

SEXUAL HEALTH GROUP PLC
FINANCIAL STATEMENTS

31st MARCH 2006

Company Registration Number 05255086

BREBNER ALLEN & TRAPP
Chartered Accountants & Registered Auditors
The Quadrangle
180 Wardour Street
London
W1F 8LB

SEXUAL HEALTH GROUP PLC
FINANCIAL STATEMENTS
YEAR ENDED 31st MARCH 2006

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SEXUAL HEALTH GROUP PLC
OFFICERS AND PROFESSIONAL ADVISERS

The board of directors	F J French - Chairman D J Bretel FCMA F H Robertson S Sukumaran G M Sutherland
Company secretary	D J Bretel FCMA
Registered office	Unit 1 Rivermead Pipers Way Thatcham Berkshire RG19 4EP
Auditor	Brebner Allen & Trapp Chartered Accountants & Registered Auditors The Quadrangle 180 Wardour Street London W1F 8LB
Bankers	National Westminster 9 High Street Thatcham Newbury Berkshire RG19 3JG
Solicitors	Irwin Mitchell 150 Holborn London EC1N 2NS
Registrars	Neville Registrars Limited Neville House 18 Laurel Lane Halesowen West Midlands B63 3DA

SEXUAL HEALTH GROUP PLC
CHAIRMAN'S STATEMENT
YEAR ENDED 31st MARCH 2006

Dear Shareholder,

I am pleased to report to you on the progress of the Company.

Highlights

- Sales growth of 6% to £331,185
- Increased distribution of the Condomania condom brand
- Successful introduction of Sutherland Lubricating Jelly into NHS England
- Contract win for Newcastle condom distribution scheme
- Further improvement in customer service level up from 94.4% to 98.0%
- Completion on 28 March 2006 of our first acquisition, Sutherland Group Holdings

The last year has been one of building a stronger base to enable us to look towards a profitable future.

Our relationship with the NHS continues to build. The number of products contracted has increased from 11 to 14 and is set to increase still yet further with the products added by the acquisition of the Sutherland business, which of course does not impact on sales until the next financial year.

The Condomania condom brand has performed well and in particular within NHS England, where it is showing stronger sales growth than many of our competitors. It is our belief that the improved customer service levels and marketing support offered by the Company is helping us to win more customers and retain our existing ones.

The Bedfordshire condom distribution scheme has been commended by Bedford & Heartlands PCT for the innovative and creative way that the scheme had been set up to enable young people under 25 to gain free access to condoms. The Newcastle GP Distribution Scheme has also enabled further distribution of Condomania condoms on an exclusive supply basis into the North East of England

The introduction of Sutherland Lubricating Jelly into the NHS market is progressing well, and we have already commenced research into new market opportunities to broaden our reach within the market on this product range.

Financial review

For the year to 31st March 2006, the group's turnover was £331,185 (2005 £312,398) representing an increase in sales of 6% over the previous year, producing a gross profit of £108,580 (2005 £123,405). Administrative expenses were £427,884 (2005 £326,229), after charging £11,147 (2005 £7,731) for amortisation and depreciation, and a foreign exchange loss of £ 2,991 (2005 £13,569). The Pre-Tax Loss was £330,783 (2005 £191,616) and the loss per ordinary share was 1.15 pence (2005 0.68 pence). Cash at the bank on the balance sheet at the 31st March 2006 was £21,697 (2005 £58,510).

SEXUAL HEALTH GROUP PLC

CHAIRMAN'S STATEMENT *(continued)*

YEAR ENDED 31st MARCH 2006

Outlook

As previously mentioned the group has built strong foundations in the last twelve months and now with the addition of the Sutherland Health turnover and profit stream to our group, the outlook does continue to look positive.

Your Board continues to work at developing the core business, whilst continuing to research new product areas, distribution opportunities, and further suitable acquisitions.

My thanks go to the members of the Board, our Staff, the Company Advisers, and to our shareholders for their loyal support.

John French
Chairman

Date: 20th September 2006

SEXUAL HEALTH GROUP PLC

THE DIRECTORS' REPORT *(continued)*

YEAR ENDED 31st MARCH 2006

The directors present their report and the financial statements of the group for the year ended 31st March 2006.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the company during the year was that of an investment holding company. The principal activity of the group was that of the sale of sexual health products.

The turnover has remained relatively consistent compared to the prior year, however on the 28 March 2006 the company acquired Sutherland Group Holdings and its subsidiary company. This acquisition further improves the portfolio of products being offered by the group and the directors are hopeful of increased trading activity in future years as a result.

Group turnover has increased from £312,398 in the previous year to £331,185 in the current period. The gross profit made by the group is £108,580 compared to £123,405 in 2005.

The directors recognise the risk facing the group of the continuing reliance on long-established contracts, notably with the NHS and the armed forces, the acquisition of Sutherland Group Holdings will help mitigate this risk by diversifying its selling base.

The group monitors various financial key performance indicators as part of its monthly accounting and management reporting process.

The directors do not anticipate any material change in the nature of the group's operations in the foreseeable future.

Creation And Issue Of Loan Notes

During the year the group issued unsecured convertible loan notes for £170,000 to provide working capital to the group. Of this amount £58,000 is held by Sutherland Group Holdings Limited

The group also issued unsecured loan notes of £358,000 to fund the acquisition of Sutherland Group Holdings Limited.

Full details of the terms of the loan notes are given in note 20 to the accounts.

Acquisition

On 28 March 2006 the group acquired Sutherland Group Holdings Limited for £358,000, consideration for which was provided with the issue of unsecured loan notes. Full details of the acquisition are given in note 16 to the accounts.

Financial Key Performance Indicators

	2006	2005
Turnover	331,185	312,398
Increase in turnover	6.0%	0.3%
Gross Profit	108,579	123,405

SEXUAL HEALTH GROUP PLC

THE DIRECTORS' REPORT *(continued)*

YEAR ENDED 31st MARCH 2006

Non-Financial Key Performance Indicators

The company seeks to ensure that responsible business practice is fully integrated into the management of all its operations and into the culture of all parts of its business. It believes that the consistent adoption of responsible business practice is essential for operational excellence, which in turn is expected to ensure the delivery of its core objectives of sustained real growth in future profitability.

In a company this size the directors consider there are collectively numerous non-financial performance indicators but none individually are key.

RESULTS AND DIVIDENDS

The trading results for the year and the group's financial position at the end of the year are shown in the attached financial statements.

The directors have not recommended a dividend.

The Chairman's statement on pages 2 and 3 forms part of the Director's Report for the period.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The company's principal financial instruments comprise bank balances, debt factoring, trade creditors, trade debtors, hire purchase agreements, loan notes and convertible loan notes. The main purpose of these instruments is to raise funds for the company's operations and to finance the company's operations.

Due to the nature of the financial instruments used by the company there is no exposure to price risk. The company's approach to managing other risks applicable to the financial instruments concerned is shown below.

In respect of bank balances the liquidity risks are managed by maintaining a balance between the continuity of funding and flexibility through use of loans. The company makes use of money market facilities where funds are available.

Trade debtors are managed in respect of credit and cash flow risk by policies concerning the credit offered to customers and the regular monitoring of amounts outstanding for both time and credit limits.

Trade creditors, debt factoring and hire purchase liabilities liquidity risk is managed by ensuring sufficient funds are available to meet amounts due.

SEXUAL HEALTH GROUP PLC

THE DIRECTORS' REPORT *(continued)*

YEAR ENDED 31st MARCH 2006

THE DIRECTORS AND THEIR INTERESTS

The directors who served the company during the year together with their beneficial interests, including family holdings, in the shares of the company were as follows:

	Ordinary Shares of £0.002 each	
	At 31 March 2006	At 1 April 2005
F J French - Chairman	68,750	68,750
D J Bretel FCMA	6,250	6,250
F H Robertson	71,250	71,250
S Sukumaran	45,000	45,000
G M Sutherland	<u>17,691,220</u>	<u>17,691,220</u>

Mr F J French holds £1,500 unsecured convertible loan notes (2005: £Nil).

Mr G M Sutherland holds £239,860 unsecured loan notes and £3,000 unsecured convertible loan notes (2005: £Nil).

Ms S Sukumaran held warrants in respect of 20,000 ordinary shares of £0.002 each at an exercise price of 12.5p. These lapsed on 31st August 2006.

The following options are held at the year end:

	Number of ordinary shares subject to option	Exercise Price	Expiry Date
1) Granted on 26 th October 2004 replacing options previously held in Condomania plc G M Sutherland	350,000	10p	31 st July 2008
2) Granted on 20 th September 2005 pursuant to the EMI share option scheme S Sukumaran	426,690	16p	20 th September 2014
3) Granted 18 th October 2005 pursuant to the unapproved share option scheme F J French	426,690	16p	18 th October 2014
D J Bretel	426,690	16p	18 th October 2014
F H Robertson	426,690	16p	18 th October 2014
G M Sutherland	426,690	16p	18 th October 2014

POLICY ON THE PAYMENT OF CREDITORS

The company does not follow any specified code or standard on payment practice. However, it is the company's policy to negotiate terms with its suppliers and to ensure that they are aware of the terms of payment when business is agreed. Every effort is made to adhere to these terms and payment is made when it can be confirmed that goods and / or services have been provided in accordance with the relevant contract conditions.

The creditor payment period of the group for the year was 281 days (2005: 215 days).

SEXUAL HEALTH GROUP PLC**THE DIRECTORS' REPORT** *(continued)***YEAR ENDED 31st MARCH 2006**

DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the group and of the profit or loss of the group for that year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies, as described on pages 14 to 16, 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 that 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 Companies Act 1985. The directors are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the directors are aware:

- there is no relevant audit information of which the group's auditors are unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

AUDITOR

A resolution to re-appoint Brebner Allen & Trapp as auditor for the ensuing year will be proposed at the annual general meeting in accordance with section 385 of the Companies Act 1985.

Signed on behalf of the directors

D J Bretel FCMA

Director

Approved by the directors on 20th September 2006

SEXUAL HEALTH GROUP PLC
INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
SEXUAL HEALTH GROUP PLC
YEAR ENDED 31st MARCH 2006

We have audited the group and parent company financial statements ("the financial statements") of Sexual Health Group Plc for the year ended 31st March 2006 on pages 10 to 32 which have been prepared on the basis of the accounting policies set out on pages 14 to 16.

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 AUDITOR

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 on pages 6 to 7.

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. 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 only the Directors' Report and the Chairman's statement. 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.

SEXUAL HEALTH GROUP PLC
INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
SEXUAL HEALTH GROUP PLC *(continued)*

YEAR ENDED 31st MARCH 2006

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 the company's affairs as at 31 March 2006 and of the group's loss for the year then ended.

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

The information given in the Directors' Report is consistent with the financial statements for the year ended 31 March 2006.

EMPHASIS OF MATTER - GOING CONCERN

In forming our opinion, which is not qualified, we have considered the adequacy of the disclosures made in Note 1 of the financial statements concerning the group's and the company's ability to continue as a going concern. The group incurred a net loss of £330,783 during the year ended 31st March 2006 and, at that date, the group's current liabilities exceeded its current assets by £97,626. These conditions, along with the other matters explained in Note 1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the group and the company were unable to continue as a going concern.

The Quadrangle
180 Wardour Street
London
W1F 8LB

BREBNER ALLEN & TRAPP
Chartered Accountants
& Registered Auditors

3rd October 2006

SEXUAL HEALTH GROUP PLC
PROFIT AND LOSS ACCOUNT
YEAR ENDED 31st MARCH 2006

	Note	2006 £	2005 £
GROUP TURNOVER	2	331,185	312,398
Cost of sales		<u>222,605</u>	<u>188,993</u>
GROSS PROFIT		108,580	123,405
Distribution costs		29,250	33,194
Administrative expenses		427,884	326,229
Other operating income	3	<u>(30,413)</u>	<u>(44,425)</u>
OPERATING LOSS	4	(318,141)	(191,593)
Interest receivable	7	570	1,413
Interest payable and similar charges	8	<u>(13,212)</u>	<u>(1,436)</u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(330,783)	(191,616)
Tax on loss on ordinary activities	9	–	–
LOSS FOR THE FINANCIAL YEAR	10	<u>(330,783)</u>	<u>(191,616)</u>
EARNINGS PER SHARE (PENCE)	12	(1.15)	(0.68)
DILUTED EARNINGS PER SHARE (PENCE)	12	(1.06)	(0.68)

All of the activities of the group are classed as continuing.

The group has no recognised gains or losses other than the results for the year as set out above.

The company has taken advantage of section 230 of the Companies Act 1985 not to publish its own Profit and Loss Account.

SEXUAL HEALTH GROUP PLC

GROUP BALANCE SHEET

31st MARCH 2006

	Note	2006 £	£	2005 £	£
FIXED ASSETS					
Intangible assets	13		428,671		93,946
Tangible assets	14		9,152		5,350
			<u>437,823</u>		<u>99,296</u>
CURRENT ASSETS					
Stocks	17	115,396		68,995	
Debtors	18	149,854		116,371	
Cash at bank and in hand		21,697		58,510	
		<u>286,947</u>		<u>243,876</u>	
CREDITORS: Amounts falling due within one year	19	<u>384,573</u>		<u>200,557</u>	
NET CURRENT (LIABILITIES)/ASSETS			<u>(97,626)</u>		43,319
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>340,197</u>		<u>142,615</u>
CREDITORS: Amounts falling due after more than one year	20		548,386		33,333
			<u>(208,189)</u>		<u>109,282</u>
CAPITAL AND RESERVES					
Called-up equity share capital	24		57,763		57,763
Share premium account	25		256,773		243,461
Other reserves	25		111,478		111,478
Profit and loss account	25		(634,203)		(303,420)
(DEFICIT)/SHAREHOLDERS' FUNDS	26		<u>(208,189)</u>		<u>109,282</u>

These financial statements were approved by the directors on the 20th September and are signed on their behalf by:

D J Bretel FCMA

Director

The notes on pages 14 to 32 form part of these financial statements.

SEXUAL HEALTH GROUP PLC
COMPANY BALANCE SHEET
31st MARCH 2006

	Note	2006 £	£	2005 £	£
FIXED ASSETS					
Investments	15		411,336		53,336
CURRENT ASSETS					
Debtors	18	401,725		202,616	
Cash at bank		280		37,021	
		<u>402,005</u>		<u>239,637</u>	
CREDITORS: Amounts falling due within one year	19	<u>45,825</u>		<u>11,559</u>	
NET CURRENT ASSETS			356,180		228,078
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>767,516</u>		<u>281,414</u>
CREDITORS: Amounts falling due after more than one year	20		513,000		–
			<u>254,516</u>		<u>281,414</u>
CAPITAL AND RESERVES					
Called-up equity share capital	24		57,763		57,763
Share premium account	25		256,773		243,461
Profit and loss account	25		(60,020)		(19,810)
SHAREHOLDERS' FUNDS			<u>254,516</u>		<u>281,414</u>

These financial statements were approved by the directors on the 20th September 2006 and are signed on their behalf by:

D J Bretel FCMA

Director

SEXUAL HEALTH GROUP PLC

GROUP CASH FLOW

YEAR ENDED 31st MARCH 2006

	Note	2006 £	£	2005 £	£
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	27		(110,922)		(79,785)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	27		(12,642)		(23)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT	27		(7,395)		(4,861)
ACQUISITIONS AND DISPOSALS					
Net cash acquired with subsidiary		<u>3,764</u>		<u>—</u>	
NET CASH INFLOW FROM ACQUISITIONS AND DISPOSALS			3,764		—
CASH OUTFLOW BEFORE FINANCING			(127,195)		(84,669)
FINANCING	27		90,382		109,334
(DECREASE)/INCREASE IN CASH	27		(36,813)		24,665

SEXUAL HEALTH GROUP PLC
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31st MARCH 2006

1. ACCOUNTING POLICIES

Basis of accounting

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and all group undertakings. These are adjusted, where appropriate, to conform to group accounting policies. Group reconstructions are accounted for under the merger accounting rules as permitted by FRS6. Comparative figures are for the year ended 31st March 2005.

As a consolidated profit and loss account is published, a separate profit and loss account for the parent company is omitted from the group financial statements by virtue of section 230 of the Companies Act 1985.

Going concern

At the balance sheet date the group had a deficit of funds of £208,189, including net current liabilities of £97,626, having incurred a loss for the year of £330,673. Further losses to the end of August are estimated to be approximately £85,000.

The deficit of funds continues to be funded by long-term debt in the form of loan notes and directors' loans, and net current liabilities by a combination of trade credit, a factoring facility, loan notes and directors' loans.

Detailed forecasts have been prepared and approved by the directors for each company in the group who believe that they are prudent and readily achievable.

The directors have decided that the employment of a sales representative originally planned for August 2006 will be delayed and the associated costs have been removed from the budget. The Chief Executive will, in order to boost sales, devote 50% of his time on sales activity. The full time directors have already agreed not to take their full salaries, and the other three directors have agreed to waive their retainers until such time as the company becomes consistently cash positive.

On the above basis the forecasts show that the group becomes profitable in early 2007.

The directors have considered the group's cash flow and funding requirements.

The major trade creditor of Condomania Plc has already agreed to stage payments. Subsequent to the year end the company has received further investment of £100,000 in respect of a placing of 2,000,000 Ordinary shares of 0.2p each issued at 5p each. The Board are actively continuing to seek further investments by way of placings.

The consolidated cash flow shows a cash shortfall may arise in December 2006 and January 2007 of £14,000. The group does not at present have a bank facility to cover this but the directors are confident that this short term deficit can be managed.

Long term funding in the form of loan notes and directors' loans continues in place.

SEXUAL HEALTH GROUP PLC
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31st MARCH 2006

1. ACCOUNTING POLICIES *(continued)*

On the basis of the above the directors consider it appropriate that the group continues in business and that the accounts should be prepared on the going concern basis.

Turnover

The turnover shown in the profit and loss account represents amounts invoiced during the year, exclusive of Value Added Tax.

Goodwill

Positive purchased goodwill arising on acquisitions is capitalised, classified as an asset on the Balance Sheet and amortised over its estimated useful life up to a maximum of 20 years. This length of time is presumed to be the maximum useful life of purchased goodwill because it is difficult to make projections beyond this period. Goodwill is reviewed for impairment at the end of the first full financial year following each acquisition and subsequently as and when necessary if circumstances emerge that indicate that the carrying value may not be recoverable.

Amortisation

Amortisation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Brandnames and trademarks - 10 % on cost

Fixed Assets

All fixed assets are originally recorded at cost.

Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Plant and Machinery	- 25% on reducing balance
Fixtures and Fittings	- 25% on reducing balance
Equipment	- 33% per annum on cost

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Stocks

Stocks are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items.

Hire purchase agreements

Assets held under hire purchase agreements are capitalised and disclosed under tangible fixed assets at their fair value. The capital element of the future payments is treated as a liability and the interest is charged to the profit and loss account on a straight line basis.

SEXUAL HEALTH GROUP PLC
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31st MARCH 2006

1. ACCOUNTING POLICIES *(continued)***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 costs

The company operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the company. The annual contributions payable are charged to the profit and loss account.

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the operating profit.

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 have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax, with the following exceptions:

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

2. TURNOVER

The turnover and loss before tax are attributable to the one principal activity of the group. An analysis of turnover is given below:

	2006 £	2005 £
United Kingdom	<u>331,185</u>	<u>312,398</u>

3. OTHER OPERATING INCOME

	2006 £	2005 £
Rent receivable	413	14,425
Management charges receivable	<u>30,000</u>	<u>30,000</u>
	<u>30,413</u>	<u>44,425</u>

SEXUAL HEALTH GROUP PLC
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31st MARCH 2006

4. OPERATING LOSS

Operating loss is stated after charging:

	2006	2005
	£	£
Amortisation	6,108	6,114
Depreciation of owned fixed assets	2,829	1,617
Depreciation of assets held under hire purchase agreements	2,210	–
Loss on disposal of fixed assets	7,395	–
Auditor's remuneration		
- as auditor	9,000	8,750
Operating lease costs:		
Other	32,094	32,071
Net loss on foreign currency translation	<u>2,991</u>	<u>13,569</u>

5. PARTICULARS OF EMPLOYEES

The average number of staff employed by the group during the financial year amounted to:

	2006	2005
	No	No
Number of administrative staff	4	5
Number of management staff	2	2
	<u>6</u>	<u>7</u>

The aggregate payroll costs of the above were:

	2006	2005
	£	£
Wages and salaries	232,753	142,533
Social security costs	18,195	13,589
Other pension costs	500	300
	<u>251,448</u>	<u>156,422</u>

6. DIRECTORS' EMOLUMENTS

The directors' aggregate emoluments in respect of qualifying services were:

	2006	2005
	£	£
Emoluments receivable	<u>150,440</u>	<u>92,001</u>

SEXUAL HEALTH GROUP PLC
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31st MARCH 2006

7. INTEREST RECEIVABLE

	2006	2005
	£	£
Bank interest receivable	<u>570</u>	<u>1,413</u>

8. INTEREST PAYABLE AND SIMILAR CHARGES

	2006	2005
	£	£
Interest payable on bank borrowing	28	26
Loan note interest payable	7,046	-
Finance charges	2,526	-
Interest on other loans	2,917	-
Factoring interest	695	1,410
	<u>13,212</u>	<u>1,436</u>

9. TAXATION ON ORDINARY ACTIVITIES**Factors affecting current tax charge**

The tax assessed on the loss on ordinary activities for the year is higher than the standard rate of corporation tax in the UK of 19% (2005 - 19%).

	2006	2005
	£	£
Loss on ordinary activities before taxation	<u>(330,783)</u>	<u>(191,616)</u>
Profit / (loss) on ordinary activities by rate of tax	(62,849)	(36,407)
Factors not deductible for tax purposes	1,447	-
Capital allowances in excess of depreciation	(1,523)	-
Losses carried forward	62,925	36,407
Total current tax	<u>-</u>	<u>-</u>

Factors that may affect future tax charges

The group has losses available to carry forward of £675,232.

10. LOSS ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY

The loss dealt with in the accounts of the parent company was £(40,210) (2005 - £(19,810)).

11. DIVIDENDS

No dividend has been recommended for the year ended 31st March 2006.

SEXUAL HEALTH GROUP PLC
NOTES TO THE FINANCIAL STATEMENTS
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12. EARNINGS PER SHARE

	2006 (pence)	2005 (pence)
Basic Earnings per Ordinary Share	(1.15)	(0.68)
Diluted earnings per Ordinary Share	(1.06)	(0.68)

The calculation of basic and diluted earnings per ordinary share is based upon the following data:

Earnings

	2006 £	2005 £
Earnings for the purposes of basic earnings per share	(330,783)	(191,616)
Effect of dilutive potential ordinary shares:		
Adjustment to earnings for Diluted EPS	10,200	–
	<hr/>	<hr/>
Earnings for the purposes of diluted earnings per share	<u>(320,583)</u>	<u>(191,616)</u>

Number of shares

	2006 No	2005 No
Basic weighted average number of shares	28,881,560	28,286,048
Dilutive potential ordinary shares:		
Adjustment to average number of shares for Diluted EPS	1,275,000	–
	<hr/>	<hr/>
Weighted average number of shares for the purposes of diluted earnings per share	<u>30,156,560</u>	<u>28,286,048</u>

There have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date and before the approval of these financial statements.

SEXUAL HEALTH GROUP PLC
NOTES TO THE FINANCIAL STATEMENTS
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13. INTANGIBLE FIXED ASSETS

Group	Goodwill on consolidation £	Purchased Goodwill & Brands £	Total £
COST			
At 1st April 2005	–	122,288	122,288
Additions	333,191	–	333,191
Acquisitions	–	19,096	19,096
At 31st March 2006	<u><u>333,191</u></u>	<u><u>141,384</u></u>	<u><u>474,575</u></u>
AMORTISATION			
At 1st April 2005	–	28,342	28,342
Charge for the year	–	6,108	6,108
Acquisitions	–	11,454	11,454
At 31st March 2006	<u><u>–</u></u>	<u><u>45,904</u></u>	<u><u>45,904</u></u>
NET BOOK VALUE			
At 31st March 2006	<u><u>333,191</u></u>	<u><u>95,480</u></u>	<u><u>428,671</u></u>
At 31st March 2005	<u><u>–</u></u>	<u><u>93,946</u></u>	<u><u>93,946</u></u>

SEXUAL HEALTH GROUP PLC
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31st MARCH 2006

14. TANGIBLE FIXED ASSETS

Group	Plant & Machinery £	Fixtures & Fittings £	Motor Vehicles £	Equipment £	Total £
COST					
At 1 April 2005	1,095	2,654	–	7,263	11,012
Additions	8,841	–	18,895	–	27,736
Disposals	–	–	(18,895)	–	(18,895)
Acquisitions	–	–	–	2,761	2,761
At 31 March 2006	<u>9,936</u>	<u>2,654</u>	<u>–</u>	<u>10,024</u>	<u>22,614</u>
DEPRECIATION					
At 1 April 2005	630	1,539	–	3,493	5,662
Charge for the year	2,365	277	–	2,397	5,039
Acquisitions	–	–	–	2,761	2,761
At 31 March 2006	<u>2,995</u>	<u>1,816</u>	<u>–</u>	<u>8,651</u>	<u>13,462</u>
NET BOOK VALUE					
At 31 March 2006	<u>6,941</u>	<u>838</u>	<u>–</u>	<u>1,373</u>	<u>9,152</u>
At 31 March 2005	<u>465</u>	<u>1,115</u>	<u>–</u>	<u>3,770</u>	<u>5,350</u>

Hire purchase agreements

Included within the net book value of £9,152 is £6,631 (2005 - £Nil) relating to assets held under hire purchase agreements. The depreciation charged to the financial statements in the year in respect of such assets amounted to £2,210 (2005 - £Nil).

15. INVESTMENTS

Company	Group companies £
COST	
At 1st April 2005	53,336
Additions	358,000
At 31st March 2006	<u>411,336</u>
NET BOOK VALUE	
At 31st March 2006	<u>411,336</u>
At 31st March 2005	<u>53,336</u>

SEXUAL HEALTH GROUP PLC
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31st MARCH 2006

15. INVESTMENTS *(continued)*

The company owns 100% of the share capital of Condomania PLC, which is registered in England and Wales. The nature of the company's business is that of the sale and supply of sexual health products. Total capital and reserves on 31st March 2006 were £(387,448) (2005: £(92,865)). The loss made in the year was £294,583 (2005: £171,806 loss).

Condomania PLC owns 100% of the share capital of Condomania (UK) Limited, which is registered in England and Wales. The company did not trade in the period. Total capital and reserves on 31st March 2006 were £(24,931) (2005: £(24,931)).

Condomania PLC owns 100% of the share capital of Sexual Health Company Limited, which is registered in England and Wales. The company did not trade in the period. Total capital and reserves at 31st March 2006 was £1 (2005: £1).

On 28th March 2006 the company acquired 100% of the ordinary share capital of Sutherland Group Holdings Limited and its subsidiary company, Sutherland Health Limited, for a consideration of £358,000. The nature of these companies' business is that of the trading of healthcare and related products.

Total capital and reserves of Sutherland Group Holdings Limited on 31st March 2006 were £41,880 (2005: £11,376) and the profit made in the year was £43,104 (2005: £27,355 loss). Total reserves of Sutherland Health Limited on 31st March 2006 were £20,024 (2005: £17,306) and the profit made in the year was £39,623 (2005: £9,901). Both companies are registered in England and Wales.

SEXUAL HEALTH GROUP PLC
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16. ACQUISITIONS**Sutherland Group Holdings Limited**

On 28 March 2006 the group acquired Sutherland Group Holdings Limited (including its wholly owned subsidiary Sutherland Health Limited) for a consideration of £358,000, satisfied by the provision of loan notes. Goodwill arising on the acquisition of Sutherland Group Holdings Limited has been capitalised and will be amortised over 20 years. The results of the company are included in the group accounts under the acquisition method.

The fair value attributed to the net tangible assets acquired at the date of acquisition were:

	Book value	Fair value adjustments	Fair value to the Group
Intangible fixed assets	7,642	–	7,642
Stock	73,523	–	73,523
Debtors	199,172	–	199,172
Cash at bank and in hand	3,764	–	3,764
Creditors	(259,292)	–	(259,292)
	<u>24,809</u>	<u>–</u>	<u>24,809</u>
Fair value of consideration			<u>358,000</u>
Goodwill capitalised			<u>333,191</u>
Consideration discharged by:			
Unsecured loan notes (see note 20)			<u>358,000</u>
			<u>358,000</u>

The results of Sutherland Group Holdings Limited (and its wholly owned subsidiary undertakings) for the period prior to acquisition were as follows:

	Period ended 27th March 2006	Year ended 31st March 2005
Profit / (loss) on ordinary activities after tax	<u>82,727</u>	<u>(17,454)</u>

Additional deferred consideration for the acquisition is payable to the vendors based upon 50% of any increase in the gross profit of Sutherland Group Holdings Limited (and its wholly owned subsidiary undertaking) in the period from 31 October 2005 to 31 March 2008. This deferred consideration is payable by the issue of further unsecured Convertible loan notes ranking pari-passu with the loan notes already issued to acquire the group.

SEXUAL HEALTH GROUP PLC
NOTES TO THE FINANCIAL STATEMENTS
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16. ACQUISITIONS *(continued)*

At 31 March 2006 the directors consider that any additional deferred consideration accrued is not material. No provision has been made in respect of any deferred consideration arising in the period from 1 April 2006 to 31 March 2008.

17. STOCKS

	Group		Company	
	2006	2005	2006	2005
	£	£	£	£
Stock	41,873	68,995	–	–
Raw materials	73,523	–	–	–
	<u>115,396</u>	<u>68,995</u>	<u>–</u>	<u>–</u>

18. DEBTORS

	Group		Company	
	2006	2005	2006	2005
	£	£	£	£
Trade debtors	134,728	102,532	–	–
Amounts owed by group undertakings	–	–	395,299	191,499
VAT recoverable	–	–	712	4,432
Other debtors	8,560	7,154	1,000	–
Prepayments and accrued income	6,566	6,685	4,714	6,685
	<u>149,854</u>	<u>116,371</u>	<u>401,725</u>	<u>202,616</u>

The debtors above include the following amounts falling due after more than one year:

	Group		Company	
	2006	2005	2006	2005
	£	£	£	£
Amounts owed by group undertakings	–	–	<u>395,299</u>	–

SEXUAL HEALTH GROUP PLC
NOTES TO THE FINANCIAL STATEMENTS
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19. CREDITORS: Amounts falling due within one year

	Group		Company	
	2006	2005	2006	2005
	£	£	£	£
Trade creditors	171,403	111,550	17,550	6,684
Hire purchase agreements	1,435	–	–	–
Directors' loan accounts	22,788	–	–	–
Other creditors including taxation and social security:				
Corporation tax	9,533	–	–	–
Other taxation and social security	19,257	15,600	–	–
Other creditors	99,153	62,782	–	–
A loan notes 2006	6,000	–	6,000	–
B loan notes 2006	9,000	–	9,000	–
Accruals and deferred income	46,004	10,625	13,275	4,875
	<u>384,573</u>	<u>200,557</u>	<u>45,825</u>	<u>11,559</u>

The A and B loan notes rank pari-passu save that commencing January 2007 the A loan notes are repaid at £2,000 a month and the B loan notes at £3,000 a month. The A and B loan notes carry interest at 7% per annum.

Included within other creditors is an amount of £65,150 in respect of amounts due under a factoring agreement. This amount is secured by a fixed charge over book debts and by a floating charge over the assets and undertakings of the group.

SEXUAL HEALTH GROUP PLC
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20. CREDITORS: Amounts falling due after more than one year

	Group		Company	
	2006	2005	2006	2005
	£	£	£	£
Unsecured convertible loan notes 2008	112,000	–	170,000	–
A loan notes 2006	47,700	–	47,700	–
B loan notes 2006	295,300	–	295,300	–
Hire purchase agreements	5,540	–	–	–
Directors' loan accounts	87,846	–	–	–
Other creditors	–	33,333	–	–
	<u>548,386</u>	<u>33,333</u>	<u>513,000</u>	<u>–</u>

On 30 June 2005 the company issued £170,000 of unsecured convertible loan notes, of this amount £58,000 is held by Sutherland Group Holdings Limited which became a subsidiary undertaking on 28 March 2006. These may be converted at the holders option at the basis of one ordinary share of 0.2p for each 10p of loan stock held. If not converted by 30 June 2008 the loan notes are repayable at par. The loan notes incur interest at 8% per annum.

On 28 March 2006 the company issued £358,000 of unsecured loan notes in consideration of the purchase of the share capital of Sutherland Group Holdings Limited as described in note 16 to the accounts. These were split into A and B loan notes.

The A and B loan notes rank pari-passu save that commencing January 2007 the A loan note holders are repaid at £2,000 a month and the B loan note holders at £3,000 a month. The A and B loan notes carry interest at 7% per annum.

21. COMMITMENTS UNDER HIRE PURCHASE AGREEMENTS

Future commitments under hire purchase agreements are as follows:

	Group		Company	
	2006	2005	2006	2005
	£	£	£	£
Amounts payable within 1 year	1,435	–	–	–
Amounts payable between 2 to 5 years	5,540	–	–	–
	<u>6,975</u>	<u>–</u>	<u>–</u>	<u>–</u>

Liabilities under hire purchase are secured on the assets concerned.

SEXUAL HEALTH GROUP PLC
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22. COMMITMENTS UNDER OPERATING LEASES

At 31st March 2006 the group had annual commitments under non-cancellable operating leases as set out below.

Group	2006		2005	
	Land and buildings £	Other items £	Land and Buildings £	Other items £
Operating leases which expire:				
Within 2 to 5 years	-	4,320	-	-
After more than 5 years	30,185	-	29,200	-
	<u>30,185</u>	<u>4,320</u>	<u>29,200</u>	<u>-</u>

SEXUAL HEALTH GROUP PLC
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23. RELATED PARTY TRANSACTIONS

During the year, the group incurred consultancy fees of £13,486 (2005: £3,352) from Tcheno Limited. At the year end, the group owed £11,814 (2005: £1,291) to Tcheno Limited. Mr D J Bretel, a director and shareholder, is also a director of Tcheno Limited. These fees are included in directors' emoluments.

During the year the group incurred consultancy fees of £16,954 (2005: £18,941) from the John French Consultancy in respect of Mr F J French's services. At the year end the group owed £12,224 (2005: Nil) to the John French Consultancy. Mr F J French is a director and shareholder. These fees are included in directors' emoluments.

On 28th March 2006, Sexual Health Group PLC, the parent undertaking, acquired 100% of the ordinary share capital of Sutherland Group Holdings Limited, along with its trading subsidiary Sutherland Health Limited. Mr G M Sutherland, a director and shareholder, held 67% of the allotted and issued share capital of Sutherland Group Holdings Limited prior to this acquisition.

Prior to this date, a management charge of £30,000 (2005: £30,000) was paid by Sutherland Health Limited to Condomania PLC, a subsidiary of the group. Additionally, Condomania PLC made purchases of £28,403 (2005: £8,956) from Sutherland Health Limited. Mr G M Sutherland is a director of both Sutherland Health Limited and Condomania PLC.

Also prior to the acquisition, Condomania PLC paid interest of £2,917 to Sutherland Group Holdings Limited, in respect of a loan. The remaining balance on this loan of £58,000 has since been reassigned to the parent company, Sexual Health Group PLC.

In previous years Mr G M Sutherland advanced funds to Sutherland Group Holdings Limited prior to its acquisition by Sexual Health Group PLC. At 31st March 2006 an amount of £110,634 was due to Mr G M Sutherland. Of this amount £22,788 (2005: £nil) is shown in creditors due within one year, with the balance in creditors due after more than one year. Interest is paid at 3% above Bank of England base rate.

At the balance sheet date the group owed £2,788 in respect of a loan from the pension fund of G M Sutherland, director and shareholder. This loan formed part of the net results of the acquisition during year and is shown in other creditors.

In accordance with FRS 8, exemption is taken not to disclose transactions in the year between group undertakings where 90% or more of the voting rights are controlled within the group and the consolidated financial statements in which Condomania PLC is included are publicly available.

Control

Control and ultimate control of the company vests with Mr G M Sutherland who has an interest in 61.25% of the company's issued share capital.

SEXUAL HEALTH GROUP PLC
NOTES TO THE FINANCIAL STATEMENTS
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24. SHARE CAPITAL

Authorised share capital:	2006	2005
	£	£
28,881,560 Ordinary shares of £0.002 each	<u>57,763</u>	<u>57,763</u>
Allotted, called up and fully paid:	2006	2005
	No	No
	£	£
Ordinary shares of £0.002 each	<u>28,881,560</u>	<u>28,881,560</u>
	<u>57,763</u>	<u>57,763</u>

The following options were outstanding at the year end:

- 1) 450,000 shares at 10p each expiring 31st July 2008 granted on 26th October 2004 replacing options previously held in Condomania plc.
- 2) 800,010 shares at 16p each expiring 20th September 2014 granted on 20th September 2005 pursuant to the EMI share option scheme.
- 3) 1,866,760 shares at 16p each expiring 18th October 2014 granted on 18th October 2005 pursuant to the unapproved share option scheme.

In addition warrants over 1,039,000 shares at an exercise price of 12.5p were outstanding at the year end. These warrants lapsed on 31st August 2006.

25. RESERVES

Group	Share premium account	Merger reserve	Profit and loss account
	£	£	£
Balance brought forward	243,461	111,478	(303,420)
Loss for the year	–	–	(330,783)
Other movements			
New equity share capital subscribed	13,312	–	–
Balance carried forward	<u>256,773</u>	<u>111,478</u>	<u>(634,203)</u>

The movement on the share premium account relates to credits received on share issue costs incurred in the previous year.

Company	Share premium account	Profit and loss account
	£	£
Balance brought forward	243,461	(19,810)
Loss for the year	–	(40,210)
Other movements		
New equity share capital subscribed	13,312	–
Balance carried forward	<u>256,773</u>	<u>(60,020)</u>

The movement on the share premium account relates to credits received on share issue costs incurred in the previous year.

SEXUAL HEALTH GROUP PLC
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26. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2006 £	2005 £
Loss for the financial year	(330,783)	(191,616)
New equity share capital subscribed	-	4,427
Net premium on new share capital subscribed	<u>13,312</u>	<u>243,461</u>
Net (reduction)/addition to shareholders' funds	(317,471)	56,272
Opening shareholders' funds	<u>109,282</u>	<u>53,010</u>
Closing shareholders' (deficit)/funds	<u>(208,189)</u>	<u>109,282</u>

27. NOTES TO THE STATEMENT OF CASH FLOWS**RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES**

	2006 £	2005 £
Operating loss	(318,141)	(191,593)
Amortisation	6,108	6,114
Depreciation	5,039	1,617
Loss on disposal of fixed assets	7,395	-
Decrease/(increase) in stocks	27,122	(37,242)
Decrease in debtors	165,689	40,724
(Decrease)/increase in creditors	<u>(4,134)</u>	<u>100,595</u>
Net cash outflow from operating activities	<u>(110,922)</u>	<u>(79,785)</u>

RETURNS ON INVESTMENTS AND SERVICING OF FINANCE

	2006 £	2005 £
Interest received	570	1,413
Interest paid	(10,686)	(1,436)
Interest element of hire purchase	<u>(2,526)</u>	<u>-</u>
Net cash outflow from returns on investments and servicing of finance	<u>(12,642)</u>	<u>(23)</u>

CAPITAL EXPENDITURE

	2006 £	2005 £
Payments to acquire tangible fixed assets	(18,895)	(4,861)
Receipts from sale of fixed assets	<u>11,500</u>	<u>-</u>
Net cash outflow from capital expenditure	<u>(7,395)</u>	<u>(4,861)</u>

SEXUAL HEALTH GROUP PLC
NOTES TO THE FINANCIAL STATEMENTS
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27. NOTES TO THE STATEMENT OF CASH FLOWS *(continued)***FINANCING**

	2006	2005
	£	£
Issue of equity share capital	–	4,427
Share premium on issue of equity share capital	13,312	243,461
Increase in loan notes	112,000	–
Capital element of hire purchase	(1,866)	–
Net outflow from other long-term creditors	(33,064)	(138,554)
Net cash inflow from financing	90,382	109,334

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2006		2005	
	£	£	£	£
(Decrease)/increase in cash in the period	(36,813)		24,665	
Net cash (inflow) from loan notes	(112,000)		–	
Cash outflow in respect of hire purchase	1,866		–	
Loan notes issued to acquire subsidiary	(358,000)		–	
New finance leases	(8,841)		–	
Net cash outflow from other long-term creditors	33,064		138,554	
Change in net debt resulting from cash flows		(480,724)		163,219
Movement in net debt in the period		(480,724)		163,219
Net funds at 1 April 2005		25,446		(137,773)
Net debt at 31 March 2006		(455,278)		25,446

SEXUAL HEALTH GROUP PLC
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27. NOTES TO THE STATEMENT OF CASH FLOWS *(continued)*

ANALYSIS OF CHANGES IN NET DEBT

	At 1 Apr 2005 £	Cash flows £	Other changes £	At 31 Mar 2006 £
Net cash:				
Cash in hand and at bank	<u>58,510</u>	<u>(36,813)</u>	<u>–</u>	<u>21,697</u>
Debt:				
Debt due within 1 year	–	–	(15,000)	(15,000)
Debt due after 1 year	(33,064)	(78,936)	(343,000)	(455,000)
Hire purchase agreements	–	1,866	(8,841)	(6,975)
	<u>(33,064)</u>	<u>(77,070)</u>	<u>(366,841)</u>	<u>(476,975)</u>
Net debt	<u>25,446</u>	<u>(113,883)</u>	<u>(366,841)</u>	<u>(455,278)</u>

There have been significant non-cash movements in the year due to the issuing of £358,000 of unsecured loan notes in consideration of the purchase of the share capital of Sutherland Group Holdings Limited.