Company Registration No.
2950904

XKO

Report & Accounts

March 2001

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XKO Group plc

Report and Financial Statements 2001

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Directors and Advisors

Directors

B C Beverley	Chairman
S D Beart	Chief Executive
A J Smith	Finance Director
I R Mann	Non Executive Director
J Gardner	Non Executive Director
D R T Thompson	Non Executive Director

Stockbrokers and financial advisors

ING Barings Limited
60 London Wall
London EC4M 7DH

Joint stockbrokers

Rathbone Neilson Cobbold Limited
Port of Liverpool Building
Pier Head
Liverpool L3 1NW

Solicitors

Osborne Clarke OWA
Hillgate House
26 Old Bailey
London EC4M 7HW

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

Bankers

The Royal Bank of Scotland
Brunel House
17-27 Station Road
Reading RG1 1LG

Registrars

Connaught St Michaels Ltd
P O Box 30
Cresta House
Alma Street
Luton LU1 2PU

Chairman's Statement

Following a strong start to the year and excellent interim results to September 2000, the Group experienced a significant slowdown in sales activity in line with the sector as a whole. This was a major disappointment given the successful transformation of the Group into a broadly based e-Business supplier. As a result of the slowdown, the full year results show an operating profit of £0.2 million before goodwill and exceptional items. The Board has therefore decided not to pay a final dividend following the interim payment of 1.05p per share and will review future dividend payments in the light of future trading.

Whilst these results are unsatisfactory, I am pleased to confirm that the Group has reacted rapidly to the market conditions. Despite market circumstances, turnover continued to grow, net of acquisitions, and the newly acquired units in the Software Division performed well, particularly XKOnline. We have therefore demonstrated considerable resilience.

Furthermore, as a result of swift management action, primarily on reducing costs, the first quarter of the new financial year has seen profitable trading in each unit of the Group. This turnaround is partly the result of the rapid cost reductions but also reflects the high levels of recurring income and repeat business the Group enjoys from its substantial customer base. These are qualities that will stand us in good stead and continue to distinguish us from many of our competitors.

The trading environment shows signs of stability, albeit at lower levels and the Group has low indebtedness, growing turnover and competitive products to offer our broad customer base. A substantially reduced cost base should enable us to build on the promising first quarter's trading.

Looking further forward, whilst it is still difficult to assess market conditions in the medium term, we have achieved much in the past year including new product development that will enable us to benefit quickly from improved market conditions.

Brian Beverley
Chairman

Chief Executive's Review

Summary

The Group started the year well and we announced strong interim results with several important new customer gains. It was disappointing therefore, to endure the subsequent impact of a slowdown in the second half which has led to a net operating result for the full year of £0.2 million before goodwill and exceptional costs. (2000/01: £3.2 million).

The reduction in second half profitability was primarily caused by a slowdown in ordering from existing customers, which led to a poor result. On a positive note, Group turnover continued to grow, excluding the effect of acquisitions, which reflects the increasing scale of our activities.

Our response to market conditions was immediate and action has been taken on the cost base, which will generate in excess of £3 million of annualised cost savings. The benefits of this action are already reflected in our swift return to profitability in the first quarter of the current year and our hopes for a satisfactory first half.

Operating Performance

The Group is increasingly operating as one unit supplying customers with a broad range of products and services. The division between our Software and Networks units is no longer important for customers who continue to look for single source supply and an end-to-end solution. The Group is ideally structured to benefit from this trend, illustrated by the fact that some of our largest ERP implementations in the past year were delivered to customers who initially were long standing customers of our Networks Division. At the same time, further sales of our Networks skills to Software customers have been achieved. This process is expected to continue and will yield incremental sales in the current year as we maximise the potential from our substantial customer base by meeting the full needs of those customers.

Despite the poor market conditions we achieved major sales in the year. Implementations of note include the delivery of a major ERP system and network to Bucktrouts, a subsidiary of the quoted Ann Street Brewery in Guernsey, the creation of a virtual campus for BPP plc and the delivery of an online booking system for Bourne Leisure. These were significant and complex solutions and illustrate the capacity for the e-Business units to design novel solutions to a customer's specification.

These and other transactions have reinforced our strong presence in a number of vertical markets. Whilst we have always excelled at solutions for the distribution market, particularly in the building materials and food sector, we now have recognised positions in the leisure industry and the delivery of e-Learning as well as interactive television.

In the food sector, following the acquisition of CP Computers, which now operates as XKO Software, we have successfully developed existing relationships with a number of food industry customers, in particular Watson & Philip, a subsidiary of Brakes Brothers plc, where substantial sales were made with further development plans in hand for the current year. Working closely with substantial customers such as Watson & Philip is the way forward for the Group and gives the best result for our customers.

Acquisitions

During the year two units were acquired for a total consideration, subject to the achievement of Earn Out targets, of approximately £5 million. CP Computers extended our position in the food distribution market whilst bringing into the Group a high level CRM application. SP New Media, now XKOnline was a vital addition to our e-Business skills. XKOnline specialises in web consultancy and online marketing techniques for major corporates, particularly in the leisure and financial services vertical markets. This unit exceeded our expectations at acquisition and continues to grow rapidly despite the current environment. XKOnline was a key part of delivering e-Business solutions for many customers in the last year and the team's consultancy and marketing skills will be critical in coming years.

Channel strategy

The Group's core skills revolve around the delivery of end-to-end software and networking solutions for a broad range of customers. In addition, the Group has developed a full Content Management System (CMS) application with a supporting tool set. This product range, Varius™, has already been used within several existing customer sites. The potential and scale of Varius™ and the opportunities available clearly point to the use of Channel Partners who already have existing relationships within key vertical markets and who have the resources to deliver the downstream services.

We are pleased that we have been able to create partnership agreements with a number of solutions providers who have signed up with us as a result of the obvious power and capabilities of our Varius™ product range. Current partners include Vega plc, Charteris plc and Plato. These partners have outstanding experience in delivering large scale services and consultancy and are keen to work with us to assist in the delivery of Varius™ based solutions. In time we would expect to work closely with no more than 8-10 partners and to be part of the sales and delivery team of those partners.

It is early days in the partnership programme but the current activity levels with partners are encouraging and the partners share our belief that Varius™ is an exceptional product capable of meeting the needs of the vertical markets we have targeted. We would hope therefore that limited licence revenues will begin to flow towards the end of the current financial year and to increase thereafter as partners and customers become familiar with the power of the Varius™ solution.

Exceptional items

To achieve the required level of cost savings, exceptional restructuring costs of £633,000 were incurred. A further £400,000 has been incurred in the first quarter of the new financial year.

Taking into account the impact of current market conditions we have decided to take a prudent view of certain major debtor exposures, including the possibility that deferred proceeds from the sale of a former subsidiary are not fully recovered. The additional provisions total £850,000. It is quite possible that these provisions may not ultimately be required. Any material amounts subsequently released to profit will be separately disclosed.

These market conditions also have the potential to impact the valuation of our maintenance stock holdings. For this reason we have taken a more prudent view of the level of future utilisation of such stocks, giving rise to an additional stock write down of £260,000.

Management incentives

The Group's product development and Software solutions described above are all thanks to the effort of our staff and their creative skills. As a result we have been able to move the Group forward across all disciplines and we expect increasing benefits from offering customers a total service.

However, many of the talented individuals who are essential to the Group's further progress have been granted share options under the Company's executive and save as you earn schemes at prices significantly higher than current market levels. In order to retain and incentivise our staff it is important we provide tangible equity incentives as well as competitive pay structures. We are therefore intending to propose at our forthcoming Annual General Meeting that shareholders approve a resolution enabling the Board to offer those employees with highly priced share options the opportunity to surrender highly priced options and be granted new options at 120p per share, or a 20 per cent. premium to the market price, whichever is the higher. This however, will be in exchange for a 50 per cent. reduction in the number of options currently held by the relevant employee. Earnings per share hurdles will apply to the regranted options.

The Board understands that the reissuing of options is not always welcomed by shareholders but believes that the required reduction in shares under option and the premium over market price are a fair compensation for a reduced strike price. This proposal has been discussed and approved in principle with major shareholders accounting for approximately 40 per cent. of the Group's shares. We would very much hope that remaining shareholders will support the relevant resolution at the forthcoming AGM in late July.

On the assumption that option holders elect for the reissue, it is anticipated that all share options including the Group's SAYE scheme will account for approximately 5.0 per cent. of the existing issued share capital.

Shareholders should note that no member of the Main Board will be entitled to participate in the reissuing of options.

LTIP

The current size of the Group provides limited opportunity for material option grants to key employees. As a result, it is proposed that a Long Term Incentive Plan is created for the senior 15-20 members of the management team. In summary, this scheme will allow individuals to earn the right to receive ordinary shares for nil consideration in exchange for remaining with the Group and achieving certain profit and share price targets. The scheme vests over a minimum of three to five years. The Board will be asking that shareholders approve the allocation of 1,075,000 new ordinary shares for the scheme, which represents approximately 4 per cent. of the outstanding issued share capital.

The total of options anticipated to be outstanding under executive and SAYE schemes and LTIP awards is expected to be some 9.0 per cent. of existing issued share capital. The remaining 1.0 per cent., up to the recommended 10 per cent. dilution level, will be retained for the benefit of future grants and new employees.

A detailed resolution in respect of the reissuing of options and the LTIP will be set out in the forthcoming Report and Accounts. A draft of the LTIP rules will be available for inspection prior to and at the AGM.

Outlook

The Chairman has pointed out that it is difficult to have a clear view on trading beyond the short term. This partly reflects the nature of our business with relatively short lead times, but also the continued uncertain market conditions. However, following rapid management action, the cost base of the Group has been reduced whilst still retaining the skills and capacity required if market conditions improve. The Group has a large customer base and can therefore expect to be an early beneficiary of renewed customer confidence.

Simon Beart
Chief Executive

Financial Commentary

Summary

Following an operating profit before goodwill amortisation and impairment of £2.0 million in the first half the Group incurred a comparable loss of £1.8 million in the second half, before exceptional costs, primarily due to the deferral of contracts in our e-Business units.

In addition the Group has recognised an exceptional item of £1.7 million covering, restructuring costs, increased bad debt provisions and a write down of our maintenance stocks. This is more fully disclosed in the Chief Executive's Review report. The exceptional item is higher than anticipated at the time of the trading statement in March 2001 due to the need for increased debtor and stock provisions which are judged prudent in the current environment.

To the extent that these provisions are not ultimately required, in particular in respect of debtors, an exceptional release will be made at that time and disclosed accordingly.

Cash flow, taxation

Our focus on working capital control has ensured that net, total indebtedness was stable at £1.6 million at the year-end, despite the funding of a heavy capital expenditure programme of £1.6 million. This achievement reflects positive operating cash flow over the year. The current year will see very limited capital expenditure and reduced dividend payments, which will further improve positive cash flow.

We benefit from a low corporation tax environment in parts of the Group and current trading will involve reduced tax payments. The estimated future charge is likely to stabilise at approximately 20-25 per cent. for the foreseeable future.

Goodwill

At the formation of the Group goodwill amortisation was recognized over ten years. In the light of current conditions the Board believes it prudent to amortise goodwill over five years and in addition this years' impairment review requires an accelerated charge of £9.6 million (2000: £5.4 million). The current, total, charge of £18 million reflects this approach, but does not effect trading cashflow or trading profits being a non cash item.

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 exchange risks.

Methods used by the Group to manage these risks are summarised 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 a floating LIBOR or to a fixed LIBOR of 5.7 per cent.

Liquidity risk

The group policy to manage liquidity risk is to maintain a £2.23 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 during the period.

Andrew Smith
Finance Director

The Directors present their Report and the Group's audited financial statements for the year ended 31 March 2001.

Principal activity, review of the year and future prospects

The Group's principal activity comprises the supply of 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. Turnover increased as a result of acquisitions. The financial statements show a consolidated loss of £19,641,000 for the year, after taxation, which has been transferred to reserves. The Directors recommend the payment of a dividend of 1.05 pence per share. This was paid as an interim dividend, no final dividend is proposed.

Share capital

The following ordinary shareholders, not being Directors, had an interest of 3 per cent. or more in the currently issued ordinary share capital of the company as at 31 March 2001.

	Percentage of issued ordinary share capital	Number of 25p ordinary shares
Deutsche Bank	14.5%	3,907,684
Second Wind Limited	11.5%	3,076,923
Arlington Group plc	9.3%	2,500,000

The number of shares in issue at 31 March 2001 was 26,870,009. Second Wind Limited represents the combined, indirect, interests of the vendors of a trading unit held within XKO Software Limited.

Directors and their interests

The Directors at the year-end are as listed on page 2, J R Symons resigned on 31 January 2001. Messrs I R Mann, and DRT Thompson, offer themselves for re-election, A J Smith offers himself for election at the Annual General Meeting to be held on 31 July 2001.

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 2001, the following Directors had the following beneficial and family interests in the shares of the company:

	As at 31 March 2001 25p ordinary shares	As at 31 March 2000 (or date of appointment) 25p ordinary shares
B C Beverley	1,640,000	1,590,000
S D Beart	305,000	305,000
A J Smith (appointed 27 June 2000)	—	—
I R Mann	8,300	8,300
J Gardner	15,000	15,000
D R T Thompson	5,810	5,810

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

In addition, the following Directors hold the following subscription rights:

	Exercise Price	At 31 March 2001 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
A J Smith	400p	25,000	4 January 2003	4 January 2010
	292.5p	25,000	5 December 2003	5 December 2010

No further Directors have any subscription rights in the company.

The market price of shares in XKO Group plc at 31 March 2001 was 75p. During the year the market price ranged from 73.5p to 460p.

DIRECTORS

B C Beverley (55) – Chairman

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

S D Beart BA, ACA (42) – Chief Executive, Deputy Chairman

Simon Beart qualified as a Chartered Accountant with PricewaterhouseCoopers in 1984. In 1992, he co-founded the listed international packaging group Britton Group plc that was subsequently sold in 1998 for £200 million. He joined the group in August 1998 and was formerly Group Finance Director.

A J Smith BSocSci, ACA (35) – Finance Director

Andrew Smith qualified as a Chartered Accountant with PricewaterhouseCoopers in 1991. He was previously Group Financial Controller at XKO Group plc and at Britton Group plc and also Financial Controller (Projects) at Mitsui Babcock Energy Limited.

NON-EXECUTIVE DIRECTORS

I R Mann (59)

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 (59)

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 (56)
David Thompson was a founder of Druid Systems Limited in 1987, the company that became Druid Group Plc upon its flotation in 1996 and was Managing Director of Druid Group Plc until January 1998. He is 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 2001.

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	311,808	148.5p	2 March 2002 to 2 March 2009
4 Jan 2000	90,000	400p	4 Jan 2003 to 4 Jan 2010
3 Feb 2000	15,000	475p	3 Feb 2003 to 3 Feb 2010
14 Apr 2000	49,500	305p	14 Apr 2003 to 14 Apr 2010
10 Jul 2000	165,000	291p	10 Jul 2003 to 10 Jul 2010
21 Jul 2000	6,000	318p	21 Jul 2003 to 21 Jul 2010
1 Aug 2000	12,000	320p	1 Aug 2003 to 1 Aug 2010
8 Aug 2000	30,000	326p	8 Aug 2003 to 8 Aug 2010
31 Aug 2000	52,000	339p	31 Aug 2003 to 31 Aug 2010
5 Dec 2000	304,000	292.5p	5 Dec 2003 to 5 Dec 2010
9 Jan 2001	33,000	232p	9 Jan 2004 to 9 Jan 2011
31 Jan 2001	5,000	256p	31 Jan 2004 to 31 Jan 2011

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

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

Directors' and officers' liability insurance
The Group 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 ended 31 March 2000. Employees have subscribed for approximately 200,000 shares.

Environment

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

CORPORATE GOVERNANCE

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

Board balance and effectiveness

The Board has maintained an appropriate degree of balance by its composition of 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. Aspects of Risk Management are discussed at the Audit Committee.

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.

Internal control

The Directors acknowledge that they have overall responsibility for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and even the most effective system can provide only reasonable, and not absolute, assurance with respect to the preparation of financial information and the safeguarding of assets.

Your directors have continued to monitor and review the internal controls in operation during the period under review to ensure that they remain effective. Where Companies have been in the Group for less than one year, they have relied on the due diligence process. Where any significant weaknesses have been identified, new procedures have been put in place to strengthen controls.

The Turnbull report provided further guidance as to how the Combined Code principle on internal control should be applied in practice. The contents of this report have been carefully considered by the Board and procedures have been established to implement the guidance. In the second half of the year, steps were taken to establish an on going process for identifying, evaluating, managing and reviewing any changes in the significant risks faced by the business. This process has now been reviewed and approved by the Board, and will be embedded over the coming year. Consequently, no formal annual review of the effectiveness of the groups system of internal control has been performed in the period. Such a review will be completed prior to the announcement of the group's interim results.

Steps are to be taken to embed internal control and risk management further into the operations of the business and to deal with areas of improvement which come to attention.

The key procedures that the Board has established and which are designed to provide effective internal control and risk assessment for the Group include:

— a comprehensive and detailed budgeting system with the annual budget approved by the Board

— regular updates issued throughout the year giving the Board an updated forecast

— monthly reviews by the Board of trends in trading circumstances

— capital expenditure and other authority limits

— regular reporting of legal and accounting developments to the Board

— review and authorisation of all material sales contracts by Board Executives

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

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

Corporate Governance Compliance Statement

Details of the group's approach to corporate governance are given above. Due to the lean nature of the group's organisation and management's focus on restoring profitability in a difficult marketplace the group has not complied throughout the period with Code Provision D2:1. The Group anticipates being in compliance throughout the year to 31 March 2002. Throughout the year ended 31 March 2001, the company has been in compliance with the other code provisions except for Code Provision D2:1 set out in section 1 of the Combined Code on Corporate Governance issued by the UK Listing Authority.

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.

Directors' Report (continued)

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 2001 (2000 – £nil).

Research and Development

Research and development activities are ongoing modifying and developing software. £1,004,000 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 31 July 2001 at the offices of Osborne Clarke OWA, 26 Old Bailey, London EC4M 7HW.

Auditors

Deloitte & 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

28 June 2001

Report of the Board on Remuneration

Remuneration policy

The Remuneration Committee (members, as detailed on page 11) recommends to the Board as a whole the framework for remuneration. It determines the overall remuneration package for executive Directors, 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.

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 up to two years salary, benefits and estimated bonuses.

	Basic Salary £'000s	Benefits £'000s	Pension contri-butions £'000s	Bonus £'000s	Fees £'000s	Year ended 31 March 2001 Total £'000s	Year ended 31 March 2000 Total £'000s
Current Directors							
B C Beverley	122	—	—	—	—	122	112
S D Beart	110	12	11	—	—	133	117
A J Smith	47	7	5	—	—	59	—
I R Mann	—	—	—	—	15	15	15
J Gardner	—	—	—	—	30	30	30
D R T Thompson	—	—	—	—	15	15	15
	279	19	16	—	60	374	289
Former Director							
J R Symons	70	1	—	—	—	71	79
	70	1	—	—	—	71	79

A J Smith was appointed as Finance Director on 27 June 2000, J R Symons resigned on 31 January 2001. Their remuneration for the period they served as Directors is shown above.

Information on share options held by the Directors is disclosed in the Directors' report.

I R Mann
Chairman, Remuneration Committee

Statement of Directors' Responsibilities

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

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- 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 18 to 36 which have been prepared under the accounting policies set out on pages 22 to 23.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including as described on page 16 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 12 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 2001 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
Chartered Accountants and Registered Auditors.

Deloitte & Touche

28 June 2001

Consolidated Profit and Loss Account

for the year ended 31 March 2001

	Notes	Continuing activities £'000s	Acquisitions £'000s	Total 31 Mar 2001 £'000s	Total 31 Mar 2000 £'000s
Turnover	2	35,974	2,237	38,211	29,628
Operating (loss)/profit before amortisation and impairment of goodwill and exceptional items		(259)	421	162	3,181
Amortisation and impairment of goodwill	3	(15,759)	(2,008)	(17,767)	(9,024)
Exceptional items	3	(1,743)	—	(1,743)	(194)
Operating loss	3	(17,761)	(1,587)	(19,348)	(6,037)
Interest receivable and similar income				—	33
Interest payable and similar charges	5			(263)	(259)
Loss on ordinary activities before taxation				(19,611)	(6,263)
Tax on loss on ordinary activities	6			251	(707)
Loss on ordinary activities after taxation for the year				(19,360)	(6,970)
Dividends	7			(281)	(625)
Retained loss for the year				(19,641)	(7,595)
Adjusted earnings per share	8			0.6p	9.5p
(Loss) per share	8			(73.5p)	(29.4p)
Diluted (loss) per share	8			(85.3p)	(27.2p)
Dividend per share				1.05p	2.5p

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

Consolidated Balance Sheet

As at 31 March 2001

	Notes	Mar 2001 £'000s	Mar 2000 £'000s
Fixed assets			
Intangible assets	9	16,539	29,284
Tangible assets	10	1,569	1,134
		18,108	30,418
Current assets			
Stocks	12	944	945
Debtors	13	7,342	7,420
Cash at bank and in hand		829	1,971
		9,115	10,336
Creditors: amounts falling due within one year	14	(9,628)	(9,913)
Net current (liabilities)/assets		(513)	423
Total assets less current liabilities		17,595	30,841
Creditors: amounts falling due after more than one year	15	(2,558)	(2,459)
Provisions for liabilities and charges	17	—	—
Deferred income	18	(4,173)	(3,258)
Net assets		10,864	25,124
Capital and reserves			
Called up share capital	19	7,017	6,529
Shares to be issued	19	852	545
Share premium account	21	9,427	4,841
Other reserves	21	9,153	9,153
Profit and loss account	21	(15,585)	4,056
Shareholders' funds	20	10,864	25,124
Equity		10,564	24,824
Non Equity		300	300
Shareholders' funds		**10,864**	25,124

A J Smith
Finance Director

28 June 2001

Company Balance Sheet

As at 31 March 2001

	Notes	Mar 2001 £'000s	Mar 2000 £'000s
Fixed assets			
Tangible Assets	10	32	27
Investments	11	21,514	20,547
		21,546	20,574
Current assets			
Debtors	13	2,364	12,000
Creditors: amounts falling due within one year	14	(6,936)	(3,803)
Net current (liabilities)/assets		(4,572)	8,197
Total assets less current liabilities		16,974	28,771
Creditors: amounts falling due after more than one year	15	(2,268)	(2,246)
Net assets		14,706	26,525
Capital and reserves			
Called up share capital	19	7,017	6,529
Shares to be issued	19	852	545
Share premium account	21	9,427	4,841
Other reserves	21	9,153	9,153
Profit and loss account	21	(11,743)	5,457
Shareholders' funds	20	14,706	26,525
Equity		14,406	26,225
Non Equity		300	300
Shareholders' funds		14,706	26,525

A J Smith
Finance Director

28 June 2001

Consolidated Cash Flow Statement

For the year ended 31 March 2001

	Notes	£'000s	Year ended 31 March 2001 £'000s	Year ended 31 March 2000 £'000s
Cash inflow from operating activities	22		1,167	4,117
Returns on investments and servicing of finance				
Interest received		—		33
Interest paid		(249)		(232)
Interest element of finance lease rental payments		(14)		(27)
Net cash outflow from returns on investments and servicing of investments			(263)	(226)
Taxation				
Corporation tax paid			(144)	(242)
Capital expenditure				
Payments to acquire tangible fixed assets		(1,636)		(802)
Proceeds from sale of fixed assets		287		36
Net cash outflow from capital expenditure			(1,349)	(766)
Acquisitions				
Payments to acquire investments in subsidiaries (including expenses)	11	(3,884)		(5,321)
Net cash acquired with subsidiaries	11	93		580
			(3,791)	(4,741)
Equity dividends paid			(656)	(250)
Net cash outflow before financing			(5,036)	(2,108)
Financing				
Issue of ordinary share capital		4,857		4,020
Bank loans		(816)		250
Capital element of finance leases repaid		(147)		(164)
Net cash inflow from financing			3,894	4,106
(Decrease)/increase in cash in the year	24		(1,142)	1,998

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 2001. 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 included the results and cash flows for the period of ownership.

(3) Goodwill

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

(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.

(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.

(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.

2. Segmental Analysis

Turnover derives from locations in the United Kingdom and the Channel Islands and relates to the supply of Business Enterprise Software and Systems Integration.

3. Operating loss

	Continuing Activities £'000s	Acquisitions £'000s	Year ended 31 March 2001 £'000s	Continuing Activities Year ended 31 March 2000 £'000s
Turnover	35,974	2,237	38,211	29,628
Cost of Sales	(17,218)	(60)	(17,278)	(12,492)
Gross Profit	18,756	2,177	20,933	17,136
Administration expenses before amortisation and impairment of goodwill and exceptional items	(19,015)	(1,756)	(20,771)	(13,955)
Amortisation and impairment of goodwill	(15,759)	(2,008)	(17,767)	(9,024)
Exceptional items	(1,743)	—	(1,743)	(194)
Total administrative expenses	(36,517)	(3,764)	(40,281)	(23,173)
Operating loss	(17,761)	(1,587)	(19,348)	(6,037)

Exceptional items consist of £633,000 with respect to the costs of redundancies and reorganisations, £850,000 of provisions against debtors (including £250,000 with respect to sale proceeds from the sale of a former subsidiary) and £260,000 of adjustments to the value of closing stock to reflect accelerated obsolescence. The prior year exceptional item relates to the costs of obtaining a full listing on the London Stock Exchange.

	2001 £'000s	2000 £'000s
Operating loss is arrived at after charging/(crediting):		
Research and development costs	1,004	757
Depreciation of tangible fixed assets:		
Assets held under hire purchase contracts or finance leases	135	514
Other owned assets	876	227
Amortisation of intangible fixed assets: normal basis	7,946	3,402
Amortisation of intangible fixed assets: accelerated basis (note 9)	9,821	5,622
Auditors' remuneration:		
Audit services	104	100
Non-audit services	50	85
Rentals under operating leases:		
Plant and other machinery	157	323
Other operating leases	636	585
Profit on sale of tangible fixed assets	(39)	(5)

£1,134,000 of turnover, £NIL of cost of sales, £1,134,000 of gross profit, £1,226,000 of administration expenses and £92,000 of operating loss relate to the acquisition of SP New Media Limited.

£1,103,000 of turnover, £60,000 of cost of sales, £1,043,000 of gross profit, £2,538,000 of administration expenses and £1,495,000 of operating loss relate to the acquisition of CP Computer Group Limited.

4. Directors and employee costs

The average number of employees (including Executive Directors) in the Group during this period was 449 (2000: 362).

Employee costs during the year amounted to:

	2001 £'000s	2000 £'000s
Wages and salaries	13,018	9,352
Social security costs	1,231	832
Other pension costs	249	162
	14,498	10,346
Included in the above in respect of directors' remuneration:		
Emoluments	429	358
Pension contributions	16	10
	445	368

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 15 in the Report on Remuneration and form part of these financial statements. Options held by Directors are disclosed on page 9 of the Directors Report.

5. Interest payable and similar charges

	2001 £'000s	2000 £'000s
On bank loans and overdrafts	249	232
Finance charges allocated for the period in respect of finance leases	14	27
	263	259

6. Tax on loss on ordinary activities

	2001 £'000s	2000 £'000s
The taxation credit/(charge) comprises:		
Corporation tax	251	(745)
Corporation tax adjustments relating to an earlier year	—	(22)
Deferred tax adjustments relating to a prior year	—	60
	251	(707)

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

7. Dividends

	2001 £'000s	2000 £'000s
Equity dividends:		
Interim, paid, 1.05p (2000: 1.0p) per share	281	250
Final, proposed, Nil (2000: 1.5p) per share	—	375
	281	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 £19,360,000 (2000 loss: £6,970,000) by the weighted average number of shares in issue during the year of 26,356,627 (2000: 23,696,595).

(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 £19,360,000 (2000 loss: £6,970,000) by the weighted average number of shares of 22,707,913 (2000: 25,599,016).

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	26,356,627
Weighted average number of warrants to be exercised at below fair value	(340,000)
Effect of conversion of Convertible Preference shares	(300,000)
Weighted average number of share options to be exercised at below fair value	(3,008,714)
Weighted average number of shares used in diluted earnings per share calculation	22,707,913

Adjusted earnings per share, which more accurately reflects the trading for the year, is calculated as in (a) above but excluding goodwill amortisation and impairment of £17.8 million (2000: £9.0 million) and exceptional items of £1.7 million (2000: £0.2 million), resulting in an adjusted profit after tax of £150,000 (2000: £2,248,000).

9. Intangible assets

Group

	Goodwill £'000s
Cost	
As at 1 April 2000	38,572
Additions	5,141
Adjustments in respect of prior year acquisitions	(119)
As at 31 March 2001	43,594
Accumulated amortisation	
As at 1 April 2000	9,288
Charge for the period	17,767
As at 31 March 2001	27,055
Net book value	
At 31 March 2001	16,539
At 1 April 2000	29,284

The movement on goodwill incorporates an impairment charge for the year of £9.8 million (2000: £5.6 million) in respect of estimated product lives, details are given in the Financial Commentary on page 7. A discount rate of 7 per cent. has been used.

The Directors currently estimate that the appropriate useful economic life of goodwill in the Information Technology industry is five years. This estimate was previously ten years leading to an increased amortisation charge in the period of £4.4 million.

The adjustments in respect of prior year acquisitions represent a reduction in the deferred consideration to be paid.

10. Tangible assets

Group

	Leasehold premises and improvements £'000s	Fixtures, Fitting and Equipment £'000s	Motor Vehicles £'000s	Total £'000s
Cost				
As at 1 April 2000	203	2,997	1,194	4,394
On acquisition of subsidiaries	—	37	62	99
Additions	248	1,077	311	1,636
Disposals	(111)	(327)	(548)	(986)
At 31 March 2001	340	3,784	1,019	5,143
Accumulated depreciation				
At 1 April 2000	121	2,457	682	3,260
On acquisition of subsidiaries	—	17	24	41
Charge for the period	44	685	282	1,011
Disposals	(98)	(246)	(394)	(738)
At 31 March 2001	67	2,913	594	3,574
Net book value				
At 31 March 2001	273	871	425	1,569
At 31 March 2000	82	540	512	1,134

The net book value of assets held under finance leases is £160,000 (2000: £428,000).

The company has motor vehicles with a net book value of £32,000 (2000: £27,000), depreciation charged in the year was £14,000 (2000: £9,000). £18,000 of these motor vehicles are held under finance leases (2000: £27,000).

11. Investments

	Company 2001 £'000s	2000 £'000s
At start of period	20,547	19,632
On acquisition of subsidiaries	8,113	6,537
Impairment in value	(7,146)	(5,622)
At end of the period	21,514	20,547

£3,332,000 of the cost of acquisition of subsidiaries relates to the purchase of subsidiaries previously held as indirect subsidiaries of the company.

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 2001, 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 29 June 2000 the company acquired SP New Media Limited, now called XKO Online Limited. The following adjustments have been made to the acquired assets and liabilities to arrive at fair values:

	Net assets at acquisition £'000s	Accounting policy alignment £'000s	Fair value adjustments £'000s	Fair value at acquisition £'000s
Tangible fixed assets	20	—	—	20
Debtors	74	—	—	74
Creditors	(75)	—	(30)	(105)
Net assets/(liabilities)	19	—	(30)	(11)
Goodwill				2,692
Total acquisition cost, including expenses				2,681

The total consideration for the acquisition was satisfied by:

	£'000s
Shares issued	—
Cash consideration, including acquisition expenses	1,070
Shares to be issued	661
Cash to be paid	950
Total Consideration	2,681

On 29 June 2000 the company acquired CP Computer Group Limited. The following adjustments have been made to the acquired assets and liabilities to arrive at fair values:

	Net assets at acquisition £'000s	Accounting policy alignment £'000s	Fair value adjustments £'000s	Fair value at acquisition £'000s
Tangible fixed assets	84	(46)	—	38
Debtors	35	—	—	35
Cash	93	—	—	93
Creditors	(118)	—	(50)	(168)
Corporation tax	(44)	—	—	(44)
Deferred income	—	(158)	(120)	(278)
Net assets/(liabilities)	50	(204)	(170)	(324)
Goodwill				2,424
Total acquisition cost, including expenses				2,100

The total consideration for the acquisition was satisfied by:

	£'000s
Shares issued	—
Cash consideration, including acquisition expenses	2,100
Shares to be issued	—
Cash to be paid	—
Total Consideration	2,100

Total cash consideration paid in respect of acquisitions of £3,884,000 consists of £1,070,000 with respect to SP New Media Limited and £2,100,000 with respect to CP Computer Group Limited, £25,000 for a shareholding in Simply Hub plc and £689,000 with respect to acquisitions in the prior period.

The accounting policy alignments primarily comprise the application of the XKO income recognition policy with respect to maintenance and support contracts. The fair value adjustments comprise the valuation to market value of debtors, fixed assets and stock and adjustments in accounting estimates for creditors and deferred income.

The acquisitions in the year contributed the following results:

	SP New Media Limited £'000s	CP Computer Group Limited £'000s
Profit after taxation, last financial year	23	188
Profit/(loss) after taxation, start of current financial year to date of acquisition	24	(89)

SP New Media Limited prepared accounts to 31 October 1999 and CP Computer Group Limited prepared accounts to 31 December 1999.

Notes to the Financial Statements (continued)

For the year ended 31 March 2001

12. Stock

	Group	
	2001 £'000s	2000 £'000s
Raw materials and consumables	944	945

13. Debtors

	Group		Company	
	2001 £'000s	2000 £'000s	2001 £'000s	2000 £'000s
Trade debtors	6,682	6,931	—	350
Prepayments and accrued income	660	489	—	—
Amounts owed by group undertakings	—	—	2,364	11,650
	7,342	7,420	2,364	12,000

14. Creditors: amounts falling due within one year

	Group		Company	
	2001 £'000s	2000 £'000s	2001 £'000s	2000 £'000s
Bank loans and overdrafts (see note 16)	816	816	3,145	1,615
Obligations under finance leases (see note 16)	105	165	12	12
Trade creditors	4,668	3,897	168	147
Amounts owed to group undertakings	—	—	3,196	550
Other taxes and social security	749	1,055	(27)	97
Accruals and other creditors	2,483	2,643	336	1,019
Deferred consideration	211	—	—	—
Corporation tax	596	962	106	(12)
Dividends	—	375	—	375
	9,628	9,913	6,936	3,803

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

	Group		Company	
	2001 £'000s	2000 £'000s	2001 £'000s	2000 £'000s
Bank loans (see note 16)	1,418	2,234	1,418	2,234
Obligations under finance leases (see note 16)	52	139	—	12
Deferred consideration	987	—	850	—
Corporation tax	101	86	—	—
	2,558	2,459	2,268	2,246

The deferred consideration is payable in installments between 2002 and 2004.

16. Borrowings

	Group		Company	
	2001 £'000s	2000 £'000s	2001 £'000s	2000 £'000s
Bank loans and overdrafts	2,234	3,050	4,563	3,849
Obligations under finance leases	157	304	12	24
	2,391	3,354	4,575	3,873
Due within one year	921	981	3,157	1,627
Due after more than one year	1,470	2,373	1,418	2,246
	2,391	3,354	4,575	3,873
Analysis of loan repayments				
Bank loans and overdrafts				
Within one year	816	816	3,145	1,615
Between one and two years	1,418	2,234	1,418	2,234
Between two and five years	—	—	—	—
	2,234	3,050	4,563	3,849
Obligations under finance leases				
Within one year	105	165	12	12
Between one and five years	52	139	—	12
	157	304	12	24

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

17. Provisions for liabilities and charges

	Deferred taxation	
	2001	2000
	£'000s	£'000s
At start of period	—	98
Subsidiaries (sold)/acquired	—	(38)
Profit and loss account charge	—	(60)
At 31 March 2001	—	—

	Provided		Unprovided	
	2001	2000	2001	2000
	£'000s	£'000s	£'000s	£'000s
Group				
Difference between accumulated depreciation and amortisation and capital allowances	—	—	(265)	(119)
Other timing differences	—	—	(13)	(179)
Tax losses	—	—	(571)	(911)
	—	—	(849)	(1,209)
Company				
Other timing differences	—	—	(4)	(2)
Tax losses	—	—	(211)	(111)
	—	—	(215)	(113)

18. Deferred income

	2001	2000
	£'000s	£'000s
Maintenance income to be recognised within one year	4,173	3,258

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

19. Called up share capital

Issued share capital

	Ordinary shares of 25p each	Preference shares of £1
As at 1 April 2000	24,916,828	300,000
Placing of shares associated with the acquisitions of SP New Media Limited and CP Computer Group Limited	1,890,000	—
Deferred consideration with respect to Silicon Valley Group Limited	63,181	—
As at 31 March 2001	26,870,009	300,000
Nominal value of issued share capital	£6,717,502	£300,000

Authorised share capital

	Ordinary shares of 25p each £'000s	Preference shares of £1 £'000s
As at 1 April 2000 and 31 March 2001	10,000	300

Convertible redeemable preference shares

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

Shares to be issued

Currently estimated to be £852,000 (2000: £545,000) and relates to a total of approximately 1,000,000 new ordinary shares to be issued.

20. Reconciliation of movement in shareholders' funds

	Group		Company	
	2001 £'000s	2000 £'000s	2001 £'000s	2000 £'000s
Loss for the financial year	(19,360)	(6,970)	(16,919)	(5,489)
Dividends payable	(281)	(625)	(281)	(625)
Retained loss for the financial year	(19,641)	(7,595)	(17,200)	(6,114)
Shares to be issued	307	463	307	463
New share capital subscribed	5,074	4,596	5,074	4,596
Net reduction to shareholders' funds	(14,260)	(2,536)	(11,819)	(1,055)
Opening shareholders' funds	25,124	27,660	26,525	27,580
Closing shareholders' funds	10,864	25,124	14,706	26,525

21. Reserves

	Share Premium £'000s	Special Reserve £'000s	Profit and Loss Account £'000s	Total £'000s
Group				
As at 31 March 2000	4,841	9,153	4,056	18,050
Transfer from profit and loss account	—	—	(19,641)	(19,641)
Premium on issue of shares	4,586	—	—	4,586
At 31 March 2001	9,427	9,153	(15,585)	2,995
Company				
At 31 March 2000	4,841	9,153	5,457	19,451
Transfer from profit and loss account	—	—	(17,200)	(17,200)
Premium on issue of shares	4,586	—	—	4,586
At 31 March 2001	9,427	9,153	(11,743)	6,837

The special reserve was created as part of a reconstruction of reserves carried out in 1999 and is not available for distribution whilst any creditors 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 £16,919,000 (2000 Loss: £5,489,000).

22. Notes to cash flow statement

Reconciliation of operating loss to net cash inflow from operating activities

	2001 £'000s	2000 £'000s
Operating (loss)	(19,348)	(6,037)
Depreciation/amortisation	18,778	9,765
Profit on sale of fixed assets	(39)	(5)
Decrease in stocks	1	475
Increase in creditors	1,588	58
Increase in debtors	187	(139)
Net cash inflow from operating activities	1,167	4,117

23. Analysis of net debt

	At 31 March 2000 £'000s	Cash Flow £'000s	Acquisitions (excl' cash & overdrafts) £'000s	At 31 March 2001 £'000s
Cash in hand and at bank	1,971	(1,142)	—	829
Overdrafts	—	—	—	—
	1,971	(1,142)	—	829
Debt due after 1 year	(2,234)	816	—	(1,418)
Debt due within 1 year	(816)	—	—	(816)
Finance leases	(304)	147	—	(157)
Total debt	(1,383)	(179)	—	(1,562)

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

	2001 £'000s	2001 £'000s	2000 £'000s	2000 £'000s
(Decrease)/increase in cash in the period	(1,142)		1,998	
Cash flow from decrease/(increase) in debt and lease financing	963		(86)	
Change in net debt resulting from cash flows		(179)		1,912
Loans and finance leases acquired with subsidiary		—		(17)
Movement in net debt in the period		(179)		1,895
Net debt at start of year		(1,383)		(3,278)
		(1,562)		(1,383)

25. Major non-cash transactions

Part of the consideration for the purchases of SP New Media Limited and CP Computer Group 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 £370,000 (SP New Media Limited £300,000), yielded £29,000 from the sale of Fixed Assets (£NIL SP New Media Limited) and paid £44,000 of Corporation Tax (£NIL SP New Media Limited).

27. Contingent liabilities and capital commitments

At 31 March 2001 the Group had no contingent liabilities (31 March 2000: £NIL), and had authorised but not yet contracted for capital expenditure of £NIL (31 March 2000: £NIL). Authorised and contracted for capital expenditure amounted to £28,000 (31 March 2000: £NIL).

28. Commitments under operating leases

At 31 March 2001 there were the following annual commitments under non-cancellable operating leases:

	2001		2000	
	Land and Buildings £'000s	Other £'000s	Land and Buildings £'000s	Other £'000s
Operating leases which expire:				
Within one year	12	87	49	79
Within one to five years	218	46	188	212
After five years	529	—	429	—
	759	133	666	291

29. Related party transactions

A pension fund managed on behalf of an indirect interest of J R Symons, a former director of XKO Group plc, owns a Group property occupied by XKO Software Limited. The annual rent of £95,000 paid to the pension fund is negotiated on an arms length basis. J Gardner is a Director and the Company is a 2 per cent. shareholder in Simply Hub plc an XKO Group customer.

30. 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 FRS 13, short-term debtors and creditors are excluded from this disclosure.

Financial assets

£829,000 (2000: £1,971,000) of cash at bank and in hand is held in the Group, denominated in sterling.

Financial liabilities

All financial liabilities as at 31 March 2001 are denominated in sterling. Total financial liabilities in the Group are £2,234,000 (2000: £3,050,000). These loans are at a margin to LIBOR. Interest on £445,000 (2000: £991,000) of these liabilities is calculated with reference to a fixed LIBOR of 5.7 per cent. This rate applies for the whole period of the loan. This loan is repaid in installments ending 27 January 2002. Interest on the remaining £1,789,000 (2000: £2,059,000) is calculated with reference to a floating LIBOR.

Currency exposure

Minimal sales or purchases are made in foreign currency; there is therefore no material currency exposure.

Borrowing facilities

The Group has committed term loan and overdraft facilities of £5,734,000 (2000: £7,050,000) of which £3,500,000 (2000: £4,000,000) 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 OWA, Hillgate House, 26 Old Bailey, London EC4M 7HW on Tuesday 31 July 2001 at 10.30 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 2001.
2. To re-elect I R Mann as a director.
3. To re-elect D R T Thompson as a director.
4. To elect A J Smith as a director.
5. To re-appoint Messrs Deloitte and Touche as auditors to hold office until the conclusion of the next Annual General Meeting.
6. To authorise the Directors to fix the remuneration of the auditors.

As special business to consider and, if thought fit, pass the following resolutions of which numbers 7 and 8 will be proposed as ordinary resolutions and numbers 9 and 10 as special resolutions.

Ordinary resolutions

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 2001.

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

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

8. That the adoption of the XKO plc Long Term Incentive Plan, the main features of which are summarised in Appendix 1 to this notice of Annual General Meeting, in the form of the rules produced in draft to the meeting and signed by the chairman for the purposes of identification, be and are hereby approved and the directors be and are hereby authorised to do all acts and things as may be necessary to carry the same into effect and to adopt equivalent schemes for employees of the Company and its subsidiaries located in overseas jurisdictions, subject to such modifications as the directors shall consider appropriate to take into account local tax, exchange control, securities laws or other regulatory requirements AND that the proposal in relation to the reissue of options under the XKO Group Approved Executive Share Option Scheme, and the XKO Group Unapproved Executive Share Option Scheme and the XKO Savings Related Share Option Scheme as described in the Chief Executive's Review attached to this notice be hereby approved and the directors be and are hereby authorised to do all acts and things as may be necessary to carry the same into effect.

Special resolutions

9. 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 £671,750, representing approximately ten per cent. of the nominal value of the issued ordinary share capital of the Company as shown in the audited accounts of the Company for the year ended 31 March 2001;

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

   (c) the maximum price (exclusive of expenses) which may be paid for an Ordinary Share shall not be more than five per cent. above the average of the mid-market values for an Ordinary Share on the relevant recognised investment exchange on which the Ordinary Shares are 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 fifteen months from the date of the passing of this resolution and the conclusion of the next annual general meeting of the Company; and

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

10. 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 2001.

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

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

BY ORDER OF THE BOARD

A J Smith
Secretary
28 June 2001

Systems House
Foundry Court
Gogmore Lane
Chertsey
Surrey KT16 9AP

Notes

1. Any member of the Company who is entitled to attend and vote at the meeting may appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company. In the case of a company, the proxy must be executed under its common seal or under the hand of an officer or attorney duly authorised in writing. To be effective a form of proxy, (enclosed with this notice) and the authority (if any) under which it is signed or a notarially certified or office copy of such authority must be received at the office of the Company's Registrars, Connaught St Michaels Limited, PO Box 30, Cresta House, Alma Street, Luton, Bedfordshire LU1 2PU 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 27 July 2001 shall be entitled to attend or vote at the aforesaid general meeting in respect of the number of shares registered in their name at that time. Any changes to the register of members after such time shall be disregarded in determining the rights of any person to attend or vote at the meeting.

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

Explanatory notes to the notice of meeting

Resolution 7 – Authority to allot shares

Resolution 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 Company as shown in the latest audited accounts of the Company. The Directors do not have any present intention of exercising this authority but they consider it desirable that the specified amount of authorised but unissued share capital is available for issue so that they can more readily take advantage of possible opportunities. Unless revoked, varied or extended, this authority will expire at the end of fifteen months from the date of passing of the resolution or at the conclusion of the next AGM of the Company, whichever is earlier.

Resolution 8 – LTIP rules

The LTIP is designed to enable participants to acquire shares in the Company pursuant to awards taking the form of nil cost options. It will be constituted by the trust deed of the Company's Employee Share Option trust and the rules of the LTIP. The trust, which is administered by an independent professional trustee company, has been established to provide share-related benefits on a discretionary basis to all employees, and it will be used to support the making of awards under the new LTIP.

The following is a summary of the principal features of the LTIP:

Eligibility

All employees and directors of the Company and any participating subsidiaries who are required to devote to their duties the whole or substantially the whole of their working time will be eligible to participate under the LTIP. Participation is at the discretion of the remuneration committee.

Making of awards

Awards will take the form of nil cost options, and may be granted in each year in a period of 42 days starting on the announcement to the Company's interim or final results. In circumstances deemed exceptional by the remuneration committee, awards may be granted outside this normal period. The Company may not grant awards more than 10 years after the date of adoption of the LTIP. No consideration shall be payable for the making of an award. No award will be granted to an individual who is within two years of normal retirement date. Awards will be personal to a participant and, except on the death of a participant, may not be transferred.

Performance conditions and vesting

When making awards, the remuneration committee shall specify objective conditions by way of performance targets, to be satisfied before awards will vest and the nil cost options comprised in them become exercisable. The initial target will be as follows:

- for half of the awards to vest, subject to certain "good leaver" exceptions participants must remain within the group and meet individual performance targets each year over a three year performance period. The targets will be set by the remuneration committee. One half of the vested awards (one quarter of the total award) may be exercised immediately with the remaining half exercisable one year later.
- for the remaining half of the awards to vest, either the earnings per share performance of the Company must increase substantially each year or the price of an ordinary share of the Company must reach predetermined levels for three consecutive months in each year of the three year performance periods. For each year that these targets are satisfied, one sixth of the shares comprised in the award will vest. Vested awards may be exercised from the period commencing one year following vesting.

In respect of the first awards made under the LTIP retesting of performance will not be allowed. If the remuneration committee so determines, a performance target, linked to another measure, may be adopted in the future.

Individual limits in relation to value of awards

No award may be made in favour of a participant which would result in the aggregate market value of shares comprised in awards granted to him in any 12 month period under the LTIP exceeding 2.5 times annual salary.

Limits on share capital

No award which is to be satisfied on the exercise of the nil cost option comprised in it by the issue of new shares may be made on any date if the number of shares to which it relates, when aggregated with the number of shares issued or remaining issuable by virtue of awards or other rights made or granted in the preceding 10 years under the LTIP and any other employee share scheme adopted by the Company, would exceed 10 per cent of the issued share capital at that time.

Exercise, lapse and exchange of awards

Awards may be satisfied by the issue of new shares or the transfer of existing shares, having taken into account considerations as to equity dilution and the cost to the Company.

Awards normally lapse on cessation of employment. However, following cessation of employment for specified "good leaver" reasons, including ill-health, redundancy and retirement, awards will be deemed to have vested during the period of 6 months from the date of cessation (subject to meeting performance targets in the case of retirement). Vesting of awards is also permitted at the discretion of the remuneration committee if a participant ceases employment for any other reason.

In the event of a change of control or winding-up of the Company early vesting of awards is permitted. However, early vesting on a change of control will be subject to the discretion of the remuneration committee, who will take into account the Company's performance up to the change of control, the time elapsed since grant, and any other factors the committee considers relevant. On a demerger, dividend-in-specie or other such transaction that the remuneration committee determines will materially affect the value of awards, the remuneration committee may again permit the early vesting of such awards.

The LTIP contains provisions for the exchange of awards as an alternative to exercising the nil cost options comprised in such awards where there is a change of control. This will be subject to the approval of the bidding company.

Adjustments

The number of shares comprised in an award may be adjusted if any capitalisation issue, offer by way of rights or any sub-division, reduction, consolidation or other variation of the Company's share capital occurs.

Rights attaching to shares

If shares are to be allotted and issued to a participant pursuant to the exercise of the nil cost option comprised in any vested award, the Company will apply for such shares to be admitted to the Official List of the UK Listing Authority. Such shares will rank *pari passu* with all other issued shares of the Company except for any rights determined by reference to a date preceding the date on which the nil cost option is exercised.

Amendments and general

The remuneration committee may at any time amend the rules of the LTIP, provided that the prior approval of the Company in general meeting must be obtained for amendments to the material advantage of participants. The prior approval of shareholders will not be required in relation to any amendment which is of a minor administrative nature, is made to comply with the provisions of any existing or proposed legislation or to maintain favourable taxation treatment of any participating company or any participant.

No amendment may be made to the Scheme, which would adversely affect the subsisting rights of a participant unless the consent of a 75 per cent. majority of the participants to the making of such amendment is obtained.

To ensure compliance with the requirements for making deduction under the PAYE system, any income tax and employee Class 1 national insurance contributions (or the equivalent in any foreign jurisdiction) payable on gains made on the exercise of the nil cost option comprised in an award must either be paid to the relevant employing company by the participant or, in default of such payment being made, the Company may make the necessary deduction out of the net proceeds of sale of the shares acquired on exercise of the awards. Any sums collected in this manner will be paid to the Inland Revenue.

The rules of the LTIP also make provision for the employer Class 1 national insurance contributions to be paid by the participant and collected in this manner (normally pursuant to an election made in the prescribed form) if and to the extent that, when the award is made, the remuneration committee imposes such an obligation on the participant.

Benefits received under the LTIP will not be pensionable.

At the discretion of the remuneration committee, the LTIP may be extended to overseas employees of the Company and its subsidiaries subject to such modifications as the directors shall consider appropriate to take into account local tax, exchange control, securities laws or other regulatory requirements.

The rules of the proposed LTIP will be available for inspection at the registered office of the Company and at the offices of Osborne Clarke OWA at Hillgate House, 26 Old Bailey, London, EC4M 7HW on any weekday during normal business hours up to and including the date of the Annual General Meeting, and for a period of at least 15 minutes prior to the Meeting and during the Meeting.

Resolution 9 – Authority to make market purchases

Resolution 9 authorises the Company to make market purchases on a recognised investment exchange of its issued Ordinary Shares up to an aggregate nominal amount of £671,750, representing approximately ten per cent. of the nominal value of the issued ordinary share capital of the Company as shown in the latest audited accounts of the Company. The London Stock Exchange plc is a recognised investment exchange within the meaning of section 163(4) of the Act. The minimum price which may be paid for an Ordinary Share is 25 pence per share and the maximum price is five per cent. above the average of the market values for an Ordinary Share for the five dealing days preceding the date on which the Ordinary Share is purchased. The Directors consider that it is desirable that the Company is able to make market purchases of its own shares in order to increase future earnings per share or where this will be in the best interests of the Shareholders generally. Unless revoked, varied or extended this authority will expire at the end of fifteen months from the date of passing of the resolution or at the conclusion of the next AGM of the Company whichever is the earlier.

Resolution 10 – Disapplication of pre-emption rights

Resolution 10 empowers the Directors to allot equity shares for cash other than in accordance with the statutory pre-emption rights which require a company to offer all allotments of equity shares for cash first to existing Shareholders in proportion to their holdings, in connection with a rights issue and otherwise up to a maximum nominal value of £311,460, representing approximately five per cent. of the nominal value of the issued share capital of the Company as shown in the latest audited accounts of the Company. This authority will expire at the conclusion of the next AGM or fifteen months after the passing of the resolution, whichever is the earlier.