

A copy of this document, which comprises (i) listing particulars relating to royalblue group plc in relation to the Institutional Placing and (ii) a prospectus relating to royalblue group plc in relation to the Employee Share Offer, in each case prepared in accordance with Part IV of the Financial Services Act 1986, has been delivered to the Registrar of Companies in England and Wales for registration in accordance with section 149 of that Act.

The Directors of royalblue group plc, whose names appear on page 3 of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

Application has been made to the London Stock Exchange for the whole of the ordinary share capital of royalblue group plc, issued and to be issued in connection with the Placing, to be admitted to the Official List. It is expected that Admission will become effective and that dealings in the Ordinary Shares will commence on 9 June 1997. The Ordinary Shares to be issued in connection with the Placing will, on Admission, rank *pari passu* in all respects with the existing Ordinary Shares and will rank in full for all dividends and other distributions thereafter declared in respect of the ordinary share capital of the Company.

Hoare Govett Corporate Finance Limited, which is regulated by the Securities and Futures Authority Limited, is acting solely for the Company in connection with the Placing and will not be responsible to anyone other than royalblue group plc for providing the protections afforded to customers of Hoare Govett Corporate Finance Limited or for providing advice in relation to the Placing.

No person is authorised, in connection with the Placing, to give any information or make any representation other than as contained in this document and, if given or made, such information or representation must not be relied upon as having been authorised by the Company or Hoare Govett Corporate Finance Limited.

This document does not constitute an offer to sell or to subscribe for, or the solicitation of an offer to buy or to subscribe for, Ordinary Shares in any jurisdiction where such an offer or solicitation is unlawful and is not for distribution by any recipient in or into the United States, Canada, Japan or Australia. The Ordinary Shares have not been, and will not be, registered under the United States Securities Act of 1933 (as amended) or under the applicable securities laws of Canada, Japan or Australia and, subject to certain exceptions, may not be offered for sale or subscription, or sold or subscribed, within the United States, Canada, Japan or Australia to or by any national, resident or citizen of such countries.

royalblue group plc ✓

(Incorporated and registered in England and Wales with Registered No. 3234176)



Placing

by

Hoare Govett Corporate Finance Limited
of 6,826,156 Ordinary Shares of 10p each
at 170p per share

Share capital immediately following the Placing

Authorised			Issued and fully paid	
Number	£		Number	£
43,600,000	4,360,000.00	Ordinary shares of 10p each	27,464,475	2,746,447.50

Indebtedness

At the close of business on 30 April 1997, the Group had outstanding borrowings or indebtedness in the nature of borrowings of £389,675, comprising finance lease and hire purchase commitments.

Save as aforesaid, and apart from intra-group liabilities, neither the Company nor any of its subsidiaries had outstanding at the close of business on 30 April 1997 any debentures, loan capital (including term loans), whether outstanding or created but unissued, or any other borrowings or indebtedness in the nature of borrowings, including bank overdrafts, liabilities under acceptances (other than normal trade bills) or acceptance credits, hire purchase commitments, obligations under finance leases, guarantees or other contingent liabilities.

At the close of business on 30 April 1997 the Group had cash balances amounting to £2,489,418.

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Directors, Secretary and Advisers

Directors

Colin Macdonald Amies – *non-executive Chairman*
John Ridgley Hamer – *Chief Executive*
Andrew Malpass – *Finance Director*
Christopher John Francis Aspinwall – *Executive Director*
Leon Herschel Liebman – *non-executive Director*
all of Kings Court, Church Street East, Woking, Surrey GU21 1HA

Company Secretary

Andrew Malpass, FCMA

Website

www.royalblue.com

Registered and Head Office

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Church Street East
Woking
Surrey GU21 1HA

Financial Adviser, Sponsor and Stockbroker

Hoare Govett Corporate Finance Limited
4 Broadgate
London EC2M 7LE

Solicitors to the Company

Travers Smith Braithwaite
10 Snow Hill
London EC1A 2AL

Solicitors to Hoare Govett

Ashurst Morris Crisp
Broadwalk House
5 Appold Street
London EC2A 2HA

Auditors

KPMG
Chartered Accountants and Registered Auditors
1 Forest Gate
Brighton Road
Crawley
Sussex RH11 9PT

Reporting Accountants

KPMG
Chartered Accountants and Registered Auditors
8 Salisbury Square
London EC4Y 8BB

Bankers

Barclays Bank PLC
Town Gate House
Church Street East
Woking
Surrey GU21 1AE

Registrar and Receiving Agent

Bank of Scotland
Registrar Department
Apex House
9 Haddington Place
Edinburgh EH7 4AZ

Definitions

The following definitions are used throughout this document except where the context otherwise requires:

"Act"	The Companies Act 1985 (as amended)
"Admission"	the admission of the ordinary share capital of the Company, issued and to be issued pursuant to the Placing, to the Official List
"Advent"	funds managed by Advent Limited
"CREST"	the computerised settlement system to facilitate the transfer of title to shares in uncertificated form operated by CRESTCo
"Directors" or the "Board"	the directors of the Company whose names are set out on page 3 of this document
"EBT"	the royalblue group plc Employee Benefit Trust
"Employee Share Offer"	the offer by the Company of 343,522 new Ordinary Shares to Qualifying Employees at the Placing Price, as part of the Placing
"Existing Option Scheme"	the royalblue group plc 1997 Option Scheme which was adopted in November 1995 and amended in January 1997
"Group"	the Company and its subsidiary undertakings or, prior to the acquisition by the Company of the entire issued share capital of royalblue technologies as described in paragraph 2(b) of Part III of this document, royalblue technologies and its subsidiary undertakings
"Hoare Govett"	Hoare Govett Corporate Finance Limited
"Institutional Placing"	the Placing in so far as it relates only to persons other than Qualifying Employees
"London Stock Exchange"	London Stock Exchange Limited
"new Ordinary Shares"	the new Ordinary Shares in the capital of the Company to be issued pursuant to the Placing and to the EBT
"Official List"	the Official List of the London Stock Exchange
"Ordinary Shares"	ordinary shares of 10p each in the capital of the Company
"Performance Related Share Plan"	the royalblue group plc Performance Related Share Plan
"Placing"	the placing by Hoare Govett of 3,296,744 existing Ordinary Shares and 3,529,412 new Ordinary Shares at the Placing Price as described in this document
"Placing Agreement"	the placing agreement described in paragraph 9 of Part III of this document
"Placing Price"	170p per Ordinary Share
"Placing Shares"	the 6,826,156 Ordinary Shares being made available in the Placing
"Qualifying Employees"	those individuals who on 19 May 1997 were employees of a member of the Group
"royalblue" or "Company"	royalblue group plc
"royalblue technologies"	royalblue technologies plc, a wholly owned UK subsidiary of the Company
"royalblue technologies corporation"	a wholly owned US subsidiary of the Company

Glossary of terms

"Automated Call Distributors (ACDs)"	Automated Call Distributors manage the queuing and distribution of incoming telephone calls to extensions according to a programmed sequence
"applications software"	software designed to automate specific business processes and functions (eg telesales), as distinct from systems software such as operating systems (eg Unix)
"CIS"	Customer Interaction Software — software which manages an organisation's contact with its customers
"Computer Telephony Integration" or "CTI"	CTI is a technology whereby a software system can control the operation of one or more telephony devices
"Interactive Voice Response (IVR)"	a telephony device which uses recorded voice to interact with a caller
"ISO 9001"	a set of requirements issued by the International Organisation for Standardisation specifying the quality system requirements for a supplier engaged in design, development, production, installation and servicing
"IT"	Information Technology
"Microsoft™ BackOffice"	a suite of server software developed and marketed by Microsoft
"Microsoft™ Solution Provider"	an independent software vendor or consultancy with accredited Microsoft professionals on their staff
"Microsoft™'s WIN32S dynamic link library"	an application library to enable 32 bit applications to run on Microsoft 16 bit operating systems
"MIS"	Management Information System
"Nasdaq"	Nasdaq National Stock Market
"Open Database Connectivity (ODBC)"	an Application Programming Interface allowing connectivity to multiple databases
"ORACLE"	a relational database marketed by Oracle Corporation
"PABX"	a Private Automatic Branch Exchange (telephone switchboard)
"Reuters' Triarch"	a digital financial information management system marketed by Reuters
"SEAQ"	Stock Exchange Automated Quotations system
"SETS"	Stock Exchange Electronic Trading Services
"SQL Server"	a relational database marketed by Microsoft
"TAPI 2"	Telephony Application Programming Interface for third party call control
"TIBCO"	Teknekron Information Bus Company
"TIB"	"The Information Bus", a digital information distribution system marketed by TIBCO

Placing statistics and expected Placing timetable

Placing statistics

Placing Price	170p
Number of Ordinary Shares in issue following the Placing	27,464,475
Market capitalisation at the Placing Price	£46.7 million
Market capitalisation at the Placing Price assuming the exercise of all options under the Existing Option Scheme	£56.2 million
Number of Ordinary Shares being placed:	
on behalf of the Company ⁽¹⁾	4,902,635
on behalf of the existing shareholders	3,296,744
Net proceeds of the Placing receivable by the Company ⁽²⁾	£5.2 million
Percentage of enlarged issued ordinary share capital available in the Placing	24.9%
Historic fully diluted earnings per Ordinary Share for the year ended 31 December 1996 ⁽³⁾	4.6p
Historic fully diluted price earnings multiple at the Placing Price ⁽³⁾	37 times
Notional net dividend per Ordinary Share for the year ended 31 December 1996 ⁽⁴⁾	1.5p
Notional dividend cover for the year ended 31 December 1996 ⁽⁴⁾	3.1 times
Notional gross dividend yield at the Placing Price ⁽⁴⁾	1.1%

Notes

- (1) Including new Ordinary Shares to be allotted to the EBT.
- (2) Net proceeds are stated after the deduction of estimated total Placing expenses of approximately £0.8 million.
- (3) Fully diluted after taking account of the 5,566,240 Ordinary Shares under option under the Existing Option Scheme as further described in Parts I and III.
- (4) The notional net dividend per Ordinary Share, notional gross dividend yield at the Placing Price and notional dividend cover are based, where relevant, on the historic fully diluted earnings per Ordinary Share for the year ended 31 December 1996 and on the net dividend per Ordinary Share which the Directors would have expected to recommend in respect of the year ended 31 December 1996 had the Ordinary Shares been listed for the whole of that year, as set out in Part I under "Dividend policy".

Expected Placing timetable

	1997
Where applicable, definitive share certificates despatched	9 June
Dealings to commence	9 June

Key information

The following information should be read in conjunction with the full text of this document from which it is derived. A glossary of terms used is set out at the beginning of this document.

The Group

The Group is a leading UK supplier of software products and associated services to three distinct and fast growing markets: financial trading systems; corporate call centres; and customer help desks.

For each of these markets the Group develops, markets and licenses its own software products and provides related consultancy, software development, training, implementation and support services. In broad terms, the Group's turnover is divided equally between licence and service revenues.

The Group is the sole owner of the intellectual property rights to the core technology of its software products. These are marketed under their UK registered trademarks of:

- **fidessa**[®] – trading support software for dealers in international financial markets. **fidessa**[®] products are used by traders in equities, fixed income securities and derivatives for position keeping, market analysis, order management, trade matching, exchange reporting and risk monitoring.
- **HelpDesk**[®] – support management software for IT help desks and customer support centres. **HelpDesk**[®] provides functions for call tracking, problem solving, inventory and customer management and trend and statistics reporting.
- **ROSTRVM**[®] – computer telephony integration (“CTI”) software for integrating application packages with telephony equipment in corporate call centres. **ROSTRVM**[®] provides functions for automating inbound and outbound call management, on-screen call control, integrating voice and data call components, controlling call progress from application software and monitoring call centre performance.

The Group employs over 160 staff with headquarters in Woking, Surrey and has further offices in London and New York. The Group has a high quality customer base of over 450 corporate and government organisations.

During the three years ended 31 December 1996, the Group achieved a compound annual growth rate in turnover and profit before taxation of 50 per cent and 184 per cent, respectively.

Over this period the Group's turnover was primarily generated from the UK. In 1996 the Group established a presence in the USA and, based on recent contract gains, the Directors expect an increasing proportion of turnover to derive from this operation.

In the three years ended 31 December 1996 no single customer accounted for more than eight per cent of total Group revenues. In the year ended 31 December 1996 the 20 largest customers accounted for less than 60 per cent of total Group revenues.

Strengths

The Directors believe that the Group has the following key strengths:

- An excellent reputation for successful and timely delivery.
- Proven, functionally rich and technologically advanced software products.
- Competitive advantage derived from a combined products and services strategy.
- A good financial track record.
- A leading UK position in each of the three rapidly growing markets in which it operates.
- High calibre management and employees with broadly based share participation.

Corporate objective and strategy

royalblue's corporate objective is to establish and maintain a leading position in selected niche markets where customers have substantial IT expenditure and use IT to gain competitive advantage.

The Group has implemented a combined products and services strategy. This unites the advantages of a product strategy with the close customer relationships and repeatable revenue streams derived from a services business

model. Rather than concentrating purely on technical knowledge, senior staff specialise in applying their technical skills, niche market knowledge and the Group's products to the individual business needs of the Group's customers.

The Group's product development strategy is to extend the functions of its software using the latest technologies in close collaboration with its customer base. This strategy enables the Group to respond rapidly to the demands of its markets whilst controlling the risks associated with software product development.

In the three years ended 31 December 1996, the Group has invested an average of 9.4 per cent of turnover in product research and development activities. None of this research and development expenditure is capitalised in the balance sheet.

The Directors believe that the Group has developed products which have significant growth potential in the UK, Europe and the USA.

Financial record

The summary financial record of the Group, set out below, has been derived from the Accountants' Report set out in Part II of this document.

	<i>Years ended 31 December</i>		
	<i>1994</i>	<i>1995</i>	<i>1996</i>
Turnover	£5,169,000	£7,229,000	£11,679,000
Profit before taxation	£250,000	£1,104,000	£2,016,000
Net assets	£1,141,000	£1,635,000	£2,477,000
Research and development expenditure	£455,000	£656,000	£1,159,000
Profit before taxation as percentage of turnover ("margin")	4.8%	15.3%	17.3%
Average staff numbers	75	84	119

Current trading and prospects

Since the end of 1996, the Group has continued to trade strongly and had received orders worth over £11.3 million as at 12 May 1997. In particular, the Group has benefited from an increased level of orders due to demand for its new **fidessa** modules which will support trading in SETS, the new order driven market which is planned to be introduced by the London Stock Exchange later this year.

The orders received in 1997 include one contract in the UK worth £2.5 million over the next three years and orders worth over \$2.4 million for implementing trading support systems in New York and San Francisco. The Directors are particularly encouraged by the level of orders received to date. However, whilst revenue is expected to increase in the first six months of this year, the Group's results during this period will be affected by the start up costs in the USA and certain expenses relating to the Placing which will be charged to the Group's profit and loss account. In addition, the Group will be implementing the provisions of the recently published Urgent Issues Task Force abstract 17 (Employee Share Schemes) for the first time. The Directors estimate that the charge in 1997 will be approximately £150,000 but will not affect the Group's cash position.

The Directors believe that the markets in which the Group operates will continue to grow and develop in ways which will increase demand for the Group's products and services. In particular, they believe that:

- for **fidessa**® – the increasing globalisation of equities investment and trading and changes to the ways in which stock markets function (for example, the planned introduction in the UK of SETS, the London Stock Exchange's electronic trading service for order driven trading and rule changes in Nasdaq in the USA) will generate increasing demand for trading support systems which are more flexible, support greater functionality, higher trading volumes and are highly resilient;
- for **HelpDesk**® – the continual drive to improve the efficiency and service quality of IT help desks and customer support centres will generate further demand for help desk software which enhances the ability of these operations to record, monitor and resolve support calls; and
- for **ROSTRVM**® – the growing amount of business conducted using the telephone will increase the adoption of CTI technology in order to improve the volume and quality of call handling in call centres.

Dividend policy

The Directors consider that if the Company's share capital had been quoted throughout the year ended 31 December 1996, they would have paid a total dividend of 1.875p per Ordinary Share (1.5p net of basic rate tax) in respect of that year. This would have represented a gross dividend yield of 1.1 per cent at the Placing Price.

It is intended to pay an interim dividend in or about November and a final dividend in or about May of each year in the proportion of approximately one third to two thirds respectively.

The Placing

6,826,156 Ordinary Shares are being made available in the Placing at the Placing Price, of which 3,296,744 Ordinary Shares, representing 48.3 per cent of the Placing Shares, are being sold by existing shareholders and 3,529,412 new Ordinary Shares, representing 51.7 per cent of the Placing Shares, are being issued by the Company. The Ordinary Shares being sold principally represent 20 per cent of the existing holdings of each of Advent, interests associated with two founder shareholders, two executive Directors and one member of the Group's senior management. Simultaneously with the Placing, 3i plc intends to sell 20 per cent of its existing holding to 3i Smaller Quoted Companies Trust plc.

The new Ordinary Shares being issued by the Company will raise approximately £5.2 million, net of expenses, and will represent 12.85 per cent of the enlarged issued share capital following the Placing. Of such shares, 343,522 are being offered by the Company to Qualifying Employees at the Placing Price on terms equivalent to the Institutional Placing. In addition, 1,373,223 new Ordinary Shares will be allotted to the EBT at the Placing Price.

The Directors have agreed with Hoare Govett not to dispose of any of their Ordinary Shares following the Placing until the preliminary announcement of the results of the Company for the twelve months ending 31 December 1997 and the Directors have further undertaken that, until the preliminary announcement of the results for the 12 months ending 31 December 1998, they will only dispose of such shares with Hoare Govett's consent. In addition, certain other shareholders holding in aggregate 10,172,480 Ordinary Shares have undertaken that, during the period from Admission until publication of the interim results for the six months ending 30 June 1997, they will not dispose of any such shares and have further undertaken that, until publication of the preliminary results for the 12 months ending 31 December 1997, they will only dispose of such shares with Hoare Govett's consent.

The Placing has been fully underwritten by Hoare Govett and is conditional upon Admission becoming effective and the Placing Agreement becoming unconditional in all respects. Details of the Placing Agreement are contained in paragraph 9 of Part III.

Employee share participation

Demand for skilled software staff is high and the Directors believe that the Group's success is critically dependent on its ability to motivate and retain its employees. The Group has therefore implemented a number of share and profit sharing incentive schemes which have also ensured that employee and shareholder objectives are closely aligned.

In particular, since December 1995, under the Existing Option Scheme, certain employees have been granted options to subscribe for 5,566,240 Ordinary Shares at nominal value. Such Ordinary Shares under option will represent 16.9 per cent of the enlarged share capital following the Placing and following the exercise of the options under the Existing Option Scheme.

Subject to the Group's employee share dealing rules, options over 467,568 Ordinary Shares, representing 1.7 per cent of the enlarged share capital following the Placing, may be exercised at any time following Admission. The balance of the options may be exercised in four equal annual tranches commencing one year following Admission provided that, subject to certain exceptions, the employee remains employed by the Group at the date of exercise.

As at 3 June 1997, 92 employees had options to subscribe for shares under the Existing Option Scheme, 80 per cent of these shares under option were allocated to non-Board members. The Directors consider that the Existing Option Scheme is a particularly effective way of rewarding, retaining and motivating a large proportion of the Group's employees.

The Accounting Standards Board's Urgent Issues Task Force has recently published an abstract on the accounting treatment of options granted at a discount to market value. This will result in a charge to the Group's profit and loss account in 1997 and future years. The amount of the charge will be determined by the difference between the exercise price and the market value of ordinary shares at the date of grant of the relevant options, spread over the period over which the options can be exercised which, in the case of options granted under the Existing Option Scheme, is approximately four and a half years. The Directors estimate that the charge in 1997 will be approximately £150,000 but will not affect the Group's cash position.

The Group has adopted a new share incentive scheme, the Performance Related Share Plan, conditionally upon Admission. The Group will also, prior to Admission, establish the EBT which will, on or shortly after Admission, subscribe for 1,373,223 Ordinary Shares at the Placing Price for the purpose of satisfying the exercise of options under the Performance Related Share Plan which may be granted by the EBT. Further details of royalblue's share incentive schemes and of the EBT, the primary purpose of which is to retain and attract key employees, are set out in paragraph 4 of Part III.

The Company's shareholding profile immediately following the Placing is expected to be as follows:-

	<i>Number of Ordinary Shares</i>	<i>Percentage of issued share capital %</i>	<i>Percentage of fully diluted issued share capital %</i>
Venture capitalists and founding shareholders	12,889,891	46.9	39.0
Directors and connected persons	2,699,286	9.8	8.2
Other employees and connected persons (including EBT)	4,121,464	15.0	12.5
Institutions and others	7,753,834	28.3	23.5
	27,464,475	100.0	83.2
Shares under option under the Existing Option Scheme	5,566,240		

Reasons for the Placing and use of proceeds

The Directors believe that the Placing will raise the status and market profile of the Group and will promote further awareness of the royalblue name in the UK, Europe and the USA. The Directors believe that this increased awareness will attract new customers and will help the Group in developing alliances with business partners.

The Directors believe that the Placing will provide liquidity and a market valuation for the Group's equity which, in conjunction with the Company's share incentive schemes, will help the Group to continue to attract and retain high calibre employees. In addition, the new capital raised for the Group in the Placing will strengthen the Company's balance sheet and assist in the financing of future business ventures.

Part I – Information on the Group

Introduction

Corporate overview

The Group is a leading UK supplier of software products and associated services to three distinct and fast growing markets: financial trading systems; corporate call centres; and customer help desks.

For each of these markets the Group develops, markets and licenses its own software products and provides related consultancy, software development, training, implementation and support services. In broad terms, the Group's turnover is divided equally between licence and service revenues.

The Group is the sole owner of the intellectual property rights to the core technology of its software products. These are marketed under their UK registered trademarks of:

- **fidessa®** – trading support software for dealers in international financial markets. **fidessa®** products are used by traders in equities, fixed income securities and derivatives for position keeping, market analysis, order management, trade matching, exchange reporting and risk monitoring.
- **HelpDesk®** – support management software for IT help desks and customer support centres. **HelpDesk®** provides functions for call tracking, problem solving, inventory and customer management and trend and statistics reporting.
- **ROSTRVM®** – computer telephony integration (“CTI”) software for integrating application packages with telephony equipment in corporate call centres. **ROSTRVM®** provides functions for automating inbound and outbound call management, on-screen call control, integrating voice and data call components, controlling call progress from application software and monitoring call centre performance.

The Group is an authorised Microsoft™ Solution Provider and works closely with a range of other leading technology companies.

The Group employs over 160 employees with headquarters in Woking, Surrey and has further offices in London and New York. The Group has a high quality customer base of over 450 corporate and government organisations.

The Group's customers include:

Abbey National plc	Kleinwort Benson Limited	Napp Pharmaceutical Group Limited
BP Oil UK Limited	Legal & General Assurance	oftel (Office of Telecommunications)
British Telecommunications plc	Society Limited	Panmure Gordon & Co Limited
BZW Services Limited	Littlewoods Lotteries Limited	SBC Warburg Group Management
Cazenove & Co.	Lloyds Bank plc	Limited
CS First Boston Limited	Marks & Spencer plc	Siemens Business Communications
Daiwa Europe Limited	Merrill Lynch Europe Limited	Systems Limited
Going Places Leisure Travel Limited	Ministry of Defence	Seeboard plc
Hoare Govett Services Limited	Montgomery Securities	The Automobile Association
ING Barings	Morgan Stanley	TPS Call Sciences Limited

During the three years ended 31 December 1996, the Group achieved a compound annual growth rate in turnover and profit before taxation of 50 per cent and 184 per cent, respectively.

Over this period the Group's turnover was primarily generated from the UK. In 1996 the Group established a presence in the USA and, based on recent contract gains, the Directors expect an increasing proportion of turnover to derive from this operation.

In the three years ended 31 December 1996 no single customer accounted for more than 8 per cent of total Group revenues. In the year ended 31 December 1996 the 20 largest customers accounted for less than 60 per cent of total Group revenues.

History and development

The Group was established in 1982 and in the period to 1991 provided various software services and products to a range of marketplaces, including the financial, telecommunications, utilities and public sectors.

In January 1992, John Harner assumed full responsibility for the Group's operations. Under his direction the Group adopted a focused strategy based on developing specialist software products and skills in selected areas of existing operations.

Between 1992 and 1994 new versions of **fidessa**®, **HelpDesk**® and **ROSTRVM**® products were released. The Group began investing in advertising and public relations programmes to raise awareness of its products and to establish strong branding for each of them. During this period the Group achieved independent certification to the internationally recognised quality standard ISO 9001 and won the Department of Trade and Industry sponsored TickIT Software Quality Award.

As part of its expansion strategy, the Group entered the US market in 1996 and in January 1997, through **royalblue** technologies corporation, purchased for \$1.54 million the business and assets of Appleby Technologies Inc., a software company based in New York, specialising in developing systems for Nasdaq traders. The acquisition followed a period of joint working during 1996.

Corporate objectives and strategy

royalblue's corporate objective is to establish and maintain a leading position in selected niche markets where customers have substantial IT expenditure and use IT to gain a competitive advantage.

The Group has implemented a combined products and services strategy. This unites the advantages of a product strategy with the close customer relationships and repeatable revenue streams derived from a services business model. Rather than concentrating purely on technical knowledge, senior staff specialise in applying their technical skills, niche market knowledge and the Group's products to the individual business needs of the Group's customers.

The Group's product development strategy is to extend the functions of its software using the latest technologies in close collaboration with its customer base. This strategy enables the Group to respond rapidly to the demands of its markets whilst controlling the risks associated with software product development.

In the three years ended 31 December 1996, the Group invested an average of 9.4 per cent of turnover in product research and development activities, none of which was capitalised in the balance sheet.

The Directors believe that the Group has developed products which have significant growth potential in the UK, Europe and the USA.

Business divisions

The Group's operations are conducted through three divisions:

- Financial Division
- Customer Interaction Software Division
- Call Centres Division

The divisions are managed by separate boards, which operate with significant autonomy to manage and develop their businesses according to the needs of their markets. Financial control is managed centrally by the Finance Director. The Group also employs a full-time Quality Manager with responsibility for ensuring compliance to ISO 9001 within each division. Internal information systems are also provided by a central team.

The following sections describe the activities and prospects of each of the divisions.

Financial Division

Market

Financial services companies in the world's capital markets are large consumers of information technology because of their reliance on the quality and timeliness of the information on which they base their investment decisions. Systems which support these companies must cope with increasing demands in complexity, flexibility and scalability as financial markets become more global and the regulatory bodies which control their operation introduce changes to the way in which trading may be conducted in response to market demands.

The essential function of any trading support system is to provide the facilities required to support the regulatory and management aspects of running a trading operation, whilst supporting the real-time information gathered from numerous sources – both internal and external to an organisation – which dealers need to trade effectively.

Products and services

The Financial Division develops, markets, sells and supports **fidessa**®, a family of products for building trading support systems. In 1996, this division accounted for 43 per cent of the Group's turnover.

fidessa® can support trading in UK and international equities, and debt and derivative instruments. It provides real-time facilities for: calculating profit and loss positions; processing trade information; foreign exchange exposure; quote update and display; consolidation of positions; risk management; global trading; and management information. In 1997 the Group is providing extensions to the product range to support order driven trading in the UK and Europe and domestic equities trading in the USA.

fidessa® is designed to work with data distribution platforms, including Reuters' Triarch and TIBCO's TIB systems. Data distribution platforms are often used by securities firms as a standard means of supplying financial information within an organisation. **fidessa**® uses the network facilities provided by the data distribution platforms to both receive and publish information. For example, it receives real-time stock prices from the markets using the data distribution platforms and uses this information to update the profit and loss information within the position keeping system. The changed position is then published onto the data distribution platforms for updating the relevant trader's workstation. **fidessa**® is implemented using a three tier architecture.

Sales and marketing

The core **fidessa**® software is licensed on a per seat basis, usually with an annually renewable maintenance contract. Sales proposals are handled by an account manager, working in close collaboration with one or more senior technical consultants.

A typical sale will involve an initial period of consultancy, during which the Group's senior consultants will produce a detailed specification which sets out the requirements of the system, how it must interface with existing systems, performance requirements, IT environment considerations and project management tasks. Usually, a prototype of the system will also be configured using tools supplied with **fidessa**®, so that the customer is able to gain a good understanding of what the system will look like and how it will function. This approach builds mutual confidence that the customer's requirements and the Group's interpretation of them are aligned. The specification then forms the basis of the contract between the Group and the customer.

Following contract signature, a project team, headed by a project manager and one or more technical team leaders, is appointed. Typically, work will be required to interface **fidessa**® to in-house back-office settlement systems or to extend the functionality of various core **fidessa**® modules. These latter modifications are undertaken by a dedicated **fidessa**® product development team. The Group retains ownership of intellectual property rights arising from changes to the core modules. Each sale therefore usually involves a mixture of product licence and consultancy services revenues.

Significant repeat business is obtained from customers, as there is a constant need to upgrade system functionality in response to market requirements. It is common for the Group to supply personnel to work at a customer's site to provide ongoing support of the trading system.

Customer projects can range in value from £100,000 to in excess of £1,000,000. Customers of the Financial Division include:

BZW Services Limited
Cazenove & Co.
CS First Boston Limited
Daiwa Europe Limited
Hoare Govett Services Limited
ING Barings

Kleinwort Benson Limited
Merrill Lynch Europe Limited
Montgomery Securities
Morgan Stanley
Panmure Gordon & Co Limited
SBC Warburg Group Management Limited

Competition

Although the Group experiences competition from in-house developments, the Directors believe that pressure on IT costs and the increasing flexibility of financial trading packages such as **fidessa**®, have caused in-house systems development to become less attractive to many trading organisations.

Within the specialist equity trading systems market there are only a small number of active software companies, including TCAM Systems (UK) Limited, Soft Option Systems Limited and Automated Securities Clearance Ltd (Inc.). The Directors believe that the strength of royalblue's reputation and technological lead in this market enable it to compete effectively.

Future developments

The Directors believe that the Group is well positioned to benefit from the demand for new systems which is being generated by the introduction in the UK of an order driven market, and already has customers for new modules within **fidessa**® which will support trading in SETS, the London Stock Exchange's electronic trading service, which is

expected to be introduced later in 1997. The Directors also intend to build on the Group's initial success in the USA and to develop further the Group's position in the market for Nasdaq trading support systems. The Directors believe that these developments will expand the Group's customer base and generate further repeat revenues from system upgrades and enhancements.

Investment in new systems may be affected by the buoyancy of the equity markets, particularly in the UK and USA. A significant downturn may reduce investment in new systems. However, by expanding its customer base and by maintaining its technological advantages and reputation for quality of service, the Directors believe that the Group can minimise the impact of a downturn.

Customer Interaction Software Division

Market

Customer Interaction Software ("CIS") is a term used to describe front-line business application software which provides a support operation with the functions it needs to record, monitor and resolve support calls. Typical application areas for CIS software include: IT help desks; customer support; complaints hot-lines; enquiry handling; property maintenance; product support; defect tracking; incident management; and ideas/suggestion management. The Directors believe that any means of improving the efficiency with which a help desk provides its service will bring immediate business benefits.

In May 1996 a report, "Managing Customers with Next-Generation Software Application: 1996 Edition", published by Aberdeen Group, a USA market research organisation, estimated that the global CIS market was worth approximately \$1.0 billion in 1995 and will grow at an average annual compound rate of 39 per cent to 1999.

Products and services

The Group's CIS Division develops, markets, sells and supports **HelpDesk**[®]. In 1996, this Division accounted for 35 per cent of the Group's turnover.

HelpDesk[®] is a software product which provides the functionality required for providing effective support, including: call logging; problem solving; inventory and customer management; and management statistics and reporting. **HelpDesk**[®] has a high degree of flexibility and scalability and can therefore be used for both small and large support operations.

HelpDesk[®] is designed to enable support personnel to retrieve quickly a customer's details, including information on previous support calls from that customer, the products they use and any problems which are outstanding. Using an intuitive graphical user interface, the details of the call can be captured and the system will automatically assign response times against the call, based on either the caller, the product, the nature of the problem, or a combination of these. If the call is not progressed quickly enough, the system will alert the operator that action must be taken. To help resolve the call, **HelpDesk**[®]'s InfoMine[®] function provides the ability to search **HelpDesk**[®]'s knowledge base to find details of similar calls and the ways in which they were resolved. In this way, the system is designed to assist new staff to become effective quickly in their support role. Furthermore, the call can be assigned to staff with expertise in the particular problem area for further action. Once the call is resolved to the customer's satisfaction the system records details of how long the call took to resolve and any new solutions to the problem raised can be added to the knowledge base. Full reporting features allow management to be able to see how the support desk is performing by measuring the number of calls taken, the number resolved, high priority calls outstanding or other measures selected by the customer.

HelpDesk[®] is implemented using an object orientated design methodology. The software runs on all mainstream Microsoft[™] compatible environments and networks and is a 32-bit client server application which has been independently certified by Microsoft[™] as fully compatible with Windows[®] 95 and Windows[®] NT. The software can run on Windows[®] 3.X environments using Microsoft[™]'s WIN32S dynamic link library. The product is also certified as Microsoft[™] BackOffice compatible. **HelpDesk**[®] is able to support a range of databases to store information on customers, calls or products using Open Database Connectivity software. Examples of databases supported include SQL Server and ORACLE.

In 1996 **HelpDesk**[®] won EMAP plc's Network Application Product of the Year Award.

Sales and marketing

The Directors believe that a key feature in the success of **HelpDesk**[®] is its flexibility. All support operations differ in the way they work and the products they support. **HelpDesk**[®] has been designed so that it can be configured by customers to be appropriate for their environment. An important factor for successfully implementing a new support system is to define carefully the business objectives to be met and then design the supporting business processes.

Recognising this, the Group's CIS Division employs a team of customer support personnel who have in-depth experience of implementing support systems.

A typical sale will therefore involve the Group supplying a mixture of product licence, training and consultancy services to help the customer design its support procedures and then assist in adapting **HelpDesk®** to implement them.

Since **HelpDesk®** was launched, the Group has invested in building a strong brand image for the product through a combination of regular advertising, public relations and various promotional materials. Leads generated by marketing are followed up by a combination of telesales personnel and a dedicated sales team. **HelpDesk®** is licensed on a per seat basis, typically with an annually renewable maintenance contract. Consultancy services for designing support procedures and assisting with implementing **HelpDesk®** are charged on a time and materials basis.

Support for users of the Group's **HelpDesk®** software is provided by a dedicated support team who themselves use **HelpDesk®** for supporting the customer base of over 3,500 installed seats.

Typical new order values for **HelpDesk®** systems range between £15,000 and £50,000. Repeat business is received in the form of additional user licences, further consultancy services, as customers extend the use of the system, and maintenance renewals.

The CIS Division has over 400 customers including:

BP Oil UK Limited	Napp Pharmaceutical Group Limited
Going Places Leisure Travel Limited	otel (Office of Telecommunications)
Lloyds Bank plc	The Automobile Association
Marks & Spencer plc	TPS Call Sciences Limited
Ministry of Defence	

Competition

Due to the size, growth and diverse nature of the CIS market there are a large number of suppliers aiming at different segments of the market. Amongst others, the Group competes with Astea International Inc, Magic Solutions Inc and Remedy Corporation. The Directors believe that the Group is well positioned to compete effectively in the market due to **HelpDesk®**'s technologically advanced design and by providing superior implementation and post-sales support services.

Future developments

The Directors believe that the continual drive to improve the efficiency and service quality of IT help desks and customer support centres will generate further demand for CIS software which enhances the ability of these operations to record, monitor and resolve support calls. The Directors believe that the Group is well positioned to benefit from this growth in the CIS market and plan to expand sales of **HelpDesk®** into Europe and the USA as well as increasing the Group's UK market share.

Call Centres Division

Market

With the growing need for many companies to conduct their business quickly and deal with large numbers of customers in a cost-effective and efficient manner, many are setting up call centres to increase the proportion of business they conduct by telephone. Financial services organisations have been at the forefront of establishing call centres with many banks and insurance companies already operating one or more centres.

Other users of call centres include those engaged in market research, enquiry services, debt collection and telesales.

CTI is a technology whereby a software system can control the operation of one or more telephony devices, such as PABXs, Automated Call Distributors and Interactive Voice Response systems. With CTI, it is possible to improve the efficiency and service quality of a call centre.

The potential market place for CTI technology is very large, ranging from a small call centre of 10 people through to multi-site systems of many hundreds of agents. The European market revenue between 1995 and the year 2000 is estimated to rise from \$70 million to \$1 billion (Source: Schema: "Computer Telephony Integration in Europe: An Update").

Products and services

The Call Centres Division develops, markets, sells and supports **ROSTRVM**[®], a suite of CTI software for use by businesses who rely on telephone contact with their customers. In 1996 this Division accounted for 22 per cent of the Group's turnover.

ROSTRVM[®] is a software product designed specifically to satisfy corporate CTI platform requirements for both single and multi-site operations and for call centres operating multiple business applications handling a wide variety of call types. Functionally it provides the following features: a standard CTI call centre platform for use throughout an organisation; interfaces to telephony devices; a suite of management tools; support for call centre agents; interfaces for application developers; and functions for supervisors across multiple hardware and software platforms.

By using **ROSTRVM**[®], applications software can control a wide range of telephony devices in order to receive incoming calls, make outgoing calls, place calls on and off hold, conference calls with other agents and transfer calls with data collected during the call. Facilities are also provided for automating outbound dialling from lists of contact numbers and supplying the calling line identification of the caller to the application, so that the name of the caller or organisation may be ascertained. As it provides a standard interface between applications software packages and the telephony devices, **ROSTRVM**[®] is able to collate management statistics about the overall efficiency of the call centre's operations, such as the number of calls made by each agent during a day.

ROSTRVM[®] currently supports interfaces to the following telephony devices: Aspect Telecommunication Limited's CallCenter; GPT Limited's iSDX; Lucent Technologies UK Limited's Definity; Northern Telecom's Meridian; and Rockwell Switching Systems Limited's Spectrum. For building telesales and similar call scripting applications, **ROSTRVM**[®] has an interface to Cedardata plc's Tele-Connect package.

Sales and marketing

A key element of the Call Centres Division's sales strategy is to work closely with partners who are also suppliers to the call centres market and to position the Group as the partner of choice for CTI technology. The Division currently works with Aspect Telecommunication Limited, Syntegra, Mercury Communications Limited, Northern Telecom, Rockwell Switching Systems Limited, Siemens Business Communications Systems Limited, Unisys Limited and Vocalis Group plc.

Direct sales by the Division are handled by a dedicated sales team working in close collaboration with senior technical consultants. The core **ROSTRVM**[®] technology is licensed on a per agent basis and associated consultancy services are usually supplied to support the installation of the product and its integration with other systems. The Division provides support through an annually renewable maintenance contract.

Customer projects can range in value from £50,000 to in excess of £500,000. Customers of the Call Centres Division include:

Abbey National plc	Siemens Business Communications Systems Limited
British Telecommunications plc	Seaboard plc
Legal & General Assurance Society Limited	Littlewoods Lotteries Limited

Competition

The Group's main competitor in the UK call centres market for CTI is Genesys Telecommunications Laboratories Europe Limited, who have a reseller agreement for their software with British Telecommunications plc. Microsoft[™] also offers a CTI support product with TAPI 2. The Directors believe that the Group differentiates itself from its competition in the UK by providing strong technical support from its own specialists who have direct experience of dealing with the complexities that arise from CTI integration projects. The Directors also believe that the Group benefits by not being strongly aligned with any one telecommunications equipment supplier, positioning it to be better able to provide an independent solution best suited to a customer's needs.

Future developments

The Directors believe that the market for CTI technology software is still relatively small and immature. Sales cycles can be lengthy, complex and highly competitive and the timing and size of orders can therefore be difficult to predict. However, the Directors believe that the growing amount of business conducted using the telephone will increase the adoption of CTI technology in order to improve the volume and quality of call handling in call centres. The Directors believe that the advanced functions provided by **ROSTRVM**[®] and the Group's experience in implementing CTI solutions means that the Group is well positioned to benefit from this predicted increase in demand.

Financial information

The summary financial record of the Group, set out below, has been extracted from the Accountants' Report contained in Part II of this document.

	Years ended 31 December		
	1994 £000	1995 £000	1996 £000
Turnover	5,169	7,229	11,679
Operating profit	233	1,037	1,940
Share of loss of associate	—	—	(55)
Net interest receivable	17	67	131
Profit on ordinary activities before taxation	250	1,104	2,016
Taxation	(75)	(379)	(718)
Profit after taxation	175	725	1,298
Earnings per Ordinary Share			
basic	0.8p	3.2p	5.8p
fully diluted	0.6p	2.6p	4.6p

Over the three years ended 31 December 1996 the Group's turnover has experienced a compound annual growth rate of 50 per cent. Over 90 per cent of its turnover has been generated from the UK in each year. The corresponding growth in profits before taxation is 184 per cent resulting in the pre-tax profit margin improving from 4.8 per cent in 1994 to 17.3 per cent in 1996. The Group is cash generative and as at 30 April 1997 had a cash balance of over £2.48 million.

Operating profit is calculated after charging research and development expenditure which, in the year to 31 December 1996, was £1,159,000 computed on the basis of direct cost with no overhead allocated. This represents 9.9 per cent of turnover for the year and is an increase of 76 per cent over 1995's expenditure of £656,000. No research and development expenditure is capitalised on the balance sheet.

Current trading and prospects

Since the end of 1996, the Group has continued to trade strongly and had received orders worth over £11.3 million as at 12 May 1997. In particular, the Group has benefited from an increased level of orders due to demand for its new **fidessa** modules which will support trading in SETS, the new order driven market which is planned to be introduced by the London Stock Exchange later this year.

The orders received in 1997 include one contract in the UK worth £2.5 million over the next three years and orders worth over \$2.4 million for implementing trading support systems in New York and San Francisco. The Directors are particularly encouraged by the levels of orders received to date. However, whilst revenue is expected to increase in the first six months of this year, the Group's results during this period will be affected by the start up costs in the USA and certain expenses relating to the Placing which will be charged to the Group's profit and loss account. In addition, the Group will be implementing the provisions of the recently published Urgent Issues Task Force abstract 17 (Employee Share Schemes) for the first time. The Directors estimate that the charge in 1997 will be approximately £150,000 but will not affect the Group's cash position.

The Directors believe that the markets in which the Group operates will continue to grow and develop in ways which will increase demand for the Group's products and services. In particular, they believe that:

- for **fidessa**® – the increasing globalisation of equities investment and trading and changes to the ways in which stock markets function (for example, the planned introduction in the UK of SETS, the London Stock Exchange's electronic trading service for order driven trading and rule changes in Nasdaq in the USA) will generate increasing demand for trading support systems which are more flexible, support greater functionality, higher trading volumes and are highly resilient;
- for **HelpDesk**® – the continual drive to improve the efficiency and service quality of IT help desks and customer support centres will generate further demand for help desk software which enhances the ability of these operations to record, monitor and resolve support calls; and

- for **ROSTRVM**® – the growing amount of business conducted using the telephone will increase the adoption of CTI technology in order to improve the volume and quality of call handling in call centres.

Directors, senior management and employees

The Group has a proven management team with many years experience in the market. The Board consists of three executive Directors and two non-executive Directors. Details of the Board and senior management are set out below.

Directors

Colin M Amies (57), non-executive Chairman

Colin Amies joined the Group as a non-executive director in September 1995 and was appointed non-executive Chairman in May 1996. He has industrial experience in electronics and telecommunications, banking experience as a corporate finance director and electronic industry adviser at Midland Bank Group plc and has recently spent eleven years in venture capital with Advent Limited, a firm specialising in the high-technology sector. He has held various board appointments including chairman of Kapiti Limited (a supplier of financial software systems) and director of Filtronic Limited, the former parent of Filtronic Comtek plc. He is currently a non-executive director of DCS Group plc (a quoted software products and services company) and Saladin Limited.

John R Hamer (37), Chief Executive

John Hamer joined the Group in January 1983 as a software engineer, having previously worked for the Central Electricity Generating Board designing power station control systems software and having obtained a BSc. Hons (1st) in Computer Science from Leeds University. Since joining the Group he has been involved in all aspects of developing the business: software; financial; sales and marketing; and management. In January 1992 he assumed full responsibility for the Group's operations.

Andy Malpass (35), Finance Director

Andy Malpass joined the Group in April 1995 as Finance Director and has over 12 years experience in the software industry. Prior to joining royalblue he spent over five years with Systems Designers Plc. He is a fellow of the Chartered Institute of Management Accountants and is a non-executive director of ICIS Technology Limited, a company in which the Group retains an investment.

Chris J F Aspinwall (34), Executive Director

Chris Aspinwall joined the Group in August 1986 as a software engineer. He is the managing director of the Financial Division and is the CEO of royalblue technologies corporation. Previously he worked with Scicon Limited, now part of EDS. He holds a BSc. (Hons) in Computer Science from York University.

Leon H Liebman (56), non-executive Director

Leon Liebman was appointed to the Board in July 1992. He was founder of Interactive Market Systems, Inc. in 1969 and was Chairman and Chief Executive until that company was sold to VNU in 1983. His other directorships in the UK include Saladin Limited, Financial and Commodity Computer Services Limited and Brynlake Limited. In the USA he is a director of Resource Data International Inc., Roper Starch Worldwide Inc. and Teletrade Inc.

Senior management

The senior management team comprises the following individuals:

Financial Division

Stephen L Barrow (38), sales and marketing director

Stephen Barrow joined the Group in December 1989 and has over 19 years sales experience. Prior to joining the Group he spent two years with Digital Equipment Limited selling to the financial sector.

Call Centres Division

David F Mackenzie (38), managing director

David Mackenzie joined the Group in 1986. Previously he worked for GEC Computers Limited in the UK, Australia and Singapore.

Colin H McLaren (44), sales and marketing director

Colin McLaren joined the Group in 1987. He has over 18 years sales and marketing experience in software systems, including two years with Systems Designers plc.

Customer Interaction Software Division

Alan D Neilson (39), managing director

Alan Neilson joined the Group in 1992. He has over 15 years of sales and marketing experience in the software industry, including positions with Systime Computers plc, Mannesman Kienzle Limited and, prior to joining the Group, Oracle Corporation.

Employees

The average number of persons employed by the Group for the three years ended 31 December 1996 was as follows:

	Years ended 31 December		
	1994	1995	1996
Technical	54	57	80
Sales and administration	21	27	39
	75	84	119

Employee share participation

Demand for skilled software staff is high and the Directors believe that the Group's success is critically dependent on its ability to motivate and retain its employees. The Group has therefore implemented a number of share and profit sharing incentive schemes which have also ensured that employee and shareholder objectives are closely aligned.

In particular, since December 1995, under the Existing Option Scheme, certain employees have been granted options to subscribe for 5,566,240 Ordinary Shares at nominal value. Such Ordinary Shares under option will represent 16.9 per cent of the enlarged share capital following the Placing and following the exercise of the options under the Existing Option Scheme.

Subject to the Group's employee share dealing rules, options over 467,568 Ordinary Shares, representing 1.7 per cent of the enlarged share capital following the Placing, may be exercised at any time following Admission. The balance of the options may be exercised in four equal annual tranches commencing one year following Admission provided that, subject to certain exceptions, the employee remains employed by the Group at the date of exercise.

As at 3 June 1997, 92 employees had options to subscribe for shares under the Existing Option Scheme, 80 per cent of these shares under option were allocated to non-Board members. The Directors consider that the Existing Option Scheme is a particularly effective way of rewarding, retaining and motivating a large proportion of the Group's employees.

The Accounting Standards Board's Urgent Issues Task Force has recently published an abstract on the accounting treatment of options granted at a discount to market value. This will result in a charge to the Group's profit and loss account in 1997 and future years. The amount of the charge will be determined by the difference between the exercise price and the market value of ordinary shares at the date of grant of the relevant options, spread over the period over which the options can be exercised which, in the case of options granted under the Company's option scheme, is approximately four and a half years. The Directors estimate that the charge in 1997 will be approximately £150,000 but will not affect the Group's cash position.

The Group has adopted a new share incentive scheme, the Performance Related Share Plan, conditionally upon Admission. No options will be granted under the Performance Related Share Plan prior to Admission. The Group will also, prior to Admission, establish the EBT which will, on or shortly after Admission, subscribe for 1,373,223 Ordinary Shares at the Placing Price for the purpose of satisfying the exercise of options under the Performance Related Share Plan which may be granted by the EBT. Further details of royalblue's share incentive schemes and of the EBT, the primary purpose of which is to retain and attract key employees, are set out in paragraph 4 of Part III.

The issue of Ordinary Shares to satisfy the exercise of outstanding options granted under the Existing Option Scheme will not be counted towards the overall limits that will apply to the grant of options by the Company following Admission. However, the grant by the Company of options to subscribe new Ordinary Shares pursuant to the Performance Related Share Plan will count towards the overall limits on options granted under employee share option schemes in the rules of that scheme which comply with the Association of British Insurers' guidelines for share option and share incentive schemes.

Following the Institutional Placing and Employee Share Offer it is expected that the Directors and employees (including the EBT) will hold in aggregate over 24.8 per cent of the issued share capital of the Company.

Corporate governance

The Board has formally reviewed the compliance of the Group with the provisions of the Code of Best Practice, published in December 1992 by the Cadbury Committee on the Financial Aspects of Corporate Governance, and with the recommendations of the Greenbury Study Group on Directors' Remuneration.

Save in relation to the number of non-executive Directors, the Board considers that the Group complies with the Code and the recommendations of Greenbury so far as presently applicable to it. The Cadbury Committee recommends the appointment of three non-executive Directors; however, given the present size of the Group, the Directors believe that two non-executive Directors (including the non-executive Chairman) are appropriate and sufficient to ensure the good corporate governance of the Group.

Premises

royalblue's head office is in Woking, Surrey and comprises approximately 15,500 sq ft of modern leasehold office space. The Group has recently taken on an additional 6,600 sq. ft. of office space in Woking to accommodate the growth in the Group's operations. The Group also has a leasehold office in the City of London which is used primarily as a sales office for the Financial Division. The Group's US subsidiary, royalblue technologies corporation, operates from approximately 1,500 sq ft of leasehold offices in Manhattan, New York and the Directors expect to take on extra space in Manhattan during 1997.

The US market for **fidessa**® is serviced by the New York office which has a complement of sales and technical staff for providing systems development and support capability for requirements specific to Nasdaq.

Reasons for the Placing and use of proceeds

The Directors believe that the Placing will raise the status and market profile of the Group and will promote further awareness of the royalblue name in the UK, Europe and the USA. The Directors believe that this increased awareness will attract new customers and will help the Group in developing alliances with business partners.

The Directors believe that the Placing will provide liquidity and a market valuation for the Group's equity which, in conjunction with the share incentive schemes, will help the Group to continue to attract and retain high calibre employees. In addition, the new capital raised for the Group in the Placing will strengthen the Group's balance sheet and assist in the financing of future business ventures.

The Group will raise £6.0 million from the Placing. Of this approximately £0.8 million will be used to cover the expenses related to the Placing and the balance will be used for further expansion of the business.

Dividend policy

The Directors consider that if the Company's share capital had been quoted throughout the year ended 31 December 1996, they would have paid a total dividend of 1.875p per Ordinary Share (1.5p net of basic rate tax) in respect of that year. This would have represented a gross dividend yield of 1.1 per cent at the Placing Price.

It is intended to pay an interim dividend in or about November and a final dividend in or about May of each year in the proportion of approximately one third to two thirds respectively.

The Placing

6,826,156 Ordinary Shares are being made available in the Placing at the Placing Price, of which 3,296,744 Ordinary Shares, representing 48.3 per cent of the Placing Shares, are being sold by existing shareholders and 3,529,412 new Ordinary Shares, representing 51.7 per cent of the Placing Shares, are being issued by the Company. The Ordinary Shares being sold principally represent 20 per cent of the existing holdings of each of Advent, interests associated with two founder shareholders, two executive Directors and one member of the Group's senior management. Simultaneously with the Placing, 3i plc intends to sell 20 per cent of its existing holding to 3i Smaller Quoted Companies Investment Trust plc.

The Ordinary Shares being issued by the Company will raise approximately £5.2 million, net of expenses, and will represent 12.85 per cent of the enlarged issued share capital following the Placing. Of such shares, 343,522 are being offered by the Company to Qualifying Employees at the Placing Price on terms equivalent to the Institutional Placing. In addition, 1,373,223 new Ordinary Shares will be allotted to the EBT at the Placing Price.

The Directors have agreed with Hoare Govett not to dispose of any of their Ordinary Shares following the Placing until the announcement of the results of the Company for the twelve months ending 31 December 1997 and the Directors have further undertaken that, until publication of the preliminary results for the 12 months ending 31 December 1998, they will only dispose of such shares with Hoare Govett's consent. In addition, certain other shareholders holding in

aggregate 10,172,480 Ordinary Shares have undertaken that, during the period from Admission until publication of the interim results for the six months ending 30 June 1997, they will not dispose of any such shares and have further undertaken that, until publication of the preliminary results for the 12 months ending 31 December 1997, they will only dispose of such shares with Hoare Govett's consent.

The Placing has been fully underwritten by Hoare Govett and is conditional upon Admission becoming effective and the Placing Agreement becoming unconditional in all respects. Details of the Placing Agreement are contained in paragraph 9 of Part III.

The Company's shareholding profile immediately following the Placing is expected to be as follows:-

	<i>Number of Ordinary Shares</i>	<i>Percentage of issued share capital %</i>	<i>Percentage of fully diluted issued share capital %</i>
Venture capitalists and founding shareholders	12,889,891	46.9	39.0
Directors and connected persons	2,699,286	9.8	8.2
Other employees and connected persons (including EBT)	4,121,464	15.0	12.5
Institutions and others	7,753,834	28.3	23.5
	27,464,475	100.0	83.2
Shares under option under the Existing Option Scheme	5,566,240		

CREST

CREST, which was introduced in July 1996, is a paperless settlement procedure enabling securities to be evidenced otherwise than by certificate and transferred otherwise than by written instrument. By a resolution of the Board the Ordinary Shares have been made eligible for settlement by CREST and the new Articles of Association of royalblue, to be adopted with effect from Admission, will permit the holding of Ordinary Shares under the CREST system. The Directors have applied for the Ordinary Shares to be admitted to CREST with effect from Admission. Accordingly, settlement of transactions in the Ordinary Shares following Admission may take place within the CREST system if the relevant shareholders so wish.

CREST is a voluntary system and holders of Ordinary Shares who wish to receive and retain share certificates will be able to do so. Persons acquiring shares as part of the Placing may elect to receive Ordinary Shares in uncertificated form if, but only if, that person is a "system-member" (as defined in The Uncertificated Securities Regulations 1995) in relation to CREST. It is intended that placees who are system-members will pay for their Placing Shares through the CREST payment system. Further information is set out in the placing letters used in connection with the Placing.

Part II – Accountants' report

Set out below is the text of a report by the Reporting Accountants KPMG, Chartered Accountants:

The Directors
royalblue group plc
Kings Court
Church Street East
Woking
Surrey GU21 1HA



The Directors
Hoare Govett Corporate Finance Limited
4 Broadgate
London EC2M 7LE

3 June 1997

Dear Sirs

royalblue group plc

royalblue group plc was incorporated as a public company on 6 August 1996 and on 5 February 1997 acquired the whole of the share capital of royalblue technologies plc. royalblue group plc, together with royalblue technologies plc and its subsidiaries are collectively referred to as "the Group".

We have examined the audited financial statements of the Group for the three years ended 31 December 1996. Our examination has been carried out in accordance with the Auditing Guideline: Prospectuses and the Reporting Accountant.

We have acted as auditors of the Group throughout this period.

The financial information set out in this report, prepared on the basis set out in note 4.1, is based on the audited financial statements for the three years ended 31 December 1996 after making such adjustments as we considered necessary.

In our opinion the financial information gives, for the purposes of the listing particulars and prospectus, a true and fair view of the profits and cash flows and of the state of affairs of the Group for the periods and as at the dates stated.

1. Profit and loss accounts

		Years ended 31 December		
	Note	1994 £000	1995 £000	1996 £000
Turnover	4.2	5,169	7,229	11,679
Cost of sales	4.3	(588)	(451)	(717)
Gross profit		4,581	6,778	10,962
Operating expenses		(4,348)	(5,741)	(9,022)
Operating profit	4.4	233	1,037	1,940
Share of losses of associated undertaking		–	–	(55)
Profit on ordinary activities before interest		233	1,037	1,885
Net interest receivable	4.6	17	67	131
Profit on ordinary activities before taxation		250	1,104	2,016
Taxation on profit on ordinary activities	4.7	(75)	(379)	(718)
Profit on ordinary activities after taxation		175	725	1,298
Dividends paid and proposed	4.8	(15)	(33)	(401)
Retained profit for year		160	692	897
		1994	1995	1996
<i>Earnings per Ordinary Share (note 4.9)</i>				
Undiluted earnings per share	pence	0.8	3.2	5.8
Fully diluted earnings per share	pence	0.6	2.6	4.6

There were no recognised gains or losses other than those recognised in the profit and loss account. All items relate to continuing operations.

2. Balance sheets

		Years ended 31 December		
	Note	1994 £000	1995 £000	1996 £000
Fixed assets				
Tangible fixed assets	4.10	352	533	1,351
Investments	4.11	50	50	50
		402	583	1,401
Current assets				
Debtors	4.12	1,302	2,115	3,284
Cash at bank and in hand		839	2,256	3,203
		2,141	4,371	6,487
Creditors – amounts falling due within one year	4.13	(1,354)	(3,224)	(5,143)
Net current assets		787	1,147	1,344
Total assets less current liabilities		1,189	1,730	2,745
Creditors – amounts falling due after more than one year	4.15	(48)	(95)	(268)
Net assets		1,141	1,635	2,477
Capital and reserves				
Called up share capital	4.16	55	56	56
Other reserves	4.17	148	149	149
Goodwill reserve	4.18	–	–	(55)
Profit and loss account	4.19	938	1,430	2,327
		1,141	1,635	2,477

3. Cash flow statements

		Years ended 31 December		
		1994	1995	1996
	Note	£000	£000	£000
Net cash inflow from operating activities	4.21	655	1,972	2,385
Returns on investment and servicing of finance				
Interest received		27	77	151
Dividend received		7	–	20
Interest paid		(4)	(2)	–
Interest element of hire purchase payments		(6)	(8)	(20)
Dividend paid		(15)	(15)	(233)
Net cash inflow/(outflow) from returns on investments and servicing of finance		9	52	(82)
Taxation				
Corporation tax paid including advance corporation tax		(148)	(78)	(450)
Investing activities				
Purchase of tangible fixed assets		(238)	(272)	(873)
Purchase of subsidiary undertaking (net of cash and cash equivalents acquired)		–	–	30
Sale of tangible fixed assets		68	8	32
Net cash outflow from investing activities		(170)	(264)	(811)
Net cash inflow before financing		346	1,682	1,042
Financing				
Issue of ordinary share capital by subsidiary	4.23	–	1	–
Capital element of hire purchase repaid	4.22	(92)	(66)	(95)
Share repurchase by subsidiary	4.23	–	(200)	–
Net cash outflow from financing		(92)	(265)	(95)
Increase in cash	4.24	254	1,417	947

4. Notes to the financial statements

4.1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered to be material in relation to the financial statements throughout the period under review.

Basis of preparation

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

Basis of consolidation

The Group accounts incorporate the financial statements of the parent company and its subsidiary and associated undertakings on the basis that the Group had been in existence in its current structure for the three years covered by this report except that royalblue technologies corporation is included from its date of acquisition. The Group Reorganisation described in note 4.25 has been accounted for using merger accounting.

Other acquisitions are accounted for using the acquisition method of accounting. The excess of fair value of the purchase consideration over the fair value of net assets acquired is written off against reserves in the year of acquisition. A separate goodwill reserve has been created in the Group balance sheet for the purpose of writing off the goodwill arising on the acquisition of royalblue technologies corporation. The goodwill reserve so created is reduced by appropriation to the profit and loss account over a five year period.

Turnover

Turnover represents the net amount charged for goods and services supplied. Turnover is not accounted for on contracts until, in the opinion of the Directors, the outcome can be assessed with reasonable certainty and it is recognised in accordance with the percentage completed for each contract. Full provision is made for all known or expected losses.

Depreciation of tangible fixed assets

Depreciation is provided on a straight line basis over the estimated useful lives of tangible fixed assets as follows:

Furniture and equipment	three to ten years
Computers	two years
Motor vehicles	three to four years

Investments

The investment is stated at the lower of cost and net realisable value.

Leased assets

Where the Group enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset the lease is treated as a finance lease. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included with creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation for future instalments.

All other leases are accounted for as "operating leases" and the rental charges are charged to the profit and loss account on a straight line basis over the life of the lease.

Research and development costs

The costs of developing the Group's own software products are written off as incurred. The cost of research and development is computed on the basis of direct cost without any overhead allocation.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

Foreign currencies

Assets and liabilities expressed in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial year. The results of foreign subsidiaries are translated at the average rate of exchange for the year. Differences on exchange arising from the translation of the results of those companies at the average rate are taken to reserves. All other foreign exchange differences are taken to the profit and loss account as they arise.

4.2 Analysis of turnover

Turnover, all of which relates to the Group's one principal activity of developing software, is analysed by geographical destinations as follows:

	<i>Years ended 31 December</i>		
	<i>1994</i>	<i>1995</i>	<i>1996</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
UK	4,869	6,983	11,262
Europe	109	109	77
Asia	68	52	2
USA	123	85	338
	<u>5,169</u>	<u>7,229</u>	<u>11,679</u>

Further analysis of profit before taxation and net assets is considered by the Directors to be seriously prejudicial to the interests of the Group.

4.3 Cost of sales

Cost of sales represents the cost of bought in goods and services from which revenue has been recognised in the period.

4.4 Operating profit

The operating profit before interest and taxation is arrived at after charging/(crediting):

	<i>Years ended 31 December</i>		
	<i>1994</i>	<i>1995</i>	<i>1996</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Depreciation on owned assets	155	176	298
Depreciation on leased assets	46	45	100
Auditors' remuneration	11	11	21
Other fees paid to auditors	9	4	14
Hire of equipment	167	173	174
(Profit)/loss on sale of tangible fixed assets	(15)	(6)	4
Dividend received	(7)	-	(20)
Research and development	455	656	1,159

4.5 Directors and staff

The average number of persons employed by the Group, including executive Directors, during the period was as follows:

	<i>Years ended 31 December</i>		
	<i>1994</i>	<i>1995</i>	<i>1996</i>
	<i>Number</i>	<i>Number</i>	<i>Number</i>
Technical	54	57	80
Sales and administration	21	27	39
	<u>75</u>	<u>84</u>	<u>119</u>

Costs in respect of employees, including Directors, were as follows:

	Years ended 31 December		
	1994	1995	1996
	£000	£000	£000
Salaries	2,436	3,265	4,672
Social security costs	273	357	491
	<u>2,709</u>	<u>3,622</u>	<u>5,163</u>

Costs in respect of the present Directors of royalblue were as follows:

	Years ended 31 December		
	1994	1995	1996
	£000	£000	£000
Directors fees	12	15	36
Directors emoluments	183	332	438
Directors' pension contributions	-	11	15
	<u>195</u>	<u>358</u>	<u>489</u>

Directors' emoluments included benefits in kind. The emoluments (excluding pension contributions) of the Chairman were £26,071 (1995: £3,000; 1994: £nil) and those of the highest paid Director were £214,026 (1995: £166,840; 1994: £107,364). All fees for the services of C M Amies were paid directly to Advent Limited and Seima Consultants Limited. The emoluments of the Directors (excluding pension costs and including the highest paid Director) fell within the following bands:

	1994	1995	1996
	Number	Number	Number
£0 - £5,000	-	1	-
£10,001 - £15,000	1	1	1
£25,001 - £30,000	-	-	1
£35,001 - £40,000	-	1	-
£60,001 - £65,000	-	-	1
£70,001 - £75,000	1	-	-
£105,001 - £110,000	1	-	-
£125,001 - £130,000	-	1	-
£155,001 - £160,000	-	-	1
£165,001 - £170,000	-	1	-
£210,001 - £215,000	-	-	1

4.6 Net interest receivable

	Years ended 31 December		
	1994	1995	1996
	£000	£000	£000
Interest receivable	27	77	151
Interest payable on loans repayable within five years	(4)	(2)	-
Interest payable on finance leases	(6)	(8)	(20)
	<u>17</u>	<u>67</u>	<u>131</u>

4.7 Taxation

	Years ended 31 December		
	1994	1995	1996
	£000	£000	£000
UK Corporation tax at 33% (1995: 33%; 1994: 25%)	75	379	718

4.8 Dividends

The dividend per Ordinary Share has been calculated on the basis that the share capital of the Company as at 31 December 1996 (adjusted as described in note 4.25) had existed throughout the period.

	Years ended 31 December		
	1994	1995	1996
	£000	£000	£000
To holders of cumulative convertible participating preferred ordinary 10p shares			
Interim 35.93p (1995: nil; 1994: nil)	–	–	30
Final 36.12p (1995: 30.42p; 1994: 17.86p)	15	33	30
To holders of Ordinary Shares			
Interim 0.75p (1995: nil; 1994: nil)	–	–	170
Final 0.76p (1995: nil; 1994: nil)	–	–	171
	15	33	401

4.9 Earnings per share

The calculation of earnings per share is based on earnings of £1,298,000 (1995: £725,000; 1994: £175,000) and 22,561,840 Ordinary Shares, being the expected number of Ordinary Shares in issue prior to Admission assuming the reorganisation described in note 4.25 has taken place.

Fully diluted earnings per share has been calculated taking into account the 5,566,240 options granted under the Existing Option Scheme. The calculation is based on 28,128,080 Ordinary Shares.

4.10 Fixed assets

	Total £000	Furniture and equipment £000	Computers £000	Vehicles £000
Cost				
At 1 January 1994	676	191	242	243
Additions	301	78	155	68
Disposals	(120)	–	(6)	(114)
At 31 December 1994	857	269	391	197
Additions	404	54	180	170
Disposals	(57)	(3)	–	(54)
At 31 December 1995	1,204	320	571	313
Additions	1,252	422	501	329
Disposals	(250)	(68)	(64)	(118)
At 31 December 1996	2,206	674	1,008	524
Depreciation				
At 1 January 1994	371	94	159	118
Charged in year	201	38	106	57
Disposals	(67)	–	(2)	(65)
At 31 December 1994	505	132	263	110
Charged in year	221	49	126	46
Disposals	(55)	(1)	–	(54)
At 31 December 1995	671	180	389	102
Charged in year	398	100	209	89
Disposals	(214)	(63)	(64)	(87)
At 31 December 1996	855	217	534	104
Net book value				
At 31 December 1994	352	137	128	87
At 31 December 1995	533	140	182	211
At 31 December 1996	1,351	457	474	420

Included in the analysis are assets with a net book value of £510,000 (1995: £211,000; 1994: £85,000) acquired under hire purchase agreements. The depreciation charge for these assets was £100,000 (1995: £45,000; 1994: £46,000).

4.11 Investments

The investment of £49,710 in ICIS Technology Limited ("ICIS") represents royalblue technologies' holding of 3,500 A ordinary shares of 10 pence, 19,650 B preference shares of £1 and 29,710 C preference shares of £1. The preference shares are redeemable at dates to be determined by the ICIS board of directors. The ordinary shareholding represents 39 per cent of the equity of ICIS, which is registered in England.

	Years ended 31 December		
	1994 £000	1995 £000	1996 £000
Investment in ICIS	50	50	50

On 13 August 1996 royalblue technologies corporation was formed in the State of New York. 50 per cent of the equity of royalblue technologies corporation was purchased for \$50. On 31 December 1996 the remaining 50 per cent of the equity was purchased for a further \$50. The principal activity of royalblue technologies corporation is developing and selling computer software and associated services.

	<i>Years ended 31 December</i>		
	<i>1994</i>	<i>1995</i>	<i>1996</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
royalblue technologies corporation			
Opening balance	-	-	-
Share of losses	-	-	(55)
Reclassification to subsidiary status	-	-	55
Closing balance	-	-	-

4.12 Debtors

	<i>Years ended 31 December</i>		
	<i>1994</i>	<i>1995</i>	<i>1996</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Trade debtors	866	1,858	2,805
Amount due from ICIS	19	-	-
Other debtors	20	28	42
Recoverable ACT (due after more than one year)	4	8	100
Prepayments	162	168	190
Accrued income	231	53	147
	1,302	2,115	3,284

Accrued income represents amounts chargeable to customers for goods and services supplied but not yet invoiced.

4.13 Creditors ~ amounts falling due within one year

	<i>Years ended 31 December</i>		
	<i>1994</i>	<i>1995</i>	<i>1996</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Hire purchase obligations	40	59	149
Trade creditors	282	392	562
Corporation tax	97	345	717
Advance corporation tax	6	62	50
Other taxes and social security	284	538	642
Dividends	15	33	201
Accruals	347	683	1,100
Deferred income	283	1,112	1,722
	1,354	3,224	5,143

4.14 Deferred Income

Deferred income represents amounts invoiced to customers for goods and services not yet supplied.

4.15 Creditors – amounts falling due after more than one year

	Years ended 31 December		
	1994 £000	1995 £000	1996 £000
Hire purchase obligations	88	154	417
Less amounts due within one year	(40)	(59)	(149)
Due within two to five years	48	95	268

4.16 Share capital

	Years ended 31 December		
	1994 £000	1995 £000	1996 £000
Authorised			
611,799 Ordinary Shares (1994: 473,875)	48	61	61
84,000 cumulative convertible participating preferred ordinary shares of 10p each	8	8	8
	56	69	69
Allotted and fully paid			
472,623 Ordinary Shares (1994: 471,675)	47	48	48
84,000 cumulative convertible participating preferred ordinary shares of 10p each	8	8	8
	55	56	56

Options on 58,446 Ordinary Shares (1995: 58,755; 1994: nil) were in issue at 31 December 1996. The options are exercisable at par. The maximum number of options available under the Existing Option Scheme is 139,156. During 1996 options on 309 Ordinary Shares (1995: nil; 1994: nil) lapsed.

The cumulative convertible participating preferred ordinary shares may be converted at par into ordinary shares at any time at the option of the holders of those shares and in any event on Admission. The class of cumulative convertible participating preferred ordinary shares is entitled to a total dividend equal to 3 per cent of the profit on ordinary activities before taxation for each financial year, subject to a minimum of £15,000.

Changes in the share capital since 31 December 1996 are described in note 4.25.

4.17 Other reserves

	Years ended 31 December		
	1994 £000	1995 £000	1996 £000
Balance brought forward	147	147	149
Shares issued by subsidiary	–	2	–
Balance carried forward	147	149	149

4.18 Goodwill reserve

	Years ended 31 December		
	1994 £000	1995 £000	1996 £000
Balance brought forward	–	–	–
Goodwill written off on acquisition	–	–	(55)
Balance carried forward	–	–	(55)

4.19 Profit and loss account

	Years ended 31 December		
	1994 £000	1995 £000	1996 £000
Balance brought forward	778	938	1,430
Retained profit for the year	160	692	897
Shares repurchased during the year by subsidiary	–	(200)	–
Balance carried forward	938	1,430	2,327

4.20 Operating lease commitments

	Years ended 31 December		
	1994 £000	1995 £000	1996 £000
Land and buildings			
Leases expiring within one year	–	–	–
Leases expiring between two and five years	135	155	245
	135	155	245
Other			
Leases expiring within one year	46	25	5
Leases expiring between two and five years	59	68	129
	105	93	134

4.21 Reconciliation of operating profit to net cash inflow from operating activities

	Years ended 31 December		
	1994 £000	1995 £000	1996 £000
Operating profit	233	1,037	1,940
Depreciation charges	201	221	398
(Profit)/loss on sale of fixed assets	(15)	(6)	4
(Increase) in debtors	(152)	(809)	(1,093)
Increase in creditors	395	1,529	1,156
Dividend received	(7)	–	(20)
Net cash inflow from operating activities	655	1,972	2,385

4.22 Analysis of changes in financing

	Years ended 31 December		
	1994 £000	1995 £000	1996 £000
Balance brought forward	117	88	154
New finance leases	63	132	358
Repayment of loans and finance leases	(92)	(66)	(95)
Balance carried forward	88	154	417

4.23 Reconciliation of shareholders' funds

	Years ended 31 December		
	1994 £000	1995 £000	1996 £000
Balance brought forward	981	1,141	1,635
Retained profit for the year	160	692	897
Shares issued by subsidiary	–	2	–
Shares purchased by subsidiary	–	(200)	–
Goodwill written off on consolidation	–	–	(55)
Balance carried forward	1,141	1,635	2,477
Amount attributable to equity shares	1,133	1,627	2,469
Amount attributable to non equity shares	8	8	8

4.24 Analysis of changes in cash during the year

	Years ended 31 December		
	1994 £000	1995 £000	1996 £000
Balance brought forward	585	839	2,256
Net cash inflow	254	1,417	947
Balance carried forward	839	2,256	3,203

4.25 Post balance sheet events

On 31 January 1997 the trade and certain assets of Appleby Technologies Inc. were acquired by royalblue technologies corporation for a total consideration of \$1,540,000.

On 5 February 1997 the shareholders in royalblue technologies plc exchanged their shares for an equivalent number of the same class and rights in royalblue.

On 5 March 1997 the authorised share capital of the Company was increased from £69,577.90 to £70,320.20 by the creation of 7,423 Ordinary Shares.

On 22 April 1997 1,485 Ordinary Shares were allotted and issued, credited as fully paid, to funds of which Leon Liebman is the beneficiary and a total of 5,938 Ordinary Shares were allotted and issued, credited as fully paid, to Colin Amies and a trust of which he is a beneficiary.

By a special resolution passed on 2 June 1997 it was resolved, *inter alia*, conditional on Admission:

- (i) to make a 39 for one bonus issue of shares to shareholders on the register immediately prior to Admission, utilising part of the share premium arising on the new shares issued in the Placing for that purpose; and
- (ii) to increase the authorised share capital of the Company from £70,320.20 to £4,360,000.00 by the creation of an additional 42,896,798 Ordinary Shares.

Each cumulative convertible participating preferred ordinary share will convert into an Ordinary Share on Admission.

Yours faithfully

KPMG
Chartered Accountants

Part III – Additional information

1. The Company

The Company was incorporated and registered in England and Wales on 6 August 1996 with registered number 3234176 as a public company limited by shares with the name royalblue group plc. The principal legislation under which the Company operates is the Companies Act 1985 as amended by the Companies Act 1989 (the "Act"). The Company's registered office and principal place of business is at Kings Court, Church Street East, Woking, Surrey GU21 1HA.

2. Share and loan capital

- (a) On incorporation the authorised share capital of the Company was £50,000 divided into 50,000 ordinary shares of £1 each of which three such ordinary shares ("the Subscriber Shares") were issued fully paid to the subscribers to the Company's Memorandum of Association. On 18 December 1996 one of the Subscriber Shares was transferred to Mrs C Malpass and the other two Subscriber Shares were transferred to Mrs K Hamer.
- (b) On 30 January 1997 each of the authorised ordinary shares, issued and unissued, of £1 each were sub-divided into ten Ordinary Shares and the authorised share capital was then increased from £50,000 to £69,577.90 by the creation of an additional 111,779 Ordinary Shares and 84,000 new cumulative convertible participating preferred ordinary shares of 10p each ("Preferred Ordinary Shares"). On 5 February 1997 472,593 Ordinary Shares and 84,000 Preferred Ordinary Shares were issued, credited as fully paid, to the shareholders of royalblue technologies, on the basis of a one for one share exchange and according to the respective classes held, in consideration for the transfer of the entire issued ordinary share capital in royalblue technologies to the Company.
- (c) On 5 March 1997 the authorised share capital of the Company was increased from £69,577.90 to £70,320.20 by the creation of 7,423 Ordinary Shares.
- (d) On 22 April 1997 1,485 Ordinary Shares were allotted and issued, credited as fully paid, to funds of which Leon Liebman is the beneficiary and a total of 5,938 Ordinary Shares were allotted and issued, credited as fully paid, to Colin Amies and a trust of which he is a beneficiary, in each case at £20 per share.
- (e) By a Special Resolution passed on 2 June 1997 it was resolved, conditional upon Admission taking place on or before 23 June 1997:
 - (i) to authorise and direct the Directors to appropriate the sum of £2,199,779.40 (being part of the amount standing to the credit of the Company's share premium account following the issue of new Ordinary Shares pursuant to the Placing) to the persons shown in the Register of Members of the Company immediately before the passing of the resolution as the holders of the Ordinary Shares and Preferred Ordinary Shares then in issue, in proportion to the nominal value of the shares in the Company then held by them, and to apply such sum on their behalf in paying in full 39 Ordinary Shares for every one share already held by them (such shares to rank *pari passu* with the Ordinary Shares then existing), and to allot and distribute such Ordinary Shares credited as fully paid to and amongst those persons in the proportions specified above;
 - (ii) to increase the authorised share capital of the Company from £70,320.20 to £4,360,000.00 by the creation of an additional 42,896,798 Ordinary Shares;
 - (iii) to authorise the Directors generally and unconditionally to exercise all the powers of the Company to allot relevant securities (within the meaning of section 80 of the Act) up to an aggregate nominal amount of £4,303,595.40 until 1 June 2002 but so as to enable the Company before such date to make offers or agreements which would or might require relevant securities to be allotted after such date and to enable the Directors to allot relevant securities in pursuance of such offers or agreements as if the authority conferred thereby had not expired, such authority to be in substitution for all existing authorities granted to the Directors in respect of the allotment of relevant securities;
 - (iv) to empower the Directors until the earlier of the conclusion of the next annual general meeting of the Company and fifteen months from the date of the resolution to allot equity securities (as defined in section 94(2) of the Act) for cash pursuant to the authority referred to in sub-paragraph (iii) above as if section 89(1) of the Act did not apply to any such allotment, such power being limited to:
 - (aa) the allotment of equity securities pursuant to the Placing (including the allotment of 1,373,223 Ordinary Shares to the EBT);

- (bb) the allotment of equity securities in connection with an issue or offer by way of rights in favour of holders of equity securities and any other person entitled to participate in such issue or offering where the equity securities respectively attributable to the interests of such holders and persons are proportionate (as nearly as may be) to the respective numbers of equity securities held by or deemed to be held by them on the record date of such allotment, subject only to such exclusions or other arrangements as the Directors may deem fit to deal with fractional entitlements or problems arising under the laws of any overseas territory or the requirements of any regulatory authority or any stock exchange; and
- (cc) the allotment (other than pursuant to the power referred to in sub-paragraphs (aa) and (bb) above) of equity securities up to an aggregate nominal amount of £137,322.38;

save that the Company may, before expiry of that authority, 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 pursuant to any such offer or agreement as if such authority had not expired.

- (f) By a resolution of the Board passed on 2 June 1997 it was resolved conditionally upon Admission on or before 23 June 1997 to allot 4,902,635 new Ordinary Shares pursuant to the Placing (including 1,373,223 new Ordinary Shares to the EBT) for cash at the Placing Price and 21,997,794 new Ordinary Shares pursuant to the bonus issue referred to in sub-paragraph 2(e)(i) above credited as fully paid.
- (g) At the date of this document the authorised share capital of the Company is £70,320.20 divided into 619,202 Ordinary Shares and 84,000 Preferred Ordinary Shares, of which 480,046 Ordinary Shares and 84,000 Preferred Ordinary Shares have been issued, credited as fully paid. Each Preferred Ordinary Share will convert automatically on Admission into an Ordinary Share in accordance with the provisions of the Articles of Association of the Company ("the Articles").
- (h) The authorised share capital of the Company immediately following Admission will be £4,360,000.00 divided into 43,600,000 Ordinary Shares of which 27,464,475 Ordinary Shares will have been issued, credited as fully paid.
- (i) The authorised but unissued share capital of the Company immediately following Admission will be £1,613,552.50 representing approximately 37 per cent of the authorised share capital. Of this amount, up to £693,946.30 will be reserved for the issue of Ordinary Shares in respect of options which have been granted or may be granted under the Existing Option Scheme and the Performance Related Share Plan described in paragraph 4 below.
- (j) The provisions of section 89(1) of the Act confer on shareholders certain rights of pre-emption in respect of the allotment of equity securities (as defined in section 94(2) of the Act) which are, or are to be, paid up in cash and, upon Admission, will apply to the authorised but unissued share capital of the Company, except to the extent disapplied by the resolution referred to in sub-paragraph 2(e)(iv) above.
- (k) Other than in connection with the Placing and the Existing Option Scheme, no material issue of Ordinary Shares (other than to Ordinary shareholders *pro rata* to their existing holdings) will be made within one year from the date of this document and no issue will be made which would effectively alter the control of the Company or the nature of its business without, in either case, the approval of shareholders in general meeting.
- (l) Save as disclosed in this paragraph 2, there has been no issue of shares or loan capital of the Company nor any issue of shares or loan capital which is material to the other members of the Group (other than intra-group issues by wholly owned subsidiaries) in the three years immediately preceding the date of this document and no such issues are proposed.
- (m) Save as disclosed in paragraph 9 below, no commissions, discounts, brokerages or other special terms have been granted by the Company or any of its subsidiaries in connection with the issue or sale of any share or loan capital of the Company or any of its subsidiaries in the three years immediately preceding the date of this document.
- (n) Save as disclosed in this paragraph 2 and paragraph 4 below, no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option.
- (o) Other than pursuant to the Placing, none of the Ordinary Shares have been sold or are available in whole or in part to the public in conjunction with the application for the 27,464,475 Ordinary Shares to be admitted to the Official List.

- (p) The existing Ordinary Shares are in registered form. Upon Admission the Ordinary Shares (including the new Ordinary Shares to be issued pursuant to the Placing) will be in registered form.
- (q) 4,902,635 Ordinary Shares are being issued pursuant to the Placing (including 1,373,223 Ordinary Shares to the EBT) at a price of 170p per Ordinary Share which represents a premium of 160p over their nominal value of 10p each.

3. Memorandum and Articles Of Association

The Memorandum of Association of the Company provides that the Company's principal object is to carry on the business of a holding company. The objects of the Company are set out in full in clause 4 of its Memorandum of Association.

The Articles as adopted conditionally upon Admission contain provisions, *inter alia*, to the following effect:

(a) Voting rights

- (i) Subject to any terms as to voting upon which any Ordinary Shares may be issued or may for the time being be held and to the provisions of the Articles, every holder of an Ordinary Share present in person shall have one vote on a show of hands and, on a poll, every such holder shall have one vote for every Ordinary Share of which he is the holder.
- (ii) The duly authorised representative of a corporate member may exercise the same powers on behalf of that corporation as it could exercise if it were an individual member. On a poll votes may be made in person or by proxy.
- (iii) A member is not entitled to vote unless all calls or other sums payable by him in respect of shares in the Company have been paid, unless the Board determines otherwise.

(b) Suspension of rights

Where a member or any other person who appears to be interested in shares held by a member has been duly served with a notice under section 212 of the Act and, having failed to supply the Company with the information thereby required, or having supplied information which is false or misleading in any material particular, within the period specified in such notice (being not less than 14 days where such shares represent at least 0.25 per cent of their class and, in any other case, 28 days from the date of service of such notice), is served with a notice:

- (i) such member shall not be entitled to attend meetings or vote; and
- (ii) where such shares represent at least 0.25 per cent in nominal value of their class:
 - (aa) any dividends in respect of such shares may be withheld; and
 - (bb) no transfer, other than an excepted transfer, of shares held by the member shall be registered unless the member can establish that he is not in default in supplying the information or that no person in default in supplying the information is interested in the shares. An excepted transfer is defined in the Articles as a transfer pursuant to acceptance of an offer made to all holders of shares or any class of shares, a transfer through a recognised investment exchange or any stock exchange outside the UK in which the Company's shares are normally traded or a transfer which is shown to the satisfaction of the Directors of the Company for the time being ("the Board") to be made in consequence of a *bona fide* sale of the whole of the beneficial interest in the shares in question to a person who is unconnected with the holder of such shares and with any other person appearing to be interested in such shares.

Such disenfranchisement will apply only for so long as the notice from the Company has not been complied with.

(c) Dividends

- (i) Subject to the Act and any other statute concerning companies for the time being in force (the "Statutes"), the Company may by ordinary resolution declare dividends to be paid out of profits available for distribution to members according to their rights and priorities but no dividend shall be declared in excess of the amount recommended by the Board. Subject to the Statutes, the Board may from time to time pay to the members such interim dividends as appear to the Board to be justified by the profits available for distribution and the position of the Company.

- (ii) Except insofar as the rights attaching to, or the terms of issue of, any share otherwise provide, all dividends shall be declared and paid *pro rata* according to the amounts paid or credited as paid up (other than in advance of calls) on the shares during any portion or portions of the period in respect of which the dividend is paid. All dividends unclaimed for a period of 12 years from the date of declaration shall be forfeited and shall revert to the Company.
- (iii) The Board may, if authorised by an ordinary resolution of the Company, offer the holders of the Ordinary Shares the right to elect to receive additional Ordinary Shares, credited as fully paid, instead of cash in respect of any dividend or any part of any dividend.

(d) Distribution of assets on a winding up

- (i) On a winding up, any surplus assets will be divided between the holders of the Ordinary Shares according to the respective number of shares held by them, subject to the rights of any shares which may be issued with special rights or privileges.
- (ii) On a voluntary winding up of the Company, the liquidator may, with the sanction of an extraordinary resolution of the Company and subject to the Insolvency Act 1986, divide among the members of the Company in specie the whole or any part of the assets of the Company, and vest the whole or any part of the assets in trustees on such trusts for the benefit of the members as the liquidator, with the like sanction, shall determine.

(e) Transfer of shares

Any member may transfer all or any of his shares by an instrument of transfer in the usual form or in such other form as the Board may approve. The instrument of transfer shall be executed by or on behalf of the transferor and (in the case of a partly paid share) by or on behalf of the transferee. There is no restriction on the registration of a transfer of shares provided the transfer:

- (i) is duly stamped (if the Statutes so require) and lodged with the Company, accompanied by the relevant share certificate(s) and such other evidence of the right of the transferor to make the transfer as the Board may reasonably require;
- (ii) is in respect of only one class of share; and
- (iii) is in favour of not more than four transferees.

If any of the above conditions is not complied with, the Board may refuse to register the transfer in question. The Board may, in its absolute discretion and without assigning any reason therefor, refuse to register any transfer of shares, all or any of which are not fully paid provided that where any such shares are admitted to the Official List of the London Stock Exchange, such discretion may not be exercised in such a way as to prevent dealings in the shares of that class from taking place on an open and proper basis. The Board may also decline to register any transfer of a share, not being a fully paid share, on which the Company has a lien.

(f) Variation of rights

Whenever the capital of the Company is divided into different classes of shares, subject to the Statutes, the rights attached to any class may (unless otherwise provided by the terms of issue of the shares of that class) be varied or abrogated, whether or not the Company is being wound up, either with the written consent of the holders of not less than three-quarters in nominal value of the issued shares of the affected class or with the sanction of an extraordinary resolution passed at a separate general meeting of such holders. The quorum at any such general meeting is two persons holding or representing by proxy at least one third in nominal value of the issued shares of the class in question and, at any adjourned meeting, the quorum is one holder present in person or by proxy. Any holder of shares of the class in question present in person or by proxy may demand a poll. Every holder of shares of the class in question shall, on a poll, be entitled to one vote for every share of the class held by him. The rights or privileges attaching to any class of the shares shall not, subject to the terms on which such shares may be issued, be deemed to be varied or abrogated by the creation or issue of new shares ranking *pari passu* with or subsequent to those already issued.

(g) Share capital and changes in capital

- (i) Subject to the provisions of the Statutes and without prejudice to any special rights previously conferred on the holders of any existing shares, any share may be issued with such rights or restrictions as the Company may from time to time determine by ordinary resolution or, if the Company has not so determined, as the Board may determine. Subject to the provisions of the Statutes and to any rights

conferred on the holders of any other shares, the Company may issue redeemable shares. Subject to the provisions of the Articles and the Statutes, the power of the Company to allot and issue shares shall be exercised by the Board at such time, for such consideration and upon such terms and conditions as the Board may determine.

- (ii) The Company may by ordinary resolution increase its share capital, consolidate its share capital into shares of larger amount and, subject to the provisions of the Statutes, sub-divide its shares or any of them into shares of smaller amount, cancel any shares which, at the date of the passing of the resolution, have not been subscribed for or agreed to be subscribed for by any person, and diminish the amount of its authorised share capital by the amount of the shares so cancelled.
- (iii) Subject to the Statutes and to the rights attached to any class of shares, the Company may by special resolution reduce its share capital, any capital redemption reserve and any share premium account in any way.
- (iv) Subject to the Statutes and to the rights attached to any class of shares, the Company may purchase all or any of its own shares of any class (including any redeemable shares).

(h) Directors

- (i) Save as mentioned below, a director shall not vote at a meeting of the Board or of a committee of the Board on any matter in which he has, directly or indirectly, a material interest (other than by virtue of his interests in shares or debentures or other securities of, or otherwise in or through, the Company) or a duty which conflicts or may conflict with the interests of the Company. A director shall not be counted in the quorum at a meeting in relation to any resolution on which he is debarred from voting.
- (ii) A director shall be entitled to vote (and be counted in the quorum) in respect of any resolution concerning any of the following matters, namely:
 - (aa) the giving of any guarantee, security or indemnity to him or any other person in respect of money lent to, or an obligation incurred by him or by any other person at the request of or for the benefit of, the Company or any of its subsidiary undertakings;
 - (bb) the giving of any guarantee, security or indemnity to a third party in respect of an obligation of the Company or any of its subsidiary undertakings, for which he himself has assumed responsibility in whole or in part and whether alone or jointly with others under a guarantee or indemnity or by the giving of security;
 - (cc) any proposal concerning his being, or intending to become, a participant in the underwriting or sub-underwriting of an offer of shares, debentures or other securities by the Company or any of its subsidiary undertakings for subscription, purchase or exchange;
 - (dd) any proposal concerning any other company in which he is interested, directly or indirectly, and whether as an officer or shareholder or otherwise howsoever, provided that he does not hold an interest in shares (as that term is used in Part VI of the Act) representing one per cent or more of either any class of the equity share capital of such company or of the voting rights available to members of such company (any such interest being deemed to be a material interest in all circumstances);
 - (ee) any proposal concerning the adoption, modification or operation of a superannuation fund or retirement benefits scheme under which he may benefit and which has been approved by or is subject to and conditional upon approval by the Inland Revenue for taxation purposes;
 - (ff) any proposal concerning any scheme or arrangement for the benefit of employees of the Group which the director benefits in a similar manner to such employees and which does not accord to him any privilege or benefit not awarded to employees to whom such scheme or arrangement relates;
 - (gg) any proposal concerning any insurance which the Company is empowered to purchase and/or maintain for or for the benefit of any directors of the Company provided that for this purpose "insurance" means only insurance against liability incurred by a director in respect of any act or omission by him in any execution and/or discharge of the duties of his office and/or in the exercise of his powers and/or otherwise in relation thereto or any other insurance which the Company is empowered to purchase and/or maintain for or for the benefit of any group of persons consisting of or including directors.

(iii) Subject to the Statutes and provided that he has disclosed to the Board the nature and extent of any material interest, a director:

(aa) may be a party to or otherwise be directly or indirectly interested in any transaction or arrangement with the Company (or in which the Company is otherwise interested) and may be a member or director or other officer of, or employed by, any body corporate promoted by the Company or in which the Company is otherwise interested and shall not be accountable to the Company for any benefit which he derives from any such transaction, arrangement, office, employment or interest;

(bb) may act in a professional capacity for the Company, for which he shall be entitled to remuneration.

(iv) The directors shall be paid such remuneration (by way of fee) for their services as may be determined by the Board, save that, unless otherwise approved by ordinary resolution of the Company in general meeting, the aggregate of the remuneration (by way of fee) of all the directors shall not exceed £150,000 per annum. The directors shall also be entitled to be repaid all travel, hotel and other expenses of travelling to and from Board meetings, committee meetings, general meetings or otherwise incurred while engaged on the business of the Company. Any director who, by request of the Board, performs special services or goes or resides abroad for any purposes on behalf of the Company may be paid such extra remuneration by way of salary, commission, percentage of profits or otherwise as the Board may decide.

(v) The Board may provide benefits, whether by the payment of gratuities or pensions or by insurance or otherwise, to or for the benefit of any past director who held executive office or employment with the Company or with a body corporate which is or has been a subsidiary undertaking (or a predecessor in business of any of them) or to or for the benefit of any member of his family (including a spouse and a former spouse) or dependants.

(vi) At each annual general meeting one-third of the directors, or if their number is not a multiple of three, then the number nearest to but not exceeding one-third, shall retire from office and shall be eligible for re-election. The directors to retire by rotation shall be those who have been longest in office since their last election or, in the case of those who became or were re-elected directors on the same day, shall, unless they agree otherwise, be determined by lot. Any director appointed by the Board shall hold office only until the next annual general meeting, when he shall be eligible for election, but shall not be taken into account in determining the directors to retire by rotation at that meeting.

(vii) There is no age limit for directors and sub-sections (1) to (6) of section 293 of the Act do not apply to the Company.

(viii) Unless and until otherwise determined by ordinary resolution of the Company, the directors (other than alternate directors) shall not be less than 2 and not more than 12 in number.

(ix) A director shall not be required to hold any qualification shares.

(i) **Borrowing powers**

The Board may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital and, subject to the Statutes, to issue debentures and other securities, whether outright or as collateral security, for any debt, liability or obligation of the Company or of any third party provided that the Board shall restrict the borrowings of the Company and exercise all voting and other rights or powers of control exercisable by the Company in relation to its subsidiary undertakings so as to secure (so far as the Board is able in the case of the Company's subsidiary undertakings) that the aggregate amount for the time being outstanding of all borrowings by the Group shall not at any time, without the previous sanction of an ordinary resolution of the Company, exceed an amount equal to the greater of £10 million and three times the adjusted capital and reserves of the Group as calculated in accordance with the Articles.

(j) **CREST**

CREST, which was introduced in July 1996, is a paperless settlement procedure enabling securities to be evidenced otherwise than by a certificate and transferred otherwise than by a written instrument. The Ordinary Shares have been made eligible for settlement in CREST by means of a resolution of the Board passed on 17 April 1997 with the necessary notice having been given to all members of the Company, as contemplated by The Uncertificated Securities Regulations 1995. To the extent that any provision of the Articles is inconsistent with the holding of Ordinary Shares in uncertificated form, the transfer of title to Ordinary Shares by means of a

relevant system (as defined in the Uncertificated Securities Regulations 1995) and any provision of the Uncertificated Securities Regulations 1995, it shall not apply to any Ordinary Shares in uncertificated form.

4. Employee Benefit Trust, Existing Option Scheme and Performance Related Share Plan

(a) Employee Benefit Trust

The Company will, prior to Admission, establish the royalblue group plc Employee Benefit Trust (the "EBT") which will be funded by Group companies for the purpose of acquiring shares to satisfy the exercise of options under the Performance Related Share Plan. There will be a limit on the number of shares which may be held by the trustees of the trust equal to 5 per cent of the Company's issued share capital from time to time.

The principal terms of the EBT are as follows:

(i) Eligible employees

Employees of the Company and its subsidiaries, ex-employees and the spouse and dependants of such employees or ex-employees.

(ii) Function of the trust

The purposes of the EBT are to facilitate and encourage the ownership of shares by or for the benefit of employees. This will be achieved by the EBT acquiring shares in the Company by subscription or purchase and distributing such shares in accordance with one or more employee share schemes.

(iii) Duration

The duration of the EBT, in accordance with trust law principles, is eighty years.

(iv) Amendments

The EBT may be amended by the Company and the trustees provided that no amendment shall have the effect of causing the EBT to cease to be an employees' share scheme within the meaning of section 743 of the Act, or an employee trust within the meaning of section 86 of the Inheritance Tax Act 1984 or of conferring any benefit on the Company under the EBT.

(v) Administration

The EBT will be established in the Isle of Man. The general operation and administration of the EBT will be carried on by the independent trustees of the EBT taking account of the recommendations of the Remuneration Committee which is made up of non-executive Directors of the Company.

(b) Existing Option Scheme

The Existing Option Scheme, which was adopted on 9 November 1995 and amended on 28 January 1997 is an unapproved scheme under which, upon Admission, there will be options outstanding to subscribe 5,566,240 Ordinary Shares at nominal value. These options were granted for no consideration. Options over 467,568 Ordinary Shares will become exercisable on Admission. Options over the remaining Ordinary Shares will be exercisable as to 25 per cent of the outstanding balance of Ordinary Shares held under option on Admission on or after each of the first, second, third and fourth anniversaries of Admission.

The following is a summary of the rules of the Existing Option Scheme so far as they will apply following Admission:

- (i) the Existing Option Scheme is administered by the remuneration committee of the Board which is comprised wholly or mainly of non-executive Directors;
- (ii) all employees and Directors of the Group are eligible to participate in the Existing Option Scheme;
- (iii) no further options will be granted under the Existing Option Scheme;
- (iv) the amount payable per Ordinary Share on the exercise of an option is the nominal value thereof;
- (v) any person who ceases to be an employee of the Group may only exercise his options to the extent that they are exercisable on the date immediately preceding the date of so ceasing unless the Board agrees otherwise, provided that if the optionholder dies or leaves the service of the Group through redundancy or illness, all remaining options will become exercisable in full;
- (vi) within 30 days of receipt of a notice of exercise, the Ordinary Shares in respect of which the Option has been exercised must be allotted and issued by the Company. Such Ordinary Shares allotted on the exercise of an option will rank *pari passu* in all respects with the shares of the same class save as

regards any rights attaching to such shares by reference to a record date prior to the date of allotment. Following the exercise of an option, the Company will apply to the London Stock Exchange for the relevant shares to be admitted to the Official List or if the Ordinary Shares are traded on any other recognised investment exchange to be traded on that exchange;

- (vii) in the event of a capitalisation issue or offer by way of rights or upon any consolidation, sub-division or reduction in capital, the number of Ordinary Shares the subject of an option and the exercise price may be adjusted by the remuneration committee as it considers appropriate in the spirit of the Existing Option Scheme;
- (viii) no rights under an option may be transferred by an optionholder to any other person except in the event of an optionholder's death where rights will become exercisable by his personal representatives and if the optionholder is adjudicated bankrupt the option will lapse;
- (ix) the Existing Option Scheme may be amended by the remuneration committee in any way provided that all amendments to the advantage of optionholders will require the prior consent of shareholders unless they are minor amendments to benefit the administration of the scheme or amendments to obtain or maintain favourable tax, exchange control or regulatory treatment for optionholders, the Company or a member of the Group provided that such amendments do not adversely affect either the Company or a member of the Group.

(c) Performance Related Share Plan

The Company has, conditionally on Admission, resolved to adopt the Performance Related Share Plan and will apply for the rules of the Performance Related Share Plan to be approved by the Inland Revenue under Schedule 9 of the Income and Corporation Taxes Act 1988. The Performance Related Share Plan is in two parts. Part one has been drafted to provide for the grant of Inland Revenue approved options whilst part two provides for the grant of unapproved options. Options under the Performance Related Share Plan may be granted or satisfied by the Company or any other shareholder including the EBT.

The following is a summary of the principal features of the Performance Related Share Plan:

- (i) the Performance Related Share Plan will be administered by the Board under the supervision of the remuneration committee of the Board.
- (ii) all employees and full time directors of the Group who are not within two years of retirement will be eligible to participate in the Performance Related Share Plan. Participation is at the absolute discretion of the remuneration committee.
- (iii) options may only be granted under the Performance Related Share Plan during the following periods:
 - (aa) within 42 days immediately following Admission;
 - (bb) within 42 days of the Performance Related Share Plan (or any amendment to the Performance Related Share Plan) being approved by the Inland Revenue;
 - (cc) whilst the Ordinary Shares are listed, within 42 days of the announcement of the Company's final and interim results for any financial period;
 - (dd) within 42 days of the occurrence of an event which, in the opinion of the Board, is an exceptional event relating to or affecting the Group.

No options may be granted more than 10 years after the adoption of the Performance Related Share Plan.

The grantor of the option shall, acting on the recommendation of the remuneration committee include in any option such objective performance targets and other conditions as it, in its absolute discretion, thinks fit. The grantor of the option may if specified by the remuneration committee, amend or waive these performance conditions in such manner as is fair and reasonable to take account of later events provided that any amended condition shall not be more difficult to achieve.

- (iv) The amount payable per Ordinary Share on the exercise of an option shall be determined by the Board but shall not be less than the average of the closing middle market quotations of an Ordinary Share (as derived from the Daily Official List) on the three dealing days immediately preceding the day on which the option is granted or, if higher, in the case of an option to subscribe, the nominal value of an Ordinary Share.

- (v) The number of Ordinary Shares over which options to subscribe may be granted under the Performance Related Share Plan on any date of grant shall be limited so that:
- (aa) the total number of Ordinary Shares issued or capable of being issued pursuant to options and other rights granted in the ten year period ending on that date under all employee share option schemes adopted by the Company (other than any savings related share option scheme) but excluding the total number of Ordinary Shares issued or capable of being issued under options granted pursuant to the Existing Option Scheme is restricted to 5 per cent of the Company's issued ordinary share capital on that date and the number of Ordinary Shares which may be issued or issuable pursuant to options granted under the Performance Related Share Plan or any employee share option scheme adopted by the Company (other than a savings related share option scheme or the Existing Option Scheme) in the four year period commencing on Admission is restricted to 2½ per cent of the Company's issued ordinary share capital from time to time;
 - (bb) the total number of Ordinary Shares issued or capable of being issued pursuant to options and other rights granted in the three year period ending on that date under all employee share schemes adopted by the Company but excluding the total number of Ordinary Shares issued or capable of being issued under options granted pursuant to the Existing Option Scheme, is restricted to 3 per cent of the Company's issued ordinary share capital on that date; and
 - (cc) the total number of Ordinary Shares issued or capable of being issued pursuant to options and other rights granted in the ten year period ending on that date under all employee share schemes adopted by the Company but excluding the total number of Ordinary Shares issued or capable of being issued under options granted pursuant to the Existing Option Scheme, is restricted to 10 per cent of the Company's issued ordinary share capital on that date.
- (vi) The aggregate exercise price payable for the Ordinary Shares over which outstanding Inland Revenue approved options may be held by any option holder under the Performance Related Share Plan and any other option scheme of the Company approved under Schedule 9 to the Taxes Act (excluding any savings related share option scheme) shall not at any time exceed the appropriate legislative limit which is currently £30,000. In addition, the aggregate exercise price payable for the Ordinary Shares over which options whether approved or unapproved have been granted in the preceding ten years under the Performance Related Share Plan and any other share option scheme of the Company (excluding any savings related share option scheme or options granted under the Existing Option Scheme) and which have not been exercised or have not lapsed shall not exceed four times the participant's annual remuneration for the relevant year. Before any options are granted to replace those which have already been exercised, the remuneration committee will need to satisfy itself that the grant of such options is justified by a significant improvement in the performance of the Company in the previous two or three years.
- (vii) Approved options may usually be exercised between three and ten years after their date of grant and unapproved options may usually be exercised between three and seven years after their date of grant. Options may normally only be exercised if the objective performance condition or conditions (if any), to be determined by the remuneration committee is or are met. Early exercise is, however, permitted if the option holder dies or leaves the service of the Group through injury, disability, redundancy or retirement or where, in certain circumstances, an option holder is transferred abroad to work for the Group or where an option holder ceases to be employed by the Group by reason of his employing company or undertaking ceasing to be a member of the Group, or in any other circumstances approved by the Board. Early exercise may also be permitted in the event of a take-over, reconstruction or voluntary winding-up of the Company. Except in the case of cessation of employment due to retirement it is not generally necessary for any performance conditions attached to options to be satisfied where early exercise is permitted.
- (viii) Within 30 days of receipt of a notice of exercise, the Ordinary Shares in respect of which the option has been exercised must be allotted and issued by the Company or the grantor of the option must procure their transfer to the participant. Such Ordinary Shares allotted on the exercise of an option will rank in full for all distributions declared, made or paid to shareholders on the register on a record date occurring after the date on which the notice of exercise is received by the grantor of the option and otherwise *pari passu* in all respects with the other fully paid issued Ordinary Shares. Following the exercise of an option, the Company will apply to the London Stock Exchange for the relevant shares to be admitted to the Official List.

- (ix) If any company obtains control of the Company as a result of a take-over offer or the sanctioning of a scheme of arrangement under section 425 of the Act, or if a company has become bound or entitled to acquire all of the Ordinary Shares under sections 428 to 430F of the Act, an option holder may, by agreement with that other company, seek the release of his options in return for the grant of new options over shares in that other company or an associated company on terms which are equivalent to those on which the existing options are held.
- (x) No rights under an option may be transferred by an option holder to any other person except in the event of an option holder's death where rights will become exercisable by a personal representative within twelve months of the date of death but no later than ten years after the date of grant.
- (xi) In the event of a capitalisation issue or offer by way of rights or upon any consolidation, sub-division or reduction of capital, the number of Ordinary Shares the subject of an option and the exercise price may, subject to the prior approval of the Inland Revenue, in the case of Inland Revenue approved options be adjusted in such a manner as the Company's auditors shall confirm in writing to be, in their opinion, fair and reasonable provided that the exercise price remains at least equal to the nominal value of an Ordinary Share. If the exercise price of options to subscribe would otherwise fall below the nominal value, the Company may capitalise reserves to the extent it is lawful to pay up additional shares for allotment to option holders.
- (xii) The Performance Related Share Plan may be amended by the Board in any way provided that:
 - (aa) no amendment may be made which would materially prejudice the interests of option holders in relation to options already granted to them under it unless the sanction of option holders has been obtained;
 - (bb) amendments to the advantage of option holders to provisions relating to the persons entitled to options, the number of options they are entitled to and the basis of determination of the number of options in the event of a share capital reorganisation will require the prior consent of the Company in general meeting unless they are minor amendments to benefit the administration of the Plan or to obtain or maintain favourable tax, exchange control or regulatory treatment for option holders, the Company or a member of the Group; and
 - (cc) no amendment may be made to the rules governing the grant of Inland Revenue approved options without the prior approval of the Inland Revenue.

As noted above, unapproved options may be granted under part two of the Performance Related Share Plan by means of a schedule which provides for the grant of unapproved options on similar terms to those granted under the Performance Related Share Plan. Certain rules of the Performance Related Share Plan are disapplied by the schedule. These include the limit of £30,000 set out in sub-paragraph (c) (vi) above and the requirement that any amendment made to the Performance Related Share Plan or any variation of options requires Inland Revenue approval. Unapproved options granted under the Performance Related Share Plan will lapse on the seventh anniversary of the date of grant, if not exercised before then.

No options will be granted pursuant to the Performance Related Share Plan prior to Admission.

5. Directors' and other interests

- (a) Upon Admission the executive Directors will hold options to subscribe for Ordinary Shares under the Existing Option Scheme as follows:

<i>Director</i>	<i>Number of Ordinary Shares under option</i>
J R Hamer	317,400
A Malpass	132,360
C J F Aspinwall	654,760

These options will be exercisable in the manner and circumstances described in paragraph 4(b) above.

- (b) In addition to the options referred to in paragraph 5(a) above (which are required pursuant to section 325 of the Act to be entered into the register referred to therein) the interests of the Directors and their immediate families (all of which are beneficial) at present and as they will be immediately following Admission in the issued

Ordinary Shares of the Company as are required to be notified to the Company pursuant to sections 324 and 328 of the Act including (to the extent known or which could with reasonable diligence be ascertained by the relevant Director) the interests of persons connected with that Director (within the meaning of section 346 of the Act) which would, if the connected person were a Director, be required to be disclosed pursuant to those provisions of the Act are as follows:

Director	<u>At present (post bonus issue)</u>		<u>After Admission</u>	
	<i>Number of Ordinary Shares</i>	<i>Percentage of existing issued share capital owned</i>	<i>Number of Ordinary Shares</i>	<i>Percentage of enlarged issued share capital owned</i>
C M Amies	237,520	1.05	237,520	0.86
J R Hamer	1,903,520	8.44	1,522,816	5.54
A Malpass	37,160	0.16	47,454	0.17
C J F Aspinwall	928,680	4.12	742,944	2.71
L H Liebman	170,840	0.76	148,552	0.54

In addition to the above C M Amies holds a beneficial interest in the shares of the Company through a Jersey trust of which he is a beneficiary. The trust is a partner in Advent Management Limited Partnership which is the general partner of the four Advent funds which in aggregate will own after Admission 13.73 per cent of the enlarged issued share capital of the Company. The trust represents approximately 18 per cent of Advent Management Limited Partnership. This partnership owns a carried interest in the funds which equates to 20 per cent of the profits once the original capital in the funds has been repaid.

- (c) Save as disclosed in paragraphs 5(a) and (b) above, immediately following Admission, no Director, nor any immediate family member of any Director, nor (so far as can be reasonably ascertained by the relevant Director) any person connected with him will have any interest in the share capital of the Company or any of its subsidiaries.
- (d) In addition to the interests of Directors disclosed in paragraphs 5(a) and (b) above, the Directors are aware of the following shareholders who will be interested in three per cent or more of the issued share capital of the Company immediately following Admission:

<i>Name</i>	<i>Number of Ordinary Shares</i>	<i>Percentage of enlarged issued share capital</i>
3i plc	2,688,000	9.79
Advent	3,772,160	13.73
The Hon. C J Sharples	3,200,352	11.65
D A Taylor	3,229,379	11.76
Trustees of the EBT	1,373,223	5.00

- (e) Save as disclosed in paragraphs 5(b) and (d) above, the Directors are not aware of any person who will, immediately following Admission, be interested (within the meaning of the Act) directly or indirectly in three per cent or more of the issued share capital of the Company or who could directly or indirectly, jointly or severally, exercise control over the Company.
- (f) Save as disclosed no Director has or has had any interest in any transactions which are or were unusual in their nature or conditions or which are or were significant to the business of the Group and which were effected by any member of the Group in the current or immediately preceding financial year or which were effected during an earlier financial year and which remain in any respect outstanding or unperformed.
- (g) There are no outstanding loans granted by any member of the Group to any of the Directors nor has any guarantee been provided by any member of the Group for their benefit.

6. Directors' service agreements

- (a) On 2 June 1997 each of John Hamer, Christopher Aspinwall and Andrew Malpass entered into a service agreement with the Company which is conditional upon Admission and is terminable by either the Director or the Company giving not less than six months' prior written notice to the other.

Pursuant to the service agreements, the executive Directors will be entitled to annual salaries as follows:

John Hamer	£100,000
Andrew Malpass	£60,000
Christopher Aspinwall	£100,000

The Company has also agreed to make an annual contribution of £15,000 to a pension scheme for the benefit of John Hamer and to provide him with a car allowance of up to £12,000. John Hamer is also entitled to a bonus related to earnings per share in respect of the current financial year equivalent to 8 per cent of the Group's profit before taxation in excess of £1 million and up to £2 million and 4 per cent of the Group's profit before taxation in excess of £2 million. John Hamer will receive a flotation bonus of £150,000 on Admission.

Christopher Aspinwall is also entitled to a car allowance of up to £9,000 per annum and to a bonus of up to £45,000 if both the Financial Division and the Customer Interaction Software Division meet their respective budgets for the current financial year. In addition, he is also entitled to a bonus in respect of the current financial year representing 10 per cent of the profit before taxation of the Financial Division in excess of £412,000 and up to £823,000 and 5 per cent of that Division's profit before taxation in excess of £823,000; and 6 per cent of the profit before taxation of the Customer Interaction Software Division in excess of £322,000 and up to £644,000 and 3 per cent of its profit before taxation in excess of £644,000.

Andrew Malpass is entitled to a car allowance of £9,000 per annum and a bonus in respect of the current financial year of up to £35,000.

Each of the executive Directors is also entitled to participate in the Company's life assurance, private health insurance and permanent health assurance schemes.

The basis of bonus payments in respect of future financial years is at the discretion of the Remuneration Committee. Remuneration terms will be designed to build shareholder value with an emphasis being placed on profit sharing rather than basic salary and with reward geared to the Group's performance measured by earnings per share.

- (b) There is an agreement dated 13 June 1996 between royalblue technologies and Seima Consultants Limited (which was on 2 June 1997 novated to the Company) for the provision of specified services as a non-executive Director by Colin Amies. In addition, the Company entered into a non-executive directorship agreement with Leon Liebman on 2 June 1997. Each such agreement is terminable by either party giving to the other not less than six months' prior notice. The annual fees payable in respect of the services of Colin Amies are £32,500 and in respect of Leon Liebman are £14,000. A flotation bonus of £45,000 is payable in respect of the services of Colin Amies upon Admission.
- (c) Save as set out in paragraphs 6(a) and (b) above, there will on Admission be no existing or proposed service agreements between the Directors and any member of the Group.
- (d) In the financial year ended 31 December 1996 the aggregate of the remuneration paid and benefits in kind granted to the Directors by all members of the Group was approximately £489,000. The aggregate of the remuneration payable (excluding bonuses and benefits in kind) to the Directors in respect of the year ending 31 December 1997 under the arrangements in force at the date of this document is expected to amount to approximately £303,000.
- (e) There is no arrangement under which any Director has agreed to waive future emoluments nor has there been any waiver of emoluments during the financial year immediately preceding the date of this document.

7. The Group and its subsidiaries

(a) The Company is the holding company of the Group and its principal subsidiaries are shown below:

<i>Name</i>	<i>Registered Office</i>	<i>Principal activity</i>	<i>Issued and fully paid share capital</i>
royalblue technologies	Kings Court, Church Street East, Woking, Surrey GU21 1HA	creation and supply of application software packages and associated services	556,623 ordinary shares of 10p each
royalblue technologies corporation	Brown Raysman & Millstein LLP, 120 West 45th Street, New York 10036		1,000 shares of common stock, par value \$0.01

(b) Each of the above subsidiaries is wholly-owned or ultimately owned by the Company.

(c) royalblue technologies holds 39 per cent of the ordinary share capital and 78 per cent of the preference share capital in ICIS Technology Limited a provider of industrial control and information systems. The registered office of ICIS Technology Limited is Windsor House, Cornwall Road, Harrogate HG1 2PW.

8. Principal establishments

(a) The Company's head office and principal place of business is at Kings Court, Church Street East, Woking, Surrey GU21 1HA.

(b) The principal establishments occupied by the Group are as follows:

<i>Company</i>	<i>Location</i>	<i>Approx area (sq ft)</i>	<i>Tenure</i>	<i>Current rent (per annum exc. of VAT)</i>	<i>Term of lease</i>
royalblue technologies	Kings Court Church Street East Woking Surrey GU21 1HA Tel +44 (0) 1483 744400 Fax +44 (0) 1483 729131	15,500	Lease	£188,750	24/12/2000
royalblue technologies	2 Suffolk Lane London EC4 0AT Tel +44 (0) 171 929 9200 Fax +44 (0) 171 248 9131	1,800	Lease	£30,152	24/6/1998
royalblue technologies	Dukes Court Duke Street Woking	6,680	Lease	£100,000	24/12/2000
royalblue technologies corporation	1 Exchange Plaza 55 Broadway 17th Floor New York NY 10006-3008 USA Tel +1 212 269 9000 Fax +1 212 785 4327	1,500	Lease	\$43,980	12/1/1999

9. Arrangements relating to the Placing

The Placing Agreement was entered into on 3 June 1997 between the Company (1), the Directors (2), certain existing shareholders (3) and Hoare Govett (4). Pursuant to the Placing Agreement, Hoare Govett has agreed to use its reasonable endeavours as agent for the Company and certain selling shareholders to procure placees for the Placing Shares at the Placing Price or, failing which, itself to subscribe for or purchase the Placing Shares at the Placing Price.

The Company has agreed to pay Hoare Govett a commission of 1 per cent of the aggregate value of the new Ordinary Shares being placed at the Placing Price. Those shareholders whose shares are being sold as part of the Placing have also agreed to pay Hoare Govett a commission of 1 per cent on the aggregate value of those shares being sold by them at the Placing Price. The commission is, other than in certain defined circumstances, conditional upon Admission. Other than any stamp duty or stamp duty reserve tax payable in respect of Ordinary Shares being sold in the Placing (which will be met by the selling shareholders), the Company has also agreed to pay all other costs, charges and reasonable expenses of, or incidental to, the Placing.

The Placing Agreement contains certain representations and warranties from, and an indemnity by, the Company in favour of Hoare Govett. The executive and non-executive Directors have also given certain representations and warranties to Hoare Govett, and their liability under such warranties and representations is limited in time and amount. Hoare Govett can, in certain circumstances prior to Admission becoming effective, terminate the Placing Agreement.

Hoare Govett's obligations to place or itself acquire the Placing Shares are conditional, *inter alia*, upon Admission becoming effective no later than 9.30 am on 23 June 1997.

10. UK taxation

(a) Taxation of dividends

The following summary assumes that the Company will not elect for any of its dividends to be treated as foreign income dividends as the Company has no present intention of making such an election. Likewise, the summary does not apply to any dividends associated with transactions in securities to which certain anti-avoidance legislation applies.

Under current UK taxation legislation, the Company does not have to withhold any tax from dividend payments. However, when it pays a dividend, the Company is generally required to account to the UK Inland Revenue for advance corporation tax ("ACT"). The current rate of ACT is equal to one quarter of the cash dividend paid. ACT paid by the Company can be set off against its liability to corporation tax, subject to certain limits and restrictions.

An individual shareholder who is resident in the UK for tax purposes who receives dividends is generally entitled to a tax credit of an amount equal to one quarter of the cash dividend received. An individual shareholder will be required to include the dividend and associated tax credit in calculating his total income for United Kingdom tax purposes, but may set off the tax credit against his income tax liability.

The dividend (and related tax credit) will be treated as the top slice of the individual's income. In the case of a UK resident individual shareholder who is liable to income tax at only the lower rate or the basic rate, the tax credit will be treated as discharging the individual's liability to income tax in respect of the dividend. There will be no further tax to pay and no right to claim payment of any part of the tax credit from the Inland Revenue. In the case of a UK resident individual shareholder who is liable to income tax at the higher rate, the tax credit will be set against but will not fully match his liability to income tax in respect of the dividend, in which case the individual will have to pay additional tax, equal (at present rates) to 20 per cent of the dividend plus the related tax credit, to the extent that such sum, when treated as the top slice of his income, falls above the threshold for higher rate income tax. UK resident individuals who are not liable to income tax will be able to claim the payment of the tax credit from the Inland Revenue. If the tax credit exceeds the individual's liability to income tax on the total of the cash dividend received and the tax credit, he will be able to claim payment of the excess.

A corporate shareholder which is resident in the UK (for tax purposes) will generally be able to treat any dividend and the related tax credit as franked investment income. The value of the tax credit in the hands of a UK resident corporate shareholder is an amount equal to one quarter of the dividend. A UK resident corporate shareholder will generally not be liable to UK corporation tax on any dividend received.

Subject to certain exceptions for Commonwealth citizens, nationals of states within the European Economic Area citizens of the Republic of Ireland, residents of the Isle of Man or the Channel Islands and certain others, the right of a shareholder who is not resident in the UK (for tax purposes) to claim any part of the tax credit will depend upon the existence and terms of any double taxation convention between the UK and the country in which he is resident. A shareholder who is not resident in the UK (for tax purposes) should consult his own tax adviser concerning his tax liabilities on dividends received, his entitlement to claim any part of the tax credit and, if he is so entitled, the procedure for doing so. A shareholder resident outside the UK may also be subject to foreign taxation on dividend income under local law.

(b) Stamp duty and stamp duty reserve tax

The Company has been advised in relation to stamp duty reserve tax ("SDRT") as follows:

- (aa) The allotment and issue of new Ordinary Shares by the Company pursuant to the Placing will not generally give rise to a charge to stamp duty or SDRT.
 - (bb) The sale of Ordinary Shares in the Placing by existing shareholders will give rise to a charge to stamp duty or SDRT, but under the terms of the Placing Agreement such charges will be borne by the selling shareholders to the extent that the rate of stamp duty does not exceed 50p per £100 (or part thereof) of the consideration paid and the rate of SDRT does not exceed 0.5 per cent of the consideration paid.
 - (cc) Transfers of Ordinary Shares will *generally* be liable to stamp duty at the rate of 50p per £100 (or part thereof) of the actual consideration paid. An unconditional agreement to transfer such shares will be subject to SDRT at 0.5 per cent. However if within a period of 6 years of the date of the agreement an instrument of transfer is executed pursuant to the agreement and stamp duty is paid on that instrument any liability to SDRT will be cancelled or repaid. There will be no stamp duty or SDRT on transfer of Ordinary Shares into CREST unless such a transfer is made for a consideration in money or money's worth, in which case a liability will arise. A transfer of Ordinary Shares effected on a paperless basis through CREST will generally be subject to SDRT at the rate of 0.5 per cent of the consideration given.
 - (dd) Special rules apply to the agreements made by market makers in the ordinary course of their business, broker-dealers and certain other persons. Agreements to transfer shares to charities will not give rise to SDRT or stamp duty.
- (c) Clearance has been obtained under section 707 of the Taxes Act in connection with the Placing and the transactions relating thereto.

The above statements are intended as a general guide to current UK tax law and practice. Any person who is in doubt as to his taxation position or who requires more detailed information than that outlined above should consult his professional adviser.

11. Material contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the Company or its subsidiaries during the two years immediately preceding publication of this document and are or may be material:

- (a) a Business Purchase Agreement dated as of 31 January 1997 between Appleby Technologies Inc ("ATI"), Michael Appleby and royalblue technologies corporation, whereby royalblue technologies corporation purchased the trade of ATI in domestic and international equities and trading and order processing systems and certain assets for US\$1.54 million; and
- (b) the Placing Agreement referred to in paragraph 9 above.

12. Working capital

The Directors are of the opinion that the Group has sufficient working capital for its present requirements.

13. Litigation

Neither the Company nor any of its subsidiaries is or has been involved in any legal or arbitration proceedings which may have, or have had during the twelve months preceding the date of this document, a significant effect on the Group's financial position nor are any such proceedings pending or threatened.

14. Miscellaneous

- (a) There has been no significant change in the financial or trading position of the Group since 31 December 1996, the date to which the last audited consolidated accounts of the Group were drawn up.
- (b) The total costs and expenses relating to the Placing payable by the Company are estimated to amount to approximately £0.8 million (excluding VAT).
- (c) KPMG have given and have not withdrawn their written consent to the issue of this document with the inclusion herein of their report and the references to such report in the form and context in which they are included and they have authorised the contents of their report for the purposes of section 152(1)(e) of the Financial Services Act 1986.
- (d) The financial information set out in this document relating to the Group does not constitute statutory accounts within the meaning of section 240 of the Act. KPMG, Chartered Accountants, have given unqualified audit

reports on the statutory accounts of royalblue technologies for each of the three financial years ended 31 December 1994, 1995 and 1996 within the meaning of section 235 of the Act. No statutory accounts for the Company have been made up since its incorporation. None of these reports contained any statements under section 237(2) or (3) of the Act. Statutory accounts of royalblue technologies for each of the three financial years ended 31 December 1994, 1995 and 1996 have been delivered to the Registrar of Companies in England and Wales pursuant to section 242 of the Act.

- (e) Hoare Govett is registered in England with registered number 2026375 and its registered office is at 4 Broadgate, London EC2M 7LE. Hoare Govett is a member of The Securities and Futures Authority Limited and a member of the London Stock Exchange.
- (f) Up to 5 per cent of the Ordinary Shares which are the subject of the Placing have been offered to independent market makers pursuant to the Placing.
- (g) There are no arrangements in place under which future dividends are to be waived or agreed to be waived.
- (h) royalblue is certified to BS EN ISO 9001 quality standards.

15. Documents available for inspection

Copies of the following documents will be available for inspection during normal business hours on any weekday (Saturdays and public holidays excepted) at the registered office of the Company and at the offices of Travers Smith Braithwaite, 10 Snow Hill, London EC1A 2AL up to and including 17 June 1997:

- (a) the Memorandum of Association of the Company and the Articles of Association of the Company as adopted conditionally upon Admission;
- (b) the audited consolidated accounts of royalblue technologies for the two financial years ended 31 December 1996;
- (c) the report by KPMG set out in Part II of this document and the statement of adjustments (and reasons therefor) made by them in arriving at the figures set out in their report;
- (d) the service agreements referred to in paragraph 6(a) above;
- (e) the material contracts referred to in paragraph 11 above;
- (f) the letter of consent referred to in paragraph 14(c) above;
- (g) the rules of the Existing Option Scheme and of the Performance Related Share Plan and the trust deed constituting the EBT; and
- (h) the agreements referred to in paragraph 6(b).

Dated: 3 June 1997

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