xko

Company Number: 2950904



XKO

Report and accounts March 2002

AUH8ACCJ
A50 0592
COMPANIES HOUSE 09/07/02

XKO Group plc

Report and Financial Statements 2002

CONTENTS

	Page
Directors and advisors	2
Chairman's statement	3
Chief executive's review	4
Financial commentary	6
Directors' report	8
Report of the board on remuneration	14
Statement of directors' responsibilities	16
Independent auditors' report	17
Consolidated profit and loss account	18
Consolidated balance sheet	19
Company balance sheet	20
Consolidated cash flow statement	21
Notes to the financial statements	22

Directors and Advisors

Directors

B C Beverley	Non Executive Chairman
S D Beart	**Chief Executive, Deputy Chairman**
A J Smith	**Finance Director**
I R Mann	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

Teather & Greenwood
India Buildings
Water Street
Liverpool L2 0XR

Solicitors

Osborne Clarke
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
Chartered Accountants
Columbia Centre
Market Street
Bracknell RG12 1PA

Bankers

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

Registrars

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

Chairman's Statement

I am pleased to report that the recovery in profitability reported in the first half of the year to March 2002 continued in the second half. The full year, adjusted pre-tax profit of £2.0 million (before goodwill amortisation, LTIP, start-up and exceptional items) represents progress over the first half despite a reduction in turnover due to reduced activity in infrastructure sales. These results compare with a £0.1 million pre-tax loss for the previous year, highlighting the first stage of our recovery.

As an indication of the quality of the Group's earnings, net debt reduced rapidly in the second half and at the year end was only £0.3 million despite the cash costs of funding the substantial redundancy and reorganisation programme undertaken during the year. The Group is benefiting from new sales opportunities arising from the weakness of many industry participants who are unable to demonstrate to customers an established track record and financial strength.

Strong cash generation has also enabled the Board to consider the payment of a final dividend and subject to shareholder approval, a payment of 0.5p per share will be made on 23 August 2002 to all shareholders on the register as at 2 August 2002. Dividend cover will be 12 times. This level of dividend payment reflects the Board's belief that current balance sheet strength can best be exploited for shareholders by examining suitable acquisition opportunities which are now becoming available. In the event that no transactions take place within a reasonable timescale, market repurchases of outstanding ordinary shares will again be considered.

The prospects for our sector seem to be no clearer than six months ago whilst quoted valuations for sector participants would appear to have declined further in line with continued low activity. XKO's strategy in these markets is to continue to concentrate on the needs of the Group's large customer base, extending and enhancing applications whilst also developing further our networking services. At the same time, balance sheet strength is being used for the funding of our Consultancy unit start up and the careful review of small acquisitions that could fit within the Group portfolio.

I believe this strategy is appropriate for current market conditions and should allow for growth in the current year.

Brian C Beverley
Chairman

Chief Executive's Review

Summary

The Group has recorded a rapid return to profitability. Group turnover in the year increased marginally to £38.9 million but operating margins improved substantially over the year. Operating profit before goodwill amortisation and exceptional items, as adjusted for the cost of the LTIP and consultancy start up costs, was £2.3 million (2001: £0.1 million), an operating margin of 6 per cent.

This turnaround is the result of the extensive reorganisation process undertaken throughout the year, a greatly improved focus on customer needs and the abilities of our established management teams to operate profitably in a challenging trading environment.

Making IT simple

XKO has a diverse product range in order to be able to offer a genuine end to end solution for the Group's customer base. This diversity has proved invaluable in difficult markets and is also an important competitive advantage, enabling significant cross selling throughout the large, installed customer base. These revenues arise because customers prefer to simplify their IT procurement where possible.

In response to this demand, the Group has evolved a range of services based on the theme of "making IT simple" for the customer. XKO can do this by offering a broad range of applications suitable for most vertical markets, backed up by the full range of network delivery and support, on a national basis. Our emphasis continues to be on the SME market, although this now extends to a growing number of substantial corporates. We enjoy control of our applications, giving exceptional development flexibility, and a nationwide scale of operations from 10 offices. This offering is attractive to customers.

Whilst continuing to work actively with our base, the year saw a number of significant new customer gains as well as continued business from our existing customer base. In the financial and legal services markets, both units performed well reflecting strong, experienced management teams who have achieved market share gains as a result of impressive service levels.

The provision of e-Business functionality, which covers the delivery of our applications and the related integration and consultancy work, continued to grow. New customers were gained in all key markets, more often than not displacing internationally branded products, particularly in the food and distribution vertical markets. We also saw consistent evidence of customers placing business with the Group to gain the benefits of working with a financially sound supplier, with a long trading history. We believe customers will continue to value these attributes in uncertain markets where stability and long term certainty of supply are important.

Product Development

Product development continues and is an essential investment if the Group is to retain the benefits of being a software author. Despite headcount reductions, we spent over £1 million extending and developing our existing range of applications whilst at the same time funding a significant investment in a new, large scale enterprise product, being offered outside our existing base to larger corporates. This product is not planned as an upgrade path for our existing products but is designed to extend our presence in the corporate market.

In terms of developing the Group further, we are also funding the start up of a high level, business change consultancy, based on a proven business model, with employees recruited from a substantial quoted competitor. The initial losses funded to March 2002 were some £0.2 million. We anticipate at best a break even result in the current year. This initiative will be carefully monitored within our disciplined environment. The costs, in relation to our financial strength, are not material and are far out weighed by the potential opportunity. Larger competitors are struggling in this area and there is no doubt market conditions and pricing are very difficult. However, a targeted, low cost operation has, we believe, a good chance of success which would bring with it many benefits across the Group.

We continue to examine acquisition opportunities with a view to taking advantage of our ungeared position at what may be a low point for valuations in the sector. We would not wish to put the balance sheet at risk but a number of small opportunities are being reviewed.

Outlook

Customer spend remains cautious and it remains difficult to see a robust recovery in our markets. However, despite these conditions the first quarter has witnessed the commitment by new and existing customers to an encouraging number of larger transactions and we are planning for growth since the recent recovery is not regarded as sufficient.

Simon D Beart
Chief Executive

Financial Commentary

Summary

The statutory loss on ordinary activities before taxation (which includes exceptional items and the amortisation of goodwill) was £14.9 million. The goodwill amortisation element of this amount was £16.0 million and is not a cash cost.

The headline operating profit before goodwill amortisation and exceptional items was £1.9 million. During the year the Group undertook a substantial cost reduction programme incurring exceptional costs of £933,000, mainly for redundancies. This, largely cash cost, was mitigated by the full recovery of a previously written off debtor of £300,000. The profit before tax is also stated after the costs of implementing the LTIP which amounted to £150,000, being one third of the estimated cost of the scheme.

Turnover showed negligible growth within the year but margins improved throughout the year, particularly in the second half as the higher margin proportion of turnover increased at the expense of lower margin, infrastructure supply.

Cashflow and indebtedness

Underlying cash flow to support operating profit was good due to the continued close control of working capital. Debtor days have now been reduced to 42 although it is recognised that this figure can and should be improved further. This issue remains the focus of considerable attention at all levels within the Group and senior management bonuses are only paid if cash generation supports profitability.

The Group was therefore able to convert 98 per cent. of operating profit before goodwill amortisation and exceptional items, into cash, a strong performance. This achievement led to a continued reduction in total, net indebtedness to £0.3 million. It is expected that, based on current progress, the Group will be cash positive by the half year in the absence of acquisitions or share buy backs.

Profitability

The Group requires limited capital employed. The operating return on capital employed for the year was 51 per cent. (operating profit before goodwill and exceptionals but after start-up and LTIP costs as a percentage of year-end fixed assets, stock and trade debtors less trade creditors). The free cash return rate at this level, after capital expenditure, was 50 per cent. The Board regards the free cash return percentage as a key reporting measure.

Goodwill

The Group continues to take a realistic view of the appropriate time over which acquisition related goodwill should be amortised. In the current market environment the Board is of the opinion that any amortisation period beyond 2-3 years is not justifiable. This reflects the need to invest in and improve applications, and continued changes in technology. The Board has therefore shortened the period over which goodwill is amortised from 10 years as adopted when the Group was formed, initially to 5 years and then subsequently to 2-3 years. Industry practice has similarly changed.

This change has led to the write off of the remaining £16 million of goodwill, the majority of which was created at the formation of the Group in March 1999. This policy is seen as prudent by your Board but is not a reflection of the trading prospects of our units. Indeed, due to good, continued operating profitability annual reviews of the Group's units have not revealed the need for any write-downs in the holding company's balance sheet.

Dividend payment, capital expenditure, taxation

The Board has proposed the payment of a final dividend of 0.5p per share which will be paid to all shareholders on the register at 2 August 2002 with a payment date of 23 August 2002. The total cost of the dividend will be £135,000.

XKO does not have substantial capital expenditure requirements and in the year to March 2002 the net spend, after disposals was negligible. The Board is always keen to support suitable capital proposals and in the current year it is expected that the net capital spend will be approximately £300,000.

The effective tax rate, taking into account the exceptional items and other tax deductible expenses was 21 per cent. This rate is expected to continue in the range of 21-24 per cent. for the foreseeable future.

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 floating LIBOR.

Liquidity risk

The group policy to manage liquidity risk is to maintain a £1.2 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.

A J Smith

Andrew J Smith
Group Finance Director

Directors' Report

The Directors present their report and the Group's audited financial statements for the year ended 31 March 2002.

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. The financial statements show a consolidated loss of £15,300,000 for the year, after taxation, which has been transferred to reserves. The Directors recommend the payment of a final dividend of 0.5 pence per share.

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 (26,954,999 shares) as at 31 March 2002.

	Percentage of issued ordinary share capital	Number of 25p ordinary shares
Deutsche Bank	14.5%	3,907,684
Second Wind Limited	10.9%	2,930,775
Arlington Group plc	9.3%	2,500,000

Directors and their interests

The Directors at the year-end are as listed on page 2, J Gardner resigned on 31 March 2002. Messrs B C Beverley and A J Smith offer themselves for re-election. No Director had any beneficial interest in the shares of any of the subsidiary undertakings of the Company at the balance sheet date. At 31 March 2002, the following Directors had the following beneficial and family interests in the shares of the company:

	As at 31 March 2002 25p ordinary shares	As at 31 March 2001 25p ordinary shares
B C Beverley	1,640,000	1,640,000
S D Beart	305,000	305,000
A J Smith	—	—
I R Mann	8,300	8,300
J Gardner (resigned 31 March 2002)	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 2002 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
	36.5p	30,000	31 July 2004	31 July 2011

The market price of shares in XKO Group plc at 31 March 2002 was 45.5p. During the year the market price ranged from 27.5p to 75.0p.

DIRECTORS

S D Beart BA, ACA (43) – 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 (36) – 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

B C Beverley (56) – 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.

I R Mann (60)

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.

David Thompson (57)

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

Options to acquire ordinary shares in XKO Group plc outstanding as at 31 March 2002 were:

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	257,808	148.5p	2 March 2002 to 2 March 2009
4 Jan 2000	25,000	400p	4 Jan 2003 to 4 Jan 2010
14 Apr 2000	2,000	305p	14 Apr 2003 to 14 Apr 2010
10 Jul 2000	1,000	291p	10 Jul 2003 to 10 Jul 2010
1 Aug 2000	6,000	320p	1 Aug 2003 to 1 Aug 2010
31 Aug 2000	2,000	339p	31 Aug 2003 to 31 Aug 2010
5 Dec 2000	59,000	292.5p	5 Dec 2003 to 5 Dec 2010
10 Jul 2001	51,000	44.5p	10 Jul 2004 to 10 Jul 2011
31 Jul 2001	30,000	36.5p	31 Jul 2004 to 31 Jul 2011
29 Aug 2001	283,750	120p	29 Aug 2004 to 29 Aug 2011
24 Sep 2001	10,000	30p	24 Sep 2004 to 24 Sep 2011
2 Jan 2002	25,000	51p	2 Jan 2005 to 2 Jan 2012
4 Feb 2002	13,500	48.5p	4 Feb 2005 to 4 Feb 2012
Total	1,268,250		

Tangible fixed assets

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

Close company status

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

Directors' and officers' liability insurance

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

Employees

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

Environment

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

CORPORATE GOVERNANCE

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

Board balance and effectiveness

The Board has maintained an appropriate degree of balance by its composition of a greater number of non-executive directors, each of whom is independent. (B C Beverley, I R Mann and D R T Thompson). The Board meets on a regular basis throughout the year and monitors current trading performance, budgets and forecasts and strategic options for each Division of the Group. To enable them to do this, all Directors have full and timely access to all relevant information. The appointment of new Directors is considered by the Board as a 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 is not required to attend at times when his remuneration is being discussed. It meets at least twice a year to consider the terms of employment of the Executive Directors, senior employees, and to approve proposals for the granting of share options to employees of the Group. 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 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. There is an on going process for identifying, evaluating, managing and reviewing any changes in the significant risks faced by the business. The key procedures that the Board has established and which are designed to provide effective internal control and risk assessment for the Group include:

- a comprehensive and detailed budgeting system with the annual budget approved by the Board
- regular updates issued throughout the year giving the Board an updated forecast
- monthly reviews by the Board of trends in trading circumstances
- capital expenditure and other authority limits
- 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, considering 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. Throughout the year ended 31 March 2002, the company has been in compliance with the other code provisions 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.

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 2002 (2001 – £nil).

Research and Development

Research and development activities are ongoing modifying and developing software. £1,134,000 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 2002 at the offices of Osborne Clarke, 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

25 June 2002

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 packages for executive Directors, which are designed to attract and retain executives of the quality required. In establishing the level of remuneration for each Director, the Committee has regard to packages offered by comparable companies.

Basic salary and Benefits

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 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 four types of share option scheme; an approved share option scheme, an unapproved share option scheme; a sharesave scheme and a Long Term Incentive Plan. 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. *All option grants 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 £'000s	Bonus £'000s	Fees £'000s	31 March 2002 Total £'000s	31 March 2001 Total £'000s
B C Beverley	66	—	—	—	—	66	122
S D Beart	140	15	14	35	—	204	133
A J Smith	80	10	8	6	—	104	59
I R Mann	—	—	—	—	16	16	15
J Gardner	—	—	—	—	16	16	30
D R T Thompson	—	—	—	—	16	16	15
	286	25	22	41	48	422	374

J Gardner resigned on 31 March 2002.

Long Term Incentive Plan

To align further the interests of shareholders and directors a Long Term Incentive Plan has been introduced. This plan was approved at the Annual General Meeting of 31 July 2001. The following conditional awards of shares have been contingently made to Directors:

	Performance Tranche March 2002	Performance Tranche March 2003	Performance Tranche March 2004	Employment Tranche July 2004	Employment Tranche July 2005	Total
B C Beverley	28,333	28,333	28,334	42,500	42,500	170,000
S D Beart	28,333	28,333	28,334	42,500	42,500	170,000
A J Smith	15,833	15,833	15,834	23,750	23,750	95,000
	72,499	72,499	72,502	108,750	108,750	435,000

The shares contained in the performance tranches vest subject to earnings per share and share price targets for the periods then ended and the employment tranches vest according to individual performance targets for the periods then ended.

The targets relating to the March 2002 performance tranche have been satisfied and vest on 1 July 2003 subject to the individual being employed by the Group at that time.

Additionally awards of 565,000 shares have been made, under similar conditions, to other staff.

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

I R Mann
Chairman, Remuneration Committee

Statement of Directors' Responsibilities

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

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

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

Independent Auditors' Report

to the Members of XKO Group plc

We have audited the financial statements of XKO Group plc for the year ended 31 March 2002 which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement, the reconciliation of movements in consolidated shareholders funds and the related notes 1 to 27. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements, auditing standards and the Listing Rules of the Financial Services Authority.

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

We read the directors' report and other information contained in the Annual Report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. 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 2002 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.

25 June 2002

Consolidated Profit and Loss Account

for the year ended 31 March 2002

	Notes	Total Year ended 31 March 2002 £'000s	Total Year ended 31 March 2001 *Restated £'000s
Turnover	2	38,880	38,211
Operating profit before goodwill amortisation and exceptional items		2,094	162
Amortisation of goodwill	3	(16,019)	(7,946)
Impairment of goodwill	3	—	(9,821)
Long Term Incentive Plan (LTIP) costs	3	(150)	—
Exceptional items	3	(633)	(1,743)
Operating loss	3	(14,708)	(19,348)
Interest payable and similar charges	5	(230)	(263)
Loss on ordinary activities before taxation		(14,938)	(19,611)
Tax on loss on ordinary activities	6	(227)	152
Loss on ordinary activities after taxation		(15,165)	(19,459)
Dividends	7	(135)	(281)
Retained loss for the year		(15,300)	(19,740)
Adjusted profit per ordinary share	8	6.1p	0.2p
Basic loss per share	8	(56.4p)	(73.8p)
Diluted (loss) per share	8	(56.4p)	(73.8p)
Dividend per share		0.5p	1.05p

Statement of Total Recognised Gains and Losses

for the year ended 31 March 2002

Loss for the financial period		(15,300)	(19,740)
Prior period adjustment	1	638	
Total recognised gains and losses since last annual report		(14,662)	

(*) The restatement is for the adoption of FRS19 (see note 1) which relates to deferred taxation and for a change to the diluted loss per share.

Consolidated Balance Sheet

As at 31 March 2002

	Notes	As at 31 March 2002 £'000s	As at 31 March 2001 *Restated £'000s
Fixed assets			
Intangible assets	9	—	16,539
Tangible assets	10	842	1,569
		842	18,108
Current assets			
Stocks	12	931	944
Debtors	13	5,884	7,342
Cash at bank and in hand		922	829
		7,737	9,115
Creditors: amounts falling due within one year	14	(8,177)	(9,628)
Net current (liabilities)		(440)	(513)
Total assets less current liabilities		402	17,595
Creditors: amounts falling due after more than one year	15	(755)	(2,558)
Deferred tax asset	17	579	638
Deferred income	18	(4,224)	(4,173)
Net (liabilities)/assets		(3,998)	11,502
Capital and reserves			
Called up share capital	19	7,039	7,017
Shares to be issued	19	550	852
Share premium account	21	9,507	9,427
Other reserves	21	—	9,153
Profit and loss account	21	(21,094)	(14,947)
Shareholders' (deficit)/funds	20	(3,998)	11,502
Equity		(4,298)	11,202
Non Equity		300	300
Shareholders' (deficit)/funds		(3,998)	11,502

(*) The consolidated balance sheet as at 31 March 2001 has been restated for the adoption of FRS19 which relates to deferred taxation.

A J Smith
Finance Director

25 June 2002

Company Balance Sheet

As at 31 March 2002

	Notes	March 2002 £'000s	March 2001 £'000s
Fixed assets			
Tangible Assets	10	—	32
Investments	11	21,248	21,514
		21,248	21,546
Current assets			
Debtors	13	11,436	2,364
Creditors: amounts falling due within one year	14	(9,166)	(6,936)
Net current assets/(liabilities)		2,270	(4,572)
Total assets less current liabilities		23,518	16,974
Creditors: amounts falling due after more than one year	15	(637)	(2,268)
Deferred Tax Liability		(4)	—
Net assets		22,877	14,706
Capital and reserves			
Called up share capital	19	7,039	7,017
Shares to be issued	19	550	852
Share premium account	21	9,507	9,427
Other reserves	21	—	9,153
Profit and loss account	21	5,781	(11,743)
Shareholders' funds	20	22,877	14,706
Equity		22,577	14,406
Non Equity		300	300
Shareholders' funds		22,877	14,706

A J Smith
Finance Director

25 June 2002

Consolidated Cash Flow Statement

For the year ended 31 March 2002

	Notes	£'000s	Year ended 31 March 2002 £'000s	Year ended 31 March 2001 £'000s
Cash inflow from operating activities	22		1,911	1,167
Returns on investments and servicing of finance				
Interest paid		(216)		(249)
Interest element of finance lease rental payments		(14)		(14)
Net cash outflow from returns on investments and servicing of investments			(230)	(263)
Taxation				
Corporation tax paid			(244)	(144)
Capital expenditure				
Payments to acquire tangible fixed assets		(330)		(1,636)
Proceeds from sale of fixed assets		326		287
Net cash outflow from capital expenditure			(4)	(1,349)
Acquisitions				
Payments to acquire investments in subsidiaries (including expenses)		(163)		(3,884)
Net cash acquired with subsidiaries		—		93
			(163)	(3,791)
Equity dividends paid			—	(656)
Net cash inflow/(outflow) before financing			1,270	(5,036)
Financing				
Issue of ordinary share capital		—		4,857
Bank loans (repaid)/drawn		(1,020)		(816)
Capital element of finance leases (repaid)/drawn		(157)		(147)
Net cash (out)/inflow from financing			(1,177)	3,894
Increase/(decrease) in cash in the year	24		93	(1,142)

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. The Group has adopted FRS19 'Deferred Tax' and has therefore accounted for deferred tax as set out in note 17. The comparative figures have been restated to reflect this change in accounting policy.

(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 2002. Subsidiary undertakings acquired during the period have been included in the financial statements using the acquisition method of accounting. Accordingly, the profit and loss account, statement of total recognised gains and losses and statement of cash flows include the results and cash flows for the period of ownership.

(3) Goodwill

Goodwill, representing the excess of the consideration over the assessed fair value of net assets acquired, is capitalised and amortised over its estimated useful economic life, currently assessed as between two and three years. Previously Goodwill was amortised over five years. 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 recognized 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.

1. Accounting policies (continued)

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

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

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

2. Segmental Analysis

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

3. Operating loss

	Year ended 31 March 2002 £'000s	Year ended 31 March 2001 £'000s
Turnover	38,880	38,211
Cost of Sales	(17,538)	(17,278)
Gross Profit	21,342	20,933
Administration expenses before goodwill amortisation and exceptional items	(19,071)	(20,771)
Consultancy set up	(177)	—
LTIP	(150)	—
Amortisation of goodwill	(16,019)	(7,946)
Impairment of goodwill	—	(9,821)
Exceptional items	(633)	(1,743)
Total administration expenses	(36,050)	(40,281)
Operating loss	(14,708)	(19,348)

Exceptional items consist of £933,000 with respect to the costs of redundancies and reorganisations and the release of a £300,000 debtor provision, created as at 31 March 2001 and charged in the Profit and Loss Account for the year ended 31 March 2001 as an exceptional item. The prior year exceptional items consist of £633,000 with respect to the costs of redundancies and reorganisations, £850,000 of provisions against debtors and £260,000 of adjustments to the value of closing stock to reflect accelerated obsolescence.

	2002 £'000s	2001 £'000s
Operating loss is arrived at after charging/(crediting):		
Research and development costs	1,134	1,004
Formation of Consultancy Unit	177	—
Cost of implementation of Long Term Incentive Plan	150	—
Depreciation of tangible fixed assets:		
Assets held under hire purchase contracts or finance leases	59	135
Other owned assets	708	876
Amortisation of intangible fixed assets: normal basis	16,019	7,946
Amortisation of intangible fixed assets: accelerated basis (note 9)	—	9,821
Auditors' remuneration:		
Audit services	70	104
Non-audit services	40	50
Rentals under operating leases:		
Plant and other machinery	112	157
Other operating leases	778	636
(Profit) on sale of tangible fixed assets	(36)	(39)

4. Directors and employee costs

The average number of employees (including Executive Directors) in the Group during this period was 405 (2001: 449).

Employee costs during the year amounted to:

	2002 £'000s	2001 £'000s
Wages and salaries	12,770	13,018
Social security costs	1,170	1,231
Other pension costs	234	49
	14,174	14,298
Included in the above in respect of directors' remuneration:		
Emoluments	400	429
Pension contributions	22	16
	422	445

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 of the Directors Report.

5. Interest payable and similar charges

	2002 £'000s	2001 £'000s
On bank loans and overdrafts	216	249
Finance charges allocated for the period in respect of finance leases	14	14
	230	263

6. Tax on loss on ordinary activities

The taxation charge/(credit) comprises:

	2002 £'000s	2001 £'000s
UK Corporation tax on profit of the period	—	(250)
Adjustments in respect of previous periods	—	(116)
Overseas tax	168	115
Current tax	168	(251)
Deferred tax (restated in 2001)	59	99
	227	(152)

The tax charge is disproportionate to the accounting loss before taxation since the amortisation of goodwill is not tax deductible.

6. Tax on loss on ordinary activities (continued)

Reconciliation to current tax charge

	2002 £'000s	2001 £'000s
Loss on ordinary activities before tax	14,938	19,611
Loss on ordinary activities multiplied by standard rate of UK Corporation tax: 30%	(4,481)	(5,883)
Expenses not deductible for tax purposes	4,823	5,556
Capital allowances in excess of depreciation	(27)	2
Movement in short term timing differences	17	30
Foreign tax charged at lower rates than UK	(164)	44
Current corporation tax charge for the period	168	(251)

The standard rate of tax used in the above reconciliation is the average United Kingdom corporation tax rate for the period concerned.

7. Dividends

	2002 £'000s	2001 £'000s
Equity dividends:		
Interim, paid, Nil (2001: 1.05p) per share	—	281
Final, proposed, 0.5p (2001: Nil) per share	135	—
	135	281

8. Earnings per share

Basic earnings per ordinary share is calculated by dividing the loss attributable to ordinary shareholders of £15,165,000 (2001 loss: £19,459,000) by the weighted average number of shares in issue during the year of 26,909,154 (2001: 26,356,627).

FRS 14 requires presentation of diluted EPS when a company could be called upon to issue shares that would decrease net profit or increase net loss per share. For a loss making company with outstanding share options, net loss per share would only be increased by the exercise of out-of-the-money options. Since it seems inappropriate that option holders would react irrationally no adjustment has been made to diluted EPS for out-of-the-money share options. Accordingly, the diluted loss per share equals the basic loss per share of 56.4p (2001: 73.8p). The prior year figures have been restated in line with this policy.

Adjusted earnings per share, which more accurately reflects the trading for the year, is calculated in the same way as Basic earnings per share but excluding goodwill amortisation and impairment of £16,019,000 (2001: £17,767,000), the costs of the Long Term Incentive Plan of £150,000 (2001: £Nil) and exceptional items of £633,000 (2001: £1,743,000), resulting in an adjusted profit after tax of £1,637,000 (2001: profit £51,000).

9. Intangible assets

Group

	Goodwill *£'000s*
Cost	
As at 1 April 2001	43,594
Adjustments in respect of prior year acquisitions	(520)
As at 31 March 2002	43,074
Accumulated amortisation	
As at 1 April 2001	27,055
Charge for the period	16,019
As at 31 March 2002	43,074
Net book value	
At 31 March 2002	—
At 1 April 2001	16,539

The Directors currently estimate that the appropriate useful economic life of goodwill in the Information Technology industry is two to three years. The Board believes that to amortise goodwill over any longer period ignores the need to invest in and improve applications and the continued changes in technology. This estimate was previously five years leading to an increased amortisation charge in the period of £6 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 2001	340	3,784	1,019	5,143
Additions	10	253	67	330
Disposals	(160)	(141)	(459)	(760)
At 31 March 2002	190	3,896	627	4,713
Accumulated depreciation				
At 1 April 2001	67	2,913	594	3,574
Charge for the period	16	580	171	767
Disposals	(5)	(132)	(333)	(470)
At 31 March 2002	78	3,361	432	3,871
Net book value				
At 31 March 2002	112	535	195	842
At 31 March 2001	273	871	425	1,569

10. Tangible assets (continued)

The net book value of assets held under finance leases is £Nil (2001: £160,000).

The company has motor vehicles with a net book value of £Nil (2001: £32,000), depreciation charged in the year was £11,000 (2001: £14,000), £Nil of these motor vehicles are held under finance leases (2001: £18,000). The proceeds of sale of the motor vehicles were £25,000.

11. Investments

	Company	
	2002 £'000s	2001 £'000s
At start of the period	21,514	20,547
On acquisition of subsidiaries	—	8,113
Adjustments in respect of prior years acquisitions	(266)	—
Impairment in value	—	(7,146)
At end of the period	21,248	21,514

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

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

12. Stock

	Group	
	2002 £'000s	2001 £'000s
Raw materials and consumables	931	944

13. Debtors

	Group		Company	
	2002 £'000s	2001 £'000s	2002 £'000s	2001 £'000s
Trade debtors	5,233	6,682	—	—
Prepayments and accrued income	651	660	—	—
Amounts owed by group undertakings	—	—	11,436	2,364
	5,884	7,342	11,436	2,364

14. Creditors: amounts falling due within one year

	Group		Company	
	2002 £'000s	2001 £'000s	2002 £'000s	2001 £'000s
Bank loans and overdrafts (see note 16)	1,214	816	5,136	3,145
Finance lease obligations (see note 16)	—	105	—	12
Trade creditors	3,191	4,668	141	168
Amounts owed to group undertakings	—	—	3,192	3,196
Other taxes and social security	819	749	(34)	(27)
Accruals and other creditors	2,102	2,483	277	336
Deferred consideration	213	211	213	—
Corporation tax	503	596	106	106
Dividends	135	—	135	—
	8,177	9,628	9,166	6,936

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

	Group		Company	
	2002 £'000s	2001 £'000s	2002 £'000s	2001 £'000s
Bank loans (see note 16)	—	1,418	—	1,418
Obligations under finance leases (see note 16)	—	52	—	—
Deferred consideration (payable in 2003 and 2004)	637	987	637	850
Corporation tax	118	101	—	—
	755	2,558	637	2,268

16. Borrowings

	Group		Company	
	2002 £'000s	2001 £'000s	2002 £'000s	2001 £'000s
Bank loans and overdrafts	1,214	2,234	5,136	4,563
Obligations under finance leases	—	157	—	12
	1,214	2,391	5,136	4,575
Due within one year	1,214	921	5,136	3,157
Due after more than one year	—	1,470	—	1,418
	1,214	2,391	5,136	4,575
Analysis of loan repayments:				
Bank loans and overdrafts				
Within one year	1,214	816	5,136	3,145
Between one and two years	—	1,418	—	1,418
	1,214	2,234	5,136	4,563
Obligations under finance leases				
Within one year	—	105	—	12
Between one and two years	—	52	—	—
	—	157	—	12

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 Tax Asset

	2002 £'000s	2001 £'000s
At start of period	638	737
Profit and loss account charge	(59)	(99)
At 31 March 2002	579	638

	Provided		Unprovided	
	2002 £'000s	2001 £'000s	2002 £'000s	2001 £'000s
Group				
Difference between accumulated depreciation and amortisation and capital allowances.	277	265	—	—
Other timing differences	15	13	—	—
Tax losses	287	360	393	—
	579	638	393	—
Company				
Other timing differences	(4)	—	393	—
Tax losses	—	—	—	—
	(4)	—	393	—

17. Provisions for liabilities and charges (continued)

The current rate of corporation tax of 30 per cent. has been used to calculate the amount of deferred taxation. Provision has been made for all deferred tax assets and liabilities in respect of accelerated capital allowances, held over capital gains and short term timing differences, arising from transactions recognised in the financial statements of the current and previous years.

No deferred tax asset has been recognised in respect of excess management expenses and non-trade loan relationship debits in the holding company. The nature of these expenses means that their utilisation in the foreseeable future is uncertain.

18. Deferred income

	2002 £'000s	2001 £'000s
Maintenance income to be recognised within one year (Represents amounts invoiced in advance in respect of contracts for the provision of hardware and software maintenance and support services).	4,224	4,173

19. Called up share capital

Issued share capital

	Ordinary shares of 25p each	Preference shares of £1
As at 1 April 2001	26,870,009	300,000
Deferred consideration with respect to XKO (IOM) Limited	63,500	—
Deferred consideration with respect to Paperflow Limited	21,490	—
As at 31 March 2002	26,954,999	300,000
Nominal value of issued share capital	£6,738,750	£300,000

Authorised share capital

	Ordinary shares of 25p each £'000s	Preference shares of £1 £'000s
As at 1 April 2001 and 31 March 2002	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 £550,000 (2001: £852,000) 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	
	2002 £'000s	2001 £'000s	2002 £'000s	2001 £'000s
Opening shareholders' funds (as previously reported)	10,864	25,124	14,706	26,525
Prior year adjustment	638	—	—	—
Opening shareholders' funds restated	11,502	25,124	14,706	26,525
(Loss)/profit for the financial year	(15,165)	(19,360)	8,506	(16,919)
Dividends payable	(135)	(281)	(135)	(281)
Movement as to shares to be issued	(200)	307	(200)	307
New share capital subscribed	—	5,074	—	5,074
Closing shareholders' (deficit)/funds	(3,998)	10,864	22,877	14,706

21. Reserves

	Share Premium £'000s	Special Reserve £'000s	Profit and Loss Account £'000s	Total £'000s
Group				
As at 31 March 2001	9,427	9,153	(14,947)	3,633
Elimination of Special Reserve	—	(9,153)	9,153	—
Transfer from profit and loss account	—	—	(15,300)	(15,300)
Premium on issue of shares	80	—	—	80
At 31 March 2002	9,507	—	(21,094)	(11,587)
Company				
At 31 March 2001	9,427	9,153	(11,743)	6,837
Elimination of Special Reserve	—	(9,153)	9,153	—
Transfer from profit and loss account	—	—	8,371	8,371
Premium on issue of shares	80	—	—	80
At 31 March 2002	9,507	—	5,781	15,288

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 profit after tax for the period attributable to XKO Group plc dealt with in the accounts of the Company is £8,506,000 (2001 Loss: £16,919,000). The elimination of the special reserve is in accordance with the reconstruction of reserves approved by the High Court on 18 November 1999. Share premium arose on the issue of shares as deferred consideration, see note 19.

22. Notes to cash flow statement

Reconciliation of operating profit to net cash inflow from operating activities

	2002 £'000s	2001 £'000s
Operating (loss)	(14,708)	(19,348)
Depreciation/amortisation	16,786	18,778
(Profit)/loss on sale of fixed assets	(36)	(39)
Decrease in stocks	13	1
(Decrease)/increase in creditors	(1,602)	1,588
Decrease in debtors	1,458	187
Net cash inflow from operating activities	1,911	1,167

23. Analysis of net debt

	At 31 March 2001 £'000s	Cash Flow £'000s	At 31 March 2002 £'000s
Cash in hand and at bank	829	93	922
Overdrafts	—	—	—
	829	93	922
Debt due after 1 year	(1,418)	1,418	—
Debt due within 1 year	(816)	(398)	(1,214)
Finance leases	(157)	157	—
Total debt	(1,562)	1,270	(292)

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

	2002 £'000s	2002 £'000s	2001 £'000s	2001 £'000s
Increase/(decrease) in cash in the period	93		(1,142)	
Cash flow from decrease in debt and lease financing	1,177		963	
Change in net debt resulting from cash flows		1,270		(179)
Movement in net debt in the period		1,270		(179)
Net debt at start of year		(1,562)		(1,383)
Net debt at end of year		(292)		(1,562)

25. Contingent liabilities and capital commitments

At 31 March 2002 the Group had no contingent liabilities (31 March 2001: £Nil), and had authorised but not yet contracted for capital expenditure of £Nil (31 March 2001: £Nil). Authorised and contracted for capital expenditure amounted to £Nil (31 March 2001: £28,000).

26. Commitments under operating leases

At 31 March 2002 there were the following annual commitments under non-cancellable operating leases:

	2002		2001	
	Land and Buildings £'000s	Other £'000s	Land and Buildings £'000s	Other £'000s
Operating leases which expire:				
Within one year	—	—	12	87
Within one to five years	79	—	218	46
After five years	595	—	529	—
	674	—	759	133

27. Financial instruments

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

Financial assets

£922,000 (2001: £829,000) of cash at bank and in hand is held in the Group, denominated in sterling.

Financial liabilities

All financial liabilities as at 31 March 2002 are denominated in sterling. Total financial liabilities in the Group are £1,214,000 (2001: £2,234,000). These loans are at a margin to LIBOR.

Currency exposure

No sales or purchases are made in foreign currency; there is therefore no currency exposure. Borrowing facilities: The Group has committed term loan and overdraft facilities of £4,714,000 (2001: £5,734,000) of which £3,500,000 (2001: £3,500,000) 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 Wednesday 31 July 2002 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 2002.
2. To re-elect B C Beverley as a director.
3. To re-elect A J Smith as a director.
4. To declare a final dividend of 0.5p per ordinary share.
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 number 7 will be proposed as an ordinary resolution and numbers 8, 9 and 10 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, as amended ("the Act") to exercise all the powers of the Company to allot relevant securities (as defined in section 80(2) of the Act) provided that:

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

   (b) this authority shall be limited to the allotment of relevant securities up to an aggregate nominal value equal to £2,246,000, 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 2002.

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

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

Special resolutions

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 £673,875, 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 2002;

(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.

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 £336,938, 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 2002.

(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.

10. That subject to and conditional upon the sanction hereto of the holders of the Founder Shares:

(a) the 34,200 Founder Shares of £1 each ("First Tranche Founder Shares") which were purportedly converted into 120,000 Ordinary Shares of 25p each on 1 October 1997 be and they are hereby converted into 120,000 Ordinary Shares of 25p each ("Ordinary Shares") and 4,200 Deferred Shares of £1 each ("Deferred Shares") by way of the consolidation of all the First Tranche Founder Shares into one share of £34,200 (and such Founder Shares be so consolidated) and the sub-division (immediately following such consolidation) of the one share of £34,200 arising on

such consolidation, into 120,000 Ordinary Shares and 4,200 Deferred Shares in the capital of the Company (and such one share of £34,200 be so sub-divided) as if the Company's Articles of Association in force at the date of this Resolution provided for such conversion, such Deferred Shares to have rights referred to in paragraph (c) of this Resolution.

(b) Upon such conversion taking effect the Company be and is hereby authorised in its dealings with members to continue to proceed as if the conversion of the First Tranche Founder Shares into Ordinary Shares and Deferred Shares had taken effect on 1 October 1997 and the Articles of Association in force at that date had provided for such conversion, and accordingly any step taken or not taken on the basis that the First Tranche Founder Shares had been converted into Ordinary Shares on 1 October 1997 be and is hereby ratified, and in particular (although without limitation):

(i) any dividend paid;

(ii) any step taken in relation to any transfer of a share;

(iii) any notice of meeting given;

(iv) any resolution passed or not passed by virtue of any right of attendance or any voting rights being exercised or not being exercised;

(v) any entry made in the register of members,

be and is hereby ratified.

(c) the Articles of Association of the Company be and they are amended by the addition of the words "and/or Deferred Shares" after the second occurrence of the words "Ordinary Shares" in article 4.2(a) (Conversion of shares) and by the addition of the following new article 4.5:

"4.5 *Deferred Shares*

Notwithstanding any provision to the contrary contained in these articles, the rights and privileges attached to the Deferred Shares are as follows:

(a) the Deferred Shares shall not entitle their holders to receive any dividend or other distribution;

(b) the Deferred Shares shall on a return of assets on a winding up or otherwise entitle the holder only to the repayment of the amounts paid up on such shares after the repayment of £1,000 million per Ordinary Share;

(c) the holders of the Deferred Shares shall not have the right to receive notice of any general meeting of the Company nor the right to attend, speak or vote at any such general meeting;

(d) the Deferred Shares shall confer irrevocable authority on the Company at any time without notice to the holders to appoint any person to execute on behalf of the holders of the Deferred Shares a transfer of such shares (and/or an agreement to transfer/sell the same) to the Company or to such person as the Company may determine as custodian thereof and/or the Company to purchase the same (in accordance with the provisions of the Act) in consideration for not more than one penny per holder of such shares (and the Company or such other person as the Company shall appoint shall be entitled to retain and hold such consideration on trust for the holder(s) of such shares until payment of the consideration is requested by the holder(s) of such Deferred Shares or the Company elects to pay out such consideration to the holder(s), whichever is the earlier) without obtaining the sanction of the holder(s) thereof and pending such transfer and/or purchase to retain the certificate(s) (to the extent issued) for such Deferred Shares and no such action shall constitute a modification or abrogation of the rights or privileges attaching to the Deferred Shares;

(e) neither the passing by the Company of any special resolution for the cancellation of Deferred Shares for no consideration by means of a reduction of capital requiring the confirmation of the High Court nor the obtaining by the Company nor the making by the High Court of an order confirming any such reduction of capital nor the making effective of such order shall constitute a modification or abrogation of the rights or privileges attaching to the Deferred Shares and accordingly the Deferred Shares may at any time be cancelled for no consideration by means of a reduction of capital effected in accordance with the Act without any such sanction on the part of the holders of the Deferred Shares;

(f) notwithstanding any other provision of these articles, and unless specifically required by the Act, the Company shall not be required to issue any certificates in respect of the Deferred Shares;

(g) the special rights conferred by the Deferred Shares shall not be deemed to be modified or abrogated by the creation or issue of further shares ranking *pari passu* with or in priority to the Deferred Shares."

and further by the addition of the following new definition:

"Deferred Shares" deferred shares of £1 each in the capital of the Company;

(d) Notwithstanding paragraph (b) of this resolution, the Directors be and they are hereby authorised to take such steps as are appropriate to prepare revised accounts reflecting the conversion of the First Tranche Founder Shares into 120,000 Ordinary Shares and 4,200 Deferred Shares at the date of this resolution;

(e) The Directors and any other person who has at any material time been a director of the Company be and they are hereby relieved from any liability arising out of the purported conversion of First Tranche Founder Shares into Ordinary Shares on 1 October 1997.

BY ORDER OF THE BOARD

A J Smith
Secretary

25 June 2002

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 the Uncertificated Securities Regulations 2001, specifies that only those Shareholders registered in the register of members of the Company at the close of business on 29 July 2002 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 £2,246,000, 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 – Authority to make market purchases

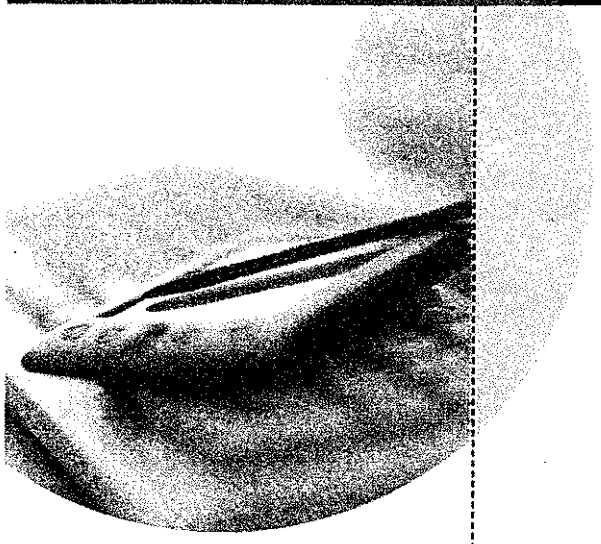
Resolution 8 authorises the Company to make market purchases on a recognised investment exchange of its issued Ordinary Shares up to an aggregate nominal amount of £673,875, representing approximately ten per cent. of the nominal value of the issued ordinary share capital of the Company as shown in the 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 9 – Disapplication of pre-emption rights

Resolution 9 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 Ordinary Shareholders in proportion to their holdings, in connection with a rights issue and otherwise up to a maximum nominal value of £336,938, 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.

Resolution 10 – Founder Shares

In 1997, when the Company was known as CCI Holdings PLC and was under different management, 120,000 Ordinary Shares were issued to former directors on the conversion of Founder Shares held by them. This transaction involved an attempted £4,200 reduction of capital which the current management has been advised was not permissible. The purpose of Resolution 10 is to resolve any possible uncertainty as to the accuracy of the current share register that may have arisen from this action by retrospectively conducting the conversion in accordance with the Companies Act 1985.The Resolution will not affect the number of Ordinary Shares currently on the register nor will it involve any change to the rights of any holder of Ordinary Shares or convertible redeemable preference shares.



XKO
Locations

XKO Group plc

Systems House
Foundry Court . Gogmore Lane
Chertsey . Surrey . KT16 9AP

t. 01932 570590
f. 01932 570515
e. info@xko.co.uk
w. www.xko.co.uk

Head office

Chertsey

London

Oxford

Leicester

Lutterworth

Southampton

Milton Keynes

St Saviour, Jersey

St Peter Port, Guernsey

Douglas, Isle of Man