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FDM Group Plc
Annual Report & Accounts
Year ended 31 December 2005

Talking the right language

FDM Group is a specialist IT staffing and training business headquartered in Brighton, UK, with offices in Germany, Luxembourg and the US. The Group combines three business units: IT Staffing, IT Professional Services and IT Training, servicing over 130 client organisations in 5 key sectors: Financial Services, System Integrators, Telecommunications, Media, and the Public Sector.

Each business unit provides contract IT professionals alongside the Group's own permanent staff, known as 'Mounties' to clients. Specialists in the most in-demand IT languages and skills, the Mounties are the key to FDM's past and future success.

FDM Group listed on the AiM market of the London Stock Exchange on 7 April 2005.

Contents

Talking the right language

Business development '05

Financial Highlights

- Sales increased by 6.4% to £35.07m (FY04: £32.97m).
- Group gross profit margin increased to 19.4% (FY04: 19.0%).
- Adjusted* profit before tax increased by 19.2% to £2.15m (FY04: £1.81m).
- Profit before tax of £1.57m (FY04 £1.81m).
- Adjusted* fully diluted earnings per share of 6.8p.
- Fully diluted earnings per share of 4.1p.
- Net cash position as at 31 December 2005 of £2.34m.
- Dividend of 1.0 pence per share for the second half, making a total dividend for 2005 of 1.5 pence per share.

Operational highlights

- Mountie numbers increased by 17% to 116 at the end of March 2006 (99 in March 2005), with a further 109 in training.
- Utilisation of Mounties during the period of 94.7% (FY04: 94.4%).
- Total contractors on billing increased by 9.2% over the period from 426 to 465 at 31 December 2005 and subsequently has continued to grow to 553 at the end of March 2006.
- 75 new customers won during the period, including First Choice Holidays, Credit Suisse First Boston, GlaxoSmithKline Biological Services, ABN AMRO and JP Morgan Cazenove.
- Successful flotation on AiM in April 2005, raising £3.0m (net) for the Company.

* These adjustments are the adding back of float costs and UITF 17 share option charges.

Talking the right language

J2EE & .Net: Underpinning an int

In today's world of interactive convergence, technology plays an increasingly important part in all of our lives, whether we are aware of it or not. Daily, each one of us is using, and quite likely carrying, a device that relies on Java to perform its tasks. For instance, Java today resides on about 350 million cell phones and 2.5 billion devices worldwide.

So what is Java?

Java has become the standard programming language for internet-based applications and can run on any hardware platform, including mobile phones, PCs and handheld PDAs. Java is a modern, platform-independent, object-oriented language that many business systems development professionals believe represents the way forward in programming.

And .Net?

.NET, rather than a language, is a framework which translates code from other languages and converts them to run in a Windows environment. As newer functionality is made available across platforms, the importance of .NET is growing.

eractive world

Did you know?

	Platform	Language
Sun Microsystems	J2EE	Java
Microsoft	.NET	C#

- **Developed by Sun Microsystems, Java celebrated its 10th birthday in 2005.**

- In June 2002, Microsoft launched .NET as a competitor to J2EE. It has since become the primary development platform worldwide.

- **There are currently over 2.5 billion Java technology-enabled devices worldwide:**
  - over 700 million PCs;
  - over 1 billion mobile phones;
  - 1.25 billion smart cards;
  - plus set-top boxes, printers, web cams, games, car navigation systems, lottery terminals, medical devices, parking payment stations, etc.

- According to the National Computing Center and the Association of Technology Staffing Companies, C#, .NET and Java will be the most in-demand skills in 2006 in the UK.

Number of positions advertised on JobServe
(UK's largest IT jobs board)

- *Overall, IT market shift: Cobol applications yielding to Java / .NET*
- IT offshoring has not come of 'age' – CapGemini winter 2005
- JobServe demonstrates increased demand for Java, .NET, C#
- Rates moving in FDM's favour – £50 per hour freelancers – Profile Stats/ATSCo 13/2/06
- Skills shortages expected to fuel demand for Mounties
- Global IT spending set to increase 6.3% in 2006 – Computer Weekly, 28/3/06

Talking the right language

A unique business model deliveri

THE MOUNTIE SOLUTION

FDM distinguishes itself from its competitors through the use of the 'Mountie' – its permanent IT staff, who are exclusively available to clients of FDM. FDM's specific contractual arrangements mean that these consultants will work for FDM for a minimum period of two years at various client sites on a range of assignments. FDM's training academy has increased its portfolio of courses to include System Testing and a Financial Services fast-track programme which may be completed in less than four months.

FDM training the next generation

The FDM Academy offers future IT specialists a unique opportunity to learn the latest IT skills and techniques, focusing on Java and .NET, and put these into practice in the commercial world as an FDM 'Mountie'. Applicants are drawn from the UK, USA, Ireland and mainland Europe to become qualified IT specialists, graduating after a six-month course with a certification from either Sun Microsystems or Microsoft. New training programmes in Systems Testing and Financial Services are opening up additional sales opportunities and can attract a broader range of candidates. FDM has 109 students in training and has future plans to increase this capacity across all locations as demand for Mounties grows.

ng above average margins

Our three divisions

IT Staffing

£31m turnover

Percentage of turnover

Mounties & Freelancers
Contract & Permanent
Wide range of clients

Mounties 31.4%
Freelancers 48.6%

Unique

FDM can draw upon both the Mounties and a substantial database of freelance consultants to provide a unique contract staffing solution. FDM's technical expertise enables the pre-screening of candidates to reduce client workload, particularly on *large-scale campaigns. An international* focus also gives clients access to specialist skills that may only be available overseas. As for international recruitment programmes, FDM has multilingual capabilities covering most language requirements. These factors ensure that FDM has consistently won business against larger staffing agencies while maintaining *industry-leading margins.*

IT Professional Services

£2.6m turnover

Percentage of turnover

Helpdesk services
Software support
Managed Mountie teams

Mounties 11.7%
Freelancers 2.1%

Increasing efficiencies

With nearly two decades of experience, FDM's Professional Services Division offers a career opportunity for some of FDM's senior Mounties and a value-added service to FDM clients. The retention of senior consultants enables FDM to provide a *managed service covering both application* development and support. During development, FDM encompasses the full project lifecycle. FDM's services range from outsourced help-desk services to third-line application support and enhancement. Exclusive access to the Mounties gives Professional Services clients the added comfort of stability of resource and a cost-*effective solution.*

IT Training

£1.4m turnover

Percentage of turnover

Project-based training
Product Sales
Long-term contracts

Mounties 1%
Freelancers 13.7%

Know-how

FDM's Training Division offers project-based training programmes to clients in sectors ranging from government, investment banking through to insurance. The training covers a range of topics, including IT, financial products and *processes, and personal skills that* can be delivered on or off-site. FDM's training courses have been approved by the Institute of IT Training (IITT), who have recognised that FDM has created a training environment that offers training, support and skills transfer in a friendly and professional manner. FDM are partners with Sun, Oracle, Sybase and Microsoft.

Chairman's Statement

I am delighted to report to our shareholders that our first year as an AiM quoted company has been a year of considerable achievement for FDM, and we intend to continue to build on this success during 2006.

We have seen demand for our specialist IT consultants, the Mounties, grow significantly over the year, and believe that our Mountie business model, which is unique in the IT staffing sector, leaves us well-positioned to capitalise on the expected ongoing growth in the IT recruitment market.

Overview

The second quarter of 2005 saw the successful flotation of the FDM Group on AiM, with a placing with institutional investors to raise £3.5m of new money (before expenses) for the Group. The funds raised at this time have been invested by the Board in the development and organic growth of the Group, and I am particularly pleased to report that we now have a number of major institutional investors on our share register.

For FDM, 2005 was another successful year, with adjusted* profits before tax of £2.15m representing year-on-year growth of 19.2%. This is the Group's third successive year of operating profits growth (*before float costs*), *sales revenue growth, and gross margin growth* – all our key metrics, which shows the strength behind the Group's business. Unadjusted profit before tax, which reflects the impact of float costs and UITF share options charges, was £1.57m for the year.

Our UK business performed exceptionally well, showing an adjusted* profit before tax growth of 18.5%, supported by increased net and gross profit contributions from our overseas offices. Demand at all three of our divisions: IT Staffing, IT Professional Services and IT Training grew over the year, and I am pleased to report that we won over 75 new clients in the year, including First Choice Holidays, Credit Suisse First Boston and GlaxoSmithKline Biological Services.

We have seen demand for our specialist IT consultants, the Mounties, grow significantly over the year, and believe that our Mountie business model, which is unique in the IT staffing sector, leaves us well-positioned to capitalise on the expected ongoing growth in the IT recruitment market.

* These adjustments are the adding back of float costs and UITF 17 share option charges

The FDM Academy, our unique training centre from which the Mounties graduate, continues to draw students from Europe and the USA, and is now attracting students from our new EU member states such as Poland, Slovakia and Latvia. With the demand for highly skilled IT staff on the increase, we will continue to grow this side of our business in 2006. We currently have 116 Mounties on billing, an uplift of 17% from this time last year.

Against the background of our success in 2005, the Board is recommending a dividend of 1.0 pence per share for the second half of the year, making a total dividend for 2005 of 1.5 pence per share. The Board will continue to keep its dividend policy under review.

In November 2005, we welcomed Karl Monaghan to our Board as a Non-Executive Director. With his wide experience and knowledge of the capital markets, he will bring added strength to the Board to help meet the challenges ahead.

The strong performance of the Group reflects the professionalism of our staff, many of whom have been with the Group for over 10 years. The depth and spread of their expertise is well-recognised within the IT Services industry, and we will continue to build on this. I would like to express my appreciation for their performance in the year. Their commitment and loyalty is the cornerstone of our continuing success.

Brian Divett
Non-Executive Chairman
4 April 2006

I am delighted to report to our shareholders that our first year as an AiM quoted company has been a year of considerable achievement for FDM, and we intend to continue to build on this success during 2006.

Operations Review

We are now at a stage in the technology cycle where global organisations are seeking a significant competitive advantage by implementing major enhancements to their technology platforms, processes and systems. This is particularly the case in the financial sector, where FDM has a strong market presence.

Introduction

I am very pleased to report that FDM has made excellent progress in this, its first year as a publicly listed company. We have experienced success in all areas of our business and these achievements have resulted in significant growth in profits for the Group. It is testament to those working at the Company and to our unique Mountie business model which is acutely focused on maximising margins.

Financial Results

The results for the year reflect the successful execution of a growth strategy that is designed to grow revenues and, importantly, to maintain and enhance margins. Revenues increased by 6.4% from £32.97m to £35.07m, driven by an increasing number of customers moving from consultancy and planning to programming, implementation and testing phases bolstered by the addition of new customers. Revenues in the second half were £18.63m, an increase of £1.44m over the same period in the prior year and an increase of 13.3% on the first half of the year, which is particularly encouraging.

Importantly, the new business won by FDM in the year 2005 has been higher margin business, replacing some older lower-margin business relationships. Gross margins for the period increased to 19.4%, as compared to 19.0% in the prior year. A larger proportion of high-margin business in conjunction with tight control of costs has resulted in significant profits growth with adjusted profit before tax, which includes the adding back of float costs and UITF 17 share option charges, increasing by 19.2% to £2.15m. Unadjusted profit before tax, which reflects the impact of float costs and UITF share option charges, was £1.57m for the year.

Key Performance Indicators

The Mounties, FDM's employed IT contractors, are fundamental to the Group's business strategy. Trained in the most high demand IT skills, these employees are placed with clients, generating higher margins for the business than freelance IT contractors. Therefore, the growth of the FDM Academy, which trains the Mounties, and the resultant growth in Mountie numbers, is a key focus of management's attention and efforts.

Utilisation of Mounties is steadily increasing, and is currently running at 94.7%. We have significantly increased the number of Mounties training to 109 throughout the Group (as at 22 March 2006), with various marketing initiatives having successfully generated increased interest in the scheme. At the end of February 2006, the FDM Academy was receiving 32 new applications per week. The investment in our own training facilities is justified by current Mountie deployment levels. In line with FDM's expansion plans, we currently have 116 Mounties on billing, an increase of 17% from this time last year.

FDM's market

There is clear evidence that the IT staffing and recruitment market remains strong and continues to grow. Charge-out rates remain robust. Recent research in Recruitment International magazine indicates that freelance IT contractors in the City are, on average, now being paid £50 per hour, a level that has not been reached since 2001. The demand is set to continue to be driven by factors such as the requirement for expenditure on security and compliance work. (Source: iProfileStats/Association of Technology Staffing Companies.)

In addition, market commentators have identified FDM's key focus area: web enablement for major multinational organisations, as one of the future high-growth areas. A recent survey conducted amongst 25,000 IT contractors, shows that the financial services sector has risen from third to second largest user of IT contractors, and now accounts for 24% of the market. (Source: Giant Group Plc, Feb 2006).

We are now at a stage in the technology cycle where global organisations are seeking a significant competitive advantage by implementing major enhancements to their technology platforms, processes and systems. This is particularly the case in the financial sector, where FDM has a strong market presence.

Another feature of the market is the trend away from outsourcing of certain IT functions to low-cost economies. Several large financial institutions have recently announced plans to move areas such as system development and support back to 'near shore' operations, which is expected to drive demand for these services within the home markets.

JobServe, one of the UK's leading IT job boards, consistently shows that the number of contracts requiring either Java or .NET skills, in which FDM specialises, is continuing to increase. According to the National Computing Center and the Association of Technology Staffing Companies, C#, .NET and Java will be the most in-demand skills in the UK IT staffing market in 2006.

These factors lead us to believe that the niche sector of the general IT recruitment and training market in which we focus is currently at the beginning of a prolonged period of growth.

IT Staffing

We provide our clients with both Mounties and freelance contractors to staff their IT requirements, this mixed approach providing economic benefits for both FDM and our customers. By combining Mounties and freelance contractors at our client sites, we are able to cross-sell our higher-value margin services and additional FDM solutions. The number of contractors throughout the Group currently stands at a record level of 553 as at the end of March 2006, which compares to 426 at the beginning of 2005.

We have seen our contractor numbers increase from 465 at the year end to a current total of 553, and have won new clients such as M&G Investment Management, BNP Paribas and British Airways.

Operations Review

UK Operations
I am pleased to report that we have delivered a strong performance from IT staffing in the year, and all indicators currently point towards continued growth this year. With 432 contractors in the UK, we have also significantly grown our customer base and now have over 130 customers, including Deutsche Bank, Siemens, Royal Bank of Scotland, EDS, Sony and Unisys. New contracts won in the year include LogicaCMG, ABN AMRO and JP Morgan Cazenove.

As stated above, our training facilities have been expanded to meet the current high demand for skilled contractors and we currently have 89 people in training in the UK, with a total of 109 people in training throughout the Group. At present, we have four distinct training programmes: Java, .NET, Banking and Testing, which are aligned towards the areas of greatest demand. In addition, we have accelerated graduate turnaround times for certain sectors, specifically banking, by focusing training on the core requirements of the sector. This initiative has led to the placement of specialist banking contractors with major financial organisations during the year.

Mainland Europe and US
In mainland Europe, we have made steady progress, achieving modest growth in the markets in which we operate. It is still early days in these markets for FDM and we are currently investing in these areas to take advantage of the growth offered. Similarly, we are seeing improvement in the performance in the US market. We have invested in the sales and finance functions in the US so that we are well-positioned to expand operations in this area.

Increasingly, our larger customers have a requirement for an IT services partner that can provide solutions on a global scale. The Board believes that by investing in global operations, the Company will be well-positioned to better fulfil international contracts.

By increasing and improving our visibility in these overseas markets and concentrating on our core businesses, the Board anticipates being able to fuel turnover growth during 2006 without compromising gross margins.

IT Professional Services
The Professional Services Division has made a significant contribution in the year and continues to perform strongly. We currently have 30 people within the Division, which generally consists of managed Mountie teams providing small development work and application support. New contract wins for this Division in 2005 included ABN AMRO and Goldman Sachs.

IT Training
Our IT Training Division offers project-based training programmes for a range of business sectors, including local and central government, investment management, banking and re-insurance. The level of requirement for training can be linked to the volume of new application releases in the sectors in which we operate. During the year, we saw a thinning in the number of new applications and therefore a reduced demand for training programmes, although several new contracts were secured with new clients, including Deloitte MCS and STT Limited. Since the beginning of the current financial year, we have seen this trend reverse and we are currently experiencing significant demand for long-term training contracts.

Outlook
We have delivered a solid performance in 2005, during which time we have developed the business, invested in the future and built a platform for future growth that will take advantage of an expanding market.

Since the beginning of the current financial year, we have seen an increase in both revenues and profits, and all key business metrics have led to a positive start to 2006, continuing the trend for growth set in 2005. We have seen our contractor numbers increase from 465 at the year end to a current total of 553, and have won new clients such as M&G Investment Management, BNP Paribas and British Airways. Based on current trading levels, the continued execution of our business strategy and the strength of the market, we view the future with confidence and anticipate a successful outcome for the current financial year.

Rod Flavell
Chief Executive Officer
4 April 2006

There is clear evidence that the IT staffing and recruitment market remains strong and continues to grow. Charge-out rates remain robust.

We have delivered a solid performance in 2005, during which time we have developed the business, invested in the future and built a platform for future growth that will take advantage of an expanding market.

Financial Review

The Group raised £3.5 million before expenses through the placing of 4.5 million new shares with institutional investors at 78p per share. The net proceeds from our flotation are being used to strengthen our balance sheet and will continue to be used to invest in the further development and organic growth of the Group.

FDM Group has achieved a positive set of results for its first year as an AiM quoted company. The detailed results for the year are set out in the financial statements on pages 22 to 26, and the Chairman and the CEO have given the background to these results in their respective reports. Set out below are some highlights from a financial perspective, together with an outline of the Group's key financial policies.

Financial Results

Group adjusted* profit before tax increased by 19.2% to £2.15m (2004: £1.81m) on revenue growth of 6.4% and GP growth of 8.2%.

While continued focus remains on gross profit growth and tight cost control, the operating costs increased slightly for the year as a result of the introduction of a new share scheme and the accounting for it under UITF17 (a charge of £0.14m for 2005), exceptional float costs of £0.45m, and further investment in staffing and recruitment. This is reflected in the profit before tax for the year of £1.57m (2004: £1.81m). The increased cash at the year end of £2.57m (2004: £1.54m) is a result of the repayment of the bank loan of £1.8m, receipt of float funds of £3.3m and a general improvement in cash management.

Taxation

The Group effective tax rate of 42% for 2005 is higher than prior years, as it reflects the impact of UITF 17 charges and the float costs outlined above. The underlying rate remains similar at 33% (2004: 32%).

Earnings per Share

Basic earnings per share of 4.1p compared to 5.0p in 2004. Adjusted* basic earnings per share of 6.8p compared to 5.0p in 2004.

* These adjustments are the adding back of float costs and UITF 17 share option charges

Dividends

The Group has adopted Financial Reporting Standard 21, events after the balance sheet date, resulting in a change of accounting policy for dividends, whereby dividends are charged in the financial statement in the period in which they become a legal obligation.

The Board of Directors are recommending a final dividend of 1.0 pence per share for the year, increasing the total dividend for 2005 to 1.5 pence per share.

Banking Facilities

The Group is currently reviewing its European banking facilities and is in the process of transferring its current banking arrangements to Fortis Bank. The UK banking arrangements remain in place with Royal Bank of Scotland.

Cash flow and Financing

Cash flow from operating activities remained positive for year ended 2005 at £0.78m (2004: £0.85m) in spite of the increased costs associated with the float. After financing and repayment of the Company's loan of £1.8m, the Group's increase in cash in the year increased to £1.1m from £0.3m in 2004, giving net funds of £2.3m compared to net debt in 2004 of £0.56m.

The Group maintains a centralised treasury and cash management function. The Group's current policy of no cross-border trading reduces the risks associated with currency hedging.

Cash collection from clients has kept pace with the Group's increase in turnover. The management of trade debtors remains a key area of focus for the Group and is central to the control of working capital.

Transition to IFRS

The Group is required to comply with International Financial Reporting Standards (IFRS) from 1 January 2007. The first figures to be published under IFRS will be the half year results to 30 June 2007.

April Denney
Finance Director
4 April 2006

The Board of Directors are recommending a final dividend of 1.0 pence per share for the year, increasing the total dividend for 2005 to 1.5 pence per share.

Board of FDM Group

Rod Flavell
Rod has been working within the IT services industry since 1982. He has overseen a significant year in FDM's history, with the successful launch of FDM on AiM in April 2005. As a founder of FDM, he has a solid background in sales and business management, and is responsible for the overall strategic development and organic growth of the Group.

Julian Divett
As one of the Group's founders, Julian has 17 years' IT expertise. As a Director of FDM since 2001, he was appointed COO in April 2005, and is presently responsible for FDM Group's global training strategy and the operational aspects of FDM.

Brian Divett
Brian has been Chairman of FDM since its inception in 1991. His career spans 50 years, of which the majority of his time was as a Senior Manager & Regional Director of Cable & Wireless, and Director of Bahrain Telecoms Co. Ltd. He is a member of the Remuneration and Audit Committees.

April Denney
April has worked for FDM for over 12 years, predominantly within the finance function. In July 2002, she was appointed the Group's Finance Director, with responsibility for all the finance functions within the Group. She brings a high standard of control and professionalism to the Finance Department.

Jonathan Wright
Jonathan joined FDM in 2005 as a Non-Executive Director, and presently chairs the Group's Remuneration and Audit committees. He holds several other private company directorships, and is Chief Executive of Hexagon Human Capital Ltd.

Karl Monaghan
The Group's newly appointed Non-Executive Director became a member of the Board on 1 November 2005. Karl has considerable expertise in the finance and accounting arena, having been previously employed by KPMG, Credit Lyonnais Securities and R.W.Baird. He will chair the Audit Committee and is a member of the Remuneration Committee. He is also a Non-Executive Director of AiM quoted Caretech Holdings PLC and Morson Group PLC.

Jacqueline Flavell
As a member of the Group since 1991, Jacqueline has over 15 years' IT services industry experience, encompassing sales, administration, personnel and finance. As a previous Director of FDM Group, she stepped down as a Director in 2002 and is the Group's Company Secretary.

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 December 2005.

Principal Activity
The Group's principal activity is that of International IT Services Provider, supplying IT staff through its three core business units: IT Staffing, IT Professional Services and IT Training Services. The Group specialises in recruiting and training its own permanent IT consultants, known as 'Mounties'.

The Company has overseas subsidiaries based in the USA, Belgium, Luxembourg and Germany.

Admission to AiM
On 7 April 2005, the Company floated on AiM, details of which are included in the Chairman's statement.

Business Review
A review of the business is set out in the Chairman's statement on page 6.

Results for the year
The results for the year are set out in the profit and loss account on page 22.

Dividends
The Directors have proposed a final ordinary dividend in respect of the current financial year of £232,300 (2004: £308,000). This has not been included within creditors as it was not approved before the year end.

Dividends paid during the year comprise a final dividend of £308,000 in respect of the previous year ended 31 December 2004, together with an interim dividend in respect of the year ended 31 December 2005 of £116,100.

Fixed Assets
Details of movements in fixed assets are set out in Notes 13 and 14 to the financial statements.

Directors and Directors' interests
The Directors who held office during the year were as follows:

BR Divett (Chairman)
RN Flavell
JN Divett
A Denney
J Wright (appointed 1 January 2005)
K Monaghan (appointed 1 November 2005)

Details of the Directors' beneficial interests in the shares of Group companies and details of rights to subscribe for shares in the Company as granted to the Directors or their immediate families, or exercised by them, during the financial year are set out in the Remuneration Report on pages 16 to 18.

Political and charitable contributions
During the year the Group donated £677 (2004: £648) and 1000 ordinary shares to local and national charities. No political contributions were made (2004: £nil).

Policy and Practice on Payment of Creditors
It is the policy of the Company to settle outstanding accounts with suppliers on normal terms of credit, which are agreed before initial transactions are contracted.

At the year end, the Company had 20 days (2004: 18 days) purchases in trade creditors.

Transition to International Financial Reporting Standards
FDM, as an AiM quoted company, is not required to prepare its financial statements under International Financial Reporting Standards until the year ending 31 December 2007.

Auditors
In accordance with Section 385 of the Companies Act 1985, a resolution for the reappointment of KPMG Audit Plc as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board

RN Flavell
Director

2nd Floor
Lanchester House
Trafalgar Place
Brighton
East Sussex
BN1 4FL

4 April 2006

Report on Directors' Remuneration

The Remuneration Committee (the 'Committee'), which comprises the three Non-Executive Directors, Brian Divett, Jonathan Wright and Karl Monaghan, is appointed by the Board and is responsible for determining the service contracts, remuneration packages (including benefits, pension rights and compensation payments) and the grant of share options to the Executive Directors. The Committee is chaired by Jonathan Wright.

Remuneration policy

Remuneration of the Executive Directors is agreed by the Committee. Terms of appointment of senior management are agreed and approved by the Chief Executive Officer. Policies are designed to ensure that the remuneration offered to Directors is competitive in order to retain, attract and motivate individuals of suitable calibre. Remuneration is tailored to reflect the individual responsibilities of the Directors and provide incentives to deliver the Group's objectives as well as reward for enhancing value to shareholders. The remuneration comprises a mixture of performance related and other remuneration which is designed to incentivise Directors without detracting from the goals of Corporate Governance.

All the service agreements of the Executive Directors provide for a notice period by either party giving not more than 12 months.

It is the Committee's intention to operate this remuneration policy during the next and subsequent financial years.

Remuneration – Executive Directors

Salary and other benefits

The Committee assesses the levels of remuneration of the Executive Directors to ensure that the rates of pay reflect both performance and also are in line with similar positions in comparable companies. This principle is also applied, where practicable, throughout the organisation.

Performance-Linked Bonus

A performance related bonus payment is payable to the Executive Directors depending on the level of Group profit performance for the year compared to budget. This is subject to the Committee's approval at the start of the financial year. A scheme is also in place for certain senior managers based on sales and contribution.

Pension Contributions

The Company makes pension contributions calculated on basic salary to a Group Pension Plan. Such contributions represent between 3% and 4% of the basic salary.

Benefits in Kind

Benefits in kind consist of taxable benefits, including:

- the provision of a company car or car allowance paid in lieu of supply of a company car; and
- healthcare insurance.

Share Options

The Company operates an Inland Revenue Approved share option scheme, namely The FDM Group EMI Share Option Plan, in which two forms of options are granted:

- Options under which the price to be paid on exercise is equal to the market value of the Ordinary Shares at the date of grant. These shares are generally awarded to employees based on seniority and length of service, and are referred to as 'market value options'. Options over a total of 553,528 shares have been issued under this scheme.
- Options under which the price to be paid on exercise is the nominal value of the Ordinary Shares. Such options are awarded only to selected senior management and are subject to performance conditions in relation to growth in EPS in excess of RPI. These options are referred to as 'long-term incentive plan'. Options over a total of 480,000 shares have been issued under the scheme. A list of grants to Directors are set out in Directors' interests in share options listed below:

Remuneration – Non-Executive Directors

Fees payable to the Non-Executive Directors are determined by the Board at the beginning of each financial year having given due consideration to market practice.

Report on Directors' Remuneration
continued

Directors' remuneration

Executive Directors	Salary 2005 £	Salary 2004 £	Performance Bonus 2005 £	Performance Bonus 2004 £	Benefits in Kind 2005 £	Benefits in Kind 2004 £	Pension 2005 £	Pension 2004 £	Total 2005 £	Total 2004 £
Roderick Flavell	160,000	160,000	80,000	60,000	12,653	12,575	6,480	*6,480	259,133	239,055
Julian Divett	80,000	80,000	60,000	38,750	7,843	6,843	2,400	2,400	150,243	127,993
April Denney	80,000	80,000	60,000	30,000	6,172	6,086	2,400	800	148,572	116,886
Tom Spouse	–	81,609	–	–	–	1,094	–	–	–	82,703
									557,948	566,637

Non-Executive Directors	Salary 2005 £	Salary 2004 £	Consultancy Fees 2005 £	Consultancy Fees 2004 £	Total 2005 £	Total 2004 £
Brian Divett	23,625	22,500	–	–	23,625	22,500
Jonathan Wright	6,000	–	79,000	–	85,000	–
Karl Monaghan	1,000	–	4,000	–	5,000	–
					113,625	22,500

* The amount shown as Roderick Flavell's pension contributions is a sum paid in lieu of Company pension contributions as Mr Flavell is not a member of the Company pension scheme.

The details of the service contracts of those who served as Directors during the year are:

	Date	Contract Date	Employment Notice Periods
Roderick Flavell	01.01.91	23.03.05	12 months
Julian Divett	01.01.91	23.03.05	12 months
April Denney	23.11.93	23.03.05	12 months
Brian Divett	01.01.91	23.03.05	6 months
Jonathan Wright	01.01.05	23.03.05	6 months
Karl Monaghan	01.11.05	01.11.05	6 months

Directors' interests in shares

The Directors who held office at the end of the financial year had the following beneficial interests in the ordinary shares of FDM Group Plc according to the register of Directors' interests:

	Shares held at 1 January 2005	Shares held at 31 December 2005
Roderick Flavell	*7,021,333	2,903,333
Julian Divett	1,459,000	1,209,000
April Denney	20,000	42,000
Brian Divett	3,566,667	3,006,667
Jonathan Wright	–	31,891
Total	12,067,000	7,192,891

* Included in Roderick Flavell's shares at 1 January 2005 were 3,021,333 held by his wife.

Report on Directors' Remuneration

continued

Directors' interests in share options

	At 1 January 2005	Granted	Exercised	At 31 December 2005	Date of Grant	Exercise Price	Name of Scheme
Roderick Flavell	–	30,000	–	30,000	07.04.2005	1p	LTIP
	–	20,000	–	20,000	08.09.2005	1p	LTIP
Julian Divett	–	30,000	–	30,000	07.04.2005	1p	LTIP
	–	20,000	–	20,000	08.09.2005	1p	LTIP
April Denney	22,000	–	22,000	–		55p	FDM Group Share Option Scheme
	–	30,000	–	30,000	07.04.2005	1p	LTIP
	–	20,000	–	20,000	08.09.2005	1p	LTIP
Total	22,000	150,000	22,000	150,000			

Save as stated above, no Director, nor any member of his/her immediate family, had during the year, any other interest in the ordinary share capital of the Company or any of its subsidiaries. There have been no other changes in the interests or rights to subscribe for shares of the Directors in the ordinary share capital of the Company since the end of the financial year.

The share options held under the FDM Group EMI Share Option Plan referred to as 'long-term incentive plan' are exercisable in accordance with the rules of this scheme and shall only be exercisable during a period beginning three years and ending 10 years after the date of grant. These options are subject to the achievement of performance requirements.

The Company's share price at 31 December 2005 was 84 pence per share. The subscription price on float on 7 April 2005 was 78 pence per share, and the high/low prices during the period since float were 103.5 pence per share and 72 pence per share respectively.

One Director exercised share options during the year and an aggregate gain of £10,670 was made.

No amount was paid for the grant of any options.

This report was approved by the Board on 4 April 2006 and has been signed on its behalf by:

Jonathan Wright
Chairman of the Remuneration Committee
4 April 2006

Corporate Governance

The Board, which comprises the Executive Directors, a Non-Executive Chairman, Brian Divett, and two independent Non-Executive Directors, Jonathan Wright and Karl Monaghan, are responsible for establishing the strategic direction of the Group, monitoring the Group's trading performance and appraising and executing development and acquisition opportunities. The Company holds at least five Board meetings each year. The Directors' believe the Board is favourably constituted, although, at this stage of the Group's development, it is felt the functions of a Nominations Committee can be adequately fulfilled by deliberation of the full Board; this will nevertheless be kept under review.

The Company complies with the Combined Code on the Principles of Good Governance and the Code of Best Practice so far as is reasonably practicable for a newly AiM quoted company. Where full compliance is not considered appropriate by the Board, the Directors will refer to guidance issued by the Quoted Companies Alliance. While Brian Divett is not deemed to be an independent Non-Executive Director for the purposes of the Combined Code (as he has a substantial shareholding in the Company), he contributes an objective view in respect of the Group's operations. Jonathan Wright and Karl Monaghan are deemed to be independent Non-Executive Directors for the purposes of the Combined Code. The Company maintains appropriate Directors' and Officers' liability insurance.

The Board has established an Audit Committee, which consists of Karl Monaghan (Chairman), Jonathan Wright and Brian Divett. The Audit Committee is primarily responsible for ensuring that the financial performance of the Company is properly measured and reported on, and will review any reports from the management and the auditors regarding the accounts, and will consider draft interim and annual accounts. The audit committee will make recommendations concerning the application of the financial reporting and internal control principles, including reviewing the effectiveness of the Company's financial reporting, internal control and risk management procedures, and the scope, quality and results of the external audit. It will also make recommendations to the Board on the appointment of the auditors and the audit fee. It will meet at least twice each year.

In addition the Board has established a Remuneration Committee made up of Jonathan Wright (Chairman), Karl Monaghan and Brian Divett. The Remuneration Committee is responsible for making recommendations to the Board on remuneration policy for the Executive Directors and the terms of their service contracts, with the aim of ensuring that their remuneration, including awards made under the EMI Plan, is based both on their own performance and that of the Group generally. The Remuneration Committee administers and establishes performance targets for the EMI Plan and approves awards made under this Plan, and will administer any future incentive schemes. The Group has adopted a policy of regular reviews of option awards, and the Remuneration Committee meets every six months to ensure the appropriate incentives are in place. In addition, it advises on the remuneration policy for the Group's employees. In exercising this role, the terms of reference of the Remuneration Committee requires it to comply with the Code of Best Practice published in the Combined Code. The Remuneration Committee also has responsibility for making recommendations on the appointment of additional Directors to the Board.

The Company has adopted a model code for dealings in its Ordinary Shares by Directors and senior employees, which is appropriate for an AiM quoted company.

Statement of Directors' Responsibilities in respect of the Directors' Report and the Financial Statements

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have elected to prepare the Group and parent company financial statements in accordance with UK Accounting Standards.

The Group and parent company financial statements are required by law to give a true and fair view of the state of affairs of the Group and the parent company and of the profit or loss for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company 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 parent company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditors' Report to the Members of FDM Group Plc

KPMG Audit Plc
1 Forest Gate
Brighton Road
Crawley
RH11 9PT
United Kingdom

We have audited the group and parent company financial statements (the "financial statements") of FDM Group Plc for the year ended 31 December 2005 which comprise the Consolidated Profit and Loss Account, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 20. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and 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. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Our responsibilities do not extend to any other information.

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and 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 the parent company's affairs as at 31 December 2005 and of the group's profit for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

4 April 2006

Consolidated Profit and Loss Account

for the year ended 31 December 2005

	Note	2005 £000	2004 (as restated – see Note 10) £000
Turnover	2	35,068	32,971
Cost of sales		(28,274)	(26,692)
Gross profit		6,794	6,279
Administrative expenses excluding exceptional items		(4,854)	(4,486)
Exceptional administrative expenses	3	(447)	–
Administrative expenses		(5,301)	(4,486)
Other operating income		47	15
Operating profit		1,540	1,808
Interest receivable and similar income	4	93	14
Interest payable and similar charges	5	(68)	(17)
Profit on ordinary activities before taxation	6	1,565	1,805
Tax on profit on ordinary activities	9	(666)	(590)
Profit on ordinary activities after taxation		899	1,215
Dividends	10	(414)	(297)
Retained profit for the financial year		485	918
Basic earnings per share	12	4.1p	5.0p
Diluted earnings per share	12	4.1p	5.0p

The turnover and operating profit arose from continuing operations.

The Notes on pages 27 to 40 form part of these financial statements.

Consolidated Statement of Total Recognised Gains and Losses

for the year ended 31 December 2005

	2005 £000	2004 £000
Profit for the financial year	899	1,215
Currency translation differences on foreign currency net investments	(2)	(6)
Total recognised gains and losses relating to the financial year	897	1,209

Consolidated Balance Sheet

at 31 December 2005

	Note	2005 £000	2005 £000	2004 (as restated – see Note 10) £000	2004 (as restated – see Note 10) £000
Fixed assets					
Intangible assets	13		14		11
Tangible assets	14		190		237
			204		248
Current assets					
Debtors	16	7,704		6,498	
Cash at bank and in hand		2,568		1,536	
		10,272		8,034	
Creditors: amounts falling due within one year	17	(4,323)		(4,645)	
Net current assets			5,949		3,389
Total assets less current liabilities			6,153		3,637
Creditors: amounts falling due after more than one year	18		–		(1,600)
Net assets			6,153		2,037
Capital and reserves					
Called up share capital	19		232		187
Capital redemption reserve	20		63		63
Share-premium	20		3,332		–
Profit and loss account	20		2,526		1,787
Equity shareholders' funds	21		6,153		2,037

The Notes on pages 27 to 40 form part of these financial statements.

These financial statements were approved by the Board of Directors on 4 April 2006 and were signed on its behalf by:

RN Flavell
Director

Company Balance Sheet

at 31 December 2005

	Note	2005 £000	2005 £000	2004 (as restated – see Note 10) £000	2004 (as restated – see Note 10) £000
Fixed assets					
Intangible assets	13		14		11
Tangible assets	14		163		200
			177		211
Current assets					
Debtors	16	6,120		5,354	
Cash at bank and in hand		2,031		1,187	
		8,151		6,541	
Creditors: amounts falling due within one year	17	(3,350)		(4,094)	
Net current assets			4,801		2,447
Total assets less current liabilities			4,978		2,658
Creditors: amounts falling due after more than one year	18		–		(1,600)
Net assets			4,978		1,058
Capital and reserves					
Called up share capital	19		232		187
Capital redemption reserve	20		63		63
Share-premium	20		3,332		–
Profit and loss account	20		1,351		808
Equity shareholders' funds	21		4,978		1,058

The Notes on pages 27 to 40 form part of these financial statements.

These financial statements were approved by the Board of Directors on 4 April 2006 and were signed on its behalf by:

RN Flavell
Director

Consolidated Cash Flow Statement

for the year ended 31 December 2005

	Note	2005 £000	2004 £000
Cash flow statement			
Cash flow from operating activities	24	781	857
Returns on investments and servicing of finance	25	25	(3)
Taxation		(513)	(155)
Capital expenditure	25	(51)	(148)
Equity dividends	25	(814)	103
Cash inflow before financing		(572)	654
Financing	25	1,693	(339)
Increase in cash in the year		1,121	315
Reconciliation of net cash flow to movement in net funds			
Increase in cash in the year		1,121	315
Cash outflow from movement in lease financing		–	3
Cash outflow/(inflow) from decrease/(increase) in debt financing		1,800	(1,800)
Change in net funds		2,921	(1,482)
Translation differences		(19)	6
Movement in net funds in the year		2,902	(1,476)
Net (debt)/funds at the start of the year		(560)	916
Net funds /(debt) at the end of the year	26	2,342	(560)

The Notes on pages 27 to 40 form part of these financial statements.

Notes to the Accounts

1. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements except as noted below.

Basis of preparation

The financial statements have been prepared in accordance with applicable Accounting Standards and under the historical cost accounting rules.

Dividends

Financial Reporting Standard 21 'Events after the balance sheet date' has been applied for the first time, resulting in a change in accounting for dividends as detailed in Note 10.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings for the year ended 31 December 2005. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

Under section 230(4) of the Companies Act 1985, the Company is exempt from the requirement to present its own profit and loss account. The result for the year for the Company is shown in Note 11.

Goodwill

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on business combinations in respect of acquisitions since 1 January 1998 is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life of 10 years, subject to impairment.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of supplying IT staff and consultancy services to third-party customers.

Turnover from consultancy services chargeable on a time and materials basis is recognised when the work is performed.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes, which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Earnings per share

Basic earnings per share is computed by dividing the net profit attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year. Diluted earnings per share is computed by dividing the net profit attributable to ordinary shareholders by the weighted average number of ordinary shares in issue after adjusting for the effects of all potential dilutive ordinary shares that were outstanding during the year.

Intangible fixed assets and amortisation

Intangible fixed assets purchased separately from a business are capitalised at their cost.
Software licences are amortised over a period of four years, which is considered to be their useful economic life.

Tangible fixed assets and depreciation

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Motor vehicles	25% per annum
Furniture and equipment	25% per annum
Computer equipment	25% per annum
Leasehold improvements	life of lease

Notes to the Accounts
continued

1. Accounting policies (continued)
Investments
In the Company's financial statements, investments in subsidiary undertakings are stated at cost less provision for any impairment in value.

Foreign currencies
Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Resulting exchange gains and losses are taken to the profit and loss account.

The assets and liabilities of overseas subsidiary undertakings are translated at the closing exchange rates. Profit and loss accounts of such undertakings are consolidated at the average rates of exchange during the year. Gains and losses arising on these translations are taken to reserves, net of exchange differences arising on related foreign currency borrowings.

Leases
Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Post-retirement benefits
The Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

Cash and liquid resources
Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

Employee share schemes
As required by UITF 17, the cost of awards to employees that take the form of shares or rights to shares is recognised over the period of the employee's related performance. Where there are no performance criteria, the cost is recognised when the employee becomes unconditionally entitled to the shares.

Employee Benefit Trust
The Group operates an Employee Benefit Trust, which holds shares in the Company for the purpose of incentive plans. Under UITF 38 – Accounting for ESOP Trusts – the Company's own shares held in the Trust are deducted in arriving at shareholders' funds. Any proceeds from subsequent disposal of shares by the Trust are required to be added to shareholders' funds.

2. Segmental information
The geographical analysis of turnover is as follows:

	2005 £000	2004 £000
UK	27,952	26,734
Europe	5,102	5,145
USA	2,014	1,092
	35,068	32,971

In the opinion of the Directors, the Group has a single class of business. Further analysis of profit before tax and net assets is considered to be seriously prejudicial to the interests of the Group.

3. Exceptional administrative expenses
On 7 April 2005, the Company's shares were admitted to trading on the Alternative Investment Market (AiM) of the London Stock Exchange. The costs of listing charged to the profit and loss account amounted to £447,000.

Notes to the Accounts

continued

4. Interest receivable and similar income

	2005 £000	2004 £000
Amounts receivable on bank account	93	14

5. Interest payable and similar charges

	2005 £000	2004 £000
Amounts payable on bank loans and overdrafts	68	16
Finance charges payable in respect of hire purchase contracts	–	1
	68	17

6. Profit on ordinary activities before taxation

	2005 £000	2004 £000
Profit on ordinary activities before taxation is stated:		
after charging		
Depreciation and other amounts written off tangible and intangible fixed assets:		
– Owned	96	106
– Leased	–	3
Hire of other assets – operating leases	350	325
Auditors' remuneration:		
Group – audit (including Company: £82,000; 2004: £66,000)	89	83
– fees paid to the Group auditors in respect of other services	194	17
after crediting		
Rent received from sub-tenants	120	88
Exchange gains	4	11

7. Remuneration of Directors

	2005 £000	2004 £000
Directors' emoluments	667	556
Company contributions to money purchase pension schemes	5	3
Compensation for loss of office	–	30
	672	589

The aggregate emoluments of the highest paid Director were £259,133 (2004: £239,055). Retirement benefits are accruing to the following number of Directors under:

	Number of Directors	
	2005	2004
Money purchase schemes	2	2

Notes to the Accounts
continued

8. Staff numbers and costs
The average number of persons employed by the Group (including Directors) during the year, analysed by category, was as follows:

	2005 No.	2004 No.
Programmers	124	113
Sales	29	26
Technical	3	2
Administration	28	27
	184	168

Staff costs, including Directors' remuneration, were as follows:

	2005 £000	2004 £000
Wages and salaries	6,453	6,009
Social security costs	686	598
Other pension costs	44	52
	7,183	6,659

9. Taxation
Analysis of charge in year

	2005 £000	2005 £000	2004 £000	2004 £000
UK corporation tax				
Current tax on income for the year	573		503	
Adjustments in respect of prior periods	–		5	
		573		508
Foreign tax				
Current tax on income for the year	79		68	
		79		68
Total current tax (see below)		652		576
Deferred tax				
Origination and reversal of timing differences		14		14
Tax on profit on ordinary activities		666		590

Notes to the Accounts

continued

9. Taxation (continued)

Factors affecting the tax charge for the current year

The current tax charge for the year is higher (2004: higher) than the standard rate of corporation tax in the UK: 30%, (2004: 30%). The differences are explained below:

	2005 £000	2004 £000
Current tax reconciliation		
Profit on ordinary activities before tax	1,565	1,805
Current tax at 30% (2004: 30%)	469	542
Effects of:		
Expenses not deductible for tax purposes	58	28
Float costs	128	–
Depreciation for period in excess of capital allowances	2	1
Different tax rates on overseas earnings	(5)	18
Adjustments to tax charge in respect of previous periods	–	5
Brought forward losses utilised	–	(18)
Total current tax charge (see above)	652	576

10. Dividends and other appropriations

	2005 £000	2004 (as restated) £000
Conditional dividends on ordinary shares (see below)		
Paid as interim dividend in the year	–	100
Returned in the year	–	(400)
Ordinary dividends		
Final (prior year)	308	202
Interim (current year)	116	400
	424	302
Dividend waived by Employee Benefit Trust in current year	(10)	(5)
	414	297

The Group has adopted Financial Reporting Standard 21 Events after the balance sheet date for these financial statements, resulting in a change of accounting policy for dividends, whereby dividends are charged in the financial statements in the period in which they become a legal obligation. This change in accounting policy has no impact on the Group's profit after tax or cash flows, but increases retained reserves and net assets at 31 December 2004 by £298,000. There is no change to the Company's ability to pay dividends or to the Company's dividend policy.

Conditional dividends

During the years 2002, 2003 and 2004, the Company paid conditional dividends pursuant to agreements with certain shareholders (with the remaining shareholders waiving their rights to those dividends). As a result of those shareholders' participation in the share buy-back (see Notes 19 and 20), under their agreements, the shareholders were required to return their conditional dividends, totalling £400,000.

Notes to the Accounts

continued

11. Parent company

In accordance with the exemptions allowed by section 230(4) of the Companies Act 1985, the profit and loss account of the parent Company has not been presented. The Company's profit after taxation and before dividends was £699,000 (2004: £1,059,000).

12. Earnings per share

	2005	2004
Earnings		
Basic and diluted earnings	899,000	1,215,000
Add float costs	447,000	–
Add UITF 17 Employee share scheme charge	140,000	–
Adjusted earnings before float costs and UITF 17 charges	1,486,000	1,215,000

Earnings per share		
Basic	4.1p	5.0p
Diluted	*4.1p*	*5.0p*
Adjusted basic	6.8p	5.0p
Adjusted diluted	6.8p	5.0p

The calculation of basic earnings per share is based on profit after tax. The calculation of adjusted earnings uses the basic earnings before float costs and UITF 17 charges, and is presented to show more clearly the underlying performance of the Group.

The weighted average number of ordinary shares used in the calculation of the basic, diluted and adjusted earnings per share is as follows:

	2005 No.	2004 No.
Weighted average number of shares in issue during the year used in the calculation of basic and adjusted basic earnings per share	21,803,760	24,429,900
Dilutive effect of options treated as exercisable at the year end	161,361	–
	21,965,121	24,429,900

Notes to the Accounts

continued

13. Intangible fixed assets

Group	Software licences £000	Goodwill £000	Total £000
Cost			
At beginning of year	132	175	307
Additions in year	12	–	12
At end of year	144	175	319
Amortisation			
At beginning of year	121	175	296
Provided during the year	9	–	9
At end of year	130	175	305
Net book value			
At 31 December 2005	14	–	14
At 31 December 2004	11	–	11

Company	Software licences £000
Cost	
At beginning of year	132
Additions in year	12
At end of year	144
Amortisation	
At beginning of year	121
Provided during the year	9
At end of year	130
Net book value	
At 31 December 2005	14
At 31 December 2004	11

14. Tangible fixed assets

Group	Leasehold improvements £000	Motor vehicles £000	Furniture and equipment £000	Computer equipment £000	Total £000
Cost					
At beginning of year	146	64	254	429	893
Additions	1	14	4	19	38
Disposals	-	(18)	(7)	(19)	(44)
Exchange adjustments	-	(1)	9	-	8
At end of year	147	59	260	429	895
Depreciation					
At beginning of year	33	44	227	352	656
Charge for year	34	10	13	30	87
Disposals	-	(18)	(7)	(19)	(44)
Exchange adjustments	-	-	7	(1)	6
At end of year	67	36	240	362	705
Net book value					
At 31 December 2005	80	23	20	67	190
At 31 December 2004	113	20	27	77	237

Included in the total net book value of motor vehicles for both the Group and the Company are £nil (2004: £1,712) in respect of assets held under finance leases. Depreciation for the year on these assets was £1,712 (2004: £3,423).

Company	Leasehold improvements £000	Motor vehicles £000	Furniture and equipment £000	Computer equipment £000	Total £000
Cost					
At beginning of year	146	47	122	429	744
Additions	1	14	3	19	37
Disposals	-	(18)	(2)	(19)	(39)
At end of year	147	43	123	429	742
Depreciation					
At beginning of year	33	43	116	352	544
Charge for the year	34	8	3	30	75
Disposals	-	(18)	(2)	(20)	(40)
At end of year	67	33	117	362	579
Net book value					
At 31 December 2005	80	10	6	67	163
At 31 December 2004	113	4	6	77	200

15. Fixed asset investments

Company	Shares in Group undertakings £000
Cost	
At beginning and end of year	741
Provisions	
At beginning and end of year	741
Net book value	
At 31 December 2005	–
At 31 December 2004	–

The undertakings in which the Company's interest at the year end is more than 20% of the ordinary share capital are as follows:

	Country of incorporation	Principal Activity	Percentage of shares held
Subsidiary undertakings			
FDM Group Inc.	USA	IT solutions provider	100%
FDM Group NV	Belgium	IT solutions provider	100%
FDM Group GmbH	Germany	IT solutions provider	100%
FDM Group SA	Luxembourg	IT solutions provider	100%
Mountfield Software Limited	Great Britain	Dormant	100%

16. Debtors

	Group 2005 £000	Group 2004 £000	Company 2005 £000	Company 2004 £000
Trade debtors	7,440	6,218	5,898	5,181
Amounts owed by Group undertakings	–	–	49	18
Other debtors	70	104	5	–
Prepayments and accrued income	147	115	121	94
	7,657	6,437	6,073	5,293
Amounts receivable after more than one year:				
Deferred tax asset (depreciation in excess of capital allowances)	47	61	47	61
	7,704	6,498	6,120	5,354

Included in other debtors is corporation tax recoverable of £49,000 (2004: £98,000).

Notes to the Accounts

continued

17. Creditors: amounts falling due within one year

	Group 2005 £000	Group 2004 (as restated - see Note 10) £000	Company 2005 £000	Company 2004 (as restated - see Note 10) £000
Bank loans and overdrafts	226	496	–	200
Trade creditors	2,385	1,788	1,702	1,523
Amounts owed to Group undertakings	–	–	254	365
Other creditors including taxation and social security:				
– Corporation tax	556	508	499	450
– Other taxes and social security	495	658	388	590
Other creditors	176	177	126	119
Accruals and deferred income	485	618	381	447
Dividends payable	–	400	–	400
	4,323	4,645	3,350	4,094

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

	Group 2005 £000	Group 2004 £000	Company 2005 £000	Company 2004 £000
Bank loan	–	1,600	–	1,600

Analysis of debt:

	Group 2005 £000	Group 2004 £000	Company 2005 £000	Company 2004 £000
Debt can be analysed as falling due:				
In one year or less, or on demand	226	496	–	200
Between one and two years	–	400	–	400
Between two and five years	–	1,200	–	1,200
	226	2,096	–	1,800

Notes to the Accounts
continued

19. Called up share capital

	2005 £000	2004 £000
Authorised		
Equity: *100,000,000* ordinary shares of 1p each (*2004: 100,000,000* ordinary shares of 1p each)	*1,000*	*1,000*
Allotted, called up and fully paid		
Equity: 23,220,000 ordinary shares of 1p each (2004: 18,720,000 ordinary shares of 1p each)	232	187

During the year, the Company issued 4,500,000 ordinary shares of 1p each for cash at 78p per share.

During 2004, the Company repurchased and cancelled 6,280,000 if its own ordinary shares of 1p each. An amount equal to the nominal value of these shares has been transferred to a capital redemption reserve (£62,800).

The following options to subscribe for shares in the Company were held by employees of the Group at the end of the year.

Number of options during the year

At start of year	Granted	Exercised	Surrendered	At end of year	Exercise price	Date from which exercisable	Expiry date
411,500	–	150,000	37,500	224,000	55p	April 2005	May 2010
–	410,028	–	23,130	386,898	78p	April 2008	May 2015
–	143,500	–	2,500	141,000	86.5p	Sept 2008	Oct 2015
–	300,000	–	15,000	285,000	1p	April 2008	May 2015
–	180,000	–	–	180,000	1p	Sept 2008	Oct 2015
411,500	1,033,528	150,000	78,130	1,216,898			

The exercise of the 55p share options was conditional upon the shares becoming tradable on a recognised stock market. Accordingly, these have been exercisable since the date of the Company's admission to AiM, on 7 April 2005.

The exercise of the 1p options is conditional upon the achievement of specified growth in earnings per share over the three years to 31 December 2007.

20. Reserves

Group	Share Premium Account £000	Capital redemption reserve £000	Profit and loss account £000
At beginning of year	–	63	1,489
Prior year adjustment (see Note 10)	–	–	298
At beginning of year (as restated)	–	63	1,787
Retained profit for the year	–	–	485
Exchange adjustments	–	–	(2)
Proceeds on disposal of own shares held	–	–	116
Share premium arising on new shares issued in year, net of issue costs	3,332	–	–
Credit to profit and loss account for UITF 17 charge on share options	–	–	140
At end of year	3,332	63	2,526

20. Reserves (continued)

Company	Share Premium Account £000	Capital redemption reserve £000	Profit and loss account £000
At beginning of year	–	63	510
Prior year adjustment (see Note 10)	–	–	298
At beginning of year (as restated)	–	63	808
Retained profit for the year	–	–	287
Proceeds on disposal of own shares held	–	–	116
Share premium arising on new shares issued in year, net of issue costs	3,332	–	–
Credit to profit and loss account for UITF 17 charge on share options	–	–	140
At end of year	3,332	63	1,351

21. Reconciliation of movements in shareholders' funds

	Group 2005 £000	Group 2004 (as restated - see Note 10) £000	Company 2005 £000	Company 2004 (as restated - see Note 10) £000
Profit for the financial year	899	1,215	699	1,059
Dividends (as restated)	(414)	(297)	(412)	(297)
	485	918	287	762
Other recognised gains and losses relating to the year	(2)	(6)	–	–
New share issue	45	–	45	–
Proceeds on disposal in own shares held	116	76	116	76
Redemption of equity shares	–	(2,212)	–	(2,212)
Share premium	3,332	–	3,332	–
Credit to profit and loss account for UITF 17 charge on share options	140	–	140	–
Increase/(decrease) in shareholders' funds	4,116	(1,224)	3,920	(1,374)
Opening shareholders' funds (as restated)	2,037	3,261	1,058	2,432
Closing shareholders' funds	6,153	2,037	4,978	1,058

22. Commitments

(a) There were no capital commitments at the end of the financial year (2004: £nil).
(b) Annual commitments under non-cancellable operating leases are as follows:

	Land and Buildings	
	2005	2004
Group	£000	£000
Operating leases which expire:		
– Within one year	40	–
– In the second to fifth years inclusive	310	332
	350	332

Company	2005 £000	2004 £000
Operating leases which expire:		
– In the second to fifth years inclusive	256	256

23. Contingent liabilities

The Company has guaranteed the overdraft of its subsidiaries, FDM Group Inc. and FDM Group NV; the amount outstanding at the year end was £226,000 (2004: £296,000).

24. Reconciliation of operating profit to operating cash flows

	2005 £000	2004 £000
Operating profit	1,540	1,808
Depreciation, amortisation and investment write off	95	109
Loss on sale of fixed assets	–	7
UITF 17 charges	140	–
(Increase) in debtors	(1,287)	(1,704)
Increase in creditors	293	637
Net cash inflow from operating activities	781	857

Notes to the Accounts

continued

25. Analysis of cash flows

	2005 £000	2005 £000	2004 £000	2004 £000
Returns on investment and servicing of finance				
Interest paid	(68)		(17)	
Interest received	93		14	
		25		(3)
Capital expenditure				
Purchase of fixed assets	(51)		(148)	
		(51)		(148)
Equity dividends				
Equity dividends paid	(814)		(297)	
Equity dividends repaid	–		400	
		(814)		103
Financing				
Purchase of ordinary share capital	–		(2,212)	
Issue of share capital	3,377		–	
Sale of own shares held	116		76	
(Decrease)/increase in borrowings	(1,800)		1,800	
Capital element of finance lease rental payments	–		(3)	
		1,693		(339)

26. Analysis of net debt

	At beginning of year £000	Cash flow £000	Exchange movements £000	At end of year £000
Cash at bank	1,536	1,042	(10)	2,568
Overdrafts	(296)	79	(9)	(226)
	1,240	1,121	(19)	2,342
Debt due within one year	(200)	200	–	–
Debt due after one year	(1,600)	1,600	–	–
Net funds/(debt)	(560)	2,921	(19)	2,342

27. Pension scheme

The pension cost charge for the year represents contributions payable by the Group to the scheme and amounted to £43,619 (2004: £51,682). Amount paid by the Company was £43,209 (2004: £51,275).

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

Notice of Annual General Meeting

FDM GROUP PLC

NOTICE IS HEREBY GIVEN that the Annual General Meeting of FDM Group Plc (the 'Company') for 2006 will be held at 2nd Floor, Lanchester House, Trafalgar Place, Brighton, East Sussex BN1 4FL, at 10 am on 19 May 2006 for the following purposes:

Ordinary Business

1. To declare a final dividend for the financial year ended 31 December 2005 of 1p per ordinary share.
2. To receive and adopt the accounts of the Company for the financial year ended 31 December 2005 together with the Directors' Report and the Auditors' Report on those accounts.
3. To re-elect Roderick Neil Flavell as a Director of the Company.
4. To re-elect Karl Monaghan as a Director of the Company.
5. To reappoint KPMG Audit Plc as auditors to hold office from the conclusion of the Annual General Meeting to the conclusion of the next meeting at which the accounts are laid before the Company and to authorise the Directors to fix their remuneration.

Special Business

To consider and, if thought fit, pass the following resolutions which will be proposed as to Resolution 6 as an ordinary resolution and as to Resolution 7 as a special resolution:-

6. THAT, in substitution for any existing authority under section 80 of the Companies Act 1985 (the 'Act') but without prejudice to the exercise of any such authority prior to the date hereof, the Directors be and are authorised generally and unconditionally for the purposes of section 80 of the Act to exercise all the powers of the Company to allot relevant securities (within the meaning of section 80(2) of the Act) up to a maximum aggregate nominal amount equal to £95,466 to such persons and at such times and on such terms as they think proper during the period expiring (unless previously revoked or varied by the Company in general meeting) at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution, save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

7. THAT in substitution for any existing power under section 95 of the Act, but without prejudice to the exercise of any such power prior to the date hereof, the directors be and are empowered pursuant to section 95(1) of the Act to allot equity securities (within the meaning of section 94 of the Act) wholly for cash pursuant to the authority conferred on the Directors by Resolution 6 contained in the notice of the Annual General Meeting of the Company of which this resolution forms part as if subsection (1) of section 89 of the Act did not apply to such allotment, provided that this power shall (unless previously revoked or varied by the Company in general meeting) expire on the conclusion of the next Annual General Meeting of the Company after the passing of this resolution, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired and save also that the power conferred by this resolution shall be limited to:

7.1. the allotment of equity securities in connection with an issue or offering in favour of holders of equity securities and any other persons entitled to participate in such issue or offering where the equity securities respectively attributable to the interest of such holders and persons are proportionate (as nearly as may be) to the respective numbers of equity securities held by or deemed to be held by them on the record date of such allotment, subject only to such exclusions or other arrangements as the Directors may consider necessary or expedient to deal with fractional entitlements or legal or practical problems arising in connection with the laws of, or the requirements of any regulatory body or any stock exchange in, any territory; and

7.2. the allotment (otherwise than pursuant to sub-paragraph 7.1 above) of equity securities up to an aggregate nominal value not exceeding £11,610.

By order of the Board
Jacqueline Lesley Flavell
4 April 2006

Registered Office:
Second Floor
Lanchester House
Trafalgar Place
Brighton
East Sussex
BN1 4FL

Notice of Annual General Meeting

continued

Notes:

1. A member entitled to attend and vote at the Annual General Meeting may appoint a proxy to attend and, on a poll, to vote in his/her place and such proxy need not be a member of the Company. A form of proxy is enclosed.

2. To be valid, a form of proxy, together with the power of attorney or other authority, if any, under which it is signed or a notarially certified or office copy thereof must be deposited with the Registrars: Neville Registrars Limited, 18 Laurel Lane, Halesowen, West Midlands B63 3DA, not less than 48 hours before the time of the meeting. Completion and return of a form of proxy will not preclude a member from attending and voting in person.

3. The Company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those shareholders registered in the register of members of the Company as at 6pm on 17 May 2006, or, in the event the meeting is adjourned, in the register of members 48 hours before the time of any adjourned meeting, shall be entitled to attend and vote at the aforesaid general meeting in respect of the number of shares registered in their name at the relevant time. Changes to entries in the register of members after 6pm on 17 May 2006 or, in the event the meeting is adjourned, in the register of members 48 hours before the time of any adjourned meeting, shall be disregarded in determining the rights of any person to attend or vote at the meeting.

4. In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority will be determined by the order in which the names stand in the register of members of the Company in respect of the relevant joint holding.

5. Copies of the register of Directors' interests in shares of the Company kept in accordance with section 325 of the Companies Act 1985 and copies of all service agreements under which Directors of the Company are employed by the Company, or any subsidiaries, will be available for inspection at the Company's registered office, during normal business hours on any weekday (Saturdays and public holidays excepted) from the date of this notice until the day of the Annual General Meeting and at the place of the Annual General Meeting for 15 minutes prior to and during the meeting.

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Tel **0131 332 6717 www.emperordesign.co.uk**

FDM Group Plc
Lanchester House
Trafalgar Place
Brighton
East Sussex
BN1 4FL

www.fdmgroup.com