

royalblue group plc

interim results for the six months ended 30th June 2005

1st August 2005

royalblue reports strong organic growth and continuing momentum.

	2005	2004	Change
Revenue	£34.1m	£28.5m	+20%
Operating profit	£4.3m	£3.6m	+19%
Pre-tax profit	£4.8m	£4.1m	+17%
Diluted earnings per share	10.8p	8.8p	+23%
Interim dividend per share	3.3p	2.7p	+22%

All figures, including comparatives, are presented under IFRS.

Highlights for the six months ended 30th June 2005:

- Strong organic growth across all areas.
- Recurring revenue up 30%, now representing 66% of total revenue.
- Consultancy revenue recovering well, up 18%.
- Over \$30m of new **enterprise Fidessa** deals signed in the first half.
- Substantial investment programme continuing in new products and services.
- Strong momentum underpinning growth for the year.

Commenting on these results, Chris Aspinwall, Chief Executive, said:

“Positive momentum has continued into 2005 and this has been reflected in an increase in revenue of 20% over the same period last year. Recurring revenue, representing annual licence and service fees, has grown 30% over the period to £23m, now accounting for 66% of total revenue. Consultancy revenue has continued to recover with growth of 18% over the period. The business has continued to be cash generative with net cash generated from operating activities of £4.5 million.

Progress has been maintained across all regions and we have seen a marked increase in sales of **enterprise Fidessa** with four significant deals signed. In total these deals are expected to be worth in excess of \$30 million over the next four years. Sales of **hosted Fidessa** have moved ahead well with 11 new signings and the total number of **Fidessa** positions in the market has increased to nearly 7,500. **Fidessa workstation** has made further progress, and with in excess of 1,400 positions installed, we are on track to meet our target of doubling our user base during 2005. The multi-broker order management functionality within our workstation has been well received in the marketplace with the first buy-side customers now live.

We have maintained the investment programme outlined at the end of last year. We anticipate that the programme will accelerate as we are seeing a strong demand for global trading functionality. In order to address this we are bringing forward our plans to provide global data and are also expanding our data centres and network more rapidly. The areas where our investment is concentrated are:

- Our data centres in Europe and the US have been expanded, a new data centre has opened in Tokyo and a further data centre has been commissioned in Hong Kong. We also expect to commission another data centre in Tokyo soon.
- The depth of our data coverage across Europe and North America is continuing to expand and we are extending our data coverage into Asia.
- We have opened a new office in Canada and expanded our office facilities in the UK and US.
- We are extending the market data and trading functionality in the **Fidessa workstation**.
- We have commenced development of support for derivative instruments alongside our current support for cash equities.

We expect to remain within the guidance given at the year end that the combined effect of these initiatives will add approximately £2 million to the operating costs during 2005 and result in a reduction of the operating margin. However, the change to IFRS means that we now expect this reduction to be around 1 percentage point rather than the 2 percentage points anticipated at the year end.

Overall, we expect strong trading conditions to continue for the remainder of 2005 resulting in strong revenue growth for the year as a whole. We continue to make progress in all areas of the business and are experiencing the strongest demand that we have seen for several years. We are excited about the prospects for our expanded range of products and services and believe that they will continue to provide a firm foundation for further growth."

Financial Summary

In the six months to 30th June 2005 strong growth in revenue has been achieved, up 20% to £34.1 million, from £28.5 million for the same period last year. This headline growth is supported by the underlying growth in both recurring and consultancy revenue, and growth in all regions. The momentum in the recurring revenue has been maintained, up 30% at £22.6 million and now representing 66% of the total revenue. In particular, growth in **hosted Fidessa** was a very strong 77%, now at £10.5 million and 31% of the total revenue. On the back of the increased number of positions the **Fidessa workstation** revenue has increased by over 150%, to almost £1m. The improvement seen in consultancy revenue in the second half of 2004 has continued with the revenue up 18% at £11.1 million, now representing 32% of the overall revenue.

Staff numbers have increased to service the revenue growth and the investment programme. At 30th June 2005 the headcount was 580, up 12% from 519 at the year end and up 22% from 477 at the same time last year.

Operating profit has improved by 19% to £4.3 million from £3.6 million in 2004, representing an operating margin of 12.6%. The interest earnings are down 5% on last year, due to the return of cash to shareholders in June 2004, and leads to the profit before tax being up 17% to £4.8 million from £4.1 million in 2004. Diluted earnings per share have increased by 23% to 10.8 pence, up from 8.8 pence.

The business continues to be cash generative with £4.5 million net cash generated from operating activities. However, the investment programme, annual dividend payment and normal first half working capital movement have resulted in the overall cash balance falling from £24.6 million at the year end to £21.9 million at 30th June. The interim dividend is being increased by 22% to 3.3 pence and will be paid on 26th September 2005 to shareholders on the register on 26th August 2005, with an ex-dividend date of 24th August 2005.

These are the first results that we have reported using International Financial Reporting Standards (IFRS) and all numbers presented for comparative periods are also under IFRS. The change to IFRS, results in no change to the revenue recognised. The primary area of change is regarding IAS 38 Intangible Assets, which requires that product development expenditure be capitalised. We have adopted a policy of capitalising product developments and enhancements and amortising the expenditure over three years from the time of capitalisation. We believe this is a conservative policy, particularly taking into account the nature of the recurring revenue we generate from our products. In the period, this change results in expenditure capitalised of £2.6 million and amortisation of £2.1 million and as at 30th June 2005 an intangible asset of £7.0 million. The net effect of this capitalisation less amortisation is that for 2005 as a whole we expect around £1 million of contribution to the operating profit. This will offset some of the impact of our investment programme and as a result we now expect that the effect on the operating margin will be around one percentage point lower than last year rather than the two percentage points anticipated in the 2004 statement. It should be noted, however, that these changes have no effect on the underlying performance or cash generation within the business.

The other area of change for **royalblue** is the expensing of share incentives to the profit and loss account. This results in a charge of £0.3 million against operating profit in the period. A fuller explanation of the transition to IFRS is presented in Note 12 to the financial statements.

Operations

Introduction

During the first half we have continued to make progress with all our core services whilst also moving forward with the development of new products. We have made strong sales of **enterprise Fidessa** across the world with 4 signings. One of these expands our relationship with an existing customer, HSBC, where they have now selected **Fidessa** as their global platform for handling all their cash, DMA (Direct Market Access), algorithmic and program trading flow. A second deal is with a major Australian bank, which is a leading trading firm in the Asian markets. This deal will further establish **Fidessa** as a leading local trading solution for the pan-Asian markets. The third sale is to a major Canadian bank where **Fidessa** will be used to support their Canadian flows and execution on the US markets and the fourth is a US domestic firm focusing on OTC and listed trading.

In parallel, we have made good progress with **hosted Fidessa** signing 11 new deals and the total number of users now using **hosted Fidessa** has increased to in excess of 1,800. The new deals have ranged in size from small systems covering a few trading positions to larger players and emphasises the range of firms who are now able to take advantage of the industrial strength of the **hosted Fidessa** platform.

For **Fidessa workstation**, with over 1,400 positions now installed, we are on track to achieve our goal of doubling our workstation customer base during 2005 and we also have the first buy-side customers live using our execution management functionality. This allows buy-side customers to use the **Fidessa workstation's** trading functionality in conjunction with the **Fidessa**

connectivity network in order to route flows to brokers for execution. This solution works alongside their existing buy-side order management system.

The **Fidessa connectivity network** continues to develop with in excess of 1,000 connections now live. This represents an average rate of around 50 new connections being put in place across the network every month and demonstrates that the **Fidessa connectivity network** has already become an important hub for routing order flow. We expect this will continue to develop as Europe and Asia follow the lead of the US where on average each US customer connects to about 30 different destinations. The number of remote brokers connected to the **Fidessa connectivity network** has continued to increase and we have also found that buy-side clients want access to the full range of services offered by each broker including care (worked) orders, DMA and algorithmic trading. As a result we have been increasing the services we offer to existing brokers as well as adding new brokers.

We have now established our plans for the derivative markets and are currently working on the development of functionality to enable **Fidessa** customers to trade derivatives alongside the cash product. First releases of the software are planned for early 2006.

Europe

In Europe, we have seen a strong performance throughout the business with consultancy improving across our accounts as well as strong sales of **hosted Fidessa**. New processes have been introduced to allow us to streamline **hosted Fidessa** deliveries meaning that we have been able to deliver ten new systems in the first half of 2005, including two major upgrades. The new delivery model allows us to provide smaller **hosted Fidessa** installations than was previously possible. This combines with the transactional functionality in **Fidessa workstation** to give us a seamless product line from the smallest firm with only a few brokers and manual processes, right up to the largest and most complex global players.

We have continued to extend the **Fidessa connectivity network** in Europe adding more brokers and RSPs (Retail Service Providers). We now have the largest network of RSPs available and a growing proportion of RSP flow is now executed through our network. The strength of our connectivity network in Europe has enabled us to provide the first **hosted Fidessa** system that is used by a firm that does not have any exchange memberships of its own. Instead the firm relies entirely on the **Fidessa connectivity network** to provide access to execution venues through remote brokers.

Fidessa workstation continues to receive extremely positive reviews and was awarded "Best Information Display Service" at the Systems in the City Awards 2005. Data coverage has been extended with Sydney, Auckland, Toronto, Athens and Johannesburg added during the period. Further corporate actions, dividends, fundamentals, company accounts, broker forecast data and historical charting have been added and coverage for these extended across Europe and North America.

Going forward, we are developing the **Fidessa workstation** as a comprehensive access point to the growing **Fidessa connectivity network**. This will enable workstation users to send and receive order flow to and from any FIX enabled client or broker and will also provide full order routing and management functionality together with intra-day risk management. In parallel, we will continue to extend the data coverage within **Fidessa workstation**, extending US coverage to show the full order book and including other sources such as ECNs, Pink Sheets and OTCBB. In addition, we are planning to extend the news service as well as provide enhanced charting and other usability features. As part of the expansion of our global trading services we will also be

providing Asian data through **Fidessa workstation** and this will become a growing part of our investment programme into 2006.

North America

Within North America, the markets continue to move rapidly with the changing regulatory environment and this is likely to result in structural changes across the markets. These changes include Reg-NMS which for the first time differentiates between fast electronic markets and slow manual markets and in certain circumstances allows brokers to trade through¹ the price offered on a slow market. This rule has particular implications for NYSE, which is the largest market in the US and is currently floor based. In reaction to these changes the central markets in the US are making an increasing commitment to technology-focused trading. NYSE is proposing to buy ARCA, which is an electronic market that has traditionally traded NASDAQ securities. This will give NYSE a very quick entry into electronic trading allowing it to compete as a fast market. In a similar move, NASDAQ is increasing its own liquidity with the purchase of INET, another electronic market. We expect these changes to result in increased automation of trading across the markets and stimulate demand for further applications within **Fidessa**.

In the brokerage community, as larger firms respond to these challenges we have seen an increased level of activity within the enterprise customer base and we have also seen two new **enterprise Fidessa** deals signed. One of these deals is for a Canadian bank that also owns a US firm, which is already a **hosted Fidessa** customer. Under this deal they will now use **enterprise Fidessa** for all their Canadian trading and central order management, passing US order flow automatically to their **hosted Fidessa** implementation for execution in the US domestic markets. We believe this will be a growing trend in Canada with local firms looking for automated ways to send their order flow into the US domestic market, and that this will result in further sales of product such as **Fidessa** in this market.

During the first half we have made the first sale of our US market data product providing level two data for the NASDAQ market. This product is our first US data product and aligns with our strategy to provide market data as a fully integrated service. We expect to make further sales of this service during the second half. We are also pushing ahead with our plans for the introduction of **Fidessa workstation** technology in the US market and expect to make further progress with this during the second half.

Across all our markets the buy-side is taking a more global view of their investments and as a result we are seeing increased demand from the brokerage community for "trading foreigners". Full global trading is an extremely complex process and is currently only attempted by our largest tier-one customers. The concept of "trading foreigners" is a first step towards this and involves being able to enter and route order flow for non-domestic securities. We are currently supporting this functionality on behalf of a number of our customers and are routing US domestic order flow from **Fidessa** systems outside the US. As we expand the data set available within **hosted Fidessa**, we expect to extend this service to provide a full global trading solution.

royalblue has a strong commitment to quality in all the products and services that it offers. The firm is independently certified to ISO 9001 and during the first half we have successfully completed a SAS70 audit. We believe this audit is particularly important to our US clients, in enabling them to satisfy their Sarbanes Oxley requirements when using a **Fidessa** solution.

¹ Accept a price on the fast market even if that price is not as good as that offered on the slow market.

Asia

Market conditions in Asia have continued to improve with higher trading volumes being recorded across the main markets. This has caused a number of firms to re-evaluate their legacy systems creating further opportunities for **enterprise Fidessa**. In the first half we have signed a deal with a large Australian bank covering the use of **Fidessa** in the Australian market and the other major markets in Asia. Software to provide connectivity to the Japanese market has already gone live as part of this deal. At current levels of interest we see good possibilities for signing further **enterprise Fidessa** deals in the region during 2005.

As well as making the markets more attractive to foreign firms, the increased trading volumes are also making electronic connectivity, including FIX (Financial Information eXchange), more important. This is the case for all trading firms but applies especially to domestic firms, as many of these have not made substantial use of electronic connectivity before and are not FIX enabled. The **Fidessa** products, and particularly **hosted Fidessa** services, provide an extremely cost effective and rapid route into this growing segment of the market for our customers. To support the increased connectivity requirements and so that we can provide a **hosted Fidessa** solution for Asia, we opened a new data centre in Tokyo in January and have now commissioned a further data centre in Hong Kong. This centre in Hong Kong will be operational during the second half and we are also expecting to commission a second data centre in Tokyo soon.

As new clients have come online, the total number of **Fidessa** users in the Asia region has increased by over 30% and we expect continued strong growth of user numbers in the region. The strength of our exchange connectivity software coupled with the volume increases in the markets are also encouraging established companies to standardise on **Fidessa** for exchange connectivity.

The active markets in Asia have also created an increased interest from European and US clients for trading in Asian stocks. Clients are demanding that their brokers handle orders for non-domestic securities, even where the broker is a relatively small local firm and does not have any Asian presence or membership. This requires local **hosted Fidessa** systems to "understand" non-domestic instruments and represents a first step towards full global trading. We believe this will be a key market for us in the future as we are the only vendor able to offer a fully integrated global trading platform and connectivity network.

Derivatives

We have commenced a development programme to add support for trading a range of derivative products through **Fidessa** alongside the existing cash product. Over one half of our current customers who trade the cash product also trade the derivative and across Euronext there are over 100 firms that are members of both its cash and derivatives exchange. In the short-term we can provide significant benefits to these customers by providing an industrial strength trading platform that can support both instrument types. This platform will leverage the enormous investment in our core software, providing a highly resilient, fast, scalable and functionally rich platform from which to build. This strategy also aligns with current moves being made by some large trading firms who are moving away from the traditional organisation of their trading desks towards a multi-asset class approach. These firms are responding to the perceived blending of exchange and OTC market places generating a requirement to manage the business process flows and hedge risks effectively across the different instrument types. We believe that the size of the global customer base we could address with the **hosted Fidessa** platform extended to support derivatives could increase to as many as 1,000 customers. Going forward we also see that we will be able to provide derivative only functionality as another hosted service taking advantage of the strength of our underlying platform and the innovative derivative software we are now developing.

First releases of the new software are planned for early 2006 and we anticipate that the opportunity will develop gradually over the next few years.

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 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.

In December 2004 we announced that a Stipulated Judgment had been entered into the record in the United States District Court for the Southern District of New York. This formally recorded that, based on the findings of the earlier Markman hearing, **royalblue** does not infringe Lava's patent. In both this announcement and the one in June 2004, **royalblue** noted that it expected Lava to lodge an appeal. Lava has now lodged this appeal. A decision by the Appeals Court is likely to take at least 12 months.

Outlook

Looking ahead we expect that trading will remain strong for the rest of 2005. The general improvement in consultancy and continued growth in recurring revenue should result in overall revenue growth for 2005 of more than double that achieved in 2004. At the same time the acceleration of our investment programme means that we expect to see a decrease in the operating margin within the business. However, the change to IFRS means that we expect this to be around 1 percentage point rather than the 2 percentage points anticipated in the 2004 statement.

Looking further ahead we are now seeing the direct benefit that we are able to derive through the leverage between our services. For example, the **Fidessa workstation** leverages the **Fidessa connectivity network** and **hosted Fidessa** by bringing more customers onto the network. Conversely as the **Fidessa connectivity network** becomes an important destination for sending and receiving order flow, it leverages both the **Fidessa workstation** and **hosted Fidessa** as firms seek to participate in this network. We now believe that each of our areas of trading, market data and connectivity will become an important revenue stream in its own right and that the combination of these components provides a firm foundation for the growth of the business over the coming years.

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Consolidated Interim Income Statement

For the six months ended 30th June 2005

		2005	2004	2004
		6 months to	6 months to	12 months to
		30 th June	30 th June	31 st December
	Note	£'000	£'000	£'000
Revenue		34,082	28,459	59,768
Operating expenses	3	(29,781)	(24,832)	(51,705)
Operating profit		4,301	3,627	8,063
Interest receivable		454	479	1,241
Interest payable		(1)	(2)	(2)
Profit before income tax		4,754	4,104	9,302
Income tax expense	5	(1,242)	(1,255)	(2,577)
Gain relating to sale of operation discontinued in prior period		-	-	500
Profit for the period		3,512	2,849	7,225
Basic earnings per share from continuing operations	7	11.0p	9.0p	21.2p
Diluted earnings per share from continuing operations	7	10.8p	8.8p	20.7p
Basic earnings per share from total operations	7	11.0p	9.0p	22.7p
Diluted earnings per share from total operations	7	10.8p	8.8p	22.3p

Consolidated Interim Balance Sheet

As at 30th June 2005

		2005	2004	2004
		30 th June	30 th June	31 st December
	Note	£'000	£'000	£'000
Assets				
Non-current assets				
Property, plant and equipment	8	8,039	5,095	6,347
Intangible assets	9	7,206	6,413	6,681
Deferred tax assets		1,606	1,654	1,993
Other receivables		898	898	898
Total non-current assets		17,749	14,060	15,919
Current assets				
Trade and other receivables	10	16,282	11,239	13,673
Cash and cash equivalents		21,888	22,169	24,590
Total current assets		38,170	33,408	38,263
Total assets		55,919	47,468	54,182
Equity				
Share capital		3,268	3,268	3,268
Share premium		11,610	11,610	11,610
Translation reserve		(164)	(138)	(206)
Retained earnings		21,092	14,872	18,838
Total equity		35,806	29,612	33,510
Liabilities				
Non-current liabilities				
Trade and other payables		306	366	328
Deferred tax liabilities		1,229	1,917	1,953
Total non-current liabilities		1,535	2,283	2,281
Current liabilities				
Trade and other payables	11	15,557	12,612	14,849
Current income tax liabilities		3,021	2,961	3,542
Total current liabilities		18,578	15,573	18,391
Total liabilities		20,113	17,856	20,672
Total equity and liabilities		55,919	47,468	54,182

Consolidated Interim Statement of Changes in Shareholders' Equity

		Share capital	Share premium	Cumulative translation adjustment	Retained earnings	Total equity
Note	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2004		3,268	11,610	-	21,423	36,301
Profit for the period		-	-	-	2,849	2,849
Net income recognised directly to equity		-	-	-	153	153
Total recognised income for the period		-	-	-	3,002	3,002
Employee share incentive charges	4	-	-	-	179	179
Movement in employee share trusts		-	-	-	265	265
Dividend paid	6	-	-	-	(9,997)	(9,997)
Currency translation adjustments		-	-	(138)	-	(138)
Balance at 30 June 2004		<u>3,268</u>	<u>11,610</u>	<u>(138)</u>	<u>14,872</u>	<u>29,612</u>
Profit for the period		-	-	-	4,376	4,376
Net income recognised directly to equity		-	-	-	136	136
Total recognised income for the period		-	-	-	4,512	4,512
Employee share incentive charges	4	-	-	-	235	235
Movement in employee share trusts		-	-	-	77	77
Dividend paid	6	-	-	-	(858)	(858)
Currency translation adjustments		-	-	(68)	-	(68)
Balance at 31 December 2004		<u>3,268</u>	<u>11,610</u>	<u>(206)</u>	<u>18,838</u>	<u>33,510</u>
Profit for the period		-	-	-	3,512	3,512
Net income recognised directly to equity		-	-	-	321	321
Total recognised income for the period		-	-	-	3,833	3,833
Employee share incentive charges	4	-	-	-	254	254
Movement in employee share trusts		-	-	-	22	22
Dividend paid	6	-	-	-	(1,855)	(1,855)
Currency translation adjustments		-	-	42	-	42
Balance at 30 June 2005		<u>3,268</u>	<u>11,610</u>	<u>(164)</u>	<u>21,092</u>	<u>35,806</u>

Consolidated Interim Cash Flow Statement

For the six months ended 30th June 2005

	2005 6 months to 30 th June £'000	2004 6 months to 30 th June £'000	2004 12 months to 31 st December £'000
Cash flows from operating activities			
Profit before tax	4,754	4,104	9,302
Adjustments for:			
Staff costs – share incentives	254	179	414
Product development amortised	2,113	1,776	3,789
Depreciation of property, plant and equipment	1,705	1,180	2,433
Amortisation of intangible assets	55	9	36
Loss on sale of property, plant and equipment	4	-	8
Net interest receivable	(453)	(477)	(1,239)
Cash generated from operations before changes in working capital	8,432	6,771	14,743
Movement in trade and other receivables	(2,406)	2,027	(623)
Movement in trade and other payables	111	(1,809)	683
Cash generated from operations	6,137	6,989	14,803
Income tax paid	(1,653)	(783)	(1,748)
Net cash generated from operating activities	4,484	6,206	13,055
Cash flows from investing activities			
Purchase of property, plant and equipment	8 (3,214)	(1,401)	(4,043)
Proceeds from sale of property, plant and equipment	19	11	11
Purchase of intangible assets	9 (46)	(19)	(191)
Product development	(2,644)	(1,942)	(4,076)
Net interest received	442	478	1,233
Purchase of own shares by employee share trust	-	(75)	(309)
Proceeds from sale of own shares by employee share trust	22	472	901
Gain relating to sale of operation discontinued in prior period	-	-	500
Net cash used in investing activities	(5,421)	(2,476)	(5,974)
Cash flows from financing activities			
Dividends paid	6 (1,855)	(9,997)	(10,855)
Net cash used in financing activities	(1,855)	(9,997)	(10,855)
Net decrease in cash and cash equivalents	(2,792)	(6,267)	(3,774)
Cash and cash equivalents at 1 st January	24,590	28,498	28,498
Effect of exchange rate fluctuations on cash held	90	(62)	(134)
Cash and cash equivalents at end of period	21,888	22,169	24,590

Notes to the consolidated interim financial statements

These consolidated interim financial statements of royalblue group plc (the "Company") for the six months ended 30th June 2005 comprise the Company and its subsidiaries (together the "Group"). The consolidated interim financial statements were authorised for issuance on 29th July 2005. The financial statements are unaudited but have been reviewed by KPMG Audit Plc and their report is set out below.

1. Basis of preparation

EU law (IAS Regulation EC 1606/2002) requires that the next annual consolidated financial statements of the company, for the year ending 31st December 2005, be prepared in accordance with International Financial Reporting Standards ("IFRSs") adopted for use in the EU ("Adopted IFRSs").

This interim financial information has been prepared on the basis of the recognition and measurement requirements of IFRSs in issue that either are endorsed by the EU and effective (or available for early adoption) at 31st December 2005 or are expected to be endorsed and effective (or available for early adoption) at 31st December 2005, the Group's first annual reporting date at which it is required to use Adopted IFRSs. Based on these IFRSs, the directors have made assumptions about the accounting policies expected to be applied when the first annual IFRS financial statements are prepared for the year ending 31st December 2005.

The Adopted IFRSs that will be effective (or available for early adoption) in the annual financial statements for the year ending 31st December 2005 are still subject to change and to additional interpretations and therefore cannot be determined with certainty. Accordingly, the accounting policies for that annual period will be determined finally only when the annual financial statements are prepared for the year ending 31st December 2005.

An explanation of how the transition to IFRSs has affected the reported financial position and financial performance of the Group is provided in note 12. This note includes reconciliations of equity and profit or loss for the comparative periods reported under UK Generally Accepted Accounting Practices ("UK GAAP") to those reported for those periods under IFRS.

The policies set out below have been consistently applied to all the periods presented.

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The comparative figures for the financial year ended 31st December 2004 are not the Company's statutory accounts for that financial year. Those accounts, which were prepared under UK GAAP, 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 statements under section 237(2) or (3) of the Companies Act 1985.

2. Accounting policies

The transition to IFRS from UK GAAP has resulted in limited changes to the accounting policies for the Group. The accounting policies under UK GAAP were set out in the Annual Report and Financial Statements for the year ended 31st December 2004. The material changes resulting from the adoption of IFRS are detailed below.

(a) Basis of consolidation

The consolidated financial statements include the financial statements of royalblue group plc and its subsidiaries. There are no associates or joint ventures to be consolidated.

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date on which control ceases. Intra-group balances, and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. The Group uses the purchase method of accounting to account for the acquisition of subsidiaries.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to pounds sterling at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to pounds sterling at foreign exchange rates ruling at the dates the fair value was determined.

(ii) Financial statements of foreign operations

The assets and liabilities of foreign operations are translated to pounds sterling at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to pounds sterling at rates approximating the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised directly in the translation reserve.

(c) Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on product development (relating to the design, programming and testing of new or enhanced products) are capitalised as intangible assets when it is probable that the project will be a success, considering its commercial and technological feasibility, resources are available to complete the development, and costs can be measured reliably. The expenditure capitalised is the direct labour costs. Other development expenditures are recognised as an expense as incurred. Product development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Capitalised product development expenditure is stated at cost less accumulated amortisation and impairment losses. Product development costs that have been capitalised are amortised from the time of development on a straight-line basis over three years.

(d) Share-based payments

The Group operates two equity-settled share incentive plans. No expense is recognised in respect of share incentives granted before 7th November 2002 or incentives vested before 1st January 2005. For share incentives granted after 7th November 2002 and vested after 1st January 2005 the fair value of the incentives granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the incentives. The fair value of the incentives granted is measured using a binomial model, taking into account the terms and conditions upon which the incentives were granted. The amount recognised as an expense is adjusted to reflect the actual number of share incentives that vest except where forfeiture is only due to the share price not achieving the threshold for vesting.

(e) Income tax

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets or liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(f) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

(g) Investments

The Group classifies its investments in the following categories: financial assets at fair value through profit and loss and loans and receivables. The classification depends on the purpose for which the investments were acquired.

Investments categorised as financial assets at fair value through profit and loss have been fair valued at inception. They are classified as current assets if they are held for trading or are expected to be realised within 12 months of the balance sheet date. Otherwise, they are classified as non-current assets.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and with no intention of trading. They are included in current assets, except for maturities greater than 12 months after the balance sheet date, which are classified as non-current assets.

3. Operating expenses

	6 months to 30 th June 2005 £'000	6 months to 30 th June 2004 £'000	12 months to 31 st December 2004 £'000
Staff costs – salaries	16,664	13,762	29,022
Staff costs – social security	1,740	1,386	2,757
Staff costs – share incentives	254	179	414
Depreciation of property, plant and equipment	1,705	1,180	2,433
Amortisation of intangible assets	55	9	36
Product development capitalised	(2,644)	(1,942)	(4,076)
Product development amortised	2,113	1,776	3,789
Other operating expenses	10,192	8,976	18,018
Other income	(298)	(494)	(688)
Total operating costs	<u>29,781</u>	<u>24,832</u>	<u>51,705</u>

4. Share-based payments

There have been no grants of share incentives during the period. A description of each type of share-based payment can be obtained from the 2004 Annual Report.

The Group grants share incentives to employees in the form of share options and share bonuses. The fair value of all incentives granted since 7th November 2002 and not vested at 1st January 2005 is recognised as an employee expense with a corresponding increase in equity. The fair value has been measured using a binomial model. The material inputs into the model have been:

	Share options granted March 2003	Share options granted March 2004	Share bonuses
Fair value	75.5p	166.9p	368p-488p
Share price at grant	257.5p	560p	405p-537.5p
Exercise price	257.5p	560p	Matching share to ones purchased
Expected volatility	35%	35%	35%
Expected life	6 years	6 years	3 years
Expected dividends	3.2%	3.2%	3.2%
Risk-free rate of return	4.35%	4.63%	n/a

5. Tax

The charge for tax for the six months ended 30th June 2005 has been calculated based on the anticipated effective tax rate for the period. Differences between the anticipated effective tax rate and the statutory rate include but are not limited to the effect of tax rates in foreign jurisdictions, non-deductible expenses, tax incentives not recognised in the profit and loss, the effect of tax losses utilised and under or over provisions in previous periods.

6. Dividends

The dividends paid in the period covered by these financial statements are detailed below.

	Dividend value per share	Dividend value £'000
2003 final dividend paid 7 th June 2004	6.15p	1,955
Special dividend paid 7 th June 2004	25.3p	8,042
2004 interim dividend paid 20 th September 2004	2.7p	858
2004 final dividend paid 6 th June 2005	5.8p	1,855

An interim dividend in respect of 2005 of 3.3p per share, amounting to a total dividend of £1,053,000, was declared by the directors at their meeting on 26th July 2005. This interim dividend will be payable on 26th September 2005 to shareholders on the register at the close of business on 26th August 2005, with an ex-dividend date of 24th August 2005. These financial statements do not reflect this dividend payable.

7. Earnings per share

Earnings per share have been calculated in accordance with IAS 33 Earnings Per Share, by dividing profit attributable to shareholders by the weighted average number of shares in issue during the year. The diluted earnings per share have been calculated using an average share price of 527p (for six months to 30th June

2004 544p, for 12 months to 31st December 2004 495p). The earnings per share from continuing operations excludes the capital repayment of loan notes expensed at the time of the divestment of the Touchpaper business in July 2001.

	6 months to 30 th June 2005	6 months to 30 th June 2004	12 months to 31 st December 2004
	£'000	£'000	£'000
Profit attributable to shareholders	3,512	2,849	7,225
Less gain relating to sale of operation discontinued in prior period	-	-	(500)
	<u>3,512</u>	<u>2,849</u>	<u>6,725</u>
	Number '000	Number '000	Number '000
Average number of shares in issue	32,679	32,679	32,679
Average number of shares held by the employee trusts	(767)	(985)	(909)
Shares used to calculate the basic earnings per share	<u>31,912</u>	<u>31,694</u>	<u>31,770</u>
Dilution due to share options	<u>584</u>	<u>820</u>	<u>686</u>
Shares used to calculate the diluted earnings per share	<u>32,496</u>	<u>32,514</u>	<u>32,456</u>
Basic earnings per share from continuing operations	11.0p	9.0p	21.2p
Diluted earnings per share from continuing operations	10.8p	8.8p	20.7p
Basic earnings per share from total operations	11.0p	9.0p	22.7p
Diluted earnings per share from total operations	10.8p	8.8p	22.3p

8. Property, plant and equipment

	Total	Furniture & Equipment	Long leasehold Buildings	Computers	Vehicles
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 st January 2005	17,961	5,418	468	11,984	91
Exchange adjustment	460	152	29	279	-
Additions	3,214	1,260	-	1,918	36
Disposals	(2,188)	(334)	-	(1,778)	(76)
At 30 th June 2005	<u>19,447</u>	<u>6,496</u>	<u>497</u>	<u>12,403</u>	<u>51</u>
Depreciation					
At 1 st January 2005	11,614	2,977	96	8,492	49
Exchange adjustment	254	58	6	190	-
Charged in the year	1,705	459	8	1,230	8
Disposals	(2,165)	(334)	-	(1,779)	(52)
At 30 th June 2005	<u>11,408</u>	<u>3,160</u>	<u>110</u>	<u>8,133</u>	<u>5</u>
Carrying value					
At 30 th June 2005	8,039	3,336	387	4,270	46
At 31 st December 2004	6,347	2,441	372	3,492	42

9. Intangible assets

	Total	Product development	Software purchased for internal use
	£'000	£'000	£'000
Carrying value at 1 st January 2005	6,681	6,511	170
Exchange adjustments	3	-	3
Additions	2,690	2,644	46
Amortisation	(2,168)	(2,113)	(55)
Carrying value at 30 th June 2005	<u>7,206</u>	<u>7,042</u>	<u>164</u>

10. Trade and other receivables

As at:	30 th June 2005	30 th June 2004	31 st December 2004
	£'000	£'000	£'000
Trade receivables	12,093	8,320	9,230
Prepayments	1,086	1,159	1,379
Accrued revenue	1,430	268	1,346
Other receivables	1,673	1,492	1,718
Total trade and other receivables	<u>16,282</u>	<u>11,239</u>	<u>13,673</u>

11. Current liabilities; trade and other payables

As at:	30 th June 2005 £'000	30 th June 2004 £'000	31 st December 2004 £'000
Trade payables	1,756	1,901	1,989
Accrued expenses	6,180	4,734	6,176
Deferred revenue	6,233	4,876	5,337
Other taxes and social security	1,388	1,101	1,347
Total trade and other payables	<u>15,557</u>	<u>12,612</u>	<u>14,849</u>

12. Explanation of transition to IFRS

As stated in note 1, these are the Group's first consolidated interim financial statements for part of the period that the first annual consolidated financial statements will be prepared in accordance with IFRSs. The accounting policies referred to in note 2 have been applied in preparing the consolidated interim financial statements for the six months ended 30th June 2005, the comparative information for the six months ended 30th June 2004, the financial statements for the year ended 31st December 2004 and the preparation of an opening IFRS balance sheet at 1st January 2004, the Group's date of transition to IFRS.

In preparing its opening IFRS balance sheet, comparative information for the six months ended 30th June 2004 and financial statements for the year ended 31st December 2004, the Group has adjusted amounts reported previously in financial statements prepared in accordance with UK GAAP.

An explanation of how the transition from UK GAAP to IFRS has affected the Group's financial position and financial performance is set out in the following tables and notes accompanying them. There have been no changes to the Group's cash flows as a result of the transition.

Equity as at:		1 st January 2004 £'000	30 th June 2004 £'000	31 st December 2004 £'000
	Note			
Total equity reported under UK GAAP		21,525	23,876	26,753
Intangible assets; product development capitalised	a	6,224	6,390	6,511
Deferred tax liability; product development capitalised	a	(1,867)	(1,917)	(1,953)
Staff benefits; share-based payments	b	(93)	(65)	(22)
Deferred tax asset; share-based payments	b	570	470	370
Dividends payable	c	9,941	858	1,851
Total equity reported under IFRS		<u>36,300</u>	<u>29,612</u>	<u>33,510</u>

Profit for the period:		6 months to 30 th June 2004	12 months to 31 st December 2004
	Note	£'000	£'000
Profit for the period reported under UK GAAP		3,006	7,607
Product development; capitalisation and amortisation	a	166	287
Product development; change in deferred tax liability	a	(50)	(86)
Share-based payments; expensed to profit or loss	b	(152)	(343)
Share-based payments; change in deferred tax asset	b	(121)	(240)
Profit for the period reported under IFRS		<u>2,849</u>	<u>7,225</u>

a. Research and development; IAS 38 Intangible Assets

Under UK GAAP all expenditure on research and development was expensed as incurred. Under IFRS research expenditure is recognised as an expense as incurred but costs incurred on product development are capitalised as intangible assets when it is probable that the project will be a success, considering its commercial and technological feasibility, resources are available to complete the development and costs can be measured reliably. Other development expenditures are recognised as an expense as incurred. Capitalised product development expenditure is amortised over the expected useful life. A deferred tax liability arises on the product development expenditure that has been capitalised.

b. Employee benefits; IFRS2 Share-based Payment and IAS 19 Employee Benefits

The primary change is that IFRS2 requires that the fair value for share incentives to employees be estimated and charged to the profit and loss account over the vesting period of the incentive. This only applies to share incentives granted and awarded since November 2002 and not vested at 1st January 2005. The standard also requires that the potential tax benefit to employing companies from share incentives being exercised in the future be recorded as a deferred tax asset based on the intrinsic value of the incentives at the balance sheet date. Tax charges and credits are only reflected in the income statement for incentives granted after November 2002 for which the fair value is charged to the profit and loss account.

c. Dividends payable

Under IFRS dividends are charged to the profit and loss account when approved and not in the period to which they relate as required by UK GAAP. This typically results in dividends being deducted from equity in a later period.

IFRS 1 First-time Adoption of International Financial Reporting Standards sets out the transition rules, which must be applied, when IFRS is adopted for the first time. The standard sets out certain mandatory exemptions to retrospective application and certain optional exemptions. The most significant optional exemptions available and taken by the Group are as follows:

- (i) Share-based transactions; the Group adopted the exemption in IFRS 1 which allows a first-time adopter to apply the new standard only to share options and equity instruments granted after 7th November 2002 that have not vested by 1st January 2005.
- (ii) Cumulative translation differences; under IAS 21 The Effects of Changes in Foreign Exchange Rates cumulative translation differences within reserves are recycled from equity to the income statement on disposal of a foreign operation. In order to eliminate the need to retrospectively apply this requirement, the Group took the exemption to set cumulative translation differences to zero at the date of transition.

13. Contingent liability

As disclosed in the 2004 Annual Report, Lava Trading Inc. has filed a patent infringement claim in the US against the Group. Due to the uncertainty of the eventual outcome of this case, no provision is being made in accordance with the requirements of IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'.

14. 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 9 to 21 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 financial statements except where any changes, and the reasons for them, are disclosed.

As disclosed in note 1 to the financial information, the next annual financial statements of the group will be prepared in accordance with IFRSs adopted for use in the European Union. The accounting policies that have been adopted in preparing the financial information are consistent with those that the directors currently intend to use in the next annual financial statements. There is, however, a possibility that the directors may determine that some changes to these policies are necessary when preparing the full annual financial statements for the first time in accordance with those IFRSs adopted for use by the European Union. This is because, as disclosed in note 1, the directors have anticipated that certain standards, which have yet to be formally adopted for use in the EU, will be so adopted in time to be applicable to the next annual financial statements.

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 2005.

KPMG Audit Plc
Chartered Accountants
Crawley
29th July 2005