Report and Financial Statements 2003

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	13
Statement of directors' responsibilities	18
Independent auditors' report	19
Consolidated profit and loss account	21
Consolidated balance sheet	22
Company balance sheet	23
Consolidated cashflow statement	24
Notes to the financial statements	25



Directors and Advisors

Directors

B C Beverley	Non Executive Chairman
S D Beart	**Chief Executive, Deputy Chairman**
R C Kimber	**Group Finance Director**
I R Mann	Non Executive Director
D R T Thompson	Non Executive Director

Stockbrokers and financial advisors

Evolution Beeson Gregory Limited
The Registry
Royal Mint Court
London EC3N 4LB

Joint stockbrokers

Teather & Greenwood Limited
India Buildings
Water Street
Liverpool L2 0XR

Solicitors

Osborne Clarke
Hillgate House
26 Old Bailey
London EC4M 7HW

Secretary and registered office

R C Kimber
Systems House
Foundry Court
Gogmore Lane
Chertsey
Surrey KT16 9AP

Registered Number: 2950904

Auditors

Deloitte & Touche
Chartered Accountants
Four Brindleyplace
Birmingham B1 2HZ

Bankers

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

Registrars

Northern Registrars Limited
Northern House
Woodsome Park
Fenay Bridge
Huddersfield HD8 0LA

Chairman's Statement

The Group has made further progress in a busy year. Turnover has increased to £43.6 million from £38.9 million and we have achieved organic growth in sales of 1 per cent., after adjusting for acquisitions made during the year. Against the background of a difficult environment for IT companies, this is an achievement reflecting the diversity and stability of the Group.

The Group's profit before tax, goodwill amortisation, exceptional items and discontinued activities (defined as "Adjusted PBT" – see note 8) was £2.67 million (2002:£2.04 million), an increase of some 31 per cent. This excellent performance translates into adjusted earnings per share of 8.9p (2002:6.1p). Following deduction of goodwill amortisation, exceptional items and discontinued activities the reported loss before taxation was £545,000 (2002:£14,938,000). Cashflow in the year was again good and as a result, the Board is now prepared to recommend a final dividend of 0.5p per share payable on 2 October 2003 to all shareholders on the register as at 5 September 2003. The total dividend for the year represents an increase of 40 per cent. over the prior year. Future dividend increases will be aligned with earnings growth and will also take into account the availability of earnings enhancing acquisitions.

The Group's strategy during current markets remains unchanged. We intend to take advantage of our proven financial strength and management to continue to build and acquire market share in our selected markets. We have a significant and rapidly growing presence in the mid-range Business Applications market and a large scale Solutions capability operating nationwide. We are looking to expand both areas of activity.

Consistent with this strategy we have continued to make acquisitions during the year and in addition we purchased The Control Group shortly after the year end for £1.2 million. This latest acquisition brings to the Group an attractive customer base as well as specialist Supply Chain Management ("SCM") technology. The SCM capabilities of the Control product are installed with global and FTSE scale customers. As a Group we now have the scale and skills to meet the requirements of such customers and we will be investing further in this product range for the benefit of all Group customers.

Whilst it is possible that trading conditions in the sector may not deteriorate further, prospects remain unclear and customer budgets for IT spend in the current year are at best flat. However, our business is structured to operate profitably in these conditions. XKO will prosper by continuing to offer branded solutions, delivered by a publicly listed Group with financial resources and scale.

Brian Beverley
Chairman

Chief Executive's Review

The XKO market proposition

The Group has a broad product offering tailored, primarily, for the mid-range corporate market. We offer customers a range of well supported and actively developed enterprise applications, complemented by the provision of all their infrastructure and communications needs. We also have specialist skills in the financial services markets for the delivery of large scale infrastructure solutions. Customers now look to purchase the full range of our services to avoid the high cost of ownership and increasing complexity of IT. The Group has a competitive advantage in owning all the elements of the end to end solution. This is proving increasingly attractive as our customers increasingly look to devolve their technology problems to a competent and large scale provider.

This broad business model is well suited to current market conditions and it is pleasing to note that an ever increasing number of customers purchase across the Group. As a result, the Group now enjoys annual, contracted revenues in excess of £15 million and a high level of repeat business.

Financial Results

Turnover from existing businesses for the year rose by 1 per cent. When compared to falling revenue levels across the sector this illustrates the benefits of our broad customer base, high level of contracted revenues and a diversified offering. The Group is not dependent on any one product set and has therefore proved resilient. Adjusted PBT was £2.67 million, a significant increase over £2.04 million in the prior year. This achievement reflects both profit growth in existing businesses and a good contribution from recent acquisitions, primarily Aran.

Each acquisition requires substantial restructuring and often a material adjustment to the cost base. This is possible due to the scale of XKO's existing management team and resources. Creating these efficiencies involves significant exceptional costs in the year of acquisition, much of which is a cash spend. This year, restructuring and reorganisation costs relate primarily to Aran with associated costs incurred in reorganising existing units. In addition, we undertook a rationalisation of our UK Solutions businesses including a relocation of our London office and the consolidation of duplicated services. This also gave rise to significant one off costs. Finally, we are investing selectively in management change and this invariably has a cost.

In the current year we expect minimal reorganisation costs and these will be absorbed within operating profit, unless further acquisitions are made. The reorganisation costs relating to the acquisition of Control will be separately disclosed.

The strategy of acquisition at this stage in the cycle is only valid if the Group can generate sufficient cashflow to meet the cost of purchase and subsequent restructuring. Yet again, the Group has been highly cash generative as a result of which funding was available for the acquisition of The Control Group after the year end. We will continue to look for new acquisitions since we have the management and the appropriate methodology to create value from acquisitions in our selected market areas.

Acquisitions

The principal acquisition in the year was the purchase of Aran for a cost of £2.6 million which was completed in June 2002. We moved rapidly to rationalise the business and absorb the product set within our existing structure. We are pleased to report that following these actions turnover has been very satisfactory and profitability greatly increased. We have also invested in all of the key applications within Aran including the development of a new windows based alternative for many of our text users should they wish to have a choice of system. As a result we now have two directly comparable and equally functional solutions to suit the wishes of the customer.

The Group has a broad portfolio of applications and it is our strategy to maintain and develop these applications as customers demand enhancement and development. In this manner we retain customer loyalty and revenues continue to flow from acquired units.

Shortly after the year end, we acquired The Control Group for £1.2 million. The Control product set contains highly advanced technology particularly in respect of warehousing and Supply Chain Management ("SCM"). Control Group's customer base also contains many installations with major corporates. We intend to invest further in Control's product since we see considerable opportunity in the area of SCM, as customers seek to optimise the systems they already own.

Development

We are continually developing new offerings and solutions to our customer base. We see good opportunities in the provision of managed infrastructure services and for those customers with installed applications, we believe there will be a demand to develop functionality and we are well placed to offer these services. We retain our commitment to research and development therefore and following the acquisition of The Control Group this spend will increase. We will also be investing in the development of our core new business applications to reinforce our vertical presence in chosen markets.

Outlook

It is now several years since spending was buoyant in our sector. Recognising this, the Group was reorganised and selective acquisitions made in order to trade profitably in any environment.

There is, as yet, little evidence that spending will increase in the current year and sales cycles remain extended. Our strategy is not to wait for a recovery in our markets. We continue to engage actively with our very large customer base whilst searching for attractive, sensibly priced acquisitions that can enhance total shareholders' return.

Simon Beart
Chief Executive

Financial Commentary

Summary

The Group recorded an Adjusted PBT of £2.67 million, a significant improvement on the prior year comparative of £2.04 million. The statutory pre tax loss for the year was £545,000 but this includes non-cash charges, in particular the amortisation of goodwill relating to recent acquisitions and exceptional items. The Group is managed and staff are rewarded against the achievement of adjusted operating profit and cash generation targets. Returns on acquisitions are evaluated by cash ROCE.

The Group incurred substantial exceptional charges in the year of £1.71 million and a further loss on discontinued activities of £238,000. The principal component of the exceptional items is the costs arising from the rationalisation of recent acquisitions which amounted to £1,034,000. These costs were primarily redundancy and reorganisation costs incurred in order to achieve the desired level of profitability.

Acquisitions

The principal acquisition made in the year was the purchase of the Aran group of companies in June 2002. The cash amount paid and payable to the vendors and debt assumed amounted to approximately £2.6 million. Rationalisation and reorganisation costs were also incurred which will bring the total cost to £3.5 million. In November a small acquisition of the business and assets of Informed Systems Limited was made. Immediately after acquisition both companies were integrated into the financial and management structure of the Group.

Following the year end, the Group purchased The Control Group for a cash consideration of £1.2 million. Control was acquired on a debt free, cash free basis with recurring revenues approximating to the consideration paid to vendors.

Cashflow and indebtedness

Continuous attention to working capital and the careful management of project deliveries has resulted in improved debtor days of 40 (2002:42 days).

The Group was able to convert 112 per cent. of operating profit before goodwill amortisation and exceptionals into cashflow. The equivalent percentage in the previous year was 91 per cent. Total net indebtedness at the year end was low at £675,000 despite total expenditure on acquisitions and related restructurings of over £3.5 million.

As a result of the Group's record of strong cashflows, the Group enjoys flexible bank facilities. Following the acquisition of Control Group, the Group has drawn down a three year term loan with £3.1 million currently outstanding. The Group has access to a total overdraft facility of £3 million in order to finance working capital needs and smaller acquisitions.

Profitability

The Board examines carefully returns on capital employed and the free cash return from existing operations and acquisitions. The operating ROCE for the year was 86 per cent. (2002:51 per cent.) being operating profit before goodwill and exceptionals, losses on discontinued activities and LTIP costs as a percentage of year end fixed assets, stocks and trade debtors less trade creditors. The free cash return rate at this level, after capital expenditure was 88 per cent. (2002:50 per cent.). Cash generation was therefore satisfactory and enabled the Board to propose a substantial dividend increase.

Financial Commentary (continued)

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 three years is difficult to justify. This reflects the need to invest in and improve software applications and the very rapid changes in the technology marketplace. The Board has therefore continued to use this shorter timescale for amortising the goodwill which has arisen on the acquisition of Aran and Informed Systems Limited. The Board believes that this is a prudent application of the accounting policy.

Dividend payment, capital expenditure, taxation

The Board has recommended the payment of a final dividend of 0.5p per ordinary share which will be paid to all shareholders on the share register at 5 September 2003 with a payment date of 2 October 2003. Coupled with the interim dividend paid on 20 February 2003 of 0.2p per share this amounts to 0.7p per share which represents an increase of 40 per cent. on the total annual dividend last year. The total cash cost of the annual dividend is £193,000. Dividend cover remains at conservative levels in order to help fund the organic growth of the Group.

The Group does not have material capital expenditure requirements and in the year to 31 March 2003 the net spend after disposals was £40,000.

The effective tax rate, taking into account the exceptional items and other tax deductible expenses was 33 per cent. It is the Board's expectation that the underlying Group rate will continue in the range 20 per cent. to 22 per cent. for the foreseeable future.

Financial instruments

The Group's financial instruments during the period comprised a secured term 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. After the year-end, the Group has entered into an Amortising Base Rate Swap agreement, covering an initial amount of £1.5 million with The Royal Bank of Scotland plc in order to manage its interest rate risk.

Interest rate risk

The Group finances its operations through external borrowings. Group borrowings are denominated in sterling and bear interest with reference to floating LIBOR, with the exception of the Swap agreement mentioned in the previous paragraph.

Liquidity risk

The Group's policy to manage liquidity risk is to maintain its term loan at a level of between £2 million and £3.4 million 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 currencies. No foreign currency hedging was therefore undertaken during the period.

Robert Kimber
Group Finance Director

Directors' Report

The Directors present their report and the Group's audited financial statements for the year ended 31 March 2003.

Principal activity, review of the year and future prospects

The Group's principal activity comprises the supply of business enterprise software and IT infrastructure solutions. A review of the Group is set out in the Chief Executive's Review and Financial Commentary.

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 £985,000 for the year, after taxation, which has been transferred to reserves. The Directors recommend the payment of a final dividend of 0.5p per share.

Share capital

The Company had been notified that, in accordance with sections 198 to 208 of the Companies Act 1985, 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 (27,648,314 shares) as at 31 May 2003.

	Percentage of issued ordinary share capital	Number of 25p ordinary shares
Deutsche Bank	12.8%	3,534,745
Secondwind Limited	10.2%	2,815,390
Arlington Group plc	9.0%	2,500,000

Directors and their interests

The Directors at the year-end are as listed on page 2. A J Smith resigned on 6 November 2002. S D Beart offers himself for re-election at the forthcoming Annual General Meeting. R C Kimber who was appointed on 6 November 2002 also offers himself 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 2003, the following Directors had the following beneficial and family interests in the shares of the Company:

	As at 31 March 2003 25p ordinary shares	As at 31 March 2002 25p ordinary shares
B C Beverley	1,746,667	1,640,000
S D Beart	400,000	305,000
A J Smith (resigned 6 November 2002)	—	—
R C Kimber (appointed 6 November 2002)	—	—
I R Mann	8,300	8,300
D R T Thompson	5,810	5,810

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

EXECUTIVE DIRECTORS

S D Beart ACA (44) – 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 which was subsequently acquired in 1998 for £200 million. He joined the Group in August 1998 and was formerly Group Finance Director.

R C Kimber FCA (44) – Group Finance Director

Robert Kimber was appointed Group Finance Director in November 2002. Previously he spent five years with PricewaterhouseCoopers and five years with the recruitment consultancy Computer People Group Plc where he was Finance Director of UK operations. He was subsequently Group Finance Director of Druid Group PLC for a five year period seeing Druid change from a small consulting group to a fully listed organisation.

NON-EXECUTIVE DIRECTORS

B C Beverley (57) – 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 (61) – Senior Non-executive Director

Rodney 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.

D R T Thompson (58)

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 2003 were:

Date of grant	Number of 25p Ordinary shares	Exercise price	Exercise period
28 Feb 1999	486,394	120p	2 Mar 2002 to 2 Mar 2009
2 Mar 1999	226,606	148.5p	2 Mar 2002 to 2 Mar 2009
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
5 Dec 2000	34,000	292.5p	5 Dec 2003 to 5 Dec 2010
10 Jul 2001	51,000	44.5p	10 Jul 2004 to 10 Jul 2011
29 Aug 2001	219,250	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
27 Jun 2002	133,500	37.5p	27 Jun 2005 to 27 Jun 2012
29 Jul 2002	65,000	46p	29 Jul 2005 to 29 Jul 2012
12 Nov 2002	50,000	41.5p	12 Nov 2005 to 12 Nov 2012
4 Dec 2002	10,000	43p	4 Dec 2005 to 4 Dec 2012
Total	1,327,250		

Tangible fixed assets

Details of changes during the period in the tangible assets of the Group are shown in note 10 of 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 one 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.

Relations with shareholders

The Executive Directors make regular presentations to existing and potential institutional shareholders as well as financial analysts in order to enhance an understanding of the Group. The Board is conscious of the importance of a regular dialogue with shareholders for which the Annual General Meeting of the Company is a key component. The Group also has a website (www.xko.co.uk) containing up-to-date information and product news.

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 Group 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 has a formally constituted Remuneration Committee which has written terms of reference. It comprises all the Non-executive Directors 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.

Nominations committee

The Board has a formally constituted Nominations Committee which meets to approve nominations of new Directors to the Board. It also considers succession planning and senior management development. It comprises all the Non-executive Directors and is chaired by I R Mann.

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. The 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 ongoing 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 and to enable the Board to review the effectiveness of internal controls 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.

Directors' Report (continued)

Corporate Governance Compliance Statement

Details of the Group's approach to Corporate Governance are given above. Throughout the year ended 31 March 2003, the Company has been in compliance with the code provisions set out in section one of the Combined Code on Corporate Governance issued by the UK Listing Authority.

Going concern

In accordance with the Combined Code guidance on going concern and 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 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 2003 (2002:£nil).

Research and Development

Research and development activities are the ongoing modifying and developing of software. £1,170,000 was spent during the year to 31 March 2003 (2002:£1,134,000).

Donations

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

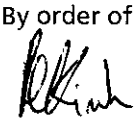
Annual General Meeting

The Annual General Meeting will be held on 30 July 2003 at the offices of Osborne Clarke, 26 Old Bailey, London EC4M 7HW.

Auditors

Deloitte & Touche has expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting. Deloitte & Touche has informed the Directors that they are intending to transfer their business to a limited liability partnership incorporated under the Limited Liability Partnership Act 2000, to be known as Deloitte & Touche LLP with effect from 1 August 2003. It is the current intention of the Directors to use the Company's statutory power to give consent to the appointment of Deloitte & Touche being treated as extending to Deloitte & Touche LLP at the appropriate time.

By order of the Board



R C Kimber FCA
Secretary

23 June 2003

UNAUDITED INFORMATION

Remuneration committee

The Company has established a Remuneration Committee which is constituted in accordance with the recommendations of the Combined Code. The members of the Committee are B C Beverley, D R T Thompson and I R Mann who are all independent Non-executive Directors and the Committee is chaired by I R Mann.

None of the Committee has any personal financial interest (other than as shareholders), conflicts of interests arising from cross-directorships or day-to-day involvement in running the business. The Committee makes recommendations to the Board. No Director plays a part in any discussion about his own remuneration.

Remuneration policy

Executive remuneration packages are and will continue to be prudently designed to attract, motivate and retain Directors of the high calibre needed to maintain the Group's position as a market leader and to reward them for enhancing value to the shareholders. The performance measurement of the Executive Directors and key members of senior management and the determination of their annual remuneration package are undertaken by the Committee. The remuneration of the Non-executive Directors is determined by the Board within limits set out in the Articles of Association.

There are four main elements of the remuneration package for Executive Directors and senior management:

- Basic annual salary (including Directors' fees) and benefits;
- Annual bonus payments;
- Share option incentives; and
- Pension arrangements.

The Company's policy is that a significant proportion of the remuneration of the Executive Directors should be performance related and are linked to earnings per share growth, with the exception of R C Kimber who should receive a limited bonus which reflects his reporting responsibilities. Executive Directors are entitled to accept appointments outside the Company provided that the Chairman's permission is sought.

Basic salary

An Executive Director's basic salary is determined by the Committee prior to the beginning of each year and when an individual changes position or responsibility. In deciding appropriate levels, the Committee considers the Group as a whole and takes account of comparable remuneration levels and policies. Basic salaries were reviewed in March 2003 with increases taking effect from 1 April 2003. Executive Directors' contracts of service which include details of remuneration will be available for inspection at the Annual General Meeting.

In addition to basic salary, the Executive Directors receive certain benefits, principally a car allowance and private healthcare allowance. They do not receive fees in respect of their positions as Directors.

Share options

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 (LTIP). 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 shareholders. All option grants are approved by the Remuneration Committee.

The exercise price of the options granted under the approved share option scheme and the unapproved share option scheme is equal to the market value of the Company's shares at the time when the options are granted.

Under the rules of the sharesave scheme eligible employees may be granted share options at a discount of up to 20 per cent. of the market value of the Company's shares at the time when the options are granted.

To align further the interests of shareholders and Directors the Group's LTIP was approved at the Annual General Meeting on 31 July 2001. Under this plan provision was made for the making of awards over shares in the form of nil cost options. The purpose of such awards is to motivate participants to improve performance and to retain their services in the longer-term. The Committee has responsibility for supervising the scheme and the grant of options under the terms of the plan.

Shares granted under the LTIP are divided into two types, the earnings tranche and service tranche. The shares contained in the earnings tranches vest according to the achievement of progressive earnings per share and/or share price targets for the relevant period. The shares contained in the service tranches vest according to individual lengths of service. The Remuneration Committee have set these as suitable targets for motivating Directors' performance.

The following conditional awards of shares have been contingently made to Directors:

	Earnings Tranche March 2002	Earnings Tranche March 2003	Earnings Tranche March 2004	Earnings Tranche March 2005	Earnings Tranche March 2006	Service Tranche July 2004	Service Tranche July 2005	Service Tranche July 2006	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
R C Kimber	—	—	13,333	13,333	13,334	—	20,000	20,000	80,000
	72,499	72,499	85,835	13,333	13,334	108,750	128,750	20,000	515,000

A J Smith resigned from the Company on 6 November 2002 and the Remuneration Committee used its discretion under the scheme rules in order to award him 15,000 of the shares which had been allocated to him. The mid-market price of these shares was 39.5p per share as at 31 October 2002.

On 1 December 2002 R C Kimber was awarded the conditional shares above.

The targets relating to the March 2002 and March 2003 earnings tranche have been satisfied and vest on 1 July 2003 and 1 July 2004 subject to the individual being employed by the Group at that time.

Awards of 495,000 shares have been made, under similar conditions, to other senior Group employees.

No significant amendments are proposed to be made to the terms and conditions of any entitlement of a Director to share options.

Pension arrangements

The Company also contributes payments equivalent of up to 10 per cent. of the Executive Directors' basic salary to a defined contribution pension scheme of his choice. Other than basic salary, no element of remuneration is pensionable.

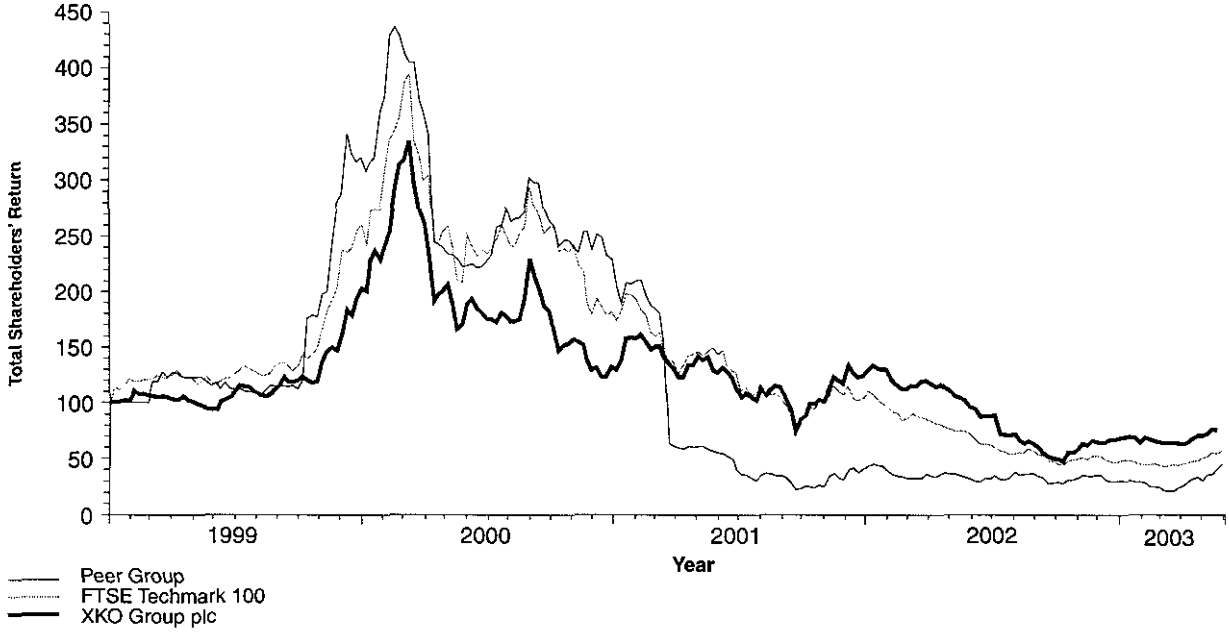
Performance graph

The graph below shows the Company's performance, measured by total shareholders' return, compared with the performance of a peer group and by reference to the FTSE Techmark 100 Index also measured by total shareholders' return for each of the years since flotation in January 1999. The FTSE Techmark 100 Index has been selected as, in the opinion of the Directors, it represents the most appropriate equity market index against which the Company should be tracked.

The peer group was chosen to provide a benchmark against other listed companies in the same sector. In addition to XKO Group plc, the peer group comprises:

- Alphameric
- Anite
- Comino
- Compel Group
- Diagonal
- EDP
- ICM
- iSOFT
- ITNet
- Synstar
- Torex

Graph to show comparison of XKO with Peer Group and the FTSE Techmark 100 Index



Directors' service contracts

Each Executive Director's service agreement is terminable by either him or the Company on no more than twelve months written notice. In the event of a change of control of the Group, the Executive Directors are contractually entitled to a payment of liquidated damages, without mitigation, of an amount equivalent to up to two years salary, benefits and estimated bonuses. The Non-executive Directors have contracts which run for two-year terms, commencing from their date of appointment and are open to annual extension subject to the mutual agreement of the Non-executive Director and the Company. B C Beverley's agreement is terminable by either him or the Company on no more than twelve months written notice.

The details of the Directors' contracts are summarised in the table below:

	Date of contract
Executive Directors:	
S D Beart	27 January 1999
A J Smith	28 June 1999
R C Kimber	14 September 2002
Non-executive Directors:	
B C Beverley	27 January 1999
D R T Thompson	30 March 1999
I R Mann	24 March 1999

The Directors are required to submit themselves for re-election at regular intervals and at least every three years.

Non-executive Directors

All Non-executive Directors have specific terms of engagement and their remuneration is determined by the Board as a whole. Non-executives are paid a fee for their services and are not eligible to join the Company's pension scheme.

AUDITED INFORMATION

Directors' emoluments

	Basic Salary £'000s	Benefits £'000s	Pension £'000s	Bonus £'000s	Fees £'000s	31 March 2003 Total £'000s	31 March 2002 Total £'000s
B C Beverley	—	—	—	—	65	65	66
S D Beart	170	3	15	85	—	273	204
A J Smith	57	5	15	—	—	77	104
R C Kimber	49	—	4	5	—	58	—
I R Mann	—	—	—	—	17	17	16
D R T Thompson	—	—	—	—	17	17	16
	276	8	34	90	99	507	406

Basic salary includes a car allowance for S D Beart of £20,000 per annum and R C Kimber of £13,200 per annum. Benefits provided relate to the provision of health care and insurance benefits.

A J Smith resigned with effect from 6 November 2002. R C Kimber was appointed on 6 November 2002.

Directors' share options

Details of subscription rights for Directors who served during the year are as follows:

	Exercise Price	At 31 March 2002 25p ordinary shares	At 31 March 2003 25p ordinary shares	Date from which exercisable	Expiry date
B C Beverley	120p	450,000	450,000	2 March 2002	2 March 2009
S D Beart	120p	150,000	150,000	6 August 1998	9 July 2008
	112.5p	500,000	500,000	2 March 1999	2 March 2009
A J Smith	400p	25,000	25,000	4 January 2003	4 January 2010
(resigned	292.5p	25,000	25,000	5 December 2003	5 December 2010
6.11.02)	36.5p	30,000	30,000	31 July 2004	31 July 2011
R C Kimber	41.5p	—	50,000	12 November 2005	12 November 2012

The share options held by B C Beverley are unapproved share options. The share options held by R C Kimber are approved share options.

The mid-market price of the ordinary shares of XKO Group plc at 31 March 2003 was 31p and the range during the year was 24p to 46.5p.

The nil cost LTIP shares held by the Directors at the start and end of the year were as follows:

	At 1 April 2002	Granted in the year	Exercised during the year	Lapsed during the year	At 31 March 2003
B C Beverley	170,000	—	—	—	170,000
S D Beart	170,000	—	—	—	170,000
A J Smith	95,000	—	(15,000)	(80,000)	—
R C Kimber	—	80,000	—	—	80,000
	435,000	80,000	(15,000)	(80,000)	420,000

The performance criteria for these shares are given on page 14.

Directors' pension entitlements

The Executive Directors are members of individual money purchase schemes. No contributions were made by the Group in respect of Non-executive Directors. No contributions were paid during the period to the pension scheme of R C Kimber. The contributions made by the Company in respect of money purchase schemes for each of the other Executive Directors were as follows:

	Total 2003 £'000s	Total 2002 £'000s
S D Beart	15	14
A J Smith	15	8
	30	22

Approved and signed on behalf of the Board

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 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 shareholders of XKO Group plc

We have audited the financial statements of XKO Group plc for the year ended 31 March 2003 which comprise the consolidated profit and loss account, the balance sheets, the consolidated cashflow statement and the related notes 1 to 27. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the Directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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. They are also responsible for the preparation of the other information contained in the annual report including the Directors' remuneration report. Our responsibility is to audit the financial statements and the part of the Directors' remuneration report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the 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 of the Financial Services 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 Directors' report and the other information contained in the annual report for the above year as described in the contents section including the unaudited part of the Directors' remuneration report 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 and the part of the Directors' remuneration report described as having been audited. 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.

Independent Auditors' Report (continued)

to the shareholders of XKO Group plc

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 and the part of the Directors' remuneration report described as having been audited 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 and the part of the Directors' remuneration report described as having been audited.

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 2003 and of the loss of the Group for the year then ended; and
- the financial statements and part of the Directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Deloitte & Touche
Chartered Accountants and Registered Auditors
Birmingham

23 June 2003

Consolidated Profit and Loss Account

for the year ended 31 March 2003

	Notes	Existing Business 2003 £'000s	Acquisitions 2003 £'000s	Continuing operations 2003 £'000s	Discontinued activities 2003 £'000s	Total year ended 31 March 2003 £'000s	Total year ended 31 March 2002 £'000s
Turnover	2	39,279	4,088	43,367	260	43,627	38,880
Operating profit/(loss) before goodwill amortisation and exceptional costs		2,196	649	2,845	(238)	2,607	2,094
Goodwill amortisation	3	—	(1,275)	(1,275)	—	(1,275)	(16,019)
Exceptional items	3	(672)	(1,034)	(1,706)	—	(1,706)	(783)
Operating profit/(loss)	3	1,524	(1,660)	(136)	(238)	(374)	(14,708)
Net interest payable	5					(171)	(230)
Loss on ordinary activities before taxation						(545)	(14,938)
Tax on loss on ordinary activities	6					(247)	(227)
Loss on ordinary activities after taxation						(792)	(15,165)
Dividends	7					(193)	(135)
Retained loss for the year						(985)	(15,300)
Adjusted earnings per ordinary share	8					8.9p	6.1p
Basic loss per share	8					(2.9p)	(56.4p)
Diluted loss per share	8					(2.9p)	(56.4p)
Dividend per share	7					0.7p	0.5p

There are no other recognised gains or losses in the year other than the loss for the year and accordingly a Statement of Total Recognised Gains and Losses is not provided.

Consolidated Balance Sheet

As at 31 March 2003

	Notes	As at 31 March 2003 £'000s	As at 31 March 2002 £'000s
Fixed assets			
Intangible assets	9	3,405	—
Tangible assets	10	423	842
		3,828	842
Current assets			
Stocks	12	711	931
Debtors	13	6,747	6,463
Cash at bank and in hand		1,325	922
		8,783	8,316
Creditors: amounts falling due within one year	14	(9,979)	(8,177)
Net current (liabilities)/assets		(1,196)	139
Total assets less current liabilities		2,632	981
Creditors: amounts falling due after more than one year	15	(1,159)	(755)
Provisions for liabilities and charges	17	(633)	—
Accruals and deferred income	18	(5,857)	(4,224)
Net (liabilities)/assets		(5,017)	(3,998)
Capital and reserves			
Called up share capital	19	7,212	7,039
Shares to be issued	19	239	550
Share premium account	21	9,611	9,507
Profit and loss account	21	(22,079)	(21,094)
Shareholders' (deficit)/funds	20	(5,017)	(3,998)
Equity		(5,317)	(4,298)
Non-equity		300	300
Shareholders' (deficit)/funds		(5,017)	(3,998)

R C Kimber FCA
Group Finance Director

23 June 2003

Company Balance Sheet

As at 31 March 2003

	Notes	As at 31 March 2003 £'000s	As at 31 March 2002 £'000s
Tangible Assets	10	—	—
Investments	11	20,466	21,248
		20,466	21,248
Current assets			
Debtors	13	17,586	11,432
Creditors: amounts falling due within one year	14	(12,635)	(9,166)
Net current assets		4,951	2,266
Total assets less current liabilities		25,417	23,514
Creditors: amounts falling due after more than one year	15	(1,000)	(637)
Net assets		24,417	22,877
Capital and reserves			
Called up share capital	19	7,212	7,039
Shares to be issued	19	239	550
Share premium account	21	9,611	9,507
Profit and loss account	21	7,355	5,781
Shareholders' funds	20	24,417	22,877
Equity		24,117	22,577
Non-equity		300	300
Shareholders' funds		24,417	22,877



R C Kimber FCA
Group Finance Director

23 June 2003

Consolidated Cashflow Statement

For the year ended 31 March 2003

	£'000s	Year ended 31 March 2003 £'000s	Year ended 31 March 2002 £'000s
Cash inflow from operating activities		2,928	1,911
Returns on investments and servicing of finance			
Interest paid	(152)		(216)
Interest element of finance lease rental payments	—		(14)
Net cash outflow from returns on investments and servicing of investments		(152)	(230)
Taxation			
Corporation tax paid		(85)	(244)
Capital expenditure			
Payments to acquire tangible fixed assets	(174)		(330)
Proceeds from sale of fixed assets	134		326
Net cash outflow from capital expenditure		(40)	(4)
Acquisitions			
Payments to acquire investments in subsidiaries (including expenses)	(2,955)		(163)
Overdraft acquired with subsidiaries	(47)		—
		(3,002)	(163)
Equity dividends paid		(190)	—
Net cash (outflow)/inflow before financing		(541)	1,270
Financing			
Issue of ordinary share capital	158		—
Bank loans drawn/(repaid)	786		(1,020)
Capital element of finance leases repaid	—		(157)
Net cash inflow/(outflow) from financing		944	(1,177)
Increase in cash in the year		403	93

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. Consistent accounting policies have been applied in this period.

(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 2003. 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 and statement of cashflows include the results and cashflows 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 of between 16 and 36 months. 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 relate to trading transactions and are taken directly to reserves where they relate 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 maintenance stocks are amortised over their useful life of up to three years.

1. Accounting policies (continued)

(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 they are 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 crystallise. 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 recognised where it is more likely than not that it will be recoverable in the future. Deferred tax assets and liabilities recognised 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 IT infrastructure solutions.

3. Operating loss

	Year ended 31 March 2003 £'000s	Year ended 31 March 2002 £'000s
Turnover	43,627	38,880
Cost of Sales	(18,939)	(17,538)
Gross Profit	24,688	21,342
Administrative expenses before goodwill amortisation, discontinued activities and exceptional items	(21,747)	(19,071)
Discontinued consultancy unit costs	(334)	(177)
Amortisation of goodwill	(1,275)	(16,019)
Exceptional items	(1,617)	(633)
LTIP	(89)	(150)
Total administrative expenses	(25,062)	(36,050)
Operating loss	(374)	(14,708)

The discontinued consultancy activity recorded turnover of £260,000 for the year to 31 March 2003, cost of sales of £164,000 and gross profit of £96,000.

Acquisitions contributed £4,088,000 of turnover in the period, cost of sales of £594,000, gross profit of £3,494,000 and administrative expenses of £3,999,000.

Aran contributed £3,878,000 of turnover in the period, cost of sales of £582,000, gross profit of £3,296,000 and administrative expenses of £3,558,000.

Exceptional items of £1,706,000 consists of £1,796,000 with respect to the costs of redundancies and reorganisation (2002:£933,000), the release a £179,000 debtor provision charged in the profit and loss account (2002:£300,000) and £89,000 of LTIP charges for the year (2002:£150,000).

Operating loss is arrived at after charging/(crediting):

	2003 £'000s	2002 £'000s
Research and development costs	1,170	1,134
Discontinued consultancy unit loss	238	177
Amortisation cost of Long Term Incentive Plan	89	150
Depreciation of tangible fixed assets:		
Assets held under hire purchase contracts or finance leases	—	59
Other owned assets	511	708
Amortisation of intangible fixed assets	1,275	16,019
Auditors' remuneration:		
Audit services	78	70
Non-audit services	31	40
Rentals under operating leases:		
Plant and other machinery	94	112
Other operating leases	887	778
Profit on sale of tangible fixed assets	(26)	(36)

Included within audit services is £14,000 (2002:£14,000) in respect of the holding company. £95,000 was also paid to the auditors in respect of acquisition related due diligence which has been included within the cost of investment for these acquisitions.

4. Directors' and employee costs

The average number of employees (including Executive Directors) in the Group during this period was 425 (2002: 405).

Employee costs during the year amounted to:

	2003 £'000s	2002 £'000s
Wages and salaries	14,779	12,770
Social security costs	1,329	1,170
Other pension costs	313	234
	16,421	14,174
Included in the above in respect of Directors' remuneration:		
Emoluments	473	384
Pension contributions	34	22
	507	406

The emoluments of the Directors are disclosed within the audited information on pages 16 and 17 in the Report of the Board on Remuneration and form part of these financial statements. Options held by Directors are disclosed in page 16 of the Report of the Board on Remuneration.

5. Interest payable and similar charges

	2003 £'000s	2002 £'000s
On bank loans and overdrafts	171	216
Finance charges allocated for the period in respect of finance leases	—	14
	171	230

6. Tax on loss on ordinary activities

The taxation charge comprises:

	2003 £'000s	2002 £'000s
UK Corporation tax on profit of the period	—	—
Overseas tax	209	168
Current tax	209	168
Deferred tax – timing differences, origination and reversal	38	59
	247	227

6. Tax on loss on ordinary activities (continued)

Reconciliation to current tax charge:

	2003 £'000s	2002 £'000s
Loss on ordinary activities before tax	545	14,938
Loss on ordinary activities before tax multiplied by standard rate of UK Corporation tax: 30%	(164)	(4,481)
Expenses not deductible for tax purposes	469	4,823
Capital allowances in excess of depreciation	34	(27)
Movement in short term timing differences	141	17
Foreign tax charged at lower rates than UK	(181)	(164)
Trade losses acquired	(90)	—
Current corporation tax charge for the period	209	168

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

7. Dividends

	2003 £'000s	2002 £'000s
Equity dividends:		
Interim, paid, 0.2p (2002:Nil) per share	55	—
Final, proposed, 0.5p (2002:0.5p) per share	138	135
	193	135

8. Earnings per share

Basic loss per ordinary share is calculated by dividing the loss attributable to ordinary shareholders of £792,000 (2002: loss £15,165,000) by the weighted average number of shares in issue during the year of 27,386,987 (2002:26,909,154).

FRS 14 requires presentation of diluted earnings per share 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. As it seems unlikely that option holders would act irrationally, no adjustment has been made to diluted loss per share for out-of-the-money share options. Accordingly, the diluted loss per share equals the basic loss per share of 2.9p (2002:56.4p).

8. Earnings per share (continued)

	2003 £'000s	2002 £'000s
Loss on ordinary activities after taxation	(792)	(15,165)
Goodwill amortisation	1,275	16,019
LTIP	89	150
Exceptional items	1,617	633
Loss on discontinued activities	238	177
Adjusted profit after tax	2,427	1,814
Tax	247	227
Adjusted profit before tax	2,674	2,041
Adjusted earnings per share	8.9p	6.1p

Earnings per share in the prior year has not been restated for discontinued activities.

9. Intangible assets

Group	Goodwill £'000s
Cost	
As at 1 April 2002	43,074
Acquisition of subsidiaries	4,802
Adjustment to deferred consideration	(122)
As at 31 March 2003	47,754
Accumulated amortisation	
As at 1 April 2002	43,074
Charge for the period	1,397
Charge relating to adjustment to deferred consideration	(122)
As at 31 March 2003	44,349
Net book value	
At 31 March 2003	3,405
At 31 March 2002	—

The Directors currently estimate that the appropriate useful economic life of goodwill in the Information Technology industry is a period between 16 and 36 months. 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.

10. Tangible assets

Group

	Leasehold premises and improvements £'000s	Fixtures, Fittings and Equipment £'000s	Motor Vehicles £'000s	Total £'000s
Cost				
At 1 April 2002	190	3,896	627	4,713
Acquisition of subsidiaries	—	26	—	26
Additions	—	130	44	174
Disposals	(41)	(2,021)	(225)	(2,287)
At 31 March 2003	149	2,031	446	2,626
Accumulated depreciation				
At 1 April 2002	78	3,361	432	3,871
Charge for the period	16	394	101	511
Disposals	(30)	(1,957)	(192)	(2,179)
At 31 March 2003	64	1,798	341	2,203
Net book value				
At 31 March 2003	85	233	105	423
At 31 March 2002	112	535	195	842

The Company has no tangible assets at 31 March 2003 (2002:£Nil).

11. Investments

	Company 2003 £'000s	2002 £'000s
Cost		
At start of the period	21,248	21,514
On acquisition of subsidiaries	2,605	—
Adjustments in respect of prior year acquisitions	(122)	(266)
On inter-group transfer of subsidiaries	(3,265)	—
At end of the period	20,466	21,248

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

11. Investments (continued)

On 26 June 2002, the Group acquired Oakman Limited, trading under an agency agreement as Aran plc and has adopted the principles of acquisition accounting. The following adjustments have been made to the acquired assets and liabilities to arrive at provisional fair values. These represent the Directors' assessment of the fair value of tangible fixed assets, the elimination of goodwill and valuations to realisable value of debtors and creditors.

	Net assets at acquisition £'000s	Accounting policy alignment £'000s	Fair value adjustments £'000s	Fair value at acquisition £'000s
Tangible fixed assets	257	—	(231)	26
Goodwill	1,018	(672)	(346)	—
Debtors	1,149	—	(189)	960
Cash	(47)	—	—	(47)
Creditors	(732)	—	(201)	(933)
Corporation tax	(7)	—	—	(7)
Deferred income	(1,538)	—	—	(1,538)
Provisions	—	—	(150)	(150)
Deferred tax asset	90	—	—	90
Net assets/(liabilities)	190	(672)	(1,117)	(1,599)
Goodwill				4,226
Total acquisition cost, including expenses				2,627

The total consideration, including acquisition expenses, for the acquisition was and will be satisfied by:

	£'000s
Cash consideration	2,605
Cash to be paid	22
Total consideration	2,627

Oakman Limited had turnover of £5,615,000 for the year ended 31 May 2002, made an operating profit of £315,000 and a profit before taxation of £275,000 for the same period. Profit after taxation was £210,000. The result for the period from 1 June 2002 until 26 June 2002 is not considered material. This business was immediately integrated into the Group at the date of acquisition. Accordingly it is not possible to separately analyse the cashflows relating to this acquisition.

On 29 November 2002 the Group acquired the net assets and business of Informed Systems Limited. Acquired net liabilities amounted to £448,000. Total fair value adjustments were £60,000 giving rise to fair value of net liabilities at acquisition of £508,000. The total acquisition cost, including expenses amounted to £68,000 which gave rise to goodwill of £576,000. The Directors do not consider this to be a material acquisition.

On 28 February 2003, the Company disposed of 80.1 per cent. of its equity interest in XKO Consulting Limited for a total consideration of £1.

Subsequent events

On 4 April 2003, the Company signed a term loan facility of up to £3.4 million which enabled it to fund the acquisition of The Control Group Limited which it acquired on the same date for a cash consideration of £1.2 million.

12. Stock

	Group	
	2003 £'000s	2002 £'000s
Raw materials and consumables	711	931

13. Debtors

	Group		Company	
	2003 £'000s	2002 £'000s	2003 £'000s	2002 £'000s
Trade debtors	5,533	5,233	—	—
Prepayments and accrued income	583	651	—	—
Amounts owed by Group undertakings	—	—	17,590	11,436
Deferred taxation asset (see note 17)	631	579	(4)	(4)
	6,747	6,463	17,586	11,432

The movement in the Group deferred taxation asset in the year to 31 March 2003 is due to a £90,000 asset in respect of trade losses acquired with Aran and £38,000 charged to the Group profit and loss account.

14. Creditors: amounts falling due within one year

	Group		Company	
	2003 £'000s	2002 £'000s	2003 £'000s	2002 £'000s
Bank loans and overdrafts (see note 16)	1,000	1,214	6,483	5,136
Trade creditors	3,380	3,191	27	141
Amounts owed to Group undertakings	—	—	4,745	3,192
Other taxes and social security	1,204	819	(24)	(34)
Accruals and other creditors	3,004	2,102	500	277
Deferred consideration	660	213	660	213
Corporation tax	593	503	106	106
Dividends	138	135	138	135
	9,979	8,177	12,635	9,166

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

	Group		Company	
	2003 £'000s	2002 £'000s	2003 £'000s	2002 £'000s
Bank loans (see note 16)	1,000	—	1,000	—
Deferred consideration	—	637	—	637
Corporation tax	159	118	—	—
	1,159	755	1,000	637

16. Borrowings

	Group		Company	
	2003 £'000s	2002 £'000s	2003 £'000s	2002 £'000s
Bank loans and overdrafts	2,000	1,214	2,000	5,136
Due within one year	1,000	1,214	1,000	5,136
Due after more than one year	1,000	—	1,000	—
	2,000	1,214	2,000	5,136
Analysis of loan repayments:				
Bank loans and overdrafts				
Within one year	1,000	1,214	1,000	5,136
Between one and two years	1,000	—	1,000	—
	2,000	1,214	2,000	5,136

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

	Restructuring provisions £'000s
At 1 April 2002	—
Arising on acquisition of subsidiary	(150)
Charged to profit and loss account	(483)
At 31 March 2003	(633)

Restructuring provisions consist of provisions for disposal of surplus leasehold interests and rent payable on surplus properties. The expected payment dates for property restructuring costs remain uncertain, but it is expected that most expenditure will take place between 2003 and 2008.

Deferred tax asset (see note 13)

Deferred tax is provided as follows:

	Provided		Unprovided	
	2003 £'000s	2002 £'000s	2003 £'000s	2002 £'000s
Group				
Difference between accumulated depreciation and amortisation and capital allowances	224	277	68	—
Other timing differences	39	15	38	—
Tax losses	368	287	432	393
	631	579	538	393
Company				
Other timing differences	(4)	(4)	—	393
Tax losses	—	—	304	—
	(4)	(4)	304	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 charges carried forward in the holding company. To the extent that these losses are utilised in the future, the tax charge will be proportionately reduced.

A deferred tax asset has not been provided elsewhere in the Group in respect of depreciation in excess of capital allowances, short term timing differences and trading losses, as there is no certainty that these will be utilised in the next accounting period. To the extent that these assets reverse in the future, the tax charge will be proportionately reduced.

18. Accruals and deferred income

	2003 £'000s	2002 £'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)	5,857	4,224

19. Called up share capital

Issued share capital

	Number of Ordinary shares of 25p each	Nominal value of Ordinary shares of 25p each £	Nominal value of Preference shares of £1 £
As at 1 April 2002	26,954,999	6,738,750	300,000
August 2002 - acquisition related	679,815	169,953	—
November 2002 - LTIP issuance	13,500	3,375	—
As at 31 March 2003	27,648,314	6,912,078	300,000

Authorised share capital

	Ordinary shares of 25p each £'000s	Preference shares of £1 £'000s
As at 1 April 2002 and 31 March 2003	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 25p ordinary shares at a conversion rate of £1.50 per ordinary share.

Shares to be issued

Shares to be issued relates solely to the potential issuance of 915,000 LTIP shares under terms detailed in the Report of the Board on Remuneration.

20. Reconciliation of movement in shareholders' funds

	Group		Company	
	2003 £'000s	2002 £'000s	2003 £'000s	2002 £'000s
Opening shareholders' (deficit)/funds	(3,998)	11,502	22,877	14,706
(Loss)/profit for the financial year	(792)	(15,165)	1,767	8,506
Dividends payable	(193)	(135)	(193)	(135)
Movement as to shares to be issued	(311)	(200)	(311)	(200)
New share capital subscribed	277	—	277	—
Closing shareholders' (deficit)/funds	(5,017)	(3,998)	24,417	22,877

21. Reserves

	Share Premium £'000s	Profit and Loss Account £'000s	Total £'000s
Group			
As at 1 April 2002	9,507	(21,094)	(11,587)
Retained profit for the year	—	(985)	(985)
Premium on issue of shares	104	—	104
At 31 March 2003	9,611	(22,079)	(12,468)
Company			
As at 1 April 2002	9,507	5,781	15,288
Retained profit for the year	—	1,574	1,574
Premium on issue of shares	104	—	104
At 31 March 2003	9,611	7,355	16,966

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 £1,767,000 (2002: £8,506,000).

22. Notes to cashflow statement

Reconciliation of operating loss to net cash inflow from operating activities

	2003 £'000s	2002 £'000s
Operating loss	(374)	(14,708)
Depreciation and amortisation	1,786	16,786
Profit on sale of fixed assets	(26)	(36)
Decrease in stocks	220	13
Increase/(decrease) in creditors	541	(1,602)
Decrease in debtors	781	1,458
Net cash inflow from operating activities	2,928	1,911

23. Analysis of net debt

	At 31 March 2002 £'000s	Cash Flow £'000s	At 31 March 2003 £'000s
Cash in hand and at bank	922	403	1,325
Overdrafts	—	—	—
	922	403	1,325
Debt due within 1 year	(1,214)	214	(1,000)
Debt due after 1 year	—	(1,000)	(1,000)
Total debt	(292)	(383)	(675)

24. Reconciliation of net cashflow to movement in net debt

	2003 £'000s	2003 £'000s	2002 £'000s	2002 £'000s
Increase in cash in the period	403		93	
Cashflow from (increase)/decrease in debt and lease financing	(786)		1,177	
Change in net debt resulting from cashflows		(383)		1,270
Movement in net debt in the period		(383)		1,270
Net debt at start of year		(292)		(1,562)
Net debt at end of year		(675)		(292)

25. Contingent liabilities and capital commitments

At 31 March 2003 the Group had no contingent liabilities (31 March 2002: £Nil), and had authorised but not yet contracted for capital expenditure of £Nil (31 March 2002: £Nil). Authorised and contracted for capital expenditure amounted to £Nil (31 March 2002: £Nil).

26. Commitments under operating leases

At 31 March 2003 there were the following annual commitments under non-cancellable operating leases:

	2003		2002	
	Land and Buildings £'000s	Other £'000s	Land and Buildings £'000s	Other £'000s
Operating leases which expire:				
Within one year	89	40	—	—
Within one to five years	86	81	79	—
After five years	618	—	595	—
	793	121	674	—

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, 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

£1,325,000 (2002:£922,000) of cash at bank and in hand is held in the Group, denominated in sterling. These assets are at a floating rate at a margin to LIBOR.

Financial liabilities

All financial liabilities as at 31 March 2003 were denominated in sterling. Total financial liabilities in the Group were £2,000,000 (2002:£1,214,000). 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 had committed term loan and overdraft facilities of £5,000,000 (2002:£4,714,000) of which £3,000,000 (2002:£3,500,000) were un-drawn at the period end. Overdraft facilities are normally reviewed once a year in the normal course of business and a renewal agreement was signed by the Company on 4 April 2003.

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 since they are held at floating rates which adjust in line with market movements.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of XKO Group plc will be held at the offices of Osborne Clarke, Hillgate House, 26 Old Bailey, London EC4M 7HW on 30 July 2003 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 2003.

2. To approve the Directors' remuneration report for the year ended 31 March 2003.

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

4. To re-elect R C Kimber as a Director.

5. To declare a final dividend of 0.5p per ordinary share.

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

7. 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 8 will be proposed as an ordinary resolution and numbers 9 and 10 as special resolutions.

Ordinary resolution

8. 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 £2,304,025, 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 2003;

   (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

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 25p 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 £691,207, representing approximately 10 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 2003;

   (b) the minimum price which may be paid for such Ordinary Shares is 25p 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 5 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 8 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 £345,603, representing approximately 5 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 2003;

(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

R C Kimber
Secretary

23 June 2003

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, Northern Registrars Limited, Northern House, Woodsome Park, Fenay Bridge, Huddersfield HD8 0JQ 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 28 July 2003 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 8 – Authority to allot shares

Resolution 8 grants the Directors authority to allot shares in the Company up to an aggregate nominal value of £2,304,025, 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 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 £691,207, representing approximately 10 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 25p per share and the maximum price is 5 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. As at 31 March 2003 there were outstanding warrants and options to subscribe for 1,977,250 Ordinary Shares in the Company and awards granted under the Company's Long Term Incentive Plan to subscribe for 915,000 Ordinary Shares (of which awards none had vested at the date of this notice), representing in aggregate 10.5 per cent. of the issued ordinary share capital of the Company at that date and representing in aggregate 11.6 per cent. of the issued ordinary share capital of the Company if the full authority to make market purchases of shares being sought is used.

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 of the Ordinary shareholders (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 rights issues and otherwise up to a maximum nominal value of £345,603, representing approximately 5 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.