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Strategic Thought plc
Registered in England: No. 5424046

STRATEGIC THOUGHT GROUP: MISSION, GOAL AND VALUES

Our mission is to remain at the forefront of enterprise risk management, system integration and presentation of corporate knowledge and through this become one of Europe's top software companies.

Our success is founded upon a commitment to:

Deliver value to our customers

Approach everything with a positive mental attitude

Focus on excellence and innovation

FINANCIAL HIGHLIGHTS

- Turnover up 24% to £11.46m (2005: £9.25m)
- Pre-tax profit up 32% to £2.29m (2005: £1.73m)
- Basic earnings per share up 61% to 9.8p (2005: 6.1p)
- Cash at year end of £5.46m (2005: £3.31m)
- Annual Support revenue up 84% to £1.45m

CHAIRMAN'S STATEMENT

Introduction

I am pleased to announce Strategic Thought Group's maiden results as an AIM-quoted company and I am delighted to report that these results set another record for the Group.

The Group was admitted to AIM on 7 July 2005 and raised £2.37m of funds (net of expenses) both to provide additional balance sheet strength for implementing the Group's growth strategy and for acquisitions. In November 2005, we were pleased to announce the acquisition of Line International Ltd ("Line"), the Bristol based risk management business. The acquisition was funded through cash generated from trading.

Financial Overview

Group revenues increased by 24% to £11.46m (2005: £9.25m) with earnings at the EBITDA level rising by 32% to £2.28m (2005: £1.72m). The Group's pre-tax profit increased by 32% to £2.29m (2005: £1.73m) and earnings per share grew by 61%, from 6.1p to 9.8p. These excellent results have been achieved predominantly organically, through the continuing growth in our core risk management business.

The amount of Corporation tax charge, had the tax deduction for the exercise of share options not been received, would have been £732k (2005: £482k). However, the actual amount is a credit of £116k (2005: a charge of £366k). The reason for adding back this credit is that the tax deduction only arises when options are exercised and the flotation triggered a disproportional tax deduction. This amounted to £848,000 (2005: £116,000).

The Group's net cash balance at the year end stood at £5.46m (2005: £3.31m). The goodwill arising on the acquisition of Line in November 2005 was £1.42m. The acquisition cost of £0.75m was financed from cash flow. Net assets at the year end increased by 174% to £7.38m

(2005: £2.69m), leaving the Group very well placed in terms of financial capacity and balance sheet strength.

Dividend

The Board is recommending to shareholders a final dividend of 1.9p per share. The final dividend will be paid on 14 July 2006 to shareholders on the register at the record date for shareholders of 16 June 2006. The ex-dividend date for the stock is therefore 14 June 2006. In accordance with FRS 21, this dividend is not accrued in the accounts. Please refer to note 1 for further details.

Trading Performance

The Group's two divisions, Enterprise Risk Management ("ERM") and Solution & Integration Services ("SIS"), continued to grow, with the ERM Division performing particularly strongly and generating increased overall profits during the year.

The largest element of the ERM Division's revenues derive from licence sales of ARM and over the year under review, revenues grew by 40% to £5.52m from £3.94m. This continues the strong pattern we have seen over recent years. Licence revenues rose to £3.62m from £2.74m in 2005 (£0.86m in 2004). Reflecting the growing numbers of user licences, support revenue has substantially increased, more than doubling to £1.14m from £0.52m last year. This is particularly pleasing since support revenue provides a stable, highly visible earnings stream for the ERM Division. Revenues from ARM risk consulting professional services fell from £0.68m last year to £0.49m this year. This was short of our target for services revenue and reflected the effect of temporary staff shortages. However, it was more than offset by the performance in licence sales.

Line International provides us with a wholly complementary product to our own ARM product and I am pleased to report that, as anticipated, the business delivered a breakeven performance before goodwill amortisation. The relative positioning of our two risk management products is now complete and active marketing is under way.

The SIS Division, which specialises in application integration and portal projects using IBM WebSphere, grew its revenues by 12% to £5.94m (2005: £5.31m) and contributed £0.84m (2005: £1.03m) to Group profits. Revenue fell short of our planned target but the reduced contribution from this Division was offset by the strong performance of the Risk Division.

At the end of the year, the Group's headcount was 73 staff (2005: 61). In the USA, we had eight employees at the year end up from four staff last year. With the acquisition of Line, we have gained a third office in Bristol in addition to our existing Wimbledon and Washington DC sites.

In a year of flotation, acquisition and significant growth, we are indebted to all our people for their efforts and for their dedication. Since most of our staff have been members of our EMI scheme, I am pleased that they have been able to share in the Group's success.

Outlook

Active Risk Manager is a market-leading product and is now licensed to over 60 customers, the majority of whom are major corporations. Following our stock market flotation, the Group's market profile has been significantly enhanced and the funds raised have provided us with additional balance sheet strength.

We have ambitious growth plans for the business and our challenge now is to manage our growth and to continue to meet customer expectations. As part of our growth plan, we are consolidating our two operating businesses, moving from a divisional structure to a single, unified operation. We are strengthening capability in every function, whether development, consultancy, services, support or sales in order to support our on-going growth.

The coming year will not be without challenges, including the weakness in the US dollar. Even so, growth prospects remain very encouraging and our sales order pipeline in all areas is strong. The acquisition of Line enhances our market offering and we are continuing to examine other suitable acquisitions. We are convinced that the market opportunities are there and that our proven business model can deliver the results. We therefore look forward to making further good progress over the course of the new financial year.

Peter Morgan

Chairman

CHIEF EXECUTIVE'S REVIEW

The Business of Strategic Thought Group

Strategic Thought comprises two main businesses, Enterprise Risk Management ("ERM") and Solution & Integration Services ("SIS"). Until the end of the last financial year, these businesses were run as separate divisions. In the present financial year, they are being brought together into one business organised along functional lines.

In November 2005, the Group acquired Line International Limited as a strategy to increase market share and segment the risk management software market with two differentiated products.

Solution & Integration Services: This business designs, builds, deploys and supports information management and business critical integration systems. SIS has experience operating across all industry sectors but has developed significant expertise in the Banking, Insurance, Retail and Telco sectors.

Enterprise Risk Management: This business owns and licenses Active Risk Manager™, ("ARM"), which the Directors believe to be the world's most comprehensive Enterprise Risk and Issue Management software solution. The web-based software enables organisations to manage both risk and opportunity and also to ensure that corporate standards and compliance obligations can be met.

Since its launch in 2001, ARM has become the de facto standard in its core vertical markets of Aerospace, Defence and Transportation. It is now being successfully deployed in new markets including Utilities, Oil & Gas and Pharmaceuticals.

In November last year, we acquired Line International, a smaller competitor of ARM, which owns and licenses, RisGen®. RisGen enhances our overall market offering and will be targeted at small to medium size organisations, thereby enabling us to satisfy the needs of this marketplace as well as those of larger organisations. The acquisition also opens up new sectors to us, in particular, government and leisure, and adds 60 new customers.

Today the Group has offices in the UK and US, as well as resources in Asia Pacific. This means that our customers are globally supported.

Business Performance

Risk Management

The ERM operation represents our core business line. Results for the year were excellent, with the business performing ahead of target principally as a result of continuing strong licence sales of ARM.

The acquisition of Line International in the second half of the year has strengthened our position in the enterprise risk market and increased our customer base to a total of 120 customers at the year end.

I am particularly pleased to highlight the following achievements:

- ARM licence sales globally were above target.
- ARM support revenues were above target, with revenues increasing from £0.52m to £1.14m.
- 20 new ARM customers were added over the year, many of which were key target wins, while another 60 new customers came with the Line acquisition. Historically, a large proportion of new software sales arise from existing customers who buy additional user licences and/or recommend their partners or sub-contractors to adopt the software. It is therefore reasonable to expect that these new contracts will grow significantly over time.
- Excellent financial contribution and revenue growth from the US office.
- Our newly acquired risk product, RisGen, met our profit performance expectations.
- New distribution channels contributed to new business sales.

Markets Covered

To date, ARM customers have tended to be large corporations based in the US and Europe with annual revenues in excess of US$1 billion. The US market offers considerable growth opportunities and a key focus, over the last eighteen months, has been to develop our presence there. I am therefore pleased to report that 69% of new licence sales this year arose from the US. In the UK, our focus was to open up new markets and target licence sales outside our existing customer base. We saw good progress in both these objectives.

Product Strategy

At the heart of our success has been the continuing development of our product offering.

The acquisition of Line International and Line's risk management product, RisGen, brings us a number of clear benefits. These include:

- the addition of a product which delivers a solution to organisations looking for a 'value' option, as opposed to a 'premium' option,
- consultancy skills based in Bristol, close to the hub of our UK defence customers,
- 60 new customers and expertise in the government and local government market, which we had not been able to penetrate previously with a premium product.

The continuing development of our own product, ARM, remains a priority. There are four key areas of product development on which we have been focused to ensure that ARM retains its competitive advantage: project risk management, operational risk management, corporate risk management and overall globalisation and technology improvements.

Project risk management: a significant proportion of our R&D was focused on ensuring ARM's capability here. Our ability to offer a first class product for the management of project risk is a key driver for ARM's sales and to date, the project sector has been responsible for 75% of ARM sales.

Operational risk management: we built on our capability significantly in this area with controls assurance and compliance-based controls evaluation. This means that today Active Risk Manager can support all the operational risks an organisation must manage, including for example, health and safety.

Corporate risk: further enhancements were made to ARM's corporate risk functionality, with specific capability added for the easy linkage of multiple operational risks to and from corporate risks. In addition, improvements were made to our filtering engine, enabling drill down throughout the organisation.

Globalisation and Technology: we invested significantly in this area and brought to the market full portal and improved project planning tool integrations. New approaches to handling large user populations were implemented to "find" other users faster and to enable effective alerting of risk states across the organisation. Finally, we embarked on a significant refresh of the presentation layer of Active Risk Manager into Microsoft .net

Overall, the development of the Group's most valuable asset progressed well. The release of the upgraded ARM software, release 3.0, will now take place on 4 July 2006.

Solution & Integration Services ("SIS")

SIS saw growth in IBM software sales although professional services sales remained at last year's level at £2.89m (2005: £2.9m). Therefore, while sales overall were 12% ahead of last year, the planned contribution from the division fell short of our target by approximately £400,000. Nevertheless, I am pleased to note the following:

- growth in key customers and on-going projects,
- development of cross-over sales opportunities for our risk products,
- maintenance of Premier Partner status with IBM,
- growth of IBM software sales from £2.42m to £3.04m.

A key objective during the year was to increase the volume of business from the existing customer base and this was largely achieved. During the year, we maintained our Premier Partner status with IBM and opened additional channels to market through our long term relationship with them.

We also saw the beginning of a cross-over market in specialist risk systems, building on our experience in Enterprise Risk Management. Our first sale of significance in this area was to build a railway level crossing Risk Engine which is due for delivery in the first quarter of the new financial year.

After a strategic review in the last quarter of the year, we identified changes we wish to make to the sales model to focus on higher value engagements through business-based rather than technical-based propositions.

Business in the year ahead

At the beginning of the new financial year, we began the implementation of a programme of organisational change. The objective is to unify the way in which our business operates. In particular, we are bringing together certain functions currently carried out separately by SIS and ERM. For instance, the support team in each operation will be brought together to form a single team.

The unified approach will bring three key benefits. It will enable us to:

- meet customer needs with the whole of our proposition set rather than a subset of it,
- consolidate best practice in process and tools from both divisions and so establish an enhanced model for working that will support our next phase of growth,
- achieve market leadership with a unique proposition formed from our three specialisms: the presentation of information using portal technology, the integration of software applications and our capability in the Enterprise Risk Management marketplace.

Enterprise Risk Management marketplace

Targets

We believe growth opportunities for ERM licence sales remain significant. The ERM marketplace has now developed beyond the early accepters; in particular, we are now experiencing demand from organisations with in-house and bespoke solutions which no longer meet their needs today. We have set ambitious growth targets for the year, with our confidence supported by:

- the strength of our new business sales pipeline,
- prospects for further sales of ARM and RisGen into existing customers,
- our entry into new sectors during the last year, which means we now operate in 12 sectors.

Markets

One of our key objectives for 2006/07 is to increase awareness of ARM in the international markets as the leading ERM solution.

The US remains our most significant marketplace and in the current financial year, we expect over half of the Group's sales to be made in the US. In readiness for our next phase of growth, we will be completing the move of our US operation from managed offices to our own premises during the first half of the new financial year.

In the UK and Europe, we are targeting substantial growth and will be formally engaging channel partners to capitalise on the opportunities available.

Product Management

We believe that we can maintain ARM's clear market differentiation and continue to win significant market share based upon evolution of existing capability and new modules to be delivered. Release 3.0 on 4 July 2006 will launch our Incident Management capability, which is the last core component of "Closed Loop Risk Management", a vision we launched three years ago.

Release 3.1 remains on track for mid-December 2006, with further innovations to maintain competitive advantage. Our plans are backed by the on-going expansion of our development, quality and support resources.

In addition to product functionality which gives us significant competitive advantage, our core differentiators are proven scalability, reliability and roll-out success. It is through these differentiators that we have acquired the input and support of our exceptional base of blue chip reference clients.

The coming year will see us looking to consolidate and take advantage of our unique position in the ERM market. This will involve refining the functional model and different presentation models using dash-boarding, content management and portal technology. In seeking to achieve the reputation of "The ERM Company", we expect to attract new competition from other vendors in compliance as ERM markets converge. We intend to be at the forefront of this convergence. We believe our approach to innovation, investment and our acquisition programme will enable us to continue to distance ourselves from our competitors.

As well as the on-going development of ARM, we also have plans to position RisGen into more specific target markets and to invest in bringing together the technology that drives both products. This will enable us to drive enhancements through both products efficiently and to reduce costs.

Strategic Thought Services

At the start of the new financial year, the SIS team was brought into a newly formed, functionally orientated, larger division called 'Strategic Thought Services'. The Services division now comprises ERM Services, Technology Services (the old SIS division) and Retail Services. We expect significant growth in services revenue over the year, with the key factors that are driving our expectations being:

1) our order book

2) changes to the sales model and propositions. We have refined our propositions into three areas to win new business:

    - faster payments in the banking sector, an area in which we have market-leading experience
    - policy management in the insurance sector, as a focal point into the Lloyds' of London Insurance market
    - membership management for commercial and Not-for-Profit organisations, where we have already delivered two large scale successful solutions.

3) success in customer engagements driving new opportunities within these organisations. We expect to achieve 75% of our Services revenues from existing customers.

4) provision of portal and integration services to our ERM customers.

We are in the process of strengthening our service sales capability, with new personnel joining in June.

Last year, an important customer, Courts Furnishers, entered into receivership. During this year, we expect to finalise new contracts with overseas Courts subsidiaries as these are sold off by the receiver. In addition to Courts, we will be applying focused sales effort to expand further our base of customers in the retail sector.

Strategic Thought Support

The growth of support services revenue is important to us both in terms of maintaining customer satisfaction and also in underpinning the Group's income. It gives us a highly stable, predictable earnings stream. By bringing together our services support contracts, our hosting arrangements and our products, we will expand a service level agreement approach to all on-going product support relationships.

Financial Management

Financial strength

Strategic Thought was founded without recourse to external funds and it operated without external funds except short term debt from foundation until April 2004, when a £650k investment was made by Herald Investment Trust.

This historic "lean" model has embedded a value culture where new propositions have to address clear market issues and deliver clear benefits to our customers. On 7 July 2005, the company floated on AIM with the objectives of:

- strengthening our balance sheet with an inflow of £2.37m (net of expenses) and so providing the company with the necessary reserves to manage the risks of rapid growth in emerging product markets
- supporting future acquisitions
- supporting the development of the Group's long term brand

In November 2005, the Group acquired Line International and its liabilities for the initial consideration of £747k with an additional earn-out arrangement in place of £1.30m for Line's original shareholders subject to meeting certain performance targets. The acquisition was funded from retained cash leaving the Group with a very strong free cash position.

Financial Strategy

Our new CFO, whom we expect to join the Group in early July, will undertake a thorough review of our financial strategy. In the meantime, the following points are pertinent:

- The Group has decided not to adopt IFRS until the year ended 31 March 2008 as permitted.
- We currently do not capitalise any software development.
- Our currency risks are significantly off-set by our reserves and overall margin on business rather than through specific hedge strategies.
- The acquisition of Line International was made with cash, not shares.
- The tax credits received as a result of options exercised post-flotation are unlikely to be repeated on the same scale in future years.

Areas of investment this year

Our plan for the year includes significant investment in staff resources, systems and facilities. We expect to complete the recruitment of additional personnel by the end of the first quarter. With regards to systems, we are implementing cost effective improvements with the goal of further improving the quality of service we provide to our customers. Key systems improvements include: the deployment across the Group of automated test tools and the implementation of a new Customer Relationship Management (CRM) system by the half year, which will enable us to 'join up' all contact and services with our customers. The CRM system will be integrated with our finance systems in the second half of the year.

With regards to facilities, our most significant investment will be the move of our US operation from a managed services environment into its own offices, in the second quarter, removing the space constraint we currently face.

Overall Outlook

Growth prospects for the Group look very encouraging. Our prospect lists in all areas of the business are strong. We are making the necessary investments to maintain our leadership in ERM and we look forward to two new releases of Active Risk Manager during the forthcoming year with quality at the forefront of our actions.

We are continuing to monitor acquisition opportunities to strengthen the Group further in our drive to become one of Europe's top software companies.

There will be challenges during the year, not least the weakness in the US Dollar, given that we are expecting just over half of our software sales to be in the US. However, overall, we are confident that the Group's performance in the new financial year will once again show strong growth and that we will have made the necessary investments in people, process, systems and facilitates to underpin future growth.

Richard Higgs

Richard Higgs

Chief Executive Officer

DIRECTORS AND ADVISORS

Directors
P W L Morgan *Chairman* + #
R L Higgs *Chief Executive Officer*
N H Denning *Chief Technical Officer* *
S Ricketts (appointed 1 May 2005) *Non-executive Director* + #
P Tuson (resigned 14 December 2005) *Chief Financial Officer* *

* Executive Committee
\+ Audit Committee
\# Nominations and Remunerations Committee

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P A Rose

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United Kingdom

DIRECTORS' BIOGRAPHIES

Details of the Directors are as follows:

Peter Morgan, Non-executive Chairman

30 year career with IBM. Former Executive Director of IBM (UK) and Group Director of Marketing for IBM Europe. Chairman of Technetix Group Limited and Non-executive Director of Oxford Instruments plc and Hyder Consulting plc. Elected member of the Council of Lloyd's. Former Director General of the IoD.

Richard Higgs, Chief Executive Officer

20 years in IT industry and extensive experience of sales in the UK and US. Joined Strategic Thought in 1998, becoming Managing Director in 1999. Successfully established ADS Systems Limited in 1995, subsequently acquired by SunGard Corporation.

Nick Denning, Chief Technical Officer

Founder of Strategic Thought in 1987. Early career as a Captain in Royal Corps of Signals and then project manager at Logica. MBCS and CEng since 1986 and Freeman of WCIT since 2006.

Simon Ricketts, Non-executive director

Currently Chief Information Officer of Scottish & Newcastle plc, having held senior operational positions with Cadbury Schweppes PLC and British Steel plc. Advised the MBO and subsequent flotation as a non-executive director of ITNET plc. Non-executive director of Barbox Ltd.

CORPORATE GOVERNANCE

The Company floated on the Alternative Investment Market of the London Stock Exchange ("AIM") in July 2005. The regulatory requirements of this market do not require the Company to follow the Combined Code which applies to fully listed companies. Nevertheless, the Company is committed to high standards of corporate governance. This statement describes how the recommendations outlined in the Combined Code of Corporate Governance are implemented by the group.

Directors

The Board of Directors comprises two Executive and two independent non-Executive members. However, the Chairman is one of the non-executive directors. Strategic Thought believe the Chairman to be independent, despite the prescriptions of the Code in this respect. It is planned that a further non-executive director will be appointed in the current financial year. The board considers that both non-executives are independent. Each of the Directors has significant knowledge of the technology business combined with general business skills. All of the Directors bring independent judgement to bear on issues of strategy, performance, resources, key appointments and standards.

Paul Tuson, the former CFO, left the Board in December of last year. His successor has been identified and is serving out his notice with his previous employer. The two other executive directors, Richard Higgs and Nick Denning, are also the majority shareholders of the Group.

The Board meets ten times throughout the year and all the necessary information is supplied to the Directors on a timely basis to enable them to discharge their duties effectively. The Board has a statement of responsibilities and is presented with an agenda and supporting documentation prior to each board meeting. It is responsible for the overall management of the group and the approval of its long term objectives and strategy.

To enable the Board to discharge its duties, all Directors have full and timely access to relevant information. The Board has a formal schedule of matters specifically reserved for decision by it, thus ensuring that it exercises control over appropriate strategic, financial, operational and compliance issues. At these meetings the board reviews trading performance, ensures adequate financing, monitors strategy, examines investment and acquisition opportunities and discusses reports to shareholders. The non-executive Directors can also take independent professional advice as appropriate at the Company's expense.

The non-executives meet periodically in the absence of the executives to consider the performance of the executive directors. With such a tight knit team the Board concluded that formal evaluation of each other was unnecessary for the time being. The overall effectiveness of the Board and its sub-committees is reviewed by the Board as a whole through completion of a formal questionnaire. The output of these evaluations provides a basis for further development of the Board's operations in the year ahead.

No director has been appointed to the Board since the last AGM. The code calls for the re-election of one third of the directors at each AGM. Since there are only four directors at the moment, under our articles of association if one third of directors is not a whole number then the nearest number should apply. Accordingly, one director is required for re-election so Richard Higgs has put himself forward for re-election at the AGM.

Each Committee of the Board has written terms of reference which have each been reviewed by the relevant Committee in the last year.

Executive Committee

The Board has established an Executive Committee which comprises the executive directors together with other senior executives of the Group. They meet once a month to discuss strategic and operational matters and the key issues from the meetings are presented to the Board.

Remuneration and Nominations Committee

The Remuneration Committee comprises Peter Morgan and Simon Ricketts and is chaired by Simon Ricketts. It met twice in the past year. It reviews the remuneration of each of the executive directors and sets the scale and structure of their remuneration and other benefits. The Remuneration Committee report can be found on page 25. The Remuneration Committee as constituted also serves as the Nomination Committee for consideration of executive and non-executive appointments.

Audit Committee

The Audit Committee comprises Peter Morgan and Simon Ricketts and is chaired by Peter Morgan. Executive Directors and auditors attend the meetings by invitation to support the committee in carrying out its responsibilities. The Audit Committee met four times in the last financial year.

The Audit Committee is responsible for reviewing a wide range of financial matters including the half year and annual accounts before their submission to the Board and monitoring the controls, which are in force to ensure the integrity of the financial information reported to shareholders. It has also considered the Company's *whistle-blowing* policy. The Audit Committee reviews the appointment of external auditors and their remuneration both for audit and non-audit work and discusses the nature and scope of the audit. The Audit Committee regularly reviews the level of non-audit work being performed by the auditors to ensure they remain independent and the Audit Committee is satisfied that the current level of non-audit work is being performed by the auditors is appropriate. The Audit Committee consults the external auditors in the absence of executive management in order to obtain independent advice. Audit and non-audit fees paid or payable to the Auditors in the year under review are set out on page 41.

The Group does not have an internal audit function. In the opinion of the Committee and the Board the limited scale and complexity of the business does not warrant the establishment of a separate internal audit function. A process of reviews is in place and the position is monitored annually.

Internal Controls

The Board has overall responsibility for the Group's system of internal control. The Directors continually monitor the effectiveness of the Group's internal controls including operational, financial, compliance and risk management controls. The key controls are designed to mitigate risk rather than eliminate it and are as follows:

- Comprehensive financial planning and reporting (including a three year plan) and a detailed annual budget, which is approved by the Board, monthly reporting of actual results against budget and reporting against key financial and performance objectives.
- Monthly performance reviews by the Chief Executive and the Executive Committee.
- Established procedures and controls with the Group IT systems designed to protect the security of the Company data and provide disaster recovery arrangements (with annual reviews and updates).
- Controls for all acquisitions, investments and capital expenditure with clear authorisation levels.

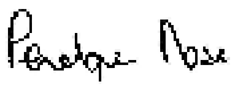
- Maintenance of the Group's ISO 9001 accreditation driving regular internal reviews and checks and mandatory annual audits in sales and marketing, project management, health and safety, office management, environmental and human resources.
- Procedure for escalation of material risks from the Executive Committee to the Board.
- Operation of a structured system of risk management throughout the business.
- Maintenance and regular review of the Group risk register by the Executive Committee.

The internal control systems continue to be reviewed and developed where necessary.

Relations with Shareholders

The Board places considerable importance on maintaining good communications with shareholders. This is principally effected currently by the CEO and in the future by the CEO and new CFO through presentation and dialogue with shareholders, institutions, brokers and media followed by reports to the Board. Broker's notes are circulated to the board. The Chairman is available to meet major shareholders. The Annual General Meeting provides a forum for shareholders to meet the members of the Board.

By order of the Board:



Penelope Rose

Company Secretary

DIRECTORS' REPORT

The Directors have pleasure in presenting their annual report, together with the audited financial statements for the year ended 31 March 2006 set out on pages 30 to 54.

Principal Activities

Strategic Thought Group plc is a software and services company, specialising in Risk Management, that is committed to achieving customer success and market leadership in each of our business divisions.

The future outlook and information that fulfilled the requirements of the business review can be found in the Chairman's Statement and Chief Executive's Review on pages 2 to 16, which are incorporated in this report by reference.

Results

The results include those of Strategic Thought Group plc and its subsidiaries for the full year.

The profit on ordinary activities before taxation amounted to £2.29m (2005: £1.73m). The retained profit for the year ended 31 March 2006 was £2.40m (2005: £1.37m).

Dividends

The Directors recommend payment of a final dividend of 1.9p per share for the year ended 31 March 2006 (2005: 1.15p). This has not been accrued in accordance with FRS 21.

Research and Development

The Company has an active programme of research and development. The total research and development costs expensed for the year appear in note 5 to the financial statements.

Financial Risk Management

Details of the financial Risk Management objectives are set out in Note 1 on page 36.

Directors and their Interests

Details of the Directors of the Company, including non-executive directors, are given on page 17. All the directors shown served throughout the year unless otherwise stated.

Details of Directors' interests in shares of the Company are included in the Directors' Remuneration report on page 26.

Retirement, Election and Re-election of Directors

In accordance with the Articles of Association, the Director retiring by rotation at the Annual General Meeting is Richard Higgs who, being eligible, offers himself for re-election.

Share Capital

Details of the share capital of the Company as at 31 March 2006 are set out in Note 19 on page 49.

Annual General Meeting

The notice of the Annual General Meeting is set out in a separate circular to shareholders.

Policy on the Payment of Creditors

It is the Company and Group policy to pay invoices within 30 days of receipt. The main exception to this is payment of IBM software related invoices which we have agreement with our supplier Avnet to pay within 45 days.

The average creditor days for the group is: 29 days (2005: 31 days). The company has no material trade creditors.

Employees

We have built our success on delivering solutions to address our client's business needs through the creativity and innovative thinking of our staff. We therefore believe that it is important that the company maintains a culture where each employee is encouraged to be involved in the development of the business and understands the impact of their role on company performance.

Each individual works towards meeting objectives that are set in the context of the business plan so that everyone understands how their performance works towards meeting whole company goals. Individuals receive bonuses dependant on achievement of both individual and company objectives. We recognise and reward employees for their contribution and award share options through an EMI share option scheme to encourage staff commitment to company performance and to align employee interests with those of shareholders.

We believe in communicating openly and transparently, as far as we can within the bounds of commercial and legal confidentiality. The Company keeps employees informed of company performance through regular team briefings throughout the year. Employees are consulted on matters that affect them as employees and their feedback is taken into account when introducing new initiatives.

Disabled Employees

All applications for employment, including applications from disabled candidates, are treated with full, fair and equal consideration. Job offers are entirely based on merit taking into account aptitude and capability to carry out each role based on a defined job specification. The Company has an excellent reputation for recognising and making the best use of its employees' skills. In the event that an employee becomes disabled, the Company would do its utmost to retain the employee by, wherever possible, providing an environment adapted for their needs. This could mean providing specially adapted working facilities, home-working facilities or re-training. It is the policy of the Company that all job opportunities, career development, training and career advancement opportunities are available to all employees.

Contributions for Charitable Purposes

During the year, the Group has made charitable donations of £427 (2005: £715) in support of staff in their charitable endeavours.

Environment

Our operational day-to-day activities are mostly office based, and by their nature, generally have minimal impact on the environment. However, we are keen to actively encourage sound environmental practices. We recognise this as a responsible approach to protecting the environment and as an effective cost management practice and have an environmental policy in place.

Statement of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and the group and of the profit or loss and cash flows of the group for that period.

In preparing those 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;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and the group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The directors confirm that they have complied.

The directors are responsible for the maintenance and integrity of the corporate website (www.strategicthought.com); and legislation in the UK concerning the preparation and disseminatin of financial statements may differ from legislation in other jurisdictions.

Going Concern

The directors confirm that the Group has adequate resources to continue its operational existence for the foreseeable future and therefore continue to adopt the going concern basis for the preparation of the Annual Report and Financial Statements.

Auditors

So far as the Directors are aware, there is no relevant audit information, that is, information needed by the company's auditors in connection with preparing their report, of which the company's auditors are unaware, and the directors have taken all steps that they ought to have taken in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the Annual General Meeting.

By order of the Board:

Penelope Rose

Penelope Rose

Company Secretary

REMUNERATION REPORT

This report has been prepared in accordance with the Combined Code although as an AIM listed company, Strategic Thought is not required to comply with the rules set out therein.

Remuneration Policy

The remuneration policy of the company is designed to attract and retain high calibre executives and professionals through competitive salary and incentive packages that are linked to both individual and company performance. The policies and details of these elements are given in the sections below.

1.1 Remuneration Committee

The Remuneration Committee is a committee of the Board of Directors and operates under terms of reference endorsed by the Board. The Committee consists of the two independent Non-executive directors and is chaired by Simon Ricketts. By invitation, the committee is also attended by the Company Secretary, the HR manager and the Chief Executive Officer. It met twice during the year.

1.2 Remuneration Information

The Remuneration committee agrees the base salary, performance bonus, share options, pension, and permanent health and life assurance benefits for Executive Directors.

1.2.1 *Base Salary*

Salaries are assessed against the policy of being within the upper quartile for Executive Directors in comparable companies.

1.2.2 *Performance Bonus*

Bonus entitlement is related to the performance of the Group. For the year ending 31 March 2006, Executive Directors received bonus amounts as indicated in the remuneration table below.

1.2.3 *Retirement Benefits*

The company provides pension contributions of 10% of annual salary to Executive Directors to invest in a fund of their choice.

1.2.4 *Other Benefits*

Following the first six months of employment, Executive Directors are provided with life assurance, critical illness cover and also, permanent health insurance.

1.3 Share Options

Share options may be granted to Executive Directors at the discretion of the Remuneration Committee. Normally such grants would be made at the time of recruitment, and then annually, based upon Group and individual performance.

1.4 Directors' Service Contracts

The Executive Directors have service contracts with notice periods of six months and compensation payable on termination not exceeding six months. The two independent Non Executive Directors have service contracts with notice periods of six months also.

1.5 Executive Directors

The Chief Financial Officer Paul Tuson left the company on 14 December 2005. He received £59,413 in lieu of notice and other benefits.

1.6 Non Executive Directors

Simon Ricketts joined the Board as an independent Non Executive Director on 1 May 2005.

1.7 Directors' Remuneration for the year ended 31 March 2006

	Basic Salary £000	*Fees £000*	*Bonus £000*	*Pay in lieu of notice £000*	**Total 2006 £000**	*Total 2005 £000*	**Pension Contributions 2006 £000**	*Pension Contributions 2005 £000*
Executive								
Richard Higgs	118	–	13	–	**131**	115	**12**	10
Nick Denning	86	–	6	–	**92**	113	**9**	10
Paul Tuson	77	–	16	59	**152**	25	**–**	–
Non-Executive								
Peter Morgan	–	25	–	–	**25**	18	**–**	–
Simon Ricketts	–	17	–	–	**17**	–	**–**	–

Benefits in kind are calculated in terms of UK taxable values. For the Executive Directors they comprise: a permanent health scheme, a life assurance scheme and critical illness cover. Values of the Benefits in kind for individual Directors did not exceed £250 for the year ending March 2006.

No director waived emoluments in respect of the year ended 31 March 2006 (2005: none).

1.8 Directors' Shareholdings

The directors of the company and their interests at the year end and the date of this report in the shares of the company are shown below:

	Ordinary shares of 1p 8th June 2006	***Ordinary shares of 1p 31 March 2006***	*Ordinary shares equivalent to 1p 31 March 2005*
Richard Higgs	**6,592,350**	**6,592,350**	7,842,349
Nick Denning	**6,785,042**	**6,785,042**	7,842,349
Peter Morgan	**70,833**	**70,833**	50,000
Simon Ricketts	**12,500**	**12,500**	–

Ordinary shares held at 31 March 2005 have been restated to the equivalent number of 1p shares following the 50:1 issue on admission to AIM.

1.9 Directors Interests

There were no significant contracts subsisting during or at the end of the year with the Company or any of its subsidiaries, other than service contracts, detailed above, in which any Director is, or was, materially interested.

1.10 Interests in Share Options

No directors held share options or exercised share options in the year (2005: none).

By order of the Board:

Simon Ricketts

Chairman Remuneration Committee

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF STRATEGIC THOUGHT GROUP PLC

We have audited the group and parent company financial statements (the 'financial statements') of Strategic Thought Group plc for the year ended 31 March 2006 which comprise the group profit and loss account, the group and company balance sheets, the group cash flow statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and UK Accounting Standards 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). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if 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. This other information comprises the Directors' Report, the Chairman's Statement, the Chief Executive's Review, the Remuneration Report and the Corporate Governance statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standard 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 judgments 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 financial statements give a true and fair view, in accordance with UK generally accepted accounting practice of the state of the group's and parent company's affairs as at 31 March 2006 and of the group's profit and cash flows for the year then ended; and
- The financial statements have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
8 June 2006

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 March 2006

	Notes	***Year ended 31 March 2006*** **£'000**	*Year ended 31 March 2005 (restated)* £'000
Turnover	2		
Continuing operations		**11,189**	9,250
Acquisitions		**275**	–
Total continuing operations		**11,464**	9,250
Cost of sales	2, 3	**(6,470)**	(5,253)
Gross profit		**4,994**	3,997
Net operating expenses	3	**(2,884)**	(2,316)
Continuing operations	3	**2,204**	1,681
Acquisitions (after £119k goodwill amortisation)	3	**(94)**	–
Group operating profit		**2,110**	1,681
Interest receivable and similar income	6	**182**	53
Interest payable and similar charges	6	**–**	(3)
Profit on ordinary activities before taxation	5	**2,292**	1,731
Tax on profit on ordinary activities	7	**116**	(366)
Profit for the financial year	22	**2,408**	1,365
Earnings per share from continuing operations expressed in pence per share			
– Basic	10	**9.8**	6.1
– Diluted	10	**8.8**	5.7

There are no other recognised gains or losses other than those reflected in the above profit and loss account.

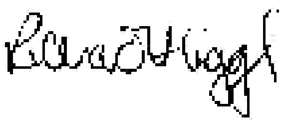
CONSOLIDATED BALANCE SHEETS

at 31 March 2006

	Notes	**Group As at 31 March 2006 £'000**	*Group As at 31 March 2005 (restated) £'000*	**Company As at 31 March 2006 £'000**
Fixed assets				
Goodwill	11	**1,303**	–	**–**
Tangible assets	12	**119**	92	**–**
Investments	13	**–**	–	**963**
Total fixed assets		**1,422**	92	**963**
Current assets				
Debtors – amounts due within one year	14	**4,614**	5,506	**45**
Debtors – amounts due after one year	14	**330**	647	**–**
Cash at bank and in hand		**5,459**	3,311	**4,608**
Total current assets		**10,403**	9,464	**4,653**
Current liabilities				
Creditors – amounts due within one year	16	**(4,077)**	(6,182)	**(2,812)**
Net current assets		**6,326**	3,282	**1,841**
Total assets less current liabilities		**7,748**	3,374	**2,804**
Creditors – amounts falling due after more than one year	17	(366)	(683)	**–**
Net assets	2	**7,382**	2,691	**2,804**
Capital and reserves				
Called up share capital	19	**260**	216	**260**
Share premium account	20	**2,487**	–	**2,487**
Merger reserve	21	**486**	486	**–**
Profit & loss account	22	**4,149**	1,989	**57**
Total shareholders' funds – equity interests	23	**7,382**	2,691	**2,804**

Strategic Thought Group plc was incorporated in the period and therefore no comparative is presented.

The financial statements on pages 30 to 54 were approved by the board of directors on 9 June 2006 and were signed on its behalf by:



Richard Higgs

Chief Executive Officer

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 March 2006

	Notes	***Year ended 31 March 2006 £'000***	*Year ended 31 March 2005 £'000*
Net cash inflow from operating activities	24	**1,082**	2,290
Returns on investments and servicing of finance			
Interest received		**182**	53
Interest paid		**–**	(3)
		182	50
Taxation		**(381)**	(126)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		**(69)**	(45)
Acquisitions			
Purchase of subsidiary undertakings	26	**(747)**	–
Net cash acquired with subsidiary undertakings		**2**	–
Net outflow from acquisitions		**(745)**	–
Equity dividends paid		**(248)**	(66)
Net cash (outflow)/inflow before financing		**(179)**	2,103
Financing			
Issue of ordinary share capital (net of £631k expenses)		**2,531**	684
Repayment of loans acquired with Line International		**(202)**	(24)
Repayment of finance leases		**(2)**	(6)
Net cash inflow from financing		**2,327**	654
Increase in cash	25	**2,148**	2,757

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

Basis of preparation

These financial statements have been prepared under the historical cost convention, in accordance with the Companies Act 1985 and UK Accounting Standards. A summary of the more important group accounting policies is set out below.

Changes in accounting policies

The Company adopted FRS 21 ‘Events after the balance sheet date’ during the year under which dividends are only recognised once they have been declared and are no longer at the company’s discretion. The adoption of the standard represents a change in accounting policy and the comparative figures have been restated accordingly.

The effect of implementing the new accounting policy was to recognise the final proposed dividend of the year ended 31 March 2005 of £248k in the current year and that of the year ended 31 March 2004 of £66k in the year ended 31 March 2005.

The proposed final dividend for the current year has not been recognised in the current year given that it has yet to be approved.

The presentation requirements of FRS 25 ‘Financial Instruments: Disclosure and Presentation’ also apply for the years beginning 1 January 2005. This standard has no impact on the Strategic Thought Group, given that the non-equity shares were converted to equity shares prior to flotation and therefore were treated as equity.

Basis of consolidation

Strategic Thought Group Plc was incorporated on 14 April 2005.

Strategic Thought Group Plc’s consolidated financial statements include the financial statements of all of its wholly owned subsidiaries, namely Strategic Thought Ltd, Strategic Thought Pty, Strategic Thought Inc and Line International Ltd.

Strategic Thought Ltd

On 15 June 2005 the shareholding of Strategic Thought Limited was transferred to Strategic Thought Group plc in the form of a share for share exchange. The nominal value of the shares issued by Strategic Thought Group plc was £216k, which comprised 18,125,948 Ordinary Shares and 3,432,750 A Ordinary Shares. The profit of Strategic Thought Ltd from the beginning of its financial year to the date of the group reconstruction was £193k. This group reconstruction was accounted for using merger accounting.

The carrying values of the assets and liabilities of the combining entities are therefore not adjusted to fair value on consolidation, although, appropriate adjustments are made to achieve uniformity of accounting policies in the combining entities.

The results and cash flows of all the combining entities are brought into the financial statements of the combined entity from the beginning of the financial year in which the group reconstruction occurred.

The corresponding figures are restated by including the results of all the combining entities for the previous period and their balance sheets for the previous period, adjusted as necessary to achieve uniformity of accounting policies. In this case, the corresponding amounts reflect the results and balances of Strategic Thought Ltd only given that Strategic Thought Group Plc was incorporated during the year ending 31 March 2006.

The difference between the nominal value of the shares issued by Strategic Thought Group Plc plus the fair value of any other consideration given, and the nominal value of the Strategic Thought Ltd shares received in exchange, is shown as 'other reserves' in the consolidated financial statements.

Other subsidiaries

Other subsidiaries are accounted for using acquisition accounting.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the fair value of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired is shown as negative goodwill and is released to the profit and loss account over the life of the non-monetary assets.

The results of the subsidiary acquired during the year are included in the consolidated profit and loss account from the date control passes to the Company. Adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

Goodwill

Goodwill is stated at cost less accumulated amortisation and where appropriate impairment in value. Goodwill arising on consolidation represents the excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired.

Goodwill is amortised from the date of acquisition on a straight line basis over its expected economic life.

Revenue recognition

Turnover represents the fair value of the consideration received in respect of sales of software, professional services and support services to external customers, net of value added tax.

The Group generates revenues from sales of its own software products directly to end users, sales of consultancy services, and customer support services. The Group also generates revenue by selling other software products and support, notably IBM products, to end users.

Revenues from the sale of the Group's own perpetual software licences is recognised where there is persuasive evidence of an agreement with a customer, delivery of the software has taken place, revenue collection is probable and the fee is fixed and determinable. Periodic software licenses are recognised over the period to which they relate.

Revenues from support contracts are recognised rateably over the term of the contract. Revenues from hosting activities are recognised over the period of usage.

Revenues from consultancy services are normally recognised as services are performed, on a time and materials basis. Occasionally consultancy projects are sold on a fixed price basis. In these cases, the profitability of the project is measured on a monthly basis and any loss recognised immediately in the profit and loss account. If the project to date is profitable then revenue is recognised to the extent that the contract is performed.

Revenues from sales of IBM licences and support, less the costs of sales, are spread over the period of the licences.

Foreign currencies

Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing at the time. Monetary assets and liabilities denominated in foreign currencies are retranslated on a monthly basis. Exchange gains and losses are included in the net profit or loss for the period. Non-monetary assets are recorded at the rate prevailing when the asset was acquired. Deferred revenue on support is recorded at the rate prevailing at the date of deferral. Foreign currency differences arising from the re-translation of the opening net investment in subsidiary companies are taken to reserves and are reported in the group statement of total recognised gains and losses.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date and that result in an obligation to pay more tax in future or right to pay less tax in the future. An asset is not recognised to the extent that the transfer of economic benefits in the future is uncertain. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Tangible fixed assets

Tangible fixed assets are stated at cost or fair value when acquired, less depreciation, and when appropriate provision for impairment is made.

Depreciation is provided to write off the cost, less estimated residual values, of all tangible fixed assets, evenly over their expected useful lives. Their expected useful lives are as follows:

Fixtures and fittings	–	7 years
Computer hardware	–	3 years
Computer software	–	2 years

Assets held under hire purchase contracts – shorter of lease term and useful economic life.

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 in the profit and loss account at the time of sale.

Development expenditure

Expenditure related to the development of the group's products is written off to the profit and loss account as it is incurred.

Pension scheme

The company operates a group personal pension scheme on a defined contribution basis. The charge against the profit and loss account represents the amount of contribution payable to the scheme in respect of the accounting period.

Lease agreements and finance leases

Where an asset is financed by a finance lease contract that gives rights approximating to ownership, the asset is treated as if it had been purchased outright. The amount capitalised is the present value of the minimum contract payments payable during the contract term. The corresponding commitment is shown as an obligation under hire purchase contracts. Depreciation on the relevant assets is charged to the profit and loss account. Payments are analysed between capital and interest components so that the interest element of the payment is charged to the profit and loss account over the period of the contract on a straight line basis. The capital part reduces the obligation under the hire purchase contract.

Payments in respect of operating leases are charged to the profit and loss account on a straight line basis over the term.

Financial risk factors

Responsibility for managing the financial risks of the Group is shared between the Board of Directors, the Chief Executive Officer and the Chief Financial Officer (or the Operations Director acting in the absence of a CFO). The various responsibilities of each party are set out in the STG Treasury policy, and reviewed by the board annually.

The main financial risk factors to which the Group is exposed are:

(a) Foreign Exchange risk

The Group has a growing customer base in the US, and Europe. Foreign exchange transaction risk is the risk that the Group's cash flows will be adversely affected by movements in exchange rates that will increase the Sterling (GBP) value of foreign currency payables, or will diminish the GBP value of foreign currency receivables.

Apart from a small float of US dollars to cover expected outgoings, all foreign currency is converted into sterling without delay, except when converting large receipts of foreign currency, when the risk may be spread over a month.

If the growth of the US business predicates the need to hold larger surplus funds in the US then Treasury can use foreign exchange forward contracts to hedge any foreign exchange risk it believes needs to be covered.

The Group does not take the risk of using the inflow of non-GBP funds as a means of deriving profits from trading on the foreign exchange markets. Foreign exchange exposure will be the result of the timing of actions carried out to abide by the requirements of treasury policy, and the differences between the ARM licensing pricing for EUR and USD compared to the GBP based pricing.

(b) Interest rate risk

Interest rate risk is the risk of a reduction in earnings as a consequence of adverse movements in interest rates. Monthly reports on performance against benchmarks are made to the board, and treasury policy includes controls to limit the credit risk of financial institutions where funds are placed, and to spread the risk. However, with the structure of the Group's business, it is not envisaged that interest rate risk is a major issue for the company – especially in light on the liquidity controls in place.

(c) Credit risk

Other than dealing with the normal business of the Group through the sale of software and the provision of IT and consulting services to customers, the Group is not involved in credit transactions with third party counterparts unless these are first taken to the Board for approval. A debtor management policy is in place which covers credit checking of current and potential customers as well as setting credit limits, and regular reporting of any potential bad debts.

(d) Liquidity risk

Liquidity risk is managed to ensure that there are sufficient funds available to meet the Group's financial commitments as well as planning for unforeseen events such as business disruption which might cause pressure on liquidity.

Management of liquidity risk includes cash flow forecasting in the annual business plan, a more detailed rolling two-month cash flow forecast, a monthly cash flow statement presented to the board, regular analysis of movements in working capital, transfer of surplus cash to higher interest rate deposit accounts or the money market, and restrictions on long term deposits without further authorisation. During the year the Group settled any outstanding loans and has not required an overdraft facility.

Employee share scheme

The Group currently operates an EMI share option scheme under which directors and employees may be granted options to subscribe for shares in the Group at an exercise price not less than the market price at the time of the grant. The aim is to motivate and retain employees and to align their interests with those of the shareholders.

Any deficit between the consideration receivable from employees for share and share option awards granted and the fair market value of the underlying ordinary shares at the date of grant is charged to the profit and loss account as a share compensation expense evenly over the period during which the award vests. The Group provides for the expected liability for employer's national insurance on share option gains outside of the EMI scheme over the period of performance.

Related party transactions

FRS 8 "Related party transactions" requires disclosure of the details of material transactions between the Company and related parties. The Company has taken advantage of the exceptions within FRS 8 not to disclose transactions between Group companies.

Financial instruments

In accordance with FRS 13 "Derivatives and other financial instruments: disclosures", the Company has taken advantage of the exemption available for short-term debtors and creditors. Capital instruments that contain an obligation to transfer economic benefit are classified as liabilities and are recorded at their net proceeds. Financial assets are recorded at cost and the return on such assets is accrued in the period to which it relates.

2. Segmental reporting

Analyses by business segment are based on the group's management structure.

Geographical analysis of turnover is based on the country in which the customer is located. The majority of turnover originates in the United Kingdom. All of the turnover of Line International Ltd since the acquisition (£275k) relates to the Enterprise risk software segment and virtually all of its turnover relates to the United Kingdom.

Turnover analysis by destination

All turnover is derived from external customers.

	2006 ***£'000***	*2005* *£'000*
United Kingdom	**7,883**	6,622
Europe	**204**	130
USA	**3,332**	2,498
Other (Middle East, Africa, etc)	**45**	–
	11,464	9,250

Turnover analysis by business segment

	2006 ***£'000***	*2005* *£'000*
Enterprise Risk Management	**5,521**	3,941
Solution & Integration Services	**5,943**	5,309
	11,464	9,250

Profit before tax analysis by business segment

	2006 ***£'000***	*2005* *£'000*
Enterprise Risk Management	**2,172**	1,087
Solution & Integration Services	**(63)**	594
	2,110	1,681
Net Interest	**182**	50
	2,292	1,731

Net asset analysis by business segment

	2006 ***£'000***	*2005* *£'000*
Enterprise Risk Management	**2,857**	256
Solution & Integration Services	**(365)**	(96)
Central net assets	**4,763**	2,283
	7,255	2,443

Central net assets comprise assets, partially offset by liabilities that cannot practicably be divided between the segments.

3. Cost of sales, gross profit, distribution costs and administrative expenses

	Continuing *£'000*	*Acquisitions* *£'000*	***Total 2006*** ***£'000***	*2005* *£'000*
Turnover	11,189	275	**11,464**	9,250
Cost of sales	(6,319)	(152)	**(6,470)**	(5,253)
Gross profit	4,870	124	**4,994**	3,997
Net operating expenses	(2,666)	(218)	**(2,884)**	(2,316)
Group operating profit after £119k amortisation	2,204	(94)	**2,110**	1,681

4. Employees and Directors

The following refer to group only, as no staff are employed by the Company:

Staff costs for the group during the year

	2006 ***£'000***	*2005* *£'000*
Wages and salaries	**3,888**	3,150
Social security costs	**399**	361
Pensions costs	**212**	200
Total	**4,499**	3,711

Average number of employees (including directors) in the group

	2006	2005
By activity:		
– Consulting and support	**42**	40
– Selling and distribution	**15**	8
– Administration	**8**	6
Total	**66**	54

Directors' emoluments and interests

The comparatives presented for 2005 have been restated and now only reflect amounts relating to the directors who currently serve on the board of the Group.

Contributions were made on behalf of two Directors into the Group personal pension scheme or into the directors' personal pension plans (2005: 2).

	2006 £'000	2005 £'000 (restated)
Aggregate emoluments	**357**	271
Aggregate gains made on the exercise of share options	**–**	–
Pension contributions	**21**	20
Pay in lieu of notice	**59**	–
Total	**437**	291

Highest paid Director

	2006 £'000	2005 £'000
Aggregate emoluments, including pay in lieu of notice, gains on share options exercised and benefits under long-term incentive schemes	**152**	115
Penions contributions	**–**	10
Total	**152**	125

5. Profit on ordinary activities before taxation

	2006 ***£'000***	*2005* *£'000*
Profit before taxation is stated after charging/(crediting):		
Hire of other assets – operating leases	**127**	95
Staff costs (Note 4 above)	**4,499**	3,711
Depreciation of tangible fixed assets		
– owned	**53**	39
– under finance agreement	**–**	3
Amortisation of goodwill	**119**	–
(Profit) on disposal of fixed assets	**(2)**	–
Foreign exchange differences	**(59)**	(2)
Research and development (restated)	**575**	493

Research and development costs have been restated to include a proportion of the cost of staff time used in the development of software.

Services provided by the group's auditor

During the year the group (including its overseas subsidiaries) obtained the following services from the group's auditor at costs as detailed:

	2006 ***£'000***	*2005* *£'000*
Audit services		
Statutory audit		
– Audit related regulatory reporting	**58**	25
Further assurance services		
– preparation of the Accountants' Report, Long Form Report and Working Capital Report in conjunction with the Initial Public Offering	**111**	–
– Review of documents relating to the acquisition of Line International	**6**	–
– Advice relating to Interim results for the period ending 30 September 2005 and professional services to February 2006	**6**	–
Tax services		
– Advisory services	**2**	13
Total	**183**	38

Included in the Group audit fees and expenses paid to the group's auditor £20k was paid in respect of the parent company.

The fees relating to the IPO have been debited to the share premium account. The fees relating to the acquisition of Line International Ltd have been capitalised as part of the cost of acquisition.

Exceptional items

During the year, a director left the company and £97k was incurred in legal advice (£38k) and pay in lieu of notice (£59k) costs.

6. Interest receivable and payable and similar items

	2006 £'000	*2005 £'000*
Interest payable on finance leases	**–**	(3)
Total interest and similar charges payable	**–**	(3)
Total bank interest receivable	**182**	53
Net interest receivable and similar items	**182**	50

7. Tax on profit on ordinary activities – analysis of charge in period

	2006 £'000	*2005 £'000*
Current Tax		
Corporation tax at 30% (2005:30%) based on profit for the year	**(122)**	401
Overseas Tax	**2**	–
Adjustments in respect of prior periods	**16**	(35)
Total current tax	**(104)**	366
Deferred tax		
Temporary differences for which deferred tax is recognised:		
Fixed asset timing differences	**(12)**	–
Total deferred tax	**(12)**	–
Tax on ordinary activities	**(116)**	366

The tax charge for the year is lower (2005: lower) than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2006 £'000	*2005 £'000*
Profit on ordinary activities before tax	**2,292**	1,731
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2005: 30%)	**688**	519
Effects of:		
– Expenses not deductible for tax purposes	**40**	4
– Difference between capital allowances and depreciation	**–**	(6)
– Exercise of EMI stock options	**(848)**	(116)
– Adjustment in respect of previous periods	**16**	(35)
Current tax (credit)/charge for the year	**(104)**	366

8. Profits of holding company

Of the profit for the financial year, a profit of £57,000 is dealt with in the accounts of Strategic Thought Group plc. The directors have taken advantage of the exemption available under section 230 of the Companies Act 1985 and not presented a profit and loss account for the company alone.

9. Dividends

	2006 £'000	*2005 £'000 As restated*
Final 2005 1.2p per equity share (2004: 0.4p)	**209**	66
Final 2005 1.2p per non - equity share (2004: nil)	**39**	–
	248	66

A prior year adjustment has been made in respect of the dividend declared in 2005, as this was not paid until 2006. The accounts have been restated accordingly. Further information is given in Note 1.

The dividend per share has been adjusted to reflect the 50:1 share exchange that occurred upon floatation.

In addition, the directors are proposing a final dividend in respect of the financial year ending 31 March 2006 of 1.9p per share which will absorb an estimated £494,825 of shareholders' funds. It will be paid on 14 July 2006 to shareholders who are on the register of members at 16 June 2006.

10. Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

The directors have also chosen to show an adjusted EPS figure which reflects the amount which would have been earned had a tax deduction for the exercise of share options not been received.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to include all dilutive potential ordinary shares. These consist of share options currently granted to employees at an exercise price less than the average market price of the company's ordinary shares during the year.

The 2005 comparatives have been extracted from the Accountants' Report in the Admission to AIM document and the average number of shares is based on the number of shares in issue prior to admission.

	2006 £'000	*2005 £'000*
Earnings attributable to shareholders	**2,408**	1,365
Additional tax had a share option deduction not been obtained	**(848)**	(116)
"Adjusted" profit	**1,560**	1,249

	2006 Number	2005 Number
Weighted average number of shares in issue	**24,492,641**	22,489,600
Dilutive effect of share options	**2,728,555**	1,520,561
Diluted weighted average number of shares	**27,221,196**	24,010,161

	pence	*pence*
Basic EPS	**9.8**	6.1
EPS based on adjusted profit	**6.4**	5.6
Diluted EPS including effect of share options	**8.8**	5.7
Diluted EPS based on adjusted profit	**5.7**	5.2

11. Goodwill

	Goodwill £'000
Cost	
At 1 April 2005	–
Additions (Note 26)	1,422
At 31 March 2006	**1,422**
Accumulated amortisation	
At 1 April 2005	–
Charge for the year	119
At 31 March 2006	**119**
Net book value at 31 March 2006	**1,303**
Net book value at 31 March 2005	**–**

The goodwill arising on the acquisition of Line International Ltd is being amortised on a straight-line basis over 5 years. This is the period over which the directors estimate that the value of the underlying business acquired is expected to exceed the value of the underlying assets.

12. Tangible fixed assets

	Fixtures and fittings £'000	*Office equipment £'000*	*Total £'000*
Cost			
At 1 April 2005	212	307	519
Additions at cost	2	67	69
Disposals	–	(110)	(110)
Acquisitions	–	13	13
At 31 March 2006	**214**	**277**	**491**
Depreciation			
At 1 April 2005	161	266	427
Charge for the year	18	35	53
Disposals	–	(108)	(108)
At 31 March 2006	**35**	**193**	**372**
Net book amount at 31 March 2006	**35**	**84**	**119**
Net book amount at 31 March 2005	51	41	92

No tangible fixed assets are held by the company, Strategic Thought Group plc.

There are no assets held under finance leases at the end of the year (2005: £2k in respect of computer hardware). The related depreciation charge on these assets for the year was £1k (2005: £4k).

13. Investments

	Company £'000
Shares in group undertakings	
At 1 April 2005	–
Additions in the year	
– Acquisition of Strategic Thought Ltd using merger accounting	216
– Acquisition of Line International Ltd	747
At 31 March 2006	**963**

Investments in group undertakings are stated at cost. As permitted by section 133 of the Companies Act 1985, where the relief afforded under section 131 of the Companies Act 1985 applies, cost is the aggregate of the nominal value of the relevant number of the company's shares and the fair value of any other consideration given to acquire the share capital of the subsidiary undertakings.

Principal subsidiaries

	Country of incorporation	*Proportion of equity share capital held and voting rights*	*Principal activities*
Strategic Thought Ltd	UK	100%	ERM and Solutions
Strategic Thought Proprietary Ltd	Australia	100%	Dormant in 2006
Strategic Thought Inc	USA	100%	Marketing operations
Line International Ltd	UK	100%	ERM

The consolidated financial statements include the financial statements of the company and all its subsidiary undertakings.

Strategic Thought Inc has a financial year ending 31 December 2005. The US Internal Revenue Service has accepted our application to change this to 31 March in future. The results for Strategic Thought Inc which have been consolidated are effectively for the year ended 31 March 2006.

Line International Ltd had a financial year ended 30 April 2006. The results for Line International Ltd which have been consolidated are effectively for the 4 1/2 month period ended 31 March 2006. An application will be made to change Line International's year end to 31 March.

14. Debtors

	Group 2006 £'000	*Group 2005 £'000*	***Company 2006 £'000***
Amounts falling due within one year:			
Trade debtors	**2,390**	3,219	**–**
Prepayments	**1,524**	1,993	**14**
Accrued income	**487**	294	**–**
Tax and social security refunds due	**69**	–	**31**
Corporation tax recoverable	**137**	–	**–**
Deferred tax	**12**	–	**–**
Total amount due within one year	**4,614**	5,506	**45**
Amounts falling due after more than one year:			
Prepayments	**330**	647	**–**

15. Deferred tax asset

	Group Provided 2006 £'000	Group Unprovided 2005 £'000	Company 2006 £'000
Timing differences	**12**	–	**–**

No provision had previously been recognised in respect of the Group's tax losses due to the uncertainty at the time of its future economic value.

16. Creditors: amounts falling due within one year

	Group 2006 £'000	Group 2005 £'000	Company 2006 £'000
Trade creditors	**378**	1,237	**2**
Amounts owed to group undertakings	**–**	–	**2,809**
Corporation tax	**–**	360	**–**
Other tax and social security	**345**	420	**–**
Other creditors	**283**	298	**–**
Accruals	**91**	970	**–**
Deferred income	**2,980**	2,895	**–**
Obligations under finance leases	**–**	2	**–**
Total creditors due within one year	**4,077**	6,182	**2,811**

17. Creditors: amounts falling due after more than one year

	Group 2006 £'000	Group 2005 £'000	Company 2006 £'000
Deferred income	**366**	683	**–**

18. Financial Instruments

The Group financial instruments comprise cash and items such as trade debtors and trade creditors that arise directly from its operation. The main purpose of holding cash is to finance the Group's future investments and operations.

It is Strategic Thought's policy that no trading in financial instruments shall be undertaken. The fair value of financial assets and liabilities is approximately equal to their book values. Financial assets and liabilities included in this note exclude short term debtors and creditors other than currency risk exposure.

Risks arising from Strategic Thought's financial instruments relating to interest rate, liquidity risks and foreign currency are reviewed regularly by the Board and are explained in total in note 1.

Cash at bank is invested in short term deposits.

Working capital and capital expenditure requirements are monitored through regular cash flow projections to ensure that sufficient funds are available to meet obligations as they fall due. Strategic Thought uses leases and loan arrangements to effectively manage its liquidity risk where necessary.

Financial assets

Strategic Thought's financial assets are comprised of cash at bank and deposits at the year ends. Interest is received on cash deposits at variable rates based on the relevant bank base rate.

Financial liabilities

Strategic Thought's financial liabilities comprised:

	Finance leases Group 2006 £'000	*Finance leases Group 2005 £'000*
In one year or less, or on demand	**–**	2
In more than one year but not more than two years	**–**	–

Finance leases are secured on the assets concerned (see note 12).

Strategic Thought had no secured bank loans or overdrafts at 31 March 2005 or 31 March 2006.

Borrowing facilities

At present no facilities are in place.

Currency exposure

Net foreign currency monetary assets

	USD £'000	*AUD £'000*	*EUR £'000*	**Total £'000**
Sterling (2006)	67	–	5	**72**
Sterling (2005)	686	2	14	**702**

19. Called up share capital

The Company was incorporated on 14 April 2005 with an authorised share capital of £250,000 divided into 21,500,000 Ordinary Shares of 1p each and 3,500,000 A Ordinary shares of 1p each. 2 Ordinary Shares of 1p each were allotted on incorporation. On 15 June 2005 the Company acquired the whole of the issued share capital of Strategic Thought Limited. Consideration for the acquisition was 18,125,948 Ordinary Shares and 3,432,750 A Ordinary Shares of the Company which were issued on the same day.

On 1 July 2005, upon admission of the Company's shares to AIM, all the issued and unissued A Ordinary Shares of 50p each were converted into 50 Ordinary Shares of 1p each.

In accordance with the merger accounting principles, the shares issued in connection with the group restructuring have been treated as if issued throughout the year and the corresponding comparative year.

Group and Company

Authorised	*Number*	*£'000*
Ordinary shares of 1p each at 1 April 2005	21,500,000	215
A Ordinary shares of 1p each*	3,500,000	35
Creation of new shares on 1 July 2005	15,000,000	150
Total authorised Ordinary share capital as at 31 March 2006	**40,000,000**	400

* These were converted to Ordinary shares on 1 July 2005.

Allotted, called up and fully paid	*Number*	*Nominal value £'000*	*Consideration received (net of expenses) £'000*
1 April 2005	18,125,948	181	–
Ordinary shares of 1p each allotted on incorporation	2	–	–
A Ordinary shares of 1p each converted in to ordinary shares 1 July 2005	3,432,750	34	–
Issue of shares on float 7 July 2005	2,500,000	25	2,369
Share options exercised (July, October 2005, January 2006)	1,984,750	20	162
Ordinary shares of 1p each as at 31 March 2006	**26,043,450**	**260**	**2,531**
Non equity			
At 1 April 2005	3,432,750	34	–
A Ordinary shares of 1p converted to Ordinary shares on 1 July 2005	(3,432,750)	(34)	–
A Ordinary shares of 1p each as at 31 March 2006	**–**	**–**	**–**

In the event of a sale

Proceeds of the sale shall be divided amongst the holders of shares in the same manner as if such proceeds were the proceeds of a return of capital.

Potential issue of ordinary shares

The group has an EMI option scheme in operation. The number of shares subject to options, the periods in which they were granted and the periods in which they may be exercised are given below:

Date of Issue	*Options as at 31 March 2005*	*Options granted/ (lapsed)*	*Options exercised*	***Options as at 31 March 2006***	*Exercise price £*	*Period of exercise*
30 March 2001	694,050		651,150	**42,900**	0.0136	31 Mar 04 – 29 Mar 11
29 June 2001	577,100		508,600	**68,500**	0.0136	31 Mar 04 – 28 Jun 11
4 Nov 2002	400,650		372,750	**27,900**	0.0430	31 Mar 04 – 3 Nov 12
1 June 2004	881,200		452,250	**428,950**	0.2912	1 Jun 04 – 31 May 14
7 July 2005		644,077		**560,744**	1.20	6 Jul 08 – 5 Jul 15
		(83,333)				
20 July 2005		69,364		**34,682**	1.30	20 Jul 05 – 19 Jul 15
				34,682		19 Jan 07 – 19 Jul 15
4 Oct 2005		10,000		**10,000**	1.575	3 Oct 08 – 2 Oct 15
14 Oct 2005		16,500		**16,500**	1.545	13 Oct 08 – 12 Oct 15
24 Nov 2005		44,736		**44,736**	1.995	23 Nov 08 – 22 Nov 15
24 Nov 2005		15,000		**15,000**	2.00	23 Nov 08 – 22 Nov 15
28 Nov 2005		14,867		**14,867**	2.235	27 Nov 08 – 26 Nov 15
Totals	2,553,000	731,211	1,984,750	**1,299,461**		
Note: 7 July 05 non-EMI options granted	–	247,593	–	247,593	1.20	6 Jul 08 – 5 Jul 15

20. Share premium account

Group and company

	£'000
At 1 April 2005	–
Issue of shares on float (net of expenses)	2,344
Exercise of share options	143
At 31 March 2006	**2,487**

21. Merger reserve

	Group £'000
At 1 April 2005 and 31 March 2006	486

The difference between the nominal value of the shares issued by Strategic Thought Group Plc plus the fair value of any other consideration given, and the nominal value of the Strategic Thought Ltd shares received in exchange, is shown as a merger reserve in the consolidated financial statements.

For further details of the merger accounting, see 'Basis of consolidation' in note 1.

22. Profit and loss reserve

	Group £'000	Company £'000
At 1 April 2005 as previously stated	1,741	–
FRS 21 Prior year adjustment	248	
At 1 April 2005 as restated	1,989	–
Profit for the year	2,408	57
Dividends for the year	(248)	–
At 31 March 2006	**4,149**	**57**

23. Reconciliation of movements in group shareholders' funds

	2006 £'000	2005 £'000 (restated)
Opening shareholders' funds as previously reported	**2,443**	642
Prior year adjustment for FRS 21	**248**	66
Opening shareholders' funds as restated	**2,691**	708
Profit for the year	**2,408**	1,365
Dividends	**(248)**	(66)
Issue of share capital (net of £631k expenses)	**2,531**	684
Shareholders' funds as at year end	**7,382**	2,691

24. Cash flow from operating activities

Reconciliation of operating profit to net cash inflow from operating activities:

	Group 2006 £'000	Group 2005 £'000
Continuing operations		
Operating profit	**2,110**	1,681
Depreciation of tangible fixed assets	**53**	42
Loss on disposal of tangible fixed assets	**2**	–
Goodwill amortisation	**119**	–
Decrease/(increase) in debtors	**1,408**	(2,686)
(Decrease)/increase in creditors	**(2,610)**	3,253
Net cash inflow from continuing operations	**1,082**	2,290

25. Analysis of net funds

	At 1 April 2005 £'000	Cash flow £'000	Acquisition £'000	**At 31 March 2006 £'000**
Cash at bank and in hand	3,311	2,148	–	**5,459**
Obligations under finance lease contracts	(2)	2	–	**–**
Bank loans	–	202	(202)	**–**
Net funds	3,309	2,352	(202)	**5,459**

26. Acquisitions

Acquisition of Line International Ltd

Strategic Thought Group plc acquired the entire share capital of Line International Ltd on 15 November 2005 for a cash consideration of £678k. Costs of acquisition accounted for a further £69k. The company had net liabilities of £675k.

The purchase has been accounted for using acquisition accounting.

Line International contributed £26k to the group's net operating cash flows.

In its last financial year to 30 April 2005, Line International Ltd made a loss after tax of £15k. For the period since that date to the date of acquisition, Line International's management accounts show:

	£'000
Turnover	304
Operating profit/(loss)	(108)

	Book value at acquisition £'000	*Fair value adjustment £'000*	*Consistency of accounting policy £'000*	*Other £'000*	***Provisional fair value at acquisition £'000***
Intangible fixed assets	666	–	(666)	–	**–**
Tangible fixed assets	32	(19)	–	–	**13**
Debtors	65	(3)	–	–	**62**
Cash	2	–	–	–	**2**
Creditors	(317)	–	–	(90)	**(407)**
Deferred income	–	–	(143)	–	**(143)**
Loan	(202)	–	–	–	**(202)**
Net assets acquired	246	(22)	(809)	(90)	**(675)**
Goodwill					**1,422**
Consideration					**747**
Consideration satisfied by:					
Cash (including expenses)					**747**

The book value of the assets and liabilities have been taken from the management accounts of Line International Ltd on 31 October 2005 which are not considered to be materially different from the acquisition date. Before the sale, the business was split into two component parts, with the group acquiring the risk part of the business but not the health and safety consulting business.

The fair value adjustment for alignment of accounting policies reflects the restatement of assets and liabilities in accordance with the Group's policies including: the removal of capitalised research and development costs (£666k); the deferral of support and consultancy revenues in accordance with the group's accounting policies and in accordance with UK GAAP (143k).

The other adjustments were due to the fair value review of a serviced rental agreement of (£45k), retainer fee for a previous manager's services (£20k) and dilapidations (£25k), leading to a total revaluation of £90k.

The acquisition of Line International Ltd includes an element of deferred consideration, which will only be due if the subsidiary reaches an agreed level of turnover by October 2006. At this stage the directors do not believe that this level of turnover will be achieved so no provision for the deferred liability has been made.

27. Operating lease commitments

At 31 March 2006 the group has annual commitments under non-cancellable operating leases expiring in respect of properties for which the payments extend over a number of years.

	2006	*2005*
	£'000	*£'000*
Within one year	**74**	–
Within two to five years	**103**	95
After five years		
Total	**177**	95

28. Pension commitments

There were no outstanding or prepaid pension contributions at either the beginning or end of the financial year.

29. Related party transactions

There were no transactions conducted during the year that involved related parties.

30. Controlling party

At the year ended 31 March 2005 and 31 March 2006 the directors consider that there is no single individual or entity that can or does exercise ultimate control.

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