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XKO Group plc

Report and accounts

March 2004

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Directors and Advisors

Directors

B C Beverley	Non Executive Chairman
S D Beart	Chief Executive, Deputy Chairman
T W Good	Group Finance Director
I R Mann	Non Executive Director
D R T Thompson	Non Executive Director

Financial advisors and joint stockbrokers

Robert W. Baird Limited
Mint House
77 Mansell Street
London E1 8AF

Joint stockbrokers

Teather & Greenwood Limited
India Buildings
Water Street
Liverpool L2 0XR

Solicitors

Osborne Clarke
Hillgate House
26 Old Bailey
London EC4M 7HW

Secretary and registered office

T W Good
Systems House
Foundry Court
Gogmore Lane
Chertsey
Surrey KT16 9AP

Registered Number: 2950904

Auditors

Deloitte & Touche LLP
Chartered Accountants
Four Brindleyplace
Birmingham B1 2HZ

Bankers

The Royal Bank of Scotland plc
Thames Valley Corporate Office
Abbey Gardens
4 Abbey Street
Reading RG1 3BA

Registrars

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

Chairman's Statement

I am pleased to report our third consecutive year of expansion and growth in sales. Profit before tax, goodwill amortisation and exceptional items (defined as "Adjusted PBT" – see note 3) was £3.3 million, representing an increase of 36 per cent. over the comparable figure for the previous year. The growth in Adjusted PBT is reflected in another year of strong growth in adjusted earnings per share of 20 per cent. In recognition of another good year for the Group, the Board is proposing a final dividend of 0.57 pence representing an increase of 14 per cent. for the full year. The dividend and our acquisitions have again been funded from strong cash flows reflecting the Group's commitment to careful working capital management. The statutory loss before taxation was £2.3 million (2003:£0.5 million).

During the year we completed the acquisition of The Control Group Limited for a net cash consideration of £1.2 million. This acquisition extended our presence in the wholesale/distribution markets as well as the apparel sector. Following changes at the senior management level we are pleased with the performance of this unit. Towards the end of our reporting period, in January 2004, we were also able to announce and complete the acquisition of the trade and assets of Datacentre Limited for £1.9 million, also paid in cash. This important acquisition greatly increased our presence in the market for the provision of high specification Disaster Recovery for our financial services customers. Senior management changes and cost reductions, together with a well managed relocation, have transformed the operating performance of this business.

The Board will actively continue to review acquisition opportunities where the application of XKO's management skills can be deployed to improve operating performance and customer service. Our industry continues to consolidate as customers demand higher and more complex service levels and we expect to benefit from this consolidation process.

Trading during the last 12 months has been reasonably stable, although a climate of rising interest rates and general economic uncertainty is not ideal for our customers. However, XKO has a broad customer base with a high level of recurring revenues and this model should be capable of yielding further growth in the future.

Brian Beverley
Chairman

Chief Executive's Review

Group strategy

Our strategy continues to be the delivery of the maximum level of services and products to an increasing customer base. We are fortunate to have a broad customer base and a wide product range providing excellent sales opportunities. As a Group, we focus on a number of key vertical markets. This enables us to deliver solutions to customers that are specifically tailored for the markets in which our customers operate.

The core of our total offering is encapsulated in the OneStop brand. This offering enables our customers to transfer to XKO all risk and involvement in the provision of IT services and applications. A typical OneStop implementation involves the remote delivery of a vertically tailored application, and the subsequent outsourcing by the customer to XKO of all IT needs. The customer is able to rely on XKO for all security and availability issues and can therefore concentrate resources on the core business rather than handling the complexity of the IT agenda.

Building Supply Chain

This is our most prominent vertical market where we have several hundred customers, the majority of whom purchase services across the Group. At the choice of the customer, we offer text based or windows based solutions or a mixture of both depending on the needs of the customer environment.

In many instances we manage a customer's entire IT environment and host the applications ourselves. Our product range in this vertical market is long established and well recognised and we continue to acquire a satisfactory number of new customers. New licence sales doubled during the year, indicating the quality of the product available and the benefits of a solution targeting a vertical market.

Wholesale/Distribution

Our specialist wholesale/distribution products enable a broad range of high volume distributors to move and track products at great speed. Our pharmaceutical wholesale customers, for example, have demanding needs, including requiring the ability to trace products through the supply chain in a high volume, regulated environment. We also supply tailored solutions to customers in food distribution, consumer goods and packaging products. We expect further growth in this vertical market in the coming year particularly as customers extend their applications to handle e-Business demand.

Financial Services

The year showed continued success in our financial services units which specialise in the delivery and management of complex managed services, primarily to the Offshore Financial Services community. The highlight of the year was the acquisition of the Datacentre businesses, which further increased our capacity to provide high specification Disaster Recovery revenues. Margins continue to grow in this vertical market as we increase the service element of our offering.

Research and development

Our spend on R&D to extend our valuable product range will increase as the Group expands and as we invest in tailoring products to meet specialist market needs. This spend is substantial but allows our customers to gain assurance that existing products have a development roadmap and are ideally matched to their relevant market.

Acquisitions

In keeping with our strategy to increase our customer base we undertook two important acquisitions in the year. At the beginning of the year we acquired The Control Group Limited, allowing us to increase our presence in the business software market for wholesale/distribution businesses and in January 2004 we acquired the business and assets of Datacentre Limited.

In both cases it was necessary to make significant management changes and to reduce the cost base of the acquired entity. However, the Group is now well practiced at managing and improving acquisitions in order to deliver a better service for the customer. It is particularly pleasing that both acquisitions have exceeded our expectations and that the integration process was conducted smoothly.

We continue to search for additional acquisitions to take advantage of consolidation pressures in the market. It is clear that XKO now has the management experience to handle these opportunities.

Financial

Our acquisition and development strategy requires that the Group is able to fund acquisitions from existing cash flows. Careful management of working capital produced another year of strong conversion of operating profits into cash flow. This enabled the Group to fund acquisition consideration to vendors of £4.6 million whilst maintaining year end net bank debt at £3.2 million.

Prospects

The Group has a broad customer base and a high level of recurring income. These features have allowed XKO to continue to outperform the sector. Trading conditions remain similar to last year and in such circumstances, further growth should be expected.

Simon Beart
Chief Executive

Turnover

Turnover for the year increased to £45.4 million (2003:£43.6 million). The contribution from acquisitions was £2.5 million with the result that turnover from continuing businesses was stable.

This movement in turnover disguises the continuing efforts to focus the Group on high value added software and services related activities and to reduce activity in lower margin, product related activities. As a result, turnover in the Software and OneStop services grew from £22.1 million to £24.9 million including acquisitions. Conversely, turnover in the Financial Services units, which are more heavily concentrated on the provision of infrastructure and third party products, fell by 4.6 per cent. but overall profitability and margins increased substantially.

Adjusted operating profit

The net effect of these changes in sales mix produced an Adjusted Operating Profit (Operating profit before goodwill amortisation and exceptional items – see note 3) of £3.6 million (2003:£2.6 million). Adjusted Operating Profit margins at 7.9 per cent. (2003:6.0 per cent.) increased by 32 per cent. which clearly vindicates the strategy to improve sales mix. It is intended that with further concentration on value added services, Group margins can continue to increase. The statutory pre tax loss for the Group was £2.3 million (2003:£0.5 million).

The Adjusted Operating Profit for the Software and OneStop Services (see note 2 for segmental analysis) grew to £2.8 million (2003:£2.2 million) a 27.3 per cent. increase. Excluding the acquisition of The Control Group Limited ("Control") which contributed £0.5 million in Adjusted Operating Profit, underlying Adjusted Operating Profit grew by 4.2 per cent. The Financial Services units grew underlying Adjusted Operating profit by 21.9 per cent. with a negligible impact from acquisitions.

Consistent with efforts to increase net margins, gross margins were increased by 8.5 per cent to 61.4 per cent. These improvements in Group margins also reflect a further increase in annual recurring revenues, which at approximately £17.5 million now account for some 83 per cent. of current total payroll and employee costs.

Cash flow and working capital

The Group continued to focus its attention on working capital, ensuring that debtors are collected appropriately and that our creditors are paid to terms. Debtor days at the year end stood at 40 days (2003:40 days).

As a result, net operating cash inflow from trading operations was 105 per cent. of Adjusted Operating Profit (2003:148 per cent.). Over the last three years the Group has generated cash from trading operations before exceptional items of £10.0 million against a comparable Adjusted Operating Profit of £8.3 million (see note 22).

Funding

The Group renegotiated its bank facilities for the purposes of the acquisition of the business and assets of Datacentre Limited in January 2004. At the year end the Group had a £4.3 million three-year term loan facility and a working capital overdraft facility of £3.0 million. The overdraft was not utilised at the year end.

Net indebtedness at the year end was £3.2 million, an increase of £2.5 million over the previous year. This increase in year end net indebtedness arose as a result of the substantial spend on acquisitions and related reorganisation costs of £5.1 million. The majority of these costs were funded by net operating cash flows of £3.8 million but the balance of funding for the strategic development of the Group was from bank facilities.

To manage interest rate exposure, the Group has entered into swap agreements. Currently, approximately £3.0 million of the term loan debt is protected at an equivalent base rate of between 5 to 6 per cent. These arrangements expire over the next two years.

Financial Commentary (continued)

Acquisitions

In April 2003, the Group acquired Control for a net cash consideration of £1.2 million. The acquisition has exceeded the Board's expectations and returned an Adjusted Operating Profit since acquisition of £0.5 million.

In January 2004, the Group acquired the business and assets of Datacentre Limited for £1.9 million. The business has been rapidly integrated and has performed ahead of plan since acquisition.

During the year the Group also acquired the assets and business of two small units for a total consideration of £0.3 million. Goodwill arising from these acquisitions was approximately £0.4 million.

Goodwill

The Group continues to take a realistic view of the appropriate period over which acquisition related goodwill is written off. Goodwill relating to Control will be amortised over a 24 month period, while the goodwill relating to Datacentre will be amortised over a 14 month period.

Exceptional items

During the year the Group incurred exceptional items of £1.7 million. Approximately £0.7 million arose from the reorganisation of acquisitions and the consequential effect of these transactions on the Group. Exceptional costs incurred within the existing Group of £0.9 million related to the closure of a low margin hardware assembly plant and the decision to outsource maintenance stock. In addition, at the year end, further cost cutting was required in order to maintain the Group's cost base in line with market conditions. Costs in respect of aborted acquisitions of £0.1 million were also incurred and have been treated as exceptional.

Taxation

The effective underlying tax rate, before goodwill amortisation, was 22.2 per cent. The effective rate differs from the standard 30 per cent. as a result of loss utilisation in the United Kingdom and lower foreign tax rates. The Group has approximately £2.2 million of usable taxable losses in the United Kingdom. In future years it is expected that the underlying tax rate will be in the range of 20-22 per cent. whilst the Group retains its current structure.

Dividend policy

The Board has recommended the payment of a final dividend of 0.57 pence per ordinary share which will be paid to all shareholders on the register as at 9 July 2004 with a payment date of 6 October 2004. Coupled with the interim dividend paid on 20 February 2004 of 0.23 pence per ordinary share this amounts to a total dividend for the year of 0.8 pence per ordinary share, an increase of 14.3 per cent. The dividend is covered 11.4 times by the cash inflow from operating activities of £2.5 million.

William Good
Group Finance Director

Directors' Report

The Directors present their report and the Group's audited financial statements for the year ended 31 March 2004.

Principal activity, review of the year and future prospects

The Group's principal activity is the supply of business enterprise software and IT solutions. A review of the Group is set out in the Chief Executive's Review and Financial Commentary.

Financial results

The results for the period are shown in full in the profit and loss account and the related notes. The financial statements show a consolidated loss of £2,902,000 for the year, after taxation, which has been transferred to reserves. The Directors recommend the payment of a final dividend of 0.57 pence per share.

Share capital

The Company had been notified that, in accordance with sections 198 to 208 of the Companies Act 1985, the following ordinary shareholders, not being Directors, had an interest of 3 per cent. or more in the currently issued ordinary share capital of the Company (27,648,314 shares) as at 31 March 2004.

	Percentage of issued ordinary share capital	Number of 25p ordinary shares
Deutsche Bank	12.8%	3,534,745
Arlington Group plc	9.0%	2,500,000

Directors and their interests

The Directors at the year end are as listed on page 2. R C Kimber resigned on 30 January 2004. I R Mann and D R T Thompson offer themselves for re-election at the forthcoming Annual General Meeting. T W Good who was appointed on 13 January 2004 offers himself for election. No Director had any beneficial interest in the shares of any of the subsidiary undertakings of the Company at the balance sheet date. At 31 March 2004, the following Directors had the following beneficial and family interests in the shares of the Company:

	As at 31 March 2004 25p ordinary shares	As at 31 March 2003 25p ordinary shares
B C Beverley	**1,746,667**	1,746,667
S D Beart	**400,000**	400,000
R C Kimber (resigned 30 January 2004)	**—**	—
T W Good (appointed 13 January 2004)	**90,000**	—
I R Mann	**8,300**	8,300
D R T Thompson	**5,810**	5,810

S D Beart has a further non-beneficial interest in 1,500 ordinary shares.

EXECUTIVE DIRECTORS

S D Beart ACA (45) – Chief Executive, Deputy Chairman

Simon Beart qualified as a Chartered Accountant with PricewaterhouseCoopers in 1984. In 1992, he co-founded the fully listed international packaging group Britton Group plc which was subsequently acquired by a listed US Corporation, ACX in 1998 for £250 million. He was appointed Deputy Chairman and Group Finance Director in 1999 and Chief Executive Officer in late 2000.

T W Good ACMA (39) – Group Finance Director

William Good was appointed Group Finance Director in January 2004. Previously he was Group Finance Director of Retail Decisions Plc, a fully listed software and services Group of which he was a founding Director upon its listing in 2000. From 1996 to 2000 he was Group Financial Controller of Card Clear Plc, from which Retail Decisions was demerged.

NON-EXECUTIVE DIRECTORS

B C Beverley (58) – Chairman

Brian Beverley has worked in the IT industry for over 30 years. He founded Mentor, a specialist software applications business in 1978 subsequently sold to Misys plc in 1989, whereupon he became Executive Chairman of the Misys Open Systems Division until 1991. He was appointed Chairman of XKO Group plc at the formation of the Group in March 1999.

I R Mann (62) – Senior Non-executive Director

Rodney Mann worked at Grand Metropolitan between 1965 and 1995 where he held positions as Managing Director of the Norwich Brewery (1982 to 1985), the Ushers Brewery (1985 to 1989) and Inntrepreneur and Tenanted Estates (1991 to 1993). Between 1995 and 1998, he was a Non-executive Director of Shepard Neame and he is Non-executive Chairman of Avebury Group.

D R T Thompson (59)

David Thompson was a founder of Druid Systems Limited in 1987, the company that became Druid Group PLC upon its flotation in 1996 and was Managing Director of Druid Group PLC until January 1998. He is Chairman of Touchstone Group plc and has had over 30 years experience in the IT industry having held senior IT positions with Proctor and Gamble and General Electric.

Share options

Options to acquire ordinary shares in XKO Group plc outstanding as at 31 March 2004 were:

Date of grant	Number of 25p ordinary shares	Exercise price	Exercise period
28 Feb 1999	486,394	120.0p	2 Mar 2002 to 2 Mar 2009
2 Mar 1999	194,606	148.5p	2 Mar 2002 to 2 Mar 2009
10 Jul 2000	1,000	291.0p	10 Jul 2003 to 10 Jul 2010
5 Dec 2000	6,000	292.5p	5 Dec 2003 to 5 Dec 2010
10 Jul 2001	1,000	44.5p	10 Jul 2004 to 10 Jul 2011
29 Aug 2001	145,500	120.0p	29 Aug 2004 to 29 Aug 2011
24 Sep 2001	10,000	30.0p	24 Sep 2004 to 24 Sep 2011
2 Jan 2002	25,000	51.0p	2 Jan 2005 to 2 Jan 2012
4 Feb 2002	3,500	48.5p	4 Feb 2005 to 4 Feb 2012
27 Jun 2002	106,800	37.5p	27 Jun 2005 to 27 Jun 2012
29 Jul 2002	65,000	46.0p	29 Jul 2005 to 29 Jul 2012
4 Dec 2002	10,000	43.0p	4 Dec 2005 to 4 Dec 2012
16 Jul 2003	40,000	75.0p	16 Jul 2006 to 16 Jul 2013
30 Jul 2003	70,000	75.0p	30 Jul 2006 to 30 Jul 2013
20 Jan 2004	150,000	95.0p	20 Jan 2007 to 20 Jan 2014
Total	1,314,800		

Tangible fixed assets

Details of changes during the period in the tangible assets of the Group are shown in note 10 to the financial statements.

Close company status

In the opinion of the Directors, the Company is not a close company within the provisions of section 414 of the Income and Corporation Taxes Act 1988.

Directors' and officers' liability insurance

The Group has liability insurance for its Directors and officers as permitted by the Companies Act 1985.

Employees

The Group has a policy of keeping all employees fully informed about its plans and progress. It uses regular meetings, formal presentations and electronic communications wherever possible. The Group operates recruitment and selection procedures and further employment opportunities such as training and development based on an objective assessment of an individual's need and ability regardless of factors such as gender, race, ethnic origin and disability. An employee sharesave scheme was established in the year ended 31 March 2000. Employees have subscribed for approximately 200,000 shares.

Environment

The Group does not handle environmentally hazardous materials. It believes that support for the legitimate aims of the communities in which it works and due care of the environment are proper parts of its business process.

Corporate Governance

The Group is committed to high standards of Corporate Governance and has applied the principles of Good Governance set out in section 1 of the Hampel Combined Code, by introducing procedures to comply with the code of Best Practice as reported in the following sections.

Board balance and effectiveness

The Board has maintained an appropriate degree of balance by its composition of a greater number of Non-executive Directors, of whom two are independent (I R Mann and D R T Thompson). The Board meets on a regular basis throughout the year and monitors current trading performance, budgets and forecasts and strategic options for each division of the Group. To enable them to do this, all Directors have full and timely access to all relevant information.

Relations with shareholders

The Executive Directors make regular presentations to existing and potential institutional shareholders as well as financial analysts in order to enhance an understanding of the Group. The Board is conscious of the importance of a regular dialogue with shareholders. The Group also has a website (www.xko.co.uk) containing up-to-date information and product news.

Audit committee

The Board has a formally constituted Audit Committee chaired by I R Mann, which has written terms of reference and comprises all the Non-executive Directors. The Finance Director usually attends and the other Executive Directors have the right to attend. The Audit Committee meets at least twice during the year and monitors the effectiveness of the Group's internal controls, accounting policies and financial reporting. It meets with the external auditors to discuss any matters arising from their audit visits, and to review any reports, which they might produce. The Chairman of the Audit Committee reports to the Board on the progress of the Audit Committee meetings. Aspects of Risk Management are discussed at the Audit Committee.

Remuneration committee

The Board has a formally constituted Remuneration Committee which has written terms of reference. It comprises all the Non-executive Directors and is chaired by I R Mann. The Chief Executive is an ex officio attendee of the committee meetings but is not required to attend at times when his remuneration is being discussed. It meets at least twice a year to consider the terms of employment of the Executive Directors, senior employees, and to approve proposals for the granting of share options to employees of the Group.

Nominations committee

The Board has a formally constituted Nominations Committee which meets to approve nominations of new Directors to the Board. It also considers succession planning and senior management development. It comprises all the Non-executive Directors and is chaired by I R Mann.

Internal control

The Directors acknowledge that they have overall responsibility for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and even the most effective system can provide only reasonable, and not absolute, assurance with respect to the preparation of financial information and the safeguarding of assets. The Directors have continued to monitor and review the internal controls in operation during the period under review to ensure that they remain effective. Where any significant weaknesses have been identified, new procedures have been put in place to strengthen controls. The Turnbull report provided further guidance as to how the Hampel Combined Code principle on internal control should be applied in practice. The contents of this report have been carefully considered by the Board and procedures have been established to implement the guidance. There is an on going process for identifying, evaluating, managing and reviewing any changes in the significant risks faced by the business. The key procedures that the Board has established and which are designed to provide effective internal control and risk assessment for the Group include:

- a comprehensive and detailed budgeting system with the annual budget approved by the Board
- regular updates issued throughout the year giving the Board an updated forecast
- monthly reviews by the Board of trends in trading circumstances
- capital expenditure and other authority limits
- approval of hiring of all new employees
- regular reporting of legal and accounting developments to the Board
- review and authorisation of all material sales contracts by Board executives.

Corporate Governance Compliance Statement

Details of the Group's approach to corporate governance are given above. Throughout the year ended 31 March 2004, the Company has been in compliance with the other code provisions set out in section one of the Hampel Combined Code on Corporate Governance issued by the UK Listing Authority except for the following matter.

The Group has no internal audit function, but regards the level and detail of controls and senior management involvement in the units as sufficient, considering the size of the Group and its activities.

Going concern

In accordance with the Hampel Combined Code guidance on going concern and financial reporting, the Directors confirm that, after making enquiries, they have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

The Chairman's Statement and Financial Commentary present a balanced and understandable assessment of the Group's position and prospects.

Policy on payment of creditors

The Group does not follow any specified code or standard on payment practice, but endeavours to ensure that payments to suppliers are made in accordance with mutually agreed terms of trade. It then adheres to the terms providing it is satisfied that the supplier has provided the goods or service in compliance with the agreed terms and conditions. The Company trade creditors outstanding at 31 March 2004 were £207,000 (2003:£27,000). Creditor days at the year end stood at 68 days (2003:15 days).

Research and Development

Research and development activities are the ongoing modifying and developing of software. £1,357,000 was spent during the year to 31 March 2004 (2003:£1,170,000).

Donations

The Group made donations of £1,100 during the year for charitable purposes. The Group made no donations for political purposes.

Annual General Meeting

The Annual General Meeting will be held on 28 July 2004 at 10.30 a.m. at the offices of Osborne Clarke, Hillgate House, 26 Old Bailey, London EC4M 7HW.

Auditors

Deloitte & Touche LLP has expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

By order of the Board

Will Good

T W Good
Secretary

24 June 2004

Report of the Board on Remuneration

UNAUDITED INFORMATION

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 which introduced new statutory requirements for the disclosure of Directors' remuneration in respect of periods ending on or after 31 December 2002. The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the Principles of Good Governance relating to Directors' remuneration. As required by the Regulations, a resolution to approve the report will be proposed at the Annual General Meeting of the Company at which the financial statements are approved.

Remuneration committee

The Company has established a Remuneration Committee which is constituted in accordance with the recommendations of the Hampel Combined Code. The members of the Committee are B C Beverley, D R T Thompson and I R Mann who are all Non-executive Directors and the Committee is chaired by I R Mann.

None of the Committee has any personal financial interest (other than as shareholders), conflicts of interests arising from cross-directorships or day-to-day involvement in running the business. The Committee makes recommendations to the Board. No Director plays a part in any discussion about his own remuneration.

Remuneration policy

Executive remuneration packages are prudently designed to attract, motivate and retain Directors of the high calibre needed to maintain the Group's position as a market leader and to reward them for enhancing value to the shareholders. The performance measurement of the Executive Directors and key members of senior management and the determination of their annual remuneration package are undertaken by the Committee. The remuneration of the Non-executive Directors is determined by the Board within limits set out in the Articles of Association.

There are four main elements of the remuneration package for Executive Directors and senior management:

- Basic annual salary (including Directors' fees) and benefits;
- Annual bonus payments;
- Share option incentives; and
- Pension arrangements.

The Company's policy is that a significant proportion of the remuneration of the Executive Directors should be performance related. Executive Directors are entitled to accept appointments outside the Company provided that the Chairman's permission is sought.

Basic salary

An Executive Director's basic salary is determined by the Committee prior to the beginning of each year and when an individual changes position or responsibility. In deciding appropriate levels, the Committee considers the Group as a whole and takes account of comparable remuneration levels and policies. Basic salaries are reviewed annually. Executive Director's contracts of service which include details of remuneration will be available for inspection at the Annual General Meeting.

In addition to basic salary, the Executive Directors receive certain benefits, principally a car allowance and private healthcare allowance. They do not receive fees in respect of their positions as Directors.

Share options

The Group operates four types of share option scheme; an approved share option scheme, an unapproved share option scheme, a sharesave scheme and a Long Term Incentive Plan (LTIP). The Group's policy is to issue share options at appropriate intervals in order to motivate and retain employees and to align their interests with those of shareholders. All option grants are approved by the Remuneration Committee.

The exercise price of the options granted under the approved share option scheme and the unapproved share option scheme is equal to the market value of the Company's shares at the time when the options are granted.

Under the rules of the sharesave scheme eligible employees may be granted share options at a discount of up to 20 per cent. of the market value of the Company's shares at the time when the options are granted.

To align further the interests of shareholders and Directors the Group's LTIP was approved at the Annual General Meeting on 31 July 2001. Under this plan provision was made for the making of awards over shares in the form of nil cost options. The purpose of such awards is to motivate participants to improve performance and to retain their services in the longer-term. The Committee has responsibility for supervising the scheme and the grant of options under the terms of the plan.

Shares granted under the LTIP are divided into two types, the earnings tranche and service tranche. The shares contained in the earnings tranches vest according to the achievement of progressive earnings per share and/or share price targets for the relevant period. The shares contained in the service tranches vest according to individual lengths of service. The Directors consider these as optimal targets.

The following conditional awards of shares have been contingently made to Directors:

	Earnings Tranche March 2002	Earnings Tranche March 2003	Earnings Tranche March 2004	Earnings Tranche March 2005	Earnings Tranche March 2006	Service Tranche July 2004	Service Tranche July 2005	Service Tranche July 2006	Total
B C Beverley	28,333	28,333	28,334	—	—	42,500	42,500	—	170,000
S D Beart	28,333	28,333	28,334	—	—	42,500	42,500	—	170,000
T W Good	—	—	—	20,000	20,000	—	20,000	20,000	80,000
	56,666	56,666	56,668	20,000	20,000	85,000	105,000	20,000	420,000

R C Kimber resigned from the Company on 30 January 2004 on which date his LTIP grants lapsed.

On 28 January 2004 T W Good was awarded the conditional shares above.

The targets relating to the March 2002 earnings tranche have been satisfied and vested on 1 July 2003. The targets relating to the March 2003 and March 2004 earnings tranches have been satisfied and are due to vest on 1 July 2004 and 1 July 2005 respectively subject to the individual being employed by the Group at that time.

No other awards of shares have been made to other senior Group employees in the financial year.

No significant amendments are proposed to be made to the terms and conditions of any entitlement of a Director to share options.

Pension arrangements

The Company also contributes payments as a percentage of the Executive Director's basic salary to a pension scheme of his choice. Other than basic salary, no element of remuneration is pensionable.

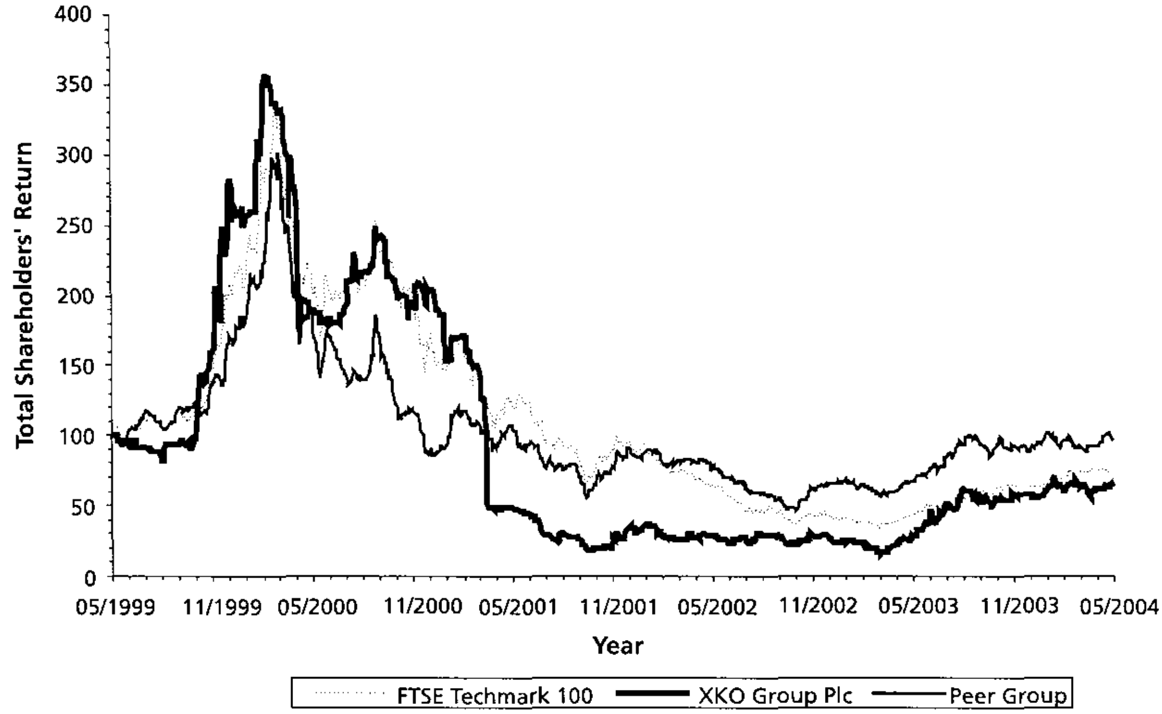
Performance graph

The graph below shows the Company's performance, measured by total shareholder return, compared with the performance of a peer group and by reference to the FTSE Techmark 100 Index also measured by total shareholder return for each of the years since flotation in January 1999. The FTSE Techmark 100 Index has been selected as, in the opinion of the Directors, it represents the most appropriate equity market index against which the Company should be tracked.

The peer group was chosen to provide a benchmark against other listed companies in the same sector. In addition to XKO Group plc, the peer group comprises:

- Alphameric
- Anite
- Comino
- Compel Group
- Diagonal
- EDP
- ICM
- iSOFT
- ITNet
- Synstar
- Torex

Graph to show comparison of XKO with Peer Group and the FTSE Techmark 100 Index



Directors' service contracts

Each Executive Director's service agreement is terminable by either him or the Company on no more than 12 months written notice. In the event of a change of control of the Group, the Executive Directors are contractually entitled to a payment of liquidated damages, without mitigation, of an amount equivalent to up to two years salary, benefits and estimated bonuses. The Non-executive Directors have contracts which run for two-year terms, commencing from their date of appointment and are open to annual extension subject to the mutual agreement of the Non-executive Director and the Company. B C Beverley's agreement is terminable by either him or the Company on no more than twelve months written notice.

Report of the Board on Remuneration (continued)

The details of the Directors' contracts are summarised in the table below:

Executive Directors:	Date of contract
S D Beart	27 January 1999
T W Good	12 December 2003
Non-executive Directors:	
B C Beverley	27 January 1999
D R T Thompson	30 March 1999
I R Mann	24 March 1999

Non-executive Directors

All Non-executive Directors have specific terms of engagement and their remuneration is determined by the Board as a whole. Non-executives are paid a fee for their services and are not eligible to join the Company's pension scheme.

AUDITED INFORMATION

Directors' emoluments

	Basic Salary £'000s	Benefits £'000s	Pension £'000s	Bonus £'000s	Fees £'000s	31 March 2004 Total £'000s	31 March 2003 Total £'000s
B C Beverley	—	—	—	—	65	65	65
S D Beart	174	6	15	95	—	290	273
R C Kimber	99	—	9	—	—	108	58
T W Good	31	—	3	5	—	39	—
I R Mann	—	—	—	—	18	18	17
D R T Thompson	—	—	—	—	18	18	17
	304	6	27	100	101	538	430

Basic salary includes a car allowance for S D Beart of £19,500 per annum, R C Kimber of £12,000 per annum and T W Good of £12,000 per annum. Benefits provided relate to the provision of health care and insurance benefits.

R C Kimber resigned with effect from 30 January 2004. T W Good was appointed on 13 January 2004.

Directors' share options

Details of subscription rights for Directors who served during the year are as follows:

	Exercise Price	At 31 March 2004 25p ordinary shares	Date from which exercisable	Expiry date
B C Beverley	120.0p	450,000	2 March 2002	2 March 2009
S D Beart	120.0p	150,000	6 August 1998	9 July 2008
	112.5p	500,000	2 March 1999	2 March 2009
	95.0p	350,000	21 January 2004	21 January 2014
T W Good	95.0p	150,000	20 January 2007	20 January 2014

The share options held by B C Beverley and T W Good are unapproved share options.

The mid-market price of the ordinary shares of XKO Group plc at 31 March 2004 was 84 pence and the range during the year was 30.5 pence to 105 pence.

Directors' pension entitlements

The Executive Directors are members of individual money purchase schemes. No contributions were made by the Group in respect of Non-executive Directors. The contributions made by the Company in respect of money purchase schemes for each of the other Executive Directors were as follows:

	Total 2004 £'000s	Total 2003 £'000s
S D Beart	**15**	15
R C Kimber	**9**	—
T W Good	**3**	—
	27	15

Approved and signed on behalf of the Board

I R Mann
Chairman, Remuneration Committee

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 the Group as at the end of the financial period and of the profit or loss of the Group for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed.

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 financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditors' Report

to the shareholders of XKO Group plc

We have audited the financial statements of XKO Group plc for the year ended 31 March 2004 which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement and the related notes 1 to 28. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the Directors' remuneration report that is described as having been audited.

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

As described in the statement of Directors' responsibilities, the Company's Directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. They are also responsible for the preparation of the other information contained in the annual report including the Directors' remuneration report. Our responsibility is to audit the financial statements and the part of the Directors' remuneration report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' remuneration report described as having been audited have been 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 and other members of the Group is not disclosed.

We review whether the corporate governance statement reflects the Company's compliance with the seven provisions of the Hampel Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the Directors' report and the other information contained in the annual report for the above year as described in the contents section including the unaudited part of the Directors' remuneration report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit 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 and the part of the Directors' remuneration report described as having been audited. 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 circumstances of the Company and the Group, consistently applied and adequately disclosed.

Independent Auditors' Report (continued)

to the shareholders of XKO Group plc

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

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 2004 and of the loss of the Group for the year then ended; and
- the financial statements and the part of the Directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Birmingham

24 June 2004

Consolidated Profit and Loss Account

For the year ended 31 March 2004

	Notes	Existing Business 2004 £'000s	Acquisitions 2004 £'000s	Total year ended 31 March 2004 £'000s	Total year ended 31 March 2003 £'000s
Turnover	2	**42,874**	**2,526**	**45,400**	43,627
Operating profit before goodwill amortisation and exceptional costs		**3,025**	**551**	**3,576**	2,607
Goodwill amortisation	3	**(1,946)**	**(1,986)**	**(3,932)**	(1,275)
Exceptional items	3	**(978)**	**(719)**	**(1,697)**	(1,706)
Operating profit/(loss)	3	**101**	**(2,154)**	**(2,053)**	(374)
Net interest payable	5			**(270)**	(171)
Loss on ordinary activities before taxation				**(2,323)**	(545)
Tax on loss on ordinary activities	6			**(357)**	(247)
Loss on ordinary activities after taxation				**(2,680)**	(792)
Dividends	7			**(222)**	(193)
Retained loss for the year				**(2,902)**	(985)
Adjusted earnings per ordinary share	8			**10.7p**	8.9p
Basic loss per share	8			**(9.7p)**	(2.9p)
Diluted loss per share	8			**(9.7p)**	(2.9p)
Dividend per share	7			**0.8p**	0.7p

There are no other recognised gains or losses in either year other than the loss for that year and accordingly a Statement of Total Recognised Gains and Losses is not provided.

Consolidated Balance Sheet

As at 31 March 2004

	Notes	As at 31 March 2004 £'000s	As at 31 March 2003 £'000s
Fixed assets			
Intangible assets	9	**5,269**	3,405
Tangible assets	10	**651**	423
		5,920	3,828
Current assets			
Stocks	12	**331**	711
Debtors	13	**7,175**	6,747
Cash at bank and in hand		**1,127**	1,325
		8,633	8,783
Creditors: amounts falling due within one year	14	**(11,021)**	(9,979)
Net current liabilities		**(2,388)**	(1,196)
Total assets less current liabilities		**3,532**	2,632
Creditors: amounts falling due after more than one year	15	**(3,308)**	(1,159)
Provisions for liabilities and charges	17	**(426)**	(633)
Deferred income	18	**(7,646)**	(5,857)
Net liabilities		**(7,848)**	(5,017)
Capital and reserves			
Called up share capital	19	**7,212**	7,212
Shares to be issued	19	**310**	239
Share premium account	21	**9,611**	9,611
Profit and loss account	21	**(24,981)**	(22,079)
Shareholders' deficit	20	**(7,848)**	(5,017)
Equity		**(8,148)**	(5,317)
Non-equity		**300**	300
Shareholders' deficit		**(7,848)**	(5,017)

T W Good
Group Finance Director

24 June 2004

Company Balance Sheet

As at 31 March 2004

	Notes	As at 31 March 2004 £'000s	As at 31 March 2003 £'000s
Tangible assets	10	—	—
Investments	11	**20,620**	20,466
		20,620	20,466
Current assets			
Debtors	13	**17,028**	17,586
Creditors: amounts falling due within one year	14	**(10,342)**	(12,635)
Net current assets		**6,686**	4,951
Total assets less current liabilities		**27,306**	25,417
Creditors: amounts falling due after more than one year	15	**(3,070)**	(1,000)
Net assets		**24,236**	24,417
Capital and reserves			
Called up share capital	19	**7,212**	7,212
Shares to be issued	19	**310**	239
Share premium account	21	**9,611**	9,611
Profit and loss account	21	**7,103**	7,355
Shareholders' funds	20	**24,236**	24,417

Equity	**23,936**	24,117
Non-equity	**300**	300
Shareholders' funds	**24,236**	24,417

T W Good
Group Finance Director

24 June 2004

Consolidated Cash Flow Statement

For the year ended 31 March 2004

	Notes	As at 31 March 2004 £'000s	As at 31 March 2003 £'000s
Net cash inflow from trading operations	22	**3,769**	3,865
Cash outflow relating to restructuring and other exceptional items	22	**(1,240)**	(937)
Cash inflow from operating activities	22	**2,529**	2,928
Returns on investments and servicing of finance			
Interest paid		**(251)**	(152)
Net cash outflow from returns on investments and servicing of investments		**(251)**	(152)
Taxation			
Corporation tax paid		**(270)**	(85)
Capital Expenditure			
Payments to acquire tangible fixed assets		**(151)**	(174)
Proceeds from sale of fixed assets		**22**	134
Net cash outflow from capital expenditure		**(129)**	(40)
Acquisitions			
Purchase of subsidiary undertakings		**(4,591)**	(2,955)
Net cash/(overdraft) acquired with subsidiaries		**362**	(47)
Net cash outflow for acquisitions		**(4,229)**	(3,002)
Equity dividends paid		**(202)**	(190)
Cash outflow before use of financing		**(2,552)**	(541)
Financing			
Issue of ordinary share capital		**—**	158
Bank loans drawn		**2,354**	786
Net cash inflow from financing		**2,354**	944
(Decrease)/increase in cash in the year	23, 24	**(198)**	403

1. Accounting policies

The financial statements are prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

(1) Accounting convention

The financial statements are prepared under the historical cost convention. Consistent accounting policies have been applied in this period.

(2) Basis of consolidation

The financial statements consolidate the financial statements of XKO Group plc and all its subsidiary undertakings drawn up to 31 March 2004. Subsidiary undertakings acquired during the period have been included in the financial statements using the acquisition method of accounting. Accordingly, the profit and loss account, statement of total recognised gains and losses and statement of cash flows include the results and cash flows for the period of ownership.

(3) Goodwill

Goodwill, representing the excess of the consideration over the assessed fair value of net assets acquired, is capitalised and amortised over its estimated useful economic life of up to 36 months. On the disposal, closure of businesses, or impairment, goodwill previously written off to reserves is allocated to the cost of disposal or closure and is charged through the profit and loss account. Immaterial acquisitions are written off as incurred.

(4) Revenue recognition

Turnover represents amounts invoiced to customers (net of value added tax) for goods and services. Revenue from systems sales is recognised upon delivery to and acceptance by a customer, when there are no significant vendor obligations remaining and the collection of the resulting receivable is considered probable. In instances where a significant vendor obligation exists, revenue recognition is delayed until the obligation has been satisfied. Service revenues comprise revenues for maintenance, transaction processing and professional services. Maintenance and support contracts are recognised evenly over the period of the contract. Electronic data interchange and remote processing services are recognised monthly as the work is performed. Professional services, such as implementation, training and consultancy, are recognised when the services are performed.

(5) Research and development

Research and development expenditure, including the cost of software products developed in-house, is expensed fully in the year in which it is incurred.

(6) Foreign currencies

Assets and liabilities denominated in foreign currencies are converted at the rates of exchange ruling at the balance sheet date or at rates specified in related forward contracts. Transactions in foreign currencies are converted at the rate ruling at the date of each transaction or at rates specified in related forward contracts. Exchange differences are included in operating profit where they related to trading transactions and are taken directly to reserves where they related to overseas investments.

(7) Investments

Investments in subsidiary undertakings are stated at cost less any provision for permanent diminution in value.

(8) Stocks

Raw materials and consumables for immediate resale are stated at the lower of cost and net realisable value. Engineering maintenance stocks are amortised immediately.

1. Accounting policies (continued)

(9) Pensions

The Group operates a number of defined contribution pension schemes. The costs of the pension schemes are charged to the profit and loss account as they are incurred.

(10) Depreciation of tangible fixed assets

Tangible fixed assets are shown at original historic cost, less accumulated depreciation. Depreciation is provided at rates calculated to write off the cost of each asset to its residual value on a straight-line basis over its expected useful life, as follows:

Computer hardware and software	2 to 3 years
Motor vehicles	4 years
Fixtures, fittings and office equipment	1 to 3 years
Leasehold premises	over the length of the lease
Leasehold improvements	over the expected useful life

(11) Leased assets

Rentals paid under operating leases and contract hire agreements are charged to the profit and loss account as they are incurred.

(12) Deferred taxation

Deferred taxation is provided in full on material timing differences at the rate of taxation anticipated to apply when these differences crystallise. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

A deferred tax asset is only recognised where it is more likely than not that it will be recoverable in the future. Deferred tax assets and liabilities recognised have not been discounted.

2. Segmental Analysis

	Net (Liabilities)/Assets		Turnover		Operating (Loss)/Profit		Adjusted Operating Profit/(Loss)	
	2004 £'000s	2003 £'000s	2004 £'000s	2003 £'000s	2004 £'000s	2003 £'000s	2004 £'000s	2003 £'000s
Software and OneStop Services	**(20,192)**	(18,147)	**24,867**	22,099	**(2,440)**	(1,548)	**2,762**	2,170
Financial Services	**3,929**	3,114	**20,533**	21,528	**627**	1,222	**1,646**	1,350
Group and other	**8,415**	10,016	**—**	—	**(240)**	(48)	**(832)**	(913)
	(7,848)	(5,017)	**45,400**	43,627	**(2,053)**	(374)	**3,576**	2,607

All turnover derives from locations in the United Kingdom. The segmental analysis of discontinued activities is shown in note 3.

Adjusted Operating Profit is Operating Profit before goodwill amortisation and exceptional items.

3. Operating loss

	Year ended 31 March 2004 £'000s	Year ended 31 March 2003 £'000s
Turnover	45,400	43,627
Cost of Sales	(17,531)	(18,939)
Gross Profit	27,869	24,688
Administrative expenses before goodwill amortisation and exceptional items	(24,293)	(21,747)
Discontinued consultancy unit costs – administration expenses	—	(334)
Amortisation of goodwill	(3,932)	(1,275)
Exceptional items	(1,697)	(1,706)
Total administration expenses	(29,922)	(25,062)
Operating loss	(2,053)	(374)

Reconciliation of operating loss to adjusted operating profit and adjusted profit before tax:

	Year ended 31 March 2004 £'000s	Year ended 31 March 2003 £'000s
Operating loss	(2,053)	(374)
Exceptional items	1,697	1,706
Amortisation of goodwill	3,932	1,275
Adjusted operating profit	3,576	2,607
Net interest payable	(270)	(171)
Adjusted profit before tax	3,306	2,436

Discontinued activities contributed:

	Year ended 31 March 2004 £'000s	Year ended 31 March 2003 £'000s
Turnover	—	260
Cost of Sales	—	(164)
Gross Profit	—	96
Administration expenses	—	(334)
Operating loss	—	(238)

3. Operating loss (continued)

Acquisitions contributed:	Year ended 31 March 2004 £'000s	Year ended 31 March 2003 £'000s
Turnover	2,526	4,088
Cost of Sales	(396)	(594)
Gross Profit	2,130	3,494
Administrative expenses	(4,284)	(3,999)
Operating loss	(2,154)	(505)

Exceptional items consisted of:	Year ended 31 March 2004 £'000s	Year ended 31 March 2003 £'000s
Redundancies and reorganisation	1,062	1,796
Release of debtor provision	—	(179)
Write down of stock	425	—
Property provisions	39	—
Other	71	89
Aborted acquisition fee	100	—
	1,697	1,706

Operating loss is arrived at after charging/(crediting):	2004 £'000s	2003 £'000s
Research and development costs	1,357	1,170
Discontinued consultancy unit loss (net)	—	238
Amortisation cost of Long Term Incentive Plan	71	89
Depreciation of owned tangible fixed assets	342	511
Amortisation of intangible fixed assets	3,932	1,275
Auditors' remuneration:		
Audit services	97	78
Non-audit services	46	31
Rentals under operating leases:		
Plant and machinery	84	94
Other operating leases	711	887
Profit on sale of tangible fixed assets	(12)	(26)

Included within audit services is £16,000 (2003:£14,000) in respect of the holding company. £110,000 was also paid to the auditors in respect of acquisition related due diligence which has been included within the cost of investment for these acquisitions.

4. Directors' and employee costs

The average number of employees (including Executive Directors) in the Group during this period was:

	2004 No	2003 No
Software and OneStop Services	271	254
Financial Services	170	167
Central	4	4
	445	425

Employee costs during the year amounted to:

	2004 £'000s	2003 £'000s
Wages and salaries	16,473	14,779
Social security costs	1,575	1,329
Other pension costs	394	313
	18,442	16,421
Included in the above in respect of Directors' remuneration:		
Emoluments	511	473
Pension contributions	27	34
	538	507

The emoluments of the Directors are disclosed within the audited information on pages 16 and 17 in the Report of the Board on Remuneration and form part of these financial statements. Options held by Directors are disclosed in page 16 of the Report of the Board on Remuneration.

5. Interest payable and similar charges

	2004 £'000s	2003 £'000s
On bank loans and overdrafts	270	171
	270	171

6. Tax on loss on ordinary activities

The taxation charge comprises:

	2004 £'000s	2003 £'000s
UK Corporation tax on profit of the period	—	—
Overseas tax	246	209
Current tax	246	209
Deferred tax – timing differences, origination and reversal	111	38
	357	247

Reconciliation to current tax charge:

	2004 £'000s	2003 £'000s
Loss on ordinary activities before tax	2,323	545
Loss on ordinary activities before tax multiplied by standard rate of UK Corporation tax: 30%	(697)	(164)
Expenses not deductible for tax purposes	1,244	469
Capital allowances in excess of depreciation	3	34
Movement in short term timing differences	(17)	141
Foreign tax charged at lower rates than UK	(167)	(181)
Trade losses acquired	5	(90)
Utilisation of tax losses	(125)	—
Current corporation tax charge for the period	246	209

The rate of tax used in the above reconciliation is the standard United Kingdom corporation tax rate.

7. Dividends

	2004 £'000s	2003 £'000s
Equity dividends:		
Interim, paid, 0.23p (2003:0.2p) per share	64	55
Final, proposed, 0.57p (2003:0.5p) per share	158	138
	222	193

8. Earnings per share

Basic loss per ordinary share is calculated by dividing the loss attributable to ordinary shareholders of £2,680,000 (2003:£792,000) by the weighted average number of shares in issue during the year of 27,648,314 (2003:27,386,987).

FRS 14 requires presentation of diluted earnings per share when a Company could be called upon to issue shares that would decrease net profit or increase net loss per share. For a loss making company with outstanding share options, net loss per share would only be increased by the exercise of out-of-the-money options. Since it seems unlikely that option holders will act irrationally, no adjustment has been made to diluted loss per share for out-of-the-money share options. Accordingly, the diluted loss per share equals the basic loss per share of 9.7p (2003:2.9p).

	2004 £'000s	2003 £'000s
Loss on ordinary activities after taxation	**(2,680)**	(792)
Goodwill amortisation	**3,932**	1,275
Exceptional costs (see note 3)	**1,697**	1,706
Loss on discontinued activities	**—**	238
Adjusted profit after tax	**2,949**	2,427
Adjusted earnings per share	**10.7p**	8.9p

Earnings per share in the prior year has not been restated for discontinued activities.

9. Intangible assets

Group	**Goodwill £'000s**
Cost	
As at 1 April 2003	**47,754**
Acquisition of subsidiaries	**5,642**
Adjustment to deferred consideration	**154**
As at 31 March 2004	**53,550**
Accumulated amortisation	
As at 1 April 2003	**44,349**
Charge for the period	**3,855**
Charge relating to adjustment to deferred consideration	**77**
As at 31 March 2004	**48,281**
Net book value	
At 31 March 2004	**5,269**
At 31 March 2003	**3,405**

The Directors currently estimate that the appropriate useful economic life of goodwill in the Information Technology industry is a period of up to 36 months. The Board believes that to amortise goodwill over any longer period ignores the need to invest in and improve applications and the continued changes in technology. Each acquisition is assessed individually and a separate rate is applied.

10. Tangible assets

Group	Leasehold Premises and Improvements £'000s	Fixtures, Fittings and Equipment £'000s	Motor Vehicles £'000s	Total £'000s
Cost				
As at 1 April 2003	149	2,031	446	**2,626**
Acquisition of subsidiaries	400	—	218	**618**
Additions	—	151	—	**151**
Disposals	—	(155)	(79)	**(234)**
As at 31 March 2004	549	2,027	585	**3,161**
Accumulated depreciation				
As at 1 April 2003	64	1,798	341	**2,203**
Acquisition of subsidiaries	—	—	189	**189**
Charge for the period	34	245	63	**342**
Disposals	—	(155)	(69)	**(224)**
As at 31 March 2004	98	1,888	524	**2,510**
Net book value				
At 31 March 2004	451	139	61	**651**
At 31 March 2003	85	233	105	423

The Company has no tangible assets at 31 March 2004 (2003:£nil).

11. Investments

	Company	
Cost	**2004 £'000s**	2003 £'000s
At start of the period	**20,466**	21,248
On acquisition of subsidiaries	**—**	2,605
Adjustments in respect of deferred consideration for prior acquisitions	**154**	(122)
On inter-group transfer of subsidiaries	**—**	(3,265)
At end of the period	**20,620**	20,466

The Group's principal trading subsidiaries, which have been consolidated, are:

Name	Country of Incorporation	Share class held	% held
XKO Software Limited	England	Ordinary	100
XKO Network Systems Limited	England	Ordinary	100
XKO Offshore Limited	Jersey	Ordinary	100
XKO (IOM) Limited	Isle of Man	Ordinary	100

11. Investments (continued)

On 4 April 2003, the Group acquired The Control Group Limited and has adopted the principles of acquisition accounting. The following adjustments have been made to the acquired assets and liabilities to arrive at provisional fair values. These represent the Directors' assessment of the fair value of tangible fixed assets, the elimination of goodwill and valuations to realisable value of debtors and creditors, and the inclusion of dilapidation provisions.

	Net assets at acquisition £'000s	Fair value adjustments £'000s	Fair value at acquisition £'000s
Debtors	218	—	218
Cash	362	—	362
Creditors	(293)	(118)	(411)
Provisions for liabilities and charges	—	(40)	(40)
Deferred income	(619)	—	(619)
Net liabilities	(332)	(158)	(490)
Goodwill			2,456
			1,966

The total consideration, including expenses, for the acquisition was and will be satisfied by:

	£'000s
Net cash consideration to vendors for business	1,200
Cash consideration to vendors for cash at bank	362
Cash paid regarding acquisition expenses	349
Cash held in retention	55
Total consideration	1,966

The cash to be paid represents contingent consideration and is held in respect of warranty claims.

Net cash outflows in respect of the acquisition comprised:	£'000s
Cash consideration including expenses	(1,966)
Cash at bank and in hand acquired	362
	(1,604)

The Control Group Limited had turnover of £2,415,000 for the year ended 31 March 2003, made an operating loss of £1,084,000 and a loss before taxation of £1,075,000 for the same period. The loss after taxation was £1,082,000. The result for the period from 1 April 2003 until 4 April 2003 is not considered material. This business was immediately integrated into the Group at the date of acquisition.

11. Investments (continued)

On 17 January 2004 the Group acquired the net assets and business of Datacentre Limited and has adopted the principles of acquisition accounting. The following adjustments have been made to the acquired assets and liabilities to arrive at provisional fair values. These represent the Directors' assessment of the fair value of tangible fixed assets, the elimination of goodwill and valuations to realisable value of debtors and creditors, and the inclusion of dilapidation provisions.

	Net assets at acquisition £'000s	Fair value adjustments £'000s	Fair value at acquisition £'000s
Tangible fixed assets	429	—	429
Debtors	325	—	325
Creditors	(349)	(79)	(428)
Provisions for liabilities and charges	—	(50)	(50)
Deferred income	(744)	—	(744)
Net liabilities	(339)	(129)	(468)
Goodwill			2,802
			2,334

The total consideration, including expenses, for the acquisition was and will be satisfied by:

	£'000s
Net cash consideration to vendors for business	1,500
Cash held in retention account	200
Cash paid regarding acquisition expenses	410
Deferred cash consideration	224
Total consideration	2,334

The deferred cash consideration represents cash to be paid within two years. The directors believe that this deferred consideration will be paid.

Net cash outflows in respect of the acquisition comprised:	£'000s
Cash consideration including expenses	(2,110)
Deferred cash consideration	(28)
	(2,138)

At the date of preparing these accounts there were no statutory financial statements available for the year ended 31 December 2003 for Datacentre Limited as they are not required under Isle of Man law, nor management accounts. This business was immediately integrated into the Group at the date of acquisition.

During the year the Group also made other acquisitions for which the acquired net liabilities amounted to £95,000 which represented deferred income. Total fair value adjustments were £nil giving rise to fair value of net liabilities at acquisition of £95,000. The total acquisition cost, including expenses amounted to £275,000 which gave rise to goodwill of £370,000. Net cash outflows in respect of the acquisitions amounted to £210,000 of vendor consideration plus expenses. The Directors do not consider these to be individually material acquisitions.

12. Stock

	Group 2004 £'000s	Group 2003 £'000s
Raw materials and consumables	**331**	711

13. Debtors

	Group 2004 £'000s	Group 2003 £'000s	Company 2004 £'000s	Company 2003 £'000s
Datacentre retention consideration held in Escrow account	**200**	—	—	—
Trade debtors	**5,770**	5,533	—	—
Prepayments	**680**	583	**6**	—
Amounts owed by Group undertakings	—	—	**17,022**	17,590
Deferred taxation asset (see note17)	**525**	631	—	(4)
	7,175	6,747	**17,028**	17,586

The movement in the Group deferred taxation asset in the year to 31 March 2004 is due to an asset of £5,000 in respect of trade losses acquired with The Control Group Limited and £111,000 charged to the Group profit and loss account.

14. Creditors: amounts falling due within one year

	Group 2004 £'000s	Group 2003 £'000s	Company 2004 £'000s	Company 2003 £'000s
Bank loans and overdrafts (see note 16)	**1,284**	1,000	**5,315**	6,483
Trade creditors	**3,865**	3,380	**207**	27
Amounts owed to Group undertakings	—	—	**3,884**	4,745
Other taxes and social security	**1,410**	1,204	**(42)**	(24)
Accruals and other creditors	**3,034**	3,004	**382**	500
Datacentre retention consideration held in Escrow account	**200**	—	—	—
Deferred consideration	**578**	660	**357**	660
Corporation tax	**492**	593	**81**	106
Dividends	**158**	138	**158**	138
	11,021	9,979	**10,342**	12,635

15. Creditors: amounts falling due after more than one year

	Group 2004 £'000s	Group 2003 £'000s	Company 2004 £'000s	Company 2003 £'000s
Bank loans (see note 16)	**3,070**	1,000	**3,070**	1,000
Deferred consideration	**15**	—	—	—
Corporation tax	**223**	159	—	—
	3,308	1,159	**3,070**	1,000

16. Borrowings

	Group 2004 £'000s	Group 2003 £'000s	Company 2004 £'000s	Company 2003 £'000s
Bank loans and overdrafts	**4,354**	2,000	**8,385**	7,483
Due within one year	**1,284**	1,000	**5,315**	6,483
Due after more than one year	**3,070**	1,000	**3,070**	1,000
	4,354	2,000	**8,385**	7,483
Analysis of loan repayments:				
Bank loans and overdrafts				
Within one year	**1,284**	1,000	**5,315**	6,483
Between one and two years	**1,434**	1,000	**1,434**	—
Between two and five years	**1,636**	—	**1,636**	1,000
	4,354	2,000	**8,385**	7,483

By a debenture granted to The Royal Bank of Scotland plc dated 27 January 1999, XKO Group plc and its subsidiaries, granted a fixed and floating charge over all of their assets.

17. Provisions for liabilities and charges

	Restructuring provisions £'000s
At 1 April 2003	**(633)**
Fair value adjustments on acquisition of subsidiaries	**(90)**
Utilisation of provisions	**297**
At 31 March 2004	**(426)**

Restructuring provisions consist of provisions for disposal of surplus leasehold interests and rent payable on surplus properties. The expected payment dates for property restructuring costs remain uncertain, but it is expected that most expenditure will take place 2004 and 2008.

Deferred tax asset (see note 13)

Deferred tax is provided as follows:

	Provided 2004 £'000s	Provided 2003 £'000s	Unprovided 2004 £'000s	Unprovided 2003 £'000s
Group				
Difference between accumulated depreciation and amortisation and capital allowances	**310**	224	**—**	68
Other timing differences	**75**	39	**5**	38
Tax losses	**140**	368	**633**	432
	525	631	**638**	538
Company				
Other timing differences	**—**	(4)	**—**	—
Tax losses	**—**	—	**264**	304
	—	(4)	**264**	304

17. Provisions for liabilities and charges (continued)

The current rate of corporation tax of 30 per cent. has been used to calculate the amount of deferred taxation.

Deferred tax assets in respect of depreciation in excess of capital allowances, short term timing differences and tax losses have been recognised where they are respected to reverse in the foreseeable future. No deferred tax asset has been recognised in respect of excess management expenses and non-trade loan relationships in the holding company and in respect of certain trading losses elsewhere in the Group. To the extent that these unrecognised assets reverse in the future, the tax charge will be proportionately reduced.

18. Deferred income

	2004 £'000s	2003 £'000s
Maintenance income to be recognised within one year (represents amounts invoiced in advance in respect of contracts for the provision of software support, hardware and software maintenance and support services).	**7,646**	5,857

19. Called up share capital

Issued share capital

	Ordinary shares of 25p each Number '000s	Nominal value of ordinary shares of 25p each £'000s	Nominal value of preference shares of £1 each £'000s
As at 1 April 2003 and 31 March 2004	27,648	6,912	300

Authorised share capital

	Ordinary shares of 25p each £'000s	Preference shares of £1 £'000s
As at 1 April 2003 and 31 March 2004	10,000	300

Convertible redeemable preference shares

The convertible redeemable preference shares are nil coupon, bear no rights to dividend and may be converted at any time (at the shareholders' option) to 25p ordinary shares at a conversion rate of £1.50 per ordinary share.

Shares to be issued

Shares to be issued relates solely to the potential issuance of 740,835 LTIP shares under terms detailed in the Report of the Board on Remuneration.

20. Reconciliation of movement in shareholders' (deficit)/funds

	Group		Company	
	2004	2003	**2004**	2003
	£'000s	£'000s	**£'000s**	£'000s
Opening shareholders'(deficit)/funds	**(5,017)**	(3,998)	**24,417**	22,877
(Loss)/profit for the financial year	**(2,680)**	(792)	**(30)**	1,767
Dividends payable	**(222)**	(193)	**(222)**	(193)
Movement as to shares to be issued	**71**	(311)	**71**	(311)
New share capital subscribed	**—**	277	**—**	277
Closing shareholders' (deficit)/funds	**(7,848)**	(5,017)	**24,236**	24,417

21. Reserves

	Share Premium £'000s	Profit and Loss Account £'000s	Total £'000s
Group			
As at 1 April 2003	9,611	(22,079)	(12,468)
Retained loss for the year	—	(2,902)	(2,902)
Premium on issue of shares	—	—	—
At 31 March 2004	9,611	(24,981)	(15,370)
Company			
As at 1 April 2003	9,611	7,355	16,966
Retained loss for the year	—	(252)	(252)
Premium on issue of shares	—	—	—
At 31 March 2004	9,611	7,103	16,714

In accordance with the exemptions allowed under section 230 of the Companies Act 1985 the Company has not presented its own profit and loss account. The loss after tax for the period attributable to XKO Group plc dealt with in the accounts of the Company is £30,000 (2003: profit after tax £1,767,000).

22. Notes to cash flow statement

Reconciliation of operating loss to net cash inflow from operating activities

	2004	2003
	£'000s	£'000s
Operating loss	**(2,053)**	(374)
Depreciation and amortisation	**4,274**	1,786
Profit on sale of fixed assets	**(11)**	(26)
Decrease in stocks	**380**	220
Decrease in debtors	**9**	781
(Decrease)/increase in creditors and provisions	**(70)**	541
Net cash inflow from operating activities	**2,529**	2,928
Add back: cash outflow in respect of restructuring and other exceptional items	**1,240**	937
Net cash inflow from trading operations	**3,769**	3,865

22. Notes to cash flow statement (continued)

Subsidiary undertakings acquired in the year contributed £10,000 to the Group's net operating cash flows and paid £438,000 in respect of exceptional items.

Cash generated from trading operations before exceptional items for the last three financial years totalled £9,955,000 (2004:£3,769,000, 2003:£3,865,000, 2002:£2,321,000). Operating profit before goodwill amortisation and exceptional items (Adjusted Operating Profit) for the last three financial years totalled £8,277,000 (2004:£3,576,000, 2003:£2,607,000, 2002:£2,094,000).

23. Analysis of net debt

	At 31 March 2003 £'000s	Cash Flow £'000s	At 31 March 2004 £'000s
Cash in hand and at bank	1,325	**(198)**	**1,127**
Overdrafts	—	—	—
	1,325	**(198)**	**1,127**
Debt due within 1 year	(1,000)	**(284)**	**(1,284)**
Debt due after 1 year	(1,000)	**(2,070)**	**(3,070)**
Total debt	(675)	**(2,552)**	**(3,227)**

24. Reconciliation of net cash flow to movement in net debt

	2004 £'000s	2004 £'000s	2003 £'000s	2003 £'000s
(Decrease)/increase in cash in the period	**(198)**		403	
Cash flow from increase in debt and lease financing	**(2,354)**		(786)	
Change in net debt resulting from cash flows		**(2,552)**		(383)
Movement in net debt in the period		**(2,552)**		(383)
Net debt at start of year		**(675)**		(292)
Net debt at end of year		**(3,227)**		(675)

25. Contingent liabilities and capital commitments

At 31 March 2004 the Group had no contingent liabilities or material contracted capital expenditure (31 March 2003:£nil). Authorised and contracted for capital expenditure amounted to £15,000 (31 March 2003:£nil).

26. Commitments under operating leases

At 31 March 2004 there were the following annual commitments under non-cancellable operating leases:

	2004		2003	
	Land and Buildings £'000s	**Other £'000s**	Land and Buildings £'000s	Other £'000s
Operating leases which expire:				
Within one year	**38**	**32**	89	40
Within two to five years	**172**	**57**	86	81
After five years	**783**	**—**	618	—
	993	**89**	793	121

27. Financial instruments

The disclosures required by FRS 13 in relation to the nature of any financial instruments used during the year to mitigate interest rate movements, and liquidity and foreign currency risks are shown in the financial commentary on page 6 under the heading of "Funding". As permitted by FRS 13, short-term debtors and creditors are excluded from this disclosure.

Financial assets

£1,127,000 (2003:£1,325,000) of cash at bank and in hand is held in the Group, denominated in sterling. These assets are at a floating rate at a margin to LIBOR.

Financial liabilities

All financial liabilities as at 31 March 2004 were denominated in sterling. Total financial liabilities in the Group were £4,354,000 (2003:£2,000,000), the maturity profile of these liabilities are given in Note 16. These loans are at a margin to LIBOR. During the financial year LIBOR traded within an approximate range of 3.6 per cent. to 4.2 per cent., with the weighted average being 4.03 per cent.

Interest Rate Exposure

On 7 April 2003 the Group entered into an Amortising Base Rate Swap agreement, protecting an initial amount of £1,500,000 at a fixed base rate of 5 per cent. with The Royal Bank of Scotland plc in order to manage its interest rate risk. The remaining protection on this agreement is estimated to be £500,000. In April 2004, the Group entered into a Capped Base Rate Swap protecting £2,500,000 over two and a half years with The Royal Bank of Scotland plc with cover at a fixed base rate of 6 per cent.

Currency exposure

No sales or purchases are made in foreign currency. There is therefore no currency exposure and no hedging requirements.

Borrowing facilities

The Group had committed term loan and overdraft facilities of £7,354,000 (2003:£5,000,000) of which £3,000,000 (2003:£3,000,000) were un-drawn at the period end. Overdraft facilities are normally reviewed once a year in the normal course of business and a renewal agreement was signed by the Company on 21 June 2004.

27. Financial instruments (continued)

Fair values of financial assets and liabilities

The difference between the fair value of the Group's financial assets and liabilities and the book value is not material since they are held at floating rates which adjust in line with market movements.

28. Post balance sheet events

In June 2004 the Company incurred abortive due diligence fees of £100,000 in relation to the proposed acquisition of a software business which have been charged to this year's profit and loss account as an exceptional item. Costs incurred since the year end are not material.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of XKO Group plc will be held at the offices of Osborne Clarke, Hillgate House, 26 Old Bailey, London EC4M 7HW on 28 July 2004 at 10.30 a.m. for the following purposes:

1. To receive and adopt the report of the Directors and the audited accounts of the Company for the year ended 31 March 2004.
2. To approve the Directors' remuneration report for the year ended 31 March 2004.
3. To re-elect I R Mann as a Director.
4. To re-elect D R T Thompson as a Director.
5. To elect T W Good as a Director.
6. To declare a final dividend of 0.57p per ordinary share.
7. To re-appoint Messrs Deloitte & Touche LLP as auditors to hold office until the conclusion of the next Annual General Meeting.
8. To authorise the Directors to fix the remuneration of the auditors.

As special business to consider and, if thought fit, pass the following resolutions of which number 9 will be proposed as an ordinary resolution and numbers 10, 11 and 12 as special resolutions.

Ordinary resolution

9. That the Directors be and are generally and unconditionally authorised in accordance with section 80 of the Companies Act 1985, as amended ("the Act") to exercise all the powers of the Company to allot relevant securities (as defined in section 80(2) of the Act) provided that:

   (a) this authority shall be in substitution for any equivalent authority which may have been given to the Directors prior to the date of the passing of this resolution;

   (b) this authority shall be limited to the allotment of relevant securities up to an aggregate nominal value equal to £2,500,000, representing approximately thirty-six per cent. of the nominal value of the issued ordinary share capital of the Company as shown in the audited accounts of the Company for the year ended 31 March 2004;

   (c) unless previously revoked, varied or extended, this authority shall expire at the earlier of the date which is fifteen months from the date of the passing of this resolution and the conclusion of the next annual general meeting of the Company except that the Company may at any time before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such an offer or agreement as if this authority had not expired; and

   (d) in relation to the grant of any right to subscribe for, or convert any security into, shares in the Company, the reference in this resolution to the maximum amount of relevant securities that may be allotted is to the maximum amount of shares which may be allotted pursuant to such right.

Special resolutions

10. That the Company be and is hereby generally and unconditionally authorised for the purposes of section 166 of the Act to make one or more market purchases (within the meaning of section 163(3) of the Act) on a recognised investment exchange (as defined by section 163(4) of the Act) of ordinary shares of 25 pence each in the capital of the Company ("Ordinary Shares") and to hold such shares as treasury shares (as defined in section 162A(3) of the Act ("treasury shares")) provided that:

    (a) this authority shall be limited to the purchase of Ordinary Shares up to a maximum aggregate nominal value equal to £691,207, representing approximately ten per cent. of the nominal value of the issued ordinary share capital of the Company as shown in the audited accounts of the Company for the year ended 31 March 2004;

    (b) the minimum price which may be paid for such Ordinary Shares is 25 pence per share (exclusive of expenses);

    (c) the maximum price (exclusive of expenses) which may be paid for an Ordinary Share shall not be more than five per cent. above the average of the mid-market values for an Ordinary Share on the relevant recognised investment exchange on which the Ordinary Shares are traded for the five dealing days immediately preceding the date on which the Ordinary Share is purchased;

    (d) unless previously revoked, varied or extended, the authority hereby conferred shall expire at the earlier of the date which is fifteen months from the date of the passing of this resolution and the conclusion of the next annual general meeting of the Company; and

    (e) the Company may make a contract or contracts to purchase Ordinary Shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority and may make a purchase of Ordinary Shares in pursuance of any such contract or contracts.

11. That the Directors be and are empowered pursuant to section 95 of the Act to allot equity securities (as defined in section 94(2) of the Act) for cash pursuant to the authority conferred by resolution 9 above and to make sales of shares where such sales constitute an allotment of equity securities by virtue of section 94(3A) of the Act as if section 89(1) of the Act did not apply to any such allotment provided that:

    (a) the power shall be limited to:

        (i) the allotment of equity securities in connection with an invitation or offer of equity securities to holders of Ordinary Shares (excluding the Company where it holds shares as treasury shares) in proportion to their respective holdings of such shares or in accordance with the rights attached to such shares but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the laws of, or the requirements of any regulatory body or any stock exchange in, any territory; and

        (ii) the allotment, otherwise than pursuant to paragraph (i) above, of equity securities up to an aggregate nominal value equal to £691,207, representing approximately ten per cent. of the nominal value of the issued ordinary share capital of the Company as shown in the audited accounts of the Company for the year ended 31 March 2004;

(b) unless previously revoked, varied or extended, this power shall expire on the earlier of the conclusion of the next Annual General Meeting of the Company and the date falling fifteen months after the date of the passing of this resolution except that the Company may before the expiry of this power make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if this power had not expired;

(c) in this resolution the nominal amount of any securities should be taken to be, in the case of a right to subscribe for or convert any securities into shares of the Company, the nominal amount of the shares which may be allotted pursuant to such right.

12. That the Company's articles of association be and they are hereby amended by including in Article 77.1 after the words "*where the default shares represent at least 0.25 per cent. in nominal value of their class*" the following additional words "*(calculated excluding any shares held by the Company as treasury shares (as defined in section 162A(3) of the Act))*".

By order of the Board

T W Good
Secretary

24 June 2004

Systems House
Foundry Court
Gogmore Lane
Chertsey
Surrey
KT16 9AP

Notes:

1. Any member of the Company who is entitled to attend and vote at the meeting may appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company. In the case of a company, the proxy must be executed under its common seal or under the hand of an officer or attorney duly authorised in writing. To be effective a form of proxy, (enclosed with this notice) and the authority (if any) under which it is signed or a notarially certified or office copy of such authority must be received at the office of the Company's Registrars, Capita Registrars Limited, Registration Services, PO Box 25, Beckenham, Kent, BR3 4BR at least forty-eight hours before the time fixed for the meeting. Appointment of a proxy will not preclude a member from attending the meeting and voting in person should that member subsequently so decide.
2. Copies of the Directors' service contracts and the register of the Directors' interests in the share capital of the Company will be available for inspection at the registered office of the Company during normal business hours on a weekday (Saturdays and public holidays excluded) from the date of this notice until the date of the meeting and also at the place of the meeting for 15 minutes prior to and until the close of the meeting.
3. The Company pursuant to the Uncertificated Securities Regulations 2001, specifies that only those Shareholders registered in the register of members of the Company at the close of business on 26 July 2004 shall be entitled to attend or vote at the aforesaid general meeting in respect of the number of shares registered in their name at that time. Any changes to the register of members after such time shall be disregarded in determining the rights of any person to attend or vote at the meeting.
4. In the case of joint holders, the signature of only one of the joint holders is required on the form of proxy, but the vote of the senior (by order in the register of members) who tenders a vote will be accepted to the exclusion of the others.

Explanatory notes to the notice of meeting

Resolution 9 – Authority to allot shares

Resolution 9 grants the Directors authority to allot shares in the Company up to an aggregate nominal value of £2,500,000, representing approximately thirty-six per cent. of the nominal value of the issued ordinary share capital of the Company as shown in the latest audited accounts of the Company. The Directors do not have any present intention of exercising this authority but they consider it desirable that the specified amount of authorised but unissued share capital is available for issue so that they can more readily take advantage of possible opportunities. Unless revoked, varied or extended, this authority will expire at the end of fifteen months from the date of passing of the resolution or at the conclusion of the next AGM of the Company, whichever is earlier.

Resolution 10 – Authority to make market purchases

Resolution 10 authorises the Company to make market purchases on a recognised investment exchange of its issued Ordinary Shares up to an aggregate nominal amount of £691,207, representing approximately ten per cent. of the nominal value of the issued ordinary share capital of the Company as shown in the latest audited accounts of the Company, and to hold such shares as treasury shares. The London Stock Exchange plc is a recognised investment exchange within the meaning of section 163(4) of the Act. The minimum price which may be paid for an Ordinary Share is 25 pence per share and the maximum price is five per cent. above the average of the market values for an Ordinary Share for the five dealing days preceding the date on which the Ordinary Share is purchased. The Companies (Acquisition of Own Shares)(Treasury Shares) Regulations 2003 (as amended) ("Treasury Shares Regulations"), which came into force on 1 December 2003, provide additional flexibility for the Company where it purchases its own shares. As an alternative to cancelling the shares acquired the Company may now hold such shares "in treasury" and then sell them at a later date for cash. The Directors consider that it is desirable that the Company is able to make market purchases of its own shares in order to increase future earnings per share or where this will be in the best interests of the Shareholders generally. Unless revoked, varied or extended this authority will expire at the end of fifteen months from the date of passing of the resolution or at the conclusion of the next AGM of the Company whichever is the earlier. As at 31 March 2004 there were outstanding warrants and options to subscribe for 1,314,800 Ordinary Shares in the Company and awards granted under the Company's Long Term Incentive Plan to acquire 740,835 Ordinary Shares (of which awards none had vested at the date of this notice), representing in aggregate 7.4 per cent. of the issued Ordinary Share capital of the Company at that date and representing in aggregate 8.3 per cent. of the issued Ordinary Share capital of the Company (excluding treasury shares) if the full authority to make market purchases of shares being sought is used.

Resolution 11 – Disapplication of pre-emption rights

Resolution 11 empowers the Directors to allot equity securities (such as Ordinary Shares) for cash and make sales of treasury shares other than in accordance with the statutory pre-emption rights of the Ordinary Shareholders (which require a company to offer all allotments of equity securities for cash and all sales of treasury shares first to existing Ordinary Shareholders in proportion to their holdings) in connection with rights issues and otherwise up to a maximum nominal value of £691,207, representing approximately ten per cent. of the nominal value of the issued share capital of the Company as shown in the latest audited accounts of the Company. This authority will expire at the conclusion of the next AGM or fifteen months after the passing of the resolution, whichever is the earlier.

Resolution 12 – Amendment to articles of association

Resolution 12 provides for a consequential amendment to the articles of association of the Company as a result of the coming into force of the Treasury Shares Regulations.