



Consolidated Financial Statements

For the Year ended 31 December 2005





BRADY

Index

Directors' biographies	1
Chairman's statement	2
Chief Executive's review	3
Report of the directors	4 - 6
Corporate governance	7 - 8
Remuneration report	9 - 10
Report of the independent auditors	11
Principal accounting policies	12 - 13
Consolidated profit and loss account	14
Consolidated balance sheet	15
Balance sheet	16
Consolidated cash flow statement	17
Notes to the financial statements	18 - 31
Notice of annual general meeting	32

Company number:	2164768
Registered office:	Cambridge Science Park Milton Road CAMBRIDGE CB4 0WE
Directors:	R G Q Kellett-Clarke R M Brady D M Rowe (Non-executive director) N McArthur (Non-executive director) B R Collins G Simister
Secretary:	D M Rowe
Bankers:	Barclays Bank plc PO Box 885 Mortlock House Vision Park Histon Cambridge CB4 9DE
Nominated Adviser:	Oriel Securities Ltd 4 Wood Street London EC2V 78B
Registrars:	Lloyds TSB Registrars The Causeway Worthing West Sussex BH99 6AA
Solicitors:	Kirkpatrick & Lockhart Nicholson Graham LLP 110 Cannon Street London EC4N 6AR Hewitson Solicitors Shakespeare House 42 Newmarket Road Cambridge CB5 8EP
Auditors:	Grant Thornton UK LLP Registered Auditors Chartered Accountants Byron House Cambridge Business Park Cowley Road Cambridge CB4 0WZ
Financial Calendar 2006:	
Annual General Meeting	May 2006
Interim results (Provisional)	September 2006
Preliminary Results (Provisional)	March 2007



BRADY



Executive Directors

Graham Simister, 49, Chairman

Graham has spent his career in finance and trading, holding senior management roles in London, Frankfurt and New York. He started his career with Citibank London and worked at Midland Bank and Nomura Bank before returning to Citibank in 1989. He became head of the Investment Bank for Citibank in Frankfurt and was Managing Director in charge of Fixed Income in New York. Graham retired from full-time employment in 1995 and has since worked on a part-time basis with a number of private companies in the UK. Graham is a graduate of Cambridge University and Harvard Business School. He became a director of Brady in 1995 and was appointed Chairman in March 2004.

Dr Robert Brady, 50, Chief Executive

After obtaining his Ph.D in Physics from Cambridge University, Robert initially pursued his career in academia, including spending time working for the Naval Bureau of Standards in Boulder, Colorado supported by the US Office of National Research. He founded Brady in 1985 to build derivatives pricing models having recognised the similarities between modelling financial markets and physical processes.

Richard Kellett-Clarke, 51, Finance Director

Richard was managing director of AFX News, the joint venture between Pearson and AFP, for seven years until March 2002. Prior to that Richard held various senior management roles within the Pearson and UBM groups, having joined UBM in 1989 as Finance Director of Extel Financial. Prior to that he was finance director of Pickwick Group PLC which floated in 1987. Richard joined the Board as Finance Director on 20 May 2004.

Brian Collins, 40, Executive Director

Having studied Computer Sciences at Birmingham University, Brian was one of the co-founders of Colplan in 1987 and became managing director in 2001. Colplan became a developer of commodity derivative pricing and risk analysis tools, specialising in the base metals market. Brian joined the Board on 28 June 2004.

Non-executive Directors

David Rowe, 49

David is a chartered accountant and chartered tax advisor. He worked for 25 years in the accountancy profession, including 10 years as a partner in Arthur Andersen until he retired from full time employment in 2000. He also has extensive experience of software development and sales, having occupied various director of technology roles within the Andersen organization. David joined the Board on 28 April 2004.

Neil McArthur, 50

Neil is the Managing Director of the Networks Division of Carphone Warehouse Group plc where he continues to run Opal Telecommunications, the fixed line telecommunications business he established in 1996 and which was acquired by Carphone Warehouse in November 2002. Neil's earlier career was at Thurnall PLC the engineering services company he co-founded in 1981. Neil is a chartered engineer and has acted as an adviser to and sat on a number of Government engineering panels and committees. He was awarded an MBE for services to the engineering industry in 1991. Neil joined the Board on 20 May 2004.

Directors' *biographies*



BRADY

Chairman's Statement



Graham Simister
Chairman

The company started 2005 with a great deal of optimism, but the year clearly did not go the way we hoped and originally expected as is evidenced by these financial results. We continue to believe in the quality of our products and the growth prospects for our chosen marketplace. We have spent considerable time and effort building the new version of our main product and we believe it is now at a stage at which it can begin to deliver the revenues it needs to.

In the first quarter of 2005 our two large, new Trinity customers from 2004 went live without problems as planned and our biggest Opval customer went live later in the first half on an upgraded version of this product. At the time of the last annual report the board was confident both that the company had excellent prospects of signing and implementing a number of substantial new license sales and that these prospects would be reinforced by the release of the latest version of Trinity, version 600 in the third quarter.

With the benefit of hindsight the new version of the system was being slowed down by numerous changes to specification for one of our launch customers. These changes slowed development and increased our costs substantially whilst not resulting in corresponding recognised revenues during the year. There is an ongoing dispute relating to this project and the associated recovery of fees which the company believes payable, as detailed in note 24 to the financial statements. The delay in the release of Trinity version 600 also contributed to our failure to close other business from our pipeline. Potential customers adopted a wait and see position and business that we would normally have expected to close had we not announced we were about to release a new version of our main product remained open. The recent sale of Trinity version 600 should go some way to rectifying this situation.

Brady remains a company with a product that addresses a known need in a focussed marketplace that is undergoing strong growth. We have many years' experience in developing the specialised solutions necessary to manage commodities, especially metals, risk. We have upgraded our product to provide not only the capacity that our previous version had, but also a range of new capabilities, which extend its usefulness into other, related areas. We redoubled our efforts to improve product quality during the course of 2006, whilst writing off all the development costs, in order to build a solid platform on which to develop for several years without the need for fundamental architectural changes. The current version is now release based and we believe that we can install it with higher quality and speed than we could attain with the previous one.

BOARD CHANGES

In October 2005 Richard Kellett-Clarke announced his intention to resign as finance director with effect from April 2006. Following the year end, the company announced in January 2006 that Joel Koschitzky resigned as a non executive director with immediate effect to concentrate on his other business interests. Announcements on their replacements will follow in due course.

OUTLOOK

Our task for 2006 must be to get Trinity version 600 out to our existing clients so that they can receive the benefits of the upgrade and to establish sufficient live sites to allow our pipeline of potential new clients to see the advantages of using our technology by seeing it in operation at other sites. We then need to continue to build out the further modules which the new version was designed to support and which will extend the appeal of the product to further parts of the organisations we currently support and to new clients. If we can do this we believe we can return to profitability and growth after a frustrating pause in 2005.

I would like to thank those within the company who have shown resolve in addressing the issues we have been faced with in 2005 and in the coming months I hope to have substantially better news to deliver.



OPERATIONAL REVIEW

During the year we invested, more heavily than planned, in the next version of our flagship product, Trinity version 600. This product is designed to match our target market closely. It integrates trading and risk management with physical logistics more effectively than the previous version, and it is our aim that it will become the system of choice in this marketplace. The product development encountered delays and other difficulties that are referred to in the Chairman's statement; however shortly following the year-end, the product was installed for customer test and upgrade, and we were able to announce a sale of the product to one of the largest producers of copper and other metals in the world.

During the year we also worked with, and made joint proposals with, two of the major systems integrators that are closely involved in the commodities producer marketplace. Conventional sales methods also led to proposals to our target marketplace. The lead-time associated with this type of mission-critical sale is a long one, but nevertheless we were disappointed with the level of sales resulting from these activities in 2005.

During 2005 Brady continued the strategy of expanding its market from professional commodity traders, to encompass metal producers. These organizations have a requirement for risk management integrated with physical logistics (such as shipping material around the world). This functionality is also increasingly a requirement of the professional traders where Brady has its traditional market penetration. We believe this market presents an opportunity because of the unique functionality we offer and because of the increasing requirements for control for reasons that include regulation.

In order to accelerate penetration of the market for organisations with logistics requirements, the company acquired Tradesoft BV in July 2005. Tradesoft's principal product, Alltrade, specialises in physical logistics and concentrates. It is our intention to maintain support for the Alltrade product for a period to allow customers to migrate to Trinity version 600.

Financial results - Operating performance

Group sales decreased by 49.7 per cent to £2,431,609 (2004: £4,832,440). This decrease in sales reflects the delays in version 600.

The operating loss for the year was £1,227,222 (2004: profit £1,780,478). Operating loss for the year before amortisation of intangibles was £1,111,104 (2004: profit £1,831,715). The group's gross margin decreased to 32.3 percent (2004: 65.2 percent).

Development expenditure for Trinity is, and has historically been, expensed in the year incurred meaning there is no depreciation of capitalised development work.

Financial results - Balance sheet and cash flow

Group cash outflow from operations was £678,930 (2004: inflow of £566,022) and we received £192,176 (2004: £134,311) of interest and paid £391,221 (2004: £2,374) of tax, resulting in a net cash outflow of £877,975 (2004: inflow of £697,959) before acquisitions and capital investment.

The acquisition of Tradesoft BV resulted in goodwill of £81,863 that is being amortised over 3 years.

OUTLOOK

This has been a year of consolidation for the group. Our investment in sales and marketing continued in 2005. We established working relationships with two major industry consultants to the level of making customer proposals. We were disappointed with the level of sales closed in 2005. The recent sale to one of the world's largest producers, in 2006, is the direct result of investment in 2005 but we were disappointed that this and other opportunities did not close during the year. We will continue to focus on our international sales efforts and on relationships with consultants as part of the strategy to penetrate our new target market.

Chief Executive's review



Dr Robert Brady
Chief Executive



BRADY

Report of the Directors

The directors present their report together with financial statements for the year ended 31 December 2005.

Principal activity

The principal activity of the group is the provision of IT services and solutions including software, consultancy, support and supply of operational and risk management software.

Results and dividends

There was a loss for the period after taxation amounting to £702,634 to be deducted from reserves (2004: profit £1,433,262 retained). The results for the period are set out in the financial statements and notes. A review of the Group's performance for the year ended 31 December 2005 is contained in the Chairman's Statement and Chief Executive's Review. The directors do not recommend the payment of a final dividend.

Share issues

Details of the shares issued during the period are detailed in note 16 to the financial statements.

Research and development

The company invests in research and development expenditure each year in order to continually enhance its products to ensure that its products are the most comprehensive, competitive and market leading solution for its customers. These costs are expensed as incurred.

Directors

The present membership of the Board is set out below. All directors served throughout the year.

The interests of the directors in the shares of the company as at 1 January 2005, or date of appointment if later, and 31 December 2005 were as follows:

	31 December 2005 ordinary shares of 1p each	1 January 2005 ordinary shares of 1p each
R G Q Kellett-Clarke	150,000	150,000
R M Brady	9,068,728	9,068,728
J I Koschitzky*	-	-
D M Rowe	30,000	-
N McArthur	150,000	150,000
B R Collins	850,000	850,000
G Simister**	1,700,000	1,700,000

* Resigned on 11 January 2006

** Appointed in March 2004 for a term of 3 years until 28 February 2007

In addition to the above, Mr J I Koschitzky has a beneficial interest in the share capital of Warrington Investments Limited, which is a substantial shareholder in the company, as detailed later in this report.

Details of options held by directors at the year end are contained within the remuneration report.

There were no changes in the directors' shareholdings between the year end and 6 March 2006.



BRADY

Report of the Directors

Directors' responsibilities for the financial statements

The directors are responsible 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).

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 these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments 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;
- 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 that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements 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 the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Employment policies

The group aims to attract, retain and motivate the best staff regardless of race, religion, sexual orientation, age or disability. To that end it is committed to offering equal employment opportunities. The group encourages the participation of all employees through bonus incentives linked to performance and encourages share ownership through a number of schemes.

The group recognises its responsibilities towards keeping employees informed of matters affecting them as employees and the economic factors affecting the performance of the group. To this end consultations take place at appropriate times with employees.

Disabled employees

The group recognises its obligations towards disabled people and endeavours to provide employment where possible having regard to the physical demands of the group's operations and the abilities of the disabled persons.

Health and safety

The group is committed to maintaining a safe and healthy working environment for all staff. To that end it provides appropriate training and supervision.

Substantial shareholders

At 6 March 2006 the following, other than the directors whose shareholdings are outlined above, had notified the company of disclosable interests in 3% or more of the nominal value of the company's ordinary shares of 1p each:

Name	Shareholding	%
Warrington Investments Ltd	6,014,003	23.16
Nortrust Nominees Limited	1,117,236	4.30
Electra Kingsway VCT Plc	925,926	3.57



BRADY

Report of the Directors

Payment policy and practice

Whilst it does not follow any published code or standard, the Group's policy concerning the payment of suppliers is to agree terms of payment at the start of business with each supplier or to ensure the supplier is made aware of the standard payment terms. The group's normal policy is to pay suppliers at the end of the month following the month in which goods are received. The number of days' purchases outstanding for payment at 31 December 2005 was 30 days (2004: 30 days).

International Financial Reporting Standards

The London Stock Exchange has announced that AIM companies will be required to prepare consolidated financial statements in accordance with International Accounting Standards from 2007. The company is currently undertaking a detailed review of the conversion from UK GAAP to International Financial Reporting Standards (IFRSs). The first financial results prepared in accordance with IFRSs will be for the six months ended 30 June 2007.

Treasury and Risk Management

The group's treasury and financial risk management objectives, and details in respect of the group's exposure to these risks are detailed in note 13 to the financial statements

Auditors

Grant Thornton UK LLP offer themselves to be reappointed as auditors in accordance with section 385 of the Companies Act 1985.

Annual General Meeting

The Annual General Meeting will be held at The Trinity Centre, Cambridge Science Park, Milton Road, Cambridge, CB4 4FN on 4 May 2006 at 3pm. The notice of the Annual General Meeting accompanies the Annual Report.

ON BEHALF OF THE BOARD

R M Brady

Director

20 March 2006



BRADY

Corporate Governance

The Board take their corporate governance responsibilities seriously, and the following statements set out the principles and methods to which they adhere. The Statement of Directors' Responsibilities for preparing the financial statements is set out on page 5.

Board

The Board of the Company, comprising six directors, two non-executive and four executive directors, meets formally five times a year to discuss strategy, direction and financial performance. The non-executive directors can attend all meetings.

The company recognises the benefit of non-executive directors who bring judgement on issues of strategy, resources, performance and standards of conduct.

The Board has adopted a schedule of matters specifically reserved for its approval or review, including strategic operating plans, annual operating budgets, major capital expenditure and financial performance.

The Board have implemented monthly management reporting which is distributed electronically to the whole Board for comment and input.

All directors have access to the advice and services of the company secretary and the directors are able to seek independent professional advice if necessary at the company's expense. Training is available for new directors and subsequently as necessary. All directors are subject to election by the shareholders at the first Annual General Meeting following their appointment, and to re-election thereafter at intervals of no more than three years.

Board Committees

Remuneration Committee

The remuneration committee comprises two non-executive directors and is under the chairmanship of Mr D Rowe. It meets and approves the remuneration and terms and conditions of employment for the executive directors. The share option scheme plans have been reviewed and approved by the committee.

Audit Committee

The audit committee comprises of two non executive directors under the chairmanship of Mr D Rowe. It meets as necessary to review the draft interim and full year accounts. It discusses the scope and planning of the audit with the auditors before the audit and agrees their remuneration.

Specific responsibilities also include the reviewing of effectiveness of internal controls; reviewing the scope and results of the external audit; and the reviewing of key management judgements and risk assessments.

Auditor Independence

It is the responsibility of the Audit Committee to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements, and to develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm.

Nominations Committee

The nominations committee comprises the Chairman and the non-executive directors. It is responsible for monitoring the composition and balance of the Board and making recommendations to the Board on new Board appointments.



BRADY

Corporate Governance

Internal control

The Board of directors has overall responsibility for the company's system of internal control and for reviewing its effectiveness. The risk management process and systems of internal control are designed to manage rather than eliminate the risk of failures to achieve the company's objectives. It should be recognised that such systems can only provide reasonable but not absolute assurance against material misstatement or loss.

Assessment of business risk

A system to identify, assess, and evaluate business risk is embedded within the management process throughout the company. Strategic risks are regularly reviewed by the Board. Risks relating to the key activities within the group are assessed continuously.

The key risks

- Failure to deliver to time, and to customer expectations.
- Failure to complete developments on time and to specification.
- Failure to identify faults and correct identified faults.
- Failure of project management controls.

The company has implemented a quality management system to promote the highest quality standards for the mission critical systems that Brady supplies. The quality system covers customer contacts, implementation activities, project management, software development, testing and release, maintenance of web-based information and customer support.

The company carries out approximately fortnightly project steering reviews, quality management reviews, and has built and continually enhances an automatic testing and system testing programme.

The quality management system is reviewed regularly at an appropriate level of seniority in order to achieve continual improvement.

Control environment

The group's operating procedures include a comprehensive system for reporting financial and non-financial information to the board including:

- An established management structure operating throughout the company with clearly defined levels of responsibility and delegation of authorities;
- Clearly defined operating guidelines and procedures with authorisation limits set at appropriate levels;
- Formal accounting policies and procedures and standard financial control procedures in place which are applicable to all areas of the company;
- Comprehensive budgeting and financial reporting system involving review and approval of budgets by the Board, monthly monitoring of performance against these budgets and full investigation of variances.

Control procedures

Detailed operational procedures have been developed for the business. The implications for changes in the law and regulations are taken into account within these procedures.

Monitoring process

There are clear procedures for monitoring the system of key controls.

- Annual review of internal controls
- Review by the audit committee of the process for identifying and assessing risk.

Relations with shareholders

The directors, together with advisers, hold regular meetings and discussions with key institutional shareholders, thereby helping to ensure that there is a mutual understanding of objectives. The board will use the Annual General Meeting to communicate with shareholders and encourages their attendance and participation.



BRADY

Remuneration Report

The report of the Remuneration Committee has been approved by the Board of Directors for submission for shareholders' approval at the Annual General Meeting.

Remuneration policy

The Committee makes recommendations to the Board on executive remuneration policy for adoption by the Board and determines specific remuneration packages for each of the executive directors on behalf of the Board. Remuneration and benefits are set at appropriate levels to attract, retain and motivate high calibre individuals, not in excess of market rates for comparable companies of similar size and scope of activity.

Components of executive directors' remuneration

Overview

The Committee's policy is to maintain an appropriate balance between fixed elements of remuneration and performance-related elements. The Committee and Board encourage directors, with the exception of the non-executive directors, and staff at all levels to acquire shares in the company and to hold them for the longer term. This sense of ownership is an important element of Brady's culture and of its focus on long term performance.

The remuneration received by each of the directors, together with details of share interests and pension benefits, are set out below.

Salary

Salaries are reviewed annually with effect from 1 January and adjustments made to reflect competitive pay levels, changes in responsibility and company performance.

Bonuses

Dr R Brady is entitled to an annual bonus which is calculated by reference to the company's earnings before interest and tax, based on predetermined profit targets.

Share options

Share options are granted to executive directors to provide, as necessary, an element of remuneration linked to company performance at levels appropriate to the objectives of the overall remuneration policy.

Service contracts

The service agreement of Dr R Brady can be terminated by either the executive or the company provided at least 12 months notice has been given. Either party can terminate the service agreements of all other executive/non executive directors provided that at least 6 months/3 months notice has been given.

Non-executive Directors' Remuneration

The remuneration of the non-executive directors is determined by the Board and reflects their anticipated time commitment to fulfil their duties. The non-executive directors do not receive any pension benefits.

Pensions

Executive directors contribute to a defined contribution scheme providing for a pension on retirement. No other payments to directors are pensionable. There have been no changes in the terms of directors' pension entitlements during the year. There are no unfunded pension promises or similar arrangements for directors.



BRADY

Remuneration Report

Audited Information

Directors' remuneration

The remuneration of the directors is as follows:

	Salary / Fee £	Benefit in Kind £	2005 Total (Excl Pension) £	2004 Total (Excl Pension) £	2005 Pension £	2004 Pension £
Robert Brady	80,553	455	81,008	118,300	4,674	4,674
Joel Koschitzky*	13,015	-	13,015	8,991	-	-
Graham Simister	40,000	-	40,000	35,000	-	-
Richard Kellett-Clarke	32,500	-	32,500	11,667	-	-
Brian Collins	95,590	-	95,590	40,000	-	-
David Rowe	10,000	-	10,000	6,667	-	-
Neil McArthur	10,000	-	10,000	5,833	-	-
	<u>281,658</u>	<u>455</u>	<u>282,113</u>	<u>226,458</u>	<u>4,674</u>	<u>4,674</u>

* Resigned 11 January 2006. A service charge was paid to Surecomp International Limited in respect of services provided by Mr J I Koschitzky. The amount paid was £13,015 (2004: £8,991)

Share options

Director	Granted	Number of options	Exercise Price	Exercise Period
Robert Brady	09/10/96	180,000	25p	09/10/96 – 09/10/06
Joel Koschitzky	31/03/04	45,000	45p	01/11/04 – 01/11/10
Graham Simister	09/10/96	160,000	25p	09/10/99 – 09/10/09
	04/11/98	50,000	30p	04/11/98 – 04/11/08
	30/07/99	50,000	30p	30/07/99 – 30/07/09
	31/03/04	66,666	45p	31/03/07 – 31/03/10
	02/03/04	433,334	45p	31/03/07 – 01/03/12
	01/08/05	150,000	61p	31/03/08 – 31/03/11
Richard Kellett-Clarke	20/05/04	150,000	81p	20/05/05 – 20/05/12
	01/09/05	100,000	53.5p	01/09/08 – 01/09/11
David Rowe	28/04/04	50,000	45p	01/11/04 – 01/11/10

The market price of the ordinary shares was 31 pence at 31 December 2005. The market price ranged from 14.7 pence to 109 pence during the period.

Resolution

A resolution to shareholders to accept the report of the Remuneration Committee will be put forward at the Annual General Meeting.

D Rowe

Remuneration Committee Chairman



Report of the Independent Auditors to the members of Brady plc

We have audited the group and parent company financial statements (the "financial statements") of Brady plc for the year ended 31 December 2005 which comprise the principal accounting policies, the consolidated profit and loss account, the consolidated balance sheet, the company balance sheet, the consolidated cash flow statement, and notes 1 to 28. 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 directors and auditors

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

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. 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 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 Chairman's statement, the Chief Executive's review, the Report of the Directors, the Corporate Governance report, and the Remuneration Report. 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 December 2005 and of the group's loss 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
CAMBRIDGE

20 MARCH 2006



BRADY

Principal Accounting Policies

BASIS OF PREPARATION

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

The principal accounting policies of the group are set out below. The policies have remained unchanged from the previous year, except that the group has implemented FRS 21 Events After the Balance Sheet Date, FRS 22 Earnings Per Share, the presentational aspects of FRS 25 Financial Instruments; Disclosure and Presentation, and FRS 28 Corresponding Amounts. The implementation of these new standards has had no significant effect on the group's existing disclosures.

BASIS OF CONSOLIDATION

The group financial statements consolidate those of the company and of its subsidiary undertaking, see note 10, drawn up to 31 December 2005. Profits or losses on intra-group transactions are eliminated in full. Acquisitions of subsidiaries are dealt with by the acquisition method of accounting. On acquisition of a subsidiary, all of the subsidiary's assets and liabilities which exist at the date of acquisition are recorded at their fair values reflecting their condition at that date.

TURNOVER

Turnover comprises the value of sales (excluding trade discounts and VAT) of goods and services in the normal course of business. The company has income from licence fees, consulting and professional service fees and software maintenance and rental fees.

The company has four sources of income and the policy on revenue recognition of each is as follows:

- Licence fees revenues are recognised on practical acceptance of the software, when all obligations have been substantially completed.
- Consulting and professional service fees revenues are recognised as the work is performed.
- Maintenance and rental income are recognised over the period to which it relates.
- Where revenue arises from customer-specific software development, or where significant customisation or modification of the software is required, then revenue is recognised as the contract progresses in accordance with satisfying the remaining obligations on the project for the specific customer.
- Full provision is made for losses on all contracts in the year in which the loss is first foreseen.

COST OF SALES

The classification of certain salary costs has been amended to reflect their status as cost of sales rather than administrative expenses. There is no profit effect of this amendment. Further information is shown in note 1.

GOODWILL

Purchased goodwill is capitalised and is amortised over its estimated useful economic life.

Goodwill arising on consolidation, representing the excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired, is capitalised and is amortised on a straight line basis over its estimated useful economic life.

TANGIBLE FIXED ASSETS AND DEPRECIATION

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is calculated to write off the cost of all tangible fixed assets by equal annual instalments over their expected useful economic lives. The rates generally applicable are:

Improvements to property	25% on cost
Computer equipment	33% on cost
Fixtures and fittings	25% on cost



BRADY

Principal Accounting Policies



FIXED ASSET INVESTMENTS

Investments in subsidiary undertakings are included at cost less any impairment in value.

DEFERRED TAXATION

Deferred tax is recognised, without discounting, 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.

FOREIGN CURRENCIES

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. All exchange differences are dealt with through the profit and loss account.

RESEARCH AND DEVELOPMENT

Research and development expenditure is charged to profits in the period in which it is incurred.

RETIREMENT BENEFITS

Defined contribution pension scheme

The pension costs charged against operating profits are the contributions payable to the scheme in respect of the accounting period.

LEASED ASSETS

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.

SHARE OPTIONS

The cost of awards to employees which take the form of share options is recognised over the period to which the performance relates. The amount, if any, recognised as a cost to the profit and loss account is the excess of the fair value of the shares at the date the option is granted over the amount of the consideration that employees are required to pay for the shares.

FINANCIAL INSTRUMENTS

Financial assets are recognised in the balance sheet at the lower of cost and net realisable value. Income and expenditure arising on financial instruments is recognised on the accruals basis and credited or charged to the profit and loss account in the financial period to which it relates.



BRADY

Consolidated Profit and Loss Account

For the year ended 31 December 2005

	Note	£	2005 £	Restated 2004 £
Turnover	1			
Continuing operations		2,260,550		4,720,504
Acquisitions		171,059		111,936
			2,431,609	4,832,440
Cost of sales			1,645,059	1,682,132
Gross profit			786,550	3,150,308
Administrative expenses	1		2,013,772	1,369,830
Operating (loss)/profit	20			
Continuing operations		(1,251,954)		1,908,736
Acquisitions		24,732		(128,258)
			(1,227,222)	1,780,478
Interest receivable and similar income	2		192,176	134,311
(Loss)/profit on ordinary activities before taxation	1		(1,035,046)	1,914,789
Taxation on (loss)/profit on ordinary activities	5		(332,412)	481,527
Retained (loss)/profit for the year	18		(702,634)	1,433,262
(Loss)/earnings per ordinary share				
Basic	6		(2.7)p	6.1p
Diluted	6		(2.7)p	5.8p

There were no recognised gains or losses other than the loss for the financial year.

The accompanying accounting policies and notes form an integral part of these financial statements



BRADY

Consolidated Balance Sheet

At 31 December 2005

	Note	2005		2004	
		£	£	£	£
Fixed assets					
Intangible assets	8		939,248		973,504
Tangible assets	9		109,237		129,085
Investments	10		15,027		15,027
			<u>1,063,512</u>		<u>1,117,616</u>
Current assets					
Debtors	11	1,289,842		1,524,374	
Cash at bank and in hand		3,604,744		4,550,562	
		<u>4,894,586</u>		<u>6,074,936</u>	
Creditors: amounts falling due within one year	12	(746,767)		(1,298,599)	
Net current assets			<u>4,147,819</u>		<u>4,776,337</u>
Total assets less current liabilities			5,211,331		5,893,953
Provisions for liabilities	14		(3,262)		(25,000)
			<u>5,208,069</u>		<u>5,868,953</u>
Capital and reserves					
Called up share capital	16		259,692		258,062
Share premium account	18		3,061,898		3,021,778
Merger reserve	18		680,000		680,000
Capital reserve	18		1,000		1,000
Profit and loss account	18		1,205,479		1,908,113
Shareholders' funds	19		<u>5,208,069</u>		<u>5,868,953</u>

The financial statements were approved by the Board of Directors on 20 March 2006

R M Brady
Director

R Kellett-Clarke
Director

The accompanying accounting policies and notes form an integral part of these financial statements



BRADY

Balance Sheet

At 31 December 2005

	Note	2005		2004	
		£	£	£	£
Fixed assets					
Intangible assets	8		977,694		1,092,717
Tangible assets	9		109,237		129,085
Investments	10		133,698		70,777
			1,220,629		1,292,579
Current assets					
Debtors	11	1,272,338		1,524,374	
Cash at bank and in hand		3,594,132		4,550,562	
		4,866,470		6,074,936	
Creditors: amounts falling due within one year	12	(793,835)		(1,354,349)	
Net current assets			4,072,635		4,720,587
Total assets less current liabilities			5,293,264		6,013,166
Provisions for liabilities	14		(3,262)		(25,000)
			5,290,002		5,988,166
Capital and reserves					
Called up share capital	16		259,692		258,062
Share premium account	18		3,061,898		3,021,778
Merger reserve	18		680,000		680,000
Capital reserve	18		1,000		1,000
Profit and loss account	18		1,287,412		2,027,326
Shareholders' funds	19		5,290,002		5,988,166

The financial statements were approved by the Board of Directors on 20 March 2006

R M Brady
Director

R Kellett-Clarke
Director

The accompanying accounting policies and notes form an integral part of these financial statements



BRADY

Consolidated Cash Flow Statement

For the year ended 31 December 2005

	Note	2005 £	2004 £
Net cash (outflow)/inflow from operating activities	20	(678,930)	566,022
Returns on investments and servicing of finance			
Interest received		<u>192,176</u>	<u>134,311</u>
Net cash inflow from returns on investments and servicing of finance		<u>192,176</u>	<u>134,311</u>
Taxation		<u>(391,221)</u>	<u>(2,374)</u>
Capital expenditure and financial investment			
Purchase of tangible fixed assets		<u>(62,081)</u>	<u>(82,628)</u>
Net cash outflow from capital expenditure and financial investment		<u>(62,081)</u>	<u>(82,628)</u>
Acquisitions			
Acquisition of business	26	<u>(47,512)</u>	<u>(282,204)</u>
Financing			
Issue of ordinary share capital		<u>41,750</u>	<u>2,864,224</u>
Issue costs		<u>-</u>	<u>(462,063)</u>
Net cash inflow from financing		<u>41,750</u>	<u>2,402,161</u>
(Decrease)/increase in cash	22	<u><u>(945,818)</u></u>	<u><u>2,735,288</u></u>

The accompanying accounting policies and notes form an integral part of these financial statements



BRADY

Notes to the Financial Statements

For the year ended 31 December 2005

1 TURNOVER AND (LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Turnover and (loss)/profit before taxation are attributable to the one principal activity of the company.

The group makes sales to a variety of world destinations. An analysis of turnover by geographical market is given below:

	2005 £	2004 £
United Kingdom	1,564,982	2,722,650
Italy	32,248	59,374
Rest of Europe	136,126	152,503
South Africa	-	23,640
North America	545,993	1,680,279
Asia	85,032	129,768
Australia	67,228	64,226
	<u>2,431,609</u>	<u>4,832,440</u>

(Loss)/profit on ordinary activities is stated after charging:

	2005 £	2004 £
Auditors' remuneration:		
Audit services	20,000	25,000
Non-audit services	5,000	4,000
Depreciation and amortisation:		
Goodwill	116,118	51,237
Tangible fixed assets owned	<u>81,929</u>	<u>70,182</u>

Auditors' remuneration for non-audit services relates entirely to corporate tax compliance services in both years.

Certain salary costs have been reclassified as cost of sales rather than administrative expenses in order to give a more realistic view of costs associated with the turnover of the business. Cost of sales has been increased by £1,532,186 (2004: £1,230,579) and administrative expenses reduced by the same amount. There is no profit effect of these amendments.

Included within administrative expenses for the year ended 31 December 2005 was £146,327 (2004: £240,194) in respect of acquisitions.

2 NET INTEREST

	2005 £	2004 £
Other interest receivable and similar income	<u>192,176</u>	<u>134,311</u>

Notes to the Financial Statements

For the year ended 31 December 2005

3 EMPLOYEES

Staff costs, including executive directors, during the year were as follows:

	2005 £	2004 £
Wages and salaries	1,924,975	1,409,291
Social security costs	247,416	187,092
Other pension costs	116,624	95,523
	<u>2,289,015</u>	<u>1,691,906</u>

The average number of employees of the group, including directors, during the year analysed by category, was as follows:

	2005 Number	2004 Number
Commercial	2	1
Customer support	15	11
Development	25	19
Finance and administration	3	2
Directors	4	4
	<u>49</u>	<u>37</u>

4 DIRECTORS' REMUNERATION

Details of directors' remuneration are contained within the Remuneration Report, under the heading of Audited information.

Directors' interest

The interests of the directors in the shares of the company are detailed within the Directors' Report.

5 TAXATION ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES

The taxation (credit)/charge represents:

	2005 £	2004 £
Corporation tax at 30% (2004: 30%)	(260,471)	501,356
Adjustments in respect of prior periods	(50,203)	(44,829)
Total current tax	<u>(310,674)</u>	<u>456,527</u>
Deferred taxation:		
Origination of timing differences (note 14)	(21,738)	25,000
Taxation on (loss)/profit on ordinary activities	<u>(332,412)</u>	<u>481,527</u>

Notes to the Financial Statements

For the year ended 31 December 2005

5 TAXATION ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES (CONTINUED)

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

	2005 £	2004 £
(Loss)/profit on ordinary activities before taxation	<u>(1,035,046)</u>	<u>1,914,789</u>
(Loss)/profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2004: 30%)	(310,513)	574,437
Effect of:		
Expenses not deductible for tax purposes	38,938	17,786
Differences between capital allowances and depreciation	10,839	(3,751)
Other timing differences	265	-
Utilisation of tax losses	-	(87,116)
Adjustments to tax charge in respect of prior periods	<u>(50,203)</u>	<u>(44,829)</u>
Current tax (credit)/charge for period	<u>(310,674)</u>	<u>456,527</u>

6 (LOSS)/EARNINGS PER SHARE

The calculation of the basic (loss)/earnings per share is based on the (loss)/earnings attributable to ordinary shareholders divided by the weighted average number of shares in issue during the year.

The calculation of diluted (loss)/earnings per share is based on the basic (loss)/earnings per share adjusted to allow for the issue of shares on the assumed conversion of dilutive options. For both basic and adjusted loss per share in the current year, the potential ordinary shares are not treated as dilutive as, under FRS 22, the loss per share is increased.

Reconciliation of the (loss)/earnings and weighted average number of shares used in the calculations are set out below.

	2005 £	2004 £
Basic and diluted (loss)/earnings per share		
(Loss)/profit for the financial year	<u>(702,634)</u>	<u>1,433,262</u>
	Number	Number
Weighted average number of ordinary shares in issue during the year	<u>25,870,841</u>	<u>23,370,477</u>
Basic (loss)/earnings per share (pence)	<u>(2.7)</u>	<u>6.1</u>
Diluted (loss)/earnings per share (pence)	<u>(2.7)</u>	<u>5.8</u>



Notes to the Financial Statements

For the year ended 31 December 2005

6 (LOSS)/EARNINGS PER SHARE (CONTINUED)

	2005 Number	2004 Number
Reconciliation of average number of ordinary shares used for basic and diluted (loss)/earnings per share		
Weighted average number of ordinary shares used for basic (loss)/earnings per share	25,870,841	23,370,477
Weighted average number of shares under option	1,313,222	1,209,854
Weighted average number of ordinary shares used for diluted (loss)/earnings per share	<u>27,184,063</u>	<u>24,580,331</u>

Adjusted basic (loss)/earnings per share and adjusted diluted (loss)/earnings per share are based on the (loss)/earnings attributable to ordinary shareholders adjusted for goodwill amortisation. Reconciliation of the (loss)/earnings used in the calculations is set out below.

	2005 £	2004 £
Adjusted (loss)/earnings per share		
Operating (loss)/profit	(1,227,222)	1,780,478
Goodwill amortisation	116,118	51,237
Adjusted operating (loss)/profit	(1,111,104)	1,831,715
Net interest	192,176	134,311
Adjusted (loss)/profit on ordinary activities before taxation	(918,928)	1,966,026
Taxation on adjusted (loss)/profit on ordinary activities	(332,412)	481,527
Adjusted (loss)/profit for the financial period	<u>(586,516)</u>	<u>1,484,499</u>
Adjusted basic (loss)/earnings per share (pence)	<u>(2.3)</u>	<u>6.4</u>
Adjusted diluted (loss)/earnings per share (pence)	<u>(2.3)</u>	<u>6.0</u>

7 (LOSS)/PROFIT FOR THE FINANCIAL YEAR

The parent 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 loss for the financial year of the company was £739,914 (2004: profit £1,552,475).



Notes to the Financial Statements

For the year ended 31 December 2005

8 INTANGIBLE FIXED ASSETS

The group	Goodwill on consolidation £	Purchased goodwill £	Total £
Cost:			
At 1 January 2005	1,024,741	90,000	1,114,741
Acquisition of business	81,862	-	81,862
At 31 December 2005	<u>1,106,603</u>	<u>90,000</u>	<u>1,196,603</u>
Amortisation:			
At 1 January 2005	51,237	90,000	141,237
Provided in the year	116,118	-	116,118
At 31 December 2005	<u>167,355</u>	<u>90,000</u>	<u>257,355</u>
Net book amount at 31 December 2005	<u>939,248</u>	<u>-</u>	<u>939,248</u>
Net book amount at 31 December 2004	<u>973,504</u>	-	973,504

Goodwill on consolidation arises on the acquisition of Colplan Systems Limited in the prior year (goodwill of £1,024,741 being amortised over 10 years) and on the acquisition of Tradesoft BV in this period (goodwill of £81,863 being amortised over 3 years). In each case, the amortisation period is believed to correspond to the economic life of the business acquired.

The company	Purchased goodwill £
Cost:	
At 1 January 2005 and at 31 December 2005	<u>1,238,432</u>
Amortisation:	
At 1 January 2005	145,715
Provided in the year	115,023
At 31 December 2005	<u>260,738</u>
Net book amount at 31 December 2005	<u>977,694</u>
Net book amount at 31 December 2004	<u>1,092,717</u>

Goodwill in the company relates to purchased goodwill arising from the hive-up of the assets, liabilities and trade of Colplan Systems Limited in the prior year, which is being amortised over 10 years.

Notes to the Financial Statements

For the year ended 31 December 2005

9 TANGIBLE FIXED ASSETS

The group and the company	Improvements to property £	Fixtures and fittings £	Computer equipment £	Total £
Cost:				
At 1 January 2005	47,987	71,211	455,452	574,650
Additions	2,525	2,200	57,356	62,081
At 31 December 2005	<u>50,512</u>	<u>73,411</u>	<u>512,808</u>	<u>636,731</u>
Depreciation:				
At 1 January 2005	39,385	62,066	344,114	445,565
Provided in the year	3,574	3,511	74,844	81,929
At 31 December 2005	<u>42,959</u>	<u>65,577</u>	<u>418,958</u>	<u>527,494</u>
Net book amount at 31 December 2005	<u>7,553</u>	<u>7,834</u>	<u>93,850</u>	<u>109,237</u>
Net book amount at 31 December 2004	<u>8,602</u>	<u>9,145</u>	<u>111,338</u>	<u>129,085</u>

10 FIXED ASSET INVESTMENTS

The group	Shares in group undertakings £
Cost:	
At 1 January 2005 and at 31 December 2005	<u>15,027</u>
The company	Shares in group undertakings £
Cost:	
At 1 January 2005	70,777
Acquisition of subsidiary undertaking (note 26)	81,862
At 31 December 2005	<u>152,639</u>
Amounts written off:	
At 1 January 2005	-
Provided in the year	18,941
At 31 December 2005	<u>18,941</u>
Net book amount at 31 December 2005	<u>133,698</u>
Net book amount at 31 December 2004	<u>70,777</u>

Subsidiary	Country of registration	Class of share capital held	Proportion held by the company	Nature of business
Tradesoft BV	Holland	Ordinary	100%	Sale of computer software
Colplan Systems Ltd	UK	Ordinary	100%	Sale of computer software
Brady Italia Srl	Italy	Ordinary	40%	Sale of computer software

The investment in Brady Italia Srl represents a participating interest only. There is no exercise of significant influence.



Notes to the Financial Statements

For the year ended 31 December 2005

11 DEBTORS

	The group		The company	
	2005	2004	2005	2004
	£	£	£	£
Trade debtors	886,775	749,320	872,135	749,320
Corporation tax	200,549	-	200,539	-
Other debtors	3,136	6,880	656	6,880
Prepayments and accrued income	199,382	751,302	199,008	751,302
Amounts owed by undertakings in which the company has a participating interest	-	16,872	-	16,872
	<u>1,289,842</u>	<u>1,524,374</u>	<u>1,272,338</u>	<u>1,524,374</u>

12 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	The group		The company	
	2005	2004	2005	2004
	£	£	£	£
Trade creditors	112,049	111,010	88,003	111,010
Amounts owed to group undertakings	-	-	106,027	55,750
Corporation tax	-	501,356	-	501,356
Social security and other taxes	87,160	146,789	87,160	146,789
Other creditors	11,815	7,949	11,815	7,949
Accruals and deferred income	535,743	531,495	500,830	531,495
	<u>746,767</u>	<u>1,298,599</u>	<u>793,835</u>	<u>1,354,349</u>

13 FINANCIAL INSTRUMENTS

The principal risks to the group arise from the need to retain liquidity and from interest rate fluctuations. The directors review and agree policies for managing these risks. No transactions of a speculative nature are entered into. The group finances its operations through retained profits. Cash deposits during the year were placed at fixed rates of interest with varying maturity rates. Although the group transacts with overseas entities, transactions are denominated in sterling and there is no foreign currency risk. The directors consider that the group's exposure to price risk and credit risk is adequately managed.

Liquidity risk - the group seeks to manage financial risk, to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably.

Interest rate risk - the group's exposure to interest rate fluctuations on its cash deposits is managed by the use of both fixed and floating facilities.

The aggregate amount of cash deposits on fixed interest terms as at 31 December 2005 was £3,445,072 (2004: £4,160,395). The weighted average fixed interest rate on the cash deposits was 4.53% (2004: 4.77%) and the weighted average period for which the rate is fixed is 1 month (2004: 1 month). The aggregate amount of cash deposits on variable interest terms as at 31 December 2005 was £159,672 (2004: £390,167). The variable rate is locked to 4.5% Barclays Bank plc base rate.

The group has no undrawn committed overdraft facilities.

Short term debtors and creditors are excluded from the above statements.



BRADY

Notes to the Financial Statements

For the year ended 31 December 2005



14 PROVISIONS FOR LIABILITIES

The group and the company

Deferred taxation (note 15) £

At 1 January 2005	25,000
Provided during the year (note 5)	(21,738)
At 31 December 2005	<u>3,262</u>

15 DEFERRED TAXATION

The group and the company

Deferred tax recognised in the financial statements is set out below.

	2005 £	2004 £
Accelerated capital allowances	<u>3,262</u>	<u>25,000</u>

16 SHARE CAPITAL

	2005 £	2004 £
Authorised 50,000,000 ordinary shares of 1p each	<u>500,000</u>	<u>500,000</u>
Allotted, called up and fully paid 25,969,216 (2004: 25,806,216) Ordinary shares of 1p	<u>259,692</u>	<u>258,062</u>

Allotments during the year

The company made allotments of 163,000 ordinary 1p shares during the year on the exercise of share options. The difference between the total consideration of £41,750 and the total nominal value of £1,630 has been credited to the share premium account.



Notes to the Financial Statements

For the year ended 31 December 2005

17 SHARE OPTIONS

The number of ordinary shares for which Brady employees hold options and the period for which the options are exercised are as follows

Date of grant	Type	Exercise	Price	2005 Number	2004 Number
9-Oct-96	Unapproved	1996/06	0.25p	180,000	180,000
9-Oct-96	Approved	1999/06	0.25p	240,000	250,000
12-Mar-97	Approved	2000/07	0.25p	20,000	50,000
22-Dec-97	Approved	2000/07	0.25p	40,000	60,000
22-Jul-98	Approved	2001/08	0.30p	60,000	80,000
4-Nov-98	Unapproved	1998/08	0.30p	50,000	50,000
24-Dec-98	Approved	2001/08	0.30p	63,000	63,000
30-Jul-99	Unapproved	1999/09	0.30p	50,000	50,000
1-Nov-00	Approved	2003/05	0.25p	-	12,000
1-Nov-00	EMI	2003/05	0.25p	-	75,000
2-Mar-04	Unapproved	2005/12	0.45p	433,334	433,334
31-Mar-04	Approved	2007/09	0.45p	182,166	187,666
31-Mar-04	EMI	2007/09	0.45p	300,000	350,000
31-Mar-04	Unapproved	2004/10	0.45p	50,000	50,000
28-Apr-04	Unapproved	2004/10	0.45p	15,000	15,000
28-Apr-04	Unapproved	2005/10	0.45p	35,000	35,000
20-May-04	Unapproved	2005/12	0.81p	50,000	50,000
20-May-04	Unapproved	2006/12	0.81p	50,000	50,000
20-May-04	Unapproved	2007/12	0.81p	50,000	50,000
6-Dec-04	EMI	2007/12	0.925p	-	83,783
6-Dec-04	Unapproved	2007/12	0.925p	-	16,217
1-Aug-05	Unapproved	2008/13	0.610p	150,000	-
1-Sep-05	Unapproved	2008/13	0.535p	33,333	-
1-Sep-05	Unapproved	2008/13	0.535p	33,333	-
1-Sep-05	Unapproved	2008/13	0.535p	33,334	-
				2,118,500	2,191,000

The movement on share options during the year was as follows:

As at 1 January 2005		2,191,000	1,803,600
Granted	EMI	-	433,783
	Unapproved	250,000	699,551
	Approved	-	187,666
		250,000	1,321,000
Exercised	EMI	75,000	257,000
	Unapproved	-	520,000
	Approved	88,000	118,000
	SAYE	-	38,600
		163,000	933,600
Lapsed	EMI	150,000	-
	Approved	9,500	-
		159,500	-
As at 31 December 2005		2,118,500	2,191,000

Notes to the Financial Statements

For the year ended 31 December 2005

17 SHARE OPTIONS (CONTINUED)

The company operates Approved, SAYE and EMI share option schemes as well as issuing a number of unapproved share options.

The Approved and SAYE schemes were set up on 11 June 1996 and were approved by the Inland Revenue on 16 July and 24 July respectively.

Under the SAYE scheme the employee must commit to a monthly savings contract and the aggregate proceeds will be applied to the acquisition of shares on the exercise date at the price not less than the nominal value of the share or 80% of the market value at the date of grant.

The Approved scheme entitles the employee to subscribe for up to £30,000 of shares based on the price of share at the date of grant.

Employees eligible to options under the EMI scheme are restricted to a maximum of £100,000 of shares, based on the market price at the date of grant less any options already granted under the Approved scheme.

The company's Articles of Association provide that directors may not grant options over more than 15% of the nominal value of the company's issued share capital without an ordinary resolution.

Options held by directors

Options held by directors are listed in the Remuneration Report.

The market price of the ordinary shares was 31 pence at 31 December 2005. The market price ranged from 14.7 pence to 109 pence during the period.

18 RESERVES

The Group	Share premium account £	Merger reserve £	Capital reserve £	Profit and loss account £
At 1 January 2005	3,021,778	680,000	1,000	1,908,113
Retained loss for the year	-	-	-	(702,634)
Premium on allotment during the year	40,120	-	-	-
At 31 December 2005	<u>3,061,898</u>	<u>680,000</u>	<u>1,000</u>	<u>1,205,479</u>

The company	Share premium account £	Merger reserve £	Capital reserve £	Profit and loss account £
At 1 January 2005	3,021,778	680,000	1,000	2,027,326
Retained loss for the year	-	-	-	(739,914)
Premium on allotment during the year	40,120	-	-	-
At 31 December 2005	<u>3,061,898</u>	<u>680,000</u>	<u>1,000</u>	<u>1,287,412</u>

Notes to the Financial Statements

For the year ended 31 December 2005

19 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

The group	2005	2004
	£	£
(Loss)/profit for the year	<u>(702,634)</u>	1,433,262
	<u>(702,634)</u>	1,433,262
Issue of shares in the year	<u>41,750</u>	3,090,661
Net (decrease)/increase in shareholders' funds	<u>(660,884)</u>	4,523,923
Shareholders' funds at 1 January 2005	<u>5,868,953</u>	1,345,030
Shareholders' funds at 31 December 2005	<u><u>5,208,069</u></u>	<u><u>5,868,953</u></u>
The company	2005	2004
	£	£
(Loss)/profit for the year	<u>(739,914)</u>	1,552,475
	<u>(739,914)</u>	1,552,475
Issue of shares in the year	<u>41,750</u>	3,090,661
Net (decrease)/increase in shareholders' funds	<u>(698,164)</u>	4,643,136
Shareholders' funds at 1 January 2005	<u>5,988,166</u>	1,345,030
Shareholders' funds at 31 December 2005	<u><u>5,290,002</u></u>	<u><u>5,988,166</u></u>

20 NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES

	2005	2004
	£	£
Operating (loss)/profit	<u>(1,227,222)</u>	1,780,478
Depreciation	<u>81,929</u>	70,182
Loss on sale of tangible fixed assets	<u>-</u>	59
Amortisation of goodwill	<u>116,118</u>	51,237
Decrease/(increase) in debtors	<u>458,059</u>	(1,192,404)
Decrease in creditors	<u>(107,814)</u>	(143,530)
Net cash (outflow)/inflow from operating activities	<u><u>(678,930)</u></u>	<u><u>566,022</u></u>

21 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	2005	2004
	£	£
(Decrease)/increase in cash in the year	<u>(945,818)</u>	2,735,288
Movement in net funds in the year	<u>(945,818)</u>	2,735,288
Net funds at 1 January 2005	<u>4,550,562</u>	1,815,274
Net funds at 31 December 2005	<u><u>3,604,744</u></u>	<u><u>4,550,562</u></u>

Notes to the Financial Statements

For the year ended 31 December 2005

22 ANALYSIS OF CHANGES IN NET FUNDS

	At 1 January 2005 £	Cash flow £	At 31 December 2005 £
Cash at bank and in hand	<u>4,550,562</u>	<u>(945,818)</u>	<u>3,604,744</u>

23 CAPITAL COMMITMENTS

Neither the group nor the company had any capital commitments at 31 December 2005 or 31 December 2004.

24 CONTINGENT LIABILITIES

On 29 December 2005 Sempra Metals Ltd ("Sempra") issued a claim form against the Company in the High Court of Justice, London seeking damages of £3,121,659 together with interest and costs. The claim relates to alleged breaches of contract on the part of the Company regarding a software development contract. The claim form was not served until 31 January 2006. It was served without Particulars of Claim; these were served on 15 February 2006. A substantive defence is being prepared. It is also the Company's intention to counter claim for fees payable under the software contract and damages in the order of £2,901,182 (exclusive of VAT).

As to the value of Sempra's claim, the software contract contains a provision limiting the Company's liability to the total licence fees paid by Sempra, namely £577,500. Further, the Company maintains indemnity insurance for claims and legal expenses associated with errors and omissions arising under software contracts.

At this early stage of the proceedings it is not possible to estimate the value, if any, of any financial obligations that might arise. Accordingly:

- (i) No provision has been made in these financial statements for any liability that might arise as a result of the claim;
- (ii) Equally it has not been considered appropriate to recognise any income relating to other fees and damages potentially payable by Sempra over and above those amounts already invoiced by the Company;
- (iii) Unpaid invoices raised by the Company to the value of £369,862 have not been provided against in these financial statements and are included in trade debtors (note 11).

25 PENSIONS

The group operates a defined contribution pension scheme for the benefit of employees. The assets of the scheme are administered by trustees in a fund independent from those of the group.

26 ACQUISITION

On 11 July 2005, the company acquired the entire issued share capital of Tradesoft BV, a provider of front office IT services and solutions for corporates and institutions trading in metals and energy.

Total consideration for the acquisition was £81,862 (including costs). Goodwill arising on the acquisition has been capitalised. The purchase has been accounted for by the acquisition method of accounting.

The loss after taxation of Tradesoft BV for the period from 1 January 2005, the beginning of the subsidiary's financial period to the date of acquisition was £163,098. The loss after taxation for the year ended 31 December 2004 was £116,463.



BRADY

Notes to the Financial Statements

For the year ended 31 December 2005

26 ACQUISITION (CONTINUED)

The assets and liabilities of Tradesoft BV acquired were as follows:

	Book value £	Adjustments £	Fair value £
Tangible fixed assets	14,438	(14,438)	-
Cash at bank	34,351	-	34,351
Debtors	22,988	-	22,988
Creditors: amounts falling due within one year	(449,421)	392,082	(57,339)
	<u>(377,644)</u>	<u>377,644</u>	<u>-</u>

The fair value adjustments were made in respect of assets with negligible net book value and the write down of liabilities purchased for a nominal value.

Total goodwill capitalised in the year comprised:

	Total consideration £	Fair value of assets acquired £	Goodwill arising £
	<u>81,862</u>	<u>-</u>	<u>81,862</u>

The acquisition during the year made the following contributions to, and utilisations of, group cash flows.

	2005 £
Net cash outflow from operating activities	73,713
Increase in cash	<u>73,713</u>

Analysis of net outflow of cash in respect of acquisition:

	2005 £
Cash at bank acquired	34,351
Cash consideration (including costs)	(81,863)
	<u>(47,512)</u>



BRADY

Notes to the Financial Statements

For the year ended 31 December 2005

27 LEASING COMMITMENTS

The group and the company

Operating lease payments amounting to £102,925 (2004: £102,925) are due within one year. The leases to which these amounts relate expire as follows:

	2005	2004
	Land and buildings	Land and buildings
	£	£
In five years or more	<u>102,925</u>	<u>102,925</u>

28 CONTROLLING RELATED PARTY

The directors are the group's controlling and ultimate controlling related parties by virtue of their shareholding and directorships in Brady plc.



BRADY

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Brady plc will be held at The Trinity Centre, Cambridge Science Park, Milton Road, Cambridge, CB4 4FN on 4 May 2006 at 3pm for the following purposes:

Ordinary Business

1. To receive and consider the Annual Report and audited financial statements for the year ended 31 December 2005, the Directors' Report and the Auditors' Report on those financial statements.
2. To approve the Remuneration Report.
3. To re-appoint Mr Neil McArthur as non-executive Director who retires by rotation under the Articles of Association.
4. To re-appoint Mr Graham Simister as Executive Chairman and as a director who retires by rotation under the Articles of Association.
5. To re-appoint Grant Thornton UK LLP as Auditors to hold office from the conclusion of this Meeting until the conclusion of the next general meeting of the Company at which financial statements are laid and to authorise the Directors to determine their remuneration.

By order of the Board
D M Rowe
Company Secretary
20 March 2006

Notes

1. A shareholder entitled to attend and vote at the Meeting is also entitled to appoint one or more proxies to attend and, on a poll, vote instead of him/her. The proxy need not be a shareholder of the company.
2. To be effective, the instrument appointing a proxy and any authority under which it is executed must be deposited at the offices of Lloyds TSB Registrars, The Causeway, Worthing, West Sussex, BN99 6DA not less than 48 hours before the time for holding the meeting. Completion and return of the Form of Proxy will not preclude shareholders from attending and voting at the Meeting.
3. The register of interests of the Directors and their families in the issued share capital of the Company and copies of the directors' service contracts will be available for inspection at the registered office of the Company during usual business hours (Saturdays, Sundays, and public holidays excepted) from the date of this Notice until the conclusion of the Meeting.



Brady plc

281 Cambridge Science Park
Milton Road
Cambridge
CB4 0WE
UK

Tel +44 (0)1223 479479
Fax +44 (0)1223 472510

info@bradyplc.com
www.bradyplc.com