

NCC Group plc

Strong revenue growth drive profits up 21% and earnings up 25%

Seven year CAGR for operating profit 21% and dividend 32%

7 July 2011. NCC Group plc (LSE: NCC, "NCC Group" or "the Group"), the international, independent provider of Escrow and Assurance, has reported its preliminary results for the year to 31 May 2011.

Financial highlights

- Group revenue up 49% to £71.0m (2010: £47.6m)
- Group adjusted pre-tax profits* up 21% to £17.3m (2010: £14.3m)
- Adjusted fully diluted earnings per share* up 25% to 36.7p (2010: 29.4p)
- Total dividend up 21% to 13.0p (2010: 10.75p) - CAGR of 32% since 2004
- Cash conversion ratio was 133% of operating profits (2010: 141%)

Operational highlights

- Group Escrow maintained strong revenue growth of 8%
 - Escrow UK saw solid organic revenue growth of 6%
 - Increased US presence through acquisition of complementary business in Atlanta
- Assurance Division now multinational leading independent information security business
 - Organic growth of 17% and operating profit up 70% to £6.5m (2010: £3.8m).
 - Acquisition in US significantly enhanced position and widened global capabilities
 - Forensics and operational responses becoming major areas of opportunity

Outlook for 2011/2012:

- Group Escrow renewals forecast to increase by 12% to £17.0m (2010: £15.2m)
- Group Escrow verification order book £2.1m (2010: £2.2m)
- Assurance Testing order book and renewals up 23% to £22.6m (2010: £18.3m)

* Operating profit is adjusted for amortisation of acquired intangibles and exceptional items. Pre-tax profit is adjusted for this item and the unwinding of the discount on the acquisitions' contingent consideration.

Rob Cotton, Group Chief Executive, commented:

"The Group has performed well and flourished during the year - reporting an excellent financial performance. The combination of strong reliable organic growth, carefully acquired and integrated acquisitions and notably cash generation has enabled us to deliver a CAGR of 33% for revenues and 21% of operating profits over the last seven years.

"Both of our business units are continuing to see predictable long term expansion with strongly recurring revenues throughout. The two US acquisitions have transformed our capabilities and provide a sound platform for sustained international growth.

"Within the Assurance division, the exponential growth of all types of activity on the internet, has created an open unregulated and unmanaged environment, ideally suited for a wide range of illegal activities including state-sponsored targeted attacks and the rise of "hacktivism". These are providing

considerable opportunities for us to develop this division further into an international leader in information security."

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Overview

The Group delivered a very strong performance in an economic climate that continued to be difficult. Despite this backdrop, all aspects of the Group performed well; growing organically, integrating a number of acquisitions and successfully acquiring two complementary US businesses.

Group revenues maintained their momentum, growing by 49% to £71.0m (2010: £47.6m). Excluding the acquisitions, organic growth was 12%. Group margins remained strong with the adjusted operating profit margin at 25%, achieved despite the effects of the acquisitions and growth of non escrow businesses which have lower margins than the escrow operations.

Adjusted pre-tax profits and adjusted fully diluted earnings per share were up 21% to £17.3m (2010: £14.3m) and 25% to 36.7p (2010: 29.4p) respectively. Reflecting the Board's commitment to a progressive dividend policy, which is tracking earnings growth, it is proposing a final dividend of 8.85p, making a total for the year of 13.0p, up 21%.

The Group continues to be highly cash generative with operating cash conversion representing 133% of operating profits (2010: 141%).

The Group has continued its consistent track record of delivery since coming to the market in July 2004. NCC Group has seen a compound annual growth rate of 33% and 21% for revenues and adjusted operating profits respectively and 32% for dividend, based on the proposed final dividend.

In October 2010 and March 2011, the Group acquired iSEC Partners Inc. in California and Escrow Associates LLC in Georgia respectively, to expand further its US presence and capabilities in that market. Both businesses are best in class and fit with the Board's aspiration of becoming the market leader in the niches the Group occupies.

Financial review

Revenue

The Group increased revenue by 49% to £71.0m (2010: £47.6m). Excluding the purchase of iSEC Partners and Escrow Associates and the full year effect of SDLC, acquired at the end of the previous financial year, Group revenue grew by 12% to £51.7m.

The Group half year split saw 46% of revenue delivered in the first half (2010: 47%) and 54% in the second half (2010: 53%).

The majority of revenue £52.6m (2010: £34.7m) or 74% (2010: 73%) was derived from the UK. The rest of the world revenue increased by 78% to £12.4m (2010: £7m), with Europe contributing £6.0m (2010: £5.9m) of the total, a 2% increase.

The Group's recurring income levels continue to grow throughout the business. In Escrow UK over 88% of all contracts renewed, whilst Assurance, excluding the acquired companies in the year, saw 77% of prior year's revenues renewed (2010: 75%).

Group revenue by sector

The Group continued to have little reliance on any one customer or sector for its revenue. Within Assurance the largest customer represents 9.9% of Assurance revenue, 6.4% of Group revenue. The largest customer in Escrow is 1.3% of total Group Escrow revenue.

Top three sectors by Division	Escrow	Assurance
Banks & Insurance	31%	35%
Software Computer Services	10%	39%
Telecoms	27%	2%

Group revenue split by sector

Sector	Group revenue (%)
Banks & Insurance	34
Fixed & Mobile Telecommunications	9
Software & Computer Services	32
Central Government	2
Local Government	3
Education	1
Support Services	2
General Retailers	7
Healthcare Equipment & Services	2
Travel & Leisure	3
Other	5

Profitability and margins

The Group continued to generate strong margins. Adjusted Group operating profit grew by 23% to £17.9m (2010: £14.6m), excluding the amortisation of acquired intangibles and the exceptional items but including share based charges of £0.5m (2010: £0.9m), as set out in the table below.

Adjusted operating margins were, as expected, at 25% (2010: 31%), reflecting the increasing percentage of growing revenue from the non-escrow businesses, in particular SDLC. The Assurance Division businesses' margins were 14%, 18% excluding SDLC.

Escrow's margin has continued to improve driven by a combination of effective selling and price increases. Prices are expected to be increased in October 2011 as they were in 2010. The Group continues to monitor pricing and market sentiment, but with CPI and RPI at 4.5% and 5.2% respectively, price inflation is now very much part of the UK economy.

In Assurance the business is seeing a general improvement in margins as more work comes from premium rate services, such as operational response, monitoring and forensics. This is expected to increase over the next 12 months. With the Group's multinational presence, NCC Group is seeing more opportunities to offer comprehensive international solutions to multinational clients.

The Group half year split saw 43% of adjusted operating profits delivered in the first half and 57% in the second half, a very similar split to the previous year.

The Group has an exceptional charge of £1.1m relating to the deal costs associated with the acquisitions of iSEC Partners and Escrow Associates.

	Operating profit	
	2011	2010
	£000	£000
Reported operating profit	13,472	13,322
Amortisation of acquired intangibles	3,275	1,557
Exceptional items	1,144	(319)
Adjusted operating profit including share based charges	17,891	14,560

	Profit before tax	
	2011	2010
	£000	£000
Reported profit before tax	12,768	12,965
Amortisation of acquired intangibles	3,275	1,557
Exceptional items	1,144	(319)
Unwind of the discount on contingent consideration	68	75
Adjusted profit before tax including share based charges	17,255	14,278

Adjusted Group pre-tax profit increased 21% to £17.3m (2010: £14.3m). The Group's reported pre-tax profit was £12.8m (2010: £13.0m), after the inclusion of the unwinding of the discount on the acquisitions' contingent consideration, amortisation of intangible assets and the exceptional items.

Taxation

The Group's effective tax rate is 27% (2010: 28.5%), below the average standard UK rate of 27.7%. The decrease in the effective tax rate is largely due to enhanced allowances obtained for research and development expenditure, which more than offset the amount not deducted for tax purposes.

Earnings per share

The adjusted basic earnings per share from continuing operations increased 24% to 37.8p (2010: 30.4p). The table below analyses the effect on the Group's basic earnings per share of the amortisation of acquired intangibles, unwind of the discount on the contingent consideration for acquisitions and the effect of the exceptional items.

	2011	2010
	Pence	Pence
Basic EPS as per the income statement	27.5	27.5
Amortisation of acquired intangibles	6.7	3.4
Exceptional items	3.4	(0.7)
Unwind of the discount on the contingent consideration of the acquisitions	0.2	0.2
Adjusted basic EPS	37.8	30.4

The adjusted fully diluted earnings per share from continuing operations increased 25% to 36.7p (2010: 29.4p) and fully diluted earnings per share was 26.7p (2010: 26.6p).

Dividends

The Board is recommending a final dividend of 8.85p per share which makes a total for the year of 13.0p (2010: 10.75p). This represents cover of 2.9 times (2010: 2.8 times) based on basic adjusted earnings per share from continuing operations. Since the Group's flotation in July 2004, the dividend has increased from 2.5p, a CAGR of 32%.

If approved at the Annual General Meeting, the dividend will be paid on 30 September 2011 to shareholders on the register at the close of business 2 September 2011. The ex-dividend date will be 31 August 2011.

Cash

The Group continues to be highly cash generative with operating cash flow before interest and tax of £17.9m (2010: £18.8m) which is 133% of operating profit before interest and tax (2010: 141%).

After accounting for net cash outflows of £14.4m for acquisitions and contingent acquisition payments made during this year, the Group ended the year with net debt of £20.5m (2010: £11.9m).

Capital expenditure remained tightly controlled at £4.5m (2010: £2.5m) which predominantly relates to the upgrade of the Group's core IT systems to SAP. The project, which has been beset with problems, is now due to go live in November 2011, over a year late. The roll out will complete during 2012, with a further £1.0m capital costs required to complete the project.

In July 2010, the Group entered a new three year banking facility with RBS. The facility provides a £35m revolving credit facility and a £2m overdraft. Interest on the facility is charged at 2% over LIBOR and 2% over base rate on the overdraft.

The facility provides the Group with the necessary capacity to meet its current acquisition objectives, although this is regularly reviewed to ensure that unnecessary fees are not incurred due to non utilisation. At present the Group is utilising 72% of the facility.

Discontinued activities

As stated in the interim results, NCC Group withdrew from the general IT consultancy market. This resulted in a one-off exceptional charge of £950,000, of which £450,000 is non cash related. Total post tax losses from discontinued activities were £1.1m (2010: profit £142,000).

Balance sheet

Following the acquisitions of iSEC Partners and Escrow Associates, goodwill increased by 20% to £76.9m (2010: £63.9m) and the cost of intangible assets relating to customer contracts and associated relationships increased by 19% to £11.7m (2010: £9.8m). The value of goodwill has been assessed and no impairment reported. The contracts and customer relationships have been assigned a useful economic life of between three and 20 years and are to be amortised over that period.

Shareholders' funds at the end of the year were £56.1m (2010: £50.3m).

Operational review

Escrow

NCC Group remains the largest provider of escrow services worldwide and has further strengthened its position with the acquisition of Escrow Associates in North America. It is the only provider mandating quality; offering the best value and strongest protection available, ahead of price. The Group does not intend to change that philosophy.

The Escrow businesses have had a solid year with strong performance in nearly all the key performance measures of profitability, renewals, terminations and verification testing.

The Division increased revenue by 8% to £24.9m (2010: £23.0m). Within this, Escrow UK revenue grew by 6%, Escrow Europe by 11% overall and Escrow US by 24%. Excluding the acquisition of Escrow Associates, Escrow US increased its revenue by 13%.

Group Escrow profitability grew 9% to £14.5m (2010: £13.3m) with the UK contributing 81% (2010: 78%). Escrow US and Escrow Europe continued to increase profitability and contributed 10% and 9% of total Escrow operating profits respectively with all geographies seeing double digit growth.

Group recurring revenues through the renewals process grew by 5% to £15.4m (2010: £14.6m). Verifications grew throughout the Group by 25%.

The Group's Escrow businesses are, and always will be, the cornerstone of NCC Group's profitability. They produce a substantial margin and very strong cash conversion as well as a high degree of recurring revenue, due to the contract renewals rate of over 88%.

Escrow accounts for 35% of the total Group's revenue (2010: 48%) as the scale of the Assurance business grew substantially, due to recent acquisitions as well as faster organic growth. Overall Group Escrow operating margins stayed solid due to strong cost control. Escrow UK increased its margins to 68% (2010: 64%), before central recharges, helped by a limited extent by the price increase of 5% in November 2010 for new contracts and January 2011 for renewals.

Escrow UK

This year saw a consistent and robust performance from the Escrow UK team. Growth levels were sufficient and saw the business improve on the record second half performance achieved in 2010. In the UK there were no real signs of any fundamental improvement in the economy. In the last quarter of the Group's financial year, the software market felt the most vulnerable than it has for a while.

Escrow UK revenue was £19.0m (2010: £17.9m) with solid growth throughout the year. This 6% growth in revenue (2010: 8%) was delivered through contract growth and verifications, with only a limited amount coming from the effects of the price increase. Verification revenues grew by 25% in the year to £3.7m (2010: £3.1m) with prices holding firm from last year.

Escrow UK recurring revenues grew over 13% to £12.2m (2010: £10.8m) and terminations remain beneath 12%.

Escrow Europe and Escrow US

Escrow US increased its revenue by 24% to £2.7m (2010: £2.2m) and Escrow Europe increased revenues by 11% to £3.2m (2010: £2.9m).

Escrow Europe now has 17 employees and the North American Escrow businesses have 26 employees. All businesses are tasked with strong growth plans in the current financial year through aggressive headcount increases. In Europe, the Group is anticipating strong growth in the Netherlands and Switzerland, whilst in California the move to San Francisco should greatly improve its ability to recruit the right calibre of staff.

Assurance

The Assurance division saw strong performances with all elements making good progress.

Assurance now accounts for 65% (2010: 52%) of Group revenues with total divisional revenues up 87% to £46.1m (2010: £24.6m). Excluding the acquisitions of SDLC and iSEC Partners, revenue increased 17% to £27.1m, with very strong performances coming from NGS in the second half of the year. Operating profit grew 70% to £6.5m (2010: £3.8m).

Assurance consists of NGS Secure, iSEC Partners, Site Confidence and SDLC. As with Escrow, the major challenge for the Assurance division is to increase renewal rate and renewal spend levels. This is most imperative in NGS, the ethical security business unit and Site Confidence, the performance and load business.

NGS includes penetration and application testing, operational response, forensics, managed monitoring as well as social engineering and card and information security standards auditing. As

most new customers continue to work with the Group, NCC Group saw 77% of the prior year's revenues renewed, up from 75% last year. This represents 49% of all customers (2010: 52%).

The Group also saw renewing customers' expenditure increasing from on average £22,489 to £29,767 in 2011. Excluding the recently acquired companies, renewing customers spending has increased to £21,066 (2010: £14,828).

iSEC Partners has seen encouraging growth since its acquisition, delivering on its agreed plans. The Group is already seeing a join up within clients. More importantly the Group is benefiting from iSEC's technical knowhow and presence which has further enhanced NCC Group's reputation as one of the world leading experts in security.

Site Confidence had a recurring revenue rate of 91% (2010: 89%) which continues its strong track record of retention. Through the coming year improvements to the service, additional product lines and potential new technologies will see this area continue to perform strongly.

SDLC continued the trend of the first half of the year, achieving all of its revenue targets, but with margins remaining at a lower rate than anticipated. A number of cross selling initiatives are beginning to pay off with the business benefiting from being part of a larger Group and being able to provide clients a total assurance offering.

The assurance testing teams currently comprise of over 180 testers in the UK and USA.

Markets review

Escrow

The dynamics of the escrow market have not materially changed since the Group floated in 2004 and the same market assumptions, as detailed by Gartner at the time, remain. The UK escrow market without verification testing is still niche and the Group estimates that the market size is approximately £100m, which still provides NCC Group with considerable headroom for growth.

Both in the public and private sector, corporations and organisations still typically believe that they have several times more cover than they actually have. They remain unaware that they should have considerably more.

The estimates of the European market place vary wildly, but the Gartner research suggests the market, in total, may be worth two or three times that of the UK.

Assurance

Trends and cost

Over the last six months in particular, you could be mistaken for believing that hacking has just been invented as the daily media coverage has highlighted the vulnerability and threats facing all who use the internet.

Hacking has been around since the invention of the computer and whilst the dramatic headlines astonish, in the expert security world none of this is new. The two main trends that have become prevalent over the last nine months are the continued success of state-sponsored targeted attacks and the rise of "hacktivism".

Most coverage focuses on the threat of having an identity or monies stolen through cybercrime. Much has been written about the loss of millions of customer records, but in many cases the data is completely worthless to any third party. The reputational impact on the hacked organisation is often far more significant than any financial loss. Quite often the information stolen about individuals is already in the public domain.

The explosive growth of all types of activity on the internet, compounded by the widening use of wireless devices, has created an open unregulated and unmanaged environment ideally suited for information and data misuse. The cost therefore should come as no surprise. Billions of pounds have been taken and the cost of hacking to the UK alone now is more than £27bn, according to the recent Cost of Cyber Crime Report published by the Office of Cyber Security on 11 February 2011. IP theft and espionage cost £9.2bn and £7.6bn respectively, with online theft a long way behind at only £2.2bn.

Hactivism and state sponsored targets

One of the most worrying trends to emerge is organised hacking. Anarchists and other activists are now using hacking as their anti-government or anti-establishment tool of choice. The "Wikileaks" fiasco was one of the first to very publically highlight the impact that hactivism can have and the threat that we all face from disruption from rogue political groups or others willing to use hacking as a tool for their own and often political aims.

The growing skill and effectiveness of hactivists, such as Anonymous and LulzSec is of particular concern. At the core of these groups is a small team of talented hackers who are surrounded by a loosely defined mass of less-skilled aides and fans who significantly increase these group's capability to perform distributed denial-of-service attacks (DDoS). But these groups no longer limit themselves to DDoS, the ability to penetrate professionally-managed networks is well within their capability.

The current statement issued by the now underground members of the hacker team LulzSec, who took down the SOCA and CIA websites, amongst others, as part of a concerted hack targeted at government and corporate websites, is the first overt declaration of intent as the hacking arms race intensifies. The declaration for an immediate and unremitting challenge to governments and security companies, working in conjunction with Anonymous in an operation called Operation Anti-Security, was aimed at continuing the work of Wikileaks to steal and publish government secrets.

The threat from state-sponsored hackers has been well understood since the Aurora attacks against Google and 35 other American businesses were revealed in January 2009. Since that time, NCC Group has become aware of concerted efforts to steal valuable data from the global oil and gas industry and of attacks on social media sites that do not co-operate with totalitarian regimes.

Most of these attacks can be best described as cyber-espionage, with the goal of obtaining information valuable to the military planners and corporate industrialists of the sponsoring nations.

NCC Group has also helped to protect major software vendors from attempts to gain backdoor entry to their critical products.

During this period of concerted attacks, the world also became aware of an extremely successful automated malware attack against Iran's nuclear development infrastructure. However, the success of Stuxnet demonstrates that effective cyber-espionage and sabotage does not always require guidance by a skilled human attacker and the Group expects more attacks of this type against corporations in the future.

Cloud

Defence against these threats should be a critical goal of global enterprise but in many ways this is both complicated and confused by the "Cloud". Organisations have been outsourcing for decades and virtualisation has been around since the nineties, cloud computing is more about terminology than it is about a real technological shift.

That said, many businesses are now adopting these technologies more fully. The adoption of Cloud computing presents new security challenges in terms of trusting third parties with sensitive information. Smaller businesses are leading the way deploying business critical systems in the Cloud largely due to

the cost and flexibility benefits that it provides. Larger organisations are using Cloud technology for non-core IT functions such as HR services preferring private clouds for their critical systems.

However, many businesses remain concerned about the security implications of outsourcing, the practicalities of managing their disaster recovery and business continuity plans and good corporate governance in the Cloud.

Recent attacks have exposed some significant weaknesses in Cloud infrastructure and with the potential of thousands of companies' data on just one cloud server, hackers have the opportunity to access multiple sets of information through just one attack. The Cloud is a veritable honeypot that is understandably attracting their attention.

The Cloud though is no different from any other IT environment. Despite its weaknesses, it also offers the opportunity to aggregate and automate cyber defence, shifting much of the burden of security from consumers and businesses to service providers that may be better equipped to meet advanced challenges.

Very worryingly though, most cloud providers do not consider security to be their responsibility. Therefore organisations must not be naïve about the strength of security measures carried out by their suppliers. At the moment it seems to be very much a case of "caveat emptor".

Mobile devices

Alongside the issues facing the Cloud, there are an equal number of new issues facing the security of tablets and smart phones which are increasingly being given access to corporate networks. Most of these technologies have been shown to be flawed, requiring significant improvements to stand up to technical scrutiny. It is still an open question as to whether this technology is mature enough for the corporate environment.

As the world focuses on corporate security, there is no single technology that provides all the answers. Rather a multi-layered security approach is required.

Effective security

Effective security needs to cover the network by ensuring only authorised users can access applications and data through such measures as passwords and encryption. It also needs to cover the protection offered by physical access points and procedures.

The cyber world is a hugely dynamic criminal arena. Cyber criminals employ social engineering techniques alongside technical ability, and seek to exploit the human errors that inevitably occur in every organisation. An increasingly complex criminal environment leads to increasingly complex compliance standards. If organisations are to be truly prudent in cyber security protection, information forensics needs to be a top priority.

Organisations and governments are starting to devote significant time and cost to developing robust IT security strategies. However, in the event that security is breached, an instant and effective response can be critical to the protection of the business and its reputation. Too few people know what to do in such instances and as attacks become more prevalent and advanced, this is going to become increasingly important.

Effective incident response is not only about finding out who or what, but should be about securing the IT environment. Providing both investigative services and litigation support, in the aftermath of a data breach, malware attack or payment fraud, forensics services are essential for determining the points at which systems were compromised, information stolen and in suggesting effective reactive measures.

Acquisition and integration

The Group has completed 13 acquisitions over the last five years. With the exception of iSEC Partners and Escrow Associates acquired last financial year, all of the businesses acquired are now fully integrated.

iSEC Partners and Escrow Associates will be the lead brands for the Group's Assurance and Escrow businesses in the US respectively.

iSEC Partners is an exceptionally good fit with the Group's NGS testing businesses, bringing with it complementary skills and an unparalleled reputation. Escrow Associates has quickly established a credible and instantly recognisable brand in the US Escrow market place which the Group has long coveted. The Board is delighted with the progress that has already been made in integrating both businesses.

As part of the US and Group integration strategy, the US support functions will be consolidated in San Francisco around the iSEC Partners business. To this end, the San Jose Escrow operation is relocating to offices in the city. Also a senior member of the UK finance team has relocated there to assume responsibility for all American back office operations and to ensure these businesses gain the benefits of scale from being part of the Group.

Escrow Associates will continue to operate from Atlanta. The Group plans to make this the base for covering the East Coast of the US, whilst benefiting from the scale of the Group and the American head office in San Francisco.

Separately in November 2010 SDLC moved into the Group's main offices in Manchester closing the office in Wilmslow. The offices in Dorking and Sutton were combined into a new facility in Leatherhead in April 2011.

Employees, recruitment and retention

Ever since the Group came to the market in 2004, employee recruitment and retention has been the most important objective of the Group. The Group has seen an ebb and flow as it endeavoured to get the balance and culture right. It now employs 681 people across the world and is supplemented by over 200 regular associates.

All of the staff are important and the management team endeavour to create a culture where employees feel valued and are developed and grown wherever possible. This approach is rewarded with great loyalty as currently over 20% of the total employee pool has been with the Group for five years or more.

Recently the Board recognised that it had not been good enough at retaining the skilled technical workforce. Following a comprehensive review and restructuring, NCC Group is more able to offer careers and development opportunities that actively encourage the team to stay. The current annual retention rate is now 92%.

Organisationally the business starts the new financial year with the strongest and most capable senior team, all of whom are focused on taking the Group to the next level of its international development.

Current trading and outlook

To be independent, unbiased and trusted in the market place today is essential, particularly in such a sensitive area as information security where integrity and credibility as well as technical capability are vital.

The Group has carefully transformed its scale and international reach during the last 18 months. Focused on risk mitigation and delivering client peace of mind, the complementary range of services has the width and depth to provide multinational clients with total solutions to their business issues. In growing markets, this approach will ensure the Group's strong growth rates are maintained.

NCC Group has a very strong market leading position in all of the markets in which it operates and is well positioned for sustainable growth in quickly developing markets. The development of its services and unparalleled reputation for the highest quality of service delivery has lifted the Group clear of its competitors.

The start to the year sees Group Escrow renewals at £17.0m, up from £15.2m in the year to 31 May 2011 and a verification order book of £2.1m, of which £0.4m relates to Escrow Europe and Escrow US.

The Assurance division's order books have improved to £17.8m (2010: £14m) and have £4.8m of monitoring renewals forecast for the coming financial year (2010: £4.3m).

The outlook for NCC Group remains very good and the Board remains confident in its ability to deliver further sustainable growth.

Consolidated income statement
For the year ended 31 May 2011

	Notes	2011 £000	2010(restated) £000
Revenue	2	70,995	47,575
Cost of sales		(45,389)	(26,015)
Gross profit		25,606	21,560
Administrative expenses before amortisation of intangible assets and exceptional items		(7,715)	(7,000)
Operating profit before amortisation and exceptional items		17,891	14,560
Amortisation of intangible assets		(3,275)	(1,557)
Exceptional items	3	(1,144)	319
Total administrative expenses		(12,134)	(8,238)
Operating profit	2	13,472	13,322
Financial income	6	8	6
Finance expense excluding unwinding of discount		(644)	(288)
Net financing costs excluding unwinding of discount		(636)	(282)
Unwinding of discount effect relating to contingent consideration on business combinations		(68)	(75)
Financial expenses	6	(712)	(363)
Net financing costs		(704)	(357)
Profit before taxation	4	12,768	12,965
Taxation	7	(3,441)	(3,692)
Profit for the year		9,327	9,273
Discontinued operations			
(Loss)/Profit for the period from discontinued operations		(1,098)	142
Profit for the year		8,229	9,415
Attributable to equity holders of the parent company		8,229	9,415
Earnings per share from continuing operations	10		
Basic earnings per share		27.5p	27.5p
Diluted earnings per share		26.7p	26.6p
Earnings per share from continuing and discontinued operations			
Basic earnings per share		24.3p	27.9p
Diluted earnings per share		23.5p	27.0p

Consolidated Statement of Comprehensive Income
for year ended 31 May 2011

	Note	2011	2010
		£000	£000
Profit for the year		8,229	9,415
Other comprehensive income			
Foreign exchange translation differences		<u>418</u>	<u>(630)</u>
Total comprehensive income for the period		8,647	8,785
Attributable to:			
Equity holders of the parent		<u>8,647</u>	<u>8,785</u>

The prior year has been restated to reflect the withdrawal from the general IT Consultancy market in October 2010 and as reflected as Discontinued operations in the Consolidated Income Statement.

Group balance sheet
at 31 May 2011

	Notes	2011 £000	2010 £000	2010 £000	£000
Non current assets					
Intangible assets	12	93,759		75,254	
Plant and equipment	13	2,755		2,050	
Deferred tax assets	16	1,150		867	
Total non-current assets		97,664		78,171	
Current assets					
Trade and other receivables	14	18,389		16,967	
Cash and cash equivalents		4,701		4,631	
Total current assets		23,090		21,598	
Total assets		120,754		99,769	
Equity					
Issued capital	22	341		337	
Share premium		22,830		21,707	
Retained earnings		33,230		28,963	
Currency translation reserve		(316)		(734)	
Total equity attributable to equity holders of the parent		56,085		50,273	
Non current liabilities					
Other financial liabilities	19	206		61	
Deferred tax liability	16	1,518		2,319	
Contingent consideration on acquisitions	19	4,536		6,484	
Interest bearing loans	19	25,182		-	
Total non current liabilities		31,442		8,864	
Current liabilities					
Interest bearing loans		-		16,505	
Trade and other payables	17	16,166		8,597	
Deferred revenue	18	15,023		12,886	
Current tax payable		2,038		2,644	
Total current liabilities		33,227		40,632	
Total liabilities		64,669		49,496	
Total liabilities and equity		120,754		99,769	

These financial statements were approved by the Board of Directors on 7 July 2011 and were signed on its behalf by:

Rob Cotton
Chief Executive
NCC Group plc
4627044

**Group cash flow statement
for the year ended 31 May 2011**

	Notes	2011	2010
		£000	£000
Cash inflow from operating activities			
Profit for the year		8,229	9,415
Adjustments for:			
Depreciation charge	13	1,190	1,182
Share based charges		408	796
Amortisation of intangible assets		3,275	1,557
Net financing costs		704	357
Profit on sale of plant and equipment		(18)	(32)
Income tax expense		3,014	3,750
Profit for the year before changes in working capital		16,802	17,025
(Increase)/Decrease in receivables		(373)	2,188
Increase/(Decrease) in payables		1,463	(401)
Cash generated from operating activities before interest and tax		17,892	18,812
Interest paid		(663)	(297)
Income taxes paid		(4,178)	(3,882)
Net cash generated from operating activities		13,051	14,633
Cash flows from investing activities			
Interest received		8	6
Acquisition of plant and equipment		(1,815)	(1,021)
Acquisition of intangible assets	12	(2,675)	(1,563)
Acquisition of business net of cash acquired	15	(14,432)	(13,387)
Net cash used in investing activities		(18,914)	(15,965)
Cash flows from financing activities			
Proceeds from the issue of ordinary share capital		1,127	78
Draw down of borrowings		9,099	7,551
Purchase of own shares		(856)	(1,108)
Payment of bank loans		-	-
Equity dividends paid		(3,855)	(3,284)
Net cash from financing activities		5,515	3,237
Net increase in cash and cash equivalents		(348)	1,905
Cash and cash equivalents at beginning of year		4,631	3,356
Effect of foreign currency		418	(630)
Cash and cash equivalents at end of year		4,701	4,631

Statements of changes of equity for the year ended 31 May 2011

Group

	Share capital £000	Share premium £000	Translation reserve £000	Retained earnings £000	Total £000
Balance at 1 June 2009	337	21,630	(104)	22,891	44,754
Profit for the period	-	-	-	9,415	9,415
Foreign currency translation differences	-	-	(630)	-	(630)
Total comprehensive income for the period	-	-	(630)	9,415	8,785
Transactions with owners recorded directly in equity					
Dividends to equity shareholders	-	-	-	(3,284)	(3,284)
Purchase of own shares	-	-	-	(1,108)	(1,108)
Share based payment transactions	-	-	-	796	796
Deferred tax on share based payments	-	-	-	253	253
Shares issued	-	77	-	-	77
Total contributions by and distributions to owners	-	77	-	(3,343)	(3,266)
Balance at 31 May 2010	337	21,707	(734)	28,963	50,273
	Share capital £000	Share premium £000	Translation reserve £000	Retained earnings £000	Total £000
Balance at 1 June 2010	337	21,707	(734)	28,963	50,273
Profit for the period	-	-	-	8,229	8,229
Foreign currency translation differences	-	-	418	-	418
Total comprehensive income for the period	-	-	418	8,229	8,647
Transactions with owners recorded directly in equity					
Dividends to equity shareholders	-	-	-	(3,855)	(3,855)
Purchase of own shares	-	-	-	(856)	(856)
Share based payment transactions	-	-	-	408	408
Deferred tax on share based payments	-	-	-	341	341
Shares issued	4	1,123	-	-	1,127
Total contributions by and distributions to owners	4	1,123	-	(3,962)	(2,835)
Balance at 31 May 2011	341	22,830	(316)	33,230	56,085

Notes

1 Accounting policies

Basis of preparation

NCC Group plc ("the Company") is a company incorporated in the UK.

The financial information set out above does not constitute the company's statutory accounts for the years ended 31 May 2011 or 2010 but is derived from those accounts.

Statutory accounts for 2010 have been delivered to the registrar of companies and those for 2011 will be delivered in due course. The auditor has reported on those accounts and their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group"). The parent company financial statements present information about the Company as a separate entity and not about its Group.

Both the parent and the Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRS"). On publishing the parent company financial statements here together with the Group financial statements, the Company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these approved financial statements.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Group interim financial statements.

IFRS 3 'Business Combinations' (revised 2008) and IAS 27 'Consolidated and Separate Financial Statements' (revised 2008). The adoption of these standards has not had a material effect on the financial statements of the Group except for on the treatment of business combinations.

The most significant changes to the Group's previous accounting policies for business combinations are as follows:

- Acquisition transaction costs which would previously have been included in the cost of a business combination are expensed to the income statement as they are incurred; and
- Any changes to the cost of an acquisition, including contingent consideration, resulting from events after the date of acquisition are recognised in the income statement. Previously such changes resulted in an adjustment to goodwill.

The revised standards have been applied prospectively to the 2010 acquisitions in note 15.

FRS 2 Group Cash-settled Share-based Payment Transactions. The amendments clarify the scope of IFRS 2, as well as the accounting for group cash-settled share-based payment transactions in the separate (or individual) financial statements of an entity receiving the goods or services when another group entity or shareholder has the obligation to settle the award.

Improvements to IFRS's, in April 2009 the International Accounting Standards Board issued its second omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. The adoption of these amendments, which are effective for accounting periods beginning on or after 1 January 2010, did not have any impact on the reporting of the financial position or performance of the Group.

Basis of consolidation

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

2 Segmental information

The Group is organised into two operating segments Group Escrow and Assurance Testing each of which is separately reported. Whilst revenue and profitability are monitored by individual business units within these operational segments it is only at the operating level that resource allocation decisions are made. Performance is measured based on segment profit which comprises segment operating profit excluding amortisation of intangible assets, share based payment charges and exceptional items. Interest and tax are not allocated to business segments and there are no intra segment sales.

	2011 £000	2010 (Restated) £000
Revenue by business segment		
Escrow UK	18,968	17,918
Escrow Europe	3,180	2,862
Escrow USA	2,707	2,180
Total Group Escrow	24,855	22,960
Assurance Delivery	39,111	18,282
Monitoring Performance	7,029	6,333
Total Assurance Testing	46,140	24,615
Total revenue	70,995	47,575
Operating profit by business segment		
Group Escrow	14,488	13,313
Assurance Testing	6,507	3,818
Segment operating profit	20,995	17,131
Head office costs	(3,104)	(2,571)
Operating profit before amortisation and exceptional items	17,891	14,560
Amortisation of intangible assets Group Escrow	(423)	(567)
Amortisation of intangible assets Assurance Testing	(2,852)	(990)
Operating profit before exceptional items	14,616	13,003
Exceptional items	(1,144)	319
Operating profit	13,472	13,322

There are no customer contracts which account for more than 10% of segment revenue.

Assets 2011 £000	Liabilities 2011 £000	Assets 2010 £000	Liabilities 2010 £000
------------------------	-----------------------------	------------------------	-----------------------------

Assets / (liabilities) by business segment

Group Escrow	13,242	(14,587)	13,739	(13,045)
Assurance Testing	16,338	(10,091)	16,063	(9,289)
Unallocated net assets	91,174	(39,991)	69,967	(27,162)
Total assets / (liabilities)	120,754	(64,669)	99,769	(49,496)

Unallocated net assets consist of goodwill arising on consolidation, cash, tax payable and other centrally held assets and liabilities.

2011	Depreciation £000	Capital expenditure £000	Total costs incurred to acquire segmental assets £000
Group Escrow	132	103	4,825
Assurance Testing	560	546	9,758
Unallocated	498	1,317	-
Total	1,190	1,966	14,583

2010	Depreciation £000	Capital expenditure £000	Total costs incurred to acquire segmental assets £000
Group Escrow	754	788	-
Assurance Testing	428	525	13,677
Total	1,182	1,313	13,677

The table below provides an analysis of the Group's revenue by geographical market where the customer is based.

	2011 £000	2010 (restated) £000
Revenue by geographical origin and destination		
UK	52,565	34,683
Rest of Europe	6,018	5,909
Rest of the World	12,412	6,983
Total revenue	70,995	47,575

The table below provides an analysis of the Group's assets / (liabilities) by geographical market where the assets / (liabilities) are based.

	Assets 2011 £000	Liabilities 2011 £000	Assets 2010 £000	Liabilities 2010 £000
Assets / (liabilities) by geographical segment				
UK	86,508	(40,306)	89,522	(45,464)
Rest of Europe	5,615	(2,722)	5,379	(2,484)
Rest of the World	28,631	(21,641)	4,868	(1,548)
Total assets / (liabilities)	120,754	(64,669)	99,769	(49,496)

3 Exceptional Items

The Group identifies separately items as "exceptional". These are items which in the management's judgement, need to be disclosed by virtue of their size or incidence in order for the user to obtain a proper understanding of the financial information.

£'000	2011	2010 (restated)
Exceptional items and acquisition related costs		
Acquisition related costs	(1,144)	-
Exceptional items	-	319
Total	(1,144)	319

Exceptional cost in the year ended 31 May 2011 were £1,144,000 principally consisting of professional fees incurred in relation to the acquisition of iSEC Partners Inc in October 2010 and Escrow Associates LLC in March 2011.

Exceptional items in the year ended 31 May 2010 were £319,000, this consisted of a foreign currency gain on revaluation of a loan which has been repaid of £571,000 and a charge of £252,000 in relation to the exit costs associated with property leases.

4 Expenses and auditors' remuneration

	2011 £000	2010 £000
Profit before taxation is stated after charging/(crediting):		
<i>Amounts receivable by auditors and their associates in respect of:</i>		
Audit of these financial statements	36	33
Audit of financial statements of subsidiaries pursuant to legislation	46	40
Services relating to corporate finance transactions entered into or proposed to be entered into by or on behalf of the Company or Group	-	-
Depreciation and other amounts written off tangible and intangible fixed assets:		
Owned	1,190	1,182
Amortisation of intangible assets	3,275	1,557
Exchange losses / (profits)	17	(43)
Operating lease rentals charged:		
Hire of property, plant and equipment	1,304	936
Other operating leases	665	560
Profit on disposal of fixed assets	(18)	(32)

5 Staff numbers and costs

Directors' emoluments are disclosed in the directors' remuneration report on pages 30 to 35.

Group

The average number of persons employed by the Group during the year, including Directors is analysed by category as follows:

	Number of employees	
	2011	2010
Operational	140	114
Administration, sales and marketing	389	316
	529	430

The aggregate payroll costs of these persons were as follows:

2011	2010
------	------

	£000	£000
Wages and salaries	27,676	23,070
Share based payments (note 21)	408	796
Social security costs	2,900	2,691
Other pension costs (note 25)	568	478
	31,552	27,035

6 Net financing costs

	2011 £000	2010 £000
Financial income		
Interest on short term deposits	8	6
	8	6
Financial expenses		
Interest payable on bank loans and overdrafts	(629)	(281)
Interest capitalised within the construction intangible assets	64	18
Amortisation of deal fees on term loans	(79)	(25)
Contingent consideration finance expense (see below)	(68)	(75)
	(712)	(363)

Interest has been capitalised at the rate applying to the specific funds borrowed in respect of capital projects. Where specific funds are not borrowed to finance capital projects, a capitalisation rate, based on a weighted average of borrowings outstanding during the period, is applied to the expenditure on the asset. The rate applied during the current financial year is 2.2% (2010: 2.2%)

The contingent consideration finance expense of £68,000 (2010: £75,000) relates to the acquisition of SDLC Solutions Limited, NGS Meridian Limited, iSEC Partners Inc and Escrow Associates LLC.

Contingent consideration related to the acquisition of subsidiary undertakings has been discounted to present values. The unwinding of the discount on contingent consideration has been treated as a finance expense and is analysed in the table below:

Contingent consideration finance expense	2011 £000	2010 £000
Next Generation Security Software Limited	-	42
SDLC	(9)	9
Meridian	(24)	24
iSEC Partners Inc	97	-
Escrow Associates LLC	4	-
	68	75

The discount rate used was 3% (2010: 4%).

The total net present value of the contingent consideration as at 31 May is shown in the following table:

Non current liabilities – contingent consideration (note 19)	2011 £000	2010 £000
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NGS Meridian Limited	-	1,076
SDLC Solutions Limited	1,000	5,408
iSEC Partners Inc	3,536	-
	4,536	6,484

Current liabilities includes £5,840,000 (2010 £nil) contingent consideration payable in relation to the acquisition of iSEC Partners Inc and Escrow Associates LLC (note 17).

7 Taxation

Recognised in the income statement

	2011	2010
	£000	£000
<i>Current tax expense</i>		
Current year	3,724	3,980
Adjustment to tax expense in respect of prior periods	(188)	(39)
Foreign tax	648	(15)
Total current tax	4,184	3,926
Deferred tax (note 16)	(743)	(234)
Tax in income statement	3,441	3,692

Reconciliation of effective tax rate

	2011	2010
	£000	£000
Profit before taxation	12,768	12,965
Current tax using the UK corporation tax rate of 27% (2010: 28%)	3,546	3,628
Effects of:		
Items not (taxable)/ deductible for tax purposes	371	113
Adjustment to tax charge in respect of prior periods	(420)	(49)
Effect of rate change	(56)	-
Total current tax	3,441	3,692

Deferred tax recognised directly in equity was £341,000 (2010: £253,000).

8 Dividends

	2011	2010
	£000	£000
Dividends paid and recognised in the year	3,855	3,284
Dividends proposed but not recognised in the year	3,015	2,443
Dividends per share paid and recognised in the year	11.4p	9.75p
Dividends per share proposed but not recognised in the year	8.85p	7.25p

9 Discontinued operations

In October 2010 the Group withdrew from the General IT Consultancy market in order to focus on growing the Group Escrow and Assurance divisions, organically and by acquisition. Relevant information security services will be retained and operated from other appropriate parts of the Assurance division.

The division was not classified as held for sale or a discontinued operation at 31 May 2010 and the comparative consolidated income statement has been re-presented to show the discontinued operation separately from continuing operations.

Expenses in the year ended 31 May 2011 include a charge of £950,000 in respect of the withdrawal from the advisory business.

£'000	2011 £000	2010 (restated) £000
Results of discontinued operation		
Revenue	1,719	6,141
Expenses	(3,244)	(5,941)
Results from operating activities	(1,525)	200
Income Tax	427	(58)
Profit/(Loss) for the period	(1,098)	142
Earnings per share from discontinued activities (pence)		
Basic earnings per share	(3.2)	0.4
Diluted earnings per share	(3.2)	0.4

10 Earnings per share

The calculation of earnings per share is based on the following:

	2011 £000	2010 £000
Profit for the year from continuing operations used for earnings per share	9,327	9,273
Exceptional items	1,144	(230)
Unwinding of discount	68	75
Adjusted profit from continuing operations used for adjusted earnings per share	<u>12,804</u>	<u>10,238</u>
	Number of shares 000s	Number of shares 000s
Basic weighted average number of shares in issue	33,922	33,686
Dilutive effect of share options	1,048	1,181
Diluted weighted average shares in issue	<u>34,970</u>	<u>34,867</u>

11 Profit attributable to members of the parent company

The profit for the year dealt with in the accounts of the parent company was £2,862,000 (2010: £3,289,000).

12 Intangible assets - Group

	Software £000	Customer contracts and relationships £000	Goodwill £000	Total £000
Cost				

At 1 June 2009	-	10,100	52,163	62,263
Additions	1,379	3,529	11,710	16,618
Reclassification from Plant and Equipment	184	-	-	184
At 31 May 2010	1,563	13,629	63,873	79,065
Additions	2,675	5,031	14,074	21,780
At 31 May 2011	4,238	18,660	77,947	100,845
Amortisation				
At 1 June 2009	-	2,254	-	2,254
Charge for year	9	1,548	-	1,557
At 31 May 2010	9	3,802	-	3,811
Charge for year	145	3,130	-	3,275
At 31 May 2011	154	6,932	-	7,086
Net book value				
At 31 May 2011	4,084	11,728	77,947	93,759
Net book value				
At 31 May 2010	1,554	9,827	63,873	75,254

The Group has made two acquisitions in the year, details of which are included in note 15. The Company has no intangible assets.

Goodwill considered significant in comparison to the Group's total carrying amount of such assets have been allocated to cash generating units for the purposes of impairment testing as follows:

	Goodwill	
	2011	2010
	£000	£000
Cash generating units		
Escrow	22,871	22,871
Escrow Europe	6,487	6,487
NCC Group Inc.	6,315	1,303
Escrow	35,673	30,661
Assurance Testing	4,530	4,530
Site Confidence Limited	6,396	6,396
NGS Secure Limited	11,074	11,844
SDLC Solutions Limited	8,953	10,442
iSEC Partners Inc	11,321	-
Assurance	42,274	33,212
Total	77,947	63,873

The cash generating units' recoverable amounts are based on value in use calculations using projections of the Group's future performance reflecting the Directors' best estimates of the cash flows.

Key assumptions for the value in use calculations are discount factors and growth rates. Growth rates are based on historical trends and risk adjusted discount factors of 10% (2010:

10%) have been applied to the projections. The discount rate has been based on management's calculation of the weighted average cost of capital using the capital asset pricing model to calculate the cost of equity. A range of alpha factors were used to reflect the risk of the cash generating units. The Directors do not believe that a reasonably possible change of assumptions would cause the recoverable amounts to fall below book value for any of the cash generating units.

As detailed in note 6, additions during the year ended 31 May 2011 include £64,000 of capitalised borrowing costs (2010: £18,000)

13 Plant and equipment – Group

	Computer equipment £000	Plant and equipment £000	Fixtures and fittings £000	Motor vehicles £000	Total £000
Cost					
At 1 June 2009	5,250	405	1,539	358	7,552
Additions	1,037	-	150	136	1,323
Acquisition of Group Companies	130	5	16	-	151
Reclassification of assets to intangibles	(184)	-	-	-	(184)
Disposals	(2)	-	-	(227)	(229)
At 31 May 2010	6,231	410	1,705	267	8,613
Additions	685	-	1,117	164	1,966
Acquisition of Group Companies	125	-	39	61	225
Disposals	-	-	-	(201)	(201)
At 31 May 2011	7,041	410	2,861	291	10,603
Depreciation					
At 1 June 2009	4,060	381	835	145	5,421
Charge for year	895	11	214	62	1,182
Acquisition of Group companies	90	3	10	-	103
Disposals	(1)	-	-	(142)	(143)
At 31 May 2010	5,044	395	1,059	65	6,563
Charge for year	896	7	234	53	1,190
Acquisition of Group Companies	64	-	38	61	163
Disposals	-	-	-	(68)	(68)
At 31 May 2011	6,004	402	1,331	111	7,848
Net book value					
At 31 May 2011	1,037	8	1,530	180	2,755
Net book value At 31 May 2010	1,187	15	646	202	2,050

The company has no plant and equipment.

14 Trade and other receivables

Group 2011	Group 2010	Company 2011	Company 2010
-----------------------	---------------	-------------------------	-----------------

	£000	£000	£000	£000
Trade receivables	12,753	12,297	-	-
Prepayments and accrued income	5,636	4,670	-	-
	18,389	16,967	-	-

15 Acquisitions

A. On 14 October 2010 the Group acquired 100% of the share capital of iSEC Partners Inc. for a maximum consideration of £15.3m, of which up to £6.3m has been withheld subject to the achievement of performance criteria specified in the purchase agreement. The fair value of the contingent consideration expected to be paid on 14 October 2010 was £6,025,000. The performance conditions are required to be satisfied by December 2012.

The acquisition had the following effect on the Group's assets and liabilities:

	Acquiree's book values £000	Fair value adjustments £000	Acquisition amounts £000
Acquiree's identifiable net assets at the acquisition date:			
Plant and equipment	60	-	60
Trade and other receivables	892	-	892
Cash	44	-	44
Creditors & accruals	(684)	-	(684)
Intangible assets purchased	-	3,456	3,456
Net identifiable assets	312	3,456	3,768
Goodwill on acquisition			11,321
Expected consideration to be paid			15,089
Less purchase consideration withheld			(6,025)
Net cash outflow			9,064
Cash acquired			(44)
Net cash outflow excluding cash acquired			9,020

Goodwill has arisen on the acquisition because the purchase price exceeds the fair value of the separately identifiable net assets, liabilities and contingent liabilities acquired. Goodwill represents synergies, business processes and the assembled value of the work force including industry specific knowledge and technical skills. The amount recognised as contingent consideration reflects the amount which is considered to be fair value and is based on profit growth forecasts and market multiples.

B. On 29 March 2011 the Group acquired 100% of the membership units of Escrow Associates LLC for a maximum consideration of £5.9m, of which up to £0.9m has been withheld subject to the achievement of performance criteria specified in the purchase agreement. The fair value of the contingent consideration expected to be paid on 29 March 2011 was £830,000. The performance conditions are required to be satisfied by May 2012.

The acquisition had the following effect on the Group's assets and liabilities:

	Acquiree's book values £000	Fair value adjustments £000	Acquisition amounts £000
Acquiree's identifiable net assets at the acquisition			

date:

Purchased Goodwill	939	-	939
Plant and equipment	2	-	2
Trade and other receivables	161	-	161
Cash	107	-	107
Creditors & accruals	(1,209)	-	(1,209)
Intangible assets purchased	-	1,574	1,574
Net identifiable assets	-	1,574	1,574
Goodwill on acquisition			4,073
Expected consideration to be paid			5,647
Less purchase consideration withheld			(822)
Net cash outflow			4,825
Cash acquired			(107)
Net cash outflow excluding cash acquired			4,718

Goodwill has arisen on the acquisition because the purchase price exceeds the fair value of the separately identifiable net assets, liabilities and contingent liabilities acquired. Goodwill represents synergies, business processes and the assembled value of the work force including industry specific knowledge and technical skills. The amount recognised as contingent consideration reflects the amount which is considered to be fair value and is based on profit growth forecasts and market multiples.

C. During the period, £694,000 was paid in relation to the settlement of deferred consideration on the acquisition of NGS Meridian Limited and SDLC Solutions Limited.

D. It is not practical to disclose what the contribution to Group revenue and profits would have been had the acquisition of iSEC and Escrow Associates been completed on the first day of the current period, as consolidated financial information was not prepared on an IFRS basis prior to 31 October 2010 and 31 March 2011 respectively.

16 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2011 £000	2010 £000	2011 £000	2010 £000	2011 £000	2010 £000
Plant and equipment	335	280	-	(5)	335	275
Short term temporary differences	35	20	-	-	35	20
Intangible assets	231	-	(1,414)	(2,314)	(1,183)	(2,314)
Share based payments	549	567	-	-	549	567
Tax deductible goodwill	-	-	(104)	-	(104)	-
Deferred tax assets / (liabilities)	1,150	867	(1,518)	(2,319)	(368)	(1,452)

Movement in deferred tax during the year:

	1 June 2010 £000	Recognised in income £000	Recognised In equity £000	31 May 2011 £000
Plant and equipment	275	60	-	335
Short term temporary differences	20	15	-	35
Intangible assets	(2,314)	1,131	-	(1,183)
Share based payments	567	(359)	341	549

Tax deductible goodwill	-	(104)	-	(104)
	(1,452)	743	341	(368)

Movement in deferred tax during the prior year:

	1 June 2009 £000	Recognised in income £000	Recognised In equity £000	Arising on acquisition £000	31 May 2010 £000
Plant and equipment	234	41	-	-	275
Short term temporary differences	26	(6)	-	-	20
Intangible assets	(1,576)	399	-	(1,137)	(2,314)
Share based payments	515	(200)	252	-	567
	(801)	234	252	(1,137)	(1,452)

The Company has deferred tax assets related to share based payments of £168,000 (2010: £130,000).

17 Trade and other payables

	Group 2011 £000	Group 2010 £000	Company 2011 £000	Company 2010 £000
Trade payables	2,305	2,221	-	-
Amounts owed to Group undertakings	-	-	6,188	4,869
Contingent consideration on acquisitions	5,840	-	-	-
Non trade payables	2,949	2,520	1	-
Accruals	5,072	3,856	198	1
	16,166	8,597	6,387	4,870

18 Deferred revenue

	Group 2011 £000	Group 2010 £000	Company 2011 £000	Company 2010 £000
Deferred revenue	15,023	12,886	-	-
	15,023	12,886	-	-

Deferred revenue of £11,358,000 (2010: £10,417,000) mainly consists of Escrow agreement revenue that has been deferred to be released to the income statement over the contract term in accordance with the group's accounting policy.

Deferred revenue of £3,665,000 (2010: £2,469,000) consists of website monitoring and load testing agreement revenue that has been deferred to be released to the income statement over the contract term in accordance with the group's accounting policy.

19 Non-current liabilities

	Group 2011 £000	Group 2010 £000	Company 2011 £000	Company 2010 £000
Secured bank loan	25,367	-	-	-
Issue costs	(265)	-	-	-
Amortisation of issue costs	80	-	-	-

Interest bearing loans	25,182	-	-	-
Deferred tax (note 16)	1,518	2,319	-	-
Contingent consideration on acquisitions (note 6)	4,536	6,484	-	-
Other financial liabilities	206	61	-	-
Total non current liabilities	31,442	8,864	-	-

Other financial liabilities of £206,000 relates to the balance of a rent free period (2010: £61,000) which is released to the income statement over the term of the lease.

20 Called up share capital

	Number of shares	2011 £000	2010 £000
Authorised			
Ordinary shares of 1p each	50,000,000	500	500
		500	500
Allotted, called up and fully paid			
Ordinary shares of 1p each at the beginning of the year	33,697,327	337	337
Ordinary shares of 1p each issued in the year	367,925	4	-
Ordinary shares of 1p each at the end of the year	34,065,252	341	337

During the year shares were issued in relation to the exercise of employee share options for a total consideration of £1,127,000 settled in cash.

21 Other financial commitments and contingent liabilities

a) Capital commitments at the end of the financial year, for which no provision has been made, are as follows:

	2011 £000	2010 £000
Contracted	197	225

b) Non-cancellable operating lease rentals are payable as follows:

	2011		2010	
	Land and Buildings £000	Other £000	Land and Buildings £000	Other £000
Within 1 year	201	125	80	88
In second to fifth year inclusive	1,322	215	821	278
	1,523	340	901	366

There are no contingent liabilities not provided for at the end of the financial year.