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Solving the Skills Shortage

IT Staffing | IT Solutions | IT Training



FDM Group Plc
Annual Report & Accounts
Year ended 31 December 2006

FDM Group is a specialist IT staffing and training business headquartered in Brighton, with offices in London, Germany, Luxembourg and the US. The Group combines its business units of IT Staffing and Global Services to provide staffing solutions to over 150 clients in multiple business arenas – in particular, Financial Services, Systems Integrators, Software Houses, Telecommunications, the Media and Transportation.

Each business unit provides contract IT professionals alongside the Group's own permanent staff, known as 'Mounties' within the Company and to its 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 has been listed on the AIM market of the London Stock Exchange since 7 April 2005.

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Driving the business forward

Business development '06

Financial Highlights

- Sales increased by 27% to £44.50 million (2005: £35.07 million)
- Gross profit (net fee income) increased by 27% to £8.60 million (2005: £6.79 million)
- Adjusted profit before tax increased by 36% to £2.92 million (2005: £2.15 million)*
- Profit before tax £2.78 million (2005: £1.60 million)
- Adjusted fully diluted earnings per share increased by 2.5p to 9.3p (2005: 6.8p)*
- Fully diluted earnings per share of 8.7p (2005: 6.8p)
- Final dividend of 1.3p per share, making a total dividend for 2006 of 1.9p per share (2005: 1.5p)
- Net cash position of £1.98 million at 31 December 2006 (31 December 2005: £2.34 million)

* excluding FRS20 Share-based payment charges and the exceptional costs of the April 2005 flotation

Operating Highlights

- Overall gross margins remained stable, and well ahead of industry average, at 19.3% (2005: 19.4%)
- Operating margin increased to 6.4% in 2006 from 6.1% in 2005
- Growth in contractor headcount of 34% from 465 at start of year to 625 at 31 December 2006
- Growth in number of internally trained, higher margin Mounties to 154 at 31 December 2006 (31 December 2005: 93), Mountie utilisation rates steady at 97.8%
- New training academy opened in City of London in January 2007, creating additional capacity to service client demand, especially in London's key financial services industry
- New clients won during the year include Lloyds Register, Monster and Nomura
- Demand for skilled IT professionals in key markets remains very strong
- Current trading conditions remain very favourable and the Board is confident in the outcome for the current year

Our unique specialist solution

Outpacing a growth market

UK IT Market

+5%
growth in 2006

Propelled by a surge in notebook and peripheral sales in the final quarter, the UK IT arena grew by 5% to nearly £9bn in 2006

Although there are fundamental changes in the way IT is delivered, the IT profession not only remains stable but is also evolving to meet changing business demands

Most of the growth will manifest itself in systems development, with this area demonstrating the highest rate of expansion

Server market

+5%
growth in Q4

There will also be a high demand for specialists with browser-based skills and technologies like Microsoft NET, Java and SharePoint

Currently
90% of
European
banks' IT
spend is on
maintaining
legacy
systems

How we service the market

IT Staffing

Turnover 2006

£38.17m

% of Group sales

85.8%

Contribution to Group GP

IT Staffing Mounties 30.1%

IT Staffing Freelancers 46.1%

Unique

FDM's staffing business supplies freelance IT consultants from its database of over 70,000 candidates to a broad range of clients worldwide. With FDM's in-house technical knowledge, we can provide pre-screening of candidates to reduce client workload, particularly for large-scale campaigns. During 2006, the number of freelance IT consultants on client assignments grew from 372 to 471. This has been supplemented by the growth of Mounties on billing from 93 to 154 through the FDM Academy. With the introduction of additional training programmes, FDM has supported new and existing clients and ensured consistent business wins against larger staffing agencies whilst maintaining industry-leading margins. FDM has built a reputation for quality delivery of IT personnel on a contract or managed service basis.

Group Services

Turnover 2006

£6.33m

% of Group sales

14.2%

Contribution to Group GP

Global Services Mounties 13.4%

Global Services Freelancers 10.4%

Increasing efficiencies

This newly-merged part of the business now comprises IT training and IT professional services and offers our clients a complete business solution, from a managed helpdesk to third-line application support and enhancement. The division provides a wide choice of training and development solutions to end-user clients to help their employees, associates and clients' workforce to improve their IT skills. With exclusive access to our Mounties, the Global Services Division supplies a complete teaming solution with the stability of IT resource throughout the duration of the assignment. Global Services provides our long-term Mounties with a career path offering progression to consulting or training once they have completed their 2-year contractual assignment with FDM.

Addressing the IT skills shortage

Training the next generation of

THE MOUNTIE SOLUTION

FDM's training academies will help to tackle the skills deficit recently highlighted by the Office of National Statistics. The key requirement is for test analysts and developers with Java and Microsoft expertise. Recruits with skills tailored to the financial services industry are also in particular demand in the capital. Building on the success of our Brighton programme, we expect our London-based academy to fast-track a new breed of IT specialists into the City's financial district.

TESTING

Testing is now recognised as the most critical phase of software development. Legislation such as Sarbanes Oxley has increased the demand for the professional verifying and testing of software. FDM Academy introduced a Test Analyst Course in 2006 to address the skills shortage in qualified test analysts. Our qualified software testing professionals are now working for international clients such as BNP Paribas, Swiftcover and ABN AMRO.

FINANCE

Finance has been driving the IT industry in recent years. Financial institutions are updating their IT systems and this in turn has increased demand for IT specialists with both technical and business skills. Graduates from the FDM fast-track Finance Analyst training programme are now working at organisations such as HSBC, JP Morgan and Deutsche Bank.

DEVELOPERS

Developers with .NET or JAVA possessed the most in-demand skill for 2006 and this shows a steady increase during 2007. With the IT job market enjoying its longest period of stability in 20 years, FDM's established developer training streams attract candidates from all over the globe via its network of graduate recruitment initiatives.

JAVA

JAVA has become the standard programming language for internet-based applications. It is hard to imagine IT without JAVA, which resides nowadays on mobile phones, wireless carriers, desktops/PCs and smart cards. FDM has operated in the JAVA market since 1999.

.NET

Demand for .NET skills is on the increase due to Microsoft's positioning of this as a credible alternative to Java for enterprise development. In addition, Microsoft has a large Visual Basic customer base who will be upgrading systems to the newer .NET platform. FDM has been training developers in .NET for over 2 years, and prior to this, for almost 10 years in Visual Basic.

IT specialists

London calling

We have recently established a new training facility at 55 King William Street in the heart of the City. This new centre will allow us to train a further 75 Mounties during the year through our acclaimed FDM Academy.

£0.5m

investment in training facilities in London

THE FDM ACADEMY

FDM's training academy offers free courses to help students refine their skills as Test Analysts and Developers in Java or C# .Net. With the introduction of two additional fast-track training schemes during 2006 (one specifically for the financial services industry and the other for test analysts), the FDM Academy has trained over 86 students in 2006. Our new London Centre will enable us to double our intake of students and we expect to train over 150 students in 2007.

During 2006, we held 21 Open Days, technically assessed 585 students and streamed our students as follows:

**32 students joined the Testing Programme,
18 students joined our Finance Stream,
25 students studied Java, of whom 23 took the Sun Certification Exam,
22 students studied Microsoft, of whom 4 undertook MCAD certification**

SOFT SKILLS 2007

Industry first in response to business demand

FDM Academy has introduced its first Soft Skills Training Programme to combat the shortage of business and communication savvy IT professionals, and follows well-publicised calls for industry action from across the corporate sector. FDM is the first company of its kind to provide its trainees with soft skills training as part of its core training programme.

Rod Flavell, CEO of FDM says:

A recent survey of UK businesses showed that a number of IT candidates lack soft skills and are being passed over at interview. The corporate sector has been vocal about the need for IT consultants with business and communication expertise, but until now, no one company has shown a definitive response. We're proud to be the first IT training and recruitment specialist to equip our IT consultants with a full portfolio of expertise required by modern businesses.

Chairman's Statement

2006 has been another year of considerable progress for FDM, with the Group delivering significant revenue and profit growth. Within our chosen markets, the outlook for 2007 looks positive and the Board is confident in the future prospects of the Group.

Introduction

It gives me great pleasure to report that 2006 has been another year of considerable progress for FDM, with the Group delivering significant revenue and profit growth. This is the fourth successive year of sales and profit growth for FDM and the Group is well positioned for the future.

I became Chairman of FDM in October 2006, when Brian Divett stepped down from the role. On behalf of the Board, I would like to thank Brian for his enormous contribution to the business over the years. Brian, a founding shareholder of the Group, has been part of the FDM story for 16 years and has overseen the creation of the Company and its transformation into one of the UK's leading IT recruitment businesses.

Results

During 2006, FDM has seen all of its operations, both geographically and by function, perform well. Revenues during the year grew by 27% to £44.5m (2005: £35.1m), enabling the business to generate an adjusted operating profit of £2.84m (2005: £2.13m), after adding back exceptional float costs and FRS20 Share-based payments, which represents year-on-year growth of 33%. Adjusted profits before tax were £2.92m, compared to £2.15m in 2005. Adjusted fully diluted earnings per share grew by 2.5p to 9.3p (2005: 6.8p).

Against the background of our success in 2006, the Board is pleased to recommend a final dividend of 1.3p per share for the second half of the year, making a total dividend for the year ended 31 December 2006 of 1.9p per share (2005: 1.5p).

Operations

Our UK business performed exceptionally well during the year, showing growth in adjusted profit before tax of 41.5%. This was ably supported by steady performances from our operations in the US, Germany and Luxembourg. I am pleased that we have continued to grow our client base, with new wins including Lloyds Register, Monster and Nomura. We have also seen increased cross-selling to our customers across geographies, including contracts with Deutsche Bank, HSBC, ABN AMRO and Commerzbank through both mainland Europe and the USA.

The FDM Academy, our unique training capability from which the Mounties graduate, continues to draw students from the USA and Europe, including the new member states in the EU.

During January 2007, a new office in the City of London was opened for business in response to increasing demand from our clients and from applicants to the FDM Academy. Given that a considerable amount of FDM's work is sourced from organisations operating in London, the establishment of the new FDM Academy represents a logical step in our development. I am pleased to report that we are receiving increasing numbers of applications for Mountie training places in London.

As our Chief Executive explains in more detail in his review, there continues to be a shortage of trained IT skills across the Western world, with the problem especially acute in the newer areas of IT such as Java and .Net. Virtually all blue chip organisations are adopting these new programming techniques to deploy new systems as well as to refresh legacy applications. Together with our existing facilities, the new FDM Academy in London will enable us better to satisfy this growing demand for our services. Overseas, FDM is also looking for additional opportunities to increase its output of Mounties and to further improve the trading performance of its operations.

Board Changes

On 14 December 2006, we announced that April Denney, Group Finance Director, had resigned as an employee of the Group and had stepped down from the Board with immediate effect. Since this date, the finance function of FDM has been run by an Interim Finance Director and the Group Financial Controller. The Group are currently in the process of recruiting a suitable Finance Director to replace April Denney. The Board anticipate making a further announcement shortly in respect of such an appointment.

The departure of April Denney is currently subject to a dispute between April Denney and the Company. The Board rejects Miss Denney's claim, having taken advice from the Company's solicitors, and intends vigorously to contest it.

Outlook

The strong performance of FDM during the year has been largely delivered because of the professionalism and endeavours of our staff, many having been with the Group for over 10 years. I would like to put on record my appreciation for their dedication, hard work and enthusiasm during the year. I look forward to working with them into the future.

2007 is predicted to exhibit considerable growth in demand for IT resources, especially in Eastern and Mid-Europe as new members integrate into the EU. The shortage of IT skills is equally severe in the USA. FDM already has established operations in Germany, Luxembourg and USA and is therefore well placed to capitalise on these overseas growth opportunities.

Within our chosen markets, the outlook for 2007 looks positive and the Board is confident in the future prospects of the Group, notwithstanding the additional cost involved in the opening of the new London office. I look forward to updating shareholders on our progress later in the year.

Ivan Martin
Chairman
21 March 2007

This is the fourth successive year of sales and profit growth for FDM and the Group is well positioned for the future.

Operations Review

There is clear evidence that the IT staffing and recruitment market remains strong and continues to grow. While the outsourcing of IT to offshore locations may save costs, poor delivery can also affect the overall quality and productivity actually experienced by end users. Accordingly, a number of large organisations have now decided to bring business back "in-house". FDM is ideally placed to benefit from this trend.

Introduction

I am delighted with FDM's performance in 2006. The Group exceeded its sales and profit targets and continued to invest in its infrastructure. We also increased the number of Mounties (FDM's trained IT consultants) working on client sites. Operating margins remain strong and we have managed costs and cash to maximise our working capital.

Financial Results

The results for 2006 reflect the successful execution of our growth strategy. Revenues increased by 27% from £35.07m to £44.50m driven by a growth in the number of clients to whom we provide services, the expansion of our Mountie teams, and an increase in the number of contractors we have placed with clients.

Pre-tax profit increased by 33% to £2.92m (2005: £2.15m) after adding back float costs and FRS20 Share-based payments and our gross margin was stable at 19.3% (2005: 19.4%). Efficient cost control ensured that our operating margin increased to 6.4% from 6.1% in the previous year.

The considerable increase in sales during the year, combined with the overall growth of the business, led to a greater working capital requirement. At the end of 2006, we had £1.98m of cash (31 December 2005: £2.34m). Since the year end, debtor days have improved significantly.

Key Performance Indicators

The Mounties are still a fundamental part of the Group's growth strategy and will enable us to maximise the opportunity provided by the current shortage of IT skills. The Mountie programme allows us to train experts in the markets with the most demand, helping us to continue to grow and maintain margins.

Our ability to increase the throughput of Mounties was a critical factor behind FDM opening a new location in London on 29 January 2007, giving us an immediate increase in capacity aligned with a new trainee and client pool. Utilisation of Mounties is steadily increasing and is currently running at 98% (2005: 95%), and with the number of Mounties increasing to 154 on billing at the end of 2006 (93 at the end of 2005), we can clearly see continuing demand for this resource.

FDM's Market

There is clear evidence that the IT staffing and recruitment market remains strong and continues to grow. The high utilisation rates alongside our growth in Mountrie numbers, shows that there is robust demand for suitably qualified IT professionals.

FDM expects to see this demand continue in 2007 for a number of reasons. Until recently, it had been assumed that the sub-contracting of various IT functions to businesses based in cheaper offshore locations would become the established model, especially for North American and European corporations. However, while this approach may save costs, poor delivery can also affect the overall quality and productivity actually experienced by end users. Culture, language and simple lack of familiarity with relevant business practice are increasingly cited as reasons why the offshoring route often fails to fulfil customer expectations. Accordingly, a number of large organisations have now decided to bring business-critical IT functions back "in-house" thus creating further demand for suitably qualified IT professionals in their home markets. FDM is ideally placed to benefit from this trend.

The substantial growth in regulation, especially in the financial services industry, has forced all types of businesses to adopt new systems in order to comply. In most cases, the solutions are technological. This clearly creates a requirement for staff with the appropriate training and skills for the relevant systems to be properly and effectively installed.

Hedge Funds, Private Equity Houses, Investment Banks, Asset Managers and Insurance Companies are all developing increasingly sophisticated financial products in their efforts to outperform their competitors. Again, the products they offer rely on technology for their effective delivery, but its implementation and maintenance rely on people with the necessary qualifications.

Apart from the Financial Services industry, the dynamics of other sectors also suggest that demand will be equally robust. For example, the Media and Communications industries – in which FDM is very active – are going through a rapid period of rationalisation. New Media has established itself as a mainstream and increasingly dominant form of communication. These industries rely heavily on technologically-adept professionals in order for them to operate effectively and deliver the services that they have promoted to their customers.

Software and Systems Integration are also industries in which FDM has an excellent track record of working with established operators to deliver and maintain high-performance and functionally rich systems. The software industry is enjoying a renaissance in terms of development and adoption of new systems and this is a further reason why the need for suitably skilled IT personnel remains so strong.

In summary, market conditions remain very buoyant, driven by several related factors, the common denominator being that all types of business increasingly rely on technology to function effectively. Demand for the staff and skillset provided by FDM therefore continues to be robust.

Operations Review

continued

Review of operations

Following the reorganisation implemented on 1 July 2006, FDM now operates through two divisions: IT Staffing and Global Services. These divisions are supported by the FDM Academy, our industry-leading IT training programme.

IT Staffing

This division provides clients in the UK and overseas with both Mounties and freelance contractors to staff their IT requirements. We operate a flexible delivery model that benefits both FDM and our clients and enables them to optimise workloads during project lifecycles.

FDM is selective about the business it undertakes, avoiding low-margin and preferred supplier lists. Our aim is to develop new account managers to cross-sell our higher-margin services. At the end of 2006 we had 38 sales staff, a growth of 31% on the previous year.

In the UK, the IT Staffing Division enjoyed another strong year of sales growth, which was up 28.7%, with 391 contractors on billing at 31 December 2006 (2005: 284) and 123 Mounties (2005: 70). We have also increased our client base, and now have over 150 clients including British Airways, Monster UK, Barclays Wealth Management and the Metropolitan Police.

In mainland Europe, we continued to invest in the Sales and Mountie teams and have seen headcount growth of 19% to 89 on billing at 31 December 2006 (2005: 75). At 31 December 2006 we had 64 contractors and 25 Mounties deployed with clients. In the USA we also achieved 13.6% growth in sales compared to 2005.

FDM Global Services

This division was created in July 2006 from the merger of FDM Commercial Training and FDM Project Services. Previously both divisions had reported separately. However, the Board felt that as both operating units shared the same resource and clients, it was more logical from an operational and client management perspective to combine them as one. It would also make the reporting of future comparisons more straightforward.

FDM Global Services manages teams of Mounties and freelance trainers delivering a range of services, such as Development, Support, Testing and End User Education to our clients, both on and off site.

Since 1 July 2006, the newly aligned division has exceeded our internal performance expectations, producing £4.0m (2005: £1.9m) of revenues and net fee income of £1.3m (2005: £0.6m) in the second half of the year.

New project wins included Morley Asset Management and Oracle Corporation, whilst existing clients such as Reuters, ABN AMRO, British Airways and HSBC increased the use of our services by enhancing the scope of the projects currently underway. The current year has started well, with the division performing in line with company expectations.

FDM Academy

It is FDM's intention to maintain and build upon the high standards of training that the Mountie programme has delivered thus far. As stated above, demand for highly-skilled IT professionals will continue to be very strong and it is therefore essential that we are able to meet this requirement, both in terms of capacity and quality.

The opening of FDM's new Academy in the City of London took place on time and within budget and we do not expect that it will adversely impact our financial performance in the current year. We are very pleased with progress so far and we are already attracting local recruits from the London catchment area. The new academy will play a crucial role in improving FDM's ability to rapidly service the demands of a growing client base.

Outlook

We have delivered our fourth consecutive year of sales and profit growth in 2006, at the same time as investing in our infrastructure to ensure we develop our business in our chosen markets. Since the beginning of the year, we have seen an increase in revenues, and all our key metrics show that we have started the current year positively.

Overall market conditions are exhibiting consistently high demand. Investment in IT systems and infrastructure is growing, but has not reached the dangerously high levels experienced during the Millennium and is therefore more likely to be sustainable in the medium term.

Against this backdrop, FDM will continue its strategy of focusing not purely on volume-driven commodity business, but instead on higher-margin projects where the best opportunities exist for our specific skillset to be applied. With our home-grown supply of suitably skilled IT professionals, we see the consistent achievement of gross margins approaching 20% as a realistic and sustainable goal.

We believe that, based on current trading levels, the continued execution of our business strategy and the strength of the market, we will achieve a successful outcome for the current financial year.

Rod Flavell

Chief Executive Officer
21 March 2007

The IT job market is enjoying
its longest period of stability in
20 years

We have delivered our fourth
consecutive year of sales and profit
growth in 2006, at the same time
as investing in our infrastructure
to ensure we develop our business
in our chosen markets

Board of FDM Group

1 Rod Flavell

Rod has been involved in the IT industry since 1982. He is a founder of FDM and has in-depth knowledge of sales and business management. He is responsible for the overall strategic development and organic growth of the Group. Since FDM's flotation on AIM, he has successfully focused the business on higher margins through investment in the FDM Academy programme and the avoidance of high-volume, low-margin contracts.

2 Ivan Martin

Ivan became FDM's Non-Executive Chairman on 1 October 2006 and brings to FDM his previous expertise as a main Board Director and Chief Executive. He chairs the Remuneration Committee and is a member of the Audit Committee. His previous role with Misys Plc, where he headed their banking division, has entailed significant operational experience including sales, customer services, software development, professional services and product management.

3 Julian Divett

Julian has over 18 years' experience of working in the IT services industry and is one of the Group's founders. He was appointed to the Board in July 2001 and became Chief Operating Officer in April 2005, with responsibility for the Group's global training strategy and Group operations.

4 Karl Monaghan

Karl joined the Board of FDM in November 2005 as a Non-Executive Director. He chairs the Audit Committee and is a member of the Remuneration Committee. He has considerable expertise in the finance arena, previously having been employed with KPMG, Credit Lyonnais Securities and Robert W. Baird. He is a Non-Executive Director of AIM-quoted Caretech Holdings plc and Morson Group plc.

5 Jacs Flavell

Jacs resigned from the Board in 2002 and is FDM's Company Secretary, having worked in the Company since its formation in 1991. She has a thorough operational knowledge of the business, having worked previously in its Finance and HR departments. Jacs has overall responsibility for FDM's corporate events and the marketing of FDM Group and FDM Academy.

Directors' Report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2006

Principal activity

The Group's principal activity is that of International IT Services Provider, supplying IT staff through its two core business units IT Staffing and Global 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

Business and risk review

A review of the business covering Key Performance Indicators and the overall performance of the Group is set out in the Chairman's Statement and Operations Review on pages 6 to 11

The principal risk facing the Group remains around market conditions, which are buoyant at present. Continued monitoring of this takes place and necessary steps will be taken to minimise impact on trading if conditions change

Results for the year

The results for the year are set out in the profit and loss account on page 20

Dividends

The Directors have proposed a final ordinary dividend of 1.3p per share (2005: 1.0p) in respect of the current financial year totalling £301,860 (2005: £232,300). 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 £229,076 in respect of the previous year ended 31 December 2005, together with an interim dividend of 0.6p per share (2005: 0.5p) in respect of the year ended 31 December 2006 of £139,320.

Directors and Directors' interests

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

Ivan Martin (Chairman) (appointed 1 July 2006)
RN Flavell
JN Divett
K Monaghan
BR Divett (resigned 31 December 2006)
A Denney (resigned 5 December 2006)
J Wright (resigned 19 May 2006)

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 14 to 16.

Political and charitable contributions

During the year the Group made charitable donations of £1,672 (2005: £677). No political contributions were made (2005: £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 22 days (2005: 20 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.

Disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

In accordance with Section 385 of the Companies Act 1985, a resolution for the re-appointment 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

21 March 2007

Report on Directors' Remuneration

The Remuneration Committee (the Committee), which comprises of two Non-Executive Directors, Ivan Martin 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 Ivan Martin.

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 of 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 twelve 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 performance and are in line with similar positions in comparable companies. This principle is also applied, where practicable, throughout the organisation.

Performance-Related 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
- health care insurance

Share Options

The Company operates an HMRC 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. 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.

Directors remuneration

Executive Directors	2006	Salary	Performance bonus		Benefits in kind		Pension		2006	Total
	£	2005	2006	2005	2006	2005	2006	2005		
	£	£	£	£	£	£	£	£	£	£
Roderick Flavell	167,500	160,000	103,000	80,000	12,607	12,653	6,480*	6,480*	289,587	259,133
Julian Divett	95,000	80,000	83,000	60,000	6,818	7,843	2,850	2,400	187,668	150,243
April Denney	88,917	80,000	-	60,000	6,123	6,172	2,668	2,400	97,708	148,572
									574,963	557,948

Non Executive Directors	2006	Salary	Consultancy Fees		2006	Total
	£	2005	2006	2005		
	£	£	£	£	£	£
Brian Divett	28,000	23,625	-	-	28,000	23,625
Ivan Martin	19,346	-	10,000	-	29,346	-
Jonathan Wright	2,346	6,000	10,000	79,000	12,346	85,000
Karl Monaghan	6,000	1,000	29,000	4,000	35,000	5,000
					104,692	113,625

* 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

	Employment date	Contract date	Contract end date	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	05/12/06	12 months
Brian Divett	01/01/91	23/03/05	31/12/06	6 months
Jonathan Wright	01/01/05	23/03/05	19/05/06	6 months
Karl Monaghan	01/11/05	01/11/05	-	6 months
Ivan Martin	01/07/06	01/07/06	-	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 2006	Shares held at 31 December 2006
Roderick Flavell	2,903,333	2,830,000
Julian Divett	1,209,000	1,209,000
Ivan Martin	-	15,000
Karl Monaghan	-	15,000
Total	4,112,333	4,069,000

Report on Directors' Remuneration

continued

Directors' interests in share options

	At 1 January 2006	Lapsed	Exercised	At 31 December 2006	Exercise price	Name of scheme
Roderick Flavell	30,000	-	-	30,000	1p	LTIP
	20,000	-	-	20,000	1p	LTIP
Julian Divett	30,000	-	-	30,000	1p	LTIP
	20,000	-	-	20,000	1p	LTIP
Total	100,000	-	-	100,000		

Save as stated above, no Director, nor any member of his 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 options' are exercisable in accordance with the rules of this scheme and shall only be exercisable during a period beginning three years and ending ten years after the date of grant. These options are subject to the achievement of performance requirements.

The Company's share price at 31 December 2006 was 93.5p per share. The subscription price on float on 7 April 2005 was 78p per share, and the high/low prices during 2006 were 111.5p per share (2005: 103.5p) and 70.50p per share (2005: 72p) respectively.

This report was approved by the Board on 21 March 2007 and has been signed on its behalf by

Ivan Martin
Chairman of the Remuneration Committee
21 March 2007



Corporate Governance

The Board, which comprises the Executive Directors, a Non-Executive Chairman, Ivan Martin, and one independent Non-Executive Director, 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 six Board meetings each year.

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 an 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. Ivan Martin 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) and Ivan Martin. 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 Ivan Martin (Chairman) and Karl Monaghan. 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 and applicable law (UK Generally Accepted Accounting Practice)

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 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,
- 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 2006 which comprise the Group Profit and Loss Account, the Group and Company Balance Sheets, the Group Cash Flow Statement, the Group 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 18.

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's statement that is cross-referred from the Business Review section of the Directors' Report.

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

We read the 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 2006 and of the Group's profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc
Chartered Accountants
Registered Auditor

KPMG Audit Plc

21 March 2007

Consolidated Profit and Loss Account

for the year ended 31 December 2006

	Note	2006 £000	2005 (restated (Note 3)) £000
Turnover	2	44,504	35,068
Cost of sales		(35,906)	(28,274)
Gross profit		8,598	6,794
Administrative expenses excluding exceptional items	3	(5,943)	(4,824)
Exceptional administrative expenses		-	(447)
Administrative expenses		(5,943)	(5,271)
Other operating income		43	47
Operating profit		2,698	1,570
Interest receivable and similar income	4	100	93
Interest payable and similar charges	5	(19)	(68)
Profit on ordinary activities before taxation	6	2,779	1,595
Tax on profit on ordinary activities	9	(743)	(666)
Profit on ordinary activities after taxation		2,036	929
Basic earnings per share	12	8 9p	4 3p
Diluted earnings per share	12	8 7p	4 2p

The turnover and operating profit arose from continuing operations

The notes on pages 25 to 38 form part of these financial statements

Consolidated Statement of Total Recognised Gains and Losses

for the year ended 31 December 2006

	2006 £000	2005 (restated (Note 3)) £000
Profit for the financial year	2,036	929
Translation differences on foreign currency net investments	(49)	(2)
Total recognised gains and losses relating to the financial year	1,987	927
Prior year adjustment for FRS20 Share-based payments as detailed in Note 3	30	
Total recognised gains and losses since last annual report	2,017	

Consolidated Balance Sheet

at 31 December 2006

	Note	2006 £000	2006 £000	2005 £000	2005 £000
Fixed assets					
Intangible assets	13		16		14
Tangible assets	14		186		190
			202		204
Current assets					
Debtors	16	10,110		7,704	
Cash at bank		2,002		2,568	
		12,112		10,272	
Creditors amounts falling due within one year	17	(4,575)		(4,323)	
Net current assets			7,537		5,949
Net assets			7,739		6,153
Capital and reserves					
Called up share capital	18		232		232
Capital redemption reserve	20		63		63
Share premium	20		3,332		3,332
Profit and loss account	20		4,112		2,526
Equity shareholders' funds	21		7,739		6,153

The notes on pages 25 to 38 form part of these financial statements

These financial statements were approved by the Board of Directors on 21 March 2007 and were signed on its behalf by


RN Flavett
Director

Company Balance Sheet

at 31 December 2006

	Note	2006 £000	2006 £000	2005 £000	2005 £000
Fixed assets					
Intangible assets	13		16		14
Tangible assets	14		163		163
			179		177
Current assets					
Debtors	16	8,999		6,120	
Cash at bank		1,387		2,031	
		10,386		8,151	
Creditors amounts falling due within one year	17	(4,162)		(3,350)	
Net current assets			6,224		4,801
Net assets			6,403		4,978
Capital and reserves					
Called up share capital	18		232		232
Capital redemption reserve	20		63		63
Share premium	20		3,332		3,332
Profit and loss account	20		2,776		1,351
Equity shareholders' funds	21		6,403		4,978

The notes on pages 25 to 38 form part of these financial statements

These financial statements were approved by the Board of Directors on 21 March 2007 and were signed on its behalf by


RN Flavell
Director

Consolidated Cash Flow Statement

for the year ended 31 December 2006

	Note	2006 £000	2005 £000
Cash flow statement			
Cash flow from operating activities	24	1,024	781
Returns on investments and servicing of finance	25	81	25
Taxation		(824)	(513)
Capital expenditure	25	(102)	(51)
Equity dividends	25	(368)	(814)
Cash outflow before financing		(189)	(572)
Financing	25	(170)	1,693
(Decrease)/increase in cash in the year		(359)	1,121
Reconciliation of net cash flow to movement in net funds			
(Decrease)/increase in cash in the year		(359)	1,121
Cash outflow from decrease in debt financing		–	1,800
Change in net funds		(359)	2,921
Translation differences		(8)	(19)
Movement in net funds in the year		(367)	2,902
Net funds/(debt) at the start of the year		2,342	(560)
Net funds at the end of the year	26	1,975	2,342

The notes on pages 25 to 38 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 both to the Group and Company financial statements

Basis of preparation

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

New accounting standards

FRS20 'Accounting for share-based payments' has been applied for the first time, resulting in a change in accounting for share-based payments as detailed in Note 3

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings for the year ended 31 December 2006. 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 FRS19.

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.

Dividends

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

Intangible fixed assets and amortisation

Software and software licences are capitalised at their cost and amortised over a period of four years which is considered to be their useful economic life.

Notes to the Accounts

continued

1 Accounting policies (continued)

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	-	4 years
Furniture and equipment	-	4 years
Computer equipment	-	4 years
Leasehold improvements	-	life of lease

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

The share option programme allows employees to acquire shares in the Company. The fair value of options granted after 7 November 2002 and those not yet vested as at the effective date of FRS20, is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a binomial option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where variations are due only to share prices not achieving the threshold for vesting.

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 by origin is as follows

	2006 £000	2005 £000
UK	37,177	27,952
Europe	5,040	5,102
USA	2,287	2,014
	44,504	35,068

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 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.

In accordance with FRS20 – Share-based payments, a charge of £137,296 has been made to administrative expenses for the year ended 31 December 2006. For the year ended 31 December 2005 the UITF 17 Share option charge has been removed and replaced with the FRS20 – Share-based payment charge.

	2005 (restated) £000
UITF 17 Share option charges	140
FRS20 Share-based payment charges	(110)
Net increase to profit for year-ended 31 December 2005	30

4 Interest receivable and similar income

	2006 £000	2005 £000
Amounts receivable on bank account	100	93

5 Interest payable and similar charges

	2006 £000	2005 £000
Amounts payable on bank loans and overdrafts	19	68

Notes to the Accounts

continued

6 Profit on ordinary activities before taxation

	2006 £000	2005 £000
Profit on ordinary activities before taxation is stated		
after charging		
Depreciation and other amounts written off tangible and intangible fixed assets		
Owned	104	96
Hire of property – operating leases	233	350
Auditors' remuneration		
Audit of these financial statements	63	75
Audit of subsidiaries pursuant to legislation	10	17
Other services pursuant to such legislation	22	18
Other services relating to taxation	20	18
All other services	–	155
after crediting		
Rent received from sub-tenants	120	120
Exchange gains	4	4

7 Remuneration of Directors

	2006 £000	2005 £000
Directors' emoluments	675	667
Company contributions to money purchase pension schemes	5	5
	680	672

The aggregate emoluments of the highest paid Director were £289,587 (2005: £259,133). Retirement benefits are accruing to the following number of Directors under

	Number of Directors	
	2006	2005
Money purchase schemes	2	2

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

	2006 No	2005 No
Programmers	161	124
Sales	38	29
Technical	2	3
Administration	33	28
	234	184

8 Staff numbers and costs (continued)

Staff costs, including Directors' remuneration, were as follows

	2006 £000	2005 £000
Wages and salaries	7,531	6,453
Social security costs	822	686
Other pension costs	43	44
	8,396	7,183

9 Taxation

Analysis of charge in year

	2006 £000	2005 £000
UK corporation tax		
Current tax on income for the year	801	573
Adjustments in respect of prior periods	(170)	-
	631	573
Foreign tax		
Current tax on income for the year	95	79
Total current tax (see below)	726	652
Deferred tax		
Origination and reversal of timing differences	17	14
Tax on profit on ordinary activities	743	666

Factors affecting the tax charge for the current year

The current tax charge for the year is lower (2005 higher) than the standard rate of corporation tax in the UK, 30% (2005 30%)

The differences are explained below

	2006 £000	2005 £000
Current tax reconciliation		
Profit on ordinary activities before tax	2,779	1,565
Current tax at 30% (2005 30%)	834	469
Effects of		
Expenses not deductible for tax purposes	12	58
Float costs	-	95
Depreciation for the year in excess of capital allowances	6	2
Different tax rates on overseas earnings	3	(5)
Adjustments to tax charge in respect of prior periods	(170)	-
FRS20 Share option charge	41	33
Total current tax charge (see above)	726	652

Notes to the Accounts

continued

10 Dividends and other appropriations

	2006 £000	2005 £000
Ordinary dividends		
Final (prior year)	232	308
Interim (current year)	139	116
	371	424
Dividend waived by Employee Benefit Trust in current year	(3)	(10)
	368	414

The Board of Directors recommend a final dividend for 2006 of 1 3p per share amounting to £301,860

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 £1,826,000 (2005: £729,000)

12 Earnings per share

	2006 £000	2005 (restated (Note 3)) £000
Earnings		
Profit after tax	2,036	929
Add float costs	-	447
Add FRS20 Share-based payment charges	137	110
Adjusted earnings before float costs and FRS20 charges	2,173	1,486
Earnings per share		
Basic	8 9p	4 3p
Diluted	8 7p	4 2p
Adjusted basic	9 5p	6 8p
Adjusted diluted	9 3p	6 8p

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 FRS20 Share-based payment 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:

	2006 No	2005 No
Weighted average number of shares in issue during the year used in the calculation of basic and adjusted basic earnings per share	22,943,962	21,803,760
Dilutive effect of options treated as exercisable at the year end	369,237	161,648
	23,313,199	21,965,408

13 Intangible fixed assets

Group	Software licences £000	Goodwill £000	Total £000
Cost			
At beginning of year	144	175	319
Additions in year	11	–	11
At end of year	155	175	330
Amortisation			
At beginning of year	130	175	305
Provided during the year	9	–	9
At end of year	139	175	314
Net book value			
At 31 December 2006	16	–	16
At 31 December 2005	14	–	14

Company	Software licences £000
Cost	
At beginning of year	144
Additions in year	11
At end of year	155
Amortisation	
At beginning of year	130
Provided during the year	9
At end of year	139
Net book value	
At 31 December 2006	16
At 31 December 2005	14

Notes to the Accounts

continued

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	147	59	260	429	895
Additions	21	10	9	51	91
Disposals	-	(7)	-	(2)	(9)
Exchange adjustments	-	-	(10)	-	(10)
At end of year	168	62	259	478	967
Depreciation					
At beginning of year	67	36	240	362	705
Charge for year	43	7	11	34	95
Disposals	-	(7)	-	(2)	(9)
Exchange adjustments	-	-	(10)	-	(10)
At end of year	110	36	241	394	781
Net book value					
At 31 December 2006	58	26	18	84	186
At 31 December 2005	80	23	20	67	190
Company					
	Leasehold improvements £000	Motor vehicles £000	Furniture and equipment £000	Computer equipment £000	Total £000
Cost					
At beginning of year	147	43	123	429	742
Additions	21	10	2	51	84
Disposals	-	(7)	-	(2)	(9)
At end of year	168	46	125	478	817
Depreciation					
At beginning of year	67	33	117	362	579
Charge for the year	43	4	3	34	84
Disposals	-	(7)	-	(2)	(9)
At end of year	110	30	120	394	654
Net book value					
At 31 December 2006	58	16	5	84	163
At 31 December 2005	80	10	6	67	163

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 2006	–
At 31 December 2005	–

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 2006 £000	Group 2005 £000	Company 2006 £000	Company 2005 £000
Trade debtors	9,888	7,440	8,758	5,898
Amounts owed by Group undertakings	–	–	47	49
Other debtors	31	70	14	5
Prepayments and accrued income	161	147	150	121
	10,080	7,657	8,969	6,073
Amounts receivable after more than one year				
Deferred tax asset	30	47	30	47
	10,110	7,704	8,999	6,120

Included in other debtors is corporation tax recoverable of £15,000 (2005 £49,000)

Notes to the Accounts

continued

17 Creditors amounts falling due within one year

	Group 2006 £000	Group 2005 £000	Company 2006 £000	Company 2005 £000
Bank loans and overdrafts	27	226	–	–
Trade creditors	2,696	2,385	2,310	1,702
Amounts owed to Group undertakings	–	–	206	254
Other creditors including taxation and social security				
Corporation tax	441	556	396	499
Other taxes and social security	787	495	707	388
Other creditors	128	176	126	126
Accruals and deferred income	496	485	417	381
	4,575	4,323	4,162	3,350

18 Called up share capital

	2006 £000	2005 £000
Authorised		
Equity 100,000,000 ordinary shares of 1p each (2005 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 (2005 23,220,000 ordinary shares of 1p each)	232	232

19 Share-based payments

The Employee Benefit Trust makes the necessary purchase of additional shares from the open market to cover options granted by FDM to its employees and ensures that they hold the appropriate amount of shares on the date of exercise

During 2006, the trust purchased 211,000 ordinary shares with a nominal value of 1p for £189,900 to cover the future demand for share options held by employees, this represented 0.9% of the total called-up share capital. The maximum number of shares held by the trust during the year was 319,897 shares which is 1.4% of the total called-up share capital.

At the balance sheet date 286,497 shares with a market value of £267,877 (2005 £101,258) were held by the Trust which had not yet vested unconditionally with employees. Shareholders' funds have been reduced by £170,000 (2005 Increase £116,000) in respect of the purchase price of these shares.

At the year end 989,200 (2005 1,217,150) shares are under option to employees or have been conditionally gifted to them.

Employee share options

The terms and conditions of grants are as follows, whereby all options are settled by physical delivery of shares.

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 78p and 86.5p share options have been granted with an exercise price equal to the market price of the company shares at the date of grant (market price options) and the only condition with these options is that they can only be exercised after the third anniversary of the date of grant and not exercised any later than the tenth anniversary of the date of grant.

19 Share-based payments (continued)

The exercise of the 1p options is conditional upon the satisfaction of specified growth in earnings per share over the three years to 31 December 2007. These options can only be exercised if the company's growth based on annualised earnings per share in the base period compared with the third year after the grant exceeds RPI plus an average of 3% per annum.

No options granted can be transferred, assigned, mortgaged or charged and options can only be exercised by option holders if they are still employees or directors of the company.

The number and weighted average exercise prices of share options are as follows:

	2006 Weighted average exercise price	2006 Number of options	2005 Weighted average exercise price	2005 Number of options
Outstanding at the beginning of the period	0.45	1,217,150	0.55	411,500
Granted during the period	–	–	0.43	1,033,780
Forfeited/lapsed during the period	0.71	(181,450)	0.52	(78,130)
Exercised during the period	0.55	(46,500)	0.55	(150,000)
Outstanding at the end of the period	0.40	989,200	0.45	1,217,150
Exercisable at the end of the period	0.55	163,000	0.55	224,000

The weighted average share price at the date of exercise of share options exercised during the period was 87p (2005: 96p).

The options outstanding at the year end have an exercise price in the range of 1p to 86.5p and a weighted average contractual life of 7.7 years (2005: 8.6 years).

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on a binomial model.

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options, adjusted for any expected changes to future volatility due to publicly available information).

Date of grant	Type of instrument	Valuation model	Number outstanding	Share price on date of grant (£)	Exercise price (£)	Expected volatility %	Vesting period (yrs)	Expected life (yrs)	Risk-free rate %	Expected annual dividend	Fair value (£)
07/04/05	Share Options	Binomial	293,700	0.78	0.78	50.00	3.00	10.00	4.70	2.00	0.35
07/04/05	LTIP	Binomial	270,000	0.78	0.01	50.00	3.00	10.00	4.70	2.00	0.73
08/09/05	Share Options	Binomial	121,000	0.865	0.865	50.00	3.00	10.00	4.25	2.00	0.39
08/09/05	LTIP	Binomial	180,000	0.865	0.01	50.00	3.00	10.00	4.25	2.00	0.81

Share options are granted under a service condition and, for grants to directors and senior management, a non-market performance condition. Such conditions are not taken into account in the grant date fair value measurement of the services received. There are no market conditions associated with the share option grants.

Notes to the Accounts

continued

19 Share-based payments (continued)

As at 31 December 2006 outstanding options to subscribe for ordinary shares of 1p were as follows

Grant date	Employees entitled	No of options	Performance conditions	Exercise price (£)
30/05/2000	Management & employees	163,000	Upon flotation of company	0.55
07/04/2005	Employees	265,700	No performance conditions	0.78
07/04/2005	Management	270,000	EPS growth target	0.01
08/09/2005	Employees	110,500	No performance conditions	86.50
08/09/2005	Management	180,000	EPS growth target	0.01
Total		989,200		

The Company recognised a total expense within administration expenses of £137,296 (2005: £110,000), related to share-based payment transactions, all of which were accounted for as equity-settled share-based payment arrangements with a corresponding credit direct to equity reserves. The cumulative credit to equity reserves in respect of share-based payments totalled £247,296 (2005: £110,000).

20 Reserves

Group	Share premium account £000	Capital redemption reserve £000	Profit and loss account £000
At beginning of year	3,332	63	2,526
Profit for year (restated (Note 3))	-	-	2,036
Dividends	-	-	(368)
Exchange adjustments	-	-	(49)
Proceeds/(loss) on disposal of own shares held	-	-	(170)
Credit to profit and loss account for FRS20 Share-based payment charge on share options	-	-	137
At end of year	3,332	63	4,112

Company	Share Premium Account £000	Capital redemption reserve £000	Profit and loss account £000
At beginning of year	3,332	63	1,351
Profit for the year (restated (Note 3))	-	-	1,826
Dividends	-	-	(368)
Proceeds/(loss) on disposal of own shares held	-	-	(170)
Credit to profit and loss account for FRS20 Share-based payment charge on share options	-	-	137
At end of year	3,332	63	2,776

21 Reconciliation of movements in shareholders' funds

	Group 2006 £000	Group 2005 (restated (Note 3)) £000	Company 2006 £000	Company 2005 (restated (Note 3)) £000
Profit for the financial year (restated (Note 3))	2,036	929	1,826	731
Dividends	(368)	(414)	(368)	(414)
Other recognised gains and losses relating to the year	(49)	(2)	-	-
New share issue	-	45	-	45
Proceeds/(loss) on disposal in own shares held	(170)	116	(170)	116
Share premium	-	3,332	-	3,332
Credit to profit and loss account for FRS20 Share-based payment charge on share options	137	110	137	110
Increase in shareholders' funds	1,586	4,116	1,425	3,920
Opening shareholders' funds	6,153	2,037	4,978	1,058
Closing shareholders' funds	7,739	6,153	6,403	4,978

22 Commitments

Annual commitments under non-cancellable operating leases are as follows

Group	Land and buildings	
	2006 £000	2005 £000
Operating leases which expire		
Within one year	28	40
In the second to fifth years inclusive	433	310
	461	350

Company	Land and buildings	
	2006 £000	2005 £000
Operating leases which expire		
In the second to fifth years inclusive	368	256

23 Contingent liabilities

The Company has guaranteed the overdrafts of its subsidiaries, FDM Group Inc and FDM Group NV, the amount outstanding at the year end was £27,000 (2005 £226,000)

24 Reconciliation of operating profit to operating cash flows

	2006 £000	2005 £000
Operating profit	2,698	1,570
Depreciation, amortisation and investment write off	104	95
FRS20 Share-based payment charge (restated (Note 3))	137	110
(Increase) in debtors	(2,525)	(1,287)
Increase in creditors	610	293
Net cash inflow from operating activities	1,024	781

Notes to the Accounts

continued

25 Analysis of cash flows

	2006 £000	2006 £000	2005 £000	2005 £000
Returns on investment and servicing of finance				
Interest paid	(19)		(68)	
Interest received	100		93	
		81		25
Capital expenditure				
Purchase of fixed assets		(102)		(51)
Equity dividends				
Equity dividends paid		(368)		(814)
Financing				
Issue of share capital	-		3,377	
Sale of own shares held	(170)		116	
Decrease in borrowings	-		(1,800)	
		(170)		1,693

26 Analysis of net funds

	At beginning of year £000	Cash flow £000	Exchange movements £000	At end of year £000
Cash at bank	2,568	(549)	(17)	2,002
Overdrafts	(226)	190	9	(27)
Net funds/(debt)	2,342	(359)	(8)	1,975

27 Pension scheme

The pension cost charge for the year represents contributions payable by the Group to the scheme and amounted to £43,000 (2005 £44,000). Amounts paid by the Company were £43,000 (2005 £43,000).

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

28 Adjusted profit before tax

Adjusted profit before tax is stated after adding back FRS20 Share-based payment charges and, for 2005, the exceptional float costs. The directors consider that this measure shows more clearly the underlying performance of the Group.

	2006 £000	2005 Restated (Note 3) £000
Profit before tax	2,036	929
Add float costs	-	447
Add FRS20 Share-based payment charge	137	110
Adjusted profit before tax	2,173	1,486

Notice of Annual General Meeting

FDM GROUP PLC

NOTICE IS HEREBY GIVEN that the Annual General Meeting of FDM Group Plc (the Company) for 2007 will be held at Second Floor, Lanchester House, Trafalgar Place, Brighton BN1 4FL at 10 am on 10 May 2007 for the following purposes

Ordinary Business

- 1 To declare a final dividend for the financial year ended 31 December 2006 of 1 3p per share
- 2 To receive and adopt the accounts of the Company for the financial year ended 31 December 2006 together with the directors' report and the auditors' report on those accounts
- 3 To re-elect Julian Divett as a director of the Company
- 4 To re-elect Ivan Martin as a director of the Company
- 5 To re-appoint KPMG LLP 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 £87,292 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 sub-section (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
Company Secretary
21 March 2007

Registered Office
Second Floor
Lanchester House
Trafalgar Place
Brighton
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 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 Neville Registrars Limited, 18 Laurel Lane, Halesown, 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 8 May 2007, 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 8 May 2007 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.

FDM Group Plc
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www.fdmgroup.com