

11th February 2002

royalblue group plc - final results

preliminary announcement for the year ended 31st December 2001

royalblue reports strong organic growth in continuing business with revenue up by 50% and operating profit up by 47%

Group Summary:	Year to 31 st December		
	2001	2000	change
Turnover *	£56.2m	£37.4m	+50%
Operating profit *	£8.1m	£5.5m	+47%
Diluted earnings per share *	17.4p	12.0p	+45%
Dividend per share	4.8p	4.6p	+4%
Cash balance	£11.7m	£10.3m	+14%

Highlights

- royalblue now purely focused on world-leading **fidessa** business for global equities trading
- \$25m Merrill Lynch order for global rollout of **fidessa** signed in May
- Good progress made in Continental Europe
- **fidessaNet** service rental revenues up 400% to £2m
- 8 **fidessaNet** orders signed in 2001
- Extension to product set with substantial ongoing investment in product development
- Interest and orders have recovered to pre-September 11th levels

Chief Executive, Chris Aspinwall, said:

“2001 can only be described as a very challenging year for everyone in our sector. Starting with the global economic slowdown this was quickly put into perspective by the tragic events of September 11th. The enormity of the disaster was beyond anything any of us could have imagined and our sympathies will always be with all those affected and especially our many staff, friends and customers who have suffered personal losses.

Despite these events, I am pleased to report that following July's divestment of royalblue technologies, the **HelpDesk** and **rostrvm** business, royalblue's continuing business achieved another year of strong progress with

* In order to bring clarity to the performance of the continuing business of the Group the table above excludes the results of royalblue technologies which was divested on 16th July 2001. The full Consolidated Profit & Loss Account can be found on page 10 of this announcement.

growth of 70% in orders, revenues up 50% and operating profits up 47%. In addition **fidessaNet**, our ASP offering, has started to develop well with service rentals up by 400%.

Looking forward we expect that some of the effects of the global economic slowdown will continue to be evident in the first half of 2002. However, our order levels, which dropped in the immediate aftermath of September 11th, have quickly recovered to previous levels. In addition, we expect that we will start to see a return on our investment in **fidessaNet** as this part of the business approaches a period of rapid growth. These factors give us confidence that good progress can continue during 2002 although we expect that the growth rate is unlikely to match the 50% revenue growth achieved in 2001.

Finally, I would like to extend our thanks to all of **royalblue's** employees for their outstanding efforts during 2001 and in achieving these results in extremely difficult circumstances".

review of 2001

Financial Summary

In July the Company's shareholders approved the divestment of the **royalblue** technologies business. This allows the Group to focus its resources entirely on our **fidessa** business which during the year to 31st December 2001 has grown revenues by 50% to £56.2 million (2000: £37.4 million). The revenue growth has come from all geographic regions. Overseas revenues now represent 47% of the total revenues compared to 44% in 2000. The quality of these revenues continues to strengthen with the recurring revenues from enterprise license rental, **fidessaNet** rentals and maintenance accounting for 26% of the total, up from 18% in 2000. As the new business model of license rentals gains momentum this is driving the proportion of recurring revenues higher and it is expected that the proportion will increase further in 2002.

Operating profit for the continuing business increased 47% to £8.1 million (2000: £5.5 million) with the margin stable at over 14%. The terrorist attacks of September 11th adversely impacted the USA revenues and operating profit for the year as £0.4 million of consultancy revenue was lost in the days immediately following the disaster.

The diluted earnings per share for the continuing business increased by 45% to 17.4p (2000: 12.0p). The growth in earnings per share was restrained by a halving of interest earnings, due to the materially higher cash balances during the first six months of 2000 and lower interest rates in 2001. The effective tax rate was 33.8% for the continuing business and 35.2% pre-exceptional costs, a reduction on the 36.1% incurred in 2000. This continues to be greater than the UK headline tax rate of 30% due to revenues generated overseas suffering higher rates of tax, expenditure disallowed for tax purposes and delayed capital allowances compared to our depreciation charge. The overall tax rate for the year was greater due to some of the losses and divestment costs of the discontinued operations being unavailable for tax purposes.

The discontinued operation, **royalblue** technologies, incurred an operating loss of £1.5 million in the period to 16th July when shareholders approved the divestment. In addition to the operating loss, the divestment resulted in a loss on disposal of £2.7 million being recognised. These losses caused the profit before tax to be materially lower at £4.2 million for the year (2000: £6.9 million).

We continue to put a high priority on the further development of the **fidessa** suite of software products. In pursuit of this 19% of our staff are dedicated to product development. In addition to the expenditure on product development, in the last two years we have invested £7.3m, including £2.7 million of capital expenditure, to establish the **fidessaNet** operations in the UK and USA.

The cash balance increased in the year to £11.7 million from £10.3 million, an increase of 14%. This improvement was achieved after spending £3.3 million (2000: £6.2 million) on capital expenditure, £1.3 million (2000: £4.1 million) on dividends, £2.0 million (2000: £2.0 million) on corporation tax and £3.8 million on the operations and divestment of the royalblue technologies business.

The directors are recommending a final dividend of 3.2p per share so that the total dividend per share for 2001 amounts to 4.8p (2000: 4.6p). Subject to shareholder approval, the final dividend will be paid on 20th May 2002 to shareholders on the register on 26th April 2002.

Operations

Overview of Continuing Business

Despite the challenging conditions experienced during 2001 all areas of the business performed well with revenues for every region substantially increased over last year. Total revenues for the year reached £56.2m, a 50% increase over last year. Operating profit increased to £8.1m, a 47% increase over the previous year. The investment made in the **fidessaNet** service is now starting to produce results with a 400% increase in service revenues recorded in 2001. Further strong progress within the **fidessaNet** business is anticipated during 2002 and this is expected to become one of the main growth drivers within the business over the next few years. As a result of **fidessaNet** and enterprise rental license sales, recurring revenues have continued to develop, increasing to more than double the figure last year and representing 26% of total revenues. Revenues overall remain well balanced across our customer base with the largest customer generating approximately 12% of total revenue.

Across the business the highlights for the year are:

- Largest ever single order signed with Merrill Lynch for a global trading platform worth \$25m over 4 years.
- 8 orders signed for **fidessaNet**.
- Largest ever European order for **fidessaNet** signed in December.
- Substantial orders signed for **fidessa** implementations in mainland Europe.
- Largest exchange gateway rollout since SETS (the LSE's electronic order book) was completed to support the Amsterdam move to Euronext.
- **fidessa** live on nearly 4,000 screens world-wide.
- Extensions made to product set to provide first levels of support for trading warrants, futures, options and convertible bonds.

As the pressure being faced by our customers in the equity market has been sustained throughout the second half, we have continued to focus our value proposition on helping our customers to remain competitive in difficult market conditions. This focus is being achieved across all of our main business areas. For enterprise systems the cost benefit of enterprise rental with user and transaction based pricing can provide substantial savings over expensive

one-off licences or internal developments. New license bundling has been introduced which allows customers to implement base configurations in a more cost-effective manner. Our **fidessaNet** connectivity service provides a more competitive means of accessing the large number of liquidity points required in today's market whilst the buy-side connections we now offer reduce the cost of handling order flow from large institutional customers. New **fidessaNet** configurations that utilise less expensive hardware to handle lower transaction volumes at reduced cost have provided a new opportunity for smaller customers to benefit from automating their business flow. Across the board we are working hard with our customers to help them manage risk through the provision of quality products and to optimise our professional services making it easier than ever to implement a **fidessa** solution.

Order levels, which were exceptionally strong in the first half of 2001, dropped in the immediate aftermath of September 11th but have quickly recovered to previous levels giving us confidence that growth can continue during 2002. Whilst we have continued to receive orders for extensions to existing systems we have also received orders for substantial and completely new **fidessaNet** and enterprise rental installations indicating that despite market conditions new customers are prepared to make investments in these critical systems.

Overall, we believe that our commitment to provide the most comprehensive range of business process applications available for equities trading, coupled with our customers' long term commitment to the equities market, is continuing to place **royalblue** in a strong position despite the downturn which has affected many firms in our sector.

Summary of Business Objectives

royalblue's strategy is to provide a range of compatible software products, developed on a common platform, which automate the business processes of sell-side firms trading equities world-wide. Our product suite marketed under the brand name of **fidessa** consists of over 40 products covering all areas of the business process from electronic and manual order entry, order routing, market connectivity and execution through to post trade confirmation processing. Encapsulated within the **fidessa** products are the market rules and regulations for trading each market making it possible for orders to be routed and executed cross border whilst observing local regulatory requirements.

Every **fidessa** product is developed based on the **fidessa** trading platform, a proprietary middleware product designed for the development of high performance real-time, transaction processing applications. This platform provides the core transaction integrity, resilience and performance on which each of the applications is built. Once the platform is in place at a customer site, additional **fidessa** products can be added to automate further parts of the business process, each product building on the overall value of the platform. Although the platform is not sold separately, its use enables **fidessa** applications to be much more tightly and seamlessly integrated than can be achieved by any standalone development. The platform also incorporates central business libraries, which are shared by all applications so that key standing data and trading functions can be set up once and used globally throughout the system. The use of the **fidessa** trading platform is core to our strategy, providing a major competitive advantage over single point solutions.

The **fidessa** product suite is marketed in two different ways:

Enterprise rental, which is aimed at large tier 1 firms where customers run the products themselves in their own data centres. These deliveries are intended to give the customer maximum flexibility. The customer is able to integrate their own applications with **fidessa** and tailor the product to their business. This provides a premium service for large firms.

fidessaNet is aimed at tier 2 and tier 3 firms where the software is run within **royalblue's** data centres and the customer is provided access via **royalblue's** network. These deliveries are intended to give the customer an easy route to implementing sophisticated business software without having to overcome the complexities of running large in house systems and managing connectivity to a large number of exchanges and data sources. In addition, we are

increasingly offering our tier 1 enterprise clients the option of connecting to **fidessaNet** in order to provide connectivity to exchanges as a packaged service. This uses the same data centres and hardware as are used to provide the standard **fidessaNet** service and enables an enterprise client to avoid the difficulties associated with managing multiple exchange lines and having to perform exchange conformance tests on each line.

Product Development Highlights

European Multi Market Access (EMMA). European exchange connectivity has been changing on a monthly basis and the pace of change on our EMMA product has been faster than ever. During this year new EMMA interfaces went into production to support a number of new markets: Euronext Paris, Euronext Brussels, Virt-X, Zurich and Helsinki. Other exchanges have been upgrading their systems to compete, requiring upgrades to existing EMMA interfaces. In October the Amsterdam market moved onto Euronext and 10 customers moved to EMMA's direct Euronext interface, for support of this market, over the go live weekend.

As EMMA evolves local European brokers are using it more widely, which is driving the requirement to provide all the features available on exchange terminals and localised connectivity products. As these features are added EMMA is able to replace local systems in Europe and is now live in Paris, Amsterdam, Brussels and Frankfurt.

Nasdaq Management System (NMS). Major developments have continued on NMS in a number of areas, including support for SuperSOES (allowing more automated executions of orders) and decimalization. These two enhancements pave the way for the introduction of the SuperMontage (Nasdaq's combined order and quotations system) which is scheduled to go live in the 3rd quarter of 2002. Major enhancements were also carried out to our Nasdaq ACT reporting interface that now operates via Nasdaq's CTCL system. Other enhancements include integrated support for ECNs to provide anonymity of order execution and more intelligent order routing to further the drive for best execution. We are also working closely with Nasdaq to provide improved access to their inter-broker order routing service, ACES, which will further help our customers provide more efficient and cost effective execution.

US Listed Markets. The NYSE which is the last major floor based equity market, is continuing to offer more electronic-based services in order to provide increased access to its markets. To ensure that we are at the forefront of these changes a range of enhancements have been implemented within **fidessa** throughout the year, including links to NYSE's BBSS (Broker Booth Support System), the NYFIX FloorReport floor systems and support for the new Direct+ automated execution service.

Japanese Market Interface System (JMIS). During 2001 our JMIS product went live with two further customers providing each with access to the major Japanese exchanges, Tokyo, Osaka and Jasdaq. However, an opportunity exists to achieve more direct connectivity to the exchanges which will provide both cost and performance benefits to our customers. A development team has been established in Tokyo that will work on these direct connections to all Japanese markets.

Asian Multi Market Access (AMMA). Our development team in Hong Kong is now well established and is progressing with local exchange interfaces and adapting **fidessa** to work in the local markets. Significant work has been required to adapt **fidessa** for the exchanges in Taiwan and Korea, where each order placed must have an associated exchange account for regulatory reasons. This work has been completed successfully and we now have major clients live on the Taiwan market.

Order Management and Routing (OMAR). Throughout the year we have been working with major clients to provide improved support for electronic order flow and specifying enhancements to the products to support global order flow and the relationship with buy-side firms at a global level. Decimalization in the US has increased the pressure for electronic order flow because the number of executions against orders increased rapidly imposing a major burden on

the sales trader. New OMAR releases provide a range of new features including significant performance improvements, better integration and major new support for electronic order flow.

The pressure to support global order flow is a manifestation of **fidessa's** success at a global level. Where a client has **fidessa** installed in a number of regions to support local business, **fidessa** provides a standard platform which can be leveraged to provide global order management. Support for global order flow means that it must be possible for an investment bank to manage their relationship with buy-side firms on a global basis. This requires facilities to enter orders in any region for execution in any market and as the orders are routed and worked updates to the order status must be visible in real-time globally.

Trade Management (TMAR) and Position Management (PMAC). A number of releases of the trade and position management products were made each targeted at improving specific functional areas driven by client requirements. These enhancements included a new profit and loss model, better ADR trading support, improved risk management and enhanced performance.

Middle Office (CTAC). A major release of our CTAC product (which targets the functionality required within the middle office) added support for fixed income instruments and the distribution of executions by lots across buy-side funds. This latter requirement is critical to further extending our business process support in the Japanese market.

fidessa Trading Platform. In order to ensure that **fidessa** remains at the forefront of technology we continue to develop the core infrastructure technology upon which our applications are based. Development work is taking place on a major new release of the **fidessa** infrastructure that will provide improvements in performance and scalability, offering a 64-bit memory based real-time database. This new infrastructure will be used in the next versions of the OMAR and TMAR products due for release in the 3rd quarter of 2002 and will provide significantly higher performance and scalability at the top end of the market as well as lighter weight applications which can be used within **fidessaNet**.

Summary by Region

Europe

In our European operation we have seen continued demand from our existing customer base for new products, extensions to existing products and additional user licences. We have secured and implemented a number of systems in Continental Europe and now have **fidessa** live with over 100 users spread between Paris, Frankfurt, Amsterdam and Brussels. **fidessa** was selected on the strength of its ability to support local market functionality for Euronext trading for Paris, Amsterdam and Brussels rather than simply being extensions for an existing customer in London and so prove that we now have competitive local functionality in these markets. There is also a move towards workflow automation in Continental Europe which often requires the consolidation of large levels of retail order flow for centralised execution and we believe this may become a significant driver for **fidessa** in this region.

As anticipated the battle between the major European exchanges to become the dominant liquidity provider in Europe has continued, and despite market conditions the exchanges have also been enjoying record trading volumes. The LSE reported that it had "a record trading year, with trading volumes 22% higher than in 2000". Fifty million trades were carried out on the exchange in 2001, with trades executed on SETS, accounting for £660bn (€1.1 trillion) worth of trading, up 24% from the previous year. The 15.9 million trades executed on SETS in 2001 compared to 8.6 million in 2000. These conditions resulted in strong demand for automation of the flows onto these markets and a substantial amount of implementation work related to our EMMA product with over fifty **fidessa** gateways being implemented or upgraded during 2001.

There is still no sign that this battle between the exchanges in Europe is coming to an end and we anticipate further developments over the next 12 months. The LSE has announced a major upgrade to its network replacing its

existing X.25 network with a new IP based Extranet service and the possible introduction of a new RSP (retail service provider) service. Further developments are scheduled at Euronext and Deutsche Börse. These changes will all require additional **fidessa** software or changes to existing **fidessa** software. We are also planning the introduction of support for a number of new markets in 2002 including Nasdaq Europe and Oslo.

US

Despite the challenging conditions, our US operation has continued to make solid progress. Revenues increased by approximately 40% over the previous year after taking into account the impact of September 11th. Although we have seen a slowdown in the US market in the last half of 2001, the pressure for changes to make the markets more efficient is continuing to provide a strong impetus for the automation of business flow. Implementations have continued and are continuing into 2002 for all our customers and whilst we have seen some customers reducing the scope of their plans in the short term, we have not seen any customers suspend their **fidessa** implementation activity completely. We believe this is further proof of the value that **fidessa** can add in helping firms to improve their efficiency in difficult markets. One example where **fidessa** has helped firms improve their business this year has been in support of the change to decimalization. This led to an unexpected requirement for "Mixed Capacity Trading" where market makers may be required to act as agent as well as principal. This occurred because decimalization caused spreads to narrow so that institutional business became uneconomic leading to a change in the relationship between the institution and the market maker. **royalblue's** customers were able to quickly capitalise on this change and gain an edge over their competitors by taking advantage of **fidessa's** inherent flexibility which enabled a basic solution to be put in place and implemented within a matter of days. A full solution is being developed for release early in 2002.

During 2001 we have also seen demand develop for connectivity to the Canadian markets and we are working with a number of existing and potential customers to further refine requirements in this area. We expect to implement connectivity to these markets and to provide support of the associated business flows during 2002.

Throughout our US operations we continue to focus on activities that provide our customers with a rapid return on investment and we are pleased to note that despite market conditions we are engaged in a number of new potential opportunities for both **fidessaNet** and enterprise rental implementations.

Asia

Trading within the Asian markets has been slow, as the markets themselves have remained subdued. Despite this slowdown our customers have continued to increase their use of **fidessa** as they seek to automate their flows onto more of the markets in the APR (Asia Pacific Region) in readiness for the market upturn. Throughout the APR, **fidessa** is now live on over 700 desks. We now have electronic connectivity live on 6 markets with OMAR supporting the business flows for the principal markets in Japan, Hong Kong, Korea, Taiwan, Singapore, Malaysia, Thailand, Indonesia and the Philippines. Our CTAC product, which has been developed to support some of the business process rules for Japan in the first half of 2001, has also been introduced in Hong Kong. The Asian exchanges continue to be competitive in attempting to draw liquidity and are looking at both business and technology based initiatives. In Hong Kong the exchange is considering the abolition of minimum client commissions, which if implemented along with longer trading hours, is likely to cause a wave of consolidations within the industry as smaller brokers are forced to join together to remain viable. In Japan the Tokyo Stock Exchange demutualised with effect from 1st November allowing it to become a more competitive commercial organisation which followed a similar move earlier in the year by Osaka Stock Exchange. The majority of the markets to which we connect in Asia are planning further technical upgrades to their systems over the next 12 months.

Due to our expansion in the Asian markets we have established new larger office facilities in both Japan and Hong Kong and now have specialist product development teams in both locations carrying out the local market

customisation for the Asian markets. These development teams ensure that we can focus on providing the best possible product for meeting our customers' local requirements in the Asian markets.

fidessaNet

fidessaNet has continued to grow strongly and world-wide there are now nearly 350 **fidessaNet** screens live which is double the number reported at the half year and represents almost 10% of our user base. These users are distributed across 13 different customers. In addition, there are 3 customers using **fidessaNet** as a connectivity service to provide access to one or more exchanges or liquidity providers. Orders for **fidessaNet** have remained strong with 8 orders signed including the largest order to date for **fidessaNet** in Europe, which was signed in December. Due to the levels of investment required to establish a competitive service, **fidessaNet** was not profitable during 2001 although we expect **fidessaNet** in the UK to become profitable during 2002 with **fidessaNet** in the US becoming profitable in the following year.

Building on the connectivity we have established for our enterprise clients, **fidessaNet** is now supporting live links to the LSE, Xetra (Frankfurt and Ireland), Euronext (Paris, Amsterdam) and Milan. Connectivity is currently being extended to provide further exchange links in 2002. We are also developing a FIX based connectivity service to manage the buy-side to sell-side flows which will support indications of interest, trade adverts and order flow. Interest has been growing strongly in all aspects of the **fidessaNet** service during 2001 and we expect to see further significant increases in the user base during the first half of 2002.

Largest Order to Date

As announced on 14th May and reported at the half year, **royalblue** entered into a global agreement with Merrill Lynch who will use **royalblue's fidessa** product suite for trading equities globally. The deal is worth \$25m (£17.5m).

Under the global agreement **royalblue** is supplying Merrill Lynch with **fidessa** software and consultancy services to support Merrill Lynch's global trading requirements in the European, Japanese, Asia Pacific and US markets. Initially the software will support order management, trade management and market execution across approximately 20 different markets covering the principal liquidity points across the world.

The project has progressed well in the second half of 2001 despite some delays being experienced in the US in the wake of September 11th and we still anticipate that the revenue from this project will be realised within the 4 year period to May 2005.

Merrill Lynch and **royalblue** also agreed to work closely to explore the possibility of using **royalblue's fidessa** product to provide software to support Merrill Lynch's US market making requirements. If developed with **royalblue**, this business would provide **royalblue** with a unique opportunity to deliver a US market making system to support the largest player in the US domestic market. In recognition of this opportunity, **royalblue** agreed to grant Merrill Lynch options exercisable for 1,500,000 ordinary shares in **royalblue** conditional upon a definitive agreement between the two parties pursuant to which **royalblue** would supply a US domestic system to Merrill Lynch. These options would become exercisable over a period of three years and have an exercise price of 905p. The options would expire five years after their vesting dates.

Board Update

The Board changes, announced at the time of the last interim results, are working well, with Chris Aspinwall as Chief Executive responsible for the operational development of the business world-wide and John Hamer as Chairman responsible for the strategic direction of **royalblue**, corporate development and investor relations. While this new structure allows John more time to develop his private interests, he remains very committed to **royalblue** and will devote such time and energy as is required to deliver both its strategic goals and successful development.

Outlook

Looking forward, although the financial markets are currently fragile, we have found that both interest and orders have recovered to similar levels to those prior to the events of September 11th. Progress with **fidessaNet** has been very encouraging during 2001 and the signing of the largest European order that we have received since the launch of the service provides valuable proof that customers see real benefits in the service when faced with difficult markets. This, combined with the significant level of new business we have secured since September 11th gives us confidence that good growth can continue into 2002 although we expect at a slower rate than the 50% revenue growth achieved in 2001. We feel that our continued commitment and focus in providing the best and most innovative trading automation products is the most effective way to help our customers in today's challenging markets. For this reason we have continued to increase our product development expenditure during 2001 whilst focusing on those products which can help our customers stay competitive. We believe that this strategy, combined with our customer's long term commitment to the financial markets and their customers will allow royal**blue** to continue to make good progress during 2002 and beyond.

enquiries:

John Hamer, Chairman

Chris Aspinwall, Chief Executive

Andy Malpass, Finance Director

www.royalblue.com

Tel: 01483 206300 Fax: 01483 206301

Edward Bridges, Financial Dynamics

Alastair Hetherington, Financial Dynamics

Tel: 0207 269 7145

Fax: 0207 831 6341

**Consolidated Profit and Loss Account
for the year ended 31st December 2001**

		2001	2000
	Note	£'000	£'000
Turnover	3		
Continuing operations		56,174	37,379
Discontinued operation		10,079	20,004
		-----	-----
		66,253	57,383
Operating profit/(loss)	4		
Continuing operations		8,096	5,465
Discontinued operation		(1,550)	861
		-----	-----
		6,546	6,326
Share of (loss) of associated undertaking		-	(16)
Exceptional item: loss on sale of discontinued operation	6	(2,658)	-
		-----	-----
Profit on ordinary activities before interest		3,888	6,310
Net interest receivable		309	608
		-----	-----
Profit on ordinary activities before taxation		4,197	6,918
Taxation on profit on ordinary activities		(2,280)	(2,499)
		-----	-----
Profit for the financial year		1,917	4,419
Dividends paid and proposed	7	(1,396)	(1,360)
		-----	-----
Retained profits for the period		521	3,059
		-----	-----
Earnings per ordinary 10 pence share	8		
Basic – continuing operations		19.3p	13.7p
Diluted – continuing operations		17.4p	12.0p
Basic – total operations		6.6p	15.6p
Diluted – total operations		6.0p	13.7p

**Consolidated Statement of Total Recognised Gains and Losses
for the year ended 31st December 2001**

		2001	2000
		£'000	£'000
Profit for the financial year		1,917	4,419
Differences on exchange on re-translation of net assets of overseas undertakings		44	(84)
		-----	-----
Total recognised gains and losses		1,961	4,335
		-----	-----

Consolidated Balance Sheet
at 31st December 2001

			2001	2000
	Note	£'000	£'000	£'000
Fixed assets				
Intangible fixed assets		-	546	
Tangible fixed assets		6,019	7,690	
Investment		49	49	
Investment in own shares		2,351	2,439	
			8,419	10,724
Current assets				
Debtors	9	15,563	18,850	
Cash at bank and in hand		11,674	10,282	
		-----	-----	
		27,237	29,132	
Creditors: amounts falling due within one year	10	(17,648)	(22,661)	
Net current assets			9,589	6,471
			-----	-----
Total assets less current liabilities			18,008	17,195
Creditors: amounts falling due after more than one year			(493)	(15)
Net assets			----- 17,515	----- 17,180
Capital and reserves				
Called up share capital			3,046	3,013
Share premium account			9,953	8,342
Other reserves			-	309
Profit and loss account			4,516	5,516
Total equity shareholders' funds			----- 17,515	----- 17,180

Consolidated Cash Flow Statement
for the year ended 31st December 2001

	Note	£'000	2001 £'000	2000 £'000
Net cash inflow from operating activities	11		9,721	4,627
>Returns on investments and servicing of finance				
Interest received		311		618
Interest paid		(2)		(10)
Net cash inflow from returns on investments and servicing of finance			309	608
Taxation				
United Kingdom tax paid		(876)		(2,023)
Overseas tax paid		(1,106)		(53)
Tax paid			(1,982)	(2,076)
Capital expenditure and financial investments				
Purchase of tangible fixed assets		(3,287)		(6,649)
Sale of tangible fixed assets		26		397
Sale of own shares held by Employee Benefit Trust		181		
Purchase of fixed asset investment		(142)		-
Purchase of loan notes		(898)		-
Net cash (outflow) for capital expenditure and financial investments			(4,120)	(6,252)
Acquisition and disposal				
Deferred consideration		-		(82)
Costs of disposal		(1,276)		-
Net cash (outflow) for acquisition and disposal			(1,276)	(82)
Equity dividends paid			(1,354)	(4,091)
Net cash inflow/(outflow) before use of liquid resources and financing			1,298	(7,266)
Management of liquid resources				
Cash taken off/(placed on) deposit			(1,000)	9,812
Financing				
Share options exercised		33		769
Capital element of finance lease rental payments		-		(58)
Net cash inflow from financing			33	711
Increase in cash			331	3,257

4 Operating profit

	2001 £'000	2001 £'000	2001 £'000	2000 £'000	2000 £'000	2000 £'000
	Continuing operations	Discontinued operation	Total operations	Continuing operations	Discontinued operation	Total operations
Consolidated turnover	56,174	10,079	66,253	37,379	20,004	57,383
Cost of sales	-	330	330	-	791	791
Staff costs – salaries	28,211	6,217	34,428	16,583	10,765	27,348
Staff costs – social security	2,734	723	3,457	1,708	987	2,695
Depreciation of owned assets	2,442	589	3,031	1,360	941	2,301
Depreciation of leased assets	-	-	-	6	14	20
Goodwill amortisation	-	17	17	-	30	30
Auditor's remuneration for the company	23	-	23	17	-	17
Auditor's remuneration for other companies in the group	82	-	82	68	35	103
Fees paid to auditor for non- audit related work	67	-	67	89	13	102
Other operating leases	31	173	204	43	289	332
(Profit)/loss on sale of tangible fixed assets	(4)	7	3	(3)	(40)	(43)
Exchange (gains)/losses	36	(163)	(127)	(43)	(165)	(208)
Share options granted at less than market price	46	-	46	112	-	112
Other operating expenses	14,784	3,736	18,520	12,338	5,483	17,821
Other income	(374)	-	(374)	(364)	-	(364)
Operating expenses	48,078	11,629	59,707	31,914	19,143	51,057
Operating profit/(loss)	8,096	(1,550)	6,546	5,465	861	6,326

5 Staff numbers

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

	2001 Number Continuing operations	2001 Total operations	2000 Number Continuing operations	2000 Number Total operations
United Kingdom	307	417	201	388
USA	131	148	71	99
Continental Europe	3	9	3	16
Rest of World	40	40	9	9
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	481	614	284	512
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The number of people employed by the group, including executive directors, at the end of the year was as follows:

	At 31 st December 2001 Number Continuing operations	At 31 st December 2000 Number Continuing operations
United Kingdom	337	228
USA	148	97
Continental Europe	4	1
Rest of World	46	23
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	535	349
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6. Exceptional items

On 16th July 2001 shareholder approval was obtained for the divestment of its royalblue technologies help desk and rostrvm business. Subsequent to the divestment royalblue technologies has changed its name to Touchpaper.

The sale was structured such that at completion royalblue subscribed for 17,000,000 Touchpaper preference shares, with an aggregate subscription price of £17,000,000, redeemable on or before 31st January 2006, and 142,000 Touchpaper ordinary shares, with an aggregate subscription price of £142,000, initially representing 19% of the issued ordinary share capital. As further consideration Touchpaper warrants were issued to royalblue which entitle the Group to subscribe for additional Touchpaper ordinary shares at nominal cost representing up to an additional 51% of Touchpaper's ordinary share capital upon a sale or listing. Of the subscription proceeds received from royalblue Touchpaper used £17,000,000 as consideration for the acquisition of royalblue technologies. The consideration for royalblue technologies involved no net cash being received by royalblue on completion.

In addition, at completion, Touchpaper issued to royalblue 'B' Loan Notes with a principal amount of £3,802,245 in order to re-finance inter-company facilities and 'A' Loan Notes with a principal amount of £897,755 to provide additional working capital, the aggregate of the Loan Notes being £4,700,000. The Loan Notes are repayable in tranches of £500,000 per annum commencing 31st July 2002 and carry a variable interest rate of 4% over UK base rate, payable quarterly. The 'B' Loan Notes are repayable first and the 'A' Loan Notes are secured by way of a fixed and floating charge over the assets of Touchpaper. Other than certain specific indemnities, the sale agreement contains no warranties relating to the royalblue technologies business and no general tax indemnity has been given.

The value of the shares, warrants and unsecured loan notes received from the divestment will not be recognised in the balance sheet until there is evidence that they will be redeemed or repaid within a reasonable period.

	£'000
Divestment of royalblue technologies	
Net proceeds	(142)
Book value of net assets sold:	
Intangible fixed assets	(548)
Tangible fixed assets	(2,018)
Debtors	(5,275)
Creditors	6,601

	(1,240)
Costs of divestment	(1,276)

Loss on divestment	(2,658)

During the period to disposal royalblue technologies had net operating cash outflows of £1,502,000, net cash outflow of £89,000 for returns on investments and servicing of finance, and utilised a net £161,000 for capital expenditure.

Included in the costs of divestments are fees of £392,000 paid to the auditor in respect of non-audit work.

A capital loss was made on the divestment of royalblue technologies, which will be carried forward against any future capital gains.

- 7 The total dividend of 4.8p per share (2000: 4.6p) comprises an interim dividend of 1.6p per share which was paid on 1st October 2001 and a final dividend of 3.2p per share which will be paid on 20th May 2002, when approved, to shareholders on the register on 26th April 2002.

8 Earnings per share

The calculation of basic earnings per share is based on attributable profit of £5,565,000 (2000: £3,869,000) for Continuing Business and £1,917,000 (2000: £4,419,000) for Total Business and divided by 28,851,677 shares (2000: 28,350,131 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 31st December 2001 was 30,455,240 (2000: 30,134,020).

The diluted earnings per share is based on 31,942,538 (2000: 32,214,607) ordinary shares. The diluted earnings per share have been calculated using an average share price of 839p (2000: 1505p) for the year.

The calculation of attributable profit of £5,565,000 (2000: £3,869,000) for Continuing Business is determined by the profit for the financial year of £1,917,000 (2000: £4,419,000), the loss on sale of discontinued operation of £2,658,000 added back, the operating loss of £1,550,000 (2000: operating profit of £861,000) added back, less the corporation tax offset of £560,000 (2000: corporation tax charge of £311,000). The directors believe that the continuing operations earnings per share calculation gives a more meaningful measurement of the performance of the underlying business.

9 Debtors

	2001	2000
	£'000	£'000
Trade debtors	11,803	15,892
Amount due from subsidiaries	-	-
Other debtors: amounts falling due within one year	1,007	820
Other debtors: amounts falling due after more than one year	898	-
Corporation tax recoverable	469	36
Prepayments	1,060	750
Accrued income	326	1,352
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	15,563	18,850
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10 Creditors – amounts falling due within one year

	2001	2000
	£'000	£'000
Trade creditors	1,229	2,913
Amount due to subsidiaries	-	-
Dividend payable	933	891
UK corporation tax	2,090	1,524
Overseas corporation tax	739	490
Other taxes and social security	1,808	1,787
Accruals and other creditors	6,525	7,197
Deferred income	4,324	7,859
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	17,648	22,661
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11 Reconciliation of operating profit to net cash inflow from operating activities

	2001 £'000	2001 £'000	2001 £'000	2000 £'000
	Continuing operations	Discontinued operation	Total operations	Total operations
Operating profit/(loss) before taxation and interest	8,096	(1,550)	6,546	6,310
Depreciation charges	2,442	589	3,031	2,321
Goodwill amortisation charge	-	17	17	30
Charge for share options granted at less than market price	46	-	46	112
Loss/(profit) on sale of tangible fixed assets	(4)	7	3	(43)
(Increase)/decrease in debtors	(1,881)	1,332	(549)	(7,216)
Increase/(decrease) in creditors	2,524	(1,897)	627	3,113
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Net cash inflow/(outflow) from operating activities	11,223	(1,502)	9,721	4,627
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