



royal**blue** group plc
Interim Statement 2004



Highlights for the six months ended 30th June 2004:

- Recurring revenue up 28% to £17.4 million
- Now represents 61% of total revenue, up from 49% last year
- Consultancy revenue down in first half and offsetting growth; stabilising in second half
- Hosted **Fidessa** deal expected to be worth £5 million over three years signed with Société Générale for global service
- Substantial investment programme continuing in new products and services
- Improving outlook underpins modest growth for the year
- Interim dividend of 2.7p, up 46% on 2003 reflecting re-basing at year-end 2003

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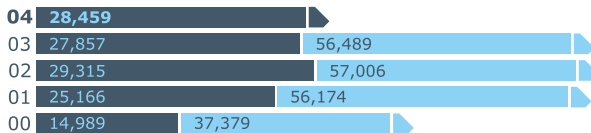
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Results at a Glance

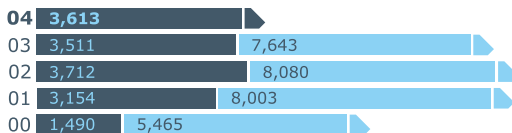
	2004	2003	change
Turnover	£28.5m	£27.9m	+2%
Operating profit	£3.6m	£3.5m	+3%
Interim dividend per share	2.7p	1.85p	+46%
Cash balance	£22.2m	£22.7m	-2%*

* after returning £8.0m of cash to shareholders through a special dividend

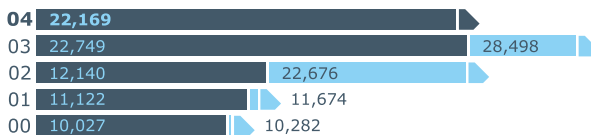
Turnover £'000*



Operating Profit £'000*



Cash £'000



* In order to bring clarity to the performance of the continuing business of the group the turnover and operating profit charts above exclude the results of royalblue technologies which was divested in July 2001.

Interim Statement

Overview

Market sentiment has been mixed in the first half of 2004 and this has been accompanied by some structural changes in the market. The overall trend is positive and we have continued to make good progress in growing the recurring revenue from our **Fidessa** products, which are up 28% and now represent 61% of the total revenue. The downturn in consultancy has continued for longer than expected and as a result, the strong growth in the recurring revenue has been largely offset by the fall in consultancy. Nevertheless the business has continued to be cash generative with cash balances standing at £22.2 million after returning £8.0 million of cash to shareholders through the special dividend declared in our preliminary results.

In the markets we expect that trading conditions will continue to be tough for the remainder of 2004. There are, however, strong signs that consultancy revenue has reached a turning point with a marked improvement in June and an expectation that consultancy revenue will stabilise in the second half. We believe that with the continuing growth in recurring revenue and the more positive position for consultancy, we should see modest growth overall in both revenue and profits for the full year.

Sales of our **Fidessa** products have continued and included the signing of a deal with Société Générale, expected to be worth £5 million over 3 years, to provide a global, hosted **Fidessa** system. In total we have signed a further eight customers for our hosted **Fidessa** offerings in Europe and the US. We have seen good demand for some of the new offerings we are providing through our **Fidessa connectivity network**, particularly with regard to DMA (Direct Market Access). On the back of our investment programme we have made good progress with the development of our **Fidessa workstation** business and have just launched our new buy-side execution workstation which will start deliveries during the second half. We have extended our market data coverage across 21 markets and this data is now available across all our services. We are launching new branding for the **Fidessa** product suite to coincide with the expansion of our workstation and connectivity products, which are applicable to a much wider market.

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Looking ahead we remain committed to our investment programme and developing our unique opportunity in trading, market data and global connectivity services. We have made good progress across the board with the development of these initiatives and believe that they will result in a significant expansion of our addressable market, forming a sound basis for long-term growth. However, the nature of revenue from these new initiatives, which are recurring monthly rental and only recognised after software has been implemented and is in operational use, means we would only expect to see a modest contribution to revenue from these streams during 2005.

Financial Summary

In the six months to 30th June 2004, revenue has increased by 2% to £28.5 million, from £27.9 million for the same period last year. This headline revenue performance masks the continued good progress made in growing the recurring revenue, up 28% and now representing 61% of the total revenue. In particular, growth in hosted **Fidessa** services was a strong 75%, now up to 21% of the total revenue. However, this growth was largely offset by the continued downturn in consultancy revenue, down 30% at £9.4 million, now representing 33% of the overall revenue. Consultancy revenue has now shown marked signs of improvement, with a significant decrease in the rate of decline during the first half and we expect this trend to continue into the second half as the market for consultancy stabilises. The UK and Asia have shown the strongest growth geographically with 8% and 26% respectively. Revenue in the US has grown by 6% in dollar terms but has been impacted by the weakening exchange rate.

Operating profit has improved by 3% to £3.6 million from £3.5 million in 2003, representing a slightly improved operating margin of 12.7% (2003: 12.6%). We continue to invest heavily in product development with 21% of employees dedicated to this activity. The interest earnings have benefited from higher cash balances and increasing interest rates and have contributed to the 5% increase in diluted adjusted earnings per share of 8.8p.

Interim Statement

We have maintained a strong balance sheet and the business has continued to be cash generative. Cash balances stand at £22.2 million after returning £8.0 million of cash to shareholders through the special dividend declared at the end of 2003. In line with the enhanced dividend policy announced in February 2004 an increased interim dividend of 2.7p per share (2003: 1.85p) will be paid on 20th September 2004 to shareholders on the register on 20th August 2004.

Operations

Introduction

Market sentiment has been mixed in the first half of 2004 and this has been accompanied by some structural changes in the market. These structural changes have been caused by firms re-appraising their business models following the difficulties of the last few years, the growth in hedge funds within the buy-side and proposed changes in market regulation, such as CP176, which would impact the practice of softed and bundled services. The result of these changes has been that our customers have become more focused on different segments with some customers questioning their long-term commitment to the business. As a result of this we have seen a patchy recovery, with some innovative firms expanding their operations, investing in new technology and pushing the envelope of our applications whilst others have held back on spending while considering their position. Where firms have expanded this has tended to be in the areas of program trading, analytical trading and Direct Market Access (DMA) as developing these areas enables our customers to provide a more competitive service to their buy-side customers.

Following the market sentiment, our strategic objective remains to develop our unique opportunity in trading, market data, global connectivity and to leverage these through our three delivery mechanisms of **Fidessa workstation**, hosted **Fidessa** and enterprise **Fidessa**. During the first half we have made good progress against our plans across the whole product range. Within trading we have continued to develop our core products and enhance them further and our program trading product is now live in Europe with major implementations scheduled to go live in the US and Asia later this year. We have extended our market data support with the launch of

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pan-European coverage at both Level 1 (best bid and offer prices) and Level II (details of all orders and quotes on the market for a particular stock). We have extended our global connectivity with over 100 active buy-side customers contributing order flow across the **Fidessa connectivity network**. In addition, we have signed a number of brokers who are acting as remote brokers within the **Fidessa connectivity network** allowing us to offer execution services to non-member firms. The **Fidessa workstation** has been enhanced with new data and functionality and we expect the number of positions in use to approach 1,000 by the end of the year. In addition, we have launched a new version of the workstation, which includes multi-broker order routing functionality and is aimed at the buy-side, hedge funds and small brokers, who all require direct trading access to a network of execution brokers. This product will commence roll out during the second half of the year. Hosted **Fidessa** sales in both the US and Europe have continued to develop with eight additional customers signing for the service in the first half. One of these, Société Générale, is also the first global deal we have seen for some time and reflects the growing improvement in market sentiment.

Europe

In Europe we have seen good continuity in the core business. We have made six additional sales of hosted **Fidessa**, two of these being large-scale implementations, which previously would have been handled with the enterprise model. We have also seen increasing interest in global trading with a number of hosted **Fidessa** systems also involving another implementation in the US as firms seek to provide a global service to their customers. We are now regularly passing substantial order flow through the **Fidessa connectivity network** and have established a remote broker network offering execution services across all the main European markets.

With continuing pressure across the markets to reduce execution costs a number of initiatives have been progressed to increase support for automated trading within **Fidessa**. A new autoquoting engine went live during the second quarter providing automated support for firms that are market-making or liquidity providers on the major European markets. **Fidessa's** new program trading software has also gone live in Europe with further implementations expected in the second half. To support a growing

Interim Statement

trend we have introduced pairs trading software (automatically trading a pair of stocks that have related characteristics) and expect the first implementations of this software to go live in the second half.

We have now completed our European exchange connectivity programme with the addition of an interface to the Madrid market. We have also added support for the London Stock Exchange's Dutch Trading Service and rolled this out across the client base. We have extended our market data services to provide coverage for 21 markets across Europe and North America with the majority of these at Level II. This market data is available to both **Fidessa workstation** customers and hosted **Fidessa** customers. As a result we now have comprehensive connectivity across the European markets with member and non-member market data available. When combined with our remote broker network this means we can now deliver a combined market data and execution service to both member and non-member firms. All firms are able to use **Fidessa** to see an integrated view of pan-European markets and on markets where a firm is a member they can execute from **Fidessa** directly onto the exchange. On markets where the firm is not a member they can execute through the membership of one of the remote brokers participating in the **Fidessa connectivity network**. From the trader's perspective the process appears identical whether the firm is a member or a non-member.

The **Fidessa workstation** has been rolled out across 29 clients and continues to generate interest as a delivery medium for many of our other services. Major new releases have supported the expanded international data set as well as the introduction of news coverage from Dow Jones in addition to AFX. As an extension to the **Fidessa workstation** we have launched our multi-broker order routing platform targeted at the buy-side and this is scheduled to commence roll out during the second half.

North America

Within the US markets the first half has been challenging as our customers continue under intense cost pressure. This has resulted in some firms delaying their plans for new systems whilst they wait to see what happens in the market. Towards the end of the first half there have been signs that this is easing but it is still too early to say whether this is a sustained trend.

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As our customers come under pressure they are increasingly looking to differentiate themselves and this has resulted in increasing interest in supporting global trading. We have seen this with new deals signed in the US for hosted **Fidessa** where these customers have also signed for the service in Europe and will pass orders between the two centres. This trend is one that we are ideally positioned to support being the only vendor with comprehensive global coverage. In addition, we continue to see strong demand for the **Fidessa connectivity network** in the US market, which reduces the cost of handling automated order flow. At present we are adding about 10 new buy-side to sell-side connections within the **Fidessa connectivity network** each month.

We have continued to increase our share of trading on the NASDAQ market as we implement more **Fidessa** systems and estimate that during the first half approximately 8% of NASDAQ volume was processed through **Fidessa** compared to 4% in the first half of last year.

In the US market we continue to see an evolution of the trading model. Firms have already adapted to SuperMontage which has resulted in there no longer being a best price available on a single exchange and new SEC (Securities Exchange Commission) regulations are under review that propose broad changes to the market structure for US equities trading at all market venues. These proposals are likely to result in changes to areas such as the trade-through rules, which will have a significant affect on the way orders can be handled across multiple markets. The drive to combine listed (NYSE) and OTC (NASDAQ) trading onto the same desk has continued, and to address this requirement we have extended our **Fidessa** montage product. This product, which allows traders to access a wide variety of liquidity pools whilst fully integrating with internal order management, now supports trading in listed securities as well as OTC.

We remain committed to making **Fidessa** the best trading solution for the US domestic market. During the year we are introducing a number of refinements of our model expanding our US development team and introducing some of the workstation technology into the hosted **Fidessa** environment making the complex process of upgrading a US domestic trading system a much simpler

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task. Our progress in making **Fidessa** the best trading solution was once again recognised when we were voted the best vendor in the sell-side Order Management System category in an independent survey carried out by Risk Waters magazine, a specialist publication focusing on the US securities industry.

As we continue to sign more customers for our hosted **Fidessa** service and expand our **Fidessa connectivity network** we have also confirmed our plans to implement a new data centre and this is expected to be available by the end of 2004.

Asia

Outside of Japan the recovery in Asia has continued to be slow with the majority of interest being focused on exchange connectivity to the smaller exchanges such as Thailand, Indonesia and Malaysia. The strongest markets have been in Australia and India and this has generated demand for connectivity from **Fidessa**. We expect to have a link to Australia's ASX, including Level II market data, live in the second half. Development work has commenced to implement an interface to the Mumbai Stock Exchange, Bombay Stock Exchange and the National Stock Exchange of India. It is expected that these will go live early next year.

The Japanese market has continued to improve in 2004 generating strong growth in trading volumes. This has created interest in re-evaluating the benefits of retiring domestic legacy systems, many of which are around five years old or more as these older systems have been struggling under the increased volumes. We have upgraded our **Fidessa** products in the Japanese market to use our V5 platform. This platform has been designed to cope with the high trading volumes experienced in the US market and has enabled **Fidessa** to support, with ease, the current trading volumes in the Japanese market.

Trading systems in Japan are typically used on exchanges for multiple asset classes including cash equity, equity derivatives and convertible instruments with equity underlying. We have continued to develop Japanese cash and derivative functionality, and now have support for Equities, Index Futures, Index Options, Convertible Bonds and Equity Bonds. Additional developments will further enhance these providing support for spread instruments and position offsetting.

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We have seen growing interest in FIX (the industry standard Financial Information eXchange protocol) connectivity to the buy-side. The Asian market is behind both the US and European markets in the adoption of FIX as a connectivity standard and we see this as a good opportunity to develop our global connectivity in the region and become a significant provider going forward. As part of this initiative we are in the process of extending the **Fidessa connectivity network** to include Asia and are planning to implement a data centre in Japan. Our **Fidessa workstation** product is also being implemented in Asia as a specific solution to allow small regional brokers to receive FIX based order flow. This enables a larger firm to send order flow to these smaller brokers and means the larger firm can trade cost effectively without requiring a membership or local presence. The initial markets that this will support are Thailand, Philippines, Indonesia and Malaysia.

Branding

We are launching new branding for the **Fidessa** product suite to coincide with the introduction of the workstation and connectivity products. This is to ensure that our advertising and marketing campaigns are focused around developing a single brand, which is far more important in the higher volume markets we are entering with the **Fidessa workstation** and **Fidessa connectivity network**. One impact of this change is that the name "royalblue" will no longer feature as prominently in our marketing literature although there is no plan to change the name of the company at this stage.

Lava Patent Lawsuit

In June 2003 we noted the announcement released by Lava Trading Inc. ('Lava') that it had filed a patent infringement claim in the US against royalblue. The patent relates to the concept of displaying prices from more than one source (ECN) on a single screen in the US. In December 2003 Lava filed an amendment to its lawsuit alleging unfair trade practices on the part of royalblue, in particular in relation to the pricing of products and associated services.

In June 2004 we announced that the United States District Court for the Southern District of New York had made its ruling on the first stage of the patent infringement case. This first stage, known as a Markman claims construction hearing, defines the technical terms in the patent, which will be

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used in subsequent hearings and is instrumental in establishing whether patent infringement has occurred. The ruling confirmed our definition of all the major terms and strengthens our position that the case brought by Lava is without merit. While the Court's ruling is very positive for us, we would caution that Lava is likely to lodge an appeal. A decision by the Appeals Court is likely to take 18 months.

Since this announcement we have noted that Citigroup Global Corporate and Investment Banking Group has announced that it is to acquire Lava, and that Lava will become a wholly-owned, independent subsidiary of Citigroup Inc. The transaction is expected to close in the third quarter of 2004 and is subject to customary closing conditions. Whilst we can speculate as to what this might mean, both for the lawsuit and for Lava's competitive position in the market, it is too early to say with any certainty whether this will be positive or negative for royal**blue**.

Outlook

Looking ahead we expect the financial markets to remain unpredictable with many of our customers continuing to face difficult and volatile conditions. As a result we expect that trading conditions for us will continue to be challenging for the remainder of 2004. However, the improving position in consultancy coupled with continued growth in recurring revenue means that we still expect to see modest growth in both revenue and profit for the year as a whole.

We remain committed to our investment programme and to developing our unique opportunity in trading, market data and global connectivity services. At the same time we will also maintain the pace of development in our core products. The nature of the rapidly changing markets means that we may adapt our development programme as opportunities arise and may decide to increase development resource in specific areas in order to bring certain product to market quickly. Potential areas where we may adopt this approach are centred around some of the DMA opportunities where, for example, we may wish to build on our **Fidessa workstation** product and quickly offer DMA functionality in more markets. We believe these new products will result in a significant expansion of our addressable market, as they are directly

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applicable to buy-side customers as well as many more desks within our existing sell-side customers. In addition, our **Fidessa connectivity network** provides significant additional functionality, which is applicable to all our existing customers. It is this expansion of our addressable market combined with sound development of our existing business, which we believe, will form a sound basis for long-term growth.

Looking further ahead, it is still difficult to predict the strength of the market with any certainty. We expect that recurring revenue will continue to grow whilst consultancy revenue stabilises resulting in a modest level of growth in 2005. On top of this we expect to see momentum developing as a result of our new propositions. However, we would caution that the nature of revenue from these new initiatives, which is recurring monthly rental and only recognised after software has been implemented and is in operational use, means we would only expect to see a modest contribution from these streams during 2005. However, as these streams develop we expect to see steadily increasing visibility of the growing momentum.

Consolidated Profit and Loss Account

for the six months ended 30th June 2004

		2004	2003	2003
		6 months to	6 months to	12 months to
		30th June	30th June	31st December
		Unaudited	Unaudited	Audited
	Notes	£'000	Restated £'000	Restated £'000
Turnover	2	28,459	27,857	56,489
Operating profit		3,613	3,511	7,643
Exceptional items:				
From sale of operation discontinued in 2001		–	–	500
Profit on ordinary activities before interest		3,613	3,511	8,143
Net interest receivable		477	324	1,103
Profit on ordinary activities before taxation		4,090	3,835	9,246
Taxation on profit on ordinary activities	3	(1,084)	(1,165)	(1,920)
Profit on ordinary activities after taxation		3,006	2,670	7,326
Dividends paid and proposed	4	(914)	(576)	(10,519)
Retained profits for the period		2,092	2,094	(3,193)
Earnings per share:	5			
Basic – adjusted to exclude exceptional items and tax deduction for share options exercised by employees		9.0p	8.8p	19.5p
Diluted – adjusted to exclude exceptional items and tax deduction for share options exercised by employees		8.8p	8.4p	18.7p
Basic – total operations		9.5p	8.8p	23.9p
Diluted – total operations		9.3p	8.4p	22.9p

Consolidated Statement of Total Recognised Gains and Losses

for the six months ended 30th June 2004

		2004	2003	2003
		6 months to	6 months to	12 months to
		30th June	30th June	31st December
		£'000	£'000	£'000
			Restated	Restated
Profit for period		3,006	2,670	7,326
Differences on exchange on re-translation of net assets of overseas undertaking		(138)	(199)	(584)
Total recognised gains and losses		2,868	2,471	6,742

Consolidated Balance Sheet

at 30th June 2004

	2004 30th June Unaudited £'000	2003 30th June Unaudited Restated £'000	2003 31st December Audited Restated £'000
Fixed Assets			
Tangible fixed assets	5,116	5,081	4,945
Current assets			
Debtors	13,323	15,782	15,930
Cash and short-term investments	22,169	22,749	28,498
	35,492	38,531	44,428
Creditors: Amounts falling due within one year	(16,366)	(16,326)	(27,456)
Net current assets	19,126	22,205	16,972
Total assets less current liabilities	24,242	27,286	21,917
Creditors: Amounts falling due after more than one year	(366)	(417)	(392)
Net assets	23,876	26,869	21,525
Capital and reserves			
Called up share capital	3,268	3,171	3,268
Share premium account	11,610	11,580	11,610
Other reserves	(1,865)	(2,164)	(2,130)
Profit and loss account	10,863	14,282	8,777
Total equity shareholders' funds	23,876	26,869	21,525

Consolidated Cash Flow Statement

for the six months ended 30th June 2004

	2004 6 months to 30th June Unaudited £'000	2003 6 months to 30th June Unaudited Restated £'000	2003 12 months to 31st December Audited Restated £'000
Operating profit	3,613	3,511	7,643
Depreciation charge	1,189	1,362	2,535
(Increase)/decrease in working capital	245	(1,161)	1,195
Other items	–	(1)	2
Net cash inflow from operating activities	5,047	3,711	11,375
Returns on investments and servicing of finance	478	324	1,089
Taxation paid	(783)	(1,042)	(2,624)
Capital expenditure and financial investments	(1,012)	(1,748)	(2,250)
Equity dividends paid	(9,997)	(1,082)	(1,651)
Net cash (outflow)/inflow before financing	(6,267)	163	5,939
Management of liquid resources	895	749	656
Financing	–	29	156
(Decrease)/increase in cash	(5,372)	941	6,751

Notes to the Interim Statement

for the six months ended 30th June 2004

1. Basis of preparation

The interim financial statements are unaudited but have been reviewed by KPMG Audit Plc and their report is set out below. These interim statements have been prepared in accordance with the accounting policies set out in the Annual Report and Financial Statements for the year ended 31st December 2003, with the exception that UITF 38, Accounting for ESOP Trusts, has been adopted. This has given rise to the Financial Statements for previous periods being restated (see Note 7).

The financial information contained in this interim statement does not amount to statutory accounts within the meaning of section 240 Companies Act 1985. The figures for the year ended 31st December 2003 are extracted from the statutory accounts of royalblue group plc. The statutory accounts for that year have been reported on by the Company's auditors and delivered to the Registrar of Companies. The report of the auditors was unqualified and did not contain a statement under section 237 (2) or (3) Companies Act 1985.

2. Analysis of turnover

Turnover is analysed by geographic destination as follows:

	2004	2003	2003
	6 months to	6 months to	12 months to
	30th June	30th June	31st December
	Unaudited	Unaudited	Audited
	£'000	£'000	£'000
United Kingdom	12,043	11,122	23,482
USA & Canada	11,597	12,388	23,733
Continental Europe	1,255	1,511	2,833
Rest of World	3,564	2,836	6,441
	28,459	27,857	56,489

3. Taxation

The charge for taxation for the six months ended 30th June 2004 reflects the anticipated effective rate for the period.

4. Dividend on ordinary shares

An interim dividend of 2.7p pence per share is declared and will be paid on 20th September 2004 to shareholders on the register on 20th August 2004.

Notes to the Interim Statement

for the six months ended 30th June 2004

5. Earnings per share

Earnings per share have been calculated in accordance with Financial Reporting Standard 14 'Earnings Per Share', by dividing profit attributable to shareholders by the weighted average number of shares in issue during the year. Adjusted basic and diluted earnings per share are presented to provide more comparable and representative information on the performance of the business excluding the exceptional gains. The diluted earnings per share have been calculated using an average share price of 544p (for 6 months to 30th June 2003 298p, for 12 months to 31st December 2003 373p).

	2004 6 months to 30th June £'000	2003 6 months to 30th June £'000 Restated	2003 12 months to 31st December £'000 Restated
Profit attributable to shareholders	3,006	2,670	7,326
Tax deduction for share options exercised by employees	(141)	–	(845)
Exceptional items after tax; repayment of loan note written off in previous period	–	–	(500)
Adjusted profit attributable to shareholders	2,865	2,670	5,981

	2004 6 months to 30th June Number '000	2003 6 months to 30th June Number '000	2003 12 months to 31st December Number '000
Average number of shares in issue	32,679	31,559	31,817
Average number of shares held by the employee trusts	(985)	(1,224)	(1,185)
Shares used to calculate the basic earnings per share	31,694	30,335	30,632
Dilution due to share options	820	1,315	1,375
Shares used to calculate the diluted earnings per share	32,514	31,650	32,007

Notes to the Interim Statement

for the six months ended 30th June 2004

6. Reconciliation of movements in shareholders' funds

	2004	2003	2003
	6 months to	6 months to	12 months to
	30th June	30th June	31st December
	£'000	£'000	£'000
		Restated	Restated
Profit for the period	3,006	2,670	7,326
Dividends paid and proposed	(914)	(576)	(10,519)
Retained profit/(loss) for the period	2,092	2,094	(3,193)
Other recognised losses relating to the period	(138)	(199)	(584)
Movement in share capital from exercise of share options	–	29	126
Movement in share premium from exercise of share options	–	–	30
Movement in ESOP reserve from purchase of shares and exercise of share options	265	32	66
Movement in profit and loss reserve from exercise of share options	132	12	179
Net increase/(decrease) in shareholders' funds	2,351	1,968	(3,376)
Opening shareholders' funds (originally £27,097,000 before deducting prior year adjustment of £2,196,000)	21,525	24,901	24,901
Closing shareholders' funds	23,876	26,869	21,525

7. Prior year adjustment

In accordance with UITF 38, Accounting for ESOP Trusts, the prior period figures have been restated to bring in an ESOP reserve as a deduction from shareholders' funds. The prior period profit and loss account has been restated to write back previous movements against the value of the shares. The effects of the changes are summarised on the following page:

Notes to the Interim Statement

for the six months ended 30th June 2004

7. Prior year adjustment continued

	2003 6 months to 30th June £'000 Unaudited	2003 12 months to 31st December £'000 Audited
Profit and loss account		
Operating expenses	12	179
Decrease in profit for the period	(12)	(179)
Balance sheet		
Fixed assets	(2,164)	(2,130)
Decrease in net assets	(2,164)	(2,130)
ESOP reserve	(2,164)	(2,130)
Decrease in shareholders' funds	(2,164)	(2,130)

8. Transition to International Financial reporting Standards ('IFRS')

All listed companies in the European Union will have to report their consolidated results under IFRS for accounting periods commencing on or after 1st January 2005. This means that the new standards will first affect royalblue's reporting for the year ending 31st December 2005, commencing with the interim results for the six months ending 30th June 2005. The Group expects to be fully prepared for the transition, though the implementation may be dependent upon the completion of the standard-setting process by the International Accounting Standards Board (IASB) and the endorsement of such standards by the Council of the European Union. The initial analysis of high-level considerations and systems implications was completed in 2003. The detailed study of the changes impacting the Group is essentially complete, although it is continuing in respect of amendments to existing standards that are being issued. The implementation phase is underway and on schedule to effect a smooth transition to IFRS. The Group expects to provide further communication and quantification of the changes to the investor community with the announcement of the 2004 Preliminary Results.

9. Circulation to shareholders

Copies of this interim report will be sent to shareholders and copies will be available to the public at the Company's registered office, Dukes Court, Duke Street, Woking, Surrey GU21 5BH.

Independent Review Report by KPMG Audit Plc to royalblue group plc

Introduction

We have been engaged by the company to review the financial information set out on pages 12 to 18 and we have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the Listing Rules of the Financial Services Authority. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where they are to be changed in the next annual accounts in which case any changes, and the reasons for them, are to be disclosed.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4: Review of interim financial information issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review is substantially less in scope than an audit performed in accordance with Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30th June 2004.

KPMG Audit Plc
Chartered Accountants
Crawley

23rd July 2004

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