



Excellence in financial software and managed services

Lombard Risk Management plc Annual Report and Accounts 2005



CORPORATE STATEMENT

Lombard Risk Management plc has an extensive foundation of business knowledge and 15 years of experience in providing trading and risk management systems to the financial markets. It provides software and independent valuation services that allow customers to value and manage risk on a wide variety of financial instruments with a primary focus on interest rate and credit derivative markets.

Headquartered in London, and with offices in New York, Hong Kong and Cape Town, the Company's client list contains over 20 of the top 50 banks in the world and many of the leading names in the hedge fund industry.

The Company was admitted to AIM, the London Stock Exchange's specialist market for growth companies, in September 2004, and has the ticker symbol LRM.

HIGHLIGHTS

- Successful listing on the Alternative Investment Market of the London Stock Exchange
- £2.35 million raised during the year from new and existing shareholders
- Turnover was £4.62 million (2004: £4.53 million). Loss before tax is £1.13 million (2004: £1.21 million)
- Strategic review has created strong platform for future growth and development
- Strengthened market position through additional product functionality, services and new client wins
- Corporate activity to achieve strategic objectives is underway
- Post year end agreement to sell ValuSpread business for up to £6 million will greatly strengthen the Company's ability to execute its strategic plan

“The Board remains positive about the growth story and prospects for the Company over the next few years.”



SUMMARY

In trading conditions on par with last year, and with competition remaining strong, Lombard Risk continued to see consistent demand for its products and services over the past year. Customer gains were particularly notable in the business areas of Independent Valuation Services and credit derivatives pricing.

The Company was successfully floated on the AIM section of the London Stock Exchange in September 2004 at 8p per share, and in November 2004 received an additional £1.1 million investment at 9p per share from Putnam Lovell, a subsidiary of National Bank of Canada.

FINANCIAL

Revenue increased to £4.62m against £4.53m for the previous year, with a reduced loss before tax of £1.13m, versus a comparable figure of £1.21m for 2004. The loss before interest, tax and exceptional items was £0.78m.

Revenue was impacted by the timing of several large transactions which failed to close by the year end, or which were transacted on a rental/subscription basis rather than a licence basis. The sales mix was different from expectations; software rental and data revenues were at a higher level, while licence sales were at a lower level than expected.

Recurrent revenue was at a higher level than expected and contributed over 75% of total revenue. In addition, the revenue profile remained well dispersed, with no single client accounting for more than 6% of total revenue.

Costs were increased post IPO by the addition of several new members of staff in sales and marketing together with ongoing listing costs and the addition of two Non-Executive Directors. There is a growing sales pipeline owing to the sales team's efforts, but it has taken longer than expected for the new team to reach full productivity.

Oberon, the trading and risk management system, remained profitable for the sixteenth consecutive year and made two key new customer wins during the year, while Firmament's revenue contribution increased, and the product continues to be expanded and enhanced in the areas of credit trading and collateral management.

The Independent Valuation Service business continues to see demand growth as the marketplace increasingly recognises the importance of independent valuations, and our ValuSpread data business is benefiting from continued growth in the volume of credit derivatives traded.

The Company ended the year with cash and marketable securities of £0.9m. In addition, the Company has the ability to reclaim R&D tax credits totalling several hundred thousand pounds; however the Board believes that, as a result of trading and corporate activity, it may be able to make use of a large proportion of its tax losses in the next financial period, and has consequently for the first time in four years not applied to surrender any of its tax losses against payment for R&D tax credits.

SOFTWARE PRODUCTS

Oberon continues to provide capital to support the development of other products, as well as gaining new customers. Work has continued to make Oberon a very

open system using our OBI utility. Functionally the product has made good progress with new pricing models and support for additional instruments. All Oberon customers are now using Oberon 5, thus streamlining the product support function.

Firmament, the Company's latest software platform for trading and risk management, continues to gain ground and has benefited particularly this year from a new development partnership with Banca IMI in Milan, Italy. This is for the further enhancement of Firmament Collateral, the software platform for collateral trading and risk management. Client wins for Firmament Credit Trading have included hedge funds and a prominent Fund Administrator.

MANAGED SERVICES AND DATA

The continued strong growth in the hedge fund and alternative investment markets have heightened the awareness of, and demand for, independent valuations by both asset managers and their investors. In addition, there has been increasing focus by regulators on independent valuation and the IAS 39 directive on fair value accounting for derivatives, which will be significant drivers for the Independent Valuation Services business. These factors have already been reflected in a healthy growth in sales leads for the business as well as new customers.

The growth in the credit derivatives market has continued at over 40% per annum, and the British Bankers' Association estimated that the total market size, as measured by notional amount, had reached US\$5.5 trillion by the end of 2004. The volume of instruments traded has also continued to rise, and this has been reflected in the significant growth in credits handled by the ValuSpread data business.

PERSONNEL

We welcomed two very experienced Directors to the Board in the last year, Brian Crowe and Dan Kochav, both of whom are current practitioners in very relevant businesses. Brian Crowe joined at the time of our IPO, and is Deputy Chief Executive of Royal Bank of Scotland's Corporate Banking and Financial Markets division. Dan Kochav joined our Board following the investment by Putnam Lovell and is Managing Director of Alternative Investments there, having previously been a Managing Director of Toronto Dominion Bank. This association with Putnam Lovell and its network of contacts has already brought significant additional benefits to the Company, particularly as it seeks to expand its North American customer base and activities.

At the beginning of March, Ian Hopkins, who had previously founded and headed up the ValuSpread business during a six year tenure with the Company, rejoined as Managing Director of ValuSpread after a two year absence.

INVESTMENTS

Lombard Risk still holds a stake of 3% (5.6m shares) in its former subsidiary IDOX plc, which is quoted on AIM. The Board's position remains that it will retain or dispose of this holding based on investment considerations alone.

IDOX is an example of a business bought by Lombard Risk, successfully incubated and then spun out at an appropriate time. This is a model that the Board feels comfortable with, and over the next few years it can be anticipated that the Company will engage in further similar corporate activity.

PROSPECTS

At the time of writing, the Company had just agreed to sell its ValuSpread business. This disposal will substantially improve the balance sheet of the Company and create a very strong cash position for a company of our size. It will also provide additional capability to execute on the Company's strategic plan to be a specialist supplier of risk and valuation products and services to the financial services market place.

The Board believes that the high level of recurrent revenues of the business overall provides a sound foundation for growth. The Board is confident that market demand in our focus areas of credit derivatives and hedge fund management will continue to grow, as will the area of independent valuations. The Board remains positive about the growth story and prospects for the Company over the next few years.

The year in which we made the transition to quoted status was a significant year for the Company. In addition, owing to our former head office building being redeveloped by our landlords, the Company had to move office in October 2004. Inevitably both the IPO and the office move meant that many of our team had to go the extra mile over and above their normal jobs, and I would like to thank all my colleagues in London and our other offices, as well as our advisors, for their hard work and support.



JOHN WISBEY CHAIRMAN AND CEO
9 August 2005

PRODUCTS AND SERVICES SOFTWARE

Our software systems provide functionality for the trading and risk management of the full range of financial instruments. The systems are designed to integrate seamlessly to form an entire financial solution for even the most demanding trading environment, and fit effortlessly within an organisation's existing infrastructure.

OBERON®

Oberon is a fast, accurate and reliable trading and risk management system, designed specifically for interest rate derivatives, FX, money market and fixed income portfolios.

It handles the entire deal life cycle from pricing and deal capture, through to valuation, reporting and ISDA compliant documentation.

FIRMAMENT®

Firmament is a suite of next generation trading risk management and analysis applications.

Applications can be purchased singly, as stand-alone products, or as a suite running on popular server and client platforms providing a consolidated business solution.

DATA

Obtaining fair-value prices for the full range of OTC derivative positions, and having prompt access to comprehensive and accurate data is essential for many financial institutions, but very time and resource intensive to achieve.

VALUSPREAD®

The ValuSpread Credit service provides precise and regular market data on credit default swaps.

MANAGED SERVICES

Independent portfolio valuations are increasingly required for regulatory reasons, and are a cost effective valuation method.

INDEPENDENT VALUATION SERVICES

Independent Valuation Services values OTC derivative positions, swiftly, regularly, cost effectively, and of course, independently.

DIRECTORS AND ADVISORS



JOHN WISBEY (b.1956)

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

John founded the business of the Group in 1989 and has led the Group from start-up to its current international status. He is responsible for the main strategic issues of the Group and for supervising the senior management team. He also contributes to product innovation and definition and uses his high-level client relationships to initiate and complete key deals. Prior to founding the Group he spent twelve years at Kleinwort Benson Ltd on the banking and trading sides, with his final position there being Head of Option Trading and a director in the swap group.



IAN PEACOCK (b.1947)

NON-EXECUTIVE DEPUTY CHAIRMAN

Ian joined the Board in 2000, having previously been an advisor to the Group. He has extensive knowledge of the financial services sector from his time in the banking industry where he held a number of senior positions in London, New York and Asia, including serving as a member of Barclays Bank Group Credit Committee, as a member of the Group Board of Kleinwort Benson Group plc and as Chairman of the Kleinwort Benson Credit Committee, as well as serving for two years as a special advisor to the Bank of England. He is also Chairman of MFI Furniture Group plc and Mothercare plc.



BRIAN CROWE (b.1957)

NON-EXECUTIVE DIRECTOR

Brian is Deputy Chief Executive of Corporate Banking and Financial Markets ("CBFM") at the Royal Bank of Scotland ("RBS"). He is also Managing Director of Financial Markets. The CBFM division embraces all the wholesale banking activities of RBS, and Financial Markets conduct all its trading activities. He is a member of the Credit Committee of RBS and a member of the Group Executive Management Committee. Prior to joining RBS, he was Head of Derivatives at Chase Manhattan Bank in London. He is a former member of the International Swaps and Derivatives Association Board.



DAN KOCHAV (b.1958)

NON-EXECUTIVE DIRECTOR

Dan is Managing Director of Alternative Investments at Putnam Lovell NBF, part of the National Bank Financial Group, and a subsidiary of National Bank of Canada. Previously as a Managing Director at TD Securities in New York (part of Toronto Dominion Bank), Dan was responsible for starting up and managing a number of business initiatives including Convertible Arbitrage, Index Arbitrage, Corporate Equity Derivatives, Structured Tax Transactions, and a cross-border Structured Private Placement business. In this position, and also prior to that at Paine Webber Inc, he was responsible for originating, structuring, selling, and closing over US \$3 billion in structured financings including leveraged leases, mortgage backed securities, energy project financing, leveraged buyouts and recapitalisations.



CHRISTOPHER ROSE (b.1957)

MANAGING DIRECTOR AND CHIEF OPERATING OFFICER

Christopher joined the Group in March 2000 and was initially involved in the Group's software business. In 2003 he assumed responsibility for the Group's managed services business centred around the ValuSpread service and more recently the Independent Valuation Services business. Prior to joining the Group, he was COO of ANZ Investment Bank. Before that, he spent 18 years at Barclays Bank and its investment banking business, BZW. For most of this period he was based in Hong Kong, rising to Regional Director for Asia and the Barclays Group Country Head.



CHRISTOPHER WRIGHT (b.1957)

NON-EXECUTIVE DIRECTOR

Christopher became involved in the Group in 2000 when the Dresdner Bank Group led a private equity pre-IPO investment in IDOX (an AIM quoted company formerly wholly owned by the Group). His previous roles include Head of Global Private Equity for Dresdner Kleinwort Capital and Chairman of the Dresdner Bank Group Private Equity Board. His other directorships include Roper Industries Inc. (NYSE), Questor VCT PLC (LSE), Merifin Capital and Maxcess Corporation.

DIRECTORS

The Group is run by its Board of Directors, which currently has six members, including four Non-Executive Directors and meets regularly. The Non-Executive Directors make a valuable contribution by bringing a breadth of business and relevant professional experience to the Board. The Board has overall responsibility for the Group and there is a formal schedule of matters specifically reserved for decision by the Board. It is responsible for the overall Group strategy, acquisition and divestment policy, approval of major capital expenditure and consideration of significant capital matters.

COMPANY REGISTRATION NUMBER:

3224870

SECRETARY:

SPENCER BACKHOUSE

REGISTERED OFFICE:

21ST FLOOR
EMPRESS STATE
EMPRESS APPROACH
LILLIE ROAD
LONDON SW6 1TR

NOMINATED ADVISOR AND BROKER:

NOBLE & COMPANY LIMITED
120 OLD BROAD STREET
LONDON EC2N 1AR

AUDITORS:

GRANT THORNTON UK LLP
GRANT THORNTON HOUSE
MELTON STREET
EUSTON SQUARE
LONDON NW1 2EP

CORPORATE SOLICITORS:

MEMERY CRYSTAL
44 SOUTHAMPTON BUILDINGS
LONDON WC2A 1AP

REGISTRARS:

COMPUTERSHARE INVESTOR SERVICES PLC
PO BOX 859
THE PAVILIONS
BRIDGWATER ROAD
BRISTOL BS99 1XZ

DATES:

ANNUAL GENERAL MEETING 15 SEPTEMBER 2005

DIRECTORS' REPORT for the year ended 31 March 2005

The Directors present their report and the audited financial statements for the year ended 31 March 2005.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom company law requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and Group and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and 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 Company will continue in business.

The Directors are responsible for keeping proper accounting records, for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

PRINCIPAL ACTIVITIES AND REVIEW OF BUSINESS

The Company operates principally as a holding company. It has an extensive foundation of business knowledge and 15 years of experience in providing trading and risk management systems to the financial markets. It provides software and independent valuation services that allow customers to value and manage risk on a wide variety of financial instruments with a primary focus on interest rate and credit derivative markets. A review of the Group's trading for the year is included in the Chairman's Statement.

RESULTS AND DIVIDENDS

The audited financial statements for the year ended 31 March 2005 are set out on pages 13 to 28. The Group's loss for the year after taxation amounted to £1,134,068 (2004: £747,859). The Directors do not propose a dividend for the year (2004: £nil).

DIRECTORS AND THEIR INTERESTS

The Directors who served during the year and their beneficial interests in the Company's ordinary share capital were as follows:

	31 March 2005	31 March 2004
John Wisbey ¹	81,024,562	76,762,062
Ian Peacock	780,032	467,532
Christopher Rose	125,000	—
Brian Crowe ²	625,000	—
Dan Kochav ³	375,000	—
Christopher Wright ⁴	1,205,066	—

¹ 77,074,562 shares are owned directly. In addition John Wisbey is a beneficiary of Advanced Technology Trust which owns a further 3,950,000 shares

² Appointed to the Board on 30 September 2004

³ Appointed to the Board on 2 December 2004

⁴ 120,000 'A' preference shares held at 31 March 2004

In addition to these shareholdings listed above, the Directors have been granted options over ordinary shares. Full details of these options are given in the Report on Remuneration on page 9.

Details of the Directors' service contracts can be found in the Report on Remuneration on page 8.

PAYMENT OF CREDITORS

It is the Company's policy to settle the terms of payment with suppliers when agreeing the terms of the transaction, to ensure that suppliers are aware of these terms and to make every effort to abide by them. The average trade creditor days for the year was 61 days (2004: 66 days).

SUBSTANTIAL SHAREHOLDINGS

As at 31 March 2005 the Company was aware of the following interests in 3% or more of its issued share capital:

	Number of shares	% holding
John Wisbey	77,074,562	65.20
AMF (NBF) Holdings Inc.	12,222,222	10.34
Merifin Capital NV	7,525,264	6.37
Advanced Technology Trust	3,950,000	3.34

RESEARCH AND DEVELOPMENT

Research and development expenditure incurred on the Group's suite of products is expensed to the profit and loss account in the period incurred.

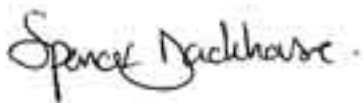
POST BALANCE SHEET EVENTS

Other than as disclosed in Note 29, no circumstances have arisen since the balance sheet date in respect of matters which would require adjustment or disclosure in the accounts.

AUDITORS

A resolution to reappoint Grant Thornton UK LLP as auditors and to authorise the Directors to agree their remuneration will be placed before the forthcoming Annual General Meeting of the Company.

By order of the Board



SPENCER BACKHOUSE

SECRETARY

9 August 2005

REGISTERED OFFICE

21ST FLOOR
EMPRESS STATE
EMPRESS APPROACH
LILLIE ROAD
LONDON SW6 1TR

REPORT ON REMUNERATION for the year ended 31 March 2005

CONSTITUTION AND RESPONSIBILITY OF THE REMUNERATION COMMITTEE

The Remuneration Committee (the "Committee") consists of Non-Executive Directors Brian Crowe, Ian Peacock, Chairman of the Committee and Executive Director John Wisbey. The Committee's principal function is to determine the remuneration packages of Executive Directors. It reviews the performance of the Executive Directors and sets the scale and structure of their remuneration and the basis of their service agreements with due consideration for the interests of shareholders. No Executive Director may participate in decisions regarding his own remuneration.

POLICY ON EXECUTIVE DIRECTORS' REMUNERATION

The Group's policy on Executive Directors' remuneration is to determine remuneration packages which are competitive within its markets in order to attract, retain and motivate high calibre executives. The Remuneration Committee recognises the importance of providing both short and long term rewards to the Executive Directors in recognition of achieving performance related targets with the aim of enhancing shareholder value.

SUMMARY OF EMOLUMENTS

	Salary/Fee £	Bonus £	Benefits £	Total 2005 £	Total 2004 £
Executive Directors					
John Wisbey	178,500	15,000	608	194,108	179,127
Christopher Rose	157,500	—	920	158,420	173,475
Rupert Barclay	—	—	—	—	30,842
Non-Executive Directors					
Brian Crowe	10,000	—	—	10,000	—
Dan Kochav	—	—	—	—	—
Ian Peacock	23,750	—	—	23,750	23,127
Christopher Wright	17,500	—	—	17,500	15,000
	387,250	15,000	1,528	403,778	421,571

No payments were made in respect of Directors' pension schemes.

The remuneration shown above relates only to the period of appointment for each respective Director.

SERVICE CONTRACTS

The Executive Directors have entered into service contracts with the Company that are terminable by either party on various notice periods, none of which is greater than twelve months.

SHARE OPTIONS

The interests of the Directors in the share option schemes are as follows:

	1 April 04	Number granted	Number lapsed	31 March 05	Date granted	Exercise price	Date from which exercisable
John Wisbey	—	555,555	—	555,555	13.12.04	9p	31.03.06 – 31.03.11
John Wisbey	—	1,194,445	—	1,194,445	13.12.04	11p	31.03.06 – 31.03.11
Ian Peacock	—	300,000	—	300,000	13.12.04	9p	31.03.06 – 31.03.11
Christopher Rose	—	555,555	—	555,555	13.12.04	9p	31.03.06 – 31.03.11
Christopher Rose	—	944,445	—	944,445	13.12.04	11p	31.03.06 – 31.03.11
Brian Crowe	—	200,000	—	200,000	13.12.04	9p	31.03.06 – 31.03.11
Dan Kochav	—	200,000	—	200,000	13.12.04	9p	31.03.06 – 31.03.11
Christopher Wright	—	200,000	—	200,000	13.12.04	9p	31.03.06 – 31.03.11

No options were exercised during the year or during the previous year

The Directors' interests in the share options at 31 March 2005 are in respect of options granted under the Lombard Risk Management plc 2004 Enterprise Management Incentive Scheme and 2004 Unapproved Company Share Option Plan.

The mid market price of the Company's shares was 9.75p at close of business on 31 March 2005. The range since IPO on 29 September 2004 was 8.00p to 14.25p. The options under the share option schemes were granted for nil consideration.

DIRECTORS' SHARE INTERESTS

The Directors' shareholdings in the Company are listed in the Directors' Report on page 6.

POLICY STATEMENT

The Board is committed to high standards of integrity and corporate governance, consistently seeking to apply the principles set out in the Combined Code (the "Code"). This statement, together with the Directors' Report and the Report of the Board to Shareholders on Directors' Remuneration, explains how the Group has applied the principles set out in the Code.

INTERNAL CONTROLS

The Board of Directors has overall responsibility for ensuring that the Company's system of internal control provides them with reasonable assurance regarding the reliability of financial information, used internally, and for publication, and that the Group's assets are adequately safeguarded. The Combined Code has a requirement that the Directors' Review of Internal Controls extends to all controls, including financial and operational controls, compliance and risk management. The Board is reviewing the new Combined Code and will report on compliance in respect of internal controls next year.

The Board considers that there have been no substantial weaknesses in internal financial controls that have resulted in any material losses, contingencies or uncertainties, which need to be disclosed in the accounts. The Board has considered the need for an internal audit function and has concluded that there is no current need for such a function within the Company.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom 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 profit or loss of the Company for that period. In preparing those accounts, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts.

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

The Directors are responsible for ensuring that the Directors' Report and other information included in the Annual Report is prepared in accordance with United Kingdom company law. They are also responsible for ensuring that the Annual Report includes information required by the AIM Market Rules.

Legislation in the United Kingdom governing the preparation and the dissemination of the accounts and other information included in annual reports may differ from legislation in other jurisdictions.

ACCOUNTING POLICIES

The Board considers the appropriateness of its accounting policies on an annual basis. The Board believes that its accounting policies and estimation techniques are appropriate in particular in relation to income recognition, research and development and deferred expenses.

BOARD OF DIRECTORS

The Board, comprising one Executive Director, an Executive Chairman and four Non-Executive Directors is responsible for the overall strategy and direction of Lombard Risk Management plc as well as for approving potential acquisitions, major capital expenditure items and financing matters. The Board has a formal schedule of business reserved to it and meets regularly during the year. The Board is supplied in a timely manner with information in a form and of a suitable quality appropriate to enable it to discharge its duties. The Board monitors exposure to key business risks, reviews the strategic direction of the Company, the annual budgets and progress against those budgets, and periodically evaluates its own performance.

The Board members and their roles are described on pages 4, 5 and 11.

SHAREHOLDER RELATIONS

The Company recognises the importance of dialogue with all of its shareholders. The Annual General Meeting is an opportunity to communicate with institutional and other shareholders. Additional information is supplied through the circulation of the Interim Report, the Annual Report and Accounts and information published on the Company's web site. The Company makes announcements to the London Stock Exchange as appropriate.

AUDIT COMMITTEE

The Audit Committee is formally constituted with terms of reference. Christopher Wright, who is a Non-Executive Director, chairs the Committee and Ian Peacock, Non-Executive Deputy Chairman, and John Wisbey, Chairman and CEO, are the other members. The Committee meets at least three times a year and receives reports from the Company's auditors. The Committee also reviews the interim and final accounts prior to approval by the Board. Additionally, the Committee also ensures the independence and objectivity of the external auditors and also reviews the provision of non-audit services by external auditors.

REMUNERATION COMMITTEE

The Remuneration Committee is chaired by Ian Peacock, Non-Executive Deputy Chairman, and comprises Brian Crowe, Non-Executive Director and John Wisbey, Chairman and CEO. The Committee reviews the remuneration structures and performance of the Executive Directors and reviews the remuneration policy for senior management. The Remuneration Committee meets as and when necessary and has access to professional advice from inside and outside the Company. The Report on Directors' Remuneration is set out on page 8. The Board as a whole determines the remuneration arrangements of the Non-Executive Directors.

GOING CONCERN

The Directors have formally considered the ability of the Group to continue its activities in light of the net liabilities of £738,659 in the balance sheet at 31 March 2005 and the losses and cash outflows in the period then ended.

The Directors have prepared forecasts for the period to September 2006 and are satisfied that the Group will continue to work within its available facilities. The Group currently has an agreed banking facility which is due for renewal in December 2005. The Directors have not started discussion with the bank in respect of the renewal of this facility but have no reason to believe it will not be renewed.

The Directors furthermore take comfort from the fact that the Company owns two established cash generative businesses, each of which has a value considerably higher than the net liability position, a remaining stake in IDOX plc with a market value at the end of July of approximately £600,000 and that the net liability position is a direct consequence of the Company's policy of writing off all investment in software research and development as and when incurred.

INDEPENDENT AUDITORS' REPORT to the members of Lombard Risk Management plc

We have audited the financial statements of Lombard Risk Management plc for the year ended 31 March 2005 which comprise the Consolidated Profit and Loss Account, the Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Total Recognised Gains and Losses, the Accounting Policies and Notes 2 to 29. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' 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 THE DIRECTORS AND AUDITORS

The Directors' responsibilities for preparing the annual report and the financial statements in accordance with United Kingdom law and accounting standards 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 United Kingdom auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if 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 transactions with the Company is not disclosed.

We read other information contained in the financial statements, including the Corporate Governance Statement, 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. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion of the effectiveness of the Group's corporate governance procedures on its risks and control procedures. Our responsibilities do not extend to any other information.

BASIS OF OPINION

We conducted our audit in accordance with United Kingdom auditing standards 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 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 of the state of affairs of the Company and the Group as at 31 March 2005 and of the loss for the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

GRANT THORNTON UK LLP

REGISTERED AUDITORS
CHARTERED ACCOUNTANTS
LONDON

9 August 2005

The maintenance and integrity of the Lombard Risk Management plc web site is the responsibility of the Directors: the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

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

CONSOLIDATED PROFIT AND LOSS ACCOUNT for the year ended 31 March 2005

	Note	2005 £	2004 £
Turnover		4,623,957	4,525,652
External charges		(200,758)	(241,170)
Gross profit		4,423,199	4,284,482
Staff costs	2	(3,910,659)	(3,636,148)
Other operating charges		(1,295,293)	(1,321,319)
Exceptional costs	13	(297,077)	(384,975)
		(5,503,029)	(5,342,442)
Operating loss			
– Before exceptional items		(782,753)	(672,985)
– Exceptional costs	13	(297,077)	(384,975)
– Total operating loss	3	(1,079,830)	(1,057,960)
Profit on disposal of current asset investment	12	49,024	2,340
Interest receivable	4	6,526	4,892
Interest payable	5, 13	(109,788)	(157,139)
Loss on ordinary activities before taxation		(1,134,068)	(1,207,867)
Tax on loss on ordinary activities	6	–	460,008
Non-equity appropriation	7	–	(21,488)
Loss for the year transferred from reserves	19	(1,134,068)	(769,347)
Loss per share			
Basic and diluted (pence)	8	(1.2)	(0.9)

All operations are continuing.

The accompanying notes form part of these accounts.

CONSOLIDATED BALANCE SHEET as at 31 March 2005

	Note	2005 £	2004 £
Fixed assets			
Tangible assets	10	285,061	93,496
Current assets			
Debtors due within one year	14	1,198,451	915,087
Current asset investment	12	571,358	599,250
Cash at bank and in hand		327,419	72,887
		2,097,228	1,587,224
Creditors: amounts falling due within one year	15	(1,306,486)	(1,509,542)
Net current assets		790,742	77,682
Total assets less current liabilities		1,075,803	171,178
Creditors: amounts falling due after one year	16	(219,126)	(355,937)
Deferred income		(1,595,336)	(1,500,781)
Net liabilities		(738,659)	(1,685,540)
Capital and reserves			
Called up share capital	18	1,020,875	867,881
Share premium	19	2,415,110	486,610
Revaluation reserve	19	170,957	408,151
Other reserves	19	118,648	119,193
Profit and loss account	19	(4,464,249)	(3,567,375)
Shareholders' deficit		(738,659)	(1,685,540)
Equity shareholders' deficit		(738,659)	(2,417,027)
Non-equity shareholders' funds		—	731,487
Shareholders' deficit		(738,659)	(1,685,540)

The financial statements were approved by the Board on 9 August 2005 and signed on its behalf by:



JOHN WISBEY
CHAIRMAN AND CEO

The accompanying notes form part of these accounts.

COMPANY BALANCE SHEET as at 31 March 2005

	Note	2005 £	2004 £
Fixed assets			
Investments in subsidiaries	11	7,000,000	7,000,000
Current assets			
Debtors	14	4,780	5,000
Current asset investment	12	571,358	599,250
Cash at bank and in hand		121	132
		576,259	604,382
Creditors: amounts falling due within one year	15	(32,890)	(271,634)
Net current assets		543,369	332,748
Total assets less current liabilities		7,543,369	7,332,748
Creditors: amounts falling due after one year	16	–	(136,272)
Net assets		7,543,369	7,196,476
Capital and reserves			
Called up share capital	18	1,020,875	867,881
Share premium	19	2,415,110	486,610
Revaluation reserve	19	170,957	413,192
Other reserves	19	5,692,640	5,757,048
Profit and loss account	19	(1,756,213)	(328,255)
Equity shareholders' funds		7,543,369	7,196,476
Equity shareholders' funds		7,543,369	6,464,989
Non-equity shareholders' funds		–	731,487
Shareholders' funds		7,543,369	7,196,476

The financial statements were approved by the Board on 9 August 2005 and signed on its behalf by:



JOHN WISBEY
CHAIRMAN AND CEO

The accompanying notes form part of these accounts.

CONSOLIDATED CASH FLOW STATEMENT for the year ended 31 March 2005

	Note	2005 £	2004 £
Net cash outflow from operating activities	21	(1,322,630)	(410,861)
Returns on investments and servicing of finance			
Interest received		6,526	4,892
Interest paid		(108,719)	(156,038)
Finance lease interest		(1,069)	(1,101)
Net cash outflow from returns on investments and servicing of finance		(103,262)	(152,247)
Taxation		—	570,008
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(281,582)	(95,782)
Purchase of current asset investment	12	(316,000)	—
Disposal of current asset investment	12	393,024	1,475,735
Disposal of tangible fixed asset		9,062	—
Net cash (outflow)/inflow from capital expenditure and financial investment		(195,496)	1,379,953
Financing			
Issue of shares		2,081,494	—
Capital element of finance lease		(9,574)	(4,636)
Net cash inflow/(outflow) from financing		2,071,920	(4,636)
Increase in cash	22	450,532	1,382,217

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31 March 2005

	2005 £	2004 £
Loss for the year	(1,134,068)	(769,347)
Currency differences on foreign currency net investments	(545)	(512)
Total losses recognised since last financial statements	(1,134,613)	(769,859)

NOTE OF HISTORICAL COST PROFITS AND LOSSES

for the year ended 31 March 2005

	2005 £	2004 £
Reported loss on ordinary activities before taxation	(1,134,068)	(1,207,867)
Realisation of revaluation gains of previous years	237,194	1,003,510
Historical cost loss on ordinary activities before taxation	(896,874)	(204,357)

The accompanying notes form part of these accounts.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2005

1 ACCOUNTING POLICIES

(A) ACCOUNTING CONVENTION

The financial statements are prepared under the historical cost convention as amended by the revaluation of certain investments, and in accordance with applicable accounting standards.

The principal accounting policies of the Group are set out below and have remained unchanged from the previous period.

(B) GOING CONCERN

The Directors have formally considered the ability of the Group to continue its activities in light of the net liabilities of £738,659 in the balance sheet at 31 March 2005 and the losses and cash outflows in the period then ended.

The Directors have prepared forecasts for the period to September 2006 and are satisfied that the Group will continue to work within its available facilities. The Group currently has an agreed banking facility which is due for renewal in December 2005. The Directors have not started discussion with the bank in respect of the renewal of this facility but have no reason to believe it will not be renewed.

The Directors furthermore take comfort from the fact that the Company owns two established cash generative businesses, each of which has a value considerably higher than the net liability position, a remaining stake in IDOX plc with a market value at the end of July of approximately £600,000 and that the net liability position is a direct consequence of the Company's policy of writing off all investment in software research and development as and when incurred.

(C) TURNOVER

Turnover represents the invoiced amount of goods sold and services provided during the year, stated net of Value Added Tax. Turnover and pre-tax loss are wholly attributable to the principal activities. Analysis of turnover by geographical market is not disclosed because, in the opinion of the Directors, disclosure would not be in the interests of the Company.

The recognition of revenue depends on the type of income.

Licence income	recognised either as soon as it is accepted by the client or in stage payments on contract signing, delivery and client acceptance, dependent upon the percentage completion of the Company's contractual obligations.
Customisation income	recognised once the customisation has taken place.
Maintenance income	recognised evenly over the term of the maintenance contract.
Rental income	recognised evenly over the term of the rental contract.
Data subscription income	recognised evenly over the term of the data contract.
Training income	recognised when the relevant courses are run.

(D) DEPRECIATION

Depreciation is provided using the following rates and bases so as to write off the cost or valuation of tangible fixed assets over their useful lives in the Group's business:

Computer software	50% to 100% straight line
Computer hardware	50% straight line
Fixtures, fittings and equipment	25% straight line
Motor vehicles	25% straight line

(E) VALUATION OF INVESTMENTS

Investments held as current assets are stated at cost or Directors' valuation less any provision for a permanent diminution in value. Purchased goodwill is capitalised and held on the balance sheet at cost less any provision for a permanent diminution in value. The amount of goodwill in the balance sheet at 31 March 2005 was £nil.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2005

1 ACCOUNTING POLICIES (CONTINUED)

(F) FOREIGN EXCHANGE

Assets and liabilities denominated in foreign currencies are translated into sterling at the rate of exchange prevailing at the accounting date. Transactions in foreign currencies are recorded at the rate ruling on the date of the transaction. Exchange differences arising from the retranslation of the opening net investment in subsidiary undertakings are taken to reserves.

(G) DEFERRED TAXATION

Deferred taxation is recognised on all timing differences where the transactions or events that give the Group an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

(H) LEASED ASSETS

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and depreciated over their estimated useful economic lives. The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the profit and loss account over the period of the lease. All other leases are regarded as operating leases and the payments made under them are charged to the profit and loss account on a straight line basis over the lease term.

(I) BASIS OF CONSOLIDATION

The Group financial statements consolidate those of the Company and of its subsidiary undertakings (see note 11) drawn up to 31 March. The results of subsidiary undertakings acquired during the period are included from the date of acquisition. Profits or losses on intra-group transactions are eliminated in full. On acquisition of a subsidiary, all of the subsidiary's assets and liabilities existing at the date of acquisition are recorded at their fair values reflecting their condition at that date. Goodwill arising on consolidation has been written off to reserves in accounting periods ending 31 March 1999. Goodwill arising after this date is capitalised and amortised over its useful economic life.

(J) PENSION COSTS

Contributions to a defined contribution pension scheme are charged to the profit and loss account in the year in which they become payable.

(K) RESEARCH AND DEVELOPMENT

Research and development expenditure is charged to the profit and loss account in the year in which it is incurred.

2 DIRECTORS AND EMPLOYEES

	2005 £	2004 £
Directors:		
Aggregate emoluments	403,778	421,571
No pension contributions were made in respect of the Directors (2004: £nil)		
Highest paid Director:		
Aggregate emoluments	194,108	179,127
Staff costs including Directors:		
Wages and salaries	3,535,536	3,272,488
Social security costs	365,719	352,289
Pension costs	9,404	11,371
Total staff costs – ongoing	3,910,659	3,636,148
Exceptional staff costs (see note 13)	232,843	299,330
	4,143,502	3,935,478

The average weekly number of employees (excluding Directors) during the year was:

	2005 Number	2004 Number
Office and administration	6	7
Operational	54	49
	60	56

3 OPERATING LOSS

		2005 £	2004 £
This is stated after charging:			
Depreciation	– finance lease	–	6,048
	– other	130,327	117,098
Auditors' remuneration	– audit	28,000	23,500
	– tax services	9,975	9,000
	– other services	21,157	4,800
Foreign exchange		5,585	10,610
Operating leases	– land and buildings	256,788	286,938

A further £74,000 of fees in respect of non-audit services has been written off share premium as share issue costs. These fees related to the role of reporting accountant on the IPO.

4 INTEREST RECEIVABLE

	2005 £	2004 £
Interest on bank deposits	6,526	1,690
Other interest receivable	–	3,202
	6,526	4,892

5 INTEREST PAYABLE

	2005 £	2004 £
In respect of:		
Bank loans and overdrafts repayable in less than five years	14,674	44,590
Other interest	95,114	112,549
	109,788	157,139

Other interest includes £71,404 (2004: £74,236) payable in the year to 31 March 2005 in respect of exceptional costs (see note 13).

6 TAX ON LOSS ON ORDINARY ACTIVITIES

There is no charge to tax for the year (2004: £nil) because of the availability of losses within the Group.

The Company has received to date R&D tax credits of £570,008. As for all companies that have received these credits, the amounts are subject to potential future HM Revenue & Customs clawback.

	2005 £	2004 £
Adjustment in respect of prior periods – R&D tax credit	–	(460,008)

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2005

6 TAX ON LOSS ON ORDINARY ACTIVITIES (CONTINUED)

The tax assessed for the period is the standard rate of corporation tax in the UK of 30% (2004: 30%). The differences are explained as follows:

	2005 £	2004 £
Loss on ordinary activities before tax	(1,134,068)	(1,207,867)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	(340,220)	(362,360)
Effect of:		
Capital allowances for the period in excess of depreciation	(38,145)	(26,237)
Other short term timing differences	1,135	27,395
Increase/(utilisation) of trading losses	361,398	—
Expenses not deductible for tax purposes	15,832	30,669
Adjustments to tax charge in respect of previous periods	—	(460,008)
Losses available to carry forward	—	330,533
Current tax charge for the period	—	(460,008)

The Directors have not recognised the deferred tax amount of £2,690,909 (2004: £1,650,026) arising on trading losses carried forward.

7 NON-EQUITY APPROPRIATION

	2005 £	2004 £
A Preference appropriation at 6% from 1 April 2003	—	11,925
A Preference appropriation at 8% from 1 January 2004	—	5,300
B Preference appropriation at 6% from 1 July 2003	—	4,263
	—	21,488

8 LOSS PER SHARE

The calculation of the loss per share is based on the loss for the financial year after taxation of £1,134,068 (2004: loss £747,859) and on the weighted average of 95,935,032 (2004: 78,962,738) ordinary shares in issue during the year. The options outstanding at 31 March 2005 and 31 March 2004 are considered to be non-dilutive in that their conversion into ordinary shares would not increase the net loss per share. Consequently, there is no diluted earnings per share to report for either year.

9 (LOSS)/PROFIT FOR THE FINANCIAL YEAR

The Company has taken advantage of Section 230 of the Companies Act 1985 and has not included its own profit and loss account in these financial statements. The Company's loss for the year (before non-equity appropriations) was £1,670,193 (2004: profit £78,825).

10 TANGIBLE FIXED ASSETS

The Group	Computer hardware £	Software £	Motor vehicle £	Fixtures, fittings and equipment £	Total £
Cost at 1 April 2004	1,758,502	691,531	24,182	393,747	2,867,962
Additions	166,574	15,197	—	149,183	330,954
Disposals	—	—	(24,182)	(128,023)	(152,205)
At 31 March 2005	1,925,076	706,728	—	414,907	3,046,711
Depreciation at 1 April 2004	1,684,193	682,894	15,120	392,259	2,774,466
Charge	91,569	16,369	—	22,389	130,327
Disposals	—	—	(15,120)	(128,023)	(143,143)
At 31 March 2005	1,775,762	699,263	—	286,625	2,761,650
NBV at 31 March 2005	149,314	7,465	—	128,282	285,061
NBV at 31 March 2004	74,309	8,637	9,062	1,488	93,496

Included within fixtures and fittings as at 31 March 2005 are finance lease assets with a net book value of £43,218 (2004: £nil). Depreciation of £6,154 (2004: £nil) was charged on those assets during the year.

11 FIXED ASSETS

Total fixed assets comprise:

The Company	2005 £	2004 £
Investments in subsidiaries	7,000,000	7,000,000

At 31 March 2005 the undertakings in which the Group held more than 20% of the allotted share capital were as follows:

	Proportion of ordinary share capital held		Country of incorporation	Business
	By Parent %	By Group %		
Lombard Risk Systems Ltd	100	100	UK	Software
Lombard Risk Systems Inc.	—	100	USA	Software
Lombard Risk Systems (Pty) Ltd	—	100	South Africa	Software
Lombard Risk Consultants Ltd	100	100	UK	Training
Lombard Risk Systems (Asia Pacific) Ltd	—	100	Hong Kong	Dormant
Swapval Ltd	100	100	UK	Dormant

All of the subsidiary undertakings have been included in the consolidation. The Company's investment in its subsidiaries was valued by the Directors during the period ended 31 March 2004. The Directors expect the Group to return to profitability and therefore do not consider it necessary to impair the investment. The historical cost of the subsidiaries referred to above is £507,865.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2005

12 CURRENT ASSET INVESTMENT

The Company and Group	2005 £	2004 £
Current asset investment	571,358	599,250

All current asset investments relate to the Company's investment in IDOX plc, an AIM listed UK company.

	May disposal £
Proceeds/(payment)	393,024
Carrying value	(344,000)
Profit on disposal	49,024

On 10 May 2004, the Group disposed of 4,000,000 shares representing 2.6% of IDOX share capital for £400,000 (£393,024 net of costs).

On 29 September 2004, the Group purchased 2,633,334 shares representing 1.5% of IDOX share capital for £316,000 net of costs.

At 31 March 2005 the Group held 5,601,546 (2004: 6,968,212) shares, representing 3.0% (2004: 4.5%) of the share capital of IDOX plc.

The stock exchange value of the Group's holding in IDOX plc at 31 March 2005 was £532,147 (2004: £679,401).

13 EXCEPTIONAL COSTS IN RESPECT OF PURCHASE OF A BUSINESS INTEREST

On 6 February 2002 the Company became a party to an agreement entered into by Lombard Risk Systems Ltd to purchase a third party's interest in one of its operating divisions, which is an important business activity of the Group, and for the third party to perform future services to the Group.

The total consideration of £1,054,600 was charged to the profit and loss account in instalments between 1 January 2002 and 31 December 2004, being the period that the Group received benefit from the agreement.

£854,600 of the consideration was paid in monthly instalments from 6 February 2002 to 31 December 2004 and £200,000 is payable in monthly instalments from 31 December 2004 to 31 December 2006. The differences between the charge to the profit and loss account over three years and the payments over five years are accounted for as a deferred creditor, or deferred debtor as appropriate.

Interest is charged on the outstanding balance at 10% per annum.

For the year ended 31 March 2005, a total of £368,481 (2004: £459,211) was charged to the profit and loss account. This comprised £199,416 gross salary (2004: £265,888) and £33,427 employer's NIC (2004: £33,442); interest of £71,404 (2004: £74,236) and other operating costs of £64,234 (2004: £85,645).

The Company has guaranteed the performance of the agreement by Lombard Risk Systems Ltd.

14 DEBTORS

	The Group		The Company	
	2005 £	2004 £	2005 £	2004 £
Trade debtors	990,712	726,910	—	—
Other debtors	59,579	72,121	2,451	—
Prepayments	148,160	64,630	2,329	5,000
Deferred expenditure (see note 13)	—	51,426	—	—
	1,198,451	915,087	4,780	5,000

15 CREDITORS DUE WITHIN ONE YEAR

	The Group		The Company	
	2005 £	2004 £	2005 £	2004 £
Bank overdraft (secured)	—	196,000	—	196,000
Trade creditors	496,220	483,486	32,640	16,166
Other taxes and social security costs	162,085	160,368	—	342
Other creditors	384,069	408,308	—	36,392
Finance lease	14,511	4,636	—	—
Accruals	249,601	249,010	250	15,000
Accrued interest	—	7,734	—	7,734
	1,306,486	1,509,542	32,890	271,634

The bank overdraft facility is secured by a fixed and floating charge over the assets of the Group.

On 23 March 2004, the Company extended its borrowing facility of £500,000 to 31 December 2005. John Wisbey has entered into a guarantee for a maximum of £500,000 in relation to this loan and the Company and its subsidiaries by way of cross guarantee have, in turn, indemnified John Wisbey for the same amount.

GROUP

Amounts due under finance leases and HP agreements

		2005 £	2004 £
Amounts payable within:	one year	14,511	4,636
	two – five years	36,879	6,956
		51,390	11,592

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2005

16 CREDITORS DUE AFTER ONE YEAR

	The Group		The Company	
	2005 £	2004 £	2005 £	2004 £
Deferred creditor (see note 13)	182,247	341,031	—	—
Finance lease	36,879	6,956	—	—
Non-equity appropriation	—	7,950	—	7,950
Amounts due to Group companies	—	—	—	128,322
	219,126	355,937	—	136,272

17 FINANCIAL INSTRUMENTS

The Group does not trade in financial instruments. As permitted by FRS 13, short term debtors and creditors have been excluded from disclosures, other than currency risk disclosures. The Group's objective in respect of financial instruments is to minimise risk through effective management of working capital, and placing surplus funds with major financial institutions.

INTEREST RATE RISK

The Group finances its operations through a mixture of retained cash reserves, finance leases and bank loans. The policy of the Group is to monitor exposure to interest rate risk and take into account potential movements in interest rates when selecting methods of financing.

	2005 £	2004 £
Bank loans and overdraft	—	196,000
Obligations under finance leases	51,390	11,592
	51,390	207,592

At 31 March 2005, the overall cash and bank balances included £200,000 held on a one week deposit (2004: £nil) and the balance was held on interest-bearing, instant access accounts to meet immediate liabilities. Interest rates received during the year ranged between approximately 4.25% and 4.50% depending upon the nature and length of deposit held.

LIQUIDITY RISK

The Group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. The Group has no financial liabilities other than short term creditors, accruals and deferred consideration.

CURRENCY RISK

There are no material net monetary assets or liabilities that are not denominated in Sterling. Fair values are not materially different from book values.

18 SHARE CAPITAL

	2005 £	2004 £
Authorised		
714,034,085 0.5p ordinary (2004: 20,000,000 10p ordinary)	3,570,170	1,560,000
1,000,000 50p 'A' Convertible Preference	—	78,000
3,000,000 50p 'B' Convertible Preference	—	234,000
	3,570,170	1,872,000
Allotted, called up and fully paid		
118,208,831 0.5p ordinary (2004: 5,081,441 10p ordinary)	591,044	508,146
429,829,575 0.1p deferred shares	429,831	—
530,000 50p 'A' Convertible Preference	—	265,000
189,470 50p 'B' Convertible Preference	—	94,735
	1,020,875	867,881

On 28 May 2004 a total of 20,974 10p ordinary shares were issued at nominal value.

18 SHARE CAPITAL (CONTINUED)

On 17 September 2004, the Company first consolidated every five ordinary shares of 10p each into one intermediate ordinary share of 50p and then sub-divided each intermediate share of 50p into 78 new ordinary shares of 0.5p each and 110 deferred shares of 0.1p each.

On 29 September 2004, Lombard Risk Management plc was successfully launched via an Initial Public Offering on the Alternative Investment Market of the London Stock Exchange. A total of 15,625,000 new ordinary 0.5p shares were issued at 8p per share, raising £1.25m, with the existing ordinary and preference shares converting to new 0.5p ordinary shares which were also admitted to AIM at that time.

In addition, on admission to AIM the 'A' Convertible Preference shares converted to 4,770,324 new ordinary shares and 241,147,600 deferred shares and the 'B' Convertible Preference shares converted to 3,661,231 new ordinary shares and 76,428,845 deferred shares.

On 2 December 2004, a total of 12,222,222 new ordinary 0.5p shares were issued to AMF (NBF) Holdings Inc. at 9p per share. The difference between the total consideration of £1,100,000 and the total nominal value of £61,111 has been credited to the share premium account (£1,038,889). The ordinary shares so issued rank pari passu with the existing ordinary shares of the Company and represented 10.55 per cent of the enlarged issued share capital of the Company at that time. The new shares started trading on 2 December 2004 on the Alternative Investment Market of the London Stock Exchange.

On 18 February 2005, a total of 2,332,224 for new ordinary 0.5p shares were issued to Singer & Friedlander Ltd at par value. This issue resulted from the exercise of a warrant instrument attached to the Company's banking facility which gave the lender the right to subscribe, at par value, for a certain number of shares in the Company. The ordinary shares so issued rank pari passu with the existing ordinary shares of the Company and represented 1.97 per cent of the enlarged issued share capital of the Company at that time. There are no further obligations to issue shares under the warrant instrument. The new shares started trading on 18 February 2005 on the Alternative Investment Market of the London Stock Exchange.

The deferred shares carry no rights to receive dividends or to participate in any profits of the Company. The shareholders are not entitled to attend any meetings of the Company or have any rights to participate on any return of capital (except on a winding up). The deferred shares are not transferable other than with the consent of all the Directors of the Company.

The existing approved and unapproved employee share option schemes were superseded on 17 September 2004 by the revision to the 1997 Revenue Approved Share Option Scheme and Unapproved Company Share Option Plan, and the creation of an Enterprise Management Incentive Scheme.

The existing schemes were suspended for new grants, and following admission to AIM, the exercise price was adjusted by the conversion ratio applicable to ordinary shares to an exercise price of 26.92 pence per share, expiration remains between 31 October 2005 and 20 August 2007. At 31 March 2005, 1,336,764 (2004: 1,757,184) shares under the 1997 approved scheme and 1,392,846 (2004: 1,634,646) shares under the 1997 unapproved scheme remained unexercised. At 31 March 2005, 6,932,222 shares under the EMI scheme and 3,682,778 shares under the 2004 unapproved scheme remained unexercised. No options were exercised during the year.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2005

18 SHARE CAPITAL (CONTINUED)

	At start of year	Granted during year	Lapsed in year	At end of year	Exercise price pence	Exercise period from	Exercise period to
1997 Revenue Approved Share Option Scheme							
	866,112	—	221,052	645,060	26.92	31.10.00	31.10.05
	26,052	—	—	26,052	26.92	01.03.01	01.03.06
	36,504	—	—	36,504	26.92	14.05.01	14.05.06
	290,472	—	69,264	221,208	26.92	06.07.01	06.07.06
	104,208	—	26,052	78,156	26.92	27.07.01	27.07.06
	52,104	—	26,052	26,052	26.92	11.02.02	11.02.07
	319,176	—	78,000	241,176	26.92	27.06.02	27.06.07
	62,556	—	—	62,556	26.92	20.08.02	20.08.07
1997 Unapproved Company Share Option Plan							
	389,064	—	96,252	292,812	26.92	06.07.01	06.07.06
	828,126	—	23,400	804,726	26.92	08.01.02	08.01.07
	417,456	—	122,148	295,308	26.92	27.06.02	27.06.07
2004 Enterprise Management Investment Scheme							
	—	5,946,110	125,000	5,821,110	9.00	31.03.06	31.03.11
	—	1,111,112	—	1,111,112	11.00	31.03.06	31.03.11
2004 Unapproved Company Share Option Plan							
	—	2,040,555	80,000	1,960,555	9.00	31.03.06	31.03.11
	—	1,722,223	—	1,722,223	11.00	31.03.06	31.03.11
	3,391,830	10,820,000	867,220	13,344,610			

19 MOVEMENT IN RESERVES

The Group	Share premium £	Revaluation reserve £	Other reserves £	Profit and loss £
As at 1 April 2004	486,610	408,151	119,193	(3,567,375)
Loss for the year	—	—	—	(1,134,068)
Premium on 14,554,446 new ordinary shares (see note 18)	2,210,764	—	—	—
Share issue costs	(282,264)	—	—	—
Foreign exchange reserve	—	—	(545)	—
Part disposal of current asset investment	—	(237,194)	—	237,194
As at 31 March 2005	2,415,110	170,957	118,648	(4,464,249)

Other reserves relate to negative goodwill arising on the acquisition of subsidiary undertakings in the period ended 31 March 1997 and net foreign exchange movements.

The Company	Share premium £	Revaluation reserve £	Other reserves £	Profit and loss £
As at 1 April 2004	486,610	413,192	5,757,048	(328,255)
Loss for the year	—	—	—	(1,670,193)
Premium on 14,554,446 new ordinary shares (see note 18)	2,210,764	—	—	—
Share issue costs	(282,264)	—	—	—
Foreign exchange reserve	—	—	(64,408)	—
Part disposal of current asset investment	—	(242,235)	—	242,235
As at 31 March 2005	2,415,110	170,957	5,692,640	(1,756,213)

Other reserves relate to valuation of subsidiary undertakings acquired in the period ended 31 March 1997 and exchange differences on loans to fund overseas subsidiaries.

20 RECONCILIATION OF MOVEMENT IN CONSOLIDATED SHAREHOLDERS' DEFICIT

	2005 £	2004 £
Loss for the financial year	(1,134,068)	(769,347)
Foreign exchange reserve	(545)	(512)
Issue of 10p ordinary shares	2,097	2,000
Issue of 0.5p new ordinary shares	150,897	—
Premium on new ordinary shares	2,210,764	38,000
Share issue costs	(282,264)	—
Non-equity appropriation	—	21,488
	946,881	(708,371)
Shareholders' deficit at 1 April	(1,685,540)	(977,169)
Shareholders' deficit at 31 March	(738,659)	(1,685,540)

21 NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2005 £	2004 £
Operating loss	(1,079,830)	(1,057,960)
Depreciation	130,327	123,146
Increase in debtors	(289,506)	(29,419)
(Decrease)/increase in creditors	(83,621)	553,372
Net cash outflow from operating activities	(1,322,630)	(410,861)

22 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS/(DEBT)

	2005 £	2004 £
Increase in cash in the year	450,532	1,382,217
Cash outflow from finance leases	9,574	4,636
Inception of finance leases	(49,372)	—
Change in net debt resulting from cash flows	410,734	1,386,853
Net debt at 1 April	(134,705)	(1,521,558)
Net funds/(debt) at 31 March	276,029	(134,705)

23 ANALYSIS OF CHANGES IN NET DEBT/(FUNDS)

	1 April 04 £	Cash flow £	Non-cash movements £	31 March 05 £
Cash at bank and in hand	72,887	254,532	—	327,419
Overdrafts	(196,000)	196,000	—	—
	(123,113)	450,532	—	327,419
Finance leases	(11,592)	9,574	(49,372)	(51,390)
	(134,705)	460,106	(49,372)	276,029

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2005

24 COMMITMENTS

The Group had annual commitments under non-cancellable operating leases in respect of land and buildings as follows:

	2005 £	2004 £
On leases which expire in one year or less	256,788	125,756

Neither the Group nor the Company had any material capital commitments at 31 March 2005 or 31 March 2004.

25 CONTINGENT LIABILITIES

The Company has agreed to provide continuing financial support to the following Group companies: Lombard Risk Consultants Ltd, Lombard Risk Systems Ltd and Lombard Risk Systems Inc. The Company has guaranteed the performance by a subsidiary of an agreement to purchase a third party's interest in a business of the Group (note 13).

26 PENSIONS

The Company contributes to a defined contribution pension scheme. The assets of the scheme are administered by trustees in a fund independent of the Company.

27 RELATED PARTIES TRANSACTIONS

A loan facility was provided to the Group from John Wisbey, Chairman and CEO. During the year all drawings under the facility were repaid and the facility was cancelled. Accordingly the closing balance at 31 March 2005 was £nil (2004: £36,395). For the duration of the loan period interest was charged at 11% per annum and interest paid on this loan amounted to £6,493 (2004: £9,683).

As discussed in note 12, on 29 September 2004 the Company purchased 2,633,334 IDOX plc shares from Advanced Technology Trust, of which John Wisbey is a beneficiary, for £316,000 at the then market price of 12.0p. Advanced Technology Trust subsequently invested in the Lombard Risk Management plc IPO.

John Wisbey has guaranteed the Group's overdraft facility from Singer & Friedlander, which facility amounted to £500,000 at 31 March 2005 (£nil drawn).

A commission of 3.5% p.a. is payable by the Company to John Wisbey in respect of the guarantee.

28 CONTROLLING RELATED PARTIES

The only group of undertakings for which Group accounts have been drawn up is that headed by Lombard Risk Management plc. The Chairman and CEO, John Wisbey, is the majority holder of ordinary shares and is therefore considered to be the ultimate controlling related party of the Group.

29 POST BALANCE SHEET EVENTS

Subsequent to the financial year end, Lombard Risk Systems Ltd, a wholly-owned subsidiary of Lombard Risk Management plc, agreed to sell its ValuSpread business to Fitch Ratings Ltd. The maximum consideration payable to the Company amounts to £6m in cash plus a further £625,000 for deferred income.



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