Cohort plc

Annual Report and Accounts 2007

Cohort was established to capitalise on consolidation and organic growth opportunities in the defence technical services market. It was admitted to trading on AIM on 8 March 2006. On 1 August 2006, it acquired MASS Consultants Ltd (MASS).

Cohort operates through its two trading subsidiaries, Systems Consultants Services Ltd (SCS) and MASS. Both are leading independent technical service providers, working for defence, wider government and industry clients.

Company profile

MASS

MASS is an independent UK systems house with a strong defence and aerospace market focus. Formed in 1983, the Company is based near St Neots in Cambridgeshire with a second facility in Lincoln. MASS currently employs around 110 permanent staff and 25 associates, of whom 75% are professional engineers complemented by a small cadre of ex-service personnel.

MASS offers specialist skills in four business areas:

- Electronic Warfare
- Specialist managed services
- Communications and Electronic Systems
- Information Systems

In addition, MASS offers re-design and support of older in-service military systems, plus technical and operational advisory services across all four business areas.

The ability to assemble multi-disciplined teams covering both operational and engineering design disciplines sets MASS apart from many other systems houses. MASS has specific experience in managing and providing services in highly secure areas of government and industry.

SCS

SCS is a leading independent defence technical services business based in Henley-on-Thames, Oxfordshire. SCS provides a range of technical services for the defence and security sectors, its principal client being the UK Ministry of Defence (MOD) and its agencies.

Other clients include other UK government departments, NATO, major defence contractors and non-defence businesses. SCS was founded in 1992 by Stanley Carter, formerly a lieutenant colonel in the British Army, to provide independent, practical and technical expertise to clients in the defence and security sectors. A high proportion of SCS's employees and those engaged as associates were formerly in either the British armed forces or the MOD. Many are technically qualified to degree level or above and collectively they have a wide breadth and depth of expertise.

SCS currently employs around 110 permanent staff and 107 associates.

Highlights

- Mass Maiden return above expectation
- SCS business growth 24%
- Closing order book of £38.3m
- Year end cash balance £5.0m
- Normalised earnings per share* 8.97p
- Proposed final dividend 0.9p per share

* excluding exceptional items, goodwill amortisation and share-based payments.

Chairman's statement

Summary of Chairman's statement

- MASS performed ahead of expectations
- SCS continued to grow strongly

I am pleased to announce the first full year of results for Cohort plc since listing on AIM in March 2006. Cohort acquired MASS Consultants Limited (MASS) in August 2006 and the new business has settled in well and performed ahead of expectations in its first nine months within the Group. Systems Consultants Services Limited (SCS) continued to grow strongly. Overall, Cohort has progressed well and achieved its financial and strategic objectives for the year.

Key financials

In the year ended 30 April 2007, Cohort achieved Group turnover of £34.4m (2006: £17.8m) representing a 93% increase on 2006. This included turnover of £22.1m (2006: £17.8m) from SCS representing organic growth of 24% and an initial contribution from MASS of £12.3m.

Group operating profit before goodwill amortisation and share-based payments was £3.0m (2006: £1.8m). This included operating profit of £2.3m (2006: £1.9m) from SCS representing organic growth of 19% and an initial contribution of £1.3m from MASS. Cohort Group overheads were £0.6m (2006: £0.1m).

Profit before goodwill amortisation, share-based payments, interest and tax was £2.9m (2006: £1.3m) after accounting for the Group's share of joint venture losses and exceptional items in relation to venture capital activities of £128,000 (2006: £467,000).

Profit after interest and before tax was £2.5m (2006: £1.4m) and profit after tax was £2.0m (2006: £0.9m).

Basic earnings per share were 7.26p (2006: 5.47p). Normalised earnings per share were 8.97p (2006: 6.77p). The normalised earnings per share were based upon profit after tax, excluding goodwill amortisation, share-based payments and exceptional items.

The Cohort cash balance at year end was £5.0m (2006: £5.6m), reflecting the good operating performance, net of the cash invested in the acquisition of MASS.

"Overall, Cohort has progressed well and achieved its financial and strategic objectives for the year."

Dividends

The Group plans to pay a final dividend of 0.9p per ordinary share (2006: 0.4p), making the full year dividend in respect of the year ended 30 April 2007 1.3p per ordinary share (2006: 0.4p). This will be payable on 5 September 2007 to shareholders on the register at 10 August 2007 subject to approval at the annual general meeting on 30 August 2007.

Board and personnel

On 1 May 2007, the beginning of the new financial year, we made two new appointments. Rick Bounsall was appointed as Managing Director of SCS. Rick was formerly a senior officer in the British Army, with much experience of managing complex equipment projects. I am pleased to welcome Rick to the Group.

Andy Thomis, formerly Group Corporate Development Director, was appointed Managing Director of MASS, an appointment which had been vacant since the acquisition of the company. As a consequence of taking up this role Andy stepped down from the Cohort plc Board on 9 July 2007. Both he and Rick Bounsall sit on the Group Executive Committee.

Since flotation Stanley Carter had fulfilled the role of Managing Director at SCS as well as being Chief Executive of Cohort and supervising the integration of MASS. The appointments of Rick Bounsall and Andy Thomis have freed Stanley to spend more time on the development of the Group, including by acquisition. I am also closely involved in this process.

I would like to add a warm welcome to all the employees of MASS who have joined the Cohort Group. It is a cliché that all businesses are people businesses, but one that is true in our case. I would like to thank all the Cohort employees for the efforts which have helped to make the first full year of the Group as a listed Company a successful one.

Outlook

The Group order book at 1 May 2007 stood at £38.3m including an export order at MASS of £5.8m received in April 2007. SCS continues to expand its business, building on the demand from MOD and industry for technical advice which is informed by both theory and military experience.

We continue to look for acquisitions to complement the organic development of the business. We are also taking steps to restructure our remaining joint venture investments, neither of which is core to the Group.

Overall the Board is positive about the outlook for the continued progress of the Group.

Nick Prest CBE
Chairman

Chief Executive's review

Summary of Chief Executive's review

- Acquisition of MASS
- Continued strong growth from SCS
- Senior appointments to subsidiary Boards
- Further investment in infrastructure

I am pleased to report that Cohort's first full year of trading has continued the successful trend of last year. The Group has been significantly expanded and strengthened with the acquisition of MASS and continued strong growth from SCS. In the year ended 30 April 2007, Cohort achieved Group turnover of £34.4m (2006: £17.8m) and operating profit before goodwill amortisation and share-based payments of £3.0m (2006: £1.8m).

MASS

Based in Cambridgeshire with an electronic warfare facility in Lincolnshire, MASS was founded in 1983. It is well known in the field of electronic warfare, secure communications and associated specialist managed services. In the nine months since acquisition, MASS exceeded our expectations turning over £12.3m with an operating profit of £1.3m, a very good performance. Andy Thomis was appointed as Managing Director of MASS on 1 May 2007. The previous post holder had retired on acquisition by mutual agreement; the other three executive directors remain in post. Employee response to the change in status of MASS and to the staff changes has been very positive and augurs well for the continuing organic growth of MASS.

A particularly important achievement during the year was the award to MASS of a £5.8m contract for electronic warfare operational support (EWOS) services to an export customer. This confirms MASS's position as a leading international EWOS provider and the Company continues to pursue further major prospects in this area. MASS continues to invest in the next generation of electronic warfare databases. This is a strategic decision by the Group to ensure its continuing critical role in support of the UK's electronic warfare capability and its expanding role in overseas EWOS support and development work.

Good progress was made on SCA, a £9m contract to design and manufacture a number of airborne secure communication systems for the RAF. After the year-end an amendment was received increasing the value of the SCA contract by approximately £0.9m, extending the duration to 2009.

MASS continues to support OFCOM to assess radio spectrum quality in the UK, using our unique digital signal processing techniques and measuring equipment. Opportunities are being pursued to provide similar services to other users in the UK and overseas.

MASS continued to perform well on its managed service contracts with the MOD's Strategic Systems Integrated Project Team (IPT) and the Air Warfare Centre. A number of possible paths have been identified to grow these activities in future.

> "The wide ranging and complementary expertise we are building into the Cohort Group make it well positioned to continue to grow, both organically and through acquisition."

SCS

SCS continued to grow strongly: turnover £22.1m, 24% above 2006, operating profit £2.3m, 19% above 2006. Further investment has been made in SCS's infrastructure to support the continued top line growth. This investment will continue into 2008 with an improved management information system for SCS. Rick Bounsall took over as Managing Director of SCS from me on 1 May 2007. Rick, a Royal Artillery brigadier, has held senior appointments in the MOD involving major equipment programmes for the past six years and, most recently, has led the £2.5 billion Bowman communications programme.

James Campbell, formerly Head of Capability and Support Division, has been appointed Operations Director. The two non-executive directors, John Tydeman and Michael Russell have resigned in accordance with Group policy not to have non-executive directors on subsidiary boards. I take this opportunity to thank both of them for their invaluable support over many years. Further management changes have been made by grouping the former six business areas and one division into four divisions, each with a divisional head.

Notable contract awards won in competition during the year include:

- Support to the Defence Infrastructure IPT and the ATLAS Consortium;
- A key Defence Logistics IS project (JAMES) and the MOD's experimental workshop NITEworks; and
- the Integration Authority and significant training tasks for the Permanent Joint Headquarters as part of our ongoing five year contract.

SCS has worked throughout the year with UK Land Command on numerous tasks as well as assisting Defence Estates and the Defence Logistic Organisation. Contributions to new equipment capabilities include: work on the Army's proposed new medium weight armoured vehicle project (FRES) and follow-up work for the RAF's Joint Combat Aircraft.

SCS is a key member of Lockheed Martin's Team Athena for the provision of the Land Environment Air Picture Programme (LEAPP), and Raytheon's team on the Joint Effects Tactical Targeting System (JETTS) and is heavily involved in the Network Enabled Air Defence System (NEADS).

Beyond the UK, SCS has continued to lead an industrial consortium contracted to NATO's NC3 Agency and has established a growing reputation with the World Lottery Association as a Security and Risk Advisor. This includes winning a contract from a Chinese lottery for audit work and teaming with Sugal & Damani in their bid for the next UK Lottery Licence.

Organisation

The demands on Cohort's senior management grew following flotation and the acquisition of MASS. The appointment of new Managing Directors at MASS and SCS has freed me to focus more on Group matters and acquisitions. Organisationally, the Cohort Board will remain tight, overseeing a Group Executive Committee which I will chair. This comprises the Executive members of the Cohort Board and the Managing Directors of the subsidiaries.

Market

The factors in the wider defence market have changed little from those I reported last year, with continuing trends to integrate and consolidate. The demand from the MOD for impartial and independent technical advice remains strong. The high level of operational commitment of HM Forces, coupled with a natural "front-line first" policy, continues to leave gaps in military technical posts in the MOD, which is already having to cope with reduced technical support arising from the significant reduction of the scientific civil service brought about by privatisation. These factors have benefited the Group and are expected to continue in the future.

I am confident that the wide ranging and complementary expertise we are building into the Cohort Group make it well positioned to continue to grow, both organically and through acquisition to meet the increasing need for independent technical advice and support.

A E Stanley Carter
Chief Executive

Finance Director's review

I am pleased to include for the first time a financial review of the Group. The review is in two sections, further expanding upon the financial results of the Group and explaining the financial and operational risks faced by the Company and its subsidiaries.

Financial statements

The following expands upon the financial statements and notes thereto, highlighting in particular significant changes and estimates within the financial statements.

Acquisition of MASS (note 25)

Completed 1 August 2006, MASS contributed nine months of results to the Cohort Group. The goodwill arising on the acquisition of £13.7m will be amortised over 20 years under UK GAAP. A charge of £515,000 was included in the administrative expenses of the Group for the year ended 30 April 2007 (2006: £nil).

The goodwill includes deferred consideration of £0.5m, provided for by the Group on acquisition and outstanding at 30 April 2007 (note 18). The deferred consideration is payable to the vendors of MASS on the securing of certain overseas contracts on or before 31 July 2008.

Share-based payments (note 19)

The Group has adopted Financial Reporting Standard 20, share-based payments for the year ended 30 April 2007, for which a charge of £71,000 (2006: £nil) was included within administrative expenses. The share-based payment has been calculated using the Quoted Companies Alliance share-based payment model, a Black-Scholes based binomial model.

The charge to the accounts was based upon a number of factors, two of which were subjective estimates:

i. Volatility

A rate of 20% has been used based upon the daily share price variation over the last 14 months since listing. The charge for the year ended 30 April 2007 would have been £54,000 at 10% volatility and £90,000 at 30% volatility.

ii. Leavers rate

The rate of 6.5% was based upon the experience of the Group for the year ended 30 April 2007.

The charge in future years will be higher due to current share options being in issue for a full year.

Joint ventures

The share of joint venture operating losses in the year ended 30 April 2007 arises from the Group's 50% share in Advanced Geospatial Solutions Ltd (AGS) for the whole year and 25% share in Digital Millennium Map LLP (DMM) for the six months ended 31 October 2006.

Looking forward, the Group will only account for its 50% share of AGS.

The reclassification of the Group's interest in DMM from a joint venture to an investment resulted in the partial write back of the Group's share of accumulated losses of DMM up to 31 October 2006 as an exceptional gain of £113,000.

Taxation (note 8)

The Group's tax charge for the year ended 30 April 2007 of £454,000 (2006: £440,000) was at an effective rate of 18.5% (2006: 32.4%) of profit before tax. This included a current year corporation tax charge of £449,000 (2006: £406,000), a rate of 18.3% (2006: 29.9%).

The Group's overall tax rate was significantly below the standard corporation tax rate of 30%, the majority of the rate reduction was due to the recognition of research and development (R&D) credits at MASS for the nine months ended 30 April 2007.

MASS has retained its smaller and medium sized enterprise (SME) status for the year to 30 April 2007, thus benefiting from a higher R&D tax credit rate. This SME status will be retained in the year ended 30 April 2008.

Group turnover

Further analysis is as follows:

	2007	2006
Turnover by customer:		
Direct to UK MOD	69%	78%
Indirect to UK MOD	21%	20%
Commercial	9%	1%
NATO	1%	1%

The change in turnover mix is due to the acquisition of MASS, which provides IT and communications services to non-military customers, including OFCOM and the police.

Debtors

Group debtors, expressed as days of sales at 30 April 2007 were 71 (2006: 87 days). This was due to a small reduction in the SCS debtor days from 84 to 79 and the inclusion of MASS (56 days), lowering the overall Group debtor days.

At SCS, the investment in a new information system during the coming year is expected to reduce debtor days.

Approach to risk

The business risks of the Group can be summarised as follows:

i. Revenue
ii. Treasury
iii. Operations
iv. Acquisitions

i. Revenue

The Group takes a prudent approach to revenue risk, and any work done at risk is minimal, authorised at the appropriate level and reviewed on a monthly basis. The calibre of the Group's customers and the control processes in respect of revenue capture and invoicing, ensures minimal bad debts. The 2007 bad debt charge was £nil (2006: £6,000) on a Group turnover of £34.4m (2006: £17.8m).

The Group also uses letters of credit and other methods of payment guarantee, including customer advances, especially in respect of overseas customers, to ensure any export debt risk is minimised. To date, export debt has been mainly receivable in sterling with immaterial levels of foreign currency receivable.

ii. Treasury

The Group takes a very prudent approach to the management of its financial instruments which are described in note 17. The Group's cash is held with at least AA rated institutions and on deposits not exceeding one month. This ensures a very low risk to capital and a reasonable balance of liquidity against interest earned on cash deposits.

During the year, the Group put in place a working capital facility with RBS NatWest for £1.0m. This facility is available to all of the Group's entities through an offset arrangement.

The Group did not utilise this facility during the year ended 30 April 2007 with an average net funds balance of £4.4m, net funds ranging from a low of £2.4m to a high of £5.0m since the acquisition of MASS in August 2006.

The Group is currently considering further debt, of a structured nature, to potentially constitute a part of any future acquisition consideration in accordance with the Group's strategy.

iii. Operations

The Group's operational risk is primarily through its two subsidiaries. The individual subsidiary trading or business risks are as follows:

MASS

MASS's primary risks are:

i. Fixed price contracts – these are usually of a long term nature (greater than 12 months) and typically include delivery of hardware and software. These projects are managed by dedicated project management, monthly review by the MASS Board and regular interaction with the customer and key suppliers. Margin is prudently recognised taking account of risk and cost to complete.

ii. Because of the nature of its niche technical skills requirement, MASS has a fixed level of core engineering. This cost base is carefully monitored at budget time and by a rolling monthly forecast to identify any potential risk of low utilisation and thus under recovery of cost.

    The risk is mitigated, in the short term, to a certain extent by the use of a small number of sub-contractor staff. In the long term, a programme of skills assessment and training is in place to ensure continued flexibility of the engineering resource.

SCS

The primary cost risk is in respect of staff utilisation. This risk is managed by retaining a minimal core staff, essential for business support, development and delivering key skills to customers. The majority of deliverable service is provided by non-core staff (associates) where cost is only incurred when the associates are on task earning revenue.

SCS has a small number of fixed price contracts which are managed by specifically tasked project management and reviewed on a monthly basis for financial performance and risk to recognised margin. The recognised margins are prudently traded taking account of risks and costs to completion.

The Group (through SCS and MASS) operates a number of off-site managed service contracts. These contracts are long term in nature (typically five years at commencement) and are managed through dedicated site project managers. The contracts are fixed price in terms of revenue and cost with opportunities for additional tasks enhancing volume and return. The Group carefully manages the partnership with its customer and supplier base in all these cases to ensure the customer receives value for money and skilled Group staff providing a dedicated, flexible and responsive approach. The primary risk to these managed service contracts is termination which is mitigated by the partnering approach adopted by the Group and our close engagement with the customer to ensure customer requirements remain paramount at all times.

iv. Acquisitions

The Group's acquisition risk is mitigated as far as practicable by the acquisition process being managed at the Cohort Board level, making use of appropriate external expertise and resources as and when required.

Simon Walther
Finance Director

Board of Directors

Nick Prest CBE
Chairman

After graduating with an MA from Oxford, Nick Prest began his career as an administrative civil servant in the UK Ministry of Defence (MOD) in 1974. After an MBA course at Bradford Business School, Nick then moved within the MOD to the Defence Export Services Organisation. In 1982, he left the MOD to take a marketing role at United Scientific Holdings, predecessor of Alvis plc (Alvis). He was appointed marketing director in 1985, with overall responsibility for the order intake of the Alvis Group worldwide, and became chief executive in 1989. Alvis developed into one of the world's leading contractors in the specialist field of armoured vehicles before being acquired by BAE Systems in 2004. Nick was appointed Chairman of Alvis in 1996. He was Chairman of the Defence Manufacturers Association from 2001 to 2004. Nick is also Chairman of AVEVA Group PLC.

Stanley Carter
Chief Executive

Following a successful military career, Stanley Carter took early retirement as a Regular Army Lieutenant Colonel in the Royal Artillery to found Systems Consultants Services Ltd (SCS) in 1992. During his military service he held a wide range of operational posts and staff officer appointments in the MOD, including the central staff, procurement, government research establishments and had significant interaction with industry. He also represented the UK on a five nation technical committee overseeing the development of an advanced weapon system and at NATO interoperability committees. Stanley won a personal award from the MOD Committee of Awards to Inventors for a lightweight missile launcher which is still in service. Having been Managing Director of SCS for 14 years, Stanley became Chief Executive of Cohort on its formation in 2006.

Simon Walther
Finance Director and Company Secretary

After graduating with a BSc from London, Simon Walther went on to qualify as a chartered accountant with Touche Ross in 1992. Simon moved to the Peninsular and Oriental Steam Navigation Company (P&O) in 1993 where he was appointed a Chief Accountant for P&O European Ferries in 1995. In 1997 he was appointed Group Financial Controller at Alvis. He joined Cohort as Finance Director in May 2006, having considerable industry relevant experience with Alvis and BAE Systems.

Sir Robert Walmsley KCB
Independent Non-executive Director

Sir Robert Walmsley previously served in the Royal Navy where his final appointment was as Controller of the Navy and member of the Navy Board as a Vice Admiral. He was knighted in 1995. After retiring from the Navy, he was appointed as Chief of Defence Procurement, occupying that position from 1996 until 2003. He was appointed independent Non-executive Director of British Energy Group PLC in 2003. He is an independent director of General Dynamics Corporation, the Major Projects Association, EDO Corporation and Stratos Global.

Executive Management

Andrew Thomis
Managing Director of MASS

Andrew graduated from Imperial College, London in 1987 with an M.Eng in Electronic Engineering and Management Science. He spent nine years in the Ministry of Defence as a fast stream civil servant, carrying out roles including technology research, scientific policy advice and a spell as a private secretary to the defence procurement minister. He left in 1996 and, following a period with Capita plc's management consultancy arm, he joined Alvis plc in a role covering strategy, M&A and business development. Andrew left Alvis in 2005, following the takeover by BAE Systems and worked with Nick Prest and Stanley Carter on the creation and flotation of Cohort plc. He was appointed Corporate Development Director of Cohort plc in March 2006 and, additionally, Business Development Director of SCS in May 2006. Andrew took over as Managing Director of MASS in May 2007.

Rick Bounsall
Managing Director of SCS

Commissioned from Sandhurst and an Engineering graduate, Brigadier Rick Bounsall enjoyed a successful career in the British Army. He commanded up to Regimental level, deployed on several operations, served on exchange in the United States Army for two years and was an instructor at the Army Command and Staff College. For his service in Northern Ireland he was awarded the Queen's Commendation for Valuable Service. In the second half of his career he specialised in Defence Acquisition holding key appointments as Director Equipment Capability in MOD Head Office and as an IPT Leader in the Defence Equipment and Support organisation in charge of some of the MOD's biggest programmes. For three years he was the Chairman of the NATO Battlefield Information Collection and Exploitation System (BICES) Agency Board of Directors. Rick left the Army early in order to take up the appointment of Managing Director of SCS in May 2007.

Group advisers

Registered Company number of Cohort plc
05684823

Nominated adviser and broker
Investec
2 Gresham Street
London EC2V 7QP

Auditor
Baker Tilly UK Audit LLP
Chartered Accountants
12 Gleneagles Court
Brighton Road
Crawley
West Sussex RH10 6AD

Legal advisers
Olswang
90 High Holborn
London WC1V 6XX

Registrars
Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield HD8 0LA

Public and investor relations
Hogarth Partnership Ltd
No.1 London Bridge
London SE1 9BG

Bankers
RBS Natwest
Abbey Gardens
4 Abbey Street
Reading RG1 3BA

Directors' report

The Directors submit their report and the audited financial statements of Cohort plc for the year ended 30 April 2007.

Principal activities

The principal activity of the Company is that of a holding company. The principal activities of the Group are as follows:

- Through SCS: provider of independent technical consultancy support and services, primarily, although not exclusively to the defence sector; and
- Through MASS: provider of niche secure communications hardware and software, electronic warfare software and support services and management of secure IT facilities and services, again primarily, although not exclusively to the defence sector.

Share capital of the Company and transactions with shareholders

The Company issued 7,337,778 ordinary shares on 1 August 2006 at £1.35 per share as part of the consideration for the acquisition of MASS. Of the shares issued, 6,597,037 were issued for cash and 740,741 shares were issued to the vendors of MASS.

On 25 January 2007, Nick Prest paid £750,000 to the Company in final settlement of shares originally issued to him on 15 February 2006. This payment was made in accordance with the agreement made at the time of that share issue.

During the year, the Company issued 17,886 shares in order to satisfy various employee share option plans that were exercised.

Business review of the year ended 30 April 2007

On 1 August 2006, the Group completed the acquisition of MASS by acquiring 100% of MASS's issued share capital. The Group has accounted for MASS as a 100% subsidiary from that date. Further details of the acquisition, including consideration are included in note 25 on page 33.

The Group's performance was in line with expectations. The Group's performance and future developments, including acquisition strategy are further explained in the Chairman's statement (pages 2 and 3) and the Chief Executive's review (pages 4 and 5).

Further details of the Group's financial performance and risks, including operational risks, are included in the Finance Director's review (pages 6 and 7).

The retained profit of the Group after dividends charged and paid of £236,000 (2006: £159,000) was £1,770,000 (2006: £760,000). The retained profit of the Company after dividends charged and paid of £236,000 (2006: £nil) was £733,000 (2006: loss of £5,000).

The trading performance of the Group represents the trading result of the Group's 100% subsidiary SCS for the whole year, and its 100% subsidiary, MASS from 1 August 2006 less the corporate costs of the Company.

The operating result includes the Group's share of the losses of its joint venture undertakings, 50% of Advanced Geospatial Solutions Ltd (AGS), (formerly SCS Mothership Ltd) for the year and 25% of Digital Millennium Map LLP (DMM) for the six months from 1 May 2006 to 31 October 2006.

On 26 November 2006, the Group, via its 100% subsidiary SCS, completed its committed investment in DMM. The additional investment of £220,000, bringing the total investment in DMM to £400,000 was paid as follows:

i. £22,865 of cash

ii. £197,135 through the transfer of the finance lease asset in respect of the camera operated by DMM.

From 1 November 2006, the Group has accounted for DMM as an investment. The Group no longer has an active participation in this partnership.

Other relationships with related parties exist and are explained in detail in note 26. The actual and committed investment in these related parties is fully provided for at 30 April 2007. During the year, Stanley Carter disposed of his equity interest in the Centre for Defence and International Security Studies.

Going concern

On the basis of current financial projections and facilities available to the Group, the Directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

International Financial Reporting Standards (IFRS)

The Group is undertaking an assessment of the impact of switching from United Kingdom Generally Accepted Accounting Practise (UK GAAP) to IFRS. The final conclusions will be reported in the near future.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and UK GAAP.

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view, in accordance with UK GAAP, of the state of affairs of the Group and the parent company and of the profit or loss of the Group for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the financial statements comply with the requirements of the Companies Act 1985. They are responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

They are responsible for ensuring that the Annual Report includes information required by the AIM Rules of the Financial Services Authority.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Cohort plc website.

The work carried out by the auditor does not involve consideration of these matters and, accordingly, the auditor accepts no responsibility for any changes that may have occurred to the information contained in the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors

The Directors in office during the year under review and their interests in the equity of the Company were:

	At 30 April 2007 Number of 10p ordinary shares	At 30 April 2006 Number of 10p ordinary shares
Stanley Carter	10,645,718	10,645,718
Nick Prest	1,959,580	1,959,580
Andrew Thomis (resigned 9 July 2007)	22,230	22,230
Sir Robert Walmsley	16,670	16,670
Simon Walther	10,000	–

Nick Prest's shareholding includes 261,276 held by his wife.

The Group maintains appropriate insurance cover in respect of legal actions against the Directors as well as against material loss or claims against the Group and reviews the adequacy of the cover regularly.

Directors' report continued

Proposed dividend

The profit after tax was £2,006,000 (2006: £919,000). The Directors recommend a final dividend of 0.9 pence (2006: 0.4 pence) per 10 pence ordinary share.

Substantial shareholdings (excluding Directors of the Company)

The Company has been informed that on 15 June 2007 the following shareholders held substantial holdings in the issued ordinary shares of the Company:

	Number of ordinary shares	Holding %
AXA Framlington Investment Managers	2,653,892	9.00
Hargreave Hale, stockbrokers	2,114,445	7.17
Unicorn Asset Management	1,988,000	6.74
F&C Asset Management	1,389,673	4.71
Invesco Perpetual	1,194,000	4.05
J W Lyde	1,087,792	3.69
Schroder Investment Management	965,987	3.28

J W Lyde is a Director of SCS, a 100% subsidiary of the Company.

Payment policy

In respect of all of its suppliers, the Group's policy is:

- to agree the terms of payment when contracting with suppliers;
- to ensure suppliers are made aware of the terms of payment; and
- to abide by the terms of payment.

All suppliers are treated alike in terms of payment with no preference to any one supplier.

At 30 April 2007, the trade creditors of the Group represented 42 days (2006: 29 days) of purchases.

Employee involvement

The Group organises staff communications locally through its subsidiary undertakings. The media used for organised communications includes local intranets, in-house magazines, staff bulletins, presentations and copies of press releases. In addition, regular staff meetings are held and notices are published containing information about matters of interest within the Group and its subsidiaries.

Disabled people

The policy of the Group is to offer the same opportunity to disabled people as to all others in respect of recruitment and career advancement, provided their disability does not prevent them from carrying out their required duties. Employees who become disabled will, wherever possible, be retained, rehabilitated and where necessary retrained.

Donations

During the year ended 30 April 2007 the Group made charitable donations of £2,900 (2006: £1,200), mainly in respect of military and local charities. The Group made no political donations during the year (2006: £nil).

Auditor

The Directors, having been notified of the cessation of the partnership known as Baker Tilly, resolved that Baker Tilly UK Audit LLP be appointed as successor with effect from 1 April 2007, in accordance with the provisions of the Companies Act 1989, Section 26(5). Baker Tilly UK Audit LLP has indicated its willingness to continue in office.

A resolution to re-appoint Baker Tilly UK Audit LLP as auditor will be proposed at the Annual General Meeting. The Directors who were in office on the date of approval of these financial statements have confirmed, as far as they are aware, that there is no relevant audit information of which the auditors are unaware. Each of the Directors have confirmed that they have taken all the steps they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

Approved by the Board of Directors on 9 July 2007 and signed on its behalf by:

Simon Walther
Company Secretary

Corporate governance report

Introduction

Cohort plc is listed on AIM. The Group is neither required to comply with the 2003 FRC Combined Code (the Code) nor issue a statement of compliance with it. Nevertheless, the Board fully supports the principles set out in the Code and is in the process of complying wherever possible, having regard to the size of the Company and the resources available to it. Details are provided below of how the Company applies the Code.

The Board

The Board of Directors comprises two Executive Directors and two independent Non-executive Directors, one of whom is the Chairman. The Chairman (Nick Prest) has a consultancy agreement with the Company (see Remuneration Committee report) to provide services, primarily in respect of strategic business development and acquisition activity. This agreement allows for a minimum of 20 days' service in any one year.

The Board considers Sir Robert Walmsley to be the senior independent Director.

The Board usually meets each month and receives a Board pack comprising individual reports from each of the Executive Directors together with any other material deemed necessary for the Board to discharge its duties. It is the Board's responsibility for formulating, reviewing and approving the Group's strategy, budgets, major items of expenditure and acquisitions.

All Directors retire by rotation and are subject to election by shareholders at intervals of no more than three years.

Board Committees

The Board has established two Committees: Audit and Remuneration, each having written terms of delegated responsibilities.

Audit Committee

The Audit Committee comprises the Chairman and the Non-executive Director and is scheduled to meet at least twice a year. It is the Audit Committee's role to provide formal and transparent arrangements for considering how to apply the financial reporting and internal control requirements of the Code, whilst maintaining an appropriate relationship with the independent auditor of the Group. In order to comply with the requirement of the Code that at least one member has relevant financial experience, the Chairman of the Board sits on the Audit Committee.

The independent auditor liaises with the Audit Committee regarding work to be undertaken and complies with the Ethical Standards for Auditors issued by the Auditing Practice Board. Each year, prior to commencing its audit work, the independent auditor confirms in writing the nature of its non-audit work on behalf of the Group and the safeguards in place to ensure its independence and objectivity.

Remuneration Committee

The Remuneration Committee comprises the Chairman and the Non-executive Director, and is scheduled to meet at least once a year. It is the Remuneration Committee's role to establish a formal and transparent policy on Executive remuneration and to set remuneration packages for individual Directors.

Sir Robert Walmsley is Chairman of both the Audit and Remuneration Committees.

The attendance of the Directors at Board and Committee meetings for the year ended 30 April 2007 was as follows:

	Board	Audit	Remuneration
Nick Prest (Chairman)	9/9	4/4	2/2
Sir Robert Walmsley (Non-executive Director)	9/9	4/4	2/2
Stanley Carter (Chief Executive)	9/9	–	–
Simon Walther (Finance Director and Company Secretary)	9/9	–	–
Andrew Thomis (Corporate Development Director)	9/9	–	–

The Board has not established a Nominations Committee. This is not considered necessary due to the small size of the Cohort Board. The role of the Nominations Committee is undertaken by the Remuneration Committee and the Chief Executive.

Corporate governance report continued

Management of the Group and its subsidiary undertakings

The management of each subsidiary undertaking and the Group has been reviewed since the acquisition of MASS. As a result of this review, new Managing Directors were appointed to each of SCS and MASS as referred to in the Chairman's statement (page 3). At the same time the management of the Group and subsidiary undertakings was confirmed as follows:

Group management

- Cohort plc Board meeting at least eight times per year.
- Group Executive Committee meeting at least four times per year, comprising Cohort plc Executive Directors and subsidiary Managing Directors.

Subsidiary management

- Monthly Executive management meetings involving subsidiary Board and senior management.
- Quarterly subsidiary Board meetings, chaired by the Cohort Chief Executive.

Cohort Executive Directors have the right to attend all subsidiary executive management and Board meetings.

Shareholder relations

The Company meets with its institutional shareholders and analysts as appropriate and will use the Annual General Meeting to encourage communication with private shareholders. In addition, the Company uses the Annual Report and Accounts, interim statement and website (www.cohortplc.com) to provide further information to shareholders.

Internal control and risk management

The Board is responsible for the system of internal control and for reviewing its effectiveness. Such systems are designed to manage rather than eliminate risks and can provide only reasonable and not absolute assurance against material misstatement or loss. Each year, on behalf of the Board, the Audit Committee will review the effectiveness of these systems. This is achieved primarily by considering the risks potentially affecting the Group and from discussions with the external auditors.

The Group does not currently have an internal audit function due to the small size of the administrative function and the high level of Director review and authorisation of transactions.

A comprehensive budgeting process is completed once a year, reviewed and approved by the Board. The Group's results, as compared against budget, are reported to the Board on a monthly basis and discussed in detail at each meeting of the Board.

Remuneration Committee report

Introduction

Companies quoted on AIM are not required to provide a formal remuneration report. However, in line with current best practice this report provides information to enable a greater level of understanding as to how Directors' remuneration is determined.

The Remuneration Committee of the Board is responsible for considering Directors' remuneration packages and makes its recommendations to the Board. The Committee comprises the two Non-executive Directors and meets at least once a year.

Remuneration policy

Remuneration packages are designed to be competitive and to reward above average performance. Executive Directors receive salary, medical cover, pension contribution, annual bonuses and share options.

Service contracts

The Executive Directors have service agreements with the Company which can be cancelled by either party giving six months' notice at any time or twelve months' notice in the event of a change of control arising as a result of any person or persons acquiring more than 50% of the voting rights at a general meeting of the Company.

Pensions

The Group makes contributions to the Company's stakeholder pension scheme (a defined contribution scheme) at a rate of 12.8% of the Executive Director's contribution.

Performance incentives

The Group operates a cash bonus scheme and grants share options.

A bonus of £31,000 was payable to the Executive Directors for the year ended 30 April 2007 (2006: £nil).

Ordinary shares under option granted during the year ended 30 April 2007 and outstanding at 30 April 2007 were as follows:

	At 1 May 2006 Number	Granted Number	At 30 April 2007 Number	Date of grant	Date of maturity	Exercise period Years
Simon Walther						
Cohort plc 2006 share option scheme under the Enterprise Management Incentive (EMI) scheme						
Option price of £1.41 per share	–	42,554	42,554	10 July 2006	10 July 2009	7
Save as you earn (SAYE) scheme						
Option price of £1.23 per share	–	7,601	7,601	5 May 2006	1 June 2009	–
	–	**50,155**	**50,155**			
Andrew Thomis						
Cohort plc 2006 share option scheme under the EMI scheme						
Option price of £0.90 per share	38,889	–	38,889	24 February 2006	25 February 2008	1
Option price of £1.23 per share	40,650	–	40,650	8 March 2006	8 March 2009	7
SAYE scheme						
Option price of £1.23 per share	–	912	912	5 May 2006	1 June 2009	–
	79,539	**912**	**80,451**			

Remuneration Committee report continued

Performance incentives continued

For the year ending 30 April 2008, the bonus payable to the Executive Directors of Cohort plc in respect of that year will be based upon performance compared to budget and the achievement of agreed personal objectives.

The maximum bonus payable as a percentage of salary is as follows:

	Group performance %	Personal objectives %	Total %
Stanley Carter	15	10	25
Simon Walther	15	5	20

Andrew Thomis resigned from the Board of Cohort plc on 9 July 2007 and as such his performance incentive for the year ending 30 April 2008 is not disclosed.

No bonuses are payable or share options awardable to the Non-executive Director or Chairman.

Bonus schemes for senior management of the subsidiary companies have been established for the year ending 30 April 2008, with a similar framework to that of the Cohort plc Executive Directors, with varying levels of percentage of salary, none exceeding 20%.

Non-executive directors

Both Nick Prest and Sir Robert Walmsley were appointed in February 2006 for an initial three year term, which can be terminated upon three months' notice being given by either party. They received an annual fee of £25,000 each. In addition, Nick Prest provides consultancy services to the Group in accordance with an agreement entered into on 27 February 2006. The agreement provides for a minimum of 20 days' consultancy in any one year at £1,250 per day.

Directors' remuneration

Details of Directors' remuneration are set out below:

	Salary		Bonus		Emoluments		Pension		Total	
	2007 £	2006 £	2007 £	2006 £	2007 £	2006 £	2007 £	2006 £	2007 £	2006 £
Executive Directors										
Stanley Carter	130,000	65,000	13,000	–	143,000	65,000	–	–	143,000	65,000
Andrew Thomis	95,000	15,883	9,500	–	104,500	15,883	1,075	–	105,575	15,883
Simon Walther	85,000	–	8,500	–	93,500	–	1,157	–	94,657	–
Non-executive Directors										
Nick Prest	25,000	5,134	–	–	25,000	5,134	–	–	25,000	5,134
Sir Robert Walmsley	25,000	5,134	–	–	25,000	5,134	–	–	25,000	5,134
Total	360,000	91,151	31,000	–	391,000	91,151	2,232	–	393,232	91,151

Stanley Carter received £nil (2006: £25,000) whilst acting solely as a Director of the 100% subsidiary of the Company, SCS. Simon Walther received a salary of £3,069 during the year ended 30 April 2006, prior to his appointment as a Director of the Company on 9 May 2006. Nick Prest received £25,000 (2006: £4,167) as a consultant for the year ended 30 April 2007 in accordance with an agreement dated 27 February 2006 and a further £15,000 (2006: £nil) in acting as a consultant on behalf of SCS.

During the year ended 30 April 2007, Nick Prest received £nil (2006: £2,309) and Andrew Thomis received £nil (2006: £72,970) whilst acting as consultants for the Group prior to their appointments as Directors.

Independent auditor's report to the members of Cohort plc

We have audited the financial statements which comprise the Group profit and loss account, the Group and parent company balance sheets, the Group cash flow statement and the related notes.

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

Respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 and whether the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's statement, Chief Executive's review and Finance Director's review that is cross referred from the Business Review section of the Director's Report. We also report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises the Corporate statement, Highlights, Chairman's statement, Chief Executive's review, Finance Director's review, Board of Directors, Corporate governance report, Remuneration Committee report and the Notice of the Annual General Meeting. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and parent company's affairs as at 30 April 2007 and of the Group's profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the financial statements.

Baker Tilly UK Audit LLP
Registered Auditor
Chartered Accountants
12 Gleneagles Court
Brighton Road
Crawley
West Sussex RH10 6AD
9 July 2007

Consolidated profit and loss account

For the year ended 30 April 2007

	Notes	2007 £'000	2006 £'000
Continuing operations		22,281	18,008
Acquired operations		12,275	–
Turnover of the Group including its share of joint ventures	1	34,556	18,008
Less share of turnover of joint ventures		(137)	(185)
Group turnover		34,419	17,823
Cost of sales	1	(26,027)	(13,405)
Gross profit	1	8,392	4,418
Administrative expenses	2	(5,996)	(2,621)
Group operating profit	1	2,396	1,797
Share of operating result of joint ventures	13	(242)	(148)
Total operating profit	3	2,154	1,649
Continuing operations		1,361	1,649
Acquired operations		1,308	–
Goodwill amortisation		(515)	–
Exceptional items:	4		
Write back of provision against joint venture investments and commitments		113	102
Provision against related party undertakings		–	(339)
Profit/(loss) on sale of tangible fixed assets		1	(82)
		114	(319)
Profit on ordinary activities before interest		2,268	1,330
Interest receivable	5	214	105
Interest payable and similar charges	6	(22)	(76)
		192	29
Profit on ordinary activities before taxation		2,460	1,359
Tax on profit on ordinary activities	8	(454)	(440)
Profit on ordinary activities after taxation		2,006	919
Basic earnings per share	10	7.26p	5.47p
Diluted earnings per share	10	7.22p	5.45p

The 2007 profit on ordinary activities before taxation arises from the continuing operations of the Group and the acquired business of MASS from 1 August 2006.

The 2006 profit on ordinary activities before taxation arises from the continuing operations of the Group, which merged with SCS on 9 February 2006.

There are no recognised gains or losses other than as stated in the profit and loss account.

Balance sheets
As at 30 April 2007

	Notes	Group 2007 £'000	Group 2006 £'000	Company 2007 £'000	Company 2006 £'000
Fixed assets					
Purchased goodwill	11	13,207	–	–	–
Tangible fixed assets	12	282	99	–	–
Investments:	13				
Share of gross assets of joint ventures		17	101	–	–
Share of gross liabilities of joint ventures		(250)	(192)	–	–
Net investment in joint ventures		(233)	(91)	–	–
Subsidiaries		–	–	16,064	1,584
		(233)	(91)	16,064	1,584
		13,256	8	16,064	1,584
Current assets					
Stock	14	409	–	–	–
Debtors	15	8,035	6,375	1,299	1,821
Cash at bank		5,015	5,591	1,100	4,296
		13,459	11,966	2,399	6,117
Creditors: amounts falling due within one year	16	(5,839)	(2,830)	(123)	(155)
Net current assets		7,620	9,136	2,276	5,962
Total assets less current liabilities		20,876	9,144	18,340	7,546
Provisions for liabilities and charges	18	(560)	(220)	(500)	–
Net assets		20,316	8,924	17,840	7,546
Capital and reserves					
Called up share capital	19	2,947	2,212	2,947	2,212
Share premium account	20	14,155	5,339	14,155	5,339
Share option reserve	20	71	–	10	–
Profit and loss account	20	3,143	1,373	728	(5)
Equity shareholders' funds	21	20,316	8,924	17,840	7,546

The financial statements on pages 18 to 34 were approved by the Board of Directors and authorised for issue on 9 July 2007 and are signed on its behalf by:

Stanley Carter
Chief Executive

Simon Walther
Finance Director

Consolidated cash flow statement

For the year ended 30 April 2007

	Notes	2007 £'000	2007 £'000	2006 £'000	2006 £'000
Net cash inflow from operating activities	24		2,942		893
Returns on investment and servicing of finance					
Interest received		215		75	
Interest element of finance lease asset		10		21	
Interest paid		(8)		(68)	
			217		28
Taxation paid			(787)		(603)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(87)		(66)	
Sale of tangible fixed assets		–		868	
Investment in related party undertakings		–		(339)	
			(87)		463
Acquisitions					
MASS Consultants Limited	25	(11,935)		–	
Investment in joint ventures and investments		(220)		(50)	
			(12,155)		(50)
Equity dividend paid			(236)		(159)
Cash (outflow)/inflow before management of liquid resources and financing			(10,106)		572
Net management of liquid resources			278		(5,278)
Financing					
Issue of ordinary shares (net of costs)		9,279		5,323	
Finance lease asset		251		85	
Repayment of secured loan		–		(514)	
Repayment of Directors' loans		–		(446)	
			9,530		4,448
Decrease in net cash			(298)		(258)
Net movement in liquid resources		(278)		5,278	
Finance lease asset		(251)		251	
Secured loan		–		514	
Directors' loans		–		446	
			(529)		6,489
(Decrease)/increase in net funds			(827)		6,231
Opening net funds/(debt)			5,842		(389)
Closing net funds			5,015		5,842

Consolidated cash flow statement continued

For the year ended 30 April 2007

Funds reconciliation	At 1 May 2006 £'000	Cash flow £'000	At 30 April 2007 £'000
Cash and bank	313	(298)	15
Short-term deposits	5,278	(278)	5,000
	5,591	(576)	5,015
Finance lease	251	(251)	–
	5,842	(827)	5,015

The short-term deposits held by the Group are all less than one month in duration.

Accounting policies

Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable UK accounting standards.

Accounting period

The Company has drawn up its accounts for the year ended 30 April 2007. The comparative period is from incorporation on 23 January 2006 to 30 April 2006. The Group has likewise drawn up its accounts for the year ended 30 April 2007 with the comparatives, following adoption of merger accounting, drawn up for the year ended 30 April 2006.

Consolidation

The consolidated financial statements incorporate those of Cohort plc and all of its subsidiary undertakings for the year. Subsidiaries acquired during the year are consolidated from the date of acquisition, using the acquisition method. Accordingly, the results of MASS are consolidated from 1 August 2006.

The joint ventures of the Group have been accounted for using the gross equity method.

Advanced Geospatial Solutions Ltd (AGS) has been accounted for as a joint venture for the entire year.

Digital Millennium Map LLP (DMM) has been accounted for as a joint venture for the period from 1 May 2006 to 31 October 2006. From 1 November 2006, DMM has been accounted for as an investment by the Group, the Group no longer having an active participation in the undertaking.

The Company adopted merger accounting and presented Group results for the year ended 30 April 2006.

The Company has not presented its own profit and loss account, as permitted by Section 230(4) of the Companies Act 1985.

Turnover

Turnover represents amounts receivable for the provision of services, excluding Value Added Tax. In accordance with Urgent Issues Task Force 40 (Revenue recognition and service contracts), the Group recognises contract revenue as the activity progresses to reflect the partial performance of contractual obligations. In the case of long term contracts, turnover is recognised appropriate to the stage of completion when the outcome of the contract can be assessed with reasonable certainty.

Research and development

Development expenditure is carried forward when its future recoverability can be foreseen with reasonable assurance and is amortised in line with sales from the related product. All research and other development costs are written off as incurred.

Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease.

Pension contributions

Payments are made to the Company's stakeholder pension schemes, both defined contribution schemes. Amounts are charged to the profit and loss account as incurred.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Share-based payments

The Group has applied the requirements of FRS 20, Share-based payments. In accordance with the transitional provisions, FRS 20 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 May 2006.

The Group issues equity-settled and cash-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of equity-settled share-based payments is expended on a straight-line basis over the vesting period based on the Group's estimate of shares that will eventually vest.

Fair value is measured by use of the Quoted Companies Alliance binomial model. The expected life used in the models has been adjusted, based on management's best estimate, for the effect of non-transferability, exercise restrictions, and behavioural considerations.

A liability equal to the portion of the goods and services received is recognised at the current fair value determined at each balance sheet date for cash-settled share-based payments.

The application of FRS 20 represents a change of accounting policy. Included in the current year charge is £5,000 which relates to prior periods. No prior year adjustment has been made and comparative information has not been restated in respect of that amount.

Purchased goodwill

Goodwill representing the excess of the purchase price compared with the fair value of net assets acquired is capitalised and written off evenly over 20 years, as in the opinion of the Directors, this represents the period over which the goodwill is effective.

Tangible fixed assets

Depreciation is provided on cost in annual instalments over the estimated useful life of assets which are reviewed annually. The rate of depreciation for equipment, fixtures and fittings is 20% to 50% per annum of cost on a straight line basis.

Stock and work in progress

Stock and work in progress are valued at the lower of cost and net realisable value. Cost of finished goods and work in progress includes overheads appropriate to the stage of manufacture. Net realisable value is based upon estimated selling price less further cost expected to be incurred to completion and disposal. Provision is made for obsolete and slow-moving items.

Long term contracts are assessed on a contract by contract basis and reflected in the profit and loss account by recording turnover and related costs as contract activity progresses. Turnover is ascertained in a manner appropriate to the stage of completion of the contract, and credit taken for profit earned to date when the outcome of the contract can be assessed with reasonable certainty. The amount by which turnover exceeds payments on account is classified as "amounts recoverable on contracts" and included in debtors; to the extent that payments on account exceed relevant turnover, the excess is included as a creditor. The amount of long term contracts, at cost net of amounts transferred to cost of sales, less provision for foreseeable losses and payments on account not matched with turnover, is included within stock.

Finance lease

The Group had a finance lease asset receivable from its 25% joint venture undertaking, DMM. In this instance, where the Group acted as a lessor and substantially all the risks and rewards of ownership of the related assets were transferred to the lessee, the net present value of the future lease payments were recognised as a debtor and the interest value was recognised over the period in which it was earned on an actuarial basis.

The lease was settled in full during the year ended 30 April 2007 as part of the Group's completion of its investment commitment to DMM.

Warranty provisions

Provision is made for liabilities arising in respect of expected warranty claims.

Financial instruments

Income and expenditure arising on financial instruments are recognised on an accruals basis and credited or charged to the profit and loss account in the financial period to which they relate.

The Group currently has only cash and cash equivalent financial instruments with a maturity of less than one month. These are disclosed as cash at bank in the balance sheet.

Notes to the financial statements
For the year ended 30 April 2007

1 Segmental reporting
The Group's turnover was derived from its activities undertaken wholly within the UK.

	Net assets/(liabilities)		Turnover		Profit/(loss) before tax	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000	2007 £'000	2006 £'000
By business						
SCS	3,172	3,042	22,144	17,823	2,208	1,907
MASS (acquired 1 August 2006)	(447)	–	12,275	–	1,308	–
	2,725	3,042	34,419	17,823	3,516	1,907
Joint ventures	(233)	(91)	137	185	(242)	(148)
Unallocated	17,824	5,973	–	–	(814)	(400)
	20,316	8,924	34,556	18,008	2,460	1,359

All of the above is in respect of continuing operations. The unallocated loss includes the administrative expenses of the Company (Cohort plc), goodwill amortisation and exceptional items. Unallocated net assets includes the assets of the Company, purchased goodwill, net funds and tax.

Group turnover is further analysed by geographical destination as follows:

	2007 £'000	2006 £'000
UK	33,872	17,074
Other EC countries	527	602
USA	20	147
	34,419	17,823

	2007				2006
	Continuing £'000	Acquired £'000	Goodwill amortisation and share-based payments £'000	Total £'000	Continuing £'000
Group turnover	22,144	12,275	–	34,419	17,823
Cost of sales	(16,672)	(9,355)	–	(26,027)	(13,405)
Gross profit	5,472	2,920	–	8,392	4,418
Administrative expenses	(3,806)	(1,604)	(586)	(5,996)	(2,621)
Group operating profit	1,666	1,316	(586)	2,396	1,797

The acquired operations are in respect of MASS. Within the continuing operations, SCS operating profit for the year ended 30 April 2007 was £2,261,000 (2006: £1,907,000) and the operating loss of Cohort plc was £595,000 (2006: £110,000).

2 Administrative expenses

	Note	2007 £'000	2006 £'000
Administrative expenses		5,410	2,621
Goodwill amortisation	11	515	–
Share-based payments	19	71	–
		5,996	2,621

The Group has presented a normalised earnings per share (see note 10) which excludes goodwill amortisation and share-based payments.

3 Total operating profit

	2007 £'000	2006 £'000
Total operating profit is stated after charging:		
Depreciation of tangible assets		
Owned assets	187	54
Rentals under operating leases		
Land and buildings	147	7
Other	3	—
Amounts payable to Baker Tilly UK Audit LLP in respect of audit and non-audit services		
- statutory audit of Cohort plc	11	7
- audit of subsidiaries	33	15
- tax compliance	11	4
- accounting advice	—	36
- Acquisition of MASS Consultants Limited (debited to purchased goodwill)	33	—
- AIM listing (debited to the share premium account)	—	121

The 2006 audit fee included £8,000 paid to the Group's previous auditor. Of the Group's total fees of £88,000 (2006: £183,000) payable to the auditors, Baker Tilly UK Audit LLP, £44,000 (50%) (2006: £22,000; 12%) was in respect of the Group audit.

4 Exceptional items

	2007 £'000	2006 £'000
Write back of provision against joint venture investments and commitments	113	116
Provision against joint ventures and commitments	—	(14)
	113	102
Provision against related party undertakings	—	(339)
Profit/(loss) on the sale of fixed assets	1	(82)
	114	(319)

The Group tax charge includes £nil (2006: £102,000 credit) in respect of exceptional items. The profit on sale of fixed assets in the year ended 30 April 2007 is the Group's share of a profit recognised in its 50% joint venture, AGS.

5 Interest receivable

	2007 £'000	2006 £'000
Finance lease interest receivable	10	21
Other interest receivable	204	84
	214	105

The finance lease interest receivable is in respect of the camera leased to the DMM LLP.

6 Interest payable and similar charges

	2007 £'000	2006 £'000
Bank overdraft, loan interest and similar charges	8	28
Other loan interest	—	35
Share of joint venture undertakings	14	13
	22	76

Other loan interest payable includes interest in respect of Directors' loans of £nil (2006: £28,000).

Notes to the financial statements continued

For the year ended 30 April 2007

7 Employees

Staff costs during the period (including Directors)

	2007 £'000	2006 £'000
Wages and salaries	12,882	6,295
Social security costs	1,441	705
Pension costs	329	144
Share-based payments	71	–
	14,723	7,144

Average number of employees

	2007 Number	2006 Number
Operational	243	120
Administration and operational support	49	23
	292	143

The above disclosures include Directors. Directors' emoluments are disclosed separately in the Remuneration Committee Report on pages 15 and 16.

8 Tax on profit of ordinary activities

Group	2007 £'000	2006 £'000
Corporation tax:		
Prior year	33	–
Current year	449	406
Deferred taxation	(28)	34
	454	440

The Group's share of joint venture tax was £nil (2006: £nil).

The current year corporation tax assessed for the period is reconciled to the standard rate of corporation tax as follows:

Group	2007 £'000	2006 £'000
Profit on ordinary activities before taxation	2,460	1,359
Profit on ordinary activities multiplied by standard rate of tax for the period of 30%	738	408
Effect of expenses not allowable for tax purposes	9	1
Effect of depreciation in excess of capital allowances	60	3
Effect of research and development credits	(437)	–
Effect of capital loss not recognised	–	25
Effect of goodwill amortisation	155	–
Effect of share-based payments	21	–
Effect of other short-term timing differences	(112)	12
Effect of disallowable share of joint venture undertakings	43	–
Effect of allowable losses for joint ventures	(28)	(43)
Current year corporation tax	449	406

9 Dividends

	2007 £'000	2006 £'000
Dividend charged and paid	236	159

The dividend charged and paid is in respect of the final dividend for the year ended 30 April 2006; 0.4 pence per share (£118,000) and the interim dividend for the year ended 30 April 2007; 0.4 pence per share (£118,000). The Board proposes a final dividend of 0.9 pence per share for the year ended 30 April 2007, payable 5 September 2007 to shareholders on the register as at 10 August 2007.

In accordance with FRS 21, Events after the balance sheet date, the proposed dividend was not accounted for in the year ended 30 April 2007.

The dividends paid in 2006 were by SCS, 100% subsidiary of the Company, to the previous owners of SCS, prior to the merger of the Company with SCS.

10 Earnings per share

The earnings per share are calculated as follows:

	2007			2006		
	Weighted average number of shares	Earnings £'000	Earnings per share Pence	Weighted average number of shares	Earnings £'000	Earnings per share Pence
Basic earnings	27,633,096	2,006	7.26	16,791,727	919	5.47
Exceptional items	–	(114)		–	319	
Tax on exceptional items	–	–		–	(102)	
Basic earnings before exceptional items	27,633,096	1,892	6.85	16,791,727	1,136	6.77
Reverse exceptional items (net of tax)	–	114		–	(217)	
Basic earnings	27,633,096	2,006	7.26	16,791,727	919	5.47
Share options	168,184	–		65,311	–	
Diluted earnings	27,801,280	2,006	7.22	16,857,038	919	5.45

In addition, the normalised earnings per share of the Group are calculated as follows:

		2007			2006		
	Note	Weighted average number of shares	Earnings £'000	Earnings per share Pence	Weighted average number of shares	Earnings £'000	Earnings per share Pence
Basic earnings before exceptional items		27,633,096	1,892	7.22	16,791,727	1,136	6.77
Goodwill amortisation	2	–	515	–	–	–	–
Share-based payments	2	–	71	–	–	–	–
Normalised earnings		27,633,096	2,478	8.97	16,791,727	1,136	6.77
Share options		168,184	–	–	65,311	–	–
Diluted normalised earnings		27,801,280	2,478	8.91	16,857,038	1,136	6.74

11 Purchased goodwill

Group	Purchased goodwill £'000
Cost:	
At 1 May 2007	–
Addition	13,722
At 30 April 2007	**13,722**
Amounts written off:	
At 1 May 2007	–
Amortisation charged in the year	515
At 30 April 2007	**515**
Net book value:	
30 April 2007	**13,207**
30 April 2006	–

Purchased goodwill is all in respect of the acquisition of MASS (see note 25).

Notes to the financial statements continued
For the year ended 30 April 2007

12 Tangible fixed assets

Group	Equipment, fixtures and fittings £'000
Cost	
At 1 May 2006	298
Acquired	283
Additions	87
At 30 April 2007	**668**
Depreciation	
At 1 May 2006	199
Charge in the year	187
At 30 April 2007	**386**
Net book value	
At 30 April 2007	**282**
At 30 April 2006	99

There are no fixed assets held under finance lease agreements. The Company's fixed assets were £nil at 30 April 2007 (£nil at 30 April 2006).

The acquired assets were those of MASS. These were acquired on 1 August 2006, the historic cost was £1,083,000 and the cumulative depreciation was £718,000. The acquired fixed assets were further written down by £82,000 as part of the fair value exercise to align with the Group's accounting policies.

13 Investments

	Group		Company	
	2007 £'000	2006 £'000	**2007 £'000**	2006 £'000
Subsidiary undertaking	**–**	–	**16,064**	1,584
Joint ventures	**(233)**	(91)	**–**	–
	(233)	(91)	**16,064**	1,584

The Group has provided £nil (2006: £220,000) against its investment in DMM (see note 18). During the year, a further £220,000 (2006: £50,000) was invested in DMM by the Company's 100% subsidiary, SCS. Of this further investment, £197,135 was by the transfer of the finance lease asset held at 30 April 2006 in respect of a camera operated by DMM.

Analysis of joint ventures

30 April 2007	AGS £'000	DMM £'000	Total £'000
Share of gross assets	17	–	17
Share of gross liabilities	(250)	–	(250)
	(233)	**–**	**(233)**

On 1 November 2006, the Group ceased to have an active participation in DMM, such that it no longer jointly controlled the joint venture. From this date the Group ceased to account for DMM as a joint venture and accounted for it as an investment.

30 April 2006	AGS £'000	DMM £'000	Total £'000
Share of gross assets	15	86	101
Share of gross liabilities	(76)	(116)	(192)
	(61)	**(30)**	**(91)**

AGS was formerly known as SCS Mothership Ltd.

13 Investments continued

Analysis of movement in investments

Group		AGS £'000	DMM £'000	Total joint ventures £'000	Investments £'000	Total £'000	Company £'000
At 1 May 2006		(61)	(30)	(91)	–	(91)	1,584
Additions		–	–	–	–	–	14,480
Reclassifications		–	113	113	(113)	–	–
Profit and loss account:	share of operating result of joint ventures	(161)	(81)	(242)	–	(242)	–
	share of interest of joint ventures	(12)	(2)	(14)	–	(14)	–
	exceptional items	1	–	1	113	114	–
At 30 April 2007		**(233)**	**–**	**(233)**	**–**	**(233)**	**16,064**

	Country of registration	Type of shares	Proportion of shareholding and voting rights held	Nature of business
Name of Company directly owned				
Systems Consultants Services Ltd (SCS)	England	Ordinary	100%	Technical consultancy
MASS Ltd	England	Ordinary	100%	Holding company of MASS Consultants Limited
Held by subsidiary				
MASS Consultants Ltd (MASS)	England	Ordinary	100%	Electronic warfare, managed services, secure communications and IT support services
Advanced Geospatial Solutions Ltd (AGS) (formerly SCS Mothership Ltd)	England	Ordinary	50%	3D mapping technology
Digital Millennium Map LLP (DMM)	England	Ordinary	25%	2D digital mapping

14 Stock

	2007 £'000	2006 £'000
Work in progress	**409**	–
	409	–

The work in progress balance includes £355,370 in respect of long-term contracts.

15 Debtors

	Group		Company	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Amounts due from subsidiary undertaking	**–**	–	**1,266**	1,009
Amounts owed by joint ventures	**420**	165	**–**	–
Trade debtors	**6,668**	4,591	**–**	–
Prepayments and accrued income	**536**	506	**33**	16
Other debtors	**340**	819	**–**	796
Finance lease (see note 17)	**–**	110	**–**	–
Debtors due less than one year	**7,964**	6,191	**1,299**	1,821
Finance lease (see note 17)	**–**	141	**–**	–
Deferred taxation asset	**71**	43	**–**	–
Debtors due greater than one year	**71**	184	**–**	–
	8,035	6,375	**1,299**	1,821

The other debtors includes £nil (2006: £750,000) receivable from Nick Prest. Other debtors also include £455,109 (2006: £460,300) due from other related parties (see note 26) which are shown as a net £nil, after provisions of £455,109 (2006: £460,300).

Notes to the financial statements continued
For the year ended 30 April 2007

15 Debtors continued
During the year ended 30 April 2007, the Group received rental income on its finance lease with DMM of £53,983 (2006: £85,234).

	Group		Company	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Deferred taxation asset				
At 1 May	43	77	–	–
Profit and loss account credit/(debit)	28	(34)	–	–
At 30 April	71	43	–	–

The deferred tax asset comprises the following amounts:

	Group		Company	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Accelerated capital allowances	–	(1)	–	–
Capital allowances carried forward	71	–	–	–
Other timing differences	–	44	–	–
	71	43	–	–

16 Creditors: amounts falling due within one year

	Group		Company	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Advance receipts	162	140	–	–
Trade creditors	3,026	908	21	138
Other creditors	–	19	–	17
Social security and other taxes	496	932	–	–
Corporation tax	126	406	–	–
Accruals	2,029	425	102	–
	5,839	2,830	123	155

17 Financial instruments
The Group's financial instruments comprise cash. During the year ended 30 April 2007 the finance lease asset previously held with the 25% owned investment of the Group, DMM was settled in full as part of the Group's remaining commitment to its investment in DMM. The purpose of these financial instruments is to finance the Group's operations. All are considered to be stated at fair value.

It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken. The main risk arising from the Group's financial instruments is interest rate risk.

The Group had short-term deposit at 30 April 2007 totalling £5.0m with a maturity date of 8 May 2007 at an interest rate of 5.10%.

18 Provisions for liabilities and charges

	Group				Company
	Deferred consideration in respect of acquisition of MASS £'000	Commitment to invest in DMM £'000	Warranty £'000	Total £'000	Deferred consideration in respect of acquisition of MASS £'000
At 1 May 2006	–	220	–	220	–
Additions	500	–	–	500	500
Acquired	–	–	60	60	–
Utilised	–	(220)	–	(220)	–
	500	–	60	560	500

The acquired provisions include £20,000 in respect of fair value adjustments on the acquisition of MASS (see note 25). The warranty provisions are in respect of contracted obligations of MASS. The deferred consideration provision is explained further in the Finance Director's review on page 6.

19 Called up share capital

	30 April 2007 Number	30 April 2006 Number
Authorised share capital of 10p ordinary shares	**40,000,000**	40,000,000
Allotted, called up and fully paid 10p ordinary shares	**29,477,161**	22,121,497

On 1 August 2006 the Company issued 7,337,778 10 pence ordinary shares in respect of the acquisition of MASS at £1.35 per share. 6,597,037 shares were issued for cash of £8,906,000 and 740,741 shares were issued to the vendors of MASS.

The following share options were unexercised at 30 April 2007:

Description of option	Date of Grant	Options over 10p ordinary shares Number	Option price £	Exercise period
Cohort plc 2006 Share option scheme	24 February 2006	38,889	0.90	25 February 2008 to 25 February 2009
	8 March 2006	339,428	1.23	9 March 2009 to 8 March 2016
	10 July 2006	63,831	1.41	10 July 2009 to 9 July 2016
	25 January 2007	38,674	1.81	25 January 2010 to 24 January 2017
	19 February 2007	229,853	1.77	20 February 2010 to 19 February 2017
		710,675		
Save as you earn (SAYE) scheme	5 May 2006	224,145	1.23	
	26 January 2007	211,235	1.45	
		435,380		
		1,146,055		

Share-based payments

The Group plan provides for a grant price equal to the average quoted market price of the Group shares on the date of grant. The vesting period is generally three years, five years in the case of some SAYE schemes. If options under the Cohort plc 2006 Share option scheme remain unexercised after a period of ten years from the date of grant, the options expire. Furthermore, options are forfeited if the employee leaves the Group before the options vest.

	2007	
	Options	**Weighted average exercise price £**
Outstanding at 1 May	**394,577**	**1.20**
Granted during the year	**785,980**	**1.49**
Forfeited during the year	**(16,616)**	**1.23**
Exercised during the year	**(17,886)**	**1.23**
Expired during the year	**—**	**—**
Outstanding at 30 April	**1,146,055**	**1.40**
Exercisable at 30 April	**—**	**—**

The weighted average share price at the date of exercise for share options exercised during the year was £1.64. The options outstanding at 30 April 2007 had a weighted average exercise price of £1.40, and a weighted average remaining contractual life of seven years.

Notes to the financial statements continued
For the year ended 30 April 2007

19 Called up share capital continued

Share-based payments continued

The inputs into the Quoted Companies Alliance model, a Black-Scholes based binominal model, are as follows:

	2007
Weighted average share price	£1.58
Weighted average exercise price	£1.40
Expected volatility	20%
Risk free rate	5.75%
Leavers rate	6.5% per annum
Dividend yield	0.26%

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous 14 months. The leaver rate used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

The Group recognised within administrative expenses (note 2) a cost of £71,000 (2006: £nil) relating to equity-settled share-based payment transactions, an equivalent amount being transferred to the share option reserve (see note 20).

20 Reserves

Group	Share premium account £'000	Share option reserve £'000	Profit and and loss account £'000	Total £'000
At 1 May 2006	5,339	–	1,373	6,712
Profit after tax	–	–	2,006	2,006
Dividends paid	–	–	(236)	(236)
Issue of new 10p ordinary shares in respect of acquisition of MASS	9,173	–	–	9,173
Share-based payments	–	71	–	71
Exercise of share options	20	–	–	20
Costs of share issue	(377)	–	–	(377)
At 30 April 2007	**14,155**	**71**	**3,143**	**17,369**

Company	Share premium account £'000	Share option reserve £'000	Profit and and loss account £'000	Total £'000
At 1 May 2006	5,339	–	(5)	5,334
Profit after tax	–	–	969	969
Dividends paid	–	–	(236)	(236)
Issue of new 10p ordinary shares in respect of acquisition of MASS	9,173	–	–	9,173
Share-based payments	–	10	–	10
Exercise of share options	20	–	–	20
Costs of share issue	(377)	–	–	(377)
At 30 April 2007	**14,155**	**10**	**728**	**14,893**

21 Reconciliation of movement in equity shareholders' funds

	Group		Company	
	2007 £'000	2006 £'000	**2007 £'000**	2006 £'000
At 1 May	**8,924**	2,197	**7,546**	–
Profit/(loss) after tax	**2,006**	919	**969**	(5)
Dividends paid	**(236)**	(159)	**(236)**	–
Issue of shares on merger with SCS	**–**	–	**–**	1,584
Issue of new 10p ordinary shares on acquisition of MASS	**9,906**	6,803	**9,906**	6,803
Costs of new share issue and placing	**(377)**	(836)	**(377)**	(836)
Exercise of share options	**22**	–	**22**	–
Share-based payments	**71**	–	**10**	–
At 30 April 2007	**20,316**	8,924	**17,840**	7,546

22 Pension commitments

The Group makes contributions to defined contribution stakeholder pension schemes. The contributions for the year of £329,000 (2006: £144,000) were charged to the profit and loss account.

23 Commitments

At 30 April 2007 the Group was committed to making the following payments during the next year in respect of operating leases:

	2007 £'000	2006 £'000
Land and buildings:		
leases which expire between two and five years	**57**	57
leases which expire between five and ten years	**60**	–
leases which expire greater than ten years	**60**	–
Other:		
leases which expire between one and two years	**4**	–
	181	57

There were no capital commitments at 30 April 2007 (2006: £nil).

24 Cash flow

Reconciliation of operating profit to net cash inflow from operating activities

	2007 £'000	2006 £'000
Operating profit	**2,396**	1,797
Depreciation	**187**	54
Goodwill amortisation	**515**	–
Share-based payment	**71**	–
Increase in stock	**(267)**	–
Increase in debtors	**(1,180)**	(1,428)
Increase in creditors	**1,220**	470
Net cash inflow from operating activities	**2,942**	893

25 Acquisitions

Acquisition of MASS Consultants Limited (MASS)

		Fair value adjustments		
	Acquisition balance sheet £'000	Policy changes £'000	Other £'000	Fair value balance sheet £'000
Tangible fixed assets	365	(82)	–	283
Net current assets	1,631	(10)	(26)	1,595
Net current liabilities	(1,722)	–	(263)	(1,985)
Provisions	(40)	–	(20)	(60)
	234	(92)	(309)	(167)
Consideration				(13,000)
Costs of acquisition				(555)
Goodwill				(13,722)

The consideration and costs of acquisition were settled as follows:

	£'000
Shares to vendors of MASS	1,000
Cash	11,935
Deferred consideration (provision – see note 18)	500
Creditors due less than one year	120
	13,555

The cash consideration comprised £8,906,000 raised from the issue of new 10 pence ordinary shares (net of issue costs paid and charged to the share premium account of £377,000) and £3,029,000 from the Group's existing cash resources at the time of acquisition.

Notes to the financial statements continued
For the year ended 30 April 2007

26 Related party transactions
The Group had related party transactions for the years ended 30 April as follows:

	Purchases £'000	Sales £'000	Investment in year £'000	Changes in loans/current account/ sales ledger £'000
Advanced Geospatial Solutions (AGS, formerly SCS Mothership Limited)				
2007	**–**	**–**	**–**	**255**
2006	–	111	–	(52)
S P Residual Limited				
2007	**–**	**–**	**–**	**(2)**
2006	(1)	48	–	171
Digital Millennium Map LLP (DMM)				
2007	**–**	**–**	**220**	**–**
2006	–	–	50	2
Centre for Defence and International Security Studies				
2007	**–**	**–**	**–**	**(3)**
2006	–	7	–	87
SCS South Africa				
2007	**–**	**–**	**–**	**–**
2006	–	–	–	80

The change in the loans, current accounts and sales ledgers reflects purchases, sales and support costs to the related party undertakings.

The movement in the DMM current account balance does not include the finance lease in respect of a camera. The amount recoverable on this lease at 30 April 2007 was £nil (2006: £251,118), following the transfer of the lease to DMM for £197,135 in part settlement of the remaining investment commitment of the Group. The balance of completing this investment commitment of £22,865 was paid in cash at the same time, 26 November 2006.

The balances with related parties were as follows:

	2007			2006		
	Gross asset £'000	**Provision £'000**	**Net balance £'000**	Gross asset £'000	Provision £'000	Net balance £'000
AGS (formerly SCS Mothership Limited)	**440**	**(20)**	**420**	165	–	165
S P Residual Limited	**262**	**(262)**	**–**	264	(264)	–
DMM	**–**	**–**	**–**	265	(14)	251
Centre for Defence and International Security Studies	**113**	**(113)**	**–**	116	(116)	–
SCS South Africa	**80**	**(80)**	**–**	80	(80)	–
	895	**(475)**	**420**	890	(474)	416

The balances disclosed above are the total of balances held with the related party and include current accounts and loans, but exclude investments. In addition to the above, a further £nil (2006: £220,000) is provided against the Group's committed investment in DMM.

During the year ended 30 April 2007 the charge in respect of related party undertakings to the profit and loss account was £nil (2006: £339,000) which is disclosed within the exceptional items (see note 4).

The relationships are described as follows:

AGS (formerly SCS Mothership Limited) – a 50% joint venture, the interest in which is owned by SCS.

S P Residual Limited – formerly known as Sentinel Programmes Limited. Tim Martin, a former Director of SCS, owns this undertaking in its entirety. SCS has provided funding to this entity in the form of a loan. Stanley Carter is a Director of this undertaking.

DMM – the interest in which is owned by SCS, formerly a 25% joint venture. From 1 November 2006 accounted for as an investment, the Group no longer having an active participation in this entity.

Centre for Defence and International Security Studies (CDiSS) – SCS has provided funding to this entity in the form of a loan. Stanley Carter (a Director of Cohort plc) was a Director of CDiSS (resigned 27 November 2006) and previously owned a one third interest in the equity of CDiSS, which was disposed of 12 December 2006.

SCS South Africa – a close Company where SCS has provided funding in the form of a loan to SCS South Africa. The Group has no equity interest in SCS South Africa.

The Group has a leasing agreement (dated 27 February 2006) with the Court House Partnership to lease the Court House at an annual rent of £57,000 for an initial period of five years, terminable by the Group with six months notice at no penalty. Stanley Carter (a Director of Cohort plc) is a partner in the Court House Partnership. The transactions with Directors of the Company are disclosed in the Report of the Remuneration Committee on pages 15 and 16.

Notice of Annual General Meeting

Notice is hereby given that the second Annual General Meeting (AGM) of Cohort plc (the Company) will be held at Phyllis Court Club, Marlow Road, Henley-on-Thames, Oxfordshire RG9 2HT on 30 August 2007 at 3.00pm for the following purposes:

Ordinary business

To consider and, if thought fit, pass the following resolutions:

1 To receive and adopt the Directors' Report and financial statements for the year ended 30 April 2007.

2 To declare a final dividend for the year ended 30 April 2007 of 0.9 pence per ordinary share of 10 pence each in the capital of the Company to be paid on 5 September 2007 to members whose names appear on the register of members at the close of business on 10 August 2007.

3 To re-elect Stanley Carter as a Director of the Company, who retires by rotation in accordance with the Articles of Association of the Company.

4 To re-appoint Baker Tilly UK Audit LLP as auditor of the Company to hold office from the conclusion of the meeting until the conclusion of the next general meeting of the Company at which financial statements are laid and to authorise the Directors to set their remuneration.

To transact any other business of the Company.

Special business

To consider and, if thought fit, pass the following resolutions which will be proposed as to Resolutions 5 and 6 as Ordinary Resolutions and as to Resolutions 7 and 8 as Special Resolutions:

5 THAT, the authorised share capital of the Company be increased from £4,000,000 divided into 40,000,000 ordinary shares of 10 pence each to £5,000,000 divided into 50,000,000 ordinary shares of 10 pence each.

6 THAT, subject to and in accordance with Article 16 of the Articles of Association of the Company, the Directors of the Company be and they are hereby generally and unconditionally authorised in accordance with Section 80 of the Companies Act 1985 (the Act) (in substitution for any existing authority to allot relevant securities (within the meaning of Section 80 of the Act)) to exercise all powers of the Company to allot relevant securities up to an aggregate nominal value of £1,473,858, being approximately one half of the current issued share capital of the Company, provided that this authority shall expire 15 months from the date of passing this Resolution or at the conclusion of the next AGM of the Company to be held in 2008 whichever is the earlier, except that the Company may before such expiry make an offer or agreement which would or might require relevant securities of the Company to be allotted after such expiry and the Directors may allot relevant securities in pursuance of that offer or agreement as if the authority conferred by this Resolution had not expired.

7 THAT, subject to the passing of Resolution 6 as set out in this Notice of AGM and in accordance with Article 17 of the Articles of Association of the Company the Directors of the Company be and they are hereby generally empowered pursuant to Section 95 of the Act to allot equity securities (in substitution for any existing authority to allot equity securities (within the meaning of Section 94 of the Act)) for cash, pursuant to the authority conferred by Resolution 6 as set out in this Notice of AGM, as if Section 89(1) of the Act did not apply to such allotment, provided that this power shall be limited to the allotment of equity securities:

7.1 for the purposes of, or in connection with an offer by way of a rights issue, open offer or other pre-emptive offer of equity securities in favour of ordinary shareholders where the securities respectively attributable to the interests of such shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by such holders (but subject to such exclusions or other arrangements as the Directors consider appropriate, necessary or desirable to deal with fractional entitlements or any legal or practical difficulties arising under the laws of any territory or the requirements of any regulatory body or recognised investment exchange); and

7.2 (otherwise than pursuant to sub paragraph 7.1 above) of equity securities up to an aggregate nominal value of £294,771 (being approximately 10% of the current issued share capital of the Company);

and such power shall expire 15 months from the date of passing this Resolution or at the conclusion of the AGM of the Company to be held in 2008, whichever is earlier, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such an offer or agreement as if the power conferred hereby had not expired.

Notice of Annual General Meeting continued

Special business continued

8 THAT, the Company be generally and unconditionally authorised pursuant to Article 9 of the Articles of Association of the Company and pursuant to Section 166 of the Act to make market purchases (as defined in Section 163 of the Act) of ordinary shares of 10 pence each in the capital of the Company provided that:

8.1 the maximum number of ordinary shares hereby authorised to be purchased is 4,421,574 (being approximately 15% of the current issued ordinary share capital of the Company);

8.2 the minimum price which may be paid for such shares is 10 pence per ordinary share being the nominal value thereof;

8.3 the maximum price (exclusive of expenses) which may be paid for such shares shall not be more than 5% above the average of the middle market quotations for ordinary shares of 10 pence each in the capital of the Company as derived from the AIM Appendix of the Daily Official List of London Stock Exchange plc for the five business days immediately preceding the day on which the contract for purchase is made; and

8.4 the authority shall expire 15 months from the date of passing this Resolution or at the conclusion of the next AGM of the Company in 2008 whichever is earlier provided that the Company may before such expiry make a contract to purchase its own shares which would or might be executed wholly or partly after such expiry and the Company may make a purchase of its own shares in pursuance of such contract as if the authority conferred hereby had not expired.

By order of the Board

Simon Walther
Company Secretary
9 July 2007

Notes

1 Any member entitled to attend and vote at the AGM is entitled to appoint one or more proxies (who need not be a member of the Company) to attend and, on a poll, vote instead of the member. Completion and return of a form of proxy will not preclude a member from attending and voting at the meeting in person, should he subsequently decide to do so.

2 In order to be valid, any form of proxy, power of attorney or other authority under which it is signed, or a notarially certified or office copy of such power or authority, must reach the Company's Registrars, Capita Registrars, Proxies, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4ZB, not less than 48 hours before the time of the meeting or of any adjournment of the meeting.

3 As permitted by Regulation 41 of the Uncertificated Securities Regulations 2001, shareholders who hold shares in uncertificated form must be entered on the Company's share register at 3.00pm on 28 August 2007 in order to be entitled to attend and vote at the AGM. Such shareholders may only cast votes in respect of shares held at such time. Changes to entries on the relevant register after that time shall be disregarded in determining the rights of any person to attend or vote at the meeting.

4 Copies of the service contracts of each of the Directors, and the register of Directors' interests in shares of the Company kept pursuant to Section 325 of the Act will be available for inspection at the registered office of the Company during usual business hours on any weekday (Saturdays and public holidays excluded) from the date of this Notice until the date of the AGM and at the place of the AGM from at least 15 minutes prior to and until the conclusion of the AGM.

Shareholder information and financial calendar

Shareholders' enquiries

If you have an enquiry about the Company's business, or about something affecting you as a shareholder (other than queries which are dealt with by the Registrar), you should contact the Company Secretary by letter or by telephone at the Company's registered office.

Share register

Capita Registrars maintain the register of members of the Company. If you have any questions about your personal holding of the Company's shares, please contact:

Capita Registrars

The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU
Tel: 0870 162 3100 (for calls within the UK)
+44 20 8639 2157 (for calls from overseas)

If you change your name or address or if details on the envelope enclosing this Report, including your post code, are incorrect or incomplete, please notify the Registrar in writing.

Daily share price listings

Financial Times – AIM, Aerospace and defence

Times – Professional and support services

Daily Telegraph – AIM section

Financial calendar

Annual General Meeting	30 August 2007
Final Dividend Payable	5 September 2007
Expected announcement of results for the year ending 30 April 2008:	
Half year announcement	December 2007
Full year preliminary announcement	June 2008

Registered office

The Court House
Northfield End
Henley-on-Thames
Oxfordshire RG9 2JN

designed and produced by
the design portfolio marketing services.
www.design-portfolio.co.uk

Cohort plc

The Court House
Northfield End
Henley-on-Thames
Oxfordshire
RG9 2JN