

royalblue group plc is a software products and services company, supplying advanced enterprise software for front office applications such as financial trading systems, IT help desks, customer service systems and corporate call centres.

Contents

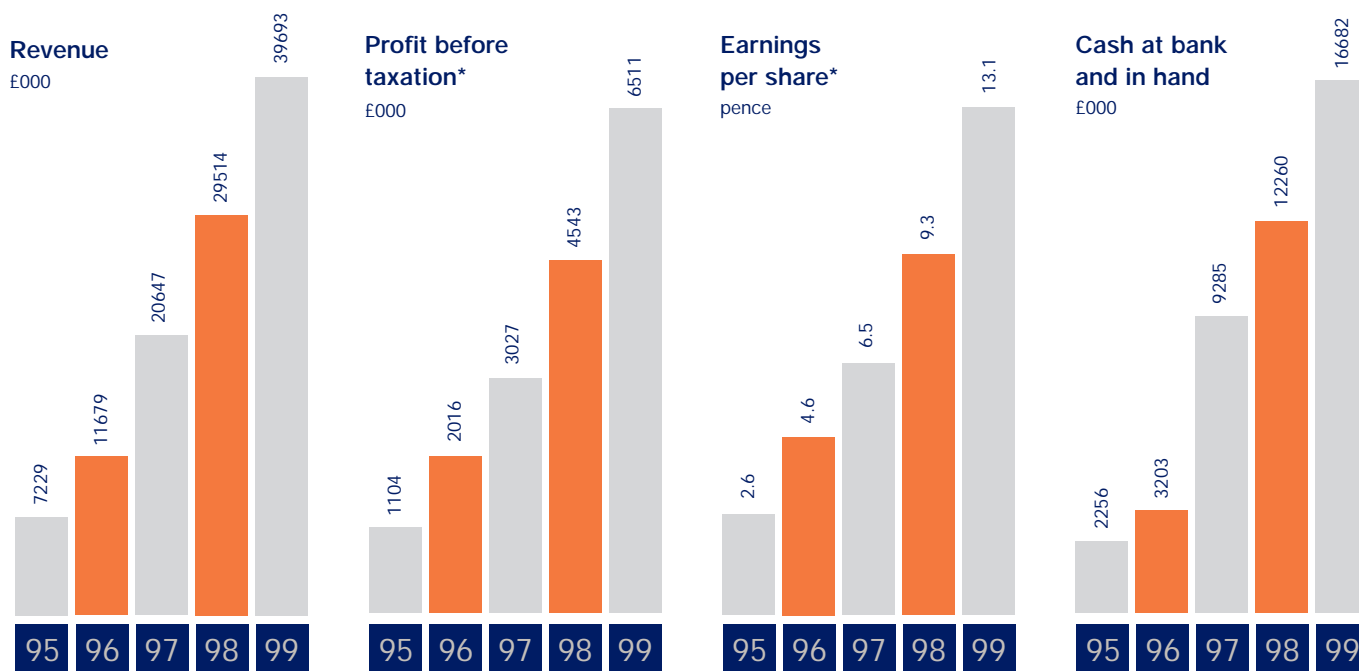
1	Results at a Glance
2	Overview
4	Operations Review
4-7	royalblue financial
8-11	royalblue technologies
12	Finance Review
14	Corporate Governance
16	Report of the Directors
21	Statement of Directors' Responsibilities
22	Report of the Auditors
23	Consolidated Profit and Loss Account
23	Consolidated Statement of Total Recognised Gains and Losses
24	Consolidated Balance Sheet
25	Company Balance Sheet
26	Consolidated Cash Flow Statement
27	Notes to the Financial Statements

Financial Calender

14 February 2000	1999 annual results announced
28 February 2000	Annual Report and Financial Statements circulated
30 March 2000	Annual General Meeting
10 April 2000	Final dividend paid
July 2000	Interim results announcement
October 2000	Interim dividend payment
February 2001	2000 annual results announcement

Results at a Glance

year to 31 December	1999	1998	change
	£m	£m	
Turnover	39.7	29.5	+35%
Operating profit	5.9	3.9	+51%
Pre-tax profit	6.5	4.5	+44%
Diluted earnings per share	13.1p	9.3p	+41%
Cash at bank	16.7	12.3	+36%
Dividend per share	4.4p	3.0p	+47%
Special dividend per share	10.0p	-	-



* excluding exceptional costs associated with the 1997 flotation.

Overview

We are pleased to announce another successful year for **royalblue**. 1999 has seen the customer base enlarged, further development of the Group's products and good financial growth.

Results

The revenues have increased by 35% to £39.7 million with 31% of the Group revenues now coming from overseas. The operating profit has increased by 51% to £5.9 million and the profit before taxation has increased by 44% to £6.5 million. The pre-tax margin improved to 16.4% from 15.4%, being ahead of our stated target of 15%. The diluted earnings per share rose by 41% to 13.1p from 9.3p. These results maintain the progress made in previous years and the compound annual growth rates from 1995 to 1999 are in excess of 50% for revenues, operating profit, profit before taxation and diluted earnings per share.

With £16.7 million of cash at the year end our balance sheet remains strong. The directors are recommending a final dividend of 3p per share so that the total dividend per share for 1999 amounts to 4.4p (3.0p). Subject to shareholder approval, the final dividend will be paid on 10 April 2000 to shareholders on the register on 10 March 2000. In addition, the Board has reviewed the Group's anticipated cash requirements and is recommending that a special dividend of 10.0p per share, subject to shareholder approval, is paid on the same day as the final dividend.

Trading

Both businesses within **royalblue** group plc experienced another year of growth in revenues and profits.

royalblue technologies continued its expansion overseas and the **FrontOffice** product set is now

being actively sold directly or through our partners in 18 countries worldwide.

royalblue financial has continued to build on **fidessa**'s strong position in the equities marketplace in Europe and the USA and since the year end has agreed its biggest ever contract with ABN AMRO for a global equities trading platform using **fidessa**. We have also begun expansion into Asia and Japan with offices established and contracts awarded in Hong Kong and Tokyo.

Most excitingly, we have taken initial steps towards creating what we believe should become an essential service for trading equities in the future as markets become more global. **fidessaNet** will be the world's first Electronic Transaction Network (ETN) for equities, combining business process automation – for example, internal order, trade and position management – with global execution facilities. We are uniquely positioned and equipped to provide this new service, and in the last three months we have signed customers in both the UK and the USA and have excellent prospects in the pipeline.

Employees

The Group is recognised for the high quality of its employees, and we continue to receive excellent feedback from customers regarding the exceptional level of skill, knowledge, integrity and commitment of our staff. Because the Group is focused around niche markets, employees develop both business process skills as well as technology skills, and this helps

Overview

ensure the successful implementation of our product solutions.

Staff numbers increased 27% to 424 at the end of December 1999 (335), with average staff numbers during the year rising to 369 (302). Staff related costs represent the Group's biggest single expenditure, comprising around 60% of the cost base. Base salary increases were 7% based on average staff numbers for the year and many staff have bonuses linked to project, sales or profit targets. The attrition rate in 1999 was higher than the previous year at 19% (13%). Including shares held by employees (9%), existing option schemes and the Employee Benefit Trust (16%), employee share ownership represents 25% of the fully diluted share capital, and 51% of employees own shares or have options over shares in the Group.

The Board is at the final stages of agreeing modifications to the existing option schemes to ensure that we can continue to attract and retain the highest calibre employees. We will include details of these in the AGM notice.

As ever, royalblue's progress is due to the excellent work of all of our employees. The level of share ownership amongst employees means that they too benefit from the company's success and this is well deserved and appropriate. The Board extends its thanks to all employees on behalf of all shareholders.

Outlook

Our business continues to benefit from the strength of our products and the quality of our delivery and implementation channels. Overall, we expect good revenue and profit growth in the core businesses in 2000 and believe that royalblue is now at an important stage in its development. We plan to invest £5-£6 million over the next 18-24 months in building **fidessaNet**, which is well within our existing cash resources. Although this investment will impact Group profits in 2000 we anticipate that during 2001 the service will turn cash and earnings positive with a growing and recurring revenue stream.

Colin Amies Chairman (non-executive)

John Hamer Group Chief Executive Officer

Revenues by market sector



- 55% royalblue financial
- 45% royalblue technologies

4

royalblue financial

royalblue financial develops and markets the **fidessa** suite of products, which automate the business process flows of firms trading equities worldwide.

Changes in the financial markets have continued throughout 1999 and show no sign of slowing. Across all the markets in which we operate we are seeing a strong trend towards globalisation of equity trading so that firms can offer their customers the ability to trade in a broader range of equities across the world's main markets.

In the UK our customers now regard the ability to trade any European equity as essential and more of our US customers are looking to handle

Trading support software for dealers in the world's financial markets

order flow in to and out of Europe. In Japan and Hong Kong we are seeing increasing demand for the ability to trade on any of the Asia/Pacific exchanges. The rapid growth in ECNs (Electronic Communications Networks) in the US has prompted a number of similar initiatives in Europe and Asia and any or all of these may become a key source of liquidity to which trading firms will need to connect.

In parallel we have seen very large increases in the volumes of trades handled by our customers whilst the revenue per trade has fallen sharply. The majority of our customers expect these trends to continue, particularly in Europe where the traditionally low level of investment in equities is changing due to factors such as the Euro, pension issues and Internet trading. The overall impact of these changes has continued to have a strongly beneficial effect on royalblue financial as globalisation, high volumes and reduced revenues per trade all drive trading firms towards the efficient automation of the trading business process.

The continued strength of the markets and positioning of **fidessa** has resulted in an increase in revenues from **fidessa** and related services of 41% to £22.1 million representing 55% of total group revenues. Solid revenue growth was experienced in the UK and the US, and we also established operations in Japan and Hong Kong and won our first orders in these centres. In another particularly exciting development we secured our first orders for our **fidessaNet** service in both the US and the UK (see below).

Europe. European revenues grew by 21% to £14.2m (£11.7m). Sales of our **fidessa** EMMA (European Multi Market Access) product were



strong, driven by the need for our customers to develop cross European exchange connectivity. This product has already been adopted by a number of the largest investment banks in London including Goldman Sachs, Morgan Stanley, Dresdner Kleinwort Benson and Bear Stearns. The product currently supports the major exchanges in Europe (London, Paris and Frankfurt) and many of our customers will be taking additional execution gateways over the next 18 months.

Sales of our **fidessa** CTAC (Client Trade Allocation and Confirmation) product were also strong, driven by the need to automate more of the post trade flow in order to reduce overall execution time and also control costs in the mid office. In addition to selling new components and consultancy to existing customers we have also seen new orders for the complete product set from Collins Stewart and GNI.

In the first weeks of this year we have also agreed our largest ever deal for **fidessa** with ABN AMRO for a global equities trading platform. Under the agreement ABN AMRO plan to take all of the main components of **fidessa** to support their trading operations in Europe, the US and Asia. The **fidessa** software is being packaged on a partnership license basis where the software is provided for an annual recurring fee and ABN AMRO gain access to future versions of the products. This innovative licensing arrangement is becoming more standard within our business and reflects the long-term relationships we have with our customers and the value they provide in helping to move the functional line of our products forward.

United States. Revenues in the US grew 61% to £6.4 million (£3.9 million). We have continued to enhance our product set for the US market, adding support for Nasdaq's OATS (Order Audit Tracking System) and support for a wide range of ECNs. Our reference systems installed in the US are now well proven, handling billions of

dollars of trades every day with transaction rates far in excess of those currently seen in Europe. Our local team, based in New York, has grown to 57 people and in April we moved into new offices at 17 State Street which provide an impressive demonstration facility for our product set.

The US team provides a strong local sales force and is also developing US specific market functionality as well as implementing and supporting US systems. As our presence becomes established we are being increasingly successful in hiring new sales staff and consultants with detailed knowledge of the US OTC market. We closed 1999 securing two orders for US **fidessaNet** (see below) which provides access to our US OTC offering on an ASP (Application Service Provisioning) basis. The order pipeline from the US is now at its strongest level since the operation opened in 1997.

Japan. In the Japanese market we started development of the JMIS (Japanese Markets Interface System) product and have extended our trade management, position management and trade confirmation modules to support Japanese market rules. An exchange gateway is currently live supporting the Tokyo Stock Exchange and this will be upgraded in 2000 to support the new TSE market interface. Interfaces are also under development to JASDAQ and Osaka and these gateways are expected to come online in Q4 2000.

In the last quarter of 1999 we established an office in Tokyo and this is now being used to demonstrate the Japanese product set to a number of potential customers. As well as continuing to work with our first Japanese customer on the next phase of connectivity to the Japanese exchanges, we have now secured a further order from another Japanese firm.

Asia. Following the pattern of the majority of our customers our Asian operations outside of

Globalisation, high volumes and reduced revenues per trade all drive trading firms towards the efficient automation of the trading business process. royalblue financial continues to feel the strongly beneficial effect of these changes

automation of firms' internal business flows – for example, internal order, trade and position management – with global execution facilities. This contrasts with an ECN or an electronic execution service offered by a stock exchange which provide the ability to execute order flow on one (or more) points of liquidity but do not provide the functionality required to automate a firm's internal business flow. This means that a trading firm still needs to buy or develop a sophisticated internal system to manage their own business flows and will either need a separate terminal for each ECN or execution system they want to use (manually re-entering executions back into their own system) or will have to develop and maintain an electronic link to each one. With **fidessaNet**, firms are able to use **fidessa** screens which provide all the functionality of a full trading platform (order management, position management, trade management and confirmation) on an application service provisioned (ASP) basis with connections to all the major points of liquidity (exchanges, ECNs etc.) already built in. Furthermore, royalblue will provide software to enable existing **fidessa** customers running their systems in-house to connect to **fidessaNet** so that they can take advantage of the connections to multiple points of liquidity and participate in the network. In addition to execution of order flow through exchanges and electronic networks, customers will be able to send orders to each other over **fidessaNet**. This means, for example, that a brokerage firm in London can have a relationship with a brokerage firm in the US and will be able to use **fidessaNet** to execute orders in US securities for its UK clients and visa versa. Because **fidessaNet** will not execute order flow itself it is exchange neutral and will not compete with exchanges or ECNs but instead will act as a source of order flow for them.

Initially royalblue is providing **fidessaNet** in Europe and North America making use of its existing product set and exchange gateways.

Within the next 18 months we intend to extend the service to Asia, taking advantage of the product development currently being carried out and thereby providing a truly global network.

Development and marketing of **fidessaNet** started at the end of 1999 and the service is scheduled to be live in both the US and Europe by the end of Q2 2000. Initial interest has been very strong with 5 UK firms and 3 US firms already contracted to take the service and a strong order pipeline already established. We plan to invest £5-£6 million in the development of **fidessaNet** over the next 18-24 months with the majority of this being spent on the development of data centres and communications infrastructure. The data centres will be located in Surrey in the UK and New Jersey in the US each with a shadow for disaster recovery. Based on the initial levels of interest in the service, we anticipate that **fidessaNet** should become cash and earnings positive during 2001, with a strong recurring revenue profile.

In summary, the financial markets we serve continue to change rapidly and we expect the volume of equity business across the world's markets to increase substantially over the next few years. Our positioning as the only supplier able to offer an integrated solution to the automation of business flow across all of the world's major markets leaves us in a unique position to benefit from this coming growth and to take a progressively larger role in the market as technology becomes increasingly important.



Chris Aspinwall Chief Executive Officer,
royalblue financial

fidessaNet
represents our
most exciting and
encouraging new
venture. This was
started in 1999
and is expected
to become a major
part of the business

royalblue technologies

royalblue technologies develops and markets the **FrontOffice** product suite which comprises: **HelpDesk** for IT and infrastructure help desk support; **SupportCenter** for customer support management; **ChangeManager** for problem and configuration management and change control; **InterChange** for intelligent data delivery across a range of platforms; and **rostrvm** for inbound and outbound CTI functionality.



royalblue technologies

Revenues from sales of **frontOffice** products and related services grew 34% to £14.8 million, representing 37% of total Group revenues in 1999 (37% in 1998). UK revenues grew 21% to £10.8 million and overseas revenues (USA, Continental Europe and Australia) grew by 90% to £4.0 million from £2.1 million in 1998. In total, overseas revenues accounted for 27% of **FrontOffice** revenues, compared with 19% in 1998. The average sales price was unchanged at £28,000 and several orders were received for values significantly in excess of this figure, including our largest order to date, worth £370,000. We held approximately 300 product seminars worldwide in 1999 which were attended by around 4,000 people (1998: c.2,000), and we gained over 360 new customers. As measured by customers with active maintenance contracts, we now have 1,400 customers worldwide. As in 1998, approximately 70% of sales were for IT help desks, with 30% of sales for use of our software in external customer service applications.

For the year, revenues from sales of **rostrvm** and related services were flat compared with 1998 at £2.8 million (8% of Group revenues), although the second half revenues were ahead of the first half at £1.7 million, compared with £1.1 million. Partner sales of **rostrvm** made their first significant contribution in 1999, with particular success from our relationships with Rockwell, Lucent and Siemens. In 1999, 15 of the 16 new customers gained were achieved through partner sales, taking our customer base from 17 to 33. Measured in end user terms, the value of **rostrvm** licences shipped in 1999 grew, as we only receive a percentage of the value sold by our partners.

Taking all products into account, new customer orders accounted for 62% of our worldwide order intake, and existing customers accounted for the remaining 38% of orders.

FrontOffice is now being sold in 18 countries through a combination of resellers, wholly owned subsidiaries or joint venture companies in the UK, USA, Australia, Bahrain, Belgium, Denmark, Germany, Netherlands, Norway, Ireland, Finland, France, Italy, South Africa, Spain, Sweden, Switzerland and New Zealand. The subsidiaries in the USA and Germany showed good growth in revenues in 1999 (144% to £2.6 million and 600% to £0.7 million respectively) and a major focus for 2000 and beyond is to help each of the overseas operations develop their markets and delivery capabilities.

We continued to build on **HelpDesk V5**'s market leading position and added further functionality to the Internet edition, which allows look and feel and business logic changes in the client/server version to be simultaneously reflected in the Internet version. Further product enhancements included providing drag and drop trees for easy management of users and inventory items, globalisation support for distributed implementations across multiple time-zones, fully integrated Intel LANDesk support, a digital dashboard of real time updated reports, and support for Sybase SQLAnywhere and Oracle 8 databases. Notable contracts won during the year included a 1,000 seat order from Kent County Council (IT support to council users across 70 towns throughout the county), Caterpillar Financial Information Services (USA), Invesco (USA), The Canadian Government, NAV Canada (IT support – aeronautics), W H Smith (supporting 500+ stores throughout the UK), Royal Bank of Scotland (supporting electronic banking), the Royal National Lifeboat Institution (RNLI) (supporting over 1,000 PCs in its headquarters, regional offices and 223 lifeboat stations throughout the UK) and Carnaud Metal Box (European help desk providing 24 hour support of IT infrastructure to 150 sites throughout Europe and Asia).

FrontOffice is now being sold in 18 countries through a combination of resellers, wholly owned subsidiaries or joint venture companies

royalblue technologies

1999 saw the convergence of Internet and traditional client server technologies in all of our product lines. This will continue through 2000, enabling us to offer freedom of deployment and access to all classes of product user

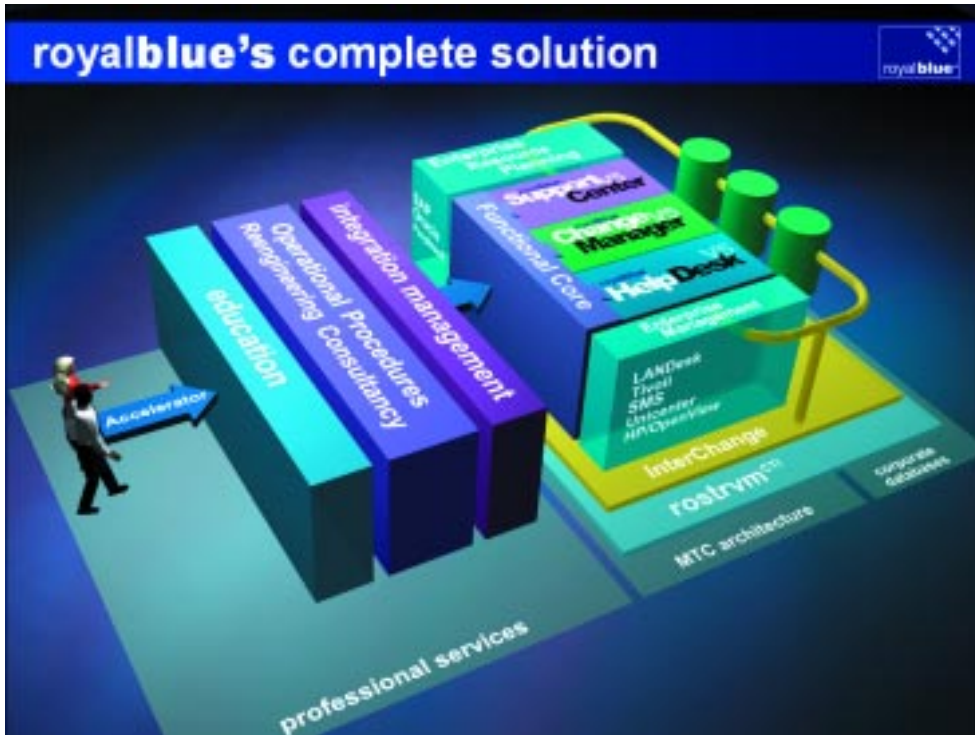
The web-enabled versions of both **HelpDesk** and **SupportCenter** have proved very successful. For example, in a contract worth £200,000, Sabre, the world's leading provider of information technology solutions for the travel industry, purchased **SupportCenter** to provide their Pan-European call centre operation with a complete web-enabled call management solution. The system deals quickly and efficiently with technical enquiries from its extensive client base. The Sabre Computer Reservations system sits at the heart of the global travel industry, electronically linking business and leisure travel agencies to travel suppliers worldwide. The solution is fully web-enabled, allowing queries to be logged 24 hours a day over the Internet. Another example is Tandberg Television ASA, headquartered in Oslo, who use **SupportCenter** to support customers of their digital broadcasting products across 15 different countries.

In its first year of full commercial availability, **ChangeManager** made a good start, winning nearly £1 million of orders from 14 customers. Our biggest order for the product, worth \$300,000, was received from a major financial organisation based in New York, who are using the product to coordinate and manage change in their IT infrastructure.

ChangeManager offers organisations complete control over change in their IT environment. With **ChangeManager**, IT professionals are able to plan, monitor, implement and most importantly control IT change according to their business rules. Historically, in managing technology change, IT managers have had to choose between two extremes; low-end solutions including electronic or even paper-based tracking; or large workflow engines that are expensive, both in terms of ongoing cost of ownership as well as length of implementation time. **ChangeManager** is designed to bridge that gap by providing customers with the power

of high-end workflow engines in a solution that is cost-effective, can be rapidly deployed and easily maintained. Beyond change tracking to full process management, change management can be seen as a series of inter-related processes and tasks that occur before, during and after change is implemented. In the case of information technology, this can be anything from swapping a hard drive to upgrading an entire organisation to a new operating system. **ChangeManager** is designed to manage the entire change lifecycle from planning and impact analysis to implementation through to completion. **ChangeManager** makes change predictable and repeatable, allowing customers to plan for and avoid change-related problems, rather than simply reacting to problems after the fact. It analyses problem trends, controls the complete lifecycle of a problem or change, and manages configuration items for businesses of any size. We therefore believe that **ChangeManager** is an important addition to our product set and will enhance sales of **HelpDesk** due to the complementary nature of the two products.

New customer wins for **rostrvm** included Spring Group where we are implementing an advanced call centre solution to support 110 inbound agents, and 30 predictive dialling agents. The call centre supports Spring.com's new web-based IT recruitment service. Our solution integrates a Lucent Definity ACD and Conversant IVR with an AS400 application and DB2 database providing an improved service to both the candidate and customer base. At Turkcell, the first mobile phone operator in Turkey (4 million subscribers), in conjunction with Rockwell and Ericsson, we have implemented an advanced call centre solution supporting 330 inbound agents, and 60 predictive dialling agents. The call centre supports Turkcell's Directory Enquiry service within Turkey. This solution integrates a Rockwell Spectrum with IBM's Directory



Our main objectives are to continue strengthening our product offerings and developing our sales and delivery channels worldwide

Assistance application. In the UK, Britannic Assurance have purchased a 250 seat licence for a new customer service call centre in Birmingham, and we have received two orders worth in total £400,000 for customer service centres, one at a high street bank, and the other at a water company.

1999 saw the convergence of Internet and traditional client server technologies in all of our product lines. This will continue through 2000, enabling us to offer freedom of deployment and access to all classes of product user. All of our products will be fully supported on the new Windows 2000 platforms, and will take advantage of some of the key features of this new environment. In particular, both **HelpDesk** and **ChangeManager** will take advantage of the management console snap-ins and the active directory services provided by Windows 2000.

Our outlook is positive – despite a small impact from Y2K-related slowdown around the turn of the year we still see good demand from the marketplace for our products. Our main objectives are to continue strengthening our product offerings and developing all of our sales and delivery channels worldwide. We feel we are well positioned for further growth in 2000 and beyond.

Alan Neilson

Chief Executive Officer, royalblue technologies

Finance review

Revenues

In the year to December 1999, revenues increased 35% to £39.7 million (1998: £29.5 million). Excluding maintenance revenues, which comprised 17% of turnover, revenues were divided broadly equally between software licences and services, reflecting royalblue's strategy of selling products and associated services. Repeat revenues (existing customers purchasing additional functionality, user licences and consultancy) have continued to strengthen and comprised over 35% of turnover. Within the two businesses of the Group, royalblue financial grew revenues by 41% to £22.1 million (£15.7 million) and royalblue technologies grew revenues by 28% to £17.6 million (£13.8 million).

UK revenues by source represented 75% of Group turnover, and grew by 26% to £29.8 million (£23.6 million), whilst by destination the UK revenues represented 69% of Group turnover, and grew by 16% to £27.2 million (£23.4 million). Revenues from overseas represented 31% of the total, growing by 106% in the year to £12.5 million (£6.1 million).

Overseas revenues have grown from 4% of Group turnover in 1996 to 31% in 1999 and we expect them to continue to grow, both in absolute terms, and as a proportion of Group turnover. The USA is our largest overseas market and revenues grew to £9.0 million, up 80% from £5.0 million in 1998. Revenues from Continental Europe continued to make good progress and grew to £1.5 million, up 67% from £0.9 million in 1998. Our first revenues from Asia arose in 1999, contributing 4% of Group turnover at £1.6 million.

Earnings

Operating profit increased 51% to £5.9 million (£3.9 million) and the pre-tax profit increased 44% to £6.5 million (£4.5 million). The lower growth rate on pre-tax profit was due to flat interest earnings from lower interest rates in the

year. The operating profit margin increased to 14.8% and the pre-tax profit margin increased to 16.4%, and was ahead of the Group's stated pre-tax margin target of 15%. Both businesses traded profitably and produced similar profit margins.

Product development expenditure amounted to £4.0 million (£3.7 million), or 10.1% of turnover, and was spread evenly between the businesses in proportion to turnover. The majority of the R&D expenditure in financial and call centres already had customer orders committing to purchase the software as the product development was undertaken. All product development expenditure is written off as it is incurred.

Taxation

The effective tax rate of 36.7% was higher than the UK headline rate of 30.25% due to the revenues generated overseas suffering higher rates of tax and the Group's prudent accounting policies, in particular the depreciation rates (2 years for IT equipment).

Earnings Per Share

Diluted earnings per share were up 41% to 13.1p (9.3p) and are calculated on a 1% increase in the average number of shares and a 72% increase in the average share price in the year.

Dividends

The directors are recommending a final dividend of 3p per share so that the total dividend per share for 1999 amounts to 4.4p (3.0p). Subject to shareholder approval, the final dividend will be paid on 10 April 2000 to shareholders on the register on 10 March 2000. In addition, the Board has reviewed the Group's anticipated cash requirements and is recommending that a special dividend of 10.0p per share, subject to shareholder approval, is paid on the same day as the final dividend.

Finance review

Goodwill

Any goodwill arising on consolidation in respect of acquisitions since January 1998 has been capitalised. The goodwill is amortised in equal amounts over its expected useful economic life. The Board has estimated the useful economic life of the goodwill arising from the Utopia Technology Partners acquisition to be 20 years. Any goodwill arising from variable payments for acquisitions is reviewed at each period end and the goodwill and amortisation adjusted as necessary. This review has been undertaken for the Utopia Technology Partners acquisition and the goodwill reduced by £0.2 million.

Debtors

Debtors of £11.7 million include trade receivables of £9.9 million. The increase in debtors in the year is at a lesser rate than the growth in turnover and reflects the continued focus on cash collection.

Deferred Income

The deferred income balance, net of any accrued income, has continued to increase and was £6.8 million at 31 December 1999 (£5.2 million). This represents amounts invoiced to customers for services, licences and maintenance not yet supplied.

Cash and Treasury Policy

Cash generation was good with cash balances rising £4.4 million to £16.7 million (£12.3 million) after spending £2.3 million (£2.0 million) on infrastructure (IT and buildings) and £2.4 million (£1.0 million) on corporation tax, a large portion of this being due to the acceleration of tax collection in the UK. The cash balance was predominantly in sterling with the only material foreign currency holding being £2.0 million in US dollars. It is the Group's policy to minimise its holdings of foreign currency and, wherever possible, to match cash inflows and outflows in a foreign currency. The Group does not enter into hedging contracts for either cash or net

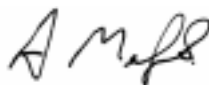
investment positions denominated in foreign currencies. At 31 December 1999 the net assets of the Group were £13.3 million of which £3.0 million, net of offsetting intercompany balances, related to the net assets of subsidiaries denominated in foreign currencies. The Group has no undrawn borrowing facilities.

The net interest received during the year was £0.6 million and principally represents the earnings from short term bank deposits. The Group's policy is that all deposits are placed with top-tier banks and on a short term basis to maintain liquidity.

The Group reviews its treasury and foreign currency policies regularly.

Year 2000

The Group did not experience any problems with its computer systems as a consequence of the date change on 1 January 2000 nor have any material problems emerged to date as a result. We are unaware of any issues that may have arisen as a result of date related computer problems at third parties or suppliers. The Group incurred no material costs in preparation for the year 2000.



Andy Malpass Group Finance Director

Corporate Governance

Compliance with the Combined Code

royalblue is committed to high standards of corporate governance. During the period under review the Board of directors has complied with the provisions set out in Section 1 of the Combined Code as annexed to the Listing Rules of the London Stock Exchange with the exception of the following items:

- The Audit Committee comprises two independent non-executive directors whilst the Combined Code requires there to be three. The directors believe that two are adequate at this stage of the company's development.
- The Combined Code requires there to be a senior non-executive director, other than the chairman, to whom the Board may express concerns. The Board considers this unnecessary at present because of its small size and that it would be divisive as the Chairman of the Board is non-executive.
- Notice of the Annual General Meeting (AGM) and related papers are required to be sent to shareholders at least 20 working days prior to the AGM. The Notice was sent to shareholders 18 working days prior to the 1999 AGM. It is expected that the Notice will be sent to shareholders at least 20 days prior to the 2000 AGM.
- The Group has adopted the transitional approach to the internal control element of the Combined Code as set out in the letter from the London Stock Exchange to listed companies in September 1999. Throughout the period the Group has operated within the spirit of the code for a group of its size. Some minor amendments were implemented after review of the *Internal Control: Guidance for Directors on the Combined Code*. The directors believe that the Group is now in compliance.

The Board

The company is controlled through the Board which comprises four executive and two independent non-executive directors. Their biographical details are set out on page 16.

The Board meets formally on a regular basis to review trading performance and forecasts, to review strategy and policy and report to shareholders. The Board is responsible for the Group's system of corporate governance. Operational control is delegated by the Board to the executive directors. A procedure exists to allow the directors to seek independent legal advice in respect of their duties at the company's expense where the circumstances are appropriate. All directors have access to the Company Secretary for his advice and services. Directors are required to seek election by shareholders at the first opportunity after their appointment and to seek re-election every third year thereafter. The following Committees deal with specific aspects of the Group's affairs:

Audit Committee

The Audit Committee, which is chaired by CM Amies, comprises the non-executive directors. It meets at least twice each year with the external auditors, Chief Executive and Finance Director invited to attend. The Committee reviews the Interim and Annual Report from the external auditors and reviews the programme and scope of internal auditing activity.

Remuneration Committee

The Remuneration Committee, which is chaired by LH Liebman, comprises the non-executive directors and meets at least once a year. It is responsible for determining the remuneration, other benefits and terms of employment, including performance related bonus schemes and share option schemes, for the executive directors. The Committee consults the Chief Executive about its proposals.

Nominations Committee

The Board considers that due to its small size the formation of a separate Committee for Board nominations is unnecessary. The appointment of all directors is a formal process involving all members of the Board.

Corporate Governance

Dialogue with Shareholders

The company holds briefing meetings with analysts and institutional shareholders, primarily following the announcement of interim and preliminary results but also at other times during the year as may be suitable. Communication with private investors is through the Annual Report, the Interim Report and the AGM. Financial and other information is made available on the company's web site, www.royalblue.com, which is regularly updated.

Going Concern

Having reviewed the future plans and projections for the business, the directors believe that the company and its subsidiary undertakings have 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.

Internal Control

The Board is ultimately responsible for the Group's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Combined Code introduced a requirement that directors review the effectiveness of the Group's system of internal controls. This extends the existing requirement in respect of internal financial controls to cover all controls including financial, operational, compliance and risk management.

The Board is of the view that there is an ongoing process for identifying, evaluating and managing the Group's significant risks and that this has been in place for the period under review and up to the date of approval of the Annual Report. Following publication in September 1999 of the guidance for directors *Internal Control: Guidance*

for Directors on the Combined Code (the Turnbull guidance) this process was reviewed and developed further. The Board's agenda now includes a regular item for consideration of risk and control, and any actions that may be considered necessary, and it receives reports thereon from the executive directors.

Management are responsible for the identification and evaluation of significant risks applicable to their areas of business together with the design and operation of suitable internal controls. These risks are assessed on a continual basis and may be associated with a variety of internal or external sources including competition, control breakdowns, disruption in information systems, natural catastrophe and regulatory requirements. A process of control assessment and reporting is established and defined in the Group's Quality Management System. This system is independently audited to ISO 9001 on a regular basis.

A comprehensive budgetary process is completed once a year and is reviewed and approved by the Board. Re-forecasts are prepared on a monthly basis throughout the year. The operating results are reported monthly to the Board and compared to the budget and re-forecasts as appropriate. The company reports to its shareholders twice a year.

An internal audit function was established in July 1999. The scope of work and authority of the internal audit function was approved by the Board. It provides further assurance on the operation and validity of the financial systems and controls.

Report of the Directors

The directors present their report and the audited financial statements for the year ended 31 December 1999.

1 Directors

The directors who served in the year were:

Colin M Amies (59), non-executive Chairman

Colin Amies joined the Group as a non-executive director in September 1995 and was appointed non-executive Chairman in May 1996. He has held various board appointments and is currently a non-executive director of DCS Group plc (a quoted software products and services company).

John R Hamer (40), Chief Executive

John Hamer joined the Group in January 1983 and has been involved in all aspects of developing the business: software; financial; sales and marketing; and management. He has a BSc. Hons in Computer Science from Leeds University.

Andy Malpass (38), Finance Director

Andy Malpass joined the Group in April 1995 as Finance Director and has over 15 years experience in the software industry. He has a BA Hons in Accounting and Finance from Lancaster University and is a Fellow of the Chartered Institute of Management Accountants.

Chris J F Aspinwall (36), Executive Director

Chris Aspinwall joined the Group in August 1986. He is the Chief Executive of royalblue financial. He has a BSc. Hons in Computer Science from York University. Chris Aspinwall retires by rotation at the forthcoming Annual General Meeting and offers himself for re-election.

Alan D Neilson (42), Executive Director

Alan Neilson joined the Group in January 1992. He is the Chief Executive of royalblue technologies worldwide and also a director of HD Tools AB and royalblue technologies Pty Limited. He has over 19 years of sales, marketing and general management experience in the software industry.

Leon H Liebman (59), non-executive Director

Leon Liebman was appointed to the Board in July 1992. He has founded and developed a number of businesses in the IT sector and holds a variety of other board appointments. Leon Liebman retires by rotation at the forthcoming Annual General Meeting and offers himself for re-election.

Remuneration policy

The remuneration of the executive directors is determined after a review of the individual's performance and after taking account of comparative market data from other companies in the IT sector. The Remuneration Committee believes that the executive directors should be rewarded fairly, competitively and at a similar level to directors in comparable companies and at a level that will attract, motivate and retain directors of an appropriate calibre. The package, which will be reviewed on a regular basis, presently comprises:

- A competitive base salary
- Performance related bonus payments
- Other benefits
- Share options

Basic salary

Each executive director's basic salary is reviewed annually in January based on performance, achievement of objectives and comparative salaries.

Bonus

The company operates a performance related bonus scheme for executive directors. Bonuses are at the discretion of the Remuneration Committee and are based on Group earnings per share, respective business profits before taxation and individual performance. The level of bonus is not subject to an upper limit.

Report of the Directors

Benefits

Benefits provided include the provision of a company car or a car allowance, medical insurance and other life assurances.

Pension

JR Hamer is entitled to a contribution of £19,500 p.a. to his personal pension scheme. AD Neilson is entitled to a contribution of £2,640 p.a. to his personal pension scheme.

Share options

Share options are issued to executive directors under schemes approved by shareholders and applicable to all staff. The schemes are used to provide long term incentives to the recipients to assist in creating and sustaining growth in share value. All share options are granted on the recommendation of the Remuneration Committee on a discretionary basis.

Service contracts

All contracts of service under which the directors are employed are terminable on six months notice by either party.

Non-executive fees

The fees for non-executive directors are determined by the Board. Non-executive directors are not involved in decisions about their own remuneration.

Directors remuneration

Details of the remuneration of the directors are set out below:

Year ended 31 December 1999	Fees & Salaries £'000	Benefits £'000	Bonus £'000	Sub-total £'000	Pension Contribution £'000	Total £'000
Executive						
JR Hamer	124	26	259	409	20	429
CJF Aspinwall	130	19	302	451	–	451
A Malpass	115	11	70	196	–	196
AD Neilson	128	33	236	397	3	400
Non-executive						
CM Amies	35	–	–	35	–	35
LH Liebman	16	–	–	16	–	16

Report of the Directors

Directors remuneration continued

Year ended 31 December 1998/ From appointment date	Fees & Salaries £'000	Benefits £'000	Bonus £'000	Sub-total £'000	Pension Contribution £'000	Total £'000
Executive						
JR Hamer	114	42	192	348	18	366
CJF Aspinwall	120	14	257	391	–	391
A Malpass	80	10	65	155	–	155
AD Neilson	19	6	43	68	1	69
Non-executive						
CM Amies	33	–	–	33	–	33
LH Liebman	14	–	–	14	–	14

All fees in respect of CM Amies were paid to Seima Consultants Limited. All fees in respect of LH Liebman were paid to Financial & Commodity Computer Services Limited.

Directors interests

The interests of the directors and their families in the ordinary shares of the company, all of which were beneficial, were as follows:

	31 December 1999 Number	31 December 1998 Number
JR Hamer	791,800	958,816
CJF Aspinwall	742,944	742,944
A Malpass	47,454	47,454
AD Neilson	133,529	433,569
CM Amies	187,520	237,520
LH Liebman	141,052	156,052

There were no changes in directors' share interests between the year end and the date of this report.

Share options

The company has share option schemes whereby directors are able to subscribe for ordinary shares in the company. The interests of the directors are as follows:

	Number at 1 January 1999	Exercised during year	Granted during year	Number at 31 December 1999	Option price	Date exercisable from
JR Hamer	79,440	79,440	–	–	£0.10	09.06.1998
	79,320	–	–	79,320	£0.10	09.06.1999
	79,320	–	–	79,320	£0.10	09.06.2000
	79,320	–	–	79,320	£0.10	09.06.2001
CJF Aspinwall	138,960	138,960	–	–	£0.10	09.06.1998
	138,960	–	–	138,960	£0.10	09.06.1999
	138,960	–	–	138,960	£0.10	09.06.2000
	138,960	–	–	138,960	£0.10	09.06.2001

Report of the Directors

Share options continued

	Number at 1 January 1999	Exercised during year	Granted during year	Number at 31 December 1999	Option price	Date exercisable from
A Malpass	2,440	2,440	–	–	£0.10	09.06.1997
	32,480	32,480	–	–	£0.10	09.06.1998
	32,480	–	–	32,480	£0.10	09.06.1999
	32,480	–	–	32,480	£0.10	09.06.2000
	32,480	–	–	32,480	£0.10	09.06.2001
AD Neilson	4,400	4,400	–	–	£0.10	09.06.1997
	144,520	144,520	–	–	£0.10	09.06.1998
	144,400	85,000	–	59,400	£0.10	09.06.1999
	144,400	–	–	144,400	£0.10	09.06.2000
	144,400	–	–	144,400	£0.10	09.06.2001

On 22 February 1999, when the market price of the shares was 500p, JR Hamer exercised 79,440 options, CJF Aspinwall exercised 138,960 options, A Malpass exercised 34,920 options and AD Neilson exercised 148,920 options. On 10 August 1999, when the market price of the shares was 495p, AD Neilson exercised 85,000 options.

All options expire on 20 February 2004. The market price of the shares at 31 December 1999 was 1047.5p (335p at 31 December 1998) and the range in the year was 332.5p to 1047.5p.

2 Review of business

The principal activity of the Group continues to be the development and marketing of computer software and provision of associated services. Further details of the Group's primary markets are stated in the Operations Review from pages 4 to 11.

3 Results and dividends

The financial results are shown in the consolidated profit and loss account on page 23. A fuller explanation of the results is provided in the Finance Review on pages 12 and 13. An interim dividend of 1.4p per ordinary share was paid on 4 October 1999. The directors propose a final dividend of 3.0p and a special dividend of 10.0p per ordinary share. The final and special dividends, if approved by shareholders, will be paid on 10 April 2000 to shareholders on the register at the close of business on 10 March 2000.

4 Principal shareholders

In addition to the directors' beneficial and non-beneficial interests shown above, the following have notified the company as being interested in 3% or more of the company's issued ordinary share capital as at 11 February 2000.

	Ordinary 10p shares	Percentage of issued share capital
3i Group Plc	2,028,000	6.9%
CJ Sharples	2,000,352	6.8%
DA Taylor	1,785,288	6.1%
Norwich Union Group	1,513,335	5.2%
royalblue Employee Benefit Trust	1,440,385	4.9%
Standard Life Investments	1,127,214	3.8%
The Equitable Life Assurance Society	935,000	3.2%
Lloyds TSB Group plc	880,000	3.0%

Report of the Directors

5 Employee Benefit Trust

The royalblue group plc Employee Benefit Trust 1997 is a discretionary trust established for the benefit of royalblue staff. It has an independent, professional trustee, Royal Bank of Canada (IOM) Limited, and is currently financed by advances from the Group and all rights to dividends have been waived. Costs of administering the Employee Benefit Trust are charged to the profit and loss account as incurred. The trust purchases the company's shares in the market for use in connection with the company's Performance Related Share Plan. The Remuneration Committee determines the grant of share options to employees.

6 Research and development

The Group has continued its commitment to research and development and places a high priority on maintaining and improving the quality and competitive position of its business software products. During the year royalblue invested £4,012,000 (1998 £3,692,000) in product development, this being the direct cost with no overheads allocated. All research and development costs are expensed in the Profit and Loss Account in the year incurred.

7 Employment policies

The Group's employment policies, including the commitment to equal opportunity, are designed to attract, retain and motivate the very best staff regardless of sex, race, religion or disability. Good and effective employee communications are important, and the Group promotes the understanding and involvement of all its employees in the Group's business aims and performance.

8 Charitable donations

The total amount of charitable donations made during 1999 was £8,000 (1998 £20,000). There were no political donations.

9 Payments to creditors

It is the company's and the Group's policy to agree terms and conditions for its business transactions with its suppliers. The Group seeks to abide by the payment terms agreed with suppliers whenever it is satisfied that the supplier has provided the goods and services in accordance with the agreed terms and conditions. As at 31 December 1999 the number of days of annual purchases represented by the year end creditors for the company amounted to 16 days and for the Group amounted to 40 days.

10 Auditors

A resolution to reappoint KPMG Audit Plc as auditors will be put to the members at the Annual General Meeting.

By order of the Board



A Malpass, Secretary

11 February 2000

Statement of Directors' Responsibilities

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Auditor's Report to the Members of

royal**blue** group plc

We have audited the financial statements on pages 23 to 39.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including as described on page 21 the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, and by our profession's ethical guidance.

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

We review whether the statement made on page 14 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

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

Basis of opinion

We conducted our audit in accordance with 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 Group's circumstances, 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 December 1999 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Crawley

11 February 2000

Consolidated Profit and Loss Account

for the year ended 31 December 1999

	Note	1999 £'000	1998 £'000
Turnover	1	39,693	29,514
Operating profit	2	5,873	3,911
Share of (loss) of associated undertaking		(17)	–
Profit on sale of investment		27	–
Profit on ordinary activities before interest		5,883	3,911
Net interest receivable	5	628	632
Profit on ordinary activities before taxation		6,511	4,543
Taxation on profit on ordinary activities	6	(2,387)	(1,647)
Profit for the financial year		4,124	2,896
Dividends paid and proposed	7	(4,017)	(795)
Retained profits for the period		107	2,101
Earnings per ordinary 10 pence share	8		
Basic		15.1p	11.0p
Diluted		13.1p	9.3p

Turnover and profit on ordinary activities before taxation for the year relate wholly to continuing activities.

Consolidated Statement of Total Recognised Gains and Losses for the year ended 31 December 1999

	1999 £'000	1998 £'000
Profit for the financial year	4,124	2,896
Differences on exchange on re-translation of net assets of overseas undertakings	18	3
Total recognised gains and losses	4,142	2,899

Consolidated Balance Sheet

at 31 December 1999

	Note	1999		1998	
		£'000	£'000	£'000	£'000
Fixed assets					
Intangible fixed assets	9	532		736	
Tangible fixed assets	10	3,570		2,895	
Investment	11	65		50	
Investment in own shares	11	2,584		2,379	
			6,751		6,060
Current assets					
Debtors	12	11,650		10,005	
Cash at bank and in hand		16,682		12,260	
		28,332		22,265	
Creditors: amounts falling due within one year	13	(21,674)		(15,246)	
Net current assets			6,658		7,019
Total assets less current liabilities			13,409		13,079
Creditors: amounts falling due after more than one year	14		(85)		(130)
Net assets			13,324		12,949
Capital and reserves					
Called up share capital	16		2,930		2,792
Share premium account	17		5,792		5,792
Other reserves	17		309		309
Profit and loss account	17		4,293		4,056
Total equity shareholders' funds	18		13,324		12,949

Approved by the Board of directors on 11 February 2000 and signed on its behalf by

JR Hamer

A Malpass

Company Balance Sheet

at 31 December 1999

	Note	1999		1998	
		£'000	£'000	£'000	£'000
Fixed assets					
Tangible fixed assets	10	81		–	
Investments in subsidiaries	11	1,065		56	
Investment in own shares	11	2,584		2,379	
			3,730		2,435
Current assets					
Debtors	12	8,715		1,868	
Cash at bank and in hand		8,240		5,299	
			16,955		7,167
Creditors: amounts falling due within one year	13	(6,010)		(814)	
Net current assets			10,945		6,353
Net assets			14,675		8,788
Capital and reserves					
Called up share capital	16		2,930		2,792
Share premium account	17		5,792		5,792
Profit and loss account	17		5,953		204
Total equity shareholders' funds			14,675		8,788

Approved by the Board of directors on 11 February 2000 and signed on its behalf by

JR Hamer

A Malpass

Consolidated Cash Flow Statement

for the year ended 31 December 1999

	Note	1999 £'000	1998 £'000
Net cash inflow from operating activities	20	9,725	6,599
Returns on investments and servicing of finance			
Interest received		640	658
Sale of fixed asset investment		28	–
Interest paid		(2)	
Interest element of finance lease rental payments		(10)	(26)
Net cash inflow from returns on investments and servicing of finance		656	632
Taxation			
United Kingdom tax paid		(2,331)	(917)
Overseas tax paid		(87)	(93)
Tax paid		(2,418)	(1,010)
Capital expenditure and financial investments			
Purchase of tangible fixed assets		(2,339)	(2,141)
Purchase of own shares by Employee Benefit Trust		(205)	(45)
Sale of tangible fixed assets		168	85
Net cash outflow for capital expenditure and financial investments		(2,376)	(2,101)
Acquisition of trade		(190)	(303)
Equity dividends paid		(925)	(659)
Net cash inflow before use of liquid resources and financing		4,472	3,158
Management of liquid resources			
Cash placed on deposit		(4,112)	(2,375)
Financing			
Share options exercised	16	138	26
Capital element of finance lease rental payments		(205)	(205)
Net cash (outflow) from financing		(67)	(179)
Increase in cash		293	604

Notes to the Financial Statements

The accounting policies which the Group has adopted to determine the amounts included in respect of material items shown in the financial statements are shown below. These policies have been applied consistently.

a Basis of preparation

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

b Basis of consolidation

The Group financial statements incorporate the financial statements of the parent company and its subsidiaries. The investment in ICIS Technology Limited is treated in the financial statements as a trade investment as the directors are of the opinion that they do not exert significant influence over the operations of the company.

Unless otherwise stated, the acquisition method of accounting has been adopted.

In the company's financial statements, investments in subsidiary and associated undertakings are stated at cost less amounts written off. In the case of royalblue technologies plc the investment is stated at the nominal value of the shares issued. Dividends received are credited to the company's profit and loss account to the extent that they represent a realised profit for the company.

In accordance with the exemptions allowed by Section 230 of the Companies Act 1985 the profit and loss account of the parent company has not been presented. The company's loss for the financial year was £439,000 (1998 loss £48,000).

c Turnover

Turnover represents the amount chargeable, excluding sales related taxes, for goods and services supplied.

Turnover from fixed price contracts is not recognised until, in the opinion of the directors, the outcome can be assessed with reasonable certainty. It is recognised in accordance with the percentage completed for each contract. Full allowance is made for all known or expected losses.

Turnover from installation, consultancy, support and training services chargeable on a time and materials basis is recognised when the work is performed. Turnover from maintenance services is recognised equally over the period that the service is to be provided.

Turnover from the sale of software licences is recognised upon shipment of the software for standard products or over the life of a project where the software requires material installation or development as part of the contract.

Any element of advanced services and maintenance turnover which relates to a subsequent accounting period is deferred. Deferred income represents amounts invoiced to customers for goods and services not yet supplied.

Notes to the Financial Statements

d Depreciation of tangible fixed assets

Depreciation is provided by the Group to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

- Equipment and furniture 3-5 years
- Computers 2 years
- Motor vehicles 4 years
- Buildings 25 years
- Leasehold improvements remainder of lease

e Goodwill

Goodwill arising on consolidation represents the excess of fair value of the consideration given over the fair value of the identifiable net assets acquired. Goodwill arising prior to 31 December 1997 has been written off to reserves. Goodwill arising since that date has been capitalised and is being written off over its expected useful economic life of 20 years.

f Investments

Investments are stated at the lower of cost and net realisable value.

g Leased assets

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

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

h Research and development

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

i Taxation

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

j Foreign currencies

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

Notes to the Financial Statements

1 Analysis of turnover

Turnover, all of which relates to the Group's principal activity of developing and selling computer software and providing associated services, is analysed by geographical destination as follows:

	1999 £'000	1998 £'000
United Kingdom	27,219	23,613
USA and Canada	9,013	5,028
Continental Europe	1,484	765
Rest of World	1,977	108
	39,693	29,514

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

2 Operating profit

	1999 £'000	1998 £'000
Consolidated turnover	39,693	29,514
Cost of sales	722	855
Staff costs – salaries	17,541	13,523
Staff costs – social security	1,920	1,247
Depreciation of owned assets	1,463	1,143
Depreciation of leased assets	59	122
Goodwill amortisation	24	16
Auditor's remuneration for the company	16	13
Auditor's remuneration for other companies in the Group	78	36
Fees paid to auditor for non-audit related work	50	39
Other operating leases	227	257
Loss/(profit) on sale of tangible fixed assets	(3)	6
Exchange losses/(gains)	21	(11)
Research and development	4,012	3,692
Share options granted at less than market price	112	103
Other operating expenses	7,578	4,562
Operating expenses	33,820	25,603
Operating profit	5,873	3,911

All operating expenses, other than cost of sales, are administrative expenses, the total of which was £33,098,000 (1998 £24,748,000).

Notes to the Financial Statements

3 Staff numbers

The average number of people employed by the Group, including executive directors, during the year was as follows:

	1999 Number	1998 Number
United Kingdom	295	256
USA	65	44
Germany	9	2
	369	302

4 Directors

Directors' emoluments and interests are included within the Report of the Directors on pages 16 to 20.

5 Net interest receivable

	1999 £'000	1998 £'000
Interest receivable	640	658
Interest payable on finance lease agreements	(12)	(26)
	628	632

6 Taxation

	1999 £'000	1998 £'000
UK corporation tax at the rate of 30.25% (1998 31.0%)	2,415	1,649
Overseas tax	25	6
Adjustments relating to prior years	(53)	(8)
	2,387	1,647

7 Dividends paid and proposed

	1999 £'000	1998 £'000
Increase in final dividend for 1998	11	–
Interim dividend of 1.4p (1998 1.0p)	384	265
Final dividend of 3.0p (1998 2.0p)	836	530
Special dividend of 10.0p (1998 nil)	2,786	–
	4,017	795

Notes to the Financial Statements

8 Earnings per share

The calculation of basic earnings per share is based on attributable profit of £4,124,000 (1998 £2,896,000) divided by 27,382,768 shares (1998 26,425,270 shares). The number of shares is based on the weighted average number of shares in issue during the year less the shares owned by the royalblue group plc Employee Benefit Trust. The number of shares in issue at 31 December 1999 was 29,299,680 (1998 27,919,260).

The diluted earnings per share is based on 31,539,046 (1998 31,157,069) ordinary shares. The diluted earnings per share have been calculated using an average share price of 543p (1998 315p) for the year.

9 Intangible fixed assets

Group	1999 £'000	1998 £'000
Goodwill		
Cost		
At 1 January 1999	752	–
Exchange adjustment	11	–
Acquisition consideration adjustment	(191)	–
Additions	–	752
At 31 December 1999	572	752
Amortisation		
At 1 January 1999	16	–
Charged in the year	24	16
At 31 December 1999	40	16
Net book value	532	736

The consideration payable for the acquisition of Utopia Technology Partners in 1998 has been adjusted to reflect the anticipated actual earn out. There are no intangible fixed assets in the company.

Notes to the Financial Statements

10 Tangible fixed assets

Group	Total £'000	Furniture & equipment £'000	Long leasehold buildings £'000	Computers £'000	Vehicles £'000
Cost					
At 1 January 1999	5,225	1,749	535	2,405	536
Exchange adjustment	25	19	13	(7)	–
Additions	2,339	1,309	–	734	296
Disposals	(291)	(14)	–	(1)	(276)
At 31 December 1999	7,298	3,063	548	3,131	556
Depreciation					
At 1 January 1999	2,330	642	7	1,486	195
Exchange adjustment	2	2	–	–	–
Charged in the year	1,522	585	18	785	134
Disposals	(126)	(6)	–	–	(120)
At 31 December 1999	3,728	1,223	25	2,271	209
Net book value					
At 31 December 1999	3,570	1,840	523	860	347
At 31 December 1998	2,895	1,107	528	919	341

Included in the analysis are fixed assets acquired under finance lease agreements with a net book value of £60,000 (1998 £259,000) after a depreciation charge for the year of £59,000 (1998 £122,000).

The fixed assets of royalblue group plc at a cost of £107,000 (1998 nil) and accumulated depreciation of £26,000 (1998 nil) are included in the above. During the year additions totalled £28,000 and transfers from other group companies were £106,000. The depreciation charge for the year was £14,000 and disposals had a net book value of £6,000. The assets primarily comprise vehicles.

Notes to the Financial Statements

11 Investments

Group	Own shares £'000	Other investments £'000	Total £'000
At 1 January 1999	2,379	50	2,429
Additional investments	205	33	238
Share of loss of associated undertaking	–	(17)	(17)
Divestment	–	(1)	(1)
At 31 December 1999	2,584	65	2,649

Other investments represents the investment in ICIS Technology Limited and HD Tools AB at cost. In the year 4% of the shareholding in ICIS Technology Limited was sold for £28,000. The investment in HD Tools AB represents 12% of the issued share capital.

Company	Own shares £'000	Other investments £'000	Total £'000
At 1 January 1999	2,379	56	2,435
Additional investments	205	1,026	1,231
Share of loss of associated undertaking	–	(17)	(17)
At 31 December 1999	2,584	1,065	3,649

Other investments represents 100% of the issued shares in royalblue software limited, royalblue investments limited and royalblue software corporation, and 12% of the issued share capital of HD Tools AB, all at cost. Of the additional investments in the year £33,000 relates to HD Tools acquisition at fair value with the remainder relating to group companies becoming direct subsidiaries of the company.

The Group accounts for its advance to the Employee Benefit Trust as a fixed asset investment. At 31 December 1999 the Employee Benefit Trust owned 1,440,385 (1998 1,395,011) shares representing 4.9% of the issued capital. Of this shareholding 679,200 are under option to employees. At 31 December 1999 the market value of the total shareholding was £15,088,000 (1998 £4,673,000).

The subsidiary and associate undertakings and other trade investments at 31 December 1999, all of which are engaged in developing and selling computer software and providing associated services, are in the table below. All principally operate in their country of incorporation.

Notes to the Financial Statements

11 Investments continued

	Country of incorporation	Proportion of ordinary share capital held
royalblue technologies plc	England and Wales	100%
royalblue financial plc	England and Wales (incorporated May 1999)	100%
royalblue software limited	England and Wales	100%
royalblue investments limited	England and Wales (incorporated May 1999)	100%
royalblue technologies corporation	USA	100%
royalblue financial corporation	USA (incorporated June 1999)	100%
royalblue software corporation	USA (incorporated June 1999)	100%
royalblue Deutschland GmbH	Germany	100%
ICIS Technology Limited	England and Wales	38%
HD Tools AB	Sweden	12%
royalblue technologies Pty Limited	Australia	1%
royalblue Ireland Limited	Ireland	1%

In addition to the above, royalblue holds 19,650 B preference shares of 100p and 29,710 C preference shares of 100p in ICIS Technology Limited. These preference shares are redeemable at dates to be determined by the ICIS board of directors.

12 Debtors

	group		company	
	1999 £'000	1998 £'000	1999 £'000	1998 £'000
Trade debtors	9,880	8,522	–	–
Amount due from subsidiaries	–	–	8,508	1,547
Amount due from related company	–	16	–	–
Other debtors	680	347	35	–
Corporation tax recoverable	139	47	–	–
Recoverable ACT (due within one year)	141	165	141	165
Recoverable ACT (due after more than one year)	–	133	–	132
Prepayments	579	452	31	24
Accrued income	231	323	–	–
	11,650	10,005	8,715	1,868

Notes to the
Financial Statements**13 Creditors – amounts falling due within one year**

	group		company	
	1999 £'000	1998 £'000	1999 £'000	1998 £'000
Trade creditors	1,588	1,286	21	19
Finance lease obligations falling due in less than one year	44	133	–	–
Amount due to subsidiaries	–	–	1,968	–
Accruals	5,824	3,960	399	51
Deferred income	7,076	5,510	–	–
UK corporation tax	1,847	1,739	–	15
Overseas corporation tax	–	6	–	–
Advance corporation tax	–	199	–	199
Other taxes and social security	1,595	1,464	–	–
Deferred consideration for acquisition	78	419	–	–
Dividend payable	3,622	530	3,622	530
	21,674	15,246	6,010	814

14 Creditors – amounts falling due after more than one year

	group		company	
	1999 £'000	1998 £'000	1999 £'000	1998 £'000
Deferred income	71	–	–	–
Finance lease obligations repayable between 2 and 5 years	14	130	–	–
	85	130	–	–

15 Deferred taxation

In accordance with the group's accounting policy no deferred tax has been provided at the balance sheet date. The potential, but unprovided, deferred tax asset in respect of timing differences amounts to £408,000 (1998 £223,000) in the group.

Notes to the Financial Statements

16 Share capital

	1999 £'000	1998 £'000
Authorised:		
43,600,000 ordinary shares of 10p each (1998 43,600,000 of 10p each)	4,360	4,360
Share capital allotted, called up and fully paid:		
29,299,680 ordinary shares of 10p each (1998 27,919,260 of 10p each)	2,930	2,792

During the year the company issued the following share capital:

	Number	£'000
Exercise of share options	1,380,420	138

Options subsisting under share option schemes at 31 December 1999 were:

Year options granted	Options at 1 January 1999	Exercised in year	Lapsed in year	New grants	Options at 31 December 1999	Exercise price	Period during which options become exercisable
1995-1997	4,640,615	1,380,420	34,880	–	3,225,315	10p	1997-2001
1997	856,800	–	51,200	–	805,600	249p	2000-2001
1998	10,000	–	10,000	–	–	288p	2001-2002
1999	–	–	–	15,000	15,000	439p	2002-2003
1999	–	–	10,050	525,000	514,950	535p	2002-2003

In addition to the above 200,000 options are subsisting in respect of the acquisition of Utopia Technology Partners in 1998. These options can be exercised for a period of three years after the acquisition at an exercise price of 353p.

17 Other reserves

Group	Share premium account £'000	Other reserves £'000	Profit and loss account £'000	Total £'000
Balance at 1 January 1999	5,792	309	4,056	10,157
Share options granted at less than market price	–	–	112	112
Retained profit for the year	–	–	107	107
Exchange adjustments	–	–	18	18
Balance at 31 December 1999	5,792	309	4,293	10,394

The item for share options granted at less than market value is in respect of a charge to the profit and loss account in accordance with the Urgent Issues Task Force of the Accounting Standards Board, Abstract 17.

Notes to the
Financial Statements**17 Other reserves** continued

Company	Share premium account £'000	Other reserves £'000	Profit and loss account £'000	Total £'000
Balance at 1 January 1999	5,792	–	204	5,996
Share options granted at less than market price	–	–	112	112
Retained loss for the year	–	–	5,637	5,637
Balance at 31 December 1999	5,792	–	5,953	11,745

18 Reconciliation of movements in shareholders' funds

	group		company	
	1999 £'000	1998 £'000	1999 £'000	1998 £'000
Profit/(loss) for the financial year	4,124	2,896	(439)	(48)
Dividends	(4,017)	(795)	6,076	(795)
Retained profit/(loss) for the period	107	2,101	5,637	(843)
Other recognised gains and losses relating to the year	18	3	–	–
Share capital on share options exercised	138	26	138	26
Charge for share options granted at less than market price	112	103	112	103
Net increase/(decrease) in shareholders' funds	375	2,233	5,887	(714)
Opening shareholders' funds	12,949	10,716	8,788	9,502
Closing shareholders' funds	13,324	12,949	14,675	8,788

19 Operating lease commitments

The commitments of the Group for the next year under operating leases as at 31 December 1999 are analysed according to the period in which each lease expires as follows:

£'000	1999 Total	1999 Land and buildings	1999 Other	1998 Total	1998 Land and Buildings	1998 Other
Leases ending within 1 year	299	204	95	36	–	36
Leases ending between 2 and 5 years	243	88	155	613	408	205
Leases ending after 5 years	1,424	1,424	–	254	254	–
Total commitments in 2000	1,966	1,716	250	903	662	241

Notes to the Financial Statements

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

	1999 £'000	1998 £'000
Operating profit before taxation and interest	5,873	3,911
Depreciation charges	1,522	1,265
Goodwill amortisation charge	24	16
Charge for share options granted at less than market price	112	103
Loss/(profit) on sale of tangible fixed assets	(3)	6
(Increase) in debtors	(1,710)	(2,150)
Increase in creditors	3,907	3,448
Net cash inflow from operating activities	9,725	6,599

21 Analysis of net funds

	Balance at 1 January 1999 £'000	Cash inflow/ (outflow) £'000	Exchange differences £'000	Balance at 31 December 1999 £'000
Net cash:				
Cash at bank and in hand	12,260	4,405	17	16,682
Less: deposits treated as liquid resources	(10,200)	(4,112)	–	(14,312)
	2,060	293	17	2,370
Liquid resources:				
Deposits included in cash	10,200	4,112	–	14,312
Debt:				
Debt falling due within one year	(133)	89	–	(44)
Debt falling due after one year	(130)	116	–	(14)
	(263)	205	–	(58)
Net funds	11,997	4,610	17	16,624

Notes to the
Financial Statements**22 Reconciliation of net cash flow to movement in net funds**

	1999 £'000	1998 £'000
Increase in cash in the period	293	604
Cash outflow from increase in liquid resources	4,112	2,375
Cash outflow from change in debt	205	59
Translation differences	17	(4)
Movement in net funds in year	4,627	3,034
Net funds at beginning of year	11,997	8,963
Net funds at end of year	16,624	11,997

40

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