3,437,795	4,084,934	**7,522,729**

	Floating rate £	Fixed rate £	Non-interest bearing £	**Total £**
Trade and other payables	34,014	–	4,280,255	**4,314,269**
Finance lease liabilities	–	63,461	–	**63,461**
Total financial liabilities 31st May 2007	34,014	63,461	4,280,255	**4,377,730**

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

LIQUIDITY RISK

The Group manages liquidity risk by maintaining adequate reserves and borrowing facilities and by regularly monitoring forecast and actual cashflows. The Group maintains medium term facilities to ensure that it has sufficient funds for its operations.

The undiscounted contractual cash flows for the Group's financial liabilities are as follows:

	Less than one year £	Between one and two years £	Between three and five years £	In more than five years £	**Total £**
Bank loans and overdrafts	1,546,254	112,000	336,000	1,064,000	**3,058,254**
Trade and other payables	5,911,566	–	–	–	**5,911,566**
Finance lease liabilities	37,364	12,957	4,710	–	**55,031**
Total financial liabilities 31st May 2008	7,495,184	124,957	340,710	1,064,000	**9,024,851**

	Less than one year £	Between one and two years £	Between three and five years £	**Total £**
Trade and other payables	4,314,269	–	–	**4,314,269**
Finance lease liabilities	29,290	29,290	4,881	**63,461**
Total financial liabilities 31st May 2007	4,343,559	29,290	4,881	**4,377,730**

CREDIT RISK

Credit risk represents the risk that a counterparty will default on its obligations resulting in financial loss to the Group and principally relates to the Group's trade debtors. Trade debtors comprise a large number of clients spread across various industries and geographical areas. Management receives monthly reports summarising the ageing profile of the Group's trade debtor balancers and appropriate action is taken to manage any significant items. A provision for impairment is made if considered necessary.

As at 31st May 2008, one client represented 20% of the Group's total trade debtors. The next largest client represented 6% of the total, after which no client represented more than 4%. As at 31st May 2007, the largest client represented 19% of the Group's total trade debtors. The next largest client represented 8% of the total, after which no client represented more than 5%. Having considered the significance of this as well as the general spread of debtors, the directors have concluded that no further impairment provision is needed beyond the normal course of business provision for bad and doubtful debts.

The following table shows the Group's financial assets due as at year end:

	Total £	Current £	30 days + £	60 days + £	90 days + £
31st May 2008	**21,592,261**	20,646,206	495,177	146,212	304,666
31st May 2007	**7,614,882**	6,612,267	508,460	131,384	362,771

The Group's trade debtors impairment provision is as follows:

	Gross value £	Provision £	**Net carrying value £**
31st May 2008	3,438,209	(102,855)	**3,335,354**
31st May 2007	3,195,532	(92,153)	**3,103,379**

The carrying amount of financial assets recorded in the financial statements represents the Group's maximum exposure to credit risk at the year end. The Group's financial assets and liabilities are all held at amortised cost.

25. SHARE CAPITAL

	31st May 2008 £	31st May 2007 £
Authorised:		
20,000,000 ordinary shares of 5p each	**1,000,000**	1,000,000
Called up, allotted and fully paid:		
14,574,692 (2007 - 15,188,661) ordinary shares of 5p each	**728,735**	759,433

Following the re-registration of the Company as a private limited company in September 2007, 939,846 shares held in treasury were cancelled. As a result, a transfer was made from share capital to the capital redemption reserve of £46,992. On 14th March 2008, following the exercise of EMI, LTIP and SAYE options, the Company allotted and issued 325,877 fully paid new ordinary shares of 5p each.

26. SHARE PREMIUM ACCOUNT

	31st May 2008 £	31st May 2007 £
At 1st June	**2,918,615**	2,918,615
Premium on shares issued during the year	**191,085**	–
At 31st May	**3,109,700**	2,918,615

27. REVALUATION RESERVE

	Property revaluation £	Deferred tax £	Net revaluation reserve £
At 1st June 2006	2,076,859	(229,890)	**1,846,969**
Revaluation increase on land and buildings	560,625	–	**560,625**
Deferred tax arising on revaluation of land and buildings	–	(36,606)	**(36,606)**
Balance at 31st May 2007	2,637,484	(266,496)	**2,370,988**
Revaluation decrease on land and buildings	(215,000)		**(215,000)**
Transfer to retained earnings on disposal of freehold property	(1,611,857)	–	**(1,611,857)**
Deferred tax arising on revaluation of land and buildings	–	83,226	**83,226**
Balance at 31st May 2008	810,627	(183,270)	**627,357**

28. OWN SHARES

The Group operated an ESOP trust which owned 229,327 shares of 5p each in the Company at 1st June 2007. These shares were acquired using a loan from the Company at a cost of £257,862. As a result of the acquisition of the Company by Tulip, in July 2007 the ESOP trust sold these shares and then repaid in the loan due in full. The gain made by the ESOP on the disposal has been transferred back to the Company and applied to the payment to employees of a bonus under the Group's annual bonus scheme.

As at 1st June 2007, the Company held 939,846 shares of 5p each as treasury shares. The cost of these shares was £878,198. Following the re-registration of the Company as a private limited company in September 2007, the treasury shares were cancelled.

29. CAPITAL REDEMPTION RESERVE

	31st May 2008 £	31st May 2007 £
At 1st June	1,500	1,500
Cancellation of treasury shares	46,992	–
At 31st May	48,492	1,500

30. RETAINED EARNINGS

	£
At 1st June 2006	7,215,206
Dividends paid	(133,237)
Credit to equity for share-based payments	74,028
Net profit for the year	753,330
Balance at 31st May 2007	7,909,327
Credit to equity for share-based payments	93,428
Net profit for the year	2,965,825
Gain on disposal of ESOP shares	105,332
Cancellation of treasury shares	(878,198)
Transfer from revaluation reserve on disposal of freehold property	1,611,857
Balance at 31st May 2008	11,807,571

31. OPERATING LEASE ARRANGEMENTS

At 31st May 2008, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	Land and buildings	
	31st May 2008 £	31st May 2007 £
Within one year	732,167	340,500
In two to five years	2,368,311	473,667
After five years	6,210,161	67,083
	9,310,639	881,250

The lease payments made under operating leases recognised in income for the year totalled £686,276 (2007 - £344,752). Related property rental income earned during the year was £244,068 (2007 - £360,500). At 31st May 2008 the Group had contracted with tenants for the following future minimum lease payments:

	31st May 2008 £	31st May 2007 £
Within one year	244,068	360,500
In two to five years	308,583	485,333
After five years	–	67,083
	552,651	912,916

32. 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.

As a result of the acquisition of the Company by Tulip, all SAYE options were either exercised or lapsed during the year. To satisfy SAYE options exercised, 187,360 new ordinary shares of 5p each were issued for a total consideration of £158,319. The shares issued were immediately purchased by Tulip, pursuant to its offer for the Company. At 31st May 2008 no SAYE options are outstanding.

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

Following approval by shareholders at the 2005 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. On 30th December 2005 the Company granted EMI options to employees over 64,664 ordinary shares and LTIP award to employees over 128,276 ordinary shares. 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.

As a result of the acquisition of the Company by Tulip, the maximum number of EMI and LTIP options and awards were exercised during the year and the balance lapsed. To satisfy EMI options exercised, 46,557 new ordinary shares of 5p each were issued for a total consideration of £44,462. To satisfy LTIP awards exercised, 91,960 new ordinary shares of 5p each were issued for a total consideration of £4,598. The shares issued were immediately purchased by Tulip, pursuant to its offer for the Company. At 31st May 2008 no EMI options or LTIP awards are outstanding.

The share based payments charge was 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.

33. 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 £302,983 (2007 - £268,584).

34. 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:

	Year ended 31st May 2008 £	Year ended 31st May 2007 £
Salaries and benefits in kind	**465,262**	229,029
Non executive directors' fees	**20,833**	60,000
Pension fund contributions	**68,257**	30,837
Employer's national insurance contributions	**48,807**	27,785
Share based payment	**11,347**	7,726
Total	**614,506**	355,377

During the year, six directors received benefits under the money purchase pension scheme (2007 - two directors).

Directors' Emoluments

The emoluments of the highest paid director were as follows:

	Year ended 31st May 2008 £	Year ended 31st May 2007 £
Salary and benefits in kind	**118,717**	115,554
Pension fund contributions	**13,290**	18,273
Employer's national insurance contributions	**14,523**	12,949
Share based payment	**11,347**	7,726
	157,877	154,502

Directors' Share Options

During the year, six directors exercised share options to acquire a total of 71,929 ordinary shares of 5p each for total consideration of £35,296. The total market value of these share options as at date of exercise was £112,209 resulting in a gain of £76,914 arising on the exercise of these options. £24,347 of the gain related to the highest paid director.

Ultimate Controlling Party

On 31st July 2007, the Company was acquired by Tulip, a company incorporated in Great Britain. Tulip is wholly owned by Richard Wolfe who is therefore the ultimate controlling party of Trace.

During the year the Company made cash advances to Tulip to allow Tulip to complete the acquisition of Trace and to meet related acquisition costs. The total amount advanced and outstanding at 31st May 2008 was £16,110,565, which is held as an interest free loan, repayable on demand.

	Note	31st May 2008 £	31st May 2007 £
Fixed assets			
Tangible assets	5	**1,295,183**	7,806,263
Investments	6	**1,749,422**	1,749,422
		3,044,605	9,555,685
Current assets			
Debtors - due within one year	7	**17,080,773**	1,040,966
Debtors - due after more than one year	7	**39,133**	51,597
Cash at bank and in hand		**628,260**	3,469,787
		17,748,166	4,562,350
Creditors - amounts falling due within one year			
Bank loans and overdrafts	8	**(2,785,044)**	(797,246)
Trade creditors		**(403,879)**	(101,388)
Other creditors	9	**(7,265,619)**	(5,197,321)
		(10,454,542)	(6,095,955)
Net current assets/(liabilities)		**7,293,624**	(1,553,605)
Total assets less current liabilities		**10,338,229**	8,022,080
Creditors - amounts falling due after more than one year	10	**(1,529,660)**	(34,171)
Provisions for liabilities	11	**(149,485)**	(1,219,297)
Net assets		**8,659,084**	6,768,612
Capital and reserves			
Called up share capital	12	**728,735**	759,433
Share premium account	13	**3,109,700**	2,918,615
Revaluation reserve	14	**606,703**	2,433,560
Capital redemption reserve	15	**48,492**	1,500
Profit and loss account	16	**4,165,454**	1,791,564
Shares held by ESOP and treasury shares	17	**—**	(1,136,060)
Equity shareholders' funds		**8,659,084**	6,768,612

The financial statements were approved by the Board of directors and authorised for issue on 26th January 2009. They were signed on its behalf by:

R.J. Wolfe
Director

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.

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.

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) 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.

i) 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.

j) PROVISIONS

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

2. PROFIT/(LOSS) FOR THE YEAR

The profit for the year dealt with in the financial statements of the Company was £1,527,269 (2007 - loss of £1,370,136). 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 auditor’s remuneration for all its services to the company was £24,000 (2007 - £30,000).

3. STAFF COSTS

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

	Year ended 31st May 2008 Number of Employees	Year ended 31st May 2007 Number of Employees
Management & administration	**10**	11
Sales & distribution	**1**	2
	11	13

The costs incurred in respect of these employees were:

	Year ended 31st May 2008 £	Year ended 31st May 2007 £
Wages and salaries	**488,958**	624,946
Share option charge	**7,630**	10,591
Social security costs	**54,617**	67,679
Other pension costs	**75,955**	33,244
	627,160	736,460

Details of directors’ remuneration is given in note 34 to the consolidated financial statements.

4. DIVIDENDS

The directors are not recommending the payment of any dividend for the year (2007 - £nil).

5. TANGIBLE FIXED ASSETS

	Freehold land and buildings £	Short leasehold improvements £	Fixtures, fittings and equipment £	TOTAL £
COST OR VALUATION				
At 1st June 2007	7,575,000	64,881	1,294,355	**8,934,236**
Additions	–	–	21,662	**21,662**
Revaluation	(215,000)	–	–	**(215,000)**
Disposals	(6,250,000)	–	(45,453)	**(6,295,453)**
At 31st May 2008	1,110,000	64,881	1,270,564	**2,445,445**
DEPRECIATION				
At 1st June 2007	–	64,881	1,063,092	**1,127,973**
Charge for the year	–	–	67,742	**67,742**
Disposals	–	–	(45,453)	**(45,453)**
At 31st May 2008	–	64,881	1,085,381	**1,150,262**
NET BOOK VALUE				
At 31st May 2008	**1,110,000**	**–**	**185,183**	**1,295,183**
At 31st May 2007	7,575,000	–	231,263	7,806,263

During the late Spring of 2007, the directors felt that conditions in the London commercial property market were such that it would be in the best interests of the Company to realise its principal property asset. As a result, on 24th September 2007 the Company sold its main office premises at 224-232 St John Street, London EC1 for £9.1 million. At the same time, the Company entered into a 15 year lease with the purchaser at an initial rent of £500,000 per annum, fixed for the first five years.

The directors commissioned a valuation of the Group's freehold property as at 31st May 2008 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 valuation in the accounts has been reduced by £215,000 to £1,110,000 for 53 Farringdon Road, London EC1. The reduction has been charged against the revaluation reserve.

If land and buildings had been stated at historical cost then they would have been included at £503,297 (2007 - £5,141,440).

Included in fixtures, fittings and equipment are assets on finance leases with a carrying amount as at 31st May 2008 of £66,264 (2007 - £83,935).

6. FIXED ASSET INVESTMENTS

Fixed asset investments comprise investments in Group companies. At 31st May 2008 these were stated at a cost of £5,583,488 (2007 - £5,583,488), less provisions for impairment of £3,834,066 (2007 - £3,834,066).

The trading companies in the Group were:

	Percentage of nominal value of issued ordinary shares held at 31st May 2008
Trace Isys Limited	100%
Trace Financial Limited	100%
Trace Solutions Limited	100%
Trace Payroll 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 2008 £	31st May 2007 £
Due within one year:		
Trade debtors	**158,039**	224,316
Amount owed by parent company	**16,110,567**	–
Amounts owed by fellow subsidiary undertakings	**465,812**	503,409
Other debtors	**120,946**	265,742
Prepayments & accrued income	**225,409**	47,499
	17,080,773	1,040,966

The amount owed by parent company is an interest free loan which is repayable on demand.

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

	31st May 2008 £	31st May 2007 £
Depreciation in excess of capital allowances	**17,490**	25,715
Other timing differences	**21,643**	25,882
	39,133	51,597

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

8. BANK LOANS AND OVERDRAFTS

	31st May 2008 £	31st May 2007 £
Bank overdrafts	**2,673,044**	–
Bank loans	**1,624,000**	–
	4,297,044	–

The borrowings are repayable as follows:

	31st May 2008 £	31st May 2007 £
In the second year	**112,000**	–
In the third to fifth years	**336,000**	–
After five years	**1,064,000**	–
	1,512,000	–
On demand or within one year	**2,785,044**	–
	4,297,044	–

All of the Company's borrowings at 31st May 2008 are in sterling, are at floating interest rates and bear interest at rates between 1.25% and 2% over bank base rate. The bank loans are secured on the Company's freehold property at 53 Farringdon Road, London, and overdraft facilities are subject to floating charges over the Group's business and assets and to a cross guarantee structure. There have been no defaults on any of the loans during the year.

9. OTHER CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR

	31st May 2008 £	31st May 2007 £
Amounts owed to fellow subsidiary undertakings	**5,344,146**	4,057,308
Other creditors	**50,703**	114,398
Director's loan	**936,975**	–
Corporation tax	**104,994**	104,531
Other tax and social security	**222,196**	258,997
Accruals and deferred income	**569,234**	632,797
Finance lease liabilities	**37,371**	29,290
	7,265,619	5,197,321

Richard Wolfe, a director of the Company has made a loan to the Company. The loan is unsecured, is repayable within the next 12 months and carries interest at base rate plus 2%.

10. CREDITORS - AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	31st May 2008 £	31st May 2007 £
Finance lease liabilities	**17,660**	34,171
Bank loan	**1,512,000**	–
	1,529,660	34,171

The finance lease liability is payable by monthly instalments with the final payment in December 2010. The bank loan is repayable by equal monthly instalments with the final payment in November 2022.

11. PROVISIONS FOR LIABILITIES

	Subsidiary liabilities £	Onerous lease £	Total £
At 1st June 2007	1,033,126	186,171	**1,219,297**
Decrease in provision	(1,033,126)	–	**(1,033,126)**
Utilisation of provision	–	(36,686)	**(36,686)**
At 31st May 2008	–	149,485	**149,485**

The onerous lease provision represents management's 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 expired in December 2008. The subsidiary liabilities represented the bank borrowings of Trace Payroll Services Limited, a wholly owned subsidiary of the Company, which are fully guaranteed by the Company. At year end Trace Payroll Services Limited had no bank borrowings and the provision is no longer required.

12. SHARE CAPITAL

	31st May 2008 £	31st May 2007 £
Authorised: 20,000,000 ordinary shares of 5p each	**1,000,000**	1,000,000
Called up, allotted and fully paid: 14,574,692 ordinary shares of 5p each (2007 - 15,188,661 shares)	**728,735**	759,433

During the year, all outstanding share options were exercised. As a result, the Company issued 325,877 new ordinary shares of 5p each. The total amount paid for these shares was £207,379, as a result of which £191,085 was credited to the share premium account. In addition, following the reregistration of the Company as a private limited company, 939,846 treasury shares were cancelled. As a result of the cancellation, £46,992 was transferred to the capital redemption reserve.

13. SHARE PREMIUM ACCOUNT

	31st May 2008 £	31st May 2007 £
At 1st June	**2,918,615**	2,918,615
Premium on shares issued during the year	**191,085**	—
At 31st May	**3,109,700**	2,918,615

14. REVALUATION RESERVE

	£
At 1st June 2007	**2,433,560**
Revaluation decrease on land and buildings	**(215,000)**
Transfer to profit and loss account on disposal	**(1,611,857)**
At 31st May 2008	**606,703**

15. CAPITAL REDEMPTION RESERVE

	31st May 2008 £	31st May 2007 £
At 1st June	**1,500**	1,500
Cancellation of treasury shares	**46,992**	—
At 31st May	**48,492**	1,500

16. PROFIT AND LOSS ACCOUNT

	£
At 1st June 2007	**1,791,564**
Profit for the year	**1,527,269**
Gain on disposal of ESOP shares	**105,332**
Cancellation of treasury shares	**(878,198)**
Credit to equity for share based payments	**7,630**
Transfer from revaluation reserve on disposal of freehold property	**1,611,857**
At 31st May 2008	**4,165,454**

17. OWN SHARES

The Company operated an ESOP trust which owned 229,327 shares of 5p each in the Company at 31st May 2007. These were acquired at a cost of £257,862. As a result of the acquisition of the Company by Tulip, all of the ESOP shares have been sold during the year and the loan due from the ESOP to the Company has been repaid in full. The gain on the disposal has been applied by the Company to the payment to Group employees of a bonus under the Group annual bonus scheme.

As at 31st May 2007, the company held 939,846 shares of 5p each as treasury shares. These were acquired for a total consideration of £878,198. During the year, as a result of the re-registration of the company as a private limited company, these shares have been cancelled. A transfer of £46,992 has been made from share capital to the capital redemption reserve in relation to these shares.

18. 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 2008, the Company had a bank overdraft of £2,785,044 (2007 - £797,246) 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. In last year's accounts the Company recognised a provision for a contingent liability under this cross guarantee at 31st May 2007 of £1,033,126. At 31st May 2008 this provision is no longer required and has been reversed.

19. FINANCIAL COMMITMENTS

At 31st May 2008, the Company had annual commitments under non-cancellable operating leases as set out below:

	Land and buildings	
	31st May 2008 £	31st May 2007 £
Operating leases which expire:		
- in less than one year	**151,667**	—
- in two to five years	**80,500**	260,000
- in more than five years	**500,000**	80,500
	732,167	340,500

20. 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 £75,955 (2007 - £33,244).

21. PARENT COMPANY

At 31st May 2007 the Company was a public company and therefore had no parent company. On 31st July 2007, the Company was acquired by Tulip Holdings Limited, a company incorporated in Great Britain. Following the acquisition, Tulip Holdings Limited is now the ultimate parent company and Mr. Richard Wolfe is now the ultimate controlling party of the company.

Copies of the group financial statements of Tulip Holdings Limited available from 224-232 St. John Street, London, EC1V 4QR.