REPORT AND FINANCIAL STATEMENTS 2000

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DIRECTORS AND ADVISORS

Directors	B C BEVERLEY, Chairman & Chief Executive S D BEART, Deputy Chairman & Finance Director J R SYMONS, Development Director I R MANN, Non Executive Director J GARDNER, Non Executive Director D R T THOMPSON, Non Executive Director
Secretary and Registered Office	A J SMITH Systems House Foundry Court Gogmore Lane Chertsey Surrey KT16 9AP Register Number: 2950904
Auditors	Deloitte & Touche Colmore Gate 2 Colmore Row Birmingham B3 2BN
Solicitors	Osborne Clarke Hillgate House 26 Old Bailey London EC4M 7HW
Bankers	The Royal Bank of Scotland Brunel House 17-27 Station Road Reading RG1 1LG
Joint Stockbrokers	Charterhouse Securities Limited 1 Paternoster Row St Paul's London EC4M 7DH Rathbone Neilson Cobbold Limited Port of Liverpool Building Pier Head Liverpool L3 1NW
Registrars	Connaught St Michael's Ltd P O Box 30 Victoria Street Luton LU1 2BR

CHAIRMAN'S STATEMENT

SUMMARY

The Group has performed well during a difficult year for IT companies. Furthermore we have shown progress on the prior year despite the reduced activity levels arising from Year 2000.

We believe this vindicates our business model which is to meet all our customers' needs but on a profitable basis, with a view to growing earnings year on year.

STRATEGY

XKO Group is an e-Business solutions provider offering a wide range of ASP and IT capabilities. These skills support our core CRM/ERP capability. We believe that we are at the forefront of developing e-Business and ASP for customers and this is a position we intend to maintain.

Our strategy is to continue to expand our e-Business offering based around the technology of e-KO, complemented by the Web development skills of SP New Media whom we have acquired today. These solutions are intended to be offered on a fully integrated basis with our Networks and Services units.

Our e-Business achievements to date include:

- Strong initial sales of our real time e-KO product.
- A dual, secure ASP hosting site.
- Live, real time e-Commerce hosting for customers, both B2B and B2C.
- Volume supply of hosting and ASP services to third parties.

We believe demand for these services will grow. The recently announced partnership with ProfIT Direct, for whom we are now hosting an increasing number of applications, is an indication of our ability to capitalise on our technology.

We intend to continue to offer our total e-Business capability in conjunction with our Services units which now operate on a national basis, under the unified brand of XKO Network Systems. This will allow the Group to maximise the potential for our applications whilst simultaneously offering customers the benefits of an integrated IT solution.

GROUP RESULTS

During the year the Group had to manage the integration of the businesses which formed the initial group and the material reduction in activity levels during the latter part of 1999 which, in common with the Software and IT Services industry, continued throughout our last quarter to March 2000.

Despite these challenges the Group achieved an impressive 11% proforma increase in profits (before amortisation of goodwill, listing fees and tax) to £2.96 million and a 16% proforma increase in adjusted, basic earnings per share to 9.5p on the same basis.

This performance reflects a number of key successes during the year, principally the release of our e-KO product and the resilient performance of our Networks and Services businesses. The new product development successes reflect in turn our high level of Research and Development which will continue in future years. We are committed to enhancing all our Software products and continuing with new product releases such as XKO-1 and e-KO. We believe this spend, which is expected to be some £1 million in the current financial year and which is expected to represent a high proportion of pure Software sales, will enable us to maintain a competitive position.

Our good trading performance supported by underlying operating cash flow enable us to recommend a final dividend of 1.5p per share making a total of 2.5p for the year (1999:NIL).

CHAIRMAN'S STATEMENT *(continued)*

ACQUISITIONS

We continue to review acquisition possibilities. Our industry is consolidating, leading to smaller enterprises seeking the backing of well funded acquirers such as XKO Group. We have narrowly defined acquisition criteria and in addition we require that all acquisitions should be immediately earnings enhancing.

PLACING OF NEW SHARES

We have today announced two important acquisitions which meet our financial criteria and which will expand our core e-Business and ERP/CRM activities.

The initial and part of the deferred consideration for the acquisitions announced has been funded from the net proceeds of a placing of 1,890,000 new ordinary XKO shares at 265p per share. The placing was arranged by Charterhouse Securities, the Group's appointed Stockbrokers and Financial Advisors. The gross proceeds of the placing were £5 million of which £3 million was required to fund the initial payments for the current acquisitions. The balance, net of costs, has been retained for the funding of future acquisitions and general working capital purposes.

CP Computers ("CPC")

XKO acquired CP Computer Group Limited and its subsidiary CP Computer Systems Limited. Initial Consideration was £2m in cash payable upon completion.

In the event that CPC achieves an operating profit before interest ("EBIT") of £800,000 in the nine month period to 31 March 2000, further pro rata consideration of up to a maximum of £1m will become payable in July 2001, in a mixture of cash and shares. In the event that CPC exceeds the EBIT target of £800,000, a maximum additional amount of £1.9 million, above £3 million, will be payable on a sliding scale relative to a maximum EBIT of £1.7 million. Such additional consideration will be split as to 80 per cent. cash and 20 per cent. new ordinary XKO shares. Total potential, maximum consideration payable for CPC is £4.9 million.

Activities of CPC

CPC is a long established software development company based in Leicestershire. CPC has developed and owns a well regarded CRM product "Concerto" which also offers ERP levels of functionality. The business was founded by the three current owner managers ("Vendors").

CPC operates primarily in the Food industry where the speed and specialised functionality of Concerto are designed to enable customers to increase efficiency and turnover. To a lesser extent CPC also operates in the pharmaceutical distribution vertical market where Concerto competes with XKO.

CPC's customers include Birds Eye Walls, Watson & Philip (a subsidiary of Brake Brothers) and OTC, (a subsidiary of Unichem). Concerto is endorsed by existing customers since the product is well suited to the control and management of large scale telesales teams and offers market leading CTI and sales order processing capabilities.

In the twelve months ended 31 December 1999, CPC reported audited turnover of £2.4 million (1998, £1.4 million) and a profit before tax of £193,000 (1998: £146,000). The profit before tax for these periods was reported after the payment of substantial emoluments to the Vendors which will not continue at such a level in future periods.

As at 31 December 1999 CPC had net assets of approximately £350,000 including cash balances of £390,000. CPC will be acquired on the basis that it is debt free and holds sufficient working capital to fund on-going trading and all accrued taxation and VAT liabilities.

Reasons for the acquisition of CPC

XKO has a recognised and growing presence in a wide range of vertical markets for customers concentrating on distribution and wholesaling. XKO wishes to increase its market share in these ERP and CRM markets, particularly in the vertical markets where it already has a presence. The acquisition of the Concerto CRM product offers the opportunity to consolidate the Group's presence in the pharmaceutical distribution market at the same time as enabling XKO to acquire a recognised position in the Food distribution vertical market where XKO sees considerable opportunity.

In addition, CPC's principal application, Concerto, brings to the Group a high end, CRM module which improves the Group's product range and customer profile. The Board believes that with the support of a substantial public group, CPC will be able to expand its customer base and the market penetration of Concerto.

CHAIRMAN'S STATEMENT *(continued)*

SP New Media ("SPNM")

We have also acquired SP New Media Limited for an initial consideration of £970,000 with further amounts payable upon achievement of targeted profits in the periods ending March 2004. In the six months trading to 30 April 2000, SPNM recorded turnover of £190,000 and operating profits of approximately £70,000. In the year ended 31 October 1999 SPNM recorded turnover of £159,000 and pre tax profits of £23,000.

It is anticipated that at the date of acquisition SPNM will have net indebtedness of approximately £50,000 with net assets of approximately £30,000. The deferred consideration for SPNM will be related to the profits of SPNM for the nine months ending 31 March 2001 and the three years ending 31 March 2004.

All deferred consideration will be split equally as to cash and new XKO ordinary shares valued for this purpose at 330p per share. The maximum total consideration payable for SPNM will be approximately £6.5 million in the event that SPNM achieves, inter alia, an operating profit of £900,000 for the year ending 31 March 2004.

SPNM is already well known to the Group and has been working closely on a number of projects with our e-Business unit. This co-operation has now yielded a significant e-Commerce project for Telewest which leads the Group into e-Business consultancy in the rapidly growing interactive media sector.

The acquisition of SPNM, which will be renamed XKO Online, will increase the number of e-Business opportunities for the Group and will allow us to offer our customers a complete e-Business solution.

GROUP MANAGEMENT

The Group has now traded well through the Year 2000 slow down and has successfully completed a number of strategically important acquisitions. Our presence in e-Business and the ERP/CRM markets has grown significantly and we believe we have a strong product range. Management teams are in place in all key areas and our strategy is set across the Group.

I believe it is therefore now appropriate to separate my joint management roles of Chairman and Chief Executive and to allow Simon Beart, the Group's Deputy Chairman and Finance Director to assume the role of Chief Executive. Simon Beart was jointly responsible for the formation of the Group in 1998 and has already been extending his role beyond that of Finance Director. He will take up his role as at 1 July 2000 but with a hand-over period extending for some months.

During the hand-over period I will remain as Executive Chairman and I will continue to take a particular interest in strategic development. Thereafter, within six to twelve months, I would expect to assume a conventional non-Executive Chairman's role. Simon Beart and I have now worked well together for close to two years and I believe the gradual hand-over process will work well and will be to the benefit of the Group.

The post of Group Finance Director will be taken by Andrew Smith, the Group's current Financial Controller and Company Secretary.

GROUP PROSPECTS

The combination of our e-Business skills, linked to a nationwide Networks Services capability, has proved attractive to customers and will continue to do so. In addition, we have now brought into the Group new Web consultancy skills as well as a CRM product with prospects for further development.

These factors give the Board confidence that growth can be sustained. Whilst, the current financial year began slowly, due to extended Year 2000 delays, orders and activity have since picked up rapidly and we believe we are now well positioned to achieve desired trading levels.

Brian Beverley
Chairman and Chief Executive

FINANCIAL COMMENTARY

Summary

Given the difficult conditions for IT companies during the last 12 months XKO's performance was highly creditable. Adjusted basic earnings per share (before amortisation of goodwill and listing costs) increased by 16 per cent. as compared to stated proforma financial information whilst turnover levels were maintained.

In addition, our recent acquisition Silicon Valley Services, which was rapidly rebranded and incorporated into our Networks and Services operations, met its earn out targets and the vendors will be receiving the balance of consideration due shortly.

Notwithstanding the challenging conditions during the year, several Group units increased turnover including exceptional performances from our UK Networks Services grouping. The improved sales mix and emphasis on e-Business also helped Group operating margins (pre amortisation of goodwill and listing fees) to improve to 11 per cent., on a proforma basis, and with the reduction in hardware content and the increase in ASP and e-Business revenues we would expect this trend to continue in future years.

The Group loss before taxation for the year ended 31 March 2000 was £6.3 million after goodwill amortisation of £9.0 million.

The date of formation of the Group does not facilitate comparison with prior year profits. In order to provide comparability, proforma unaudited prior year statistics are set out below:

	Audited Year ended 31 March 2000 £'000s	Unaudited Proforma Year ended 31 March 1999 £'000s
Turnover	**29,628**	28,428
Operating profit (before amortisation of goodwill and listing costs)	**3,181**	2,842
Interest, net	**(226)**	(175)
Profit before taxation	**2,955**	2,667
Taxation	**(707)**	(747)
Earnings	**2,248**	1,920
Adjusted, Basic earnings per share	**9.5p**	8.2p
Dividend per share	**2.5p**	Nil

Interest charge, cashflow and goodwill amortisation

The net interest charge for the year was £226,000 giving interest cover of approximately 14 times, a prudent level for an IT company.

During the coming year we would expect this level of cover to improve although indebtedness will rise as deferred consideration payments are made. The funding for the cash element of the acquisitions of SPNM and CPC will be met from the net proceeds of the placing of new ordinary shares which raised £5 million.

Cash flow from Group operations was £4.1m and reflected further good control of working capital. Debtors, adjusted for the inclusion of acquisitions showed a negligible increase. Capital expenditure was £0.8m which will rise this year to expand our Services units.

Following the decision to concentrate our resources on e-Business development and in view of the speed of change in our markets we regard it as prudent to accelerate the write-down of the goodwill associated with historic product lines. This has led to an increase in this year's goodwill amortisation of £5.6 million. After adjusting for this amount, the Group loss before tax for the year was £6.3 million.

Dividends

An interim dividend of 1.0p per share was paid in March 2000. A final dividend of 1.5p is proposed for payment, subject to shareholder approval, on 3 October 2000, payable to Shareholders on the register as at 14 July 2000.

FINANCIAL COMMENTARY *(continued)*

Following the anticipated payment of the final dividend, the Directors believe dividends will have been established at an appropriate level relative to earnings. In future years dividend growth will be at a modest rate relative to earnings growth, when achieved, to enable the funding of acquisitions and product development.

Taxation

The taxation rate for the year has been calculated at 24 per cent. of profit before tax and the costs of goodwill amortisation and listing costs. It is estimated that the prevailing rate for the Group for the next three financial years, will be between 24 and 26 per cent. on a comparable basis.

Financial Instruments

The Group's financial instruments during the period comprised a secured loan from the Royal Bank of Scotland plc, bank overdrafts and cash. The main purpose of these financial instruments was to raise finance for the Group's operations. Following review, the Board has decided not to enter into any derivative transactions in the period to manage its interest rate, liquidity or foreign currency risks.

Methods used by the Group to manage these risks are summarized below:

Interest Rate Risk

The Group finances its operation through external borrowings. Group borrowings are denominated in sterling and bear interest with reference to either to a floating LIBOR or to a fixed LIBOR of 5.7%.

Liquidity risk

The group policy to manage liquidity risk is to maintain a £3 million term loan and to ensure that sufficient overdraft facilities are in place.

Foreign Currency Risk

During the period, the Group made minimal sales or purchases in foreign currency. No foreign currency hedging was therefore undertaken in the period.

Simon Beart
Deputy Chairman, Finance Director

DIRECTORS' REPORT

The Directors present their Report and the Group's audited financial statements for the year ended 31 March 2000.

Principal Activity, Review of the Year and Future Prospects

The Group's principal activity comprises the supply of e-Business consultancy, ASP and hosting, business enterprise software and systems integration. A review of the Group is set out in the Chairman's Statement and Financial Review.

Financial results

The results for the period are shown in full in the profit and loss account and the related notes. The financial statements show a consolidated loss of £7,595,000 for the year, after taxation and dividends, which has been transferred to reserves. The Directors recommend the payment of a final dividend of 1.5 pence per share. An interim dividend of 1.0 pence per ordinary share was paid in March 2000.

Share capital

The following ordinary shareholders, not being Directors, had an interest of 3% or more in the currently issued ordinary share capital of the company as at 31 March 2000.

	Percentage of issued ordinary share capital	Number of 25p ordinary shares
Arlington Group plc	19.3%	4,804,769
Rothschild (Five Arrows UK Smaller Companies Fund)	3.5%	870,167

The number of shares in issue at 31 March 2000 was 24,916,828.

Directors and their interests

The Directors at the year-end are as listed on page 2, Messrs B C Beverley and S D Beart, offer themselves for re-election at the Annual General Meeting to be held on 26 July 2000.

No Director had any beneficial interest in the shares of any of the subsidiary undertakings of the Company at the balance sheet date.

At 31 March 2000, the following Directors had the following beneficial and family interests in the shares of the company:

	As at 31 March 2000 25p ordinary shares	As at 31 March 1999 25p ordinary shares
B C Beverley	**1,590,000**	1,580,580
S D Beart	**305,000**	300,755
J R Symons*	**3,080,423***	3,076,923*
I R Mann	**8,300**	5,000
J Gardner	**15,000**	20,000
D R T Thompson	**5,810**	–

S D Beart has a further non-beneficial interest in 1500 ordinary shares.
*J R Symons' interest arises as an indirect interest and has been aggregated with other related, indirect interests.

No further Directors have any subscription rights in the company.

The market price of shares in XKO Group plc at 31 March 2000 was 447.5p. During the year the market price ranged from 125p to 549p.

DIRECTORS' REPORT *(continued)*

DIRECTORS

B C Beverley (54) – Chairman and Chief Executive
Brian Beverley has worked in the IT industry for over 30 years. He founded Mentor, a specialist software applications business in 1978 which was sold to Misys plc in 1989, whereupon he became Executive Chairman of the Misys Open Systems Division until 1991. In 1995, Brian Beverley purchased XKO Communications Systems Limited which was sold to XKO Group, in 1997. Brian Beverley was appointed Chairman and Chief Executive of XKO Group plc on 1 March 1999. As from 1 July 2000, Brian Beverley will become Executive Chairman.

S D Beart BA, ACA (41) – Deputy Chairman and Group Finance Director
Simon Beart qualified as a Chartered Accountant with Coopers and Lybrand in 1984. In 1992, he co-founded the listed international packaging group Britton Group plc which was subsequently sold in 1998 for £200 million. He was appointed Deputy Chairman and Finance Director of XKO Group plc on 1 March 1999. As from 1 July 2000 Simon Beart will become Chief Executive.

J R Symons BSC (43) – Development Director
J R Symons joined Unisys in 1978. In 1982, he joined Kerridge, believed to be one of the largest privately held software companies in Europe. In 1986, he co-founded KSE Computers Limited now part of XKO Group, where he has worked continuously since that date.

NON-EXECUTIVE DIRECTORS

I R Mann (58)
I R Mann is the senior non-executive director of the Company. I R Mann worked at Grand Metropolitan between 1965 and 1995 where he held positions as Managing Director of the Norwich Brewery (1982 to 1985), the Ushers Brewery (1985 to 1989) and Inntrepreneur and Tenanted Estates (1991 to 1993). Between 1995 and 1998, he was a non-executive director of Shepard Neame and he is non-executive chairman of Avebury Group and GRN Inns.

John Gardner (58)
John Gardner was Managing Director and Chairman of ICL (UK) from 1988 to 1993, and following the acquisition of ICL by Fujitsu, holds the position of Non-Executive Chairman of Fujitsu Systems Europe Limited as well as the Chairmanship of ICL Operational Services. John Gardner has over 35 years experience in the IT industry and provides consultancy services to XKO in addition to his duties as Non Executive Director.

David Thompson (55)
David Thompson was a founder of Druid Systems Limited in 1987, the company which became Druid Group Plc upon its flotation in 1996 and was Managing Director of Druid Group Plc until January 1998. He is currently a Director of Advent 2 VCT plc and Touchstone Group plc, both quoted companies and has had over 30 years experience in the IT industry having held senior IT positions with Proctor and Gamble and General Electric.

Share options

The following options to acquire ordinary shares in XKO Group plc were outstanding as at 31 March 2000.

Date of grant	Number of 25p Ordinary shares	Exercise price	Exercise period
2 March 1999	502,192	120p	2 March 2002 to 2 March 2009
2 March 1999	323,808	148.5p	2 March 2002 to 2 March 2009
4 Jan 2000	100,000	400p	4 Jan 2003 to 4 Jan 2010
3 Feb 2000	15,000	475p	3 Feb 2003 to 3 Feb 2010

Tangible fixed assets

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

Close Company status

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

DIRECTORS' REPORT *(continued)*

Directors' and officers' liability insurance

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

Employees

The Group has a policy of keeping all employees fully informed about its plans and progress. It uses regular meetings, formal presentations and electronic communications wherever possible. The Group operates recruitment and selection procedures and further employment opportunities such as training and development based on an objective assessment of an individual's need and ability regardless of factors such as gender, race, ethnic origin and disability.

Employee share scheme

An Employee Sharesave scheme was established in the year. Approximately 90 employees joined the scheme, subscribing for approximately 125,000 shares.

Environment

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

CORPORATE GOVERNANCE

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

This statement explains how the wider aspects of internal control are addressed within the Group, in response to the encouragement contained in the 1994 Guidance. Procedures are being established which will enable the Board to implement the 1999 Turnbull Guidance and to report on the wider aspects of internal control from 31 December 2000.

Board Balance and Effectiveness

The Board has maintained an appropriate degree of balance by its composition of an equal number of executive and non-executive directors, each of whom is independent. (I R Mann, J Gardner and D R T Thompson). The senior non-executive director is I R Mann. The Board meets on a regular basis throughout the year and monitors current trading performance, budgets and forecasts and strategic options for each Division of the Group. To enable them to do this, all Directors have full and timely access to all relevant information. The appointment of new Directors is considered by the Board as whole sitting as a nomination committee.

Relations with Shareholders

The Executive Directors make regular presentations to existing and potential institutional shareholders in order to enhance an understanding of the Group. The Board is conscious of the importance of a regular dialogue with shareholders.

Audit Committee

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

Remuneration Committee

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

DIRECTORS' REPORT *(continued)*

Internal financial control

The Group has adopted the transitional approach for the internal aspects of the Combined Code as set out in the letter from the Stock Exchange dated 27 September 1999.

The Board has overall responsibility for the Group's system of internal financial control. The system of internal financial control is designed to provide reasonable, but not absolute, assurance against material mis-statement of loss. They include:

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

The Board has reviewed the effectiveness of the system of internal financial control taking into account material developments which have taken place since 31 March 2000.

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

Going concern

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

Corporate Governance Compliance Statement

As permitted by the UK Listing Authority, the Group has complied with the Code Provision D2.1 on internal control by reporting on internal financial control in accordance with the guidance for Directors internal control and financial reporting that was issued in December 1994. Throughout the year ended 31 March 2000, the company has been in compliance with the code provisions set out in Section 1 of the Combined Code on Corporate Governance issued by the UK Listing Authority except that the notice of the AGM required by C2.4 has not been given. This is due to the timetable imposed by the acquisitions.

Year 2000

No problems have emerged. The specific actions taken prior to December 1999 and the modernity of our core systems led to no issues arising.

Policy on payment of creditors

The Group does not follow any specified code or standard on payment practice, but endeavours to ensure that payments to suppliers are made in accordance with mutually agreed terms of trade. It then adheres to the terms, providing that it is satisfied that the supplier has provided the goods or service in compliance with the agreed terms and conditions. The company had no trade creditors outstanding at 31 March 2000.

Research and Development

Research and development activities are ongoing modifying and developing software. £757,000 was spent in the year.

Donations

The Group made no donations during the year for political or charitable purposes.

Annual General Meeting

The Annual General Meeting will be held on 26 July 2000 at the offices of Osborne Clarke, 26 Old Bailey, London EC4M 7HW.

Auditors

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

By order of the Board

A J Smith
Secretary
29 June 2000



REPORT OF THE BOARD ON REMUNERATION

REMUNERATION POLICY

The Remuneration Committee (members, as detailed on page 10) recommends to the Board as a whole the framework for remuneration. It determines the overall remuneration package for executive Directors and certain senior employees, which is designed to attract and retain executives of the quality required to manage the business of the Group. In establishing the level of remuneration for each Director, the Committee has regard to packages offered by comparable companies.

Basic salary

Executive Directors are paid a salary for their work as executives and are not paid fees in respect of their positions as Directors. Basic salaries are reviewed annually or when an individual changes position or responsibility.

Benefits

Benefits, where offered, principally comprise a fully expensed car or car allowance and private healthcare.

Performance related bonuses and share option schemes

The Remuneration Committee seeks to align the interests of the executive Directors with those of the shareholders through appropriate performance related bonuses and share option schemes.

Executive Directors are eligible for an annual bonus. Performance criteria are challenging and are based on growth in the Group's earnings per share.

The Group operates three types of share option scheme; an unapproved share option scheme; a sharesave scheme and an approved option scheme. Details of options outstanding are given in the Directors' Report.

The Group's policy is to issue share options at appropriate intervals in order to motivate and retain employees and to align their interests with those of the shareholders. Amounts and timing of grants of options are approved by the Remuneration Committee.

Pensions contributions

Contributions are made to individual defined contribution schemes where relevant. Other than basic salary, no element of remuneration is pensionable. Non-executive Directors are not eligible for pensions.

Fees

Non-executive Directors are paid a fee for their services. Fees are determined by the Board as a whole. Non-executive Directors are not entitled to bonuses or other benefits.

Options

The following Directors hold the following subscription rights.

	Exercise price	At 31 March 2000 25p ordinary shares	Date from which exercisable	Expiry date
B C Beverley	120p	450,000	2 March 2002	2 March 2009
S D Beart	120p	150,000	6 August 1998	9 July 2008
	112.5p	500,000	2 March 1999	2 March 2009

REPORT OF THE BOARD ON REMUNERATION *(continued)*

Service contracts
Each Executive Director's agreement is terminable by either him or the Company on no more than 12 months' prior written notice. In the event of a change of control of the Group, the employment contracts of the Executive Directors require a payment of liquidated damages, without mitigation, of an amount equivalent to two years salary, benefits and estimated bonuses.

Current Directors	Basic Salary £'000s	Benefits £'000s	Pension contri-butions £'000s	Bonus £'000s	Fees £'000s	Year ended 31 March 2000 Total £'000s	Fifteen months ended 31 March 1999 Total £'000s
B C Beverley	112	–	–	–	–	112	9
S D Beart	95	12	10	–	–	117	79
J R Symons	78	1	–	–	–	79	6
I R Mann	–	–	–	–	15	15	9
J Gardner	–	–	–	–	30	30	–
D R T Thompson	–	–	–	–	15	15	–
	285	13	10	–	60	368	103

Total Directors emoluments are disclosed in note 4 to the financial statements.

I R Mann
Chairman, Remuneration Committee

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and the group as at the end of the financial period and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to

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

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

AUDITORS' REPORT TO THE MEMBERS OF XKO GROUP PLC

We have audited the financial statements on pages 16 to 34 which have been prepared under the accounting policies set out on pages 20 to 21.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including as described on page 14 preparation of the financial statements, which are required to be prepared in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the UK Listing Authority and by our profession's ethical guidance.

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

We review whether the corporate governance statement on page 11 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the UK Listing Authority and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the company and the group, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 March 2000 and the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Deloitte & Touche,
Chartered Accountants and Registered Auditors
Birmingham

29 June 2000

CONSOLIDATED PROFIT AND LOSS ACCOUNT *for the year ended 31 March 2000*

	Notes	Continuing activities £'000s	Acquisitions £'000s	Year ended 31 March 2000 £'000s	15 months ended 31 March 1999 £'000s
Turnover	2	**27,819**	**1,809**	**29,628**	5,954
Operating profit/(loss) before amortisation of goodwill, listing fees and impairment of assets		**2,918**	**263**	**3,181**	(580)
Amortisation of goodwill		**(8,814)**	**(210)**	**(9,024)**	(264)
Listing fees		**(194)**	**–**	**(194)**	–
Impairment of assets		**–**	**–**	**–**	(737)
Operating (loss)/profit	3	**(6,090)**	**53**	**(6,037)**	(1,581)
Interest receivable and similar income				**33**	9
Interest payable and similar charges	5			**(259)**	(31)
Loss on ordinary activities before taxation	2			**(6,263)**	(1,603)
Tax on loss on ordinary activities	6			**(707)**	(17)
Loss on ordinary activities after taxation				**(6,970)**	(1,620)
Dividends	7			**(625)**	–
Retained loss for the year				**(7,595)**	(1,620)
(Loss) per share	8			**(29.4p)**	(64.0p)
Diluted (loss) per share	8			**(27.2p)**	(61.9p)
Dividend per share	7			**2.5p**	–

There are no other recognised gains or losses arising during the period.

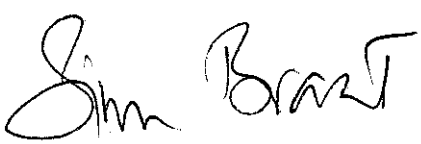
CONSOLIDATED BALANCE SHEET *as at 31 March 2000*

	Notes	Mar 2000 £'000s	Mar 1999 £'000s
Fixed assets			
Intangible assets	9	**29,284**	31,285
Tangible assets	10	**1,134**	1,594
		30,418	32,879
Current assets			
Stocks	12	**945**	1,091
Debtors	13	**7,420**	6,444
Cash at bank and in hand		**1,971**	886
		10,336	8,421
Creditors: amounts falling due within one year	14	**(9,913)**	(8,640)
Net current assets/(liabilities)		**423**	(219)
Total assets less current liabilities		**30,841**	32,660
Creditors: amounts falling due after more than one year	15	**(2,459)**	(2,234)
Provisions for liabilities and charges	17	**–**	(98)
Deferred income	18	**(3,258)**	(2,668)
Net assets		**25,124**	27,660
Capital and reserves			
Called up share capital	19	**6,529**	6,009
Shares to be issued	19	**545**	843
Share premium account	21	**4,841**	22,100
Other reserves	21	**9,153**	49
Profit and loss account	21	**4,056**	(1,341)
Shareholders' funds	20	**25,124**	27,660
Equity		**24,824**	27,360
Non Equity		**300**	300
Shareholders' funds		**25,124**	27,660

S D Beart
Deputy Chairman
29 June 2000

COMPANY BALANCE SHEET *as at 31 March 2000*

	Notes	Mar 2000 £'000s	Mar 1999 £'000s
Fixed assets			
Tangible Assets	10	**27**	–
Investments	11	**20,547**	19,632
		20,574	19,632
Current assets			
Debtors	13	**12,000**	11,630
Cash at bank and in hand		**–**	34
		12,000	11,664
Creditors: amounts falling due within one year	14	**(3,803)**	(1,735)
Net current assets		**8,197**	9,929
Total assets less current liabilities		**28,771**	29,561
Creditors: amounts falling due after more than one year	15	**(2,246)**	(1,981)
Net assets		**26,525**	27,580
Capital and reserves			
Called up share capital	19	**6,529**	6,009
Shares to be issued	19	**545**	843
Share premium account	21	**4,841**	22,100
Other reserves	21	**9,153**	49
Profit and loss account	21	**5,457**	(1,421)
Shareholders' funds	20	**26,525**	27,580
Equity		**26,225**	27,280
Non Equity		**300**	300
Shareholders' funds		**26,525**	27,580



S D Beart
Deputy Chairman
29 June 2000

NOTES TO THE FINANCIAL STATEMENTS *for the year ended 31 March 2000*

1 ACCOUNTING POLICIES

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

(1) Accounting convention

The financial statements are prepared under the historical cost convention.

(2) Basis of consolidation

The financial statements consolidate the financial statements of XKO Group plc and all its subsidiary undertakings drawn up to 31 March 2000. Subsidiary undertakings acquired during the period have been included in the financial statements using the acquisition method of accounting. Accordingly, the profit and loss account, statement of total recognised gains and losses and statement of cash flows include the results and cash flows for the period of ownership.

(3) Goodwill

Goodwill, representing the excess of the consideration over the assessed fair value of net assets acquired, was written off directly to reserves as matter of accounting policy. On the disposal, closure of businesses or permanent diminution, goodwill previously written off to reserves is allocated to the cost of disposal or closure and is charged through the profit and loss account. Goodwill on new acquisitions is capitalised and amortised over its estimated useful economic life, currently assessed as ten years.

(4) Revenue Recognition

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

(5) Research and Development

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

(6) Foreign Currencies

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

(7) Investments

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

(8) Stocks

Raw materials and consumables are stated at the lower of cost and net realisable value. Engineering stocks are amortised over their useful life of 3 years.

(9) Pensions

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

CONSOLIDATED CASH FLOW STATEMENT *for the year ended 31 March 2000*

	Notes	£'000s	Year ended 31March 2000 £'000s	15 months ended 31 March 1999 £'000s
Cash inflow/(outflow) from operating activities	22		**4,117**	(332)
Returns on investments and servicing of finance				
Interest received		**33**		9
Interest paid		**(232)**		(31)
Interest element of finance lease rental payments		**(27)**		–
Net cash outflow from returns on investments and servicing of investments			**(226)**	(22)
Taxation				
Corporation tax paid			**(242)**	–
Capital expenditure				
Payments to acquire tangible fixed assets		**(802)**		(197)
Proceeds from sales of fixed assets		**36**		10
Net cash outflow from capital expenditure			**(766)**	(187)
Acquisitions				
Payments to acquire investments in subsidiaries (including expenses)	11	**(5,321)**		(10,959)
Net cash acquired with subsidiaries	11	**580**		503
			(4,741)	(10,456)
Equity dividends paid			**(250)**	(25)
Net cash outflow before financing			**(2,108)**	(11,022)
Financing				
Issue of ordinary share capital		**4,020**		8,164
Bank loans		**250**		2,800
Capital element of finance leases rentals		**(164)**		25
Net cash inflow from financing			**4,106**	10,989
Increase/(decrease) in cash in the year	24		**1,998**	(33)

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

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

Computer equipment hardware	3 years
Motor vehicles	4 years
Fixtures, fittings and office equipment	3 years
Leasehold premises	over the length of the lease

Software costs are charged to the profit and loss account as incurred

The results reflect the implementation of the new Financial Reporting standard, FRS 15, Tangible Fixed Assets. The implementation has not impacted on the results for the current year or the prior period.

(11) Leased assets
Assets acquired under hire purchase agreement or finance lease arrangements are capitalised as fixed assets and depreciated in accordance with the normal accounting policy of the group. The liabilities relating to future capital repayments are shown in the balance sheet and the interest element of the repayments are charged to the profit and loss account. Rentals paid under operating leases and contract hire agreements are charged to the profit and loss account as they are incurred.

(12) Deferred taxation
Deferred taxation is provided where there is a reasonable probability that an asset or liability will crystallise in the forseeable future.

(13) Current taxation
The results reflect the implementation of the new Financial Reporting Standard, FRS 16, Current Tax. The implementation has not impacted on the results for the current year or the prior period.

2 SEGMENTAL ANALYSIS

Turnover derives from and is destined for locations in the United Kingdom and the Channel Islands.

	Year ended 31 March 2000 £'000s	15 months ended 31 March 1999 £'000s
Turnover		
Business Enterprise Software and Systems Integration	**29,628**	3,079
Sundry Manufacturing	**–**	2,875
	29,628	5,954
(Loss) before taxation on ordinary activities		
Business Enterprise Software and Systems Integration	**(6,263)**	(829)
Sundry Manufacturing	**–**	(774)
	(6,263)	(1,603)
Net Assets /(liabilities)		
Business Enterprise Software and Systems Integration	**25,124**	27,794
Sundry Manufacturing	**–**	(134)
	25,124	27,660

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

3 OPERATING LOSS

	Continuing activities £'000s	Acquisitions £'000s	**Year ended 31 March 2000 £'000s**	15 months ended 31 March 1999 £'000s
Turnover	27,819	1,809	**29,628**	5,954
Cost of sales	(11,756)	(736)	**(12,492)**	(3,845)
Gross profit	16,063	1,073	**17,136**	2,109
Administration expenses before amortisation of goodwill, listing fees and impairment of assets	(13,145)	(810)	**(13,955)**	(2,689)
Amortisation of goodwill	(8,814)	(210)	**(9,024)**	(264)
Listing fees	(194)	–	**(194)**	–
Impairment of assets	–	–	**–**	(737)
Total administration expenses	(22,153)	(1,020)	**(23,173)**	(3,690)
Operating (loss)/profit	(6,090)	53	**(6,037)**	(1,581)

	Year ended 31 March 2000 £'000s	15 months ended 31 March 2000 £'000s
Operating loss is arrived at after charging/(crediting):		
Research and development costs	**757**	–
Reorganisation costs	**–**	395
Depreciation of tangible fixed assets:		
Assets held under hire purchase contracts or finance leases	**514**	37
Other owned assets	**227**	216
Amortisation of intangible fixed assets: normal basis	**3,402**	264
Amortisation of intangible fixed assets: accelerated basis (note 9)	**5,622**	–
Auditors' remuneration:		
Audit services	**100**	55
Non-audit services	**85**	261
Rentals under operating leases:		
Plant and other machinery	**323**	65
Other operating leases	**585**	58
Profit on sale of tangible fixed assets	**(5)**	(8)

Discontinued activities, representing £2.9 million turnover, £2.4 million cost of sales, £0.5 million gross profit, £1.3 million administration expenses and £0.8 million operating loss, are included in the results for the 15 months ended 31 March 1999.

£1,569,000 of turnover £553,000 of cost of sales, £1,016,000 of gross profit, £953,000 of administration expenses and £63,000 of operating profit relate to the acquisition of Silicon Valley Group Limited. The remaining amounts attributed to acquired activities relate to Paperflow Limited.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

4 DIRECTORS AND EMPLOYEE COSTS

The average number of employees (including Executive Directors) in the Group during this period was 362 (1999:54).

Employee costs during the year amounted to:	Year ended 31 March 2000 £'000s	15 months ended 31 March 2000 £'000s
Wages and salaries	**9,352**	1,632
Social security costs	**832**	144
Other pension costs	**162**	40
	10,346	1,816
Included in the above in respect of directors' remuneration:		
Emoluments	**358**	242
Pension contributions	**10**	13
	368	255

The emoluments of the Directors are disclosed as required by the Companies Act 1985 and those specified for audit by the UK Listing Authority on page 13 in the Report on Remuneration and form part of these financial statements. Options held by Directors are disclosed on page 8 in the Directors Report.

5 INTEREST PAYABLE AND SIMILAR CHARGES

	Year ended 31 March 2000 £'000s	15 months ended 31 March 2000 £'000s
On bank loans and overdrafts	**232**	24
Finance charges allocated for the period in respect of finance leases	**27**	7
	259	31

6 TAX ON LOSS ON ORDINARY ACTIVITIES

	Year ended 31 March 2000 £'000s	15 months ended 31 March 2000 £'000s
The taxation charge comprises:		
Corporation tax	**745**	–
Corporation tax adjustments relating to an earlier year	**22**	–
Deferred tax	**–**	17
Deferred tax adjustments relating to an earlier year	**(60)**	–
	707	17

The tax charge is disproportionate in relation to the accounting loss before taxation, primarily due to the amortisation of goodwill not being tax deductible.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

7 DIVIDENDS

	Year ended 31 March 2000 £'000s	15 months ended 31 March 2000 £'000s
Equity dividends:		
Interim, paid, 1.0p per share	**250**	–
Final, proposed 1.5p per share	**375**	–
	625	–

8 EARNINGS PER SHARE

Earnings per share are calculated as follows:

(a) Basic earnings per ordinary share is calculated by dividing the loss attributable to ordinary shareholders of £6,970,000 (1999 loss £1,620,000) by the weighted average number of shares in issue during the year of 23,696,595 (1999: 2,532,188).

(b) Diluted earnings per share which takes into consideration the dilution of earnings per share if the outstanding share options and warrants were exercised, is calculated by dividing the loss attributable to ordinary shareholders of £6,970,000 (1999 loss: £1,620,000) by the weighted average number of shares of 25,599,016 (1999: 2,610,188).

The weighted average number of shares used in the basic and diluted earnings per share calculated can be reconciled as follows:

Weighted average number of shares in issue during the year	23,696,595
Weighted average number of warrants to be exercised at below fair value	650,000
Effect of conversion of Convertible Preference shares	200,000
Weighted average number of share options to be exercised at below fair value	852,421
Estimated number of shares to be issued as deferred consideration	200,000
Weighted average number of shares used in diluted earnings per share calculation	25,599,016

9 INTANGIBLE ASSETS

Group	Goodwill £'000s
Cost	
As at 1 April 1999	31,549
Additions	7,023
As at 31 March 2000	38,572
Accumulated amortisation	
As at 1 April 1999	264
Charge for the period	9,024
As at 31 March 2000	9,288
Net book value	
At 31 March 2000	29,284
At 1 April 1999	31,285

The movement on goodwill incorporates an increased charge for the year of £5.6 million in respect of estimated product lives, details are given in the Financial Commentary on page 6. A discount rate of 10% has been used.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

10 TANGIBLE ASSETS

Group

	Leasehold premises and improvements £'000s	Fixtures, Fitting and Equipment £'000s	Motor Vehicles £'000s	Total £'000s
Cost				
As at 1 April 1999	547	3,429	1,020	4,996
On acquisition of subsidiaries	–	203	41	244
Additions	40	443	322	805
On disposal of subsidiaries	(384)	(1,023)	(79)	(1,486)
Disposals	–	(55)	(110)	(165)
At 31 March 2000	203	2,997	1,194	4,394
Accumulated depreciation				
At 1 April 1999	130	2,760	512	3,402
On acquisition of subsidiaries	–	125	19	144
Charge for the period	40	435	266	741
On disposal of subsidiaries	(49)	(815)	(29)	(893)
Disposals	–	(48)	(86)	(134)
At 31 March 2000	121	2,457	682	3,260
Net book value				
At 31 March 2000	82	540	512	1,134
At 31 March 1999	417	669	508	1,594

The net book value of assets held under finance leases is £428,000.

The company has motor vehicles with a net book value of £27,000 (1999, £NIL). These were acquired during the year at a cost of £36,000, depreciation charged in the year was £9,000, the assets are held under finance leases.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

11 INVESTMENTS

	Company	
	2000 £'000s	1999 £'000s
At start of period	**19,632**	425
On acquisition of subsidiaries	**6,537**	19,632
Reduction in value	**(5,622)**	(425)
At end of the period	**20,547**	19,632

The value of the investment in XKO Software Limited has been reduced following a review of the useful economic lives of the product lines acquired.

The Group's principal trading subsidiaries, all of which have been consolidated in the group financial statements at 31 March 2000, were as follows:

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

All companies are involved in the supply of software and network solutions.

Acquisitions

On 30 November 1999 the company acquired Silicon Valley Group Ltd. The following adjustments have been made to the book values to arrive at provisional fair values. Fair values are provisional arising from the short timescale since acquisition.

	Net assets at Acquisition £'000s	Accounting policy alignment £'000s	Fair value Adjustments £'000s	Fair value at Acquisition £'000s
Tangible fixed assets	112	(30)	–	82
Stock	284	–	(40)	244
Debtors	782	–	(20)	762
Cash	580	–	–	580
Creditors	(560)	–	(75)	(635)
Corporation tax	–	–	(105)	(105)
Deferred income	(481)	–	(50)	(531)
Net assets/(liabilities)	717	(30)	(290)	397
Goodwill				5,821
Total acquisition cost, including expenses				6,218

The total consideration for the acquisitions was satisfied by:	£'000s
Shares issued	200
Cash consideration, including acquisition expenses	5,021
Shares to be issued	225
Cash to be paid	772
Total Consideration	6,218

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

11 **INVESTMENTS** *(continued)*

On 1 January 2000 the Company acquired the assets and business of Paperflow Limited. The following adjustments have been made to the book values to arrive at provisional fair values. Fair values are provisional arising from the short timescale since acquisition.

	Net assets at Acquisition £'000s	Accounting policy alignment £'000s	Fair value Adjustments £'000s	Fair value at Acquisition £'000s
Tangible fixed assets	40	(14)	(8)	18
Stock	93	–	(10)	83
Debtors	60	–	(7)	53
Cash	–	–	–	–
Creditors	(120)	(23)	(3)	(146)
Corporation tax	–	–	–	–
Deferred income	–	–	–	–
Net assets/(liabilities)	73	(37)	(28)	8
Goodwill				842
Total acquisition cost, including expenses				850

The total consideration for the acquisitions was satisfied by:	£'000s
Shares issued	162
Cash consideration, including acquisition expenses	214
Potential Shares to be issued	237
Potential Cash to be paid	237
Total potential consideration	850

Total cash consideration paid in respect of acquisitions of £5,321,000 consists of £5,001,000 with respect to Silicon Valley Group Limited, £214,000 with respect to Paperflow Limited and £106,000 with respect to acquisitions in the prior period.

The accounting policy alignments for both Silicon Valley Group Ltd and Paperflow Limited primarily comprise the application of the XKO depreciation policy. The fair value adjustments comprise the valuation to realisable value of debtors and stock and adjustments in accounting estimates for creditors and deferred income.

Deferred consideration is payable on the achievement of the profit targets set out in the contracts of purchase.

The acquisitions in the year contributed the following results:

	Silicon Valley Group Ltd £'000s	Paperflow £'000s
Profit after taxation, last financial year	458	133
Profit after taxation, start of current financial year to date of acquisition	278	N/A

Silicon Valley Group Ltd prepared accounts to 30 April 1999 and Paperflow prepared accounts to 31 December 1999.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

12 STOCK

	Group	
	2000 £'000s	1999 £'000s
Raw materials and consumables	**945**	1,091

13 DEBTORS

	Group		Company	
	2000 £'000s	1999 £'000s	2000 £'000s	1999 £'000s
Trade debtors	**6,931**	5,870	**350**	–
Prepayments and accrued income	**489**	574	**–**	–
Amounts owed by group undertakings	**–**	–	**11,650**	11,630
	7,420	6,444	**12,000**	11,630

14 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2000 £'000s	1999 £'000s	2000 £'000s	1999 £'000s
Bank loans and overdrafts (see note 16)	**816**	1,732	**1,615**	819
Trade creditors	**3,897**	2,900	**147**	–
Amounts owed to group undertakings	**–**	–	**550**	–
Obligations under finance leases (see note 16)	**165**	198	**12**	–
Other taxes and social security	**1,055**	531	**97**	–
Accruals and other creditors	**2,643**	2,970	**1,019**	916
Corporation tax	**962**	309	**(12)**	–
Dividends	**375**	–	**375**	–
	9,913	8,640	**3,803**	1,735

15 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group		Company	
	2000 £'000s	1999 £'000s	2000 £'000s	1999 £'000s
Bank loans (see note 16)	**2,234**	1,981	**2,234**	1,981
Obligations under finance leases (see note 16)	**139**	253	**12**	–
Corporation tax	**86**	–	**–**	–
	2,459	2,234	**2,246**	1,981

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

16 BORROWINGS

	Group		Company	
	2000 £'000s	1999 £'000s	2000 £'000s	1999 £'000s
Bank loans and overdrafts	**3,050**	3,713	**3,849**	2,800
Obligations under finance leases	**304**	451	**24**	–
	3,354	4,164	**3,873**	2,800
Due within one year	**981**	1,930	**1,627**	819
Due after more than one year	**2,373**	2,234	**2,246**	1,981
	3,354	4,164	**3,873**	2,800
Analysis of loan repayments				
Bank loans and overdrafts				
Within one year	**816**	1,732	**1,615**	819
Between one and two years	**2,234**	1,092	**2,234**	1,092
Between two and five years	**–**	889	**–**	889
	3,050	3,713	**3,849**	2,800
Obligations under finance leases				
Within one year	**165**	198	**12**	–
Between one and five years	**139**	253	**12**	–
	304	451	**24**	–

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

17 PROVISIONS FOR LIABILITIES AND CHARGES

	Deferred Taxation	
	2000 £'000s	1999 £'000s
At start of period	**98**	27
Subsidiaries (sold)/acquired	**(38)**	54
Profit and loss account charge	**(60)**	17
At 31 March 2000	**–**	98

	Provided		Unprovided	
Group	**2000 £'000s**	1999 £'000s	**2000 £'000s**	1999 £'000s
Difference between accumulated depreciation and amortisation and capital allowances	**–**	65	**(119)**	(113)
Other timing differences	**–**	42	**(179)**	(114)
Tax losses	**–**	(9)	**(911)**	(408)
	–	98	**(1,209)**	(635)
Company				
Other timing differences	**–**	–	**(2)**	–
Tax losses	**–**	–	**(111)**	(209)
	–	–	**(113)**	(209)

18 DEFERRED INCOME

	2000 £'000s	1999 £'000s
Maintenance income to be recognised within one year	**3,258**	2,668

Deferred maintenance income represents amounts invoiced in advance in respect of contracts for the provision of software maintenance and network support services.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

19 CALLED UP SHARE CAPITAL

Allotted share capital:	Ordinary shares of 25p each	Preference shares of £1
As at 1 April 1999	22,835,932	300,000
Issued April to May 1999 re March 1999 acquisitions	172,366	–
Deferred consideration re XKO (IOM) Limited issued 12 October 1999	584,577	–
Issued 3 December 1999 re acquisition of Silicon Valley Group Limited	1,283,953	–
Issued 13 January 2000 re acquisition of Paperflow	40,000	–
As at 31 March 2000	24,916,828	300,000
Nominal value of issued share capital	£6,229,207	£300,000

Authorised share capital:	Ordinary shares of 25p each £'000s	Preference shares of £1 £'000s
As at 1 April 1999 and 31 March 2000	10,000	300

Convertible redeemable preference shares:

The Convertible Redeemable Preference shares ('CRP's') are nil coupon and bear no rights to dividend. They may be converted at any time (at the shareholders' option) to Ordinary shares at a conversion rate of £1.50 per Ordinary share comprising 25 pence nominal value and £1.25 premium. The CRP's shares are redeemable at the shareholders' option (at par) at any time between March 2000 and March 2005. The CRP's are redeemable at the Company's option in the event of any offer being received for the entire share capital of the company. The CRP's enjoy no voting rights. On a winding up the CRP's entitle the holders to repayment of the capital paid up on the shares only and have priority over the Ordinary Shareholders.

Shares to be issued:

The £545,000 (1999, £843,000) relates to a total of 200,000 ordinary shares to be issued at agreed prices ranging from 130p to 344.25p.

20 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	Group		Company	
	2000 £'000s	1999 £'000s	**2000 £'000s**	1999 £'000s
Loss after taxation	**(6,970)**	(1,620)	**(5,489)**	(1,468)
Dividends (payable)	**(625)**	–	**(625)**	–
Retained loss for the period	**(7,595)**	(1,620)	**(6,114)**	(1,468)
Goodwill reinstated	**–**	236	**–**	–
Shares to be issued	**463**	843	**463**	843
New share capital subscribed	**4,596**	27,050	**4,596**	27,050
Net (reduction in)/addition to shareholders' funds	**(2,536)**	26,509	**(1,055)**	26,425
Opening shareholders' funds	**27,660**	1,151	**27,580**	1,155
Closing shareholders' funds	**25,124**	27,660	**26,525**	27,580

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

21 RESERVES

	Share Premium £'000s	Capital Redemption Reserve £'000s	Special Reserve £'000s	Profit and Loss Account £'000s	Total £'000s
Group					
As at 31 March 1999	22,100	49	–	(1,341)	20,808
Transfer from profit and loss account	–	–	–	(7,595)	(7,595)
Court Reconstruction	(22,096)	(49)	9,153	12,992	–
Premium on issue of shares	4,837	–	–	–	4,837
At 31 March 2000	4,841	–	9,153	4,056	18,050
Company					
At 31 March 1999	22,100	49	–	(1,421)	20,728
Transfer from profit and loss account	–	–	–	(6,114)	(6,114)
Court Reconstruction	(22,096)	(49)	9,153	12,992	–
Premium on issue of shares	4,837	–	–	–	4,837
At 31 March 2000	4,841	–	9,153	5,457	19,451

The Company applied to the Courts for permission to carry out a reconstruction of reserves. Approval was received and the balances on the share premium account, capital redemption reserve and profit and loss account as at 30 September 1999 have been eliminated and a special reserve created. This special reserve is not available for distribution whilst any creditors outstanding at the date of approval remain outstanding.

In accordance with the exemptions allowed under section 230 of the Companies Act 1985 the company has not presented its own profit and loss account. The loss after tax for the period attributable to XKO Group plc dealt with in the accounts of the Company is £5,489,000 (1999 Loss: £1,468,000).

22 NOTES TO CASH FLOW STATEMENT

Reconciliation of operating loss to net cash inflow/(outflow) from operating activities

	2000 £'000s	1999 £'000s
Operating (loss)	**(6,037)**	(1,581)
Depreciation/amortisation	**9,765**	517
Impairment of fixed assets	**–**	737
Profit on sale of fixed assets	**(5)**	(8)
Decrease/(increase) in stocks	**475**	(48)
Increase in creditors	**58**	129
Increase in debtors	**(139)**	(78)
Net cash inflow/(outflow) from operating activities	**4,117**	(332)

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

23 ANALYSIS OF NET DEBT

	At 31 March 1999 £'000s	Cash Flow £'000s	Acquisition (excl' cash & overdrafts £'000s	At 31 March 2000 £'000s
Cash at bank and in hand	886	1,085	–	1,971
Overdrafts	(913)	913	–	–
	(27)	1,998	–	1,971
Debt due after 1 year	(1,981)	(253)	–	(2,234)
Debt due within 1 year	(819)	3	–	(816)
Finance leases	(451)	164	(17)	(304)
Total	(3,278)	1,912	(17)	(1,383)

24 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2000 £'000s	2000 £'000s	1999 £'000s	1999 £'000s
Increase/(decrease) in cash in the period	1,998		(33)	
Cash flow from increase in debt and lease financing	(86)		(2,825)	
Change in net debt resulting from cash flows		1,912		(2,858)
Loans and finance leases acquired with subsidiary		(17)		(275)
Movement in net debt in the period		1,895		(3,133)
Net debt at start of year		(3,278)		(145)
		(1,383)		(3,278)

25 MAJOR NON-CASH TRANSACTIONS

Part of the consideration for the purchases of Silicon Valley Group Limited and Paperflow Limited comprised shares and deferred consideration to be paid in shares.

26 PURCHASE OF SUBSIDIARY UNDERTAKINGS

The subsidiary undertakings acquired during the year generated an operating cash inflow of £113,000 (£108,000 Silicon Valley Group Limited), yielded £13,000 from the sale of Fixed Assets (£13,000 Silicon Valley Group Limited) and paid £146,000 of Corporation Tax (£146,000 Silicon Valley Group Limited).

27 CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

At 31 March 2000 the Company had no contingent liabilities (31 March 1999: £NIL), and had authorised but not yet contracted for capital expenditure of £NIL (31 March 1999: £NIL). Authorised and contracted for capital expenditure amounted to £NIL (31 March 1999: £NIL).

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

28 COMMITMENTS UNDER OPERATING LEASES

At 31 March 2000 there were the following annual commitments under non-cancellable operating leases:

	2000		1999	
	Land and Buildings £'000s	**Other £'000s**	Land and Buildings £'000s	Other £'000s
Operating leases which expire:				
Within one year	**49**	**79**	21	76
Within one to five years	**188**	**212**	192	133
After five years	**429**	**–**	314	–
	666	**291**	527	209

29 RELATED PARTY TRANSACTIONS

A pension fund managed on behalf of an indirect interest of JR Symons owns a Group property occupied by XKO (KSE Computers) Limited. The annual rent of £84,000 paid to the pension fund is negotiated on an arms length basis. J Gardner is a Director and the Company is a 2% shareholder in ProfIT Direct an XKO Group customer.

30 POST BALANCE SHEET EVENTS

The Company has exchanged contracts for the acquisition of CP Computers Group Ltd on 29 June 2000 for a maximum consideration of £4.9 million. On the same day the Company exchanged contracts for the acquisition of SP New Media Ltd for a maximum consideration of £6.0 million.

31 FINANCIAL INSTRUMENTS

The disclosures required by FRS 13 in relation to the nature of any financial instruments used during the year to mitigate interest rate movements, and liquidity and foreign currency risks are shown in the financial commentary on page 7 under the heading of "Financial Instruments". As permitted by FRS13, short term debtors and creditors are excluded from this disclosure.

Financial assets

£1,971,000 (1999: £886,000) of cash at bank and in hand is held in the Group, denominated in sterling.

Financial liabilities

All financial liabilities as at 31 March 2000 are denominated in sterling. Total financial liabilities in the Group are £3,050,000 (1999: £3,713,000). These loans are at a margin to LIBOR. Interest on £991,000 of these liabilities is calculated with reference to a fixed LIBOR of 5.7%. This rate applies for the whole period of the loan. This loan is repaid in instalments ending 27 January 2002. Interest on the remaining £2,059,000 is calculated with reference to a floating LIBOR. Of the £3,713,000 of financial liabilities at 31 March 1999 the interest on £2,800,000 of these borrowings was calculated with respect to floating LIBOR and the interest on £913,000 of these borrowings was calculated with respect to floating six month LIBOR.

Currency exposure

Minimal sales or purchases are made in foreign currency, therefore the Group does not have a material currency exposure.

Borrowing facilities

The Group has committed term loan and overdraft facilities of £7,050,000 (1999: £6,000,000) of which £4,000,000 (1999: £3,200,000) were un-drawn at the period end. Overdraft facilities are reviewed annually in the normal course of business.

Fair Values of financial assets and liabilities

The difference between the fair value of the Group's financial assets and liabilities and the book value is not material.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of XKO Group plc will be held at the offices of Osborne Clarke, Hillgate House, 26 Old Bailey, London EC4M 7HW on Wednesday 26 July 2000 at 10 am for the following purposes:

1. To receive and adopt the report of the Directors and the audited accounts of the Company for the year ended 31 March 2000.

2. To re-elect B C Beverley as a director.

3. To re-elect S D Beart as a director.

4. To re-appoint Messrs Deloitte and Touche as auditors to hold office until the conclusion of the next Annual General Meeting.

5. To authorise the Directors to fix the remuneration of the auditors.

6. To declare a final dividend of 1.5p per ordinary share.

As special business to consider and, if thought fit, pass the following resolutions of which number 7 will be proposed as an ordinary resolution and numbers 8 and 9 as special resolutions.

Ordinary Resolution

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

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

   (b) this authority shall be limited to the allotment of relevant securities up to an aggregate nominal value equal to £2,076,000, representing approximately one third of the nominal value of the issued ordinary share capital of the Company as shown in the audited accounts of the Company for the year ended 31 March 2000.

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

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

Special Resolutions

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

   (a) this authority shall be limited to the purchase of Ordinary Shares up to a maximum aggregate nominal value equal to £311,460, representing approximately five per cent. of the nominal value of the issued ordinary share capital of the Company as shown in the audited accounts of the Company for the year ended 31 March 2000;

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

NOTICE OF ANNUAL GENERAL MEETING *(continued)*

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

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

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

9. That the Directors be and are empowered pursuant to section 95 of the Companies Act 1985 and pursuant to the authority conferred by resolution 7 above to allot equity securities (as defined in section 94(2) of the Act) for cash as if section 89(1) of the Act did not apply to any such allotment provided that:

(a) the power shall be limited to:

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

(ii) the allotment, otherwise than pursuant to paragraph (i) above, of equity securities up to an aggregate nominal value equal to £311,460, representing approximately five per cent. of the nominal value of the issued ordinary share capital of the Company as shown in the audited accounts of the Company for the year ended 31 March 2000.

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

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

BY ORDER OF THE BOARD

A J SMITH
Secretary
29 June 2000

Systems House
Foundry Court
Gogmore Lane
Chertsey
Surrey KT16 9AP

NOTICE OF ANNUAL GENERAL MEETING *(continued)*

Notes

1. Any member of the Company who is entitled to attend and vote at the meeting may appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company. In the case of a company, the proxy must be executed under its common seal or under the hand of an officer or attorney duly authorised in writing. To be effective a form of proxy, (enclosed with this notice) and the authority (if any) under which it is signed or a notarially certified or office copy of such authority must be received at the office of the Company's Registrars, Connaught St Michaels Limited, PO Box 30, Victoria Street, Luton, Bedfordshire LU1 2BR at least forty-eight hours before the time fixed for the meeting. Appointment of a proxy will not preclude a member from attending the meeting and voting in person should that member subsequently so decide.

2. Copies of the Directors service contracts and the register of the Directors' interests in the share capital of the Company will be available for inspection at the registered office of the Company during normal business hours on a weekday (Saturdays and public holidays excluded) from the date of this notice until the date of the meeting and also at the place of the meeting for 15 minutes prior to and until the close of the meeting.

3. The Company pursuant to regulation 34 of the Uncertificated Securities Regulations 1995, specifies that only those Shareholders registered in the register of members of the Company at the close of business on 24 July 2000 shall be entitled to attend or vote at the aforesaid general meeting in respect of the number of shares registered in their name at that time. Any changes to the register of members after such time shall be disregarded in determining the rights of any person to attend or vote at the meeting.

4. In the case of joint holders, the signature of only one of the joint holders is required on the form of proxy, but the vote of the senior (by order in the register of members) who tenders a vote will be accepted to the exclusion of the others.

xplanatory notes to the notice of meeting

esolution 7 – Authority to allot shares

esolution 7 grants the Directors authority to allot shares in the Company up to an aggregate nominal value of 2,076,000, representing approximately one third of the nominal value of the issued ordinary share capital of the ompany as shown in the latest audited accounts of the Company. The Directors do not have any present intention of ercising this authority but they consider it desirable that the specified amount of authorised but unissued share capital available for issue so that they can more readily take advantage of possible opportunities. Unless revoked, varied or tended, this authority will expire at the end of twelve months from the date of passing of the resolution or at the nclusion of the next AGM of the Company, whichever is earlier.

esolution 8 – Authority to make market purchases

esolution 8 authorises the Company to make market purchases on a recognised investment exchange of its issued rdinary Shares up to an aggregate nominal amount of £311,460, representing approximately five per cent. of the minal value of the issued ordinary share capital of the Company as shown in the latest audited accounts of the mpany. The Alternative Investment Market of London Stock Exchange Limited is a recognised investment exchange thin the meaning of section 163(4) of the Act. The minimum price which may be paid for an Ordinary Share is 25 nce per share and the maximum price is five per cent above the average of the market values for an Ordinary Share the five dealing days preceding the date on which the Ordinary Share is purchased. The Directors consider that it is sirable that the Company is able to make market purchases of its own shares in order to increase future earnings per are or where this will be in the best interests of the Shareholders generally. Unless revoked, varied or extended this thority will expire at the end of twelve months from the date of passing of the resolution or at the conclusion of the xt AGM of the Company whichever is the earlier.

solution 9 – Disapplication of pre-emption rights

solution 9 empowers the Directors to allot equity shares for cash other than in accordance with the statutory pre- ption rights which require a company to offer all allotments of equity shares for cash first to existing Shareholders in portion to their holdings, in connection with a rights issue and otherwise up to a maximum nominal value of 11,460, representing approximately five per cent of the nominal value of the issued share capital of the Company as wn in the latest audited accounts of the Company. This authority will expire at the conclusion of the next AGM or elve months after the passing of the resolution, whichever is the earlier.