NCC Group plc
Annual Report and Accounts
for the year ended 31 May 2007
Registered number: 4627044

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Highlights

Financial Highlights

- Group revenue up by 22% to £25 4m (2006 £20 7m)
    - Escrow Solutions revenue up by 22% to £15 0m
    - Assurance Testing revenue up by 53% to £5 8m
    - Consultancy revenue down by 2% to £4 6m

- Group adjusted operating profits* up by 22% to £8 2m (2006 £6 7m)
    - Escrow Solutions operating profits up by 21% to £8 0m
    - Assurance Testing operating profits up by 25% to £0 7m
    - Consultancy operating profits up by 16% to £0 7m

- Group adjusted operating margins* at 32% (2006 32%)
- Group adjusted pre tax profits** up by 23% to £8 1m (2006 £6 6m)
- Adjusted fully diluted earnings per share** up 23% to 16 8p (2006 13 7p)
- Final dividend proposed of 3 25p giving a total dividend of 4 75p, up 36% from last year
- Net cash positive at £0 9m following acquisitions (2006 £1 3m)

Operational Highlights

- Two acquisitions completed in the year,
    - Source Harbor, a US based Escrow Solutions provider acquired on 7 July 2006 for up to £0 9m
    - Site Confidence Limited a UK based web site monitoring and load testing business acquired on 23 January 2007 for up to £9 1m

* Adjusted for amortisation of acquired intangibles of £230,000 ** Adjusted for amortisation of acquired intangibles and the unwinding of the discount of the Site Confidence deferred consideration of £102,000 The Directors believe the adjusted measures better reflect the ongoing performance of the business

Group profile

NCC Group is a leading global provider of independent IT assurance, security and consultancy services As a trusted advisor, we help over 15,000 public, private and not for profit sector organisations, including 92 of the FTSE 100, to make the most efficient use of information and technology and to manage the associated risks

With no ties or relationships to hardware or software providers, the advice we offer is always unbiased and impartial We focus on developing intelligent solutions to real business issues and building lasting partnerships through our comprehensive portfolio of IT assurance, security and consultancy services

Based in Manchester, UK with offices throughout the UK, in Germany and the USA, NCC Group serves the needs of a wide variety of clients worldwide We are listed on the London Stock Exchange

Our business operates through three complementary divisions which enable us to assure, secure and advise our clients

Escrow Solutions:

- Ensuring business-critical material or source code is protected and accessible should anything happen to a key supplier and enabling stronger supplier relationships
- Confirming the material held is properly protected by verifying it can be rebuilt from its components

Assurance Testing:

- Testing and monitoring relevant aspects of system, network and web site performance, including new technologies, to ensure the technology used is effective, robust and can deliver optimum performance
- Ethical security testing of networks and applications and security policies in practice to ensure organisations are safe from the constantly evolving threat of unauthorised access

Consultancy

- Providing advice at all levels to help organisations improve their performance through the effective use of information, technology and business processes
- Protecting organisations against a variety of risks through the development and implementation of effective plans and compliance with relevant standards and guidelines

Chairman's report

Overview

We are delighted to report that NCC Group has delivered another set of excellent results in our third and final year as an Aim listed company The year produced record performances in a number of areas and saw us complete two acquisitions, further strengthening the Group's capability in both Escrow Solutions and Assurance Testing

Group revenues for the year grew by 22% to £25 4m (2006 £20 7m) with Group operating profits increasing by 20% to £8 0m (2006 £6 6m) As a Group, we continue to generate strong margins, with our operating margin before amortisation holding firm at 32% (2006 32%) Excluding our investment in Germany our margin would have improved to over 34%

Adjusted pre-tax profits were up 23% to £8 1m (2006 £6 6m) and adjusted earnings per share increased 23% to 16 8p (2006 13 7p) The Group continued to be highly cash generative and was £0 9m net cash positive at the year end, despite meeting the cost of acquisitions out of cash resources Operating cash conversion represented 98% of operating profits

The acquisition of Site Confidence, a Performance and Load Testing company, in January 2007, was a very positive move for the Group Not only does it complement our Assurance Testing offerings, it also allows us to further develop our south of England presence

Following the acquisition of Site Confidence, the Group is now structured along three business lines They are, Escrow Solutions encompassing our Escrow businesses in the UK, Germany, United States and now including Verification Testing, Assurance Testing encompassing Performance and Load Testing, including Site Confidence and the Ethical Security Testing business and Consultancy

In the UK, our Escrow Solutions business continues to perform strongly and contract terminations have consistently remained below 10%, beneath our planning assumption of 11% The termination rate for beneficiaries was 11% which again is better than our expectation and reflects our flexibility and commitment to customer care in ensuring this level of renewal

Escrow Verification Testing is now reported within Escrow Solutions as this better represents the way that the business area is managed We have had considerable success developing testers from their entry level into NCC Group through to Ethical Security testers, as a result of allowing them to be managed as a single team In the year we have seen a revenue growth of 25% to £2 4m (£1 9m)

During the year we curtailed our investment in our German Escrow Solutions business and cut costs We anticipate that the business will now run at break even We still ultimately believe that Continental Europe represents a real opportunity for the Group's Escrow Solutions ambitions However, the level of growth achieved so far, against the costs incurred in delivering that growth, has failed to make a compelling case for further investment at this time

In Assurance Testing, the Ethical Security Testing business saw an increase of 40% in revenues to over £3 1m in the year and a 317% increase in profitability despite our sizeable investment in the management structure Site Confidence and the Performance and Load Testing offering produced over £2 7m of income, with Site Confidence producing a contribution of £0 1m in our first four months of ownership

Chairman's report (continued)

Consultancy delivered a solid year The business has emerged as a key provider in the Payment Card Industry (PCI) Data Security Standards area and has seen good growth in the information security consultancy as security moves rapidly up the corporate agenda Whilst this has helped reduce our reliance on local authority and central government, we have still seen success within the public sector, most notably in the housing sector As a consequence of good cost control and well managed utilisation, we have seen profit improve by 16% to £0 7m (2006 £0 6m)

People
NCC Group remains committed to its employees and these results are a credit to their hard work and dedication As an organisation we can only be as good as the people who work for us, as it is their skills, knowledge and commitment to delivering the highest quality services which have made the Group what it is today This year will see the maturity of our first EMI and share-save schemes as a public company and our teams are worthy recipients of the anticipated excellent returns

We believe that our approach to total employee remuneration and work-life balance is well judged and is essential to continue our high levels of staff retention We believe that our all round packages place us in the top quartile of remuneration in the locations from which we operate and it is our objective to continue this approach

During the year there were no changes to the Group's Board However, I would like to welcome Andy Hague and Bob Dowson as directors who join the Operational Board taking responsibility for our Ethical Security Testing and Performance and Load Testing activities respectively We will continue to recruit the best senior managers to continue to strengthen the management team to meet the Group's growth ambitions

Move to full listing
As we announced earlier this year the Board decided to transfer the Group's listing from Aim to the Official List, the main market in London A full listing should not only enhance our corporate identity and profile but also support our ambitious growth plans We will have completed this move on 13 July 2007

Corporate governance
NCC Group believes in the highest standards of corporate governance and investor relations We have always maintained that for a business such as ours, which acts as an independent trusted advisor to its clients, the highest standards of corporate governance and application of the most prudent accounting standards are essential

To that end, whilst we remain strong advocates of the Aim market as a vehicle for growth, we feel it is now appropriate to move to the Official List where compliance and adherence to the highest levels of corporate governance are better recognised

Prior to our move to the Official List, we have always taken every practical step to adhere to the revised Combined Code with which we comply fully Moving forward, we will continue to use FTSE 250 companies as our benchmark

Dividends
The Board is recommending a final dividend of 3 25p per share which makes a total of 4 75p for the year up 36% (2006 3 5p) If approved at the Annual General Meeting, the dividend will be paid on 28 September 2007 to shareholders on the register at 31 August 2007 The ex-dividend date will be 29 August 2007

Chairman's report (continued)

Outlook

We believe that we have the right operational structure and strong business culture in place to continue with our ambitious and exciting growth plans

The start to the year sees our total Group Escrow Solutions renewals at £10 5m, up from £9 4m this time last year and a verification order book of £1 3m The Assurance Testing businesses' order books have improved to £2 2m from £1 6m with £3 2m of monitoring renewals being forecast for 2007/08 The Consultancy business has £1 8m of orders up from £1 7m last year

We remain committed to the delivery of organic growth in both our existing businesses and newly acquired operations The outlook for NCC Group remains good and we remain very confident in our ability to deliver growth

Paul Mitchell
Non Executive Chairman
NCC Group plc
2 July 2007

Chief Executive's review

Overview

The year ended 31 May 2007 has been our strongest year yet as we produced another record performance overall Despite the strong result, the year was not always easy and we have overcome some tough market challenges as well as integrating two acquired businesses and completing the move to the Official List from Aim

Overall, the Group delivered a 22% growth in revenue as it increased to £25 4m, from £20 7m in 2006 This led to a 22% improvement in adjusted operating profits, which grew from £6 7m to £8 2m

The Group has modified its structure over the last 12 months to reflect the changes in businesses around the world over the last two years so that we now report in the same way as we manage our business Testing Solutions has been renamed Assurance Testing and Escrow Verification Testing has been moved into Escrow Solutions where its sales are managed day to day

During the financial year, we completed two acquisitions, the more significant being the acquisition of Site Confidence, a Dorking based Performance and Load Testing business, for up to £9 1m in January 2007 The Site Confidence business neatly complements our Ethical Security Testing business and our Performance and Load Testing business, formerly Specialist Testing

Site Confidence has a very strong presence in the web monitoring market and will provide a platform for further developments in both load testing and 24/7 monitoring products Of particular interest is the development of a 24/7 ethical security testing service

In July 2006 we successfully completed a second acquisition of a smaller Escrow Solutions provider to be operated out of our offices in San Jose, California, for a total consideration of up to $1 5m (£0 8m) The acquisition has grown both our customer base and our US Escrow Solutions renewals base

Current Markets

In the second half of the year, we have seen the returns from our targeted software owner campaigns and there has been an increase in software owners proactively offering NCC Group Escrow Solutions to their customers

We have been aided by the newsworthy and very public demise of some high profile software providers Enlightened software owners are now keen to disassociate themselves from the dubious segments of the software development and reseller market and are more aware than ever that a licensee will demand escrow protection

Our software owner schemes provide real added value as we actively market escrow for them and take away the administrative burden These schemes are paying positive returns to those who adopt them and we expect to see this trend continue

The launch and continuing enhancements of our on line portal, "Escrow Live" is making the process of account management and code depositing easier for all parties Within the next few months we anticipate that owners will be able to have licensees join their agreement online with the minimum of administration and involvement The introduction of immediate escrow protection schemes are further making the process of obtaining escrow protection quicker, easier and more accessible

Chief Executive's review (continued)

Our Escrow Solutions service continues to be a 'peace of mind' assurance proposition which provides real benefit in all economic climates We continue to encourage our clients to reach the correct level of protection and encouragingly, we are seeing a good increase in their levels of risk awareness

Ethical Security Testing yet again continues to see strong growth The criminal world has placed hacking at the top of its agenda and it is big business and with it, there is increased publicity, TK Maxx being a substantial recent example

Organised crime is committed to hacking as the returns from identity theft, banking and online frauds have continued to rise The proliferation of black market auction web sites continues as it has become even easier to buy and sell hacking tools, bank details and individuals' personal identities

The market research obtained from our security awareness campaign in January, which targeted finance directors of listed companies with USB memory sticks sent from an unidentified source, highlighted that individuals in senior positions still have a long way to go before information security is properly understood NCC Group is well placed to capitalise on the work that results from this lack of knowledge Our Ethical Security business combined with our Information Security Consultancy offerings put us in a strong position to capitalise on the market growth

The current day rate market is best described as "buoyantly competitive", with a lot of invitations to propose for work This position is much better than last year and we remain confident in our Consultancy offerings Over the last twelve months we have seen that our Consultancy work has fallen in to two main categories, Information and Technology advisory, including process improvement and procurement, and Information and Technology Security and Assurance

The security side of our Consultancy division complements our Ethical Security Testing propositions and we offer advice to organisations to make sure that they are best placed to protect themselves and their business assets from attack We provide security advice from every perspective, especially for those organisations that are covered by the PCI Data Security Standards

Our position in the information security market is further enhanced by our being accredited PCI Auditors, having CLAS consultants and one of the biggest CHECK Test teams in the UK

Business performance
We continue to manage the Group through three distinct business units Escrow Solutions, Assurance Testing and Consultancy Each is independent of the others and each is run by an autonomous management team

This year, we have included our Escrow Verification Testing revenues and profits in Escrow Solutions There remains no divisional focus on cross selling, although more and more we are seeing a tie up between the information security side of Consultancy and Ethical Security Testing This trend will continue throughout the coming year as PCI Data Security Standards are introduced and audited in businesses accepting debit or credit card payments

Each business unit remains responsible for setting and, after Board approval, delivering its own plans, with each area being tasked with generating organic growth

Chief Executive's review (continued)

Group Escrow Solutions

The Escrow Solutions business remains the cornerstone of the Group representing 59% of our revenue We have experienced good growth in all our key performance measures of profitability, new contracts and beneficiaries, renewals and for Verification Testing

Group Escrow Solutions profitability grew to £8 0m (2006 £6 6m), an increase of 21% on revenue of £15m, with the UK contributing £13 8m

Group escrow renewals, represented £9 4m (2006 £7 7m) in the year, benefiting from continued tight controls over the termination process Contract terminations were less than 10% in the year and below 11% for agreement beneficiaries

Worldwide the beneficiary base has now grown to 18,450 and the number of contracts is now at 9,138 In the UK we have 14,432 beneficiaries to 7,440 agreements In the UK we have 911 minimum annual fees on agreements

The rate of agreement completions, renewals and terminations have been such that we are forecasting Group escrow renewals to be £10 5m for 2007/08 with UK renewals forecast to be £9 5m

Escrow Verification Testing remains a predominantly UK sale, although we are seeing very good progress within the US market with customers beginning to understand the benefits of increased levels of protection The Escrow Verification Testing service delivered £2 4m of revenue (2006 £1 9m) We continue to see over 40% of verifications being repeated and have an order book of £1 3m

Assurance Testing

Assurance Testing consists of Ethical Security Testing and Performance and Load Testing Ethical Security Testing incorporates all of our security testing, of which Penetration Testing is just one part Performance and Load Testing includes our web site monitoring and load testing business based around Site Confidence, as well as the parts of the original Specialist Testing business, which is now mostly concerned with complementary Load Testing services

Assurance Testing profitability grew to £0 7m in 2007 (2006 £0 6m), an increase of 25%, with revenue growth of 53% to £5 8m As risk mitigation moves further up the corporate agenda, we anticipate significant growth in this area going forward

In adjusting the flow of information provided to the market, we have decided it is better to report Ethical Security Testing's revenue and revenue growth than the number of tests We offer much more than just basic penetration tests and it is now difficult to quantify what actually constitutes a test Revenue growth was 40% to £3 1m in 2007, compared to £2 2m in 2006

In May 2007 we were delighted to be selected as one of only three approved suppliers under the CESG, the information assurance arm of the UK Government Communications Headquarters, Tailored Assurance Service scheme The scheme covers all aspects of the assurance proposition including Ethical Security Testing and Information Security Consultancy We have an Assurance Testing Order book of over £2 2m without accounting for this contract

Performance and Load Testing offers an excellent opportunity to the Group Our movement away from the existing niche based offering was concluded with our acquisition of Site Confidence The online monitoring business offers a high level of recurring revenues, with 90% of our blue chip customers renewing their annual contracts

Chief Executive's review (continued)

Consultancy

Consultancy revenue fell by 2% to £4 6m as we continued to stabilise our position in the market Once again we had a stronger second half and as anticipated utilisation levels returned to the 75% mark

As a result of careful cost control and the appropriate use of flexible resources, we generated a profit of £0 5m in the second half of the year Operating profits grew by 16% to £0 7m (2006 £0 6m) for the year

Acquisitions

We will continue to invest in appropriate complementary business activities We are regularly involved in discussions with suitable target companies but remain cautious

Currently we are cautiously optimistic that we will acquire another earnings enhancing Assurance Testing Company, for a consideration not greater than £4m We have entered into a non-binding heads of terms agreement, with a view to undertaking due diligence and then, subject to the outcome, completing the transaction on or around the end of July 2007

Employees, recruitment and retention

Recruitment and retention remains the biggest challenge to growth for a people business such as ours As a Group we are committed to employing the best people in the market wherever possible We have a headcount of 259, with 84 escrow account managers (2006 67)

We have begun to recruit in the new southern office in Dorking, but have deliberately taken a careful approach to ensure that the business processes fully function and that the business is properly integrated into the Group first before stretching the onsite management team

We are making good progress and today have recruited a number of Ethical Security Testing staff, are constructing an Ethical Security Testing laboratory and expect to start extensive recruitment for escrow account managers during the next six months

The way forward

We continue to make a virtue of acting independently and operate as trusted, equitable advisors

To date we have successfully acquired and integrated three businesses that have complemented our service and delivery offerings Combining that with our outstanding track record of organic growth, we have a sound business model that we will continue to evolve and develop to grow the Group further

Rob Cotton
Chief Executive
NCC Group plc
2 July 2007

Financial review

Revenue analysis

Group revenues for the year end 31 May 2007 increased by 22% to £25 4m (2006 £20 7m) Supported by the acquisition of Site Confidence the Group's half year split was more weighted to the second half year than the first, with 45% of revenue delivered in the first half (2006 47%) compared to 55% in the second half (2006 53%)

Total Escrow Solutions accounted for 59% of Group revenue (2006 59%) following the inclusion of Escrow Verification Testing within the division's income stream Assurance Testing now accounts for 23% (2006 18%) with Consultancy the smallest division accounting for 18% of revenue (2006 22%)

With the continued growth in the US Escrow Solutions business and further penetration into continental Europe from the UK, the geographical split of revenue has continued to evolve However, the vast majority of the revenue is still contributed by the UK at £20 6m (2006 £17 7m), 81% (2006 85%) of total revenue Revenue from the rest of the world has increased 71% to £3 0m (2006 £1 8m) with Europe contributing £1 8m (2006 £1 3m)

Total Escrow Solutions revenue for the year increased by 22% to £15 0m (2006 £12 3m) driven by continued growth in the UK which increased its revenue by 16% to £11 4m (2006 £9 8m) The US increased its revenue by 177% to £1 0m (2006 £0 4m) following a full year of trading and the acquisition of Source Harbor Escrow Verification Testing contributed a 25% increase in revenue to £2 4m (2006 £1 9m) Escrow Solutions contract terminations remain below 10% with annual renewals increasing by 21% to £9 4m (2006 £7 7m)

Our Assurance Testing division delivered strong revenue growth of 53% to £5 8m (2006 £3 8m) The continued demand for Ethical Security Testing has seen its revenue increase by 40%, although our move away from Specialist Testing has seen a 29% (£0 5m) fall in revenues 2007 The Performance and Load Testing business of Site Confidence, which we acquired in January 2007, contributed £1 6m of revenue to our Assurance Testing business in a little over four months of our ownership

Consultancy revenues fell by 2% to £4 6m (2006 £4 7m) with, as expected, a slightly stronger second half of the year

Profitability

Adjusted Group operating profit, as set out in the table below, grew by 22% to £8 2m (2006 £6 7m) Adjusted operating margins remained at 32% (2006 32%) a significant increase from 29% at the time of the interim results The half year split of adjusted operating profit at 40 60 (2006 40 60) was in line with prior years

	Operating profit		Profit before tax	
	2007	2006	**2007**	2006
Reported operating profit/profit before tax	**7,952**	6,636	**7,785**	6,551
Amortisation of acquired intangibles	**230**	47	**230**	47
Unwind of the discount on Site Confidence deferred consideration	**-**	-	**102**	-
Adjusted operating profit/profit before tax	**8,182**	6,683	**8,117**	6,598

The operating profits as set out in the table increased by 20% to £7 9m (2006 £6 6m) are not adjusted for £0 6m (2006 £0 5m) of share based charges

Financial review (continued)

The UK performed strongly with an increase in adjusted operating profit growth of 22% to £8 4m (2006 £6 9m), the adjusted operating margins also increased to 35% up from 34% in 2006 The US performed in line with expectations following its first full year of trading with adjusted operating profit increasing by 39% to £0 3m (2006 £0 2m) Germany incurred losses of £0 5m as costs were incurred in the process of winding down the operation

Currency fluctuations were minimal with a £11,000 adverse impact on the Group's profits in the financial year ended 31 May 2007

Pre-tax profit
Adjusted pre-tax profit increased 23% to £8 1m (2006 £6 6m) The Group's reported pre-tax profit was up 19% to £7 8m (2006 £6 6m)

Taxation
The Group's effective tax rate is 31 0% (2006 30 4%) The rate is above the standard UK rate of 30% largely as a result of the amortisation of the intangible asset and the unwinding of the discount on the retention payment for Site Confidence Limited, both of which are not allowable for tax purposes

At the year end the Group had unutilised tax losses carried forward in Site Confidence The Board has been advised, with a high degree of certainty, that these tax losses will be utilised and £0 9m has been recognised (2006 £nil) as a deferred tax asset associated with these losses

Earnings per share
The adjusted fully diluted earnings per share increased 23% to 16 8p (2006 13 7p) The basic earnings per share increased 18% to 16 5p (2006 14 0p), whilst fully diluted earnings per share increased 17% to 15 9p (2006 13 6p) Growth in earnings per share is marginally different from the growth in earnings due to the fact that the weighted average number of dilutive share options has increased

The table below analyses the effect on Group's fully diluted earnings per share of the amortisation of acquired intangibles and unwind of the deferred consideration on Site Confidence Limited

	2007 Pence	2006 Pence
Diluted EPS as per the income statement	**15.9**	13 6
Amortisation of acquired intangibles	**0 6**	0 1
Unwind of the discount on Site Confidence deferred consideration	**0.3**	-
Adjusted diluted EPS	**16.8**	13 7

Dividends
In line with the continuing progressive dividend policy the Board is recommending a final dividend of 3 25p per ordinary share, making the total 4 75p for the year This represents cover of 3 5 times (2006 4 0 times) based on basic earnings

Shareholders funds at the end of the year were £33 4m (2006 £28 2m)

Cash
The Group continues to be highly cash generative with operating cash flow before interest and tax of £7 8m (2006 £7 3m) which is 98% of operating profit before interest and tax (2006 109%) A strong finish to the year has seen debtor days increased to 61 (2006 51)

Financial review (continued)

After accounting for net cash out flows of £3 3m for the two acquisitions made during this year the Group ended the year with net cash of £0 9m (2006 £1 3m)

Capital expenditure was reduced at £0 7m (2006 £0 8m) but it is likely to increase marginally in the coming financial year as the Group upgrades its core IT systems and develops unutilised space in its existing facilities to accommodate future growth

Balance sheet

Following the acquisitions of Source Harbor and Site Confidence goodwill increased by £7 1m and intangible assets relating to customer contracts and associated relationships increased by £2 0m The value of goodwill has been assessed and no impairment has been evidenced The contracts and customer relationships have been assigned a useful economic life of between five and twenty years and are to be amortised over that period

Paul Edwards
Finance Director
NCC Group plc
2 July 2007

Directors and senior management

The Board comprises

Paul Mitchell – Non Executive Chairman
Paul Mitchell was appointed Non Executive Chairman of NCC Group in 1999 He is Managing Director of Rickitt Mitchell & Partners Limited, a corporate financial advisory firm based in Manchester and is also a non executive director of Styles & Wood Group plc and Hollins Murray Group Limited, a property investment company He is a qualified chartered accountant

Rob Cotton – Chief Executive
Rob Cotton has been Chief Executive since 2003, joining the Group as Finance Director in 2000 He steered the Group through its management buy-out in April 2003 and its admission to Aim in July 2004 As well as delivering consistent organic growth in revenue and profits, he has instigated and overseen a series of strategic expansion plans including the acquisition of complementary businesses worldwide

A qualified chartered accountant, he previously held a number of director and senior management positions in industry

Paul Edwards – Finance Director
Paul Edwards joined NCC Group in 2000 as Group Financial Controller and was appointed Finance Director in April 2003, playing a key role in the Company's flotation on Aim in July 2004

He previously worked as a divisional finance manager for TDG plc and as Financial Controller for the Caudwell Group and for Cannon Viking Limited He is a qualified chartered management accountant and has an MBA from Manchester Business School

James Wallace – Senior Non Executive Director
James Wallace joined NCC Group in June 2004 as a non executive director He is a qualified chartered accountant and is Chairman of Bodycote International plc, a trustee of The Lowry Centre Trust and a non executive director of Holidaybreak plc and The Sanctuary Group plc

Eurfyl ap Gwilym – Non Executive Director
Eurfyl ap Gwilym joined NCC Group in June 2004 as a non executive director He has worked at board level for many years in an executive capacity and is a non executive director of iSOFT Group plc, Pure Wafer plc and the Principality Building Society

Senior management

The senior management team detailed below is responsible for the operation of the Group's three divisions The key members of the senior management include

Felicity Brandwood – Group Company Secretary and Operational Director, Escrow Solutions
Felicity Brandwood, a qualified solicitor, was appointed a director of Escrow Solutions in 2006 alongside her role as Group Company Secretary, having joined the Group in 1984 Along with day-to-day responsibility for the operational management of the Group's Escrow Solutions division, she is responsible for the overall operation of the US office and implementation of the Group's US expansion plans

Directors and senior management (continued)

Jon Leigh – Director of Escrow Solutions
Jon Leigh has been Director of Escrow Solutions since 2003 He is responsible for both the product development and sales strategies of the Group's Escrow Solutions division and the overall operation of the German office With a background in testing, he has worked for NCC Group for over 15 years and previously held a variety of management roles

Craig Motta – General Manager, Escrow Solutions US
Craig Motta joined NCC Group as General Manager of Escrow Solutions in the US in 2006 following the acquisition of the Escrow business of Recall Total Information Management and is responsible for the day to day management of the US business He previously held several management positions within Recall, including Sales Director of Recall's North American Document Management Business

Andy Hague – Operational Director, Ethical Security Testing
Andy Hague joined NCC Group in 2006 as a Director of Assurance Testing and is responsible for the operational management and development of the Group's security testing business He was previously Managing Director at technology company XAL Group and has more than ten years technology and senior management experience

Jane Pink – Director of Specialist and Verification Testing
Jane Pink was appointed Director of special projects in 2003 having worked for NCC Group for over 20 years in a variety of senior testing roles

Bob Dowson – Operational Director, Monitoring and Performance Testing
Bob Dowson joined Site Confidence in 2002 form Forrester Research, where he was Commercial Director responsible for account management in Europe He started his career as a strategy consultant with McKinsey & Company He left McKinsey to help set up an internet research company, Fletcher Research Limited, in 1998 As Commercial Director, he was responsible for sales, marketing and business development, and guiding the company to a successful trade sale to Forrester Research in 1999

Roger Rawlinson – Operational Director, Consultancy
Roger Rawlinson is responsible for the operational management of Group's consultancy business and the scheduling and resource management of the Group's day rate businesses He has worked for NCC Group for over ten years in a variety of testing and consultancy roles and was appointed a Director of Consultancy in 2004

John Redeyoff – Business Development Director, Consultancy
John Redeyoff joined NCC Group in 2003 as Director of the Consultancy division He is responsible for developing the Group's Consultancy business, increasing penetration into both existing and new markets, managing key client relationships and identifying new opportunities

Directors' report

The directors present their annual report and financial statements for the year ended 31 May 2007

Principal activity and review of the business
The principal activity of the Group is the independent provision of IT assurance through Escrow Solutions, Assurance Testing and Consultancy to both the public and private sectors The level of business and the year end financial position were satisfactory and the directors expect the Group to continue its growth for the foreseeable future

The Chairman's report on pages 5 to 7 as well as the Chief Executive's review on pages 8 to 11 report on the Group's development during the year to 31 May 2007, its position at that date and the Group's likely future development

The financial results of the Group are shown in the income statement on page 38

Dividends
The directors propose a final dividend of 3 25p per ordinary share which, together with the interim dividend of 1 5p per ordinary share paid on 2 March 2007, makes a total dividend of 4 75p for the year The final dividend has not been accrued for in these financial statements The final dividend will, if approved by shareholders at the Annual General Meeting (AGM), be paid on 28 September 2007 to shareholders on the register at the close of business on 31 August 2007

Share capital
Details of the movements of the authorised and called up share capital of the Company are set out in note 20 to the financial statements

Directors and their interests
Details of the Company's current directors are set out on pages 15 to 16 Directors' interests in shares and share options in the company are detailed in the Directors' remuneration report set out on pages 26 to 31

The directors who held office during the year were as follows
Paul Mitchell - Non Executive Chairman
Rob Cotton - Chief Executive
Paul Edwards - Finance Director
James Wallace – Senior Non Executive Director
Eurfyl ap Gwilym – Non Executive Director

Directors' report (continued)

Principal shareholders

The following have notified the Company as being interested in 3% or more of the Company's issued ordinary share capital as at 31 May 2007

	Ordinary shares of 1p	% of issued share capital
AXA Framlington Investment Management	5,434,566	16 7%
Standard Life Investment Management	3,492,762	10 7%
Morgan Stanley Securities	3,343,784	10 3%
Rob Cotton	1,879,003	5 8%
Legal & General Investment Management	1,857,404	5 7%
Montanaro Investment Managers	1,335,000	4 1%
Hansa Capital Limited	1,250,000	3 8%
Henderson Global Investors	1,150,000	3 5%
Invesco Asset Management	1,107,807	3 4%
Baillie Gifford & Co	1,085,000	3 3%
Unicorn Asset Management	981,618	3 0%

Corporate social responsibility

The corporate social responsibility section on pages 33 to 34 provides an update on the Group's policies and activities in respect of its wider stakeholders - employees, clients, suppliers and the community – and environmental, ethical and health and safety issues

Principal risks and uncertainties

The principal financial risks and uncertainties the Group faces are described in note 18 to the annual report and accounts

The Group faces operational risks and uncertainties which the directors take all reasonable steps possible to mitigate however the directors recognise that they can never be eliminated completely

The principal operational risks and uncertainties the Group faces include those in relation to the recruitment of additional staff to meet the Group's ambitious growth plans, the entry of a significant competitor to threaten the Group's dominance in its domestic Escrow Solutions market, the occurrence of unforeseen difficulties in the integration of future acquisitions the Group may enter into and the dependence on key executives and senior managers

Risk and uncertainties outside the Group's control include those relating to the implementation of changes in government policy for the procurement of IT Services and alterations to the legislative and taxation framework in which the Group operates

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 they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information

Auditors

KPMG Audit plc has expressed its willingness to continue in office Therefore Accordingly, in accordance with Section 384 of the Companies Act 1985, a resolution to reappoint KPMG Audit plc as the Group's auditor and authorising the directors to fix the remuneration of the auditor will be put to the forthcoming Annual General Meeting

Directors' report (continued)

Annual General Meeting

The notice of the Company's Annual General Meeting to be held at the Manchester Technology Centre is sent to shareholders with this annual report along with details of the business to be proposed at and explanatory notes

By order of the Board

Rob Cotton
Chief Executive
NCC Group plc
2 July 2007

Corporate governance

NCC Group is committed and is accountable to shareholders for high standards of corporate governance In respect of the year ending 31 May 2007, NCC Group has been in full compliance with the provisions of section 1 of the 2003 (Revised) Combined Code on Corporate Governance

This statement describes how principles of corporate governance are applied to the Group

The Board

The Board comprises two executive and three non executive directors whose Board and Committee responsibilities are set out in the table below

		Board	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**
Paul Mitchell	Non Executive Chairman	Chairman		Member	Chairman
Rob Cotton	Chief Executive	Member			
Paul Edwards	Finance Director	Member			
James Wallace	Senior Non Executive Director	Member	Chairman	Member	Member
Eurfyl ap Gwilym	Non Executive Director	Member	Member	Chairman	Member

The Non Executive Chairman, Paul Mitchell, is responsible for the running of the Board Executive responsibility for the running of the Group's business rests with the two executive directors, Rob Cotton and Paul Edwards, who are supported in this by the operating boards of NCC Group UK

The Board normally meets on a monthly basis During the year, the Board met on twelve scheduled occasions and further meetings and conference calls were held as and when necessary In addition, a one day strategy meeting took place

The attendance of individual directors at the scheduled Board meetings is shown in the table below

		Board meetings attended
Paul Mitchell	Non Executive Chairman	12/12
Rob Cotton	Chief Executive	12/12
Paul Edwards	Finance Director	10/12
James Wallace	Senior Non Executive Director	12/12
Eurfyl ap Gwilym	Non Executive Director	12/12

Corporate governance (continued)

After careful review, the Board has again concluded that James Wallace and Eurfyl ap Gwilym were independent throughout the year In coming to this assessment the Board considered the character of the individuals concerned and the fact that none of them

- has ever been an employee of the Group,
- has ever had a material business relationship with the Group,
- receives any remuneration other than their fees,
- has close family ties with advisors, other directors or senior management of the Group that could reasonably be expected to cause a conflict,
- has significant links with other directors through involvement with other companies,
- represents a significant shareholder, or
- has served on the NCC Group Board for more than nine years

The Board is responsible to shareholders for the proper management of the Group and for its system of corporate governance It receives information on (at least) a monthly basis to enable it to review trading performance, forecasts and strategy and it has a schedule of matters specifically reserved for its decision The most significant of these are

- changes to the structure, size and composition of the Board,
- consideration of the independence of non executive directors,
- review of management structure and senior management responsibilities,
- with the assistance of the Remuneration Committee, approval of remuneration policies across the Group,
- approval of strategic plans, profit plans and budgets and any material changes to them,
- oversight of the Group's operations ensuring competent and prudent management, sound planning, an adequate system of internal control and adequate accounting and other records,
- final approval of annual accounts and accounting policies,
- approval of the dividend policy,
- approval of the acquisition or disposal of subsidiaries and major investments and capital projects,
- delegation of the Board's powers and authorities, including the division of responsibilities between the Chairman, the Chief Executive and other executive directors, and
- receiving reports on the views of the Company's shareholders

Operational management of the Group is delegated to the operating Board of NCC Group and NCC Group Inc

Procedures exist to allow the directors to seek independent legal and professional advice in respect of their duties at the Company's expense where the circumstances are appropriate All directors have access to the Company Secretary for advice

All directors are required to submit themselves for re-election at regular intervals and at least every three years

The following formally constituted committees deal with specific aspects of the Group's affairs in accordance with their written terms of reference, which are reviewed annually

Corporate governance (continued)

Audit Committee

The Audit Committee, which is chaired by James Wallace (who has recent, relevant experience as a former Finance Director and is currently Chairman of other plc audit committees), comprises the two independent Non Executive Directors and meets three times a year The Chairman, Chief Executive, Finance Director and external auditors attend these meetings as required by the Committee

The purpose of the Committee is to assist the Board in the discharge of its responsibilities for financial reporting and corporate control and to provide a forum for reporting by the external auditors The responsibilities of the Committee include

- to monitor the integrity of the financial statements and review significant financial reporting judgements contained in them,
- to review the Company's internal financial control system and risk management systems,
- to make recommendations to the Board in relation to the appointment of the external auditor and to approve the remuneration and terms of engagement of the external auditors,
- to review and monitor the external auditors' independence, objectivity and effectiveness,
- to develop and implement policy on the engagement of the external auditors to supply non-audit services,
- to monitor the Company's whistle-blowing procedures, and
- to review regularly the need for an internal audit function

The attendance of individual Committee members at Audit Committee meetings is shown in the table below

	Meetings attended
James Wallace	3/3
Eurfyl ap Gwilym	3/3

During the year, the Audit Committee considered the following issues

- the appropriate valuation techniques to be utilised in valuing share options under IFRS,
- the areas of judgement in the financial statements including the valuation of intangible assets and goodwill impairment,
- the requirement for a formal internal audit function,
- the independence of Rickitt Mitchell as corporate finance advisors
- the level of fees payable to KPMG Audit plc in respect of non-audit work,
- the separation of the audit, non audit and tax work and appointment of the appropriate advisors
- various tax issues within the Group, and
- corporate governance issues

Remuneration Committee

The Remuneration Committee, which is chaired by Eurfyl ap Gwilym and comprises the Non Executive Directors, meets at least three times a year and additionally as required It is responsible for reviewing remuneration arrangements for members of the Board and other senior employees of the Group and for providing general guidance on aspects of remuneration policy throughout the Group

During the year the Committee met more often than would normally be the case due to a review of remuneration policy undertaken as detailed in the Remuneration report

Corporate governance (continued)

The attendance of individual Committee members at Remuneration Committee meetings, one of which was via conference call is shown in the table below

	Meetings attended
Paul Mitchell	5/5
James Wallace	5/5
Eurfyl ap Gwilym	5/5

The Directors' remuneration report is set out on pages 26 to 31

Nomination Committee
The Nomination Committee is chaired by Paul Mitchell and comprises the Non Executive Directors The Committee is responsible for proposing candidates to the Board, having regard to the balance and structure of the Board There has been one meeting in the year

	Meetings attended
Paul Mitchell	1/1
James Wallace	1/1
Eurfyl ap Gwilym	1/1

Performance reviews
A formal appraisal process for the Board and its Committees was conducted again in the year The process covered objectives and strategy, management oversight, Board performance, meetings, external relationships, governance and Board/Committee constitution This was an internal process using questionnaires completed by all relevant Directors and collated by the Company Secretary

The results of the exercise were discussed by the Board which concluded that the Board and its Committees are operating effectively The Board is currently considering any actions identified by the process that could improve the performance and workings of the Board and its Committees

It is anticipated that the review exercise will continue to be undertaken annually

Internal control
The Board is responsible for establishing and maintaining the Group's system of internal control Internal control systems are designed to meet the particular needs of the Group and the risks to which it is exposed By their nature however, internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss

Key elements of the internal control system are described below These have all been in place throughout the year and up to the date of this report and are reviewed regularly by the Board

- clearly defined management structure and delegation of authority to Committees of the Board, subsidiary boards and associated business units,
- clearly documented internal procedures set out in the Group's ISO 9001 2000 accredited quality manual,
- high recruitment standards and formal career development and training to ensure the integrity and competence of staff,

Corporate governance (continued)

- regular and comprehensive information provided to management, covering financial performance and key performance indicators, including non-financial measures,
- a detailed budgeting process where business units prepare budgets for the coming years and rolling three-year strategic plans, which are approved by the Board,
- procedures for the approval of capital expenditure and investments and acquisitions,
- monthly monitoring and re-forecasting of results against budget, with major variances followed up and management action taken where appropriate,
- regular internal audits of key processes and procedures under the Group's ISO 9001 accredited quality assurance process,
- ongoing procedures to identify, evaluate and manage significant risks faced by the business in accordance with the guidance of the Turnbull Committee on Internal Controls and procedures to monitor the control systems in place to reduce these risks to an acceptable level, and
- formal consideration of progress made against significant business risks at monthly operational board meetings

NCC Group does not have a dedicated internal audit function, although regular internal audits are conducted under the Group's ISO 9001 accredited quality assurance process and at the request of the Audit Committee The Board has considered the need for an internal audit function and believes that current arrangements are adequate given the structure of the Group's accounting function and the size of the Group

Auditor independence
The Company operates a rigorous policy designed to ensure that the auditors' independence is not compromised by their undertaking inappropriate non-audit work All significant non-audit work commissioned from the external auditors requires Audit Committee approval The external auditors are only selected to undertake non-audit work where the nature of the advice makes it more timely and cost-effective to select advisors who already have a good understanding of the Group

The Audit Committee has undertaken its annual review of the nature and amount of non-audit work undertaken by the external auditors to satisfy itself that there is no effect on their independence

Going concern
The directors are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future, a period of not less than 12 months from the date of this report For this reason, they continue to adopt the going concern basis in preparing the financial statements

Communication with shareholders
The Company values the views of shareholders and recognises their interests in the Group's strategy and performance It holds briefings with institutional fund managers, analysts and other investors, including staff shareholders, primarily following the announcement of interim and preliminary results, as well as at other times during the year as may be appropriate

The Company's programme of investor relations activities is designed to ensure that the investing community receives a balanced and consistent view of the Group's performance All shareholders are welcomed to the Annual General Meeting, at which the Board of Directors will be available to answer questions from shareholders

Corporate governance (continued)

Communication is also provided through the Annual Report, the Interim Report and the investor relations area on the Company's web site, www nccgroup com on which financial and other information is available and regularly updated

The Board receives reports from the Group's broker twice a year that communicate feedback from institutional shareholders, reviews analyst coverage of the Group every month and receives reports twice a year from its financial public relations advisors regarding the views of analysts

By order of the Board

Rob Cotton
Chief Executive
NCC Group plc
2 July 2007

Directors' remuneration report

As an Aim listed company we are not required to comply with the provisions of the Directors Remuneration Report Regulations 2002 Nevertheless, as part of the Group's commitment to the early adoption of best practice in corporate governance, strenuous effort has been made to adhere to these provisions

Remuneration Committee
The Remuneration Committee advises the Board and makes recommendations to it about all elements of the remuneration packages of the executive directors The members of the Remuneration Committee during the year were Eurfyl ap Gwilym as Committee Chairman, Paul Mitchell and James Wallace The Chief Executive may attend the Remuneration Committee by invitation and assist the Committee with its considerations No director is involved in setting their own remuneration plan

Remuneration policy
The Committee and the Board believe that in order to attract and maintain a senior management team of the right calibre it is necessary to provide competitive market-based packages which reward Group and individual performance and motivate senior executives to achieve stated business objectives and deliver outstanding shareholder returns

Remuneration packages comprise

- basic salary
- annual performance related bonus
- other benefits
- participation in the share incentive plans

The Group introduced a number of share incentive schemes on flotation, of which all members of staff, including the executive directors are potential beneficiaries These include an Employee Share Option Scheme, a Long Term Incentive Plan (LTIP) and a Save As You Earn (SAYE) scheme

Basic salary
Salaries are normally reviewed annually and any changes are effective from 1 June in each year Pay reviews take into account Group and personal performance and externally benchmarked market data for comparable companies operating in IT services, management consulting and relevant high-tech sectors

The salaries of Rob Cotton and Paul Edwards for the last two financial years are set out in the table on page 29

The benchmarking exercise undertaken in April 2007 provided the Remuneration Committee with relevant comparable data which identified that the existing salaries of the executive directors were in line with marketplace comparators

In addition, the Committee considered the excellent performance of the Group over the last two years and its increasing size and complexity and the specific experience of the executive directors which is critical to the Group's continued success when agreeing salaries for the year commencing 1 June 2007 With effect from 1 June 2007, Rob Cotton's salary is £300,000, an increase of 20% and Paul Edwards' salary is £155,000, an increase of 27%

Performance related bonuses
The performance related pay scheme for executive directors is in line with the scheme covering other senior members of staff Payments under the scheme are based upon the achievement of profit targets for the Group as set by the Remuneration Committee

Directors' remuneration report (continued)

Pensions
The executive directors are entitled to a company pension contribution of 8% of basic salary, providing they make a contribution of not less than 5%, which is paid into the Group defined contribution pension scheme, which is also open to all of its permanent employees

Benefits
Benefits in kind include the provision of a car or car allowance, payment of private fuel, car insurance, private medical insurance, life assurance and permanent health insurance

Share incentives
The Group's policy is to award share incentives to executive directors in order to align their interests with those of the Company's shareholders Both the executive directors are precluded from joining the Employee Share Option scheme, but have participated in the LTIP scheme during the financial year

The Remuneration Committee agreed, in 2006, to extend participation in the LTIP to other senior executives within the Group

The current performance targets relate to both the total shareholder returns (TSR) and earnings per share (EPS) performance of the Group over the designated period The maximum award is equal to one times the director's or senior executive's annual basic salary in the year ended

The TSR condition will govern the vesting of 50% of the LTIP award and will compare the Group's TSR performance over the three year performance period with the TSR performance of the constituent companies of the FTSE software and computer services index Where the Company's TSR performance equates to median level in the comparator group, 30% of the award governed by the TSR condition will vest 100% of the award governed by the TSR condition will vest for upper quartile performance or above Between these two points, vesting will be determined on a straight line basis

The EPS condition will govern the vesting of the remaining 50% of the LTIP award and will relate to the growth in the Group's EPS over the performance period If growth is equal to 25% or more per annum then 100% of the award governed by the EPS condition will vest If, however, growth is less than 10% per annum, none of the award governed by the EPS condition will vest Between these two points, vesting will be determined on a straight line basis The Remuneration Committee believes that this is a more appropriate measure of the Company's performance given its current position and it aligns the interests of the key executives and directors with those of the shareholders

Rob Cotton joined the SAYE Scheme at the time of flotation Paul Edwards joined the SAYE scheme on 1 September 2005

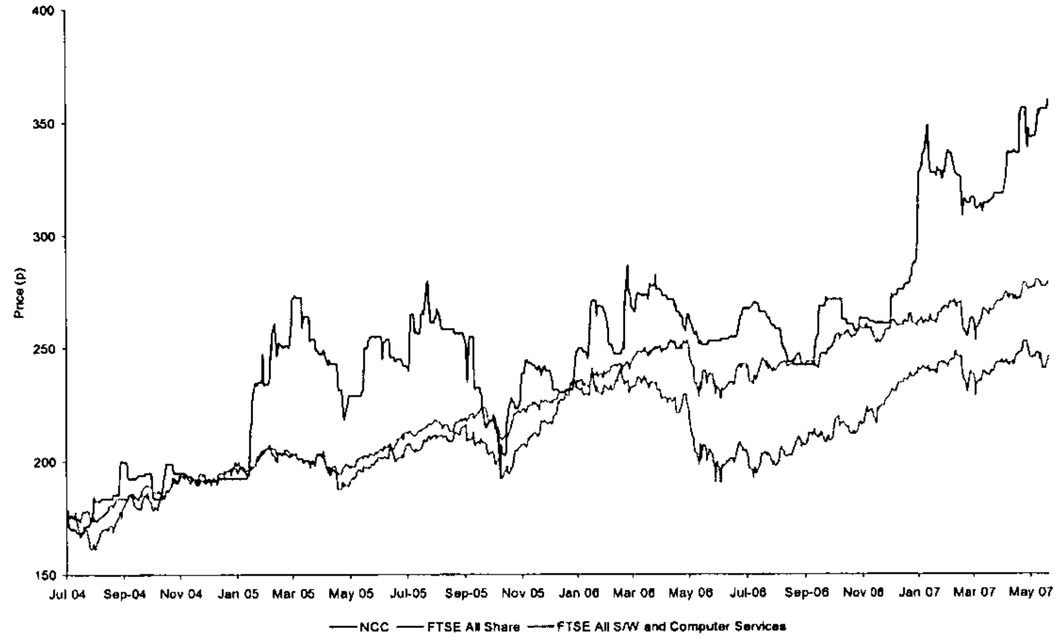
Directors' remuneration report (continued)

Performance graph

The following graph shows the total shareholder return, with dividends reinvested, from 12 July 2004, the date of the Company's flotation on the London Stock Exchange against the corresponding change in a hypothetical holding in shares in both the FTSE All Share Index and the FTSE Software and Computer Services Index

The FTSE All Share and FTSE Software and Computer Services indices both represent broad equity indices in which the Company is a constituent member Inclusion of the FTSE All Share Index gives a market capitalisation-based perspective, whilst the FTSE Software and Computer Services Index gives an industry sector perspective

The share price of the Company at 12 July 2004, being the date of the Company's flotation, was 170p and at 31 May 2007 was 360p



Service Contracts

The service contracts and letters of appointment of the directors include the following terms

	Date of contract	Notice period	Period of appointment
Executive			
Rob Cotton	12 July 2005	1 year	-
Paul Edwards	12 July 2005	6 months	-
Non Executive			
Paul Mitchell	26 June 2007	3 months	3 years
James Wallace	26 June 2007	3 months	3 years
Eurfyl ap Gwilym	26 June 2007	3 months	-

The executive directors are subject to rolling contracts and offer themselves for re-election by rotation in accordance with the Company's Articles of Association These contracts maybe terminated by either the Company or the relevant executive director giving the appropriate notice

Directors' remuneration report (continued)

Payments on termination for executive directors are restricted to the value of salary and contractual benefits for the notice period There are no predetermined special provisions for executive directors with regard to compensation in the event of loss of office

Directors' interest in shares

Directors had the following beneficial interest in the issued share capital of the Company

	Ordinary Shares of 1p each 2007	Ordinary Shares of 1p each 2006
Executive		
Rob Cotton	1,879,003	2,348,754
Paul Edwards	276,645	354,880
Non Executive		
Paul Mitchell	228,100	280,600
James Wallace	14,705	14,705
Eurfyl ap Gwilym	14,705	14,705

The auditors have audited the information in the following tables

Remuneration

The remuneration of the directors for the year ended 31 May 2006 was as follows

Year ended 31 May 2006	Salary £000	Bonus £000	Pension £000	Benefits £000	Fees £000	Total £000
Executive						
Rob Cotton	225	-	16	27	-	268
Paul Edwards	105	-	7	19	-	131
Non Executive						
Paul Mitchell	-	-	-	-	45	45
James Wallace	40	-	-	-	-	40
Eurfyl ap Gwilym	30	-	-	-	-	30
	400	-	23	46	45	514

The remuneration of the directors for the year ended 31 May 2007 was as follows

Year ended 31 May 2007	Salary £000	Bonus £000	Pension £000	Benefits £000	Fees £000	Total £000
Executive						
Rob Cotton	250	29	18	31	-	328
Paul Edwards	123	14	9	24	-	170
Non Executive						
Paul Mitchell	-	-	-	-	45	45
James Wallace	40	-	-	-	-	40
Eurfyl ap Gwilym	30	-	-	-	-	30
	443	43	27	55	45	613

Directors' remuneration report (continued)

Directors' share options

The Group has a number of share option schemes whereby directors and staff are able to subscribe for ordinary shares in the Company

As at 31 May 2007 the directors held options over ordinary shares as follows There have been no changes between the end of the financial year and the date of this report

Director	Date of grant	Market value at date of grant	Options held at 1 June 2006	Options held at 31 May 2007	Exercise price	Performance conditions	Earliest exercise date	Expiry date
Rob Cotton	14/07/04	£1 70	117,647	117,647	nil*	1	01/06/07	13/07/08
Rob Cotton	05/08/04	£1 70	6,909	6,909	£1 36	2	01/09/07	28/02/08
Rob Cotton	21/09/05	£2 36	78,431	78,431	nil*	3	01/06/08	20/09/09
Rob Cotton	19/07/06	£2 70	nil	83,333	nil*	3	01/06/09	18/06/10
Paul Edwards	14/07/04	£1 70	51,471	51,471	nil*	1	01/06/07	13/07/08
Paul Edwards	19/08/05	£2 58	4,577	4,577	£2 06	4	01/09/08	28/02/09
Paul Edwards	21/09/05	£2 36	34,313	34,313	nil*	3	01/06/08	20/09/09
Paul Edwards	19/07/06	£2 70	nil	38,888	nil*	3	01/06/09	18/06/10

*£exercise price of £1 on each occasion

Performance conditions and notes

1 The awards will vest in full if average growth of EBITA, over the three years from grant equals or exceeds 25% per annum If EBITA over the three year period falls below 10% then the awards vested will be nil If EBITA over the three years falls between 10% and 25% then the amount of awards granted will be calculated on a straight line basis between the two percentages

2 The SAYE scheme is subject to a three year savings contract If this is completed a maximum of 6,909 shares will be granted

3 The awards will fully vest if both the total shareholder returns (TSR) and earnings per share (EPS) performance targets of the Group are met

The TSR condition will govern the vesting of 50% of the LTIP award Where TSR performance equates to median level in the comparator group, 30% of the award governed by the TSR condition will vest 100% of the award governed by the TSR condition will vest for upper quartile performance or above

The EPS condition will govern the vesting of the remaining 50% of the LTIP, if growth is equal to 25% or more per annum then 100% of the award governed by the EPS condition will vest If, however, growth is less than 10% per annum, none of the award governed by the EPS condition will vest

For both TSR and EPS, performance between the two points of measure will be determined on a straight line basis

4 The SAYE scheme is subject to a three year savings contract If this is completed a maximum of 4,577 shares will be granted

The Remuneration Committee recommends the granting of additional share options to the value of each executives director's annual salary, using the same performance criteria to be defined and outlined at the AGM

Directors' remuneration report (continued)

During the year the Company's share price varied between 239p and 360p and ended the year at 360p

Approved by the Board and signed on its behalf

Eurfyl ap Gwilym
Chairman, Remuneration Committee
NCC Group plc
2 July 2007

Statement of directors' responsibilities

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 group and parent company financial statements for each financial year Under that law they have elected to prepare both the group and the parent company financial statements in accordance with IFRSs as adopted by the EU and applicable laws

The group and parent company financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position of the group and the parent company and the performance for that period, the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation

In preparing each of the group and parent company 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 they have been prepared in accordance with IFRS as adopted by the EU, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the 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 Company and the Group and to prevent and detect fraud and other irregularities

The directors have decided to prepare voluntarily a Directors' Remuneration Report in accordance with Schedule 7A to the Companies Act 1985, as if those requirements were to apply to the Company The directors have also decided to prepare voluntarily a Corporate Governance Statement as if the Company were required to comply with the Listing Rules of the Financial Services Authority in relation to those matters

Corporate social responsibility report

NCC Group takes its corporate social responsibilities very seriously and recognises the important contributions to the business made by the wider community of stakeholders, in particular employees, clients, suppliers and the local communities in which we operate The Board takes into account social, environmental and ethical issues in its discussions and decision making and makes the health and safety of employees a priority

Stakeholders

Employees

People are at the heart of the Group's business and the support and involvement of the talented individuals who form our team is vital to the continued success of the Group overall The Group has a policy of keeping employees informed of, and engaged in, its business strategy through the Intranet, regular employee briefings and divisional meetings

Comments and suggestions from employees on the Group's performance and management are actively encouraged and a free flow of information between the directors, managers and employees ensures that everyone has an opportunity to contribute

Clients

The Group values each and every client and is proud of the long standing nature of its client relationships Continuing client satisfaction is central to our ongoing success and is regularly measured and monitored through the ISO 9001 certified quality programme Rare instances of negative feedback are treated with the utmost seriousness and dealt with swiftly by management through to resolution

The community

We are committed to ensuring that as well as delivering consistently strong results as a business, we give something back to the local community We continue to support charitable organisations and actively encourage the involvement of our employees in fundraising by covering expenses and awarding additional days' holiday

During the year, we supported fundraising for Christie's, the charity which raises funds for the Manchester-based Christie Hospital, one of the largest cancer treatment centres in Europe Through a series of events and sponsored activities ranging from sky-diving to cycling and five-a-side football, we raised in excess of £20,000 We have committed to support the charity again during the new financial year

Suppliers

The Group's policy is to pay suppliers in accordance with terms and conditions agreed when orders are placed Although the Group does not follow any code or standard on payment policy, where terms have not been specifically agreed, invoices dated in one calendar month are paid close to the end of the following month

At 31 May 2007, the Group had an average of 28 days' purchases outstanding in trade creditors (2006 34 days) The Company had no trade creditors as at the year end (2006 £nil)

Corporate social responsibility report (continued)

The environment
Although the impact of the Group's operations on the environment is limited compared with other industries, we recognise our responsibility to respect and limit damage to the environment In 2006, an environmental policy was introduced outlining the responsibilities of the Group and each employee to act in an environmentally responsible manner, in particular through efficient route planning, recycling and sustainable procurement

Key policies

Ethics policy
The Group recognises and understands that our relationships with those who we deal with are the key to our success and, as such, we take our obligations and commitments to those people and organisations very seriously Our independence, reputation as a supplier of quality services and the trust of our clients are all key assets that we aim to protect at all times We aim to engender in our employees principles of honesty and integrity and the desire to work to the best of their ability

All of these values and principles are founded on an ethics policy which permeates everything that we do

Equal opportunities and employment policy
The Group is committed to offering equal opportunities to all, no employee or potential employee receives more or less favourable treatment due to their gender, age, race, national or ethnic origin, disability, sexual orientation, or marital status The Group is committed to the training and development of all employees and to providing a productive working environment

Should an existing employee's circumstances change, it is the Group's policy, wherever practicable, to provide continuing employment under normal terms and conditions and to provide training and career development and promotion wherever possible

Health and safety policy
The Group is committed to the good health and wellbeing of its employees and strives to provide and maintain a safe and pleasant environment for all employees, clients and visitors to its premises and comply with the relevant health and safety legislation Continued investment is planned in the coming financial year to enhance the working environments of employees in all of our offices

By order of the Board

Rob Cotton
Chief Executive
NCC Group plc
2 July 2007

Report of the independent auditors to the members of NCC Group plc

We have audited the group and parent company financial statements (the "financial statements") of NCC Group plc for the year ended 31 May 2007 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statements of Changes In Equity and the related notes These financial statements have been prepared under the accounting policies set out therein

In addition to our audit of the financial statements, the directors have engaged us to audit the information in the directors' remuneration report that is described as having being audited, which the directors have decided to prepare to comply with the requirements of Schedule 7A to the Companies Act 1985

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985 and the terms of our engagement 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 Directors' Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the EU are set out in the statement of directors' responsibilities on page 32

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) and, under the terms of our engagement letter, to audit the part of the directors' remuneration report that is described as having been audited

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 We also report to you whether, in our opinion, the information given in the Directors Report is consistent with the financial statements The information given in the Directors' Report includes that specific information presented in the Chairman's Report and the Chief Executive's report 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

In addition to our audit of the financial statements, the directors have engaged us to review their Corporate Governance Statement as if the company were required to comply with the Listing Rules of the Financial Services Authority in relation to those matters We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2006 Combined Code specified for our review by those rules, and we report if it does not We are not required by the terms of our engagement to consider whether the board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the group's corporate governance procedure or its risks and control procedures

Report of the independent auditors to the members of NCC Group plc (continued)

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 and the part of the Directors' Remuneration Report to be audited 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 and the part of the Directors' Remuneration Report to be audited, 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 and the part of the Directors' Remuneration Report to be audited

Opinion

In our opinion

- The Group financial statements give a true and fair view, in accordance with IFRS as adopted by the EU, of the state of the Group's affairs as at 31 May 2007 and of its profit for the year then ended,

- The parent company financial statements give a true and fair view in accordance with IFRSs, as adopted by the EU and applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 May 2007,

- The financial statements have been properly prepared in accordance with the Companies Act 1985,

Report of the independent auditors to the members of NCC Group plc (continued)

- Information given in the Directors' Report is consistent with the financial statements, and
- The part of the Directors' Remuneration report which we were engaged to audit has been properly prepared in accordance with Schedule 7A to the Companies Act 1985

KPMG Audit Plc 2 July 2007

KPMG Audit Plc
Chartered Accountants
Registered Auditor

St James' Square
Manchester
M2 6DS
United Kingdom

Consolidated income statement
For the year ended 31 May 2007

	Notes	2007 £000	2006 £000
Revenue	2	**25,400**	20,747
Cost of sales		**(13,365)**	(10,647)
Gross profit		**12,035**	10,100
Administrative expenses before amortisation of intangible assets		**(3,853)**	(3,417)
Earnings before interest, tax and amortisation		**8,182**	6,683
Amortisation of intangible assets		**(230)**	(47)
Total administrative expenses		**(4,083)**	(3,464)
Operating profit	2	**7,952**	6,636
Financial income	5	**109**	175
Finance expense excluding unwinding of discount		**(174)**	(260)
Net financing costs excluding unwinding of discount		**(65)**	(85)
Unwinding of discount effect relating to deferred consideration on business combinations		**(102)**	-
Financial expenses	5	**(276)**	(260)
Net financing costs		**(167)**	(85)
Profit before taxation	3	**7,785**	6,551
Taxation	6	**(2,411)**	(1,993)
Profit for the year		**5,374**	4,558
Attributable to equity holders of the parent company		**5,374**	4,558
Profit for the year		**5,374**	4,558
Earnings per share	8		
Basic earnings per share		**16 5p**	14 0p
Diluted earnings per share		**15 9p**	13 6p

Group balance sheet
at 31 May 2007

	Notes	2007 £000	2007 £000	2006 £000	2006 £000
Non current assets					
Intangible assets	10	**39,302**		30,420	
Plant and equipment	11	**1,482**		1,257	
Deferred tax assets	14	**2,005**		423	
Total non-current assets		**42,789**		32,100	
Current assets					
Trade and other receivables	12	**7,757**		4,840	
Cash and cash equivalents		**4,377**		5,139	
Total current assets		**12,134**		9,979	
Total assets			**54,923**		42,079
Equity					
Issued capital	20	**326**		326	
Share premium		**19,929**		19,913	
Retained earnings		**13,144**		7,964	
Currency translation reserve		**39**		15	
Total equity attributable to equity holders of the parent			**33,438**		28,218
Non current liabilities					
Interest bearing loans	17	**3,500**		2,689	
Other financial liabilities	17	**3,782**		123	
Deferred tax liability	14	**473**		-	
Total non current liabilities		**7,755**		2,812	
Current liabilities					
Interest bearing loans	18	-		1,200	
Trade and other payables	15	**3,931**		2,750	
Deferred revenue	16	**8,620**		6,037	
Current tax payable		**1,179**		1,062	
Total current liabilities		**13,730**		11,049	
Total liabilities			**21,485**		13,861
Total liabilities and equity			**54,923**		42,079

These financial statements were approved by the Board of Directors on 2 July 2007 and were signed on its behalf by:

Rob Cotton
Chief Executive
NCC Group plc

Company balance sheet
at 31 May 2007

	Notes	**2007**		2006	
		£000	**£000**	£000	£000
Non current assets					
Investments	26	**29,145**		29,145	
Total non-current assets		**29,145**		29,145	
Current assets					
Trade and other receivables	12	**235**		165	
Cash and cash equivalents		**12**		5	
Total current assets		**247**		170	
Total assets			**29,392**		29,315
Equity					
Issued capital	20	**326**		326	
Share premium		**19,929**		19,913	
Retained earnings		**3,281**		4,493	
Total equity			**23,536**		24,732
Non current liabilities					
Interest bearing loans	17	**-**		2,689	
Total non current liabilities		**-**		2,689	
Current liabilities					
Interest bearing loans	18	-		1,200	
Trade and other payables	15	**5,856**		694	
Total current liabilities		**5,856**		1,894	
Total liabilities			**5,856**		4,583
Total liabilities and equity			**29,392**		29,315

These financial statements were approved by the Board of Directors on 2 July 2007 and were signed on its behalf by

Rob Cotton
Chief Executive
NCC Group plc

Group cash flow statement
for the year ended 31 May 2007

	Notes	2007 £000	2006 £000
Cash inflow from operating activities			
Profit for the year		**5,374**	4,558
Adjustments for			
Depreciation charge		**688**	550
Share based charges		**575**	468
Amortisation of intangible assets		**230**	47
Net financing costs		**167**	85
Profit on sale of plant and equipment		**-**	(9)
Income tax expense		**2,411**	1,993
Profit for the year before changes in working capital		**9,445**	7,692
Increase in receivables		**(1,976)**	(1,045)
Increase in payables		**314**	636
Cash generated from operating activities before interest and tax		**7,783**	7,283
Interest paid		**(166)**	(272)
Income taxes paid		**(2,449)**	(1,808)
Net cash generated from operating activities		**5,168**	5,203
Cash flows from investing activities			
Interest received		**109**	175
Proceeds from the sale of plant and equipment		**1**	34
Acquisition of plant and equipment		**(734)**	(824)
Acquisition of business	13	**(3,641)**	(2,546)
Net cash used in investing activities		**(4,265)**	(3,161)
Cash flows from financing activities			
Proceeds from the issue of ordinary share capital		**16**	-
VAT recovered on fees relating to the issue of capital		**-**	94
Proceeds from borrowings		**3,500**	-
Payment of bank loans		**(3,900)**	(1,200)
Payment for shares in minority interest		**-**	(18)
Equity dividends paid		**(1,304)**	(897)
Net cash from financing activities		**(1,688)**	(2,021)
Net (decrease) / increase in cash and cash equivalents	22	**(785)**	21
Cash and cash equivalents at beginning of year		**5,139**	5,103
Effect of exchange rate fluctuations on cash held		**23**	15
Cash and cash equivalents at end of year		**4,377**	5,139

Company cash flow statement
for the year ended 31 May 2007

	2007	2006
	£000	£000
Cash inflow from operating activities		
(Loss) for the year	**(77)**	(249)
Adjustments for		
Share based charges	**169**	146
Net financing costs	**57**	256
Profit for the year before changes in working capital	**149**	153
(Increase) / decrease in receivables	**(70)**	40
Increase in payables	**5,195**	572
Profit for the year before interest and tax	**5,274**	765
Interest paid	**(80)**	(270)
Net cash generated from operating activities	**5,194**	495
Cash flows from investing activities		
Interest received	**1**	1
Net cash inflow in investing activities	**1**	1
Cash flows from financing activities		
Proceeds from the issue of ordinary share capital	**16**	-
VAT recovered on fees relating to the issue of capital	**-**	94
Payment of bank loans	**(3,900)**	(1,200)
Equity dividends received	**-**	1,000
Equity dividends paid	**(1,304)**	(897)
Net cash from financing activities	**(5,188)**	(1,003)
Net increase / (decrease) in cash and cash equivalents	**7**	(507)
Cash and cash equivalents at beginning of year	**5**	512
Cash and cash equivalents at end of year	**12**	5

Statement of changes of equity
for the year ended 31 May 2007

Group

	Share capital £000	Share premium £000	Retained earnings £000	Currency translation £000	Minority interest £000	**Total Equity £000**
Balance at 1 June 2005	326	19,819	3,755	-	(23)	**23,877**
Share based charges	-	-	468	-	-	**468**
Deferred tax on share based payments	-	-	103	-	-	**103**
Profit for the year	-	-	4,558	-	-	**4,558**
Currency translation reserve	-	-	-	15	-	**15**
Recovery of VAT on share issue	-	94	-	-	-	**94**
Purchase of minority interest	-	-	(23)	-	23	**-**
Dividends to shareholders	-	-	(897)	-	-	**(897)**
Balance at 31 May 2006	**326**	**19,913**	**7,964**	**15**	**-**	**28,218**
Balance at 1 June 2006	326	19,913	7,964	15	-	**28,218**
Share based charges	-	-	575	-	-	**575**
Deferred tax on share based payments	-	-	535	-	-	**535**
Profit for the year	-	-	5,374	-	-	**5,374**
Shares issued	-	16	-	-	-	**16**
Currency translation reserve	-	-	-	24	-	**24**
Dividends to shareholders	-	-	(1,304)	-	-	**(1,304)**
Balance at 31 May 2007	**326**	**19,929**	**13,144**	**39**	**-**	**33,438**

Company

	Share capital £000	Share premium £000	Retained earnings £000	**Total Equity £000**
Balance at 1 June 2005	326	19,819	4,493	**24,638**
Share based charges	-	-	146	**146**
Profit for the year	-	-	751	**751**
Recovery of VAT on share issue	-	94	-	**94**
Dividends to shareholders	-	-	(897)	**(897)**
Balance at 31 May 2006	**326**	**19,913**	**4,493**	**24,732**
Balance at 1 June 2006	326	19,913	4,493	**24,732**
Share based charges	-	-	169	**169**
Loss for the year	-	-	(77)	**(77)**
Shares issued	-	16	-	**16**
Dividends to shareholders	-	-	(1,304)	**(1,304)**
Balance at 31 May 2007	**326**	**19,929**	**3,281**	**23,536**

Notes
(forming part of the financial statements)

1 Accounting policies
Basis of preparation
NCC Group plc ("the Company") is a company incorporated in the UK

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 s230 of the Companies Act 1985 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 financial statements

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

Intangible assets and goodwill
All business combinations are accounted for by applying the purchase method Goodwill represents amounts arising on acquisition of subsidiaries In respect of business acquisitions that have occurred since 1 June 2004, goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired Identifiable intangibles are those which can be sold separately or which arise from legal rights regardless of whether those rights are separable

Goodwill is stated at cost less any accumulated impairment losses Goodwill is allocated to cash-generating units based on the allocation of the business acquired and is not amortised but is tested annually for impairment

In respect of acquisitions prior to 1 June 2004, goodwill is included at 1 June 2004 on the basis of its deemed cost, which represents the amount recorded under UK GAAP at 31 May 2004 which was broadly comparable save that only separable intangibles were not recognised and goodwill was amortised

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation Amortisation is charged to the income statement on a straight line basis over the estimated useful lives of intangible assets unless such lives are indefinite Goodwill is systematically tested for impairment at each balance sheet date or whenever there is an indication of impairment Other intangibles are amortised from the date they are available for use Acquired customer contracts and relationships are amortised over their estimated useful economic life of between 5 and 20 years

Notes (continued)

1 Accounting policies (continued)

Related party transactions

Details of related party transactions are set out in note 25 to these financial statements

Plant and equipment

Plant and equipment is stated at cost less accumulated depreciation Depreciation is charged to the income statement on a straight line basis over the estimated useful lives of each part of an item of plant and equipment The estimated useful lives are as follows

Computer equipment - 20% to 33%
Plant and equipment - 20%
Fixtures and fittings - 20%
Motor vehicles - 25%

Plant and equipment is also tested for impairment whenever there is an indication of potential impairment

Investments in subsidiaries

Investments in subsidiaries are carried at cost less impairment and pre acquisition dividends

Revenue recognition

Revenue represents the value of services provided during the period, excluding VAT

Testing and consultancy

The results of partially completed contracts whether fixed price or on a time and materials basis are dealt with on a percentage completion basis according to the number of days worked by including the profit or loss earned on work completed to the balance sheet date Provisions are made for any losses on uncompleted contracts expected to be incurred after the balance sheet date

Escrow and website monitoring

Other than fees attributable to initial setup on the signing of a new contract, which is recognised when the contract is signed, maintenance and escrow solutions agreement revenue is deferred and released to the income statement on a straight-line basis over the life of the related agreement, on the basis that the performance is deemed to fall evenly over the contract period

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 using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the income statement

The assets and liabilities of overseas subsidiaries denominated in foreign currencies are translated at the closing rate and income statements of overseas subsidiary undertakings are translated at the average exchange rates Gains and losses arising on these transactions are taken to the translation reserve They are released to the income statement upon disposal

Operating leases payments

Operating lease rentals are charged to the income statement on a straight-line basis over the period of the lease Lease incentives received are recognised in the income statement as an integral part of the total lease expense

Notes (continued)

1 Accounting policies (continued)

Employee benefits – defined contribution plans

The Group operates a defined contribution pension scheme The assets of the scheme are kept separately from those of the Group in an independently administered fund The amount charged as expense in the income statement represents the contributions payable to the scheme in respect of the accounting period

Share-based payment transactions

The share option programme allows Group employees to acquire shares of the parent company, these awards are granted by the parent The fair value of options granted 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 an option valuation 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 forfeiture is due only to share prices not achieving the threshold for vesting

Interest bearing borrowings

Interest bearing borrowings are recognised initially at fair value less attributable transaction costs Subsequent to initial recognition interest bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis

Net financing costs

Net financing costs comprise interest payable, interest receivable on funds invested and dividend income

Interest income and interest payable is recognised in the income statement as it accrues Dividend income is recognised in the income statement on the date the entity's right to receive the payments is established and pre acquisition dividends are deducted from the cost of investment

Contingent deferred consideration under business combinations

Contingent consideration on business combinations is recognised only to the extent that it is probable that the consideration will be paid

Taxation

Tax on the profit or loss for the year comprises current and deferred tax Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes The following temporary differences are not provided for the initial recognition of goodwill and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date

Notes (continued)

1 Accounting policies (continued)

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised

Intra-group financial instruments

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within the Group, the Company considers these to be insurance arrangements and accounts for them as such In this respect the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee

IFRS adopted for the first time

In these financial statements the following new statements have been adopted for the first time,

IFRIC 4	Determining whether an arrangement contains a lease
IFRIC 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment
IFRIC 10	Interim financial reporting and impairment
Amendment to IAS 21	The effects of changes in foreign exchange rates – Net investment in a foreign operation
Amendments to IAS 39	Financial instruments – Recognition and measurement – Hedging of future cash flows and the fair value option

The adoption of these statements has had an immaterial impact upon these accounts

Adopted IFRS not yet applied

The following adopted IFRS were available for early adoption but have not been applied by the Group in these financial statements,

International accounting standards (IFRS)

IFRS 7	Financial Instruments Disclosures
IFRS 1	Amendment to IAS 1 – Capital disclosures
IFRS 8	Operating segments (not yet endorsed)
IFRIC 7	Hyperinflation
IFRIC 8	Scope of IFRS 2 – Share based payments

The directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Group's financial statements Certain of these standards and interpretations will require additional disclosures over and above those currently included in these financial statements in the period of initial application

Trade and other receivables

Trade and other receivables are stated at their nominal amount less impairment losses

Cash and cash equivalents

Cash and cash equivalents comprise of cash in hand and deposits repayable on demand Bank overdrafts that are repayable on demand form part of the Group's cash management and are included as a component of cash and cash equivalents for the purpose only of the statement of cash flows

Basis of measurement

The financial statements are prepared on the historical cost basis

Notes (continued)

1 Accounting policies (continued)

Use of estimates and judgements

Information about the most significant areas of estimation and judgements is described in the following notes,

10 Goodwill
13 Acquisitions
19 Measurement of share based payments

2 Segmental information

The Group is organised into three primary business segments, Escrow Solutions, Assurance Testing and Consultancy These three segments are the Group's primary reporting format for segment information All segments are located in the UK unless indicated otherwise

	2007	2006
	£000	£000
Revenue by business segment		
Escrow Solutions	**11,400**	9,832
Escrow Solutions (Germany)	**203**	183
Escrow Solutions (US)	**1,028**	371
Escrow Verification	**2,390**	1,907
Total Escrow Solutions	**15,021**	12,293
Assurance Testing	**5,795**	3,797
Consultancy	**4,584**	4,657
Total revenue	**25,400**	20,747
Operating profit by business segment		
Escrow Solutions	**7,357**	6,065
Escrow Solutions (Germany)	**(476)**	(384)
Escrow Solutions (US)	**248**	178
Escrow Verification	**825**	710
Total Escrow Solutions	**7,954**	6,569
Assurance Testing	**740**	590
Consultancy	**717**	616
Segment operating profit	**9,411**	7,775
Head office costs	**(1,229)**	(1,092)
Earnings before interest, tax and amortisation	**8,182**	6,683
Amortisation of intangible assets Escrow (US)	**(118)**	(47)
Amortisation of intangible assets Assurance Testing	**(112)**	-
Operating profit	**7,952**	6,636

Interest and tax are not allocated to business segments and there are no inter segment sales

Notes (continued)

2 Segmental information (continued)

	Assets 2007 £000	**Liabilities 2007 £000**	Assets 2006 £000	Liabilities 2006 £000
Assets / (liabilities) by business segment				
Escrow Solutions	**2,795**	**(6,890)**	2,014	(6,224)
Escrow Solutions (Germany)	**175**	**(126)**	272	(171)
Escrow Solutions (US)	**4,341**	**(664)**	3,723	(787)
Escrow Verification	**624**	**(173)**	355	(149)
Total Escrow Solutions	**7,935**	**(7,853)**	6,364	(7,331)
Consultancy	**2,108**	**(666)**	1,369	(646)
Assurance Testing	**7,199**	**(7,794)**	813	(550)
Unallocated net assets	**37,681**	**(5,172)**	33,533	(5,334)
Total assets / (liabilities)	**54,923**	**(21,485)**	42,079	(13,861)

2006	Depreciation £000	Capital expenditure £000	Total costs incurred to acquire segmental assets £000
Escrow Solutions	250	347	-
Escrow Solutions (Germany)	22	114	-
Escrow Solutions (US)	7	93	2,546
Escrow Verification	21	19	-
Total Escrow Solutions	300	573	2,546
Consultancy	110	87	-
Assurance Testing	130	154	-
Head office	10	10	-
Total	**550**	**824**	**2,546**

2007	Depreciation £000	Capital expenditure £000	Total costs incurred to acquire segmental assets £000
Escrow Solutions	298	317	-
Escrow Solutions (Germany)	32	12	-
Escrow Solutions (US)	52	89	1,124
Escrow Verification	20	14	-
Total Escrow Solutions	402	432	1,124
Consultancy	85	60	-
Assurance Testing	195	242	4,766
Head office	6	5	-
Total	**688**	**739**	**5,890**

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

Notes (continued)

2 Segmental information (continued)

The table below provides additional disclosure on revenue by geographical market where the customer is based

	2007 £000	2006 £000
Revenue by geographical segment		
UK	**20,620**	17,699
Rest of Europe	**1,756**	1,275
Rest of the World	**3,024**	1,773
Total revenue	**25,400**	20,747

The table below provides additional disclosure on assets / (liabilities) by geographical market where the assets / (liabilities) are based

	Assets 2007 £000	Liabilities 2007 £000	Assets 2006 £000	Liabilities 2006 £000
Assets / (liabilities) by geographical segment				
UK	**50,407**	**(20,695)**	38,084	(12,903)
Rest of Europe	**175**	**(126)**	272	(171)
Rest of the World	**4,341**	**(664)**	3,723	(787)
Total assets / (liabilities)	**54,923**	**(21,485)**	42,079	(13,861)

3 Expenses and auditors' remuneration

	2007 £000	2006 £000
Profit before taxation is stated after charging/(crediting)		
Amounts receivable by audtitors and their associates in respect of		
Audit of these financial statements	**5**	5
Audit of financial statements of subsidiaries pursuant to legislation	**29**	24
Other services pursuant to legislation	**5**	1
Services relating to corporate finance transactions entered into or proposed to be entered into by or on behalf of the Company or Group	**-**	9
Depreciation and other amounts written off tangible and intangible fixed assets		
Owned	**688**	550
Amortisation of intangible assets	**230**	47
Exchange losses	**11**	10
Operating lease rentals charged		
Hire of property, plant and equipment	**305**	270
Other operating leases	**445**	385
Profit on disposal of fixed assets	**-**	(9)

Notes (continued)

4 Staff numbers and costs

Directors' emoluments are disclosed in the directors' remuneration report on pages 26 to 31

Group

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

	Number of employees	
	2007	2006
Operational	**59**	66
Administration, sales and marketing	**179**	142
	238	208

The aggregate payroll costs of these persons were as follows

	2007	2006
	£000	£000
Wages and salaries	**9,829**	7,853
Share based payments (note 19)	**575**	468
Social security costs	**1,120**	912
Other pension costs (note 24)	**257**	231
	11,781	9,464

Company

The average number of persons employed by the company during the year, including directors is analysed by category as follows

	Number of employees	
	2007	2006
Administration, sales and marketing	**2**	2
	2	2

The aggregate payroll costs of these persons were as follows

	2007	2006
	£000	£000
Wages and salaries	**435**	386
Share based payments (note 19)	**169**	146
Social security costs	**62**	51
Other pension costs (note 24)	**26**	23
	692	606

Notes (continued)

5 Net financing costs

	2007 £000	2006 £000
Financial income		
Interest on short term deposits	**109**	175
	109	175
Financial expenses		
Interest payable on bank loans and overdrafts	**(163)**	(253)
Amortisation of deal fees on term loans	**(11)**	(7)
Deferred consideration finance expense (see below)	**(102)**	-
	(276)	(260)

The deferred consideration finance expense of £102,000 (2006 nil) relates to the acquisition of Site Confidence Limited The maximum consideration to be paid excluding professional fees is £9,100,000 based on performance conditions specified in the purchase agreement of which £4,300,000 was paid in January 2007, £891,000 was paid in June 2007 with the remaining balance of up to £3,909,000 due to be paid in June 2008 The deferred consideration has been discounted to present values and the unwinding of the discount has been treated as a finance expense The discount rate used is 6 5% The total net present value as at 31 May 2007 of the deferred contingent consideration recognised in trade and other payables (note 15) is £996,000 which includes £105,000 arising from the acquisition of Source Harbor Inc Additionally, the net present value as at 31 May 2007 recognised in non current liabilities (note 17) is £3,675,000

6 Taxation

Recognised in the income statement

	2007 £000	2006 £000
Current tax expense		
Current year	**2,571**	2,151
Adjustment to tax expense in respect of prior periods	**(11)**	(16)
Foreign tax	**12**	5
Total current tax	**2,572**	2,140
Deferred tax (see note 14)	**(161)**	(147)
Tax in income statement	**2,411**	1,993

Reconciliation of effective tax rate

	2007 £000	2006 £000
Profit before taxation	**7,785**	6,551
Current tax using the UK corporation tax rate of 30% (2006 30%)	**2,336**	1,965
Effects of		
Expenses not deductible for tax purposes	**74**	39
Foreign tax	**12**	5
Adjustment to tax charge in respect of prior periods	**(11)**	(16)
Total current tax	**2,411**	1,993

Deferred tax recognised directly in equity was £535,000 (2006 £103,000)

Notes (continued)

7 Dividends

	2007	2006
	£000	£000
Dividends paid and recognised in the year	**1,304**	897
Dividends proposed but not recognised in the year	**1,060**	734
Dividends per share paid and recognised in the year	**4.00p**	2 75p
Dividends per share proposed but not recognised in the year	**3.25p**	2 50p

8 Earnings per share

The calculation of earnings per share is based on the following

	2007	2006
	£000	£000
Profit for the year	**5,374**	4,558

	Number of Shares 000's	Number of Shares 000's
Basic weighted average number of shares in issue	**32,611**	32,604
Dilutive effect of share options	**1,256**	800
Diluted weighted average shares in issue	**33,867**	33,404

9 Profit attributable to members of the parent company

The loss for the year dealt with in the accounts of the parent company was £77,000 (2006 £751,000 profit)

10 Intangible assets - Group

	Note	Customer contracts and relationships	Goodwill	Total
		£000	£000	£000
Cost				
At 1 June 2005		-	27,401	27,401
Additions		2,250	816	3,066
At 31 May 2006		2,250	28,217	30,467
Additions	13	1,964	7,148	9,112
At 31 May 2007		**4,214**	**35,365**	**39,579**
Amortisation				
At 31 May 2006		47	-	47
Charge for year		230	-	230
At 31 May 2007		**277**	**-**	**277**
Net book value				
At 31 May 2007		**3,937**	**35,365**	**39,302**
Net book value				
At 31 May 2006		2,203	28,217	30,420

The Company has no intangible assets

Notes (continued)

10 Intangible assets – Group (continued)

Goodwill considered significant in comparison to the Group's total carrying amount of such assets have been allocated to cash generating units or groups of cash generating units as follows

	Goodwill	
	2007	**2006**
Cash generating units	**£000**	**£000**
Escrow	**22,871**	22,871
Assurance Testing	**2,301**	2,301
Consultancy	**2,229**	2,229
NCC Group plc	**27,401**	27,401
NCC Group Inc	**1,354**	816
Site Confidence Limited	**6,610**	-
	35,365	28,217

NCC Group Inc includes goodwill on the acquisition of the escrow division of Recall Information Management Inc and Source Harbor Inc The recoverable amount of the cash generating units has been calculated with reference to its fair value in use In calculating this value, management have used the following assumptions Management have used experience in determining the values assigned to each key assumption, sales levels are based on historical trends and a prudent estimate of market growth The period over which management approved forecasts are based is three years using a discount rate of 11 5%, the growth rate beyond 3 years is assumed to be zero There is significant headroom on this basis

Notes (continued)

11 Plant and equipment - Group

	Computer equipment £000	Plant and equipment £000	Fixtures and fittings £000	Motor vehicles £000	Total £000
Cost					
At 1 June 2005	1,487	344	454	103	2,388
Additions	609	14	46	161	830
Disposals	-	-	-	(67)	(67)
At 31 May 2006	2,096	358	500	197	3,151
Additions	627	14	56	42	739
Acquisition of Site Confidence Limited	381	33	38	-	452
Disposals	(1)	-	-	-	(1)
At 31 May 2007	**3,103**	**405**	**594**	**239**	**4,341**
Depreciation					
At 1 June 2005	1,099	130	122	35	1,386
Charge for year	343	63	111	33	550
On disposals	-	-	-	(42)	(42)
At 31 May 2006	1,442	193	233	26	1,894
Charge for year	458	64	109	57	688
Acquisition of Site Confidence Limited	244	10	23	-	277
At 31 May 2007	**2,144**	**267**	**365**	**83**	**2,859**
Net book value					
At 31 May 2007	**959**	**138**	**229**	**156**	**1,482**
Net book value					
At 31 May 2006	654	165	267	171	1,257

The company has no plant and equipment

12 Trade and other receivables

	Group 2007 £000	Group 2006 £000	**Company 2007 £000**	Company 2006 £000
Trade receivables	**5,792**	3,464	**-**	-
Amounts owed by group undertakings	**-**	-	**235**	165
Prepayments and accrued income	**1,965**	1,376	**-**	-
	7,757	4,840	**235**	165

All receivables fall due within one year and impairment on trade receivables in the year was immaterial

Notes (continued)

13 Acquisitions

A On 7 July 2006, the Group acquired the trade and net assets of Source Harbour Inc for a maximum consideration of £897,000 of which £111,000 has been withheld subject to the achievement of performance criteria specified in the purchase agreement The performance conditions are required to be satisfied by September 2007

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

	Acquiree's book values	Fair value Adjustments	Acquisition amounts
	£000	£000	£000
Acquiree's net assets at the acquisition date			
Plant and equipment	6	-	6
Trade and other receivables	24	-	24
Deferred revenue	(74)	-	(74)
Accruals	(16)	-	(16)
Customer contracts and relationships	-	389	389
Net identifiable (liabilities) / assets	(60)	389	329
Goodwill on acquisition			568
Maximum consideration to be paid including expenses			897
Less purchase consideration withheld			(111)
Net cash outflow			786

Goodwill has arisen on the acquisition because the purchase price exceeds the fair value of the separately identifiable net assets acquired Goodwill represents the value of a second US business as the group develops its presence in this important market

From the date of acquisition Source Harbor Inc contributed to the operating profit of the US Escrow Solutions business of £130,000 and revenue of £1,028,000 to the Group consolidated income statement for the year ended 31 May 2007

B On 23 January 2007 the Group acquired 97% of the share capital of Site Confidence Limited for a maximum consideration of £9,100,000 of which £4,800,000 has been withheld subject to the achievement of performance criteria specified in the purchase agreement The present value of the deferred consideration on 23 January 2007 was £4,464,000 Following the completion of a drag along exercise, 100% of the share capital had been acquired by 8 March 2007 The performance conditions are required to be satisfied by June 2008

Notes (continued)

13 Acquisitions (continued)

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

	Acquiree's book values	Fair value Adjustments	Acquisition amounts
	£000	£000	£000
Acquiree's net assets at the acquisition date			
Plant and equipment	175	-	175
Trade and other receivables	917	-	917
Deferred tax asset	-	893	893
Deferred tax liability	-	(473)	(473)
Cash	2,249	-	2,249
Deferred revenue	(1,680)	-	(1,680)
Accruals	(1,036)	-	(1,036)
Intangible assets purchased	-	1,575	1,575
Net identifiable assets	625	1,995	2,620
Goodwill on acquisition			6,610
Maximum consideration to be paid including expenses			9,230
Less purchase consideration withheld			(4,464)
Net cash outflow			4,766
Cash acquired			(2,249)
Net cash outflow excluding cash acquired			2,517

Goodwill has arisen on the acquisition because the purchase price exceeds the fair value of the separately identifiable net assets acquired including £1,575,000 assigned to customer relationships and contracts Goodwill represents synergies, business processes and the assembled value of the work force including industry specific knowledge and technical skills

From the date of acquisition Site Confidence Limited contributed an operating profit before amortisation of intangible assets of £149,000 and revenue of £1,574,000 to the Group consolidated income statement for the year ended 31 May 2007 After amortisation of intangible assets, operating profits were £37,000

C On 30 December 2005, the Group acquired the trade and net assets of the escrow division of Recall Total Information Management Inc for a maximum consideration of £2,946,000 of which £400,000 was withheld subject to the achievement of performance criteria specified in the purchase agreement

The performance conditions were required to be satisfied by 31 December 2006 and in May 2007 a final payment of £338,000 was made to complete the transaction £30,000 of the difference between the accrual for withheld consideration and the final payment arose from an exchange rate gain This has been accounted for by reducing the carrying value of goodwill

D If all of the acquisitions had occurred at the beginning of the financial year the actual consolidated revenue and operating profit for the year ended 31 May 2007 would have been approximately £28 5m and £8 1m respectively

Notes (continued)

14 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following

	Assets		**Liabilities**		**Net**	
	2007	2006	**2007**	2006	**2007**	2006
	£000	£000	**£000**	£000	**£000**	£000
Plant and equipment	**137**	81	**-**	(7)	**137**	74
Short term temporary differences	**13**	9	**-**	-	**13**	9
Trade losses	**815**	-	**-**	-	**815**	-
Intangible assets	**-**	-	**(473)**	-	**(473)**	-
Share based payments	**1,040**	333	**-**	-	**1,040**	333
Deferred tax assets / (liabilities)	**2,005**	423	**(473)**	(7)	**1,532**	416

Movement in deferred tax during the year

	1 June 2006 £000	Recognised in income £000	Recognised In equity £000	Arising on acquisition £000	**31 May 2007 £000**
Plant and equipment	74	63	-	-	**137**
Short term temporary differences	9	4	-	-	**13**
Trade losses	-	(78)	-	893	**815**
Intangible assets	-	-	-	(473)	**(473)**
Share based payments	333	172	535	-	**1,040**
	416	161	535	420	**1,532**

Movement in deferred tax during the prior year

	1 June 2005 £000	Recognised in income £000	Recognised in equity £000	31 May 2006 £000
Plant and equipment	68	7	-	**75**
Short term temporary differences	9	-	-	**9**
Share based payments	89	140	103	**332**
	166	147	103	**416**

The Company has no deferred tax assets or liabilities

15 Trade and other payables

	Group 2007 £000	Group 2006 £000	**Company 2007 £000**	Company 2006 £000
Trade payables	**431**	448	**-**	-
Amounts owed to Group undertakings	**-**	-	**5,807**	646
Interest payable	**29**	33	**-**	33
Non trade payables	**963**	804	**-**	-
Deferred consideration on acquisition of subsidiary (note 5)	**996**	-	**-**	-
Accruals	**1,512**	1,465	**49**	15
	3,931	2,750	**5,856**	694

Notes (continued)

16 Deferred revenue

	Group 2007 £000	Group 2006 £000	**Company 2007 £000**	Company 2006 £000
Deferred revenue	**8,620**	6,037	-	-
	8,620	6,037	-	-

Deferred revenue of £6,856,000 (2006 £6,037,000) consists of Escrow Solutions agreement revenue and maintenance revenue that has been deferred to be released to the income statement over the contract term on a pro-rata basis

Deferred revenue of £1,764,000 (2006 nil) consists of internet monitoring and load testing agreement revenue that has been deferred to be released to the income statement over the contract term on a pro-rata basis

17 Non-current liabilities

	Group 2007 £000	Group 2006 £000	**Company 2007 £000**	Company 2006 £000
Revolving credit facility (see note 18)	**3,500**	2,700	-	2,700
Total	**3,500**	2,700	-	2,700
Issue costs	**(26)**	(26)	**(26)**	(26)
Amortisation of issue costs	**26**	15	**26**	15
Net book value	**3,500**	2,689	-	2,689

The issue costs have been amortised to zero since the term loan to which it relates has been repaid

This note provides information about the contractual terms of the Group and Company's interest bearing loans and borrowings for more information about the Group and Company's exposure to interest rate and foreign currency risk see note 18

Other non-current liabilities of £3,782,000 consist of £3,675,000 deferred consideration (note 5) arising on the acquisition of Site Confidence Limited Payment was withheld from the initial consideration subject to the performance of conditions specified in the purchase agreement

Payment is due to be made in June 2008 The remaining £107,000 relates to the balance of a rent free period (2006 £123,000) which is released to the income statement over the term of the lease

Notes (continued)

18 Financial instruments
Financial instruments policy
All instruments utilised by the Company and Group are for financing purposes The day-to-day financial management and treasury are controlled centrally for all operations

Interest rate risk
The Group and Company finances its operations through a mixture of retained profits and bank borrowings The Group borrows and invests surplus cash at floating rates of interest based upon bank base rate

The financial assets of the Group at the end of the financial year were as follows

	2007	2006
	£000	£000
Sterling denominated financial assets	**4,253**	4,723
Euro denominated financial assets	**32**	58
US dollar denominated financial assets	**92**	358
Current trade and other receivables	**7,757**	4,840
	12,134	9,979

The financial assets of the Company at the end of the financial year were as follows

	2007	2006
	£000	£000
Sterling denominated financial assets	**12**	5
	12	5

The financial liabilities of the Group and their maturity profile is as follows

	2007	2006
Maturity	**£000**	£000
Less than 1 year	-	1,200
1 to 2 years	-	1,200
2 to 3 years	**3,500**	1,200
3 to 4 years	-	289
Current trade and other payables	**3,931**	2,750
Sterling denominated financial liabilities	**7,431**	6,639

The financial liabilities of the Company and their maturity profile is as follows

	2007	2006
Maturity	**£000**	£000
Less than 1 year	-	1,200
1 to 2 years	-	1,200
2 to 3 years	-	1,200
3 to 4 years	-	289
Current trade and other payables	**5,856**	694
Sterling denominated financial liabilities	**5,856**	4,583

Notes (continued)

18 Financial instruments (continued)
As at 31 May 2007 the Group had a committed undrawn and unsecured revolving credit facility of £6 3 million (2006 £6 1 million) The interest payable on drawn down funds is 0 95% above Libor

As at 31 May 2007 the Company had a committed undrawn and unsecured revolving credit facility of £nil (2006 £6 1 million term loan) the interest payable on drawn down funds is 0 95% above Libor

The revolving credit facility is available until July 2009

Liquidity risk
The Group and Company's operations are cash generative The Group and Company considers that it has sufficient financial resources to meet its foreseeable requirements

Credit risk
As at 31 May 2007 the Group and Company had no material exposure to credit risk

Currency exposure
As at 31 May 2007 the Group and Company had no material currency exposures relating to trading activities The Group and Company's financial instruments are materially denominated in sterling

Fair value of financial instruments
As at 31 May 2007 the Group and Company had no other financial instruments

There is no material difference between the fair value and the carrying value of the financial instruments

19 Share based payments
The company has a number of share option schemes under which options to subscribe for the Company's shares have been granted to directors and staff, details of which are illustrated in the tables below Expected term of options represents the period over which the fair value calculations are based

Approved EMI scheme
Under the Approved EMI Scheme, options granted will be subject to performance criteria Options will vest if the average EPS growth for the 3 years following their grant is greater than 3% above RPI per annum The options are to be settled in equity

Date of grant	Expected term of options	Exercisable between	Exercise price	2007 Number Outstanding
July 2004	6 years	July 2007 - July 2014	£1 70	894,141
July 2005	6 years	July 2008 - July 2015	£2 565	13,644
July 2006	6 years	July 2009 - July 2016	£2 70	9,259

LTIP Schemes
The vesting condition for the award of the July 2004 LTIP is average growth of EBITA over the life of the LTIP If average EBITA growth is above 25% the shares will vest fully If growth is less than 10% no shares will vest and if the average EBITA growth is between 10% and 25% the shares vest on a straight line basis between the two percentages

Notes (continued)

19 Share based payments (continued)

The vesting condition for the award of the other LTIP schemes is split 50 50 between Total Shareholder Return (TSR) & EPS The TSR condition compares the Group's TSR performance over the 3 year performance period with the TSR performance of the constituent companies of the FTSE software and computer services index Where the Group's TSR performance equates to median level in the comparator group, 30% of the award governed by the TSR condition will vest 100% of the award governed by the TSR condition will vest for upper quartile performance or above Between these two points, vesting will be determined on a straight line basis

The EPS condition governs the vesting of the remaining 50% of the LTIP award and relates to the growth in the Group's EPS over the performance period If growth is equal to 25% or more per annum then 100% of the award governed by the EPS condition will vest If, however, growth is less than 10% per annum, none of the award governed by the EPS condition will vest Between these two points, vesting is determined on a straight line basis The options are to be settled in equity

Date of Grant	Expected term of options	Exercisable between	Exercise price	2007 Number outstanding
July 2004	3 years	June 2007 – July 2008	nil*	169,118
July 2005	3 years	June 2008 – Sept 2009	nil*	261,761
July 2006	3 years	June 2009 – June 2010	nil*	280,553
Sept 2006	3 years	June 2009 – June 2010	nil*	53,180

*The option exercise price is nil however £1 is payable on each occasion of exercise

Sharesave scheme

The company operates a Sharesave scheme, which is available to all employees and full time Executive Directors of the Company and its subsidiaries who have worked for a qualifying period All options are to be settled by equity

Under the scheme the following options have been granted and are outstanding at year end

Date of Grant	Expected term of options	Exercisable between	Exercise price	2007 Number Outstanding
July 2004	3 25 years	September 2007 - February 2008	£1 36	276,477
July 2005	3 25 years	September 2008 - February 2009	£2 07	36,978
August 2006	3 25 years	September 2009 - February 2010	£2 16	24,580

The following tables illustrate the number of share options for the schemes

Scheme	Number of instruments as at 1June 2005	Instruments granted during the year	Options exercised in the year	Forfeitures in the year	Number of instruments as at 31 May 2006
Approved EMI scheme	1,132,080	-	-	(167,668)	964,412
Approved EMI scheme	-	42,882	-	-	42,882
Sharesave scheme	343,678	-	-	(51,875)	291,803
Sharesave scheme	-	56,357	-	(6,586)	49,771
LTIP	169,118	-	-	-	169,118
LTIP	-	261,761	-	-	261,761

Notes (continued)

19 Share based payments (continued)

The weighted average share price at the time the share options were forfeited in the year was £2 49

Scheme	Number of instruments as at 1 June 2006	Instruments granted during the year	Options exercised in the year	Forfeitures in the year	Number of instruments as at 31 May 2007
Approved EMI scheme	964,412	-	(7,572)	(62,699)	894,141
Approved EMI scheme	42,882	-	-	(29,238)	13,644
Approved EMI scheme	-	9,259	-	-	9,259
Sharesave scheme	291,803	-	(2,212)	(13,114)	276,477
Sharesave scheme	49,771	-	-	(12,793)	36,978
Sharesave scheme	-	28,901	-	(4,321)	24,580
LTIP	169,118	-	-	-	169,118
LTIP	261,761	-	-	-	261,761
LTIP	-	280,553	-	-	280,553
LTIP	-	53,180	-	-	53,180

The weighted average share price at the time the share options were exercised in the year was £2 58

The weighted average share price at the time the share options were forfeited in the year was £2 81

The fair value of services received in return for share options is calculated with reference to the fair value of the award on the date of grant The fair value is spread over the period during which the employee becomes unconditionally entitled to the award, adjusted to reflect actual and expected levels of vesting Black-Scholes, Binomial and Monte Carlo simulation models have been used to calculate the fair values of options on their grant date for all options issued after 7 November 2002 which had not vested by 1 January 2005

The assumptions used in the model are illustrated in the table below

	Grant Date	Fair value at measurement date	Exercise price	Expected volatility	Option expected term	Risk-free interest rate
EMI	Jul-04	£0 66	£1 70	44%	6 Years	5 09%
EMI	Jul-05	£1 07	£2 57	40%	6 Years	5 09%
EMI	Jul-06	£0 78	£2 70	25%	6 Years	4 75%
SAYE	Jul-04	£0 68	£1 36	44%	3 25 Years	5 06%
SAYE	Jul-05	£1 00	£2 07	40%	3 25 Years	5 06%
SAYE	Aug-06	£0 81	£2 16	25%	3 25 Years	4 76%
LTIP	Jul-04	£1 59	£nil*	44%	3 Years	5 01%
LTIP	Sep-05	£1 87	£nil*	40%	3 Years	5 01%
LTIP	Sep-05	£2 27	£nil*	40%	3 Years	5 01%
LTIP	Jul-06	£2 21	£nil*	25%	3 Years	4 79%
LTIP	Sep-06	£1 80	£nil*	25%	3 Years	4 97%

* The option exercise price is nil however £1 is payable on each occasion of exercise

Notes (continued)

19 Share based payments (continued)

The expected volatility is based on the historical volatility, adjusted for any expected changes to future volatility due to publicly available information For the options granted in the year ending 31 May 2007, dividend yield assumed at the time of option grant is 1 6% For other option schemes, dividend yield assumed at the time of option grant was 2 3%

A charge of £575,000 (2006 £468,000) has been made to cost of sales in the Group income statement in respect of share based payment transactions A charge of £169,000 (2006 £146,000) has been made to cost of sales in the Company income statement in respect of share based payment transactions

20 Called up share capital

	Number of shares	2007 £000	2006 £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	32,604,185	**326**	326
Ordinary shares of 1p each issued in the year	9,784	**-**	-
Ordinary shares of 1p each at the end of the year	32,613,969	**326**	326

21 Minority interests

	2007 £000	2006 £000
At beginning of year	-	(23)
Acquired	-	23
At end of year	-	-
Equity	-	-
Non-equity	-	-
	-	-

22 Cash and cash equivalents

	At beginning of year £000	Cash flow £000	Non cash items £000	**At end of year £000**
Cash and cash equivalents per balance sheet	5,139	(785)	23	**4,377**
Cash and cash equivalents per cash flow statement	5,139	(785)	23	**4,377**

Notes (continued)

23 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

	2007	2006
	£000	£000
Contracted	**350**	-

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

	2007		2006	
	Land and Buildings £000	**Other £000**	Land and Buildings £000	Other £000
Within 1 year	**14**	**66**	-	46
In second to fifth year inclusive	**499**	**191**	407	225
	513	**257**	407	271

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

24 Pension scheme

The Group operates a defined contribution pension scheme that is open to all eligible employees The pension cost charge for the year represents contributions payable by the Group to the fund and amounted to £257,000 (2006 £231,000) The outstanding contributions at the year end were £42,240 (2006 £32,707)

For the Company, the pension cost charge for the year represents contributions payable by the Company to the fund and amounted to £26,000 (2006 £23,000)

25 Related party transactions

The Group and Company's transactions with directors are disclosed in the Directors' Remuneration Report

NCC Group's Non Executive chairman Paul Mitchell is a director of Rickitt Mitchell and Partners Limited and the Group conducted business to the value of £239,000 (2006 £115,000) with Rickitt Mitchell and Partners Limited Included within the charge is £194,000 relating to advice received in connection with acquisitions made during the year ended 31 May 2007 The remaining £45,000 relates to the services of the Non Executive Chairman Rickitt Mitchell and Partners Limited also held 7,000 1 0p ordinary shares (2006 7,000)

26 Fixed asset investments in subsidiaries

	Shares in group undertakings £000
Company	
Cost	
At beginning and end of year	**29,145**

The cost represents the cost of acquiring the whole of the issued share capital of NCC Group (Solutions) Limited and its subsidiary undertakings Fixed asset investments are recognised at cost

Notes (continued)

26 Fixed asset investments in subsidiaries (continued)

The principal undertakings in which the Company's interest at the year end is 100% are as follows

Subsidiary undertakings	Country of incorporation	Principal Activity
NCC Group (Solutions) Limited	England and Wales	Escrow Solutions & Consultancy services
NCC Services Limited	England and Wales	Escrow Solutions & Consultancy services
NCC Escrow International Limited	England and Wales	Dormant
NCC Group Inc	USA	Escrow Solutions
NCC Group Employee's Trustees Limited	England and Wales	Employee Benefit Trust
NCC Group GmbH	Germany	Escrow Solutions
Escrow 4 Software Limited	England and Wales	Dormant
Site Confidence Limited	England and Wales	Internet monitoring & load testing

The Group does not have an interest in any other subsidiary undertakings

27 Post balance sheet events

On 21 March 2007 it was disclosed that the standard rate of corporation tax is to be changed to 28% For the purposes of the Group and Company financial statements to 31 May 2007, the standard rate of 30% as applicable prior to 31 March 2008 has been applied, on the basis that these were enacted at the balance sheet date of 31 May 2007 This will also effect the time period over which deferred tax can be recovered

On 12 June 2007 it was announced that the Company expects trading in its ordinary shares to cease on AIM on Friday 13 July 2007 It is expected that admission of the Group's shares to the Official List will be simultaneous with the de-listing from AIM and will become effective at 8 00am on Friday 13 July 2007

Company information

Directors
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Rob Cotton – Chief Executive
Paul Edwards – Finance Director
James Wallace – Senior Non Executive Director
Eurfyl ap Gwilym – Non Executive Director

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