Cardpoint plc
Annual report and accounts 2004

COMPANY REGISTRATION NUMBER : 04098226

Cardpoint is a member of the LINK network allowing 100 million cardholders of every member financial institution to use every cash machine of every LINK member.

Cardpoint also has a network of electronic mobile telephone top-up terminals which allow the customer to top-up pre-pay mobile telephones, and the terminals provide airtime for all mobile phone networks.

Cash machines

2,830

We have 2,800 cash machines installed across the UK and 30 live in Germany.

£300m

Our cash machines dispense more than £300 million per month.

6m

Our cash machines handle in excess of 6 million transactions per month offering cash withdrawals, balance enquiries, mobile telephone pre-payment and, in the future, PIN changes.

Mobile phone top-up terminals (ETU)

4,000

We have 4,000 mobile phone top-up terminals (ETU) providing airtime for Vodafone, O_2, T-Mobile, Orange, Virgin and Three.

£7m

Our mobile phone top-up terminals (ETU) provide top-ups to a value in excess of £7 million per month.

800,000

Our mobile phone top-up terminals (ETU) handle in excess of 800,000 transactions per month.

Financial highlights

Turnover £000

EBITDA £000

EPS p

- profit before tax and goodwill amortisation of £1.8 million, significantly ahead of expectations;
- the attainment of EBITDA of £4.4 million which again exceeded market expectations;
- acquisition of the HBOS remote cash machine estate for a purchase price which we believe will be significantly lower than the price originally envisaged;
- significant progress in the integration and migration of the HBOS estate;
- strengthening of the management team with appointment of Robin Gregson as Finance Director and appointment of Chris Hanson to a new role as Chief Operating Officer;
- the establishment of our first live cash machines in Germany; and
- our first mobile telephone airtime sale from a cash machine

Chairman's statement

"I am delighted to report on Cardpoint's further strong growth, ahead of expectations, and the board's thanks is extended to our staff, customers, suppliers, shareholders and advisers."

Peter Smyth
Chairman

I am delighted to report on a further successful year of trading for Cardpoint with strong growth from the existing business as well as the businesses acquired in previous years. Furthermore it is particularly pleasing to report progress in a year which also included the strategically important acquisition of the 816 cash machine estate from HBOS, which consolidated the company's position as the UK market leader in the sector.

The operational integration of acquisitions made in previous years – Green Machine, Securicor Cash Machine and PT Distribution – are now complete, and we have moved operations from the two previous locations into one centre of customer excellence.

The acquisition of the estate of 816 cash machines from HBOS was a particularly significant development in the year. As well as further establishing Cardpoint as the key player in the consolidation of the Independent ATM Deployer ("IAD") cash machine industry it is now the clear market leader by number of transactions, number of fully managed cash machines and profitability in the sector. Significant progress has been made in the integration of the estate and we are confident that the earnings generated by the acquisition will be in line with assumptions made at the time the transaction was announced. Furthermore it is important to appreciate that the purchase price of the HBOS estate is likely to be significantly less than originally anticipated. Further details of this important development for Cardpoint are included in the Chief Executive Officer's report.

I am also pleased to report that our cash machine business in Germany has been successfully established towards the end of the 2004 financial year and is now fully operational. I believe this provides the company with an exciting opportunity to develop a sizeable business in a relatively immature market for cash machines which will complement our business in the UK.

Our focus will be to grow both the UK cash machine and electronic mobile telephone top-up terminal businesses alongside significant investment in Germany. In all parts of the business we will continue to focus on increasing yield per device by driving more footfall to our retailers and transactions to our terminals, and by increasing margins where possible. We will also consider expansion by acquisition should suitable complementary opportunities become available, as we feel this is an area which has previously made a significant contribution to the growth of the company.

As you will see from the Chief Executive Officer's report, we have made some important changes to the board of the company and also strengthened management at the operational level for the UK businesses. I believe these changes provide the company with the necessary strengths and expertise to focus on successful growth in the future.

Finally, your board of directors and I would like to thank our customers, suppliers and advisers for their support and, most importantly, our dedicated staff, for their continued commitment, support and enthusiasm both in the year and the future as we look forward to another successful year in the development of the company.

Peter Smyth
Chairman
22 November 2004

Chief Executive Officer's report

"For the third year as a public company, your company has made strong progress in the year ended 30 September 2004 as well as significant progress in the integration and migration of the HBOS cash machine estate which will be completed during the transitional year to 30 September 2005."

Mark Mills
Chief Executive Officer

This is the third time as a public company that I have been able to report the achievement of challenging targets and our thanks goes to our dedicated staff, customers, suppliers, advisers, shareholders and our bankers, Bank of Scotland, for each party's continued support and input.

Your company is particularly pleased to be joined by Robin Gregson as Finance Director. After training at Deloitte and Touche, Robin was Finance Director of CD Bramall plc, the listed motor retail group, until its sale to Pendragon plc.

Chris Hanson has moved to the role of Chief Operating Officer to build the operational side of the business. Chris has been with the company since before flotation and has a thorough understanding of all aspects of the group.

Your company's strategy is to become a "transaction consolidator", generating transactions from a range of electronic devices and processing them through one, relatively fixed cost overhead. This continues to be realised with the HBOS acquisition providing an improved mixture of devices, most of which are available 24 hours each day, 365 days each year.

Following the ground-breaking HBOS acquisition, your company is now the market leader in the independent cash machine sector and now owns and operates 2,800 cash machines. These are situated at convenient locations such as petrol stations, convenience stores, railway stations and leisure outlets and dispense more than £300 million each month. Your board of directors believes this fact proves that our customers are happy to pay a modest charge to enable them to withdraw cash from convenient locations.

Cardpoint's organic business has performed well and in line with expectations and continues to be underpinned by strong, long-term contracts.

The UK electronic mobile telephone pre-pay airtime business has performed well and your company now sells more than £7 million of airtime per month on average from 4,000 electronic terminals located in convenience stores and off-licences. This business fits comfortably within Cardpoint's strategy to be a transaction aggregator and indeed, the transactions originate from retailers similar to those where Cardpoint has installed cash machines. Furthermore, we have now begun the roll-out of the pre-pay service on the cash machines and this will be an advantageous revenue stream going forward.

Turnover for the year ended 30 September 2004 was £36.8 million (2003: £12.2 million), representing a threefold increase over 2003. EBITDA exceeded market expectations at £4.4 million (2003: £1.3 million) and profit before tax and goodwill amortisation was significantly ahead of expectations at £1.8 million (2003: £0.05 million).

Proforma number of cash machines
Dec 2003

- **Cardpoint**
- **Others**

Proforma number of transactions
Dec 2003

- **Cardpoint**
- **Others**

The cash machine estate of Securicor, acquired in May 2003, and the electronic mobile telephone pre-pay airtime business acquired from Project Telecom plc in June 2003, have now been completely and successfully integrated. The decision was taken to close the Newark office inherited from the Project Telecom acquisition and whilst some exceptional costs were incurred, it made operational and economic sense. In May 2004, as a further measure to improve efficiency, all of your company's operations were successfully moved into one new office in Lancashire without any business interruption.

The acquisition of the remote cash machine estate from HBOS plc, comprising 816 high-transacting machines, was completed in June 2004. This complex acquisition represented a step change for your company, making it the UK market leader by number of fully-managed cash machines and number of transactions. At the time of the acquisition, the initial consideration was £40 million to acquire the cash machine equipment and the benefit and burden of their contractual arrangements.The principal challenge for the company was to persuade retailers to accept new terms and conditions, encouraging as many as possible to move from a "free to cardholders" business model to one where the cardholder pays a small charge per withdrawal – ordinarily £1.50 to £1.75.

I am pleased to report that many of the independent retailers have accepted the change and a number of the small chains have accepted the concept. The process to bring retailers to the charging model continues and you will see this number increase in the year ending 30 September 2005.

A further challenge was to migrate the cash machines from the HBOS operational platform to our own. We planned to start this in October 2004, which we did, albeit late in the month owing to a small delay from a supplier. Pleasingly, we have now migrated over 100 of the cash machines to our platform and this process is on-going. This programme is due to be completed by 31 March 2005, our half-year end. It was always anticipated that not all of these machines would be immediately converted to the charging model and, once the non-charging machines are operating profitably, there is a further opportunity to convert these machines to the charging model with the benefit of further improved profitability.

In response to recent press comment, your company will retain some machines as free, given that, provided they transact adequately, they can be operated profitably.

Our third challenge, and one which was difficult to predict at the time of the acquisition, was to meet the anticipated transaction retention rate

Our 4,000 mobile telephone top-up terminals across the UK handle over £7 million worth of transactions every month, providing airtime for all major mobile telephone operators. This pre-pay service is also now available on our cash machines.

Our 2,800 cash machines througout the UK, and 30 in Germany, are in convenient locations, including petrol stations, convenience stores, railway stations and leisure outlets. They dispense more than £300 million each month.

Our cash machines handle more than six million transactions each month; our mobile telephone top-up terminals process over 800,000 transactions each month.

of circa 40%, when a cash machine is converted from "free to cardholder" to charging. I am particularly pleased to report very encouraging indications since the migration began and, by intelligently branding the cash machines and increasing availability with further functionality, your company now hopes to enjoy higher than anticipated retention rates.

It is extremely important when considering the merits of the HBOS acquisition, to appreciate that the purchase price for the HBOS estate is now likely to be significantly below the price anticipated at the time of the acquisition. This saving could be substantial given that we originally anticipated an acquisition cost of £75 million and we now envisage a total cost of £50.6 million. In turn, this will generate consequent savings in future interest costs.

Once the estate has been successfully migrated, we anticipate that the final number of charging machines will be in excess of 250 with the achievement of a higher than originally anticipated retention rate and an average charge of more than £1.60. Therefore, the future maintainable earnings which will result from this acquisition should be in line with the assumptions made at that time.

You will be delighted to learn that Welcome Break, a key customer, renewed its contract with Cardpoint for a further, exclusive, five-year period and further cash machines have already been rolled out to Welcome Break's motorway service areas.

Particularly pleasing during the year, was the acquisition of a new and significant customer, Roadchef, which gives your company a new, complementary, predictable and high quality five-year contract to install cash machines at further motorway service areas.

First Motorway Services also entered into a new five-year agreement with Cardpoint and given our contractual entitlement to operate cash machines in Moto service areas until late 2006, your company is the market leader in this important sector by a significant factor.

Threshers, the leading off-licence operator, also approved the installation of further electronic mobile telephone pre-pay terminals and sales volumes are growing encouragingly.

Bank of Scotland continued to support us and, during the period, increased our debt facility to £25 million to allow for working capital requirements and to meet the consideration for the HBOS acquisition.

To provide the necessary focus on the delivery of the UK business plan, your company appointed Mark Kropacz to the role of UK Chief Executive Officer from his role as Group Chief Operating Officer and Roy Dodd as UK Chief Operating Officer from Roy's previous role as Group Commercial Director. Nigel Mills has become UK Customer Services Director from his group sales and marketing role and Simon Barrick has become the UK operating company's Finance Director. The UK management team is single-

We offer a range of services from our cash machines, including cash withdrawals, balance enquiries and mobile telephone pre-payment. Soon, we will also be able to offer PIN changes.

The acquisition of the HBOS remote cash machine estate has made us the UK market leader by number of fully-managed cash machines and by number of transactions.

mindedly focused on the migration of the HBOS estate by the end of September 2005 and overall delivery of the UK business plan.

Cardpoint GmbH, our German business unit, has also made encouraging progress with 30 cash machines now live and earning on average more than u3.50 per withdrawal. Germany represents an immature cash machine market and subject to an appropriate level of withdrawals, once the machines mature, presents your company with the opportunity to develop a successful and profitable business to complement our operations in the UK.

Your company is developing into a strong transaction aggregator and this is being demonstrated by the quality of underlying earnings we are now generating. Cardpoint's growth has been rapid and the directors look forward to strong trading during the next financial year, building on the long-term investments made and the components now in place.

Mark Mills
Chief Executive Officer
22 November 2004

Finance Director's review

"The company has grown significantly during the year with a threefold increase in turnover, up to £36.8 millon. EBITDA increased 204% to £4.1 million and underlying earnings per share increased 21 times to 4.4 pence. The balance sheet was strengthened and transformed by the £32.4 million share issue and £50.6 million HBOS acquisition which provides a strong platform for the company's future growth."

Robin Gregson
Finance Director

Group results
Turnover for the year of £36.8 million represents a threefold increase compared to the 2003 figure of £12.2 million and demonstrates the strong growth achieved during the year. The acquisition of the remote cash machine estate of HBOS, which was acquired on 22 June 2004, generated £6.8 million of the increase in turnover and £13.7 million relates to incremental turnover from acquisitions made during 2003. The remaining £4.1 million of the increase in turnover represents organic growth equivalent to over 70% compared to the previous year.

Operating profit before depreciation and goodwill amortisation (EBITDA) was £4.4 million compared to £1.3 million in 2003, of which the HBOS estate contributed £0.8 million. Profit before tax and goodwill amortisation was £1.8 million compared to £50,000 in 2003 and this demonstrates the significant progress made by the group during the year. These measures of performance are considered before goodwill amortisation, which is written off over only five years. Whilst this policy is prudent, the varying amounts of amortisation have the effect of distorting a comparison of pre-tax profit in assessing the financial performance of the company.

After goodwill amortisation of £4.8 million (2003: £0.7 million) the result for the year was a loss of £3.1 million compared to a loss of £0.6 million in 2003, the increase being a result of the higher goodwill charge following the acquisition of the Securicor cash machine business in 2003 and the amortisation of £2.4 million of HBOS goodwill during the three months following the acquisition.

Interest charges and taxation
Interest charges increased from £120,000 to £315,000 which was due to interest on the additional borrowings which financed an element of the acquisition of the HBOS estate. Interest cover, at the operating profit level excluding goodwill amortisation, of 6.6 was particularly strong and a significant improvement from interest cover in 2003 of 1.4. Group borrowings are at variable interest rates and there are currently no interest rate hedging arrangements in place. No tax charge arises for the year and there are tax losses carried forward of £5.9 million which has the benefit that no significant amounts of UK corporation tax are likely to be paid in the foreseeable future.

Earnings per share and dividends
Underlying earnings per share before goodwill amortisation have increased from 0.21 pence last year to 4.4 pence, an increase of 21 times which again demonstrates the improvement in the group's financial performance. We believe this measure of earnings per share is a fairer reflection of the group's performance compared to a consideration of basic earnings per share, which is affected by goodwill amortisation and shows a loss per share of 7.56 pence compared to a loss of 2.5 pence last year. This increase in the loss per share is entirely due to higher levels of goodwill amortisation this year. As in previous years the company does not propose to pay a dividend although the directors will keep this situation under review as the underlying profitability of the group continues to benefit from strong and continuing growth.

Cash flow and capital expenditure
The group's cash flow continued to be positive with net operating cash flow of £3.0 million. This is lower than operating cash flow of £3.7 million in 2003 as a result of a decrease in creditors compared to last year, when they were at unusually high levels following the Securicor acquisition (which increased the operating cash flow in 2003 at the expense of 2004)

and also due to timing differences in the payment of amounts due to the mobile phone networks.

Capital expenditure was £3.3 million compared to £2.1 million the previous year. The majority of capital expenditure was on cash machine installations in the UK and this includes equipment upgrades required for "chip and PIN" and improved security requirements which are being introduced by the LINK network. Capital expenditure was also incurred in moving the company's operation into one centralised office and upgrading the IT infrastructure.

Cash outflow in respect of acquisitions during the year of £41.7 million relates to the acquisition of the HBOS estate and represents the initial cash payment plus acquisition costs. The balance of the purchase consideration is contingent and will be determined by the number of host site contracts which are transferred to Cardpoint from HBOS by 31 December 2004 and also by the proportion of transferred contracts which allow charging for cash withdrawals. The accounts include £9.0 million of contingent consideration which is payable next year and is a provisional assessment of the amount of additional consideration which is likely to be payable in accordance with the contractual formula. This is a significant reduction compared to the maximum additional consideration of £35 million envisaged at the time of the acquisition and will therefore have the benefit of a reduction in future interest costs. The acquisition was financed by the issue of £32.4 million of new share capital and by a medium-term loan and new bank facilities from Bank of Scotland, of which £13 million had been drawn down by the end of the year. Prior to the acquisition of the HBOS estate £3.5 million of the previous bank loan had been repaid.

The cash flow also includes the payment of £0.8 million of deferred and contingent consideration relating to the Securicor cash machine business acquired last year and this payment had been accrued in last year's accounts.

Net cash outflow was £1.3 million compared to an inflow of £3.3 million in 2003. As capital expenditure was covered by operating cash flow, the net outflow represents the amount by which business acquisitions exceeded the amount raised by the share issue and new loans and is therefore of an investment rather than operational nature.

Shareholders' funds and financing

Shareholders' funds have increased by £29.5 million to £36.4 million which reflects the strengthening of the balance sheet following the share issue in June 2004. Group bank borrowings have increased by £10 million to £13.5 million which is due to the new bank facilities which financed the HBOS acquisition. The balance sheet now includes goodwill of £49.9 million and fixed assets have increased to £16.8 million. The increase in both categories resulted predominantly from the HBOS acquisition where additions to goodwill and tangible fixed assets were £43.3 million and £10.3 million respectively.

Net debt is £10.2 million after including cash of £3.3 million of which £2.1 million, whilst being generated by the group, is held in a trust account pending payment to the mobile phone networks.

The group's banking facilities with Bank of Scotland were finalised in June 2004 to finance the HBOS acquisition and provide working capital facilities to the enlarged group. The facilities consist of a medium-term loan of up to £18 million which is repayable over seven years, a £6 million revolving credit facility and an overdraft facility of £1 million. At 30 September 2004 total facilities were £25 million of which £13.5 million was being utilised. These facilities together with the group's strong operational cash flow indicate that the group has sufficient funds available to fund its operations and allow for future expansion.

At 30 September 2004 gearing was 28% compared to no gearing at the end of the previous year, the increase being due to the additional borrowings which financed the HBOS acquisition. However even after financing a major acquisition, the group's underlying profitability and strong cash flow should reduce the level of borrowing in the future and help ensure that the level of borrowing is under control and is at a reasonable level in relation to net assets.

International Financial Reporting Standards

International Financial Reporting Standards ("IFRS") will be mandatory for UK listed companies for financial statements with accounting periods beginning on or after 1 January 2005. Whilst the London Stock Exchange intends to mandate IFRS for AIM companies for periods beginning on or after 1 January 2007, Cardpoint plc intends to adopt IFRS at the same time as fully listed companies. The first accounting period where IFRS will be applied will therefore be for the year ending 30 September 2006.

The group is currently assessing the changes that will be required under IFRS in order to plan the transition from UK Accounting Standards. This includes a detailed comparison of the group's existing accounting policies with IFRS and an evaluation of the impact on the financial statements in terms of presentation and reported performance.

Robin Gregson
Finance Director
22 November 2004

Board of directors and senior management

Board of directors

Peter Francis Smyth | Mark Richard Mills | Robin Anthony Gregson | David Christopher Hanson | John Westwood

Senior management

Mark Kropacz | Nigel Mills | Roy Dodd | Andrew Martin | Simon Barrick

Board of directors

Peter Francis Smyth, age 52
Non-executive Chairman
Peter joined Cardpoint as a non-executive director in January 2001 and became Chairman later in 2001. He is currently part-time executive Chairman of Cityspace Limited, a media technology company that creates urban digital networks for the delivery of a range of e-government, transport and commercial information and transactional services. From 1997 to 2000 Peter was Managing Director of More Group UK Limited and a divisional director of Clear Channel International following its acquisition of the former in May 1998.

Mark Richard Mills, age 34
Chief Executive Officer
Prior to founding Cardpoint in October 1999, Mark had successfully started, developed, acquired and subsequently sold a number of businesses with multiple-site operations. The most significant of these was Postal Facilities Limited, which was sold to More Group UK Limited and developed to an estate of 1,200 independent post boxes, situated in petrol stations nationwide. Mark is responsible for the development of the group and its strategy.

Robin Anthony Gregson, age 44
Finance Director
Robin qualified as a chartered accountant in 1984 and spent 14 years with Deloitte & Touche where he was responsible for major corporate clients. In 1996 he joined CD Bramall Plc, the motor retail group where he became Group Finance Director. During his eight years with the group it experienced significant growth to become the UK's second largest motor retail group prior to being sold to Pendragon Plc in February 2004. Robin joined Cardpoint in September 2004 and is responsible for the group's financial management, controls and reporting systems.

David Christopher Hanson, age 46
Chief Operating Officer
Chris qualified as a chartered accountant in 1982 and spent 13 years with KPMG. He joined as full time Finance Director in January 2003 and became Chief Operating Officer in September 2004. He is responsible for overseeing the group's operations.

John Westwood, age 56
Non-executive director
John joined Cardpoint in August 2002 and is a member of the audit committee, the remuneration committee and the nominations committee. As a senior faculty member of the Manchester Business School, John lectures internationally and acts as a consultant and adviser to a wide range of companies. He is also a non-executive director of Matalan plc and non-executive Chairman of The Big Word, an international language management company.

Senior management

Mark Kropacz, age 45
Chief Executive Officer UK
Mark joined the group in January 2001 from More Group UK Limited, where he had spent 15 years in a number of senior management roles and latterly as a director of two group companies with responsibility for the management and development of external operations. Mark is responsible for the day-to-day operations, implementation of the development plan and managing relationships with suppliers and hosts.

Nigel Mills, age 37
Customer Services Director UK
Nigel has previously been involved in developing a number of businesses with Mark Mills. He is responsible for the identification and development of suitable sites. In particular he has overall responsibility of the assessment of the likely success of a potential cash machine and the fostering of ongoing relationships with hosts.

Roy Dodd, age 40
Chief Operating Officer UK
Roy joined the group on 1 October 2003 and was previously Finance Director of Securicor Cash Services Limited. He qualified as a chartered accountant in 1989 with Baker Tilly and is responsible for refining and monitoring the group's commercial arrangements and investigating areas of further cost reduction.

Andrew Martin, age 39
Geschaftsfuhrer Cardpoint GmbH
Andrew is a qualified mechanical engineer and has a Masters from Imperial College London. Andrew has spent most of his career in sales and marketing in various continents around the world in senior management roles. Andrew joined Cardpoint from Securicor where he was Sales and Marketing Director, where Andrew setup the Securicor cash machine business from the initial strategy. Andrew is responsible for the establishment and development of the cash machine business in Germany.

Simon Barrick, age 37
Finance Director UK
Simon qualified as a chartered accountant in 1991 and gained extensive commercial experience in a number of finance roles in the public company arena before joining Cardpoint in July 2003. Having played a major part in integrating the mobile phone top-up business into the group, he was made Finance Director of the UK operating business in October 2004 where he is responsible for its financial management, reporting and controls.

Directors' report

The directors present their annual report on the affairs of the group and the company, together with the audited financial statements, for the year ended 30 September 2004.

Principal activities

The group owns and operates an estate of independent cash machines and prepaid mobile telephone airtime electronic top-up terminals in the UK and Germany.

Results and dividend

The results for the year are set out in the profit and loss account on page 20.

The directors do not recommend the payment of a dividend and the loss after tax of £3,056,000 (2003: £608,000) has been transferred to reserves.

Directors and their interests

The directors at the year-end, together with their beneficial and family interests in the shares of the company, are set out below. All directors served during the year, apart from Robin Gregson who was appointed on 22 September 2004.

	As at 30 September 2004 Number of ordinary shares	As at 30 September 2003 Number of ordinary shares
Peter Smyth	**[1]56,666**	[1]56,666
Mark Mills	**[2]2,851,530**	[2]3,082,240
Robin Gregson	–	–
Chris Hanson	**[3]292,000**	[3]400,000
John Westwood	–	–

[1]includes 56,666 (2003: 56,666) ordinary shares held by the Stamford Trust, of which Peter Smyth is the sole beneficiary.
[2]includes 315,360 (2003: 280,320) ordinary shares held by Contract Accounting Limited of which Mark Mills is the majority shareholder.
[3]includes 78,000 (2003: 150,000) ordinary shares held on trust for Chris Hanson's children.

There have been no changes to the directors' shareholdings since 30 September 2004.

At the forthcoming Annual General Meeting, in accordance with the company's articles of association, Mark Mills will retire by rotation and then seek re-election. Robin Gregson, having been appointed since the previous Annual General Meeting, will also retire and will seek ratification of his appointment as a director.

Substantial shareholders

In addition to some of those directors listed above, as at 14 November 2004 the company had been notified of the following interests in 3%, or more, of the company's issued share capital, pursuant to section 211 of the Companies Act 1985:

	Number of ordinary shares	% of issued ordinary share capital
Artemis Investment Management Limited	**1,869,418**	3.08%

Share options and employee share ownership

Employee involvement in the overall performance of the group has been encouraged by employee share option schemes.

EMI options have been granted over ordinary shares to certain directors and employees of the group under the provisions of the Enterprise Management Incentives ("EMI") legislation contained in schedule 14 of the Finance Act 2000. The EMI options take the form of a contract between the company and the individual.

Unapproved share options have been granted over ordinary shares to certain directors of the company. These options are embodied in individual contracts between the company and the individual.

The company has also adopted an unapproved share option scheme – The Cardpoint plc Unapproved Share Option Scheme 2002 ("The Unapproved Scheme 2002"). Options under this scheme have been granted to certain directors.

In future the company intends to grant options to directors and employees of the group using the recently approved Company Share Option Plan ("CSOP") and Unapproved Share Scheme. These options will be subject to performance conditions set by the remuneration committee.

Charitable and political donations

The company made charitable contributions of £910 during the year (2003: £3,822). No political contributions were made.

Employee involvement and disabled employees

The group has continued its practice of keeping employees informed of matters affecting them as employees and the financial and economic factors affecting the performance of the group.

Applications for employment by disabled persons are given full and fair consideration for all vacancies in accordance with their particular aptitudes and abilities. In the event of an employee becoming disabled, every effort would be made to retrain them in order that their employment with the group could continue.

It is the policy of the group that training, career development and promotion opportunities should be available to all employees.

Payment to suppliers

The group's policy is to comply with the terms of payment agreed with suppliers when terms of business are established. At 30 September 2004 the group's trade creditors represented 19 days of purchases (2003: 25 days). The parent company has no trade creditors.

Relations with shareholders

The group values the views of its shareholders and recognises their interest in the group's strategy and performance, board membership and quality of management. It therefore holds regular meetings with its institutional shareholders to discuss objectives.

The AGM will be used to communicate with private investors and they are encouraged to participate. The Chairman of the audit, nomination and remuneration committees will be available to answer questions. Separate resolutions are proposed on each issue so that they can be given proper consideration and there is a resolution to approve the annual report and audited financial statements. The group counts all proxy votes and will indicate the level of proxies lodged on each resolution, after it has been dealt with by a show of hands.

The group also has a website which will include links to financial information and press releases. A welcome letter is issued to all new shareholders registering in their own name. Every effort is made to speak or write to any shareholder making an enquiry.

Corporate governance

The board of directors fully supports the underlying principles of corporate governance contained in the Combined Code, notwithstanding that it is not required to comply with such recommendations. It has sought to comply with the provisions of the Code, in so far as is practicable and appropriate for a public company of its size and nature, and recognises its overall responsibility for the company's systems of internal control and for monitoring their effectiveness.

The main features of the company's corporate governance procedures, which do not constitute full compliance with the Combined Code, are as follows:

- The board has two independent non-executive directors who take an active role in board matters;
- The company has an audit committee, a nominations committee and a remuneration committee, each of which consists of the non-executive directors, and meets regularly with executive directors in attendance by invitation.
  The audit committee has unrestricted access to the group's auditors and ensures that auditor independence has not been compromised;
- All business activity is organised within a defined structure with formal lines of responsibility and delegation of authority, including a schedule of "matters referred to the board"; and
- Regular monitoring of key performance indicators and financial results together with comparison of these against expectations.

Financial instruments

The group's objectives, policies and strategies for the role of derivatives and other financial instruments in creating and changing the risks of the group in its activities are set out below:

- *Treasury policies and financial risk* – procedures have been established to manage surplus funds and interest rate risk. Treasury policies are subject to board approval and are implemented on a day-to-day basis;

- *Management of funds* – surplus funds are intended to finance the development and growth of the group and the effective management of any surplus is based upon policies determined by the board. Surplus funds are invested through the use of short-term deposits. It is not the group's policy to invest in financial derivatives, other than to effect a hedge against an existing exposure;

- *Interest rate, liquidity and foreign currency risks* – the board keeps under review the existing policies for the management of these risks which are as follows:

  (i) Interest rate risk – the group makes effective use of short-term deposits and will enter into forward rate agreements, as appropriate, which, as a minimum, will hedge the interest rate risk on 75% of the amount available under the Term Facility which is drawn down (or anticipated to be drawn down) as at the close of business on 31 January 2005;

  (ii) Liquidity risk – surplus funds are invested on a short-term basis and therefore such funds are available at less than 24 hours notice; and

  (iii) Currency risk – although no significant foreign currency transactions have taken place during the year, the directors have approved a currency exchange rate hedging policy to manage and control the currency exchange risks which arise from investment in the start up operation in Germany which will initially require significant capital investment and will subsequently generate income in euros.

Going concern

After making enquiries, the directors have a reasonable expectation that the group has 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 accounts.

On behalf of the board

D C Hanson
Chief Operating Officer
22 November 2004

Directors' remuneration report

The remuneration committee comprises both of the non-executive directors of the company. It considers all aspects of the executive directors' remuneration and administers the group's share option schemes.

The remuneration of non-executive directors is set by the executive directors.

Policy on executive directors' remuneration
Executive remuneration packages are designed to attract, motivate and retain directors of the calibre necessary to maintain the group's position as a growing business and to reward them for enhancing shareholder value and return. The performance measurement of the executive directors and the determination of their annual remuneration package is undertaken by the committee.

There are three main elements of their remuneration package:

- Basic annual salary;
- Annual bonus payment; and
- Share option incentives.

Each executive director's basic salary is reviewed annually by the committee. In deciding upon appropriate levels of remuneration the committee has regard to rates of pay for similar jobs in comparable companies as well as internal factors such as performance. Executive directors' salaries were last reviewed with effect from October 2003.

The committee establishes the objectives which must be met for a cash bonus to be paid. The committee believes that the award of any bonus should be related to target performances associated with shareholders' interests.

Details of directors' remuneration
The emoluments of the directors for the year are set out below. This information forms part of the audited financial statements.

	Salary £	Benefits £	HBOS acquisition bonus £	Performance related bonus £	Fees £	Total excluding pension £	Pension £	Total 2004 £	Total 2003 £
Executive									
Mark Mills	154,400	1,203	150,000	70,000	–	375,603	7,000	382,603	191,896
Chris Hanson	114,000	–	50,000	52,500	–	216,500	5,250	221,750	129.022
Robin Gregson (from 22 September 2004)	3,748	–	–	–	–	3,748	–	3,748	–
Mark Kropacz (to 10 July 2003)	–	–	–	–	–	–	–	–	112,925
Nigel Mills (to 10 July 2003)	–	-	–	–	–	–	–	–	114,791
Non-executive									
Peter Smyth	–	–	–	–	24,000	24,000	–	24,000	26,403
John Westwood	–	–	–	–	15,000	15,000	–	15,000	15,000
	272,148	1,203	200,000	122,500	39,000	634,851	12,250	647,101	590,037

During 2003, in addition to fees as a director, DCH Consultancy which is owned by Chris Hanson, received £27,470 for additional services. These fees are inclusive of expenses and, where relevant, VAT.

Service contracts
All the executive directors have agreements with the company, which are terminable by either party giving the other between six and twelve months written notice.

Pension arrangements

Each of the full time executive directors is eligible to be a member of the group's defined contribution stakeholder pension scheme. The company contributes 5% of each executive director's basic salary to this arrangement and the cost is charged to the profit and loss account as incurred.

Share options

The board believes that share ownership strengthens the link between personal interests and those of shareholders and encourages long-term improvement in the group's performance. All options to be granted in the future will be subject to performance conditions on exercise.

The committee is responsible for supervising the company's share option arrangements.

Details of the share options granted to directors are set out below:

	1 October 2003	Granted	30 September 2004	Exercise price	Exercise period
The Cardpoint plc EMI scheme					
Mark Mills	150,000	–	150,000	43p	Jun 2005 – Jun 2012
Mark Mills	(*)18,066	–	(*)18,066	59.5p	Jul 2006 – Jul 2013
Chris Hanson	(*)100,000	–	(*)100,000	37.5p	Dec 2005 – Dec 2012
Chris Hanson	(*)68,066	–	(*)68,066	59.5p	Jul 2006 – Jul 2013
Unapproved options					
Peter Smyth	100,000	–	100,000	5p	Feb 2005 – Feb 2012
Mark Mills	250,000	–	250,000	5p	Feb 2005 – Feb 2012
The Cardpoint Unapproved Share Option Scheme 2002					
Mark Mills	133,333	–	133,333	5p	Oct 2004 – Oct 2011
Mark Mills	(*)250,000	–	(*)250,000	43p	Feb 2005 – Feb 2012
Mark Mills	(*)81,934	–	(*)81,934	59.5p	Jul 2006 – Jul 2013
Mark Mills	–	(*)100,000	(*)100,000	93.5p	Dec 2006 – Dec 2013
Chris Hanson	(*)31,934	–	(*)31,934	59.5p	Jul 2006 – Jul 2013
Chris Hanson	–	(*)100,000	(*)100,000	93.5p	Dec 2006 – Dec 2013
John Westwood	(*)50,000	–	(*)50,000	37.5p	Dec 2005 – Dec 2012

(*) These options have been granted subject to the satisfaction of performance criteria relating to the achievement of budgeted levels of profitability as specified by the remuneration committee.

In addition to the options detailed above, Mark Mills has been granted a right to subscribe for up to 1,000,000 ordinary shares at the price of 5 pence per share in the circumstances where the ordinary shares are trading at a price in excess of £2.50 per share for a specified period.

The mid-market price of the group's ordinary shares on 30 September 2004 was 115.5 pence. The highest and lowest mid-market prices during the year were 151 pence and 77.5 pence respectively.

Peter Smyth
Chairman of the remuneration committee
22 November 2004

Directors' responsibilities

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

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates which are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company and group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors are also responsible for ensuring that the directors' report is prepared in accordance with company law in the United Kingdom, and includes information required by AIM rules. The maintenance and integrity of the company's website is the responsibility of the directors. The work carried out by the auditors does not involve consideration of these matters and accordingly the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

Auditors
On 1 July 2004, the Grant Thornton partnership transferred its business to a limited liability partnership, Grant Thornton UK LLP. Under section 26(5) of the Companies Act 1989, the directors consented to extend the audit appointment to Grant Thornton UK LLP from 1 July 2004.

Grant Thornton UK LLP have indicated their willingness to continue as auditors and offer themselves for reappointment in accordance with Section 385 of the Companies Act 1985.

On behalf of the board

D C Hanson
Chief Operating Officer
22 November 2004

Grant Thornton

We have audited the financial statements of Cardpoint plc for the year ended 30 September 2004 which comprise the consolidated profit and loss account, the balance sheets, 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 opinion 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 are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the group is not disclosed.

We read other information contained in the annual report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. This other information comprises the directors' report, the Chairman's statement, the Chief Executive Officer's report, the Finance Director's review, the Directors' remuneration report and the three-year review. 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 opinion
We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

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

Opinion
In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 30 September 2004 and of the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Grant Thornton UK LLP
Chartered accountants
Registered auditors
Manchester
22 November 2004

Grant Thornton UK LLP

Consolidated profit and loss account

for the year ended 30 September 2004

	Note	2004 £000	2003 £000
Turnover	2		
Continuing operations		**30,028**	12,166
Acquisitions		**6,784**	–
		36,812	12,166
Cost of sales		**(29,025)**	(9,602)
Gross profit		**7,787**	2,564
Administrative expenses		**(10,528)**	(3,052)
Operating loss			
Continuing operations		**(617)**	(488)
Acquisitions		**(2,124)**	–
		(2,741)	(488)
Net interest	4	**(315)**	(120)
Loss on ordinary activities before taxation	2	**(3,056)**	(608)
Tax on loss on ordinary activities	5	**–**	–
Loss for the financial year	20	**(3,056)**	(608)
(Loss)/earnings per ordinary share			
Basic and fully diluted	7	**(7.56)p**	(2.50)p
Adjusted (before goodwill amortisation)	7	**4.40p**	0.21p
Diluted adjusted (before goodwill amortisation)	7	**4.09p**	0.19p

The group has no recognised gains or losses for the year other than those stated above and therefore no separate statement of total recognised gains and losses has been presented.

The accompanying notes are an integral part of this consolidated profit and loss account.

Consolidated balance sheet

at 30 September 2004

	Note	2004 £000	2003 £000
Fixed assets			
Intangible assets	10	**49,881**	10,688
Tangible assets	11	**16,817**	5,035
		66,698	15,723
Current assets			
Stocks	12	**4**	885
Debtors	13	**3,452**	4,174
Cash at bank and in hand	14	**3,264**	4,055
		6,720	9,114
Creditors: amounts falling due within one year	15	**(26,026)**	(16,834)
Net current liabilities		**(19,306)**	(7,720)
Total assets less current liabilities		**47,392**	8,003
Creditors: amounts falling due after more than one year	16	**(11,000)**	(1,061)
Net assets		**36,392**	6,942
Capital and reserves			
Called up share capital	19	**3,039**	1,634
Share premium account	20	**38,825**	7,823
Merger reserve	20	**354**	354
Profit and loss account	20	**(5,826)**	(2,869)
Equity shareholders' funds	21	**36,392**	6,942

The accompanying notes are an integral part of this balance sheet.

The financial statements were approved by the board of directors on 22 November 2004 and were signed on its behalf by:

Mark Mills
Chief Executive Officer

Robin Gregson
Finance Director

Company balance sheet

at 30 September 2004

	Note	2004 £000	2003 £000
Fixed assets			
Investments	8	**8,070**	8,070
Current assets			
Debtors	13	**41,311**	8,904
Cash at bank and in hand		**4**	4
		41,315	8,908
Creditors: amounts falling due within one year	15	**(1)**	(1)
Net current assets		**41,314**	8,907
Total assets less current liabilities		**49,384**	16,977
Capital and reserves			
Called up share capital	19	**3,039**	1,634
Share premium account	20	**46,345**	15,343
Profit and loss account	20	**-**	-
Equity shareholders' funds	21	**49,384**	16,977

The accompanying notes are an integral part of this balance sheet.

The financial statements were approved by the board of directors on 22 November 2004 and were signed on its behalf by:

Mark Mills
Chief Executive Officer

Robin Gregson
Finance Director

Consolidated cash flow statement

for the year ended 30 September 2004

	Note	2004 £000	2003 £000
Net cash inflow from operating activities	22	**3,006**	3,708
Return on investments and servicing of finance			
Interest received		**111**	46
Finance lease interest paid		**(17)**	(59)
Other interest payable		**(409)**	(107)
Net cash outflow from returns on investments and servicing of finance		**(315)**	(120)
Taxation paid		**(31)**	(4)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		**(3,267)**	(2,103)
Proceeds from disposal of tangible fixed assets		**148**	69
Net cash outflow from capital expenditure and financial investment		**(3,119)**	(2,034)
Acquisitions and disposals			
Purchase of acquired businesses	9	**(41,696)**	(8,182)
Payment of deferred and contingent consideration	27	**(829)**	-
Net cash acquired with subsidiaries		-	1,097
Net cash outflow from acquisitions and disposals		**(42,525)**	(7,085)
Net cash outflow before financing		**(42,984)**	(5,535)
Financing			
Issue of share capital (net of issue costs)	21	**32,407**	5,643
Receipts from borrowings	23	**13,000**	3,500
Repayment of borrowings	23	**(3,500)**	-
Capital element of finance lease rentals	23	**(184)**	(298)
Net cash inflow from financing		**41,723**	8,845
(Decrease)/increase in cash in the year	23	**(1,261)**	3,310

The accompanying notes are an integral part of this cash flow statement.

Notes to the consolidated financial statements

1 Accounting policies

a) Basis of preparation

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

The principal accounting policies of the group have remained unchanged from the previous year and are set out below. The directors have reviewed the accounting policies in accordance with FRS 18 and consider them to be the most appropriate to the group.

b) Basis of consolidation

The group financial statements consolidate the accounts of the company and its subsidiary undertakings drawn up to 30 September 2004. Acquisitions of subsidiaries are dealt with by the acquisition method of accounting.

On the acquisition of a business, fair values are attributed to the group's share of the separable assets. Where the fair value of consideration given and associated costs exceed the fair values attributable to these assets the difference is treated as goodwill and capitalised in the balance sheet in the year of acquisition.

The results and cash flows relating to a business are included in the consolidated profit and loss account and the consolidated cash flow statement from the date of acquisition and up to the date of disposal.

c) Turnover

Turnover represents the net amount receivable by the group in respect of the provision, authorisation and facilitation of electronic payment transactions, excluding VAT.

d) Taxation

The charge for taxation is based on the profit or loss for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, or a right to pay less, tax in the future have occurred at the balance sheet date, with the exception that deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

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

e) Tangible fixed assets and depreciation

Depreciation is calculated to write down the cost of all tangible fixed assets by equal annual instalments over their expected useful lives. The rate generally applicable is:

Office equipment and machines, including cash machines and top-up terminals – 20 to 33.3% per annum

f) Investments

Investments are included at cost less amounts written off.

g) Goodwill

Purchased goodwill is capitalised and is amortised in equal instalments over its useful economic life up to a maximum of 20 years. The purchased goodwill in the balance sheet at 30 September 2004 is being amortised over a period of five years.

The profit or loss on the disposal of a business includes the attributable amount of any goodwill relating to that business not previously charged through the profit and loss account.

Capitalised goodwill in respect of subsidiaries is included within intangible fixed assets. In accordance with FRS 10, the value of goodwill will be subject to review at the end of the first financial year following acquisition and may be subject to review at the end of the accounting period in which events or changes of circumstance indicate that the carrying value may not be recoverable.

h) Stocks

Stocks are valued at the lower of cost and net realisable value.

1 Accounting policies *(continued)*

i) Leased assets

Assets held under finance leases and hire purchase contracts are capitalised and depreciated over their expected useful lives. The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the profit and loss account over the period of the lease.

All other leases are regarded as operating leases and the payments made under them are charged to the profit and loss account on a straight-line basis over the lease term.

j) Pensions

The group operates a defined contribution stakeholder pension scheme for the benefit of employees. Company contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

k) Financial instruments

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

l) Employee share schemes

In accordance with UITF 17 "Employee Share Schemes", any difference between the exercise price of share options granted and the market value of the underlying ordinary shares at the date of grant is charged to the profit and loss account over the period to which the relevant performance criteria relate.

m) Foreign currency

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 rate of exchange ruling at the balance sheet date. The financial statements of foreign subsidiaries are translated at the rate of exchange ruling at the balance sheet date. The exchange differences arising from the retranslation of the opening net investment in subsidiaries are taken directly to reserves. All other exchange differences are dealt with through the profit and loss account.

2 *Turnover and loss on ordinary activities before taxation*

The group's turnover and loss on ordinary activities before taxation are attributable to the principal activities of the group. The directors do not consider the turnover attributable to markets outside the United Kingdom to be material.

The loss on ordinary activities before taxation is stated after charging/(crediting):

	2004 **£000**	2003 £000
Auditors' remuneration:		
- audit fees	**35**	27
- non-audit fees	**23**	10
Depreciation of tangible fixed assets:		
- owned assets	**2,117**	912
- assets held under finance leases and hire purchase contracts	**214**	214
Amortisation of goodwill	**4,834**	658
Operating lease rentals:		
- land and buildings	**95**	23
- plant and machinery	**1,432**	409
(Profit)/loss on disposal of fixed assets	**(2)**	3
Charges in respect of equity settled share-based payments	**99**	-

The non-audit fees paid to the auditors relate to tax compliance and VAT consultancy.

In addition to the above, fees of £18,281 were paid to Grant Thornton, the company's auditors, during the year ended 30 September 2004 in respect of their work on the acquisition (note 9). These fees have been capitalised within goodwill. Further fees of £34,366 were paid to Grant Thornton in respect of their work on the placing and open offer on 21 June 2004 and have been debited to the share premium account. These fees are inclusive of expenses and, where relevant, VAT.

3 Employees

Staff costs during the year were as follows:

	2004 £000	2003 £000
Wages and salaries	**2,971**	1,076
Social security costs	**333**	118
Pension costs	**65**	21
	3,369	1,215

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

	2004 Number	2003 Number
Administration and management	**65**	25

Remuneration in respect of directors is covered in the directors' remuneration report on pages 16 to 17.

4 Net interest

	2004 £000	2003 £000
Interest on bank loans and overdrafts	**409**	107
Hire purchase and finance lease interest	**17**	59
Bank interest receivable	**(111)**	(46)
	315	120

5 Tax on loss on ordinary activities

a) Charge in the year

There is no corporation tax charge for the year (2003: £nil) due to the losses incurred. Trading losses of approximately £5.9 million are available to carry forward and offset against future trading profits.

b) Factors affecting the tax charge in the year

The difference between the actual tax charge for the year and the expected tax charge based on the standard rate of corporation tax in the United Kingdom of 30% (2003: 30%) is explained below:

	2004 £000	2003 £000
Loss on ordinary activities before tax	**(3,056)**	(608)
Loss on *ordinary activities multiplied by the standard rate of corporation tax* in the UK of 30% (2003: 30%)	**(916)**	(182)
Effects of:		
Expenses not deductible for tax purposes	**447**	130
Capital allowances in excess of depreciation	**(12)**	347
Short term timing differences	**(165)**	69
Trading losses	**646**	(364)
Current tax charge for the year	**–**	–

A potential deferred tax asset of £3,833,000 (2003: £2,413,000) (note 18) has not been recognised in the financial statements. This asset will be recoverable to the extent that suitable profits arise in the future.

6 Result for the financial year

Cardpoint plc has taken advantage of section 230(4) of the Companies Act 1985 and has not included its own profit and loss account in these financial statements. The result for the financial year as dealt with in the accounts of the company was £nil (2003: £nil).

7 (Loss)/earnings per ordinary share

Basic loss per ordinary share and adjusted earnings per ordinary share (before amortisation of goodwill) are calculated as follows:

	2004 (Loss)/profit £000	2004 Weighted average ordinary shares in issue '000	2004 (Loss)/earnings per ordinary share Pence	2003 (Loss)/profit £000	2003 Weighted average ordinary shares in issue '000	2003 (Loss)/earnings per ordinary share Pence
Basic loss per share	**(3,056)**	**40,437**	**(7.56)**	(608)	24,321	(2.50)
Amortisation of goodwill	**4,834**	**–**	**–**	658	–	–
Adjusted earnings per share	**1,778**	**40,437**	**4.40**	50	24,321	0.21

The share options are anti-dilutive in respect of the basic earnings per share calculation. A diluted adjusted earnings per share has been calculated as follows:

	2004 Profit £000	2004 Weighted average ordinary shares in issue '000	2004 Earnings per ordinary share Pence	2003 Profit £000	2003 Weighted average ordinary shares in issue '000	2003 Earnings per ordinary share Pence
Adjusted earnings per share	**1,778**	**40,437**	**4.40**	50	24,321	0.21
Dilutive effect of share options	-	**3,006**	**–**	–	1,587	–
Diluted adjusted earnings per share	**1,778**	**43,443**	**4.09**	50	25,908	0.19

Adjusted earnings per share is shown by reference to earnings before goodwill amortisation, since the directors consider that this gives a more meaningful measure of the underlying performance of the group.

8 Fixed asset investments

Company

	Shares in group undertakings £000
Cost and net book amount	
At 1 October 2003 and 30 September 2004	**8,070**

At 30 September 2004 the group held investments in the allotted share capital of the following subsidiary undertakings, all of which are registered in England and Wales with the exception of Cardpoint GmbH which is registered in Germany:

Subsidiary undertaking	Principal activity	Percentage of ordinary share capital held	Country of incorporation
Cardpoint Group plc	Intermediate holding company	100%	United Kingdom
Cardpoint Services Limited	Ownership and operation of an independent estate of cash machines	100%	United Kingdom
Cardpoint Nederland Limited	Non-trading	100%	United Kingdom
Cardpoint Cash Machine Limited	Non-trading	100%	United Kingdom
Cardpoint Merchant Services Limited	Ownership and operation of an estate of mobile telephone top-up terminals	100%	United Kingdom
PT Distribution Limited	Non-trading	100%	United Kingdom
Cardpoint Remote Limited	Ownership and operation of an independent estate of cash machines	100%	United Kingdom
Cardpoint Deutschland Limited	Non-trading	100%	United Kingdom
Cardpoint GmbH	Ownership and operation of an independent estate of cash machines	100%	Germany

9 Acquisitions

On 22 June 2004, the group acquired an estate of 816 cash machines from HBOS plc for an initial cash consideration of £40 million. Further consideration of up to £35 million is payable by the issue of unsecured loan notes in January 2005, the amount of which is dependent upon the achievement of certain performance criteria. The key determinant is the number of customer contracts assigned to the group in the period between 22 June 2004 and 31 December 2004. The maximum amount of contingent consideration of £35 million will only become payable if contracts relating to all 816 cash machines are assigned to the group, or alternatively new contracts are entered into in respect of such machines by 31 December 2004. In addition, the amount of contingent consideration payable is subject to downward adjustment dependent upon the outcome of certain transitional arrangements between HBOS plc and the group in the period between 22 June 2004 and 31 December 2004.

The directors have provided for contingent consideration of £8,950,000, which represents their best estimate of the amounts that will ultimately become payable.

The acquisition has been accounted for using the acquisition method of accounting and goodwill arising has been capitalised and will be amortised over a period of five years. The book values of identifiable assets and liabilities and their provisional fair value to the group are shown in the table below:

	Book value £000	Adjustment £000	**Provisional fair value £000**
Tangible fixed assets	14,495	(4,187)	**10,308**
Creditors	–	(2,954)	**(2,954)**
	14,495	(7,141)	**7,354**
Purchased goodwill capitalised (note 10)			**43,292**
			50,646
Satisfied by:			
Cash			**40,000**
Contingent consideration			**8,950**
Acquisition costs			**1,696**
			50,646

The fair value adjustments have been made to write down the cash machines acquired to their depreciated replacement cost and to provide for the estimated cost of the obligatory migration of the cash machine estate onto the group's operating platform.

As outlined above, there is an inherent level of uncertainty over the amount of contingent consideration which will become payable, since this is dependent upon the number of customer contracts assigned to the group in the period to 31 December 2004. The directors consider this uncertainty could also potentially impact on the carrying value of the assets acquired and the level of migration costs incurred. Accordingly, the fair value adjustments made at 30 September 2004 are provisional and if necessary these will be amended in the next financial statements with a corresponding adjustment to goodwill.

The cash machines acquired formed an integral part of the estate of HBOS plc, and their profitability was not recorded separately. Consequently, the profit or loss after taxation of the acquired estate for the period from 1 January 2004, the beginning of HBOS plc's financial period, to 22 June 2004, the date of acquisition, and the profit or loss after taxation for the year ended 31 December 2003 are not available.

The acquired business made the following contributions to, and utilisations of, group cash flow:

	2004 £000
Net cash inflow from operating activities	**471**
Net cash outflow from servicing finance	**(197)**
Increase in cash	**274**

9 Acquisitions *(continued)*

Analysis of net outflow of cash in respect of the acquisition was as follows:

	2004 £000
Initial cash consideration	**(40,000)**
Acquisition costs	**(1,696)**
Net cash outflow in respect of acquisitions	**(41,696)**

Prior year acquisition

During the year ended 30 September 2003, the group acquired the entire issued share capital of Securicor Cash Machine Limited for an estimated total consideration of £7.2 million including estimated contingent and deferred consideration of £2 million and costs of £200,000. The contingent and deferred consideration was based on the projected performance of the business during the years ending 30 September 2003 and 30 September 2004. During the year ended 30 September 2004, the directors have reduced the provision for deferred and contingent consideration by £321,000 as disclosed in note 27, with a corresponding adjustment to goodwill.

Provisional estimates of the fair value of assets and liabilities acquired and goodwill arising on the transaction were included in the financial statements for the year ended 30 September 2003. Following further information becoming available when reassessing the deferred consideration in the latter part of the year regarding the value of cash machines at the date of acquisition, additional fair value adjustments of £988,000 to fixed assets and £68,000 to stock have been made.

Consequently, the goodwill on this acquisition has increased in the year by the net amount of £735,000.

10 Intangible assets
Group

	Purchased goodwill £000
Cost	
At 1 October 2003	11,346
Arising on acquisitions (note 9)	43,292
Other adjustments (note 9)	735
At 30 September 2004	**55,373**
Amortisation	
At 1 October 2003	658
Charge for the year	4,834
At 30 September 2004	**5,492**
Net book amount	
At 30 September 2004	**49,881**
Net book amount	
At 30 September 2003	10,688

Notes to the consolidated financial statements continued

11 Tangible fixed assets
Group

	Office equipment and machines including cash machines £000
Cost	
At 1 October 2003	8,243
Additions	4,126
Transfer from current assets	813
Acquired on acquisition of business (note 9)	10,308
Disposals	*(410)*
At 30 September 2004	**23,080**
Depreciation	
At 1 October 2003	3,208
Charge for the year	2,331
Fair value adjustment (note 9)	988
On disposals	(264)
At 30 September 2004	**6,263**
Net book amount	
At 30 September 2004	**16,817**
Net book amount	
At 30 September 2003	5,035

The net book amount of plant and equipment includes an amount of £187,000 (2003: £401,000) in respect of assets held under finance lease and hire purchase contracts. Depreciation charged on these assets during the year was £214,000 (2003: £214,000).

12 Stocks

	Group		Company	
	2004 £000	2003 £000	**2004 £000**	2003 £000
Cash machine stock including parts	–	882	–	–
Consumables	**4**	3	–	–
	4	885	–	–

13 Debtors

	Group		Company	
	2004 £000	2003 £000	**2004 £000**	2003 £000
Trade debtors	**1,437**	2,306	–	–
Amounts owed by group undertakings	–	–	**41,307**	8,900
Prepayments and accrued income	**962**	1,038	–	–
Corporation tax recoverable	**4**	4	**4**	4
Other debtors	**1,049**	826	–	–
	3,452	4,174	**41,311**	8,904

14 Cash at bank and in hand
Group

Included within cash at bank and in hand is an amount of £2,082,645 (2003: £nil) held in a trust account. The monies held in this account, which is administered by the group's payment collection agent, are designated for payment to suppliers.

15 Creditors: amounts falling due within one year

	Group		Company	
	2004	2003	**2004**	2003
	£000	£000	**£000**	£000
Trade creditors	**5,854**	6,024	**–**	–
Bank overdrafts (note 17)	**470**	–	**–**	–
Bank loans (note 17)	**2,000**	3,500	**–**	–
Corporation tax	**3**	34	**–**	–
Social security and other taxes	**165**	139	**–**	–
Obligations under finance leases (note 16)	**31**	184	**–**	–
Accruals	**7,298**	5,519	**–**	–
Other creditors	**755**	814	**1**	1
Deferred and contingent consideration (note 27)	**9,450**	620	**–**	–
	26,026	16,834	**1**	1

16 Creditors: amounts falling due after more than one year

	Group		Company	
	2004	2003	**2004**	2003
	£000	£000	**£000**	£000
Obligations under finance leases	**–**	31	**–**	–
Deferred and contingent consideration	**–**	1,030	**–**	–
Bank loans (note 17)	**11,000**	–	**–**	–
	11,000	1,061	**–**	–

The amounts due under finance leases are secured on the assets to which they relate, and are repayable as follows:

	Group		Company	
	2004	2003	**2004**	2003
	£000	£000	**£000**	£000
Within one year	**31**	184	**–**	–
After one and within two years	**–**	31	**–**	–
	31	215	**–**	–

Bank borrowings are repayable as follows:

	Group		Company	
	2004	2003	**2004**	2003
	£000	£000	**£000**	£000
Within one year	**2,470**	3,500	**–**	–
After one and within two years	**3,600**	–	**–**	–
After two and within five years	**4,400**	–	**–**	–
After more than five years	**3,000**	–	**–**	–
	13,470	3,500	**–**	–

17 Financial instruments

An explanation of the group's objectives, policies and strategies for the role of derivatives and other financial instruments in creating and managing the risks of the group in its activities can be found on page 15 of the directors' report. Disclosure dealt with in this note excludes short-term debtors and creditors where permitted by FRS 13.

Interest rate risk profile of financial assets

The interest rate risk profile of the group's financial assets was as follows:

	Fixed rate financial assets £000	Floating rate financial assets £000	Financial assets earning no interest £000	Total £000
Sterling				
As at 30 September 2004	**–**	**3,260**	**4**	**3,264**
As at 30 September 2003	–	4,047	8	4,055

Interest rate risk profile of financial liabilities

The interest rate risk profile of the group's financial liabilities was as follows:

	Fixed rate financial liabilities £000	Floating rate financial liabilities £000	Financial liabilities on which no interest paid £000	Total £000
Sterling				
As at 30 September 2004	**31**	**13,470**	**–**	**13,501**
As at 30 September 2003	215	3,500	–	3,715

The fixed rate financial liabilities comprise obligations under finance leases. The maturity profile of these financial liabilities is disclosed in note 16.

Fair values of financial assets and liabilities

The fair value based upon the market value or discounted cash flows of the financial instruments detailed above was not materially different from the book values as at 30 September 2004.

Borrowing facilities

The group has banking facilities under which Bank of Scotland plc will make available up to £18 million under a seven year secured senior-term loan, up to £6 million under a revolving facility agreement and up to £1 million under an overdraft facility. At 30 September 2004, £10 million had been drawn down under the term loan of which £2 million is due to be paid within one year and the balance in instalments up to 21 December 2009, £3 million had been drawn down under the revolving facility which is due to be repaid by 21 June 2011 and £470,000 had been borrowed under the overdraft facility which is repayable on demand. The term loan and revolving facility agreements contain financial covenants and other obligations where, if the group fails to comply therewith, Bank of Scotland plc may withdraw its facilities and/or terminate its obligation to fund and require repayment of sums due to it.

Interest is payable at the aggregate of LIBOR, the mandatory costs rate and 2.25% per annum on both the term loan and revolving facility and at the aggregate of the Bank of Scotland plc base rate and 2.25% per annum on the overdraft facility. All the facilities are secured by a debenture giving Bank of Scotland plc security over certain assets of the group.

18 Deferred taxation

The potential deferred tax asset (at a tax rate of 30%), which has not been recognised in the financial statements, is set out below. This asset will be recoverable to the extent that suitable profits arise in the future.

	Group		Company	
	2004	2003	**2004**	2003
	£000	£000	**£000**	£000
Accelerated capital allowances	**2,048**	49	**–**	–
Trading losses	**1,785**	2,257	**–**	–
Other timing differences	**–**	107	**–**	–
	3,833	2,413	**–**	–

19 Called up share capital

	2004	2003
	£000	£000
Authorised		
200,000,000 (2003: 200,000,000) ordinary shares of 5 pence each	**10,000**	10,000
Allotted, issued and paid		
60,772,125 (2003: 32,686,334) ordinary shares of 5 pence each	**3,039**	1,634

On 21 June 2004, the company issued, for cash, 28,085,791 ordinary shares at 125 pence per share. The difference between the proceeds of £35,107,239 and the nominal value of £1,404,290 has been credited to the share premium account.

A number of share options have been granted to directors and these are detailed in the directors' remuneration report. In addition, options over 1,774,434 ordinary shares have been granted to employees under the Cardpoint plc EMI Scheme. These options are exercisable between June 2005 and May 2014 at exercise prices of between 5 pence and 125 pence. Unapproved options over a further 1,644,968 ordinary shares have been granted to certain employees and these options are exercisable between October 2004 and May 2014 at exercise prices of between 5 pence and 125 pence.

In total, as at 30 September 2004, there were options outstanding over 4,852,735 ordinary shares (2003: 3,272,735).

20 Share premium account and reserves

Group

	Share premium account £000	**Merger reserve £000**	**Profit and loss account £000**
At 1 October 2003	7,823	354	(2,869)
Retained loss for the financial year	–	–	(3,056)
Credit for equity settled share-based payments	–	–	99
Issue of shares	33,702	–	–
Share issue expenses	(2,700)	–	–
At 30 September 2004	**38,825**	**354**	**(5,826)**

Company

At 1 October 2003	15,343	–	–
Issue of shares	33,702	–	–
Share issue expenses	(2,700)	–	–
At 30 September 2004	**46,345**	**–**	**–**

21 Reconciliation of movements in equity shareholders' funds
Group

	2004 £000	2003 £000
Retained loss for the financial year	**(3,056)**	(608)
Credit for equity settled share-based payments	**99**	–
New share capital subscribed (net of expenses)	**32,407**	6,050
	29,450	5,442
Opening equity shareholders' funds	**6,942**	1,500
Closing equity shareholders' funds	**36,392**	6,942

Company

	2004 £000	2003 £000
New share capital subscribed (net of expenses)	**32,407**	6,050
Opening equity shareholders' funds	**16,977**	10,927
Closing equity shareholders' funds	**49,384**	16,977

22 Reconciliation of operating loss to net cash inflow from operating activities

	2004 £000	2003 £000
Operating loss	**(2,741)**	(488)
Depreciation	**2,331**	1,126
(Profit)/loss on disposal of fixed assets	**(2)**	3
Amortisation of goodwill	**4,834**	658
Equity settled share-based payments	**99**	–
Decrease in stocks	**–**	121
Decrease/(increase) in debtors	**722**	(1,124)
(Decrease)/increase in creditors	**(2,237)**	3,412
Net cash inflow from operating activities	**3,006**	3,708

23 Reconciliation of net cash flow to movement in net (debt)/funds

	2004 £000	2003 £000
(Decrease)/increase in cash in the year	**(1,261)**	3,310
Cash outflow from finance leases	**184**	298
Receipts from borrowings	**(13,000)**	(3,500)
Repayment of borrowings	**3,500**	–
Movement in net (debt)/funds in the year	**(10,577)**	108
Opening net funds	**340**	232
Closing net (debt)/funds	**(10,237)**	340

24 Analysis of changes in net (debt)/funds

	At 1 October 2003 £000	Cash flow £000	**At 30 September 2004 £000**
Cash at bank and in hand	4,055	(791)	**3,264**
Bank overdrafts	–	(470)	**(470)**
	4,055	(1,261)	**2,794**
Bank loans	(3,500)	(9,500)	**(13,000)**
Obligations under finance leases	(215)	184	**(31)**
	340	(10,577)	**(10,237)**

25 Operating lease commitments

Operating lease payments amounting to £2,567,000 (2003: 2,461,000) are due within one year. The leases to which these amounts relate expire as follows:

	2004		2003	
	Land and buildings £000	**Other £000**	Land and buildings £000	Other £000
Between one and five years	**106**	**2,461**	–	2,461

26 Capital commitments

The group and company had no capital commitments at 30 September 2004 (2003: £nil).

27 Contingent liabilities

In the previous financial year, the directors provided £2 million for deferred and contingent consideration in respect of the acquisition of Securicor Cash Machine Limited. At 30 September 2004, deferred and contingent consideration amounting to £1,179,000 (2003: £350,000) had been paid. The directors consider that the deferred and contingent consideration which will ultimately become payable amounts to £1,679,000 and accordingly £500,000 has been provided at 30 September 2004. As disclosed in note 9, this has resulted in adjustment to goodwill of £321,000.

As disclosed in note 9, contingent consideration of £8,950,000 has been provided in respect of the acquisition of an estate of 816 cash machines from HBOS plc. The maximum contingent consideration is £35 million and is payable in January 2005 by the issue of unsecured loan notes to the vendor.

The group and company had no other material contingent liabilities at 30 September 2004 (2003: £nil).

28 Related party transactions

During the year, open market rent of £17,700 (2003: £14,400) was paid to John Mills, the father of M R Mills, and £106,000 (2003: £nil) to Airport Properties Limited, a company in which M R Mills has an interest. At 30 September 2004, £71,000 (2003: £nil) was prepaid in relation to this rent.

Three-year review

Three-year summary profit and loss account

	2004 £000	2003 £000	2002 £000
Turnover	**36,812**	12,166	3,104
EBITDA	**4,424**	1,296	(242)
Depreciation	**(2,331)**	(1,126)	(417)
Goodwill amortisation	**(4,834)**	(658)	–
Net interest	**(315)**	(120)	(98)
Loss on ordinary activities before taxation	**(3,056)**	(608)	(757)
Profit/(loss) before tax and goodwill amortisation	**1,778**	50	(757)

Three-year summary balance sheet

	2004 £000	2003 £000	2002 £000
Intangible fixed assets	**49,881**	10,688	–
Tangible fixed assets	**16,817**	5,035	2,856
Current assets	**6,720**	9,114	914
Current liabilities	**(26,026)**	(16,834)	(2,054)
Long-term liabilities	**(11,000)**	(1,061)	(216)
Net assets	**36,392**	6,942	1,500

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Annual General Meeting	2 March 2005
Interim announcement	May 2005
Preliminary announcement	November 2005

Designed and produced by 85four

Principle photography by Chris Moyse

Printed in England by Cousin. This report is printed using vegetable-based inks on paper which is made from 50% chlorine-free pulp from plantation forests, and from 50% recycled and de-inked fibres. Our printer operates an Eco Trans Recycling System, which recycles the chemicals used within the printing process and makes any waste Ph neutral.

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