

royalblue group plc

preliminary results for the year ended 31st December 2005

13th February 2006

royalblue reports strong organic growth with positive outlook

	2005	2004	Change
Revenue	£74.2m	£59.8m	+24%
Operating profit	£9.6m	£8.1m	+19%
Pre-tax profit	£11.3m	£9.8m	+15%
Diluted earnings per share	31.0p	22.3p	+39%
Dividend per share	10.3p	8.5p	+21%

All figures, including comparatives, are presented using IFRS.

Highlights for the year ended 31st December 2005:

- Strong organic growth from core products.
- Recurring revenue up 33%, now representing 67% of total revenue.
- Consultancy revenue up 22%.
- Encouraging progress with new product initiatives.

Commenting on these results and current trading, Chris Aspinwall, Chief Executive, said:

“During 2005 we have seen continued strength within our core business coupled with good progress in sales resulting from our investment programmes. This has continued the momentum we saw in the first-half resulting in an increase in revenue of 24% over last year. Recurring revenue, representing annual licence and service fees, has grown 33% over the year to £49.7m, now accounting for 67% of total revenue. Consultancy revenue has also continued to grow, up 22% in the period. The business has continued to be strongly cash generative with net cash generated from operating activities of £14.1 million.

Looking ahead to 2006, we expect that the core business will continue to perform strongly, driven by the increasing acceptance of **Fidessa** within the global markets, new business opportunities and regulatory changes in all regions. In parallel, we will continue with our investment programmes, increasing the global coverage of our data services, expanding the connectivity network, extending our product offerings in the buy-side and adding derivative functionality across the product set.

Overall, we expect that the strong trading conditions combined with the sales resulting from our investment programmes will result in growth levels for 2006 broadly similar to those we have seen this year. The amount of work to be completed under our investment programmes remains substantial and therefore we do not anticipate any significant change in the operating margin. We remain excited and encouraged about the prospects for our expanded range of products and services and believe that they will provide a firm foundation for further growth.”

On the key operational highlights for the year, Chris Aspinwall added:

“The strong progress in the core business has been reflected in sales of seven **enterprise Fidessa** systems and 19 new **hosted Fidessa** deals. The total **Fidessa** user base now exceeds 8,000 screens. Sales of the core platform are continuing to be driven by our customers' need for an industrial strength trading platform in order to remain competitive in the current challenging market conditions coupled with the market leading level of functionality offered by **Fidessa**. Going forward we see this trend continuing as we extend the functionality of the core platform. In addition, we expect that opportunities will be created by the regulatory changes coming into the markets such as Regulation National Market System (RegNMS) in the US and the Markets in Financial Instruments Directive (MiFid) in Europe.

As a result of our ongoing investment programmes we are starting to see strong progress in new areas of the market. Our market data business has continued to expand with coverage of 28 markets and over 2,500 positions now taking market data through the **Fidessa** service. The **Fidessa Connectivity Network** has continued to grow with well in excess of 1,000 connections running across the network. Our move into the buy-side has been very encouraging with 21 clients signed since a standing start in May and a very strong pipeline developing. We are also very encouraged by the number and quality of the sell-side firms that are keen to offer their broking and execution services through the **Fidessa connectivity network** and our buy-side **Execution Management** (EMS) product. We feel that this is strong endorsement for all our connectivity services but particularly for our EMS product which, we believe, reflects the market belief that there is a need for a high quality, independent, multi-broker offering to provide execution services to the buy-side.

Our derivatives initiative remains on schedule to commence initial deliveries during the first-half of 2006 as we develop the first truly integrated full functionality system for combined cash and derivatives trading. We have already signed our first customer to take the initial deliveries and have a good pipeline of further prospects for this service.”

Financial Summary

In the year strong growth in revenue has been achieved, up 24% to £74.2 million, from £59.8 million last year. This headline growth is supported by the underlying growth in both recurring and consultancy revenue. The momentum in the recurring revenue has been maintained, up 33% at £49.7 million and now representing 67% of the total revenue. The improvement seen in consultancy revenue since the second-half of 2004 has continued with the revenue up 22% in the year at £24.1 million, now representing 32% of the overall revenue. Looking at the breakdown of recurring revenue across our three areas of focus, indicative values for 2005 are that £41 million arose from trading, £7 million arose from connectivity and £2m arose from market data. It should be noted that there is a degree of subjectivity in this breakdown as some services can fall across more than one of these areas and the breakdown is likely to be refined further in future periods.

Operating profit has increased to £9.6 million from £8.1 million in the prior year, an increase of 19%. As commented in the 2005 Interim Report and the 2004 Annual Report, a reduction in the margin of around 1 percentage point was to be expected as a result of our investment programmes, and the operating margin is 13.0% compared to 13.5% in 2004.

The net interest earnings are consistent at £1.7 million. In accordance with IAS39 Financial Instruments: Recognition and Measurement, the interest earnings now includes the capital repayments on the Touchpaper “B” Loan Notes. During the year we received £0.5 million of capital

repayments and £0.3 million of interest payments from the loan notes, the same as in the prior year.

The tax charge for the year has benefited from the conclusion of enquiries into the treatment of share options in previous years; this provided a tax credit of £1.5 million. Excluding this one-off adjustment for prior years, the effective tax rate is 24%, compared to 26% in 2004.

The headline diluted earnings per share are 31.0p, up from 22.3p, an increase of 39%. However, these numbers include the capital repayments on the Touchpaper loan note and the one-off tax adjustment in respect of prior years, neither of which may recur in future years. Excluding these items, the diluted earnings per share on a comparable basis are up 20% at 24.8p, from 20.7p in 2004. The total dividends proposed for the year are 10.3p compared to 8.5p, an improvement of 21%. The proposed final dividend is 7.0p and, if approved by shareholders, will be paid on 5th June 2006.

Staff numbers have increased to service the revenue growth and the investment programmes. The average headcount in 2005 was 588, up 21% from 485 in 2004. The staff numbers at the year end had increased to 640.

The business continues to be cash generative with £14.1 million net cash generated from operating activities (2004 £13.1 million). However, the investment programmes and dividends restrict the overall cash increase to £1.5 million in the year, the cash balance at 31st December 2005 being £26.1 million.

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 or the cash flows of the business. 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 year, this change results in expenditure capitalised of £5.4 million and amortisation of £4.4 million. The other area of change for royalblue is the expensing of share incentives to the income statement. This results in a charge of £0.5 million against operating profit in the year. A fuller explanation of the transition to IFRS is presented in the notes to the financial statements.

Operations

Introduction

During 2005 we have continued to make progress with all our core services whilst also seeing encouraging results from the new developments coming out of our investment programmes. We have made strong sales of **enterprise Fidessa** across the world, including deals with large tier one firms which had taken **Fidessa** on a perpetual licence basis prior to 2000 and have now moved across to the latest versions of the software on an enterprise rental basis. The ability of large firms to move across to the latest product set is fundamental to our strategy of providing a complete service across all tiers of the market and ensuring that our largest customers do not have products which become legacy. In parallel, we have made good progress with **hosted Fidessa**, signing 19 new deals and the total number of users now using **hosted Fidessa** has increased to in excess of 2,100. The increase in user numbers has been driven by the addition of new users within existing customers as well as sales of new systems. The additions at existing customers have typically been as a result of extensions to the functional line rather than adding

traders to an existing trading desk. Consultancy has continued to improve across all regions driven by increased activity in the market as well as our growing customer base and this has resulted in an increase in consultancy revenue of 22% over the previous year.

To cope with the growing demand for our **hosted Fidessa** services we have continued the extensions to our data centres and global network. During 2005 we have introduced two new data centres in Tokyo, one new data centre in Hong Kong and relocated one data centre to a larger facility in North America. In parallel, we have enlarged our primary data centre in Europe. We have introduced network capacity between our hubs in Asia and extended our capacity between Europe and North America. We plan to continually increase capacity in line with customer demand and expect to bring additional network capacity on stream during 2006. We also plan additional data centre extensions with additional facilities being brought on line in Hong Kong and Europe during the first-half. It is expected that further capacity may be added in Europe later in 2006.

Throughout all its regions **royalblue** has a strong commitment to quality across all its offerings. The firm is independently certified to ISO 9001 and during 2005 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.

As a change from previous reports the following sections describe our progress in the primary areas in which we provide services, namely Trading, Connectivity and Market Data. This is as opposed to the regional format we have used in the past. This change reflects the increasingly global nature of our business and the fact that many individual sales now encompass functionality across more than one region.

Trading

During 2005 we have seen a strong performance throughout our trading business with 19 new sales of our **hosted Fidessa** service and seven new **enterprise Fidessa** deals being signed. Of these **hosted Fidessa** deals, 12 are in Europe with the remainder in North America. The sizes of these systems range from small scale with only a few traders to larger scale implementations supporting over 40 users. With the introduction of the new hosted facilities in Asia we are starting to offer our customers extensions to their **hosted Fidessa** platforms to allow them to trade the Asian markets. Our data centres in Hong Kong and Tokyo are now operational with their first hosted customers connected to our global network and coupled with the market data being added for this region, it allows us to offer the same **Fidessa** services in Asia as we do in the rest of the world.

In Europe the strong markets and growing volumes have driven sales not only for the core **Fidessa** offering, but also for extensions across a whole range of functionality. These extensions have ranged from broker and RSP (Retail Service Provider) access through the **Fidessa connectivity network** to support for DMA (Direct Market Access), market data, VWAP and pairs trading. Going forward, we expect these trends to continue as the services offered by our customers become increasingly complex to match the demands of their clients. We are also seeing changes in the regulatory landscape with the largest of these being MiFid. Although there are still details of the rules to be finalised, MiFid will increase the obligation on brokers to establish and monitor the way in which they manage orders and executions. This will make it much harder for any broker to continue without a solution such as **Fidessa** in place.

We have extended the trading functionality within our workstation product with the addition of buy-side execution functionality. This product, which was introduced in Europe in May 2006, has made an extremely encouraging start and is already established at 21 customers. We expect to

extend this product rapidly, both functionally and geographically. The execution management functionality within the workstation is also proving popular with brokers wishing to receive order flow from the **Fidessa connectivity network** and we now have eight brokers across Asia using it for this purpose.

In North America, the markets continue to move rapidly with the changing regulatory environment as well as structural changes across the markets. An increasing number of **Fidessa** sales in the US now include support for cross-border order flow as well as for the domestic US market. We expect this to become an increasingly defining feature of this market as firms compete to identify a unique proposition that they can offer on a global basis. On the regulatory side there is a substantial change, with RegNMS, which is expected to come into force during 2006. The new regulations are designed to enhance and modernise the regulatory structure of the US equity markets with additional rules to address execution, market access, pricing and dissemination of market information. Although the exact implication of these rules is still to become clear, one aspect of the new execution rules may have quite a far reaching impact on the market. This aspect requires market centres to establish, maintain and enforce policies to prevent "trade-throughs"¹. This has already had implications for NYSE, which is the largest market in the US and is currently floor based, as it would not be protected by the rule which is intended to apply to fast electronic markets. In reaction, the central markets in the US are making an increasing commitment to technology-focused trading. NYSE is proceeding with the purchase of ARCA, an electronic market that has traditionally traded NASDAQ securities, which will give NYSE a very quick entry into electronic trading. In a similar move, NASDAQ has increased its own liquidity with the purchase of INET, another electronic market. It is also expected that some other markets, including derivative markets, may enter the equity trading arena and offer "protected quotes"² further fragmenting liquidity. As with most regulatory changes occurring within our markets, we expect that RegNMS will result in increased automation and create trading opportunities which stimulate demand for further applications within **Fidessa**.

In Japan, the strong equity market has contributed to a 100% increase in exchange transactions. The record volumes have both put a strain on the exchanges and generated interest in **Fidessa** which, from its US pedigree, is able to process volumes substantially ahead of the levels typically seen in Japan. This has directly resulted in a further tier one Japanese bank signing to take our market connectivity solution. The strength of **Fidessa** in the Asia region has also been seen in Hong Kong where in addition to the deal we signed with an Australian bank earlier in the year we have also won a further **enterprise Fidessa** customer. As new customers go live the total volume of order flow passing through **Fidessa** systems in the Asian region is gradually increasing and in the largest market, Tokyo, we would expect this total to be nearing 20% by the end of 2006.

We have commenced our development programme to add support for trading a range of derivative products through **Fidessa** alongside the existing cash product. We believe that the timing for this initiative is right and that the derivative market is set for a period of growth. According to a study from Aite Group, "Derivatives Management: Ready for Prime Time?", industry spending on derivatives management technology is expected to exceed \$7 billion by 2009 as demand for derivatives products grows. We believe that this will translate into the requirement for a high

¹ The execution of an order in its market at a price that is inferior to a price displayed in another market.

² The trade through rule applies to the best quote in each market centre so the best quote is referred to as "protected".

quality, industrial strength trading platform providing the same level of automation that firms have been used to in the cash trading side of their business. The combined cash and derivative platform, developed within **Fidessa**, will leverage the enormous investment in our core software, providing a highly resilient, fast, scalable and functionally rich platform which will enable sell-side firms to reduce the high costs and inefficiencies associated with the traditional silo approach. In addition, the growing burden of compliance and reporting requirements make it attractive for firms to reduce the number of systems and, wherever possible, to centralise all the trading information about their clients' transactions irrespective of asset class.

We are seeing the beginning of this move within our client base as they accommodate new investors, such as hedge funds and algorithmic traders, who wish to execute complex strategies that cut across different asset classes. We also see the exchanges themselves reacting, with derivative exchanges considering listing cash product as a result of RegNMS and ARCA (soon to be part of NYSE) looking to migrate its derivatives and cash technology onto the same platform.

We have already signed our first customer to take the initial deliveries from our derivatives programme, which will be rolling out during the first-half, and have a good pipeline of further prospects for this new service. Further rollouts will continue throughout the year as the full multi-asset class product develops.

Market Data

Our market data business has continued to develop during 2005 as we have increased our market coverage and extended the functional line of the workstation product. We now have well over 2,500 market data users spread across over 100 clients. Of these over 1,700 are pure workstation users with the remainder taking data integrated with their **Fidessa** trading products. Market data coverage has been extended to incorporate real-time data from Athens, Toronto, Johannesburg and Plus Markets in the UK as well as full support for US Level 2 (depth of book). We have also extended coverage of fundamental data to include corporate actions, dividends, fundamentals, company accounts, broker forecast data and historical charting across Europe and North America. In preparation for our developments in Asia, we have added static trading data for 12 Asian markets for non-member trading and plan to add real-time coverage for Osaka and Tokyo during 2006. In line with our derivatives initiative we will begin supporting market data for derivatives from Euronext and Eurex during 2006.

In addition to providing market data to customers in Europe, we have extended our market data services within our US customer base. Traditionally we supply US market data to **hosted Fidessa** customers but **enterprise Fidessa** customers have taken data from other sources. During 2005 we have made market data available to **enterprise Fidessa** customers as well and now have the majority of these customers taking US market data directly through our service.

Connectivity

During 2005 we have seen continued expansion of the **Fidessa connectivity network** with well in excess of 1,000 connections now running across it. This network now runs across all the services we offer, providing connectivity between the buy-side and sell-side, between the sell-side and the exchanges, to the Indication-of-Interest networks, to the RSPs and our own remote broking network. As we have expanded the service we have seen continuous demand from brokers across a wide range of locations wishing to join the network to receive order flow.

In Europe, we continue to have one of the largest RSP networks with 17 RSPs providing service whilst the total number of brokers providing remote execution services over the network has increased to over 60. The **Fidessa connectivity network** also provides connectivity to the

brokers participating on our EMS workstation and this now stands at 20. We are particularly pleased with the quality of the brokers that are participating in this service which includes many tier one firms such as Merrill Lynch, Morgan Stanley and Credit Suisse. In January 2006 we announced that Goldman Sachs had joined the network and that **Fidessa** clients are now able to access Goldman's GSAT® Algorithmic Trading services as well as route care order flow and perform DMA trading.

The strength of the Asian markets has stimulated interest from abroad in trading these markets which is driving demand for a high quality electronic connectivity service. As we extend our hosted offerings we are now bringing the **Fidessa connectivity network** into this region and already have our first customers in place routing order flow across our network into the Asian markets.

The **Fidessa connectivity network** has been instrumental in allowing us to sign more customers who wish to trade through remote memberships and this now helps to leverage sales of our trading functionality. We believe this network will continue to perform an important function in leveraging all aspects of **Fidessa** including the new services we are developing and will help to make these services available quickly to the widest possible audience.

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 lodged the appeal which was heard in December 2005. A decision by the Appeals Court is expected shortly.

Employees

On behalf of all **royalblue**'s shareholders, the Board would like to extend its sincere thanks to all employees. The strength of **royalblue**'s unrivalled product range is a testament to their skill and dedication in making **royalblue** into a truly global services business.

The Board believes that well constructed and executed share incentive schemes still form a key reward and lock-in tool for both employees and management. In line with this policy an Extraordinary General Meeting has been called requesting the approval of a new employee share option scheme to replace the one that is due to expire in the first-half of 2007. In conjunction with this new scheme is a proposal for a plan focused at the senior managers that requires exceptional performance (an average of 20% growth per annum over ten years) for all rewards to vest. The Board has consulted extensively with shareholders on the structure of both of these schemes and

has been very encouraged by the positive contribution the shareholders have made in their development. The Board expects both schemes to be approved at the EGM.

Outlook

Looking ahead we expect that trading will remain strong into 2006. We anticipate continued increases in revenue across all product lines and regions resulting in an overall growth rate similar to that achieved 2005. We plan to continue our high level of investment bringing our four major initiatives to fruition and this is expected to result in the operating margin remaining at a similar level to that achieved this year.

Looking further ahead, we are seeing the increasing leverage between our **Fidessa** services working to drive the business forward and believe that each of our key areas of trading, market data and connectivity will become an important revenue stream in its own right. We also believe that there will be a growing trend towards globalisation of order flow over the next few years and that the services we are now developing will become an increasingly unique and valuable commodity providing the opportunity for further growth in the future.

enquiries:

John Hamer, Chairman

Edward Bridges, Financial Dynamics

Chris Aspinwall, Chief Executive

Tel: 020 7831 3113

Andy Malpass, Finance Director

Fax: 020 7831 6341

www.fidessa.com

Tel: 01483 206300

Fax: 01483 206301

Consolidated Income Statement

for the year ended 31st December 2005

	Note	2005 £'000	2004 £'000
Revenue	2	74,234	59,768
Operating expenses	3	(65,199)	(52,393)
Other operating income		594	688
Operating profit		9,629	8,063
Interest receivable	5	1,707	1,741
Interest payable		-	(2)
Profit before income tax		11,336	9,802
Income tax expense	6	(1,240)	(2,577)
Profit for the period		10,096	7,225
Basic earnings per share	7	31.6p	22.7p
Diluted earnings per share	7	31.0p	22.3p
Interim dividend paid		3.3p	2.7p
Final dividend proposed		7.0p	5.8p
Total dividend		10.3p	8.5p

Consolidated Balance Sheet

at 31st December 2005

	Note	2005 £'000	2004 £'000
Assets			
Non-current assets			
Property, plant and equipment		8,757	6,347
Intangible assets		7,984	6,681
Deferred tax assets		3,165	1,993
Other receivables		898	898
Total non-current assets		20,804	15,919
Current assets			
Trade and other receivables	8	18,615	12,787
Income tax receivable		672	886
Cash and cash equivalents		26,120	24,590
Total current assets		45,407	38,263
Total assets		66,211	54,182
Equity			
Issued capital		3,272	3,268
Share premium		11,743	11,610
Translation reserve		(51)	(206)
Retained earnings		27,241	18,838
Total equity		42,205	33,510
Liabilities			
Non-current liabilities			
Other payables		548	328
Deferred tax liabilities		1,264	1,953
Total non-current liabilities		1,812	2,281
Current liabilities			
Trade and other payables	9	20,676	14,849
Current income tax liabilities		1,518	3,542
Total current liabilities		22,194	18,391
Total liabilities		24,006	20,672
Total equity and liabilities		66,211	54,182

Consolidated Statement of Changes in Shareholders' Equity

	Share capital £'000	Share premium £'000	Cumulative translation adjustment £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2004	3,268	11,610	-	21,423	36,301
Gain on sale of own shares by employee share trust	-	-	-	250	250
Income tax deduction recognised direct to equity	-	-	-	279	279
Deferred tax recognised direct to equity	-	-	-	(240)	(240)
Currency translation adjustments	-	-	(206)	-	(206)
	-	-	(206)	289	83
Profit for the period from the income statement	-	-	-	7,225	7,225
Total income and expense for the period	-	-	(206)	7,514	7,308
Employee share incentive charges	-	-	-	414	414
Purchase of shares by employee share trust	-	-	-	(308)	(308)
Capital proceeds from sale of own shares by employee share trust	-	-	-	650	650
Dividends paid	-	-	-	(10,855)	(10,855)
Balance at 31 December 2004	3,268	11,610	(206)	18,838	33,510
Gain on sale of own shares by employee share trust	-	-	-	89	89
Income tax deduction recognised direct to equity	-	-	-	39	39
Deferred tax recognised direct to equity	-	-	-	794	794
Currency translation adjustments	-	-	155	-	155
	-	-	155	922	1,077
Profit for the period from the income statement	-	-	-	10,096	10,096
Total income and expense for the period	-	-	155	11,018	11,173
Exercise of share options	4	133	-	-	137
Employee share incentive charges	-	-	-	538	538
Purchase of shares by employee share trust	-	-	-	(312)	(312)
Capital proceeds from sale of own shares by employee share trust	-	-	-	67	67
Dividends paid	-	-	-	(2,908)	(2,908)
Balance at 31 December 2005	3,272	11,743	(51)	27,241	42,205

Consolidated Cash Flow Statement

for the year ended 31st December 2005

	Note	2005 £'000	2004 £'000
Cash flows from operating activities			
Profit before tax		11,336	9,802
Adjustments for:			
Staff costs – share incentives	3	538	414
Product development amortised	3	4,373	3,789
Depreciation of property, plant and equipment	3	3,604	2,433
Amortisation of other intangible assets	3	152	36
Loss on sale of property, plant and equipment	3	4	8
Interest receivable		(1,707)	(1,741)
Interest payable		-	2
Cash generated from operations before changes in working capital		18,300	14,743
Movement in trade and other receivables		(5,653)	(623)
Movement in trade and other payables		5,223	683
Cash generated from operations		17,870	14,803
Income tax paid		(3,808)	(1,748)
Net cash generated from operating activities		14,062	13,055
Cash flows from investing activities			
Purchase of property, plant and equipment		(5,641)	(4,043)
Proceeds from sale of property, plant and equipment		20	11
Purchase of other intangible assets		(403)	(191)
Product development		(5,418)	(4,076)
Interest received		1,197	1,235
Proceeds from capital repayment of Touchpaper "B" Loan		500	500
Interest paid		-	(2)
Net cash used in investing activities		(9,745)	(6,566)
Cash flows from financing activities			
Proceeds from shares issued		137	-
Purchase of own shares by employee share trust		(312)	(309)
Proceeds from sale of own shares by employee share trust		156	901
Dividends paid		(2,908)	(10,855)
Net cash used in financing activities		(2,927)	(10,263)
Net increase/(decrease) in cash and cash equivalents		1,390	(3,774)
Cash and cash equivalents at 1 st January		24,590	28,498
Effect of exchange rate fluctuations on cash held		140	(134)
Cash and cash equivalents at end of period		26,120	24,590

Notes

- 1 The Group is preparing its financial statements in accordance with IFRS as adopted by the European Union for the first time and consequently has applied IFRS 1 First-time Adoption of International Financial Reporting Standards.

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.

The financial statements are prepared on the historical cost basis with the exception of financial instruments which are stated in accordance with IAS 39 Financial Instruments: Recognition and Measurement.

The accounting policies of the Group under previous UK GAAP are detailed in the 2004 Annual Report and Accounts and have been amended as discussed in the 2005 Interim Report. The revised accounting policies of the Group conform to IFRS.

The financial information set out above does not constitute the group or company's statutory accounts for the years ended 31 December 2005 or 2004. Statutory accounts for 2004, which were prepared under UK GAAP, have been delivered to the registrar of companies, and those for 2005, prepared under IFRS, will be delivered in due course. The auditors have reported on those accounts; their reports were (i) unqualified, (ii) did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their reports and (iii) did not contain statements under section 237(2) or (3) of the Companies Act 1985.

2 Segmental reporting

The group operates in one business segment; that of supply of software to financial institutions. The operations are monitored by the geographic regions of Europe, North America and Asia. Certain activities and costs are managed and monitored centrally. Tax assets and liabilities and the intangible asset for product development capitalised are excluded from segment assets and liabilities. The segment information in respect of the regions is presented below.

For the year ended 31 st December 2005	Europe	North America	Asia	Total
	£'000	£'000	£'000	£'000
Segment revenue	40,391	23,754	10,089	74,234
Segment result	10,395	810	5,255	16,460
Product development amortised				(4,373)
Central costs				(2,458)
Operating profit				9,629
Capital additions	3,379	2,225	440	6,044
Depreciation and amortisation	1,966	1,665	125	3,756
Segment assets	36,676	12,840	5,302	54,818
Segment liabilities	13,559	6,557	1,108	21,224
For the year ended 31 st December 2004	Europe	North America	Asia	Total
	£'000	£'000	£'000	£'000
Segment revenue	30,328	19,904	9,536	59,768
Segment result	6,010	2,127	5,908	14,045
Product development amortised				(3,789)
Central costs				(2,193)
Operating profit				8,063
Capital additions	2,079	1,847	308	4,234
Depreciation and amortisation	1,309	1,132	28	2,469
Segment assets	33,132	8,738	2,922	44,792
Segment liabilities	10,545	4,068	564	15,177

3 Operating expenses

	2005	2004
	£'000	£'000
Staff costs – salaries	35,527	29,022
Staff costs – social security	3,625	2,757
Staff costs – share incentives	538	414
Total staff costs	39,690	32,193
Depreciation of property, plant and equipment	3,604	2,433
Amortisation of intangible assets	152	36
Product development capitalised	(5,418)	(4,076)
Product development amortised	4,373	3,789
Auditor's remuneration for the Company	35	40
Auditor's remuneration for other companies in the Group	128	125
Fees paid to auditor for non-audit related work	60	45
Operating lease rentals – property	2,539	2,420
Operating lease rentals – plant and machinery	31	58
Loss on sale of property, plant and equipment	4	8
Exchange (gains)/losses	(747)	340
Other operating expenses	20,748	14,982
Total operating expenses	65,199	52,393

4 Staff numbers

The average number of people employed by the Group during the year was as follows:

	2005	2004
	Number	Number
Europe	338	290
North America	206	162
Asia	44	33
Total average staff numbers	588	485

	At 31 st December	At 31 st December
	2005	2004
	Number	Number
Technical	317	269
Product development	123	102
Sales and marketing	49	32
Management and admin	99	82
Total average staff numbers	588	485

5 Interest receivable

	2005	2004
	£'000	£'000
Interest receivable	877	915
Interest received on Touchpaper "A" and "B" Loan Notes	330	326
Capital repayment of Touchpaper "B" Loan Notes	500	500
Total interest receivable	<u>1,707</u>	<u>1,741</u>

In accordance with IAS 39 Financial Instruments: Recognition and Measurement, where the effective interest rate has been and is still assessed as being zero, both capital and interest amounts received are recognised as income on receipt.

6 Income tax expense

	2005	2004
	£'000	£'000
Current tax expense		
Current year domestic	2,720	2,652
Current year foreign	953	449
Adjustments for prior years	(1,492)	(110)
Total current tax expense	<u>2,181</u>	<u>2,991</u>
Deferred tax expense		
Origination and reversal of temporary differences	(120)	320
Benefit of tax losses recognised	(821)	(734)
Total deferred tax expense	<u>(941)</u>	<u>(414)</u>
Total income tax expense in income statement	<u>1,240</u>	<u>2,577</u>

Reconciliation of effective tax rate	2005	2005	2004	2004
		£'000		£'000
Profit before tax		<u>11,336</u>		<u>9,802</u>
Income tax using the domestic corporation tax rate	30%	3,401	30%	2,941
Effective tax rates in foreign jurisdictions		(201)		10
Expenses not deductible for tax purposes		148		253
Tax incentives		(447)		(367)
Utilisation of tax losses		(19)		-
Capital repayment not taxable		(150)		(150)
Adjustment relating to prior years		(1,492)		(110)
Tax expense and effective tax rate for the year	11%	<u>1,240</u>	26%	<u>2,577</u>

7 Earnings per share

	2005	2004
	£'000	£'000
Profit attributable to shareholders	10,096	7,225
Less gain relating to capital repayment of Touchpaper "B" Loan Notes	(500)	(500)
Profit attributable to shareholders excluding gain	<u>9,596</u>	<u>6,725</u>
Less tax adjustment from prior years	<u>(1,492)</u>	-
Profit attributable to shareholders excluding gain and tax adjustment from prior years	<u>8,104</u>	<u>6,725</u>
	2005	2004
	Number '000	Number '000
Weighted average number of shares in issue	32,687	32,679
Weighted average number of shares held by the employee trusts	(761)	(909)
Shares used to calculate basic earnings per share	<u>31,926</u>	<u>31,770</u>
Dilution due to share options and warrants	<u>691</u>	<u>686</u>
Shares used to calculate diluted earnings per share	<u>32,617</u>	<u>32,456</u>
Basic earnings per share excluding gain and tax adjustment from prior years	25.4p	21.2p
Diluted earnings per share excluding gain and tax adjustment from prior years	24.8p	20.7p
Basic earnings per share from tax adjustment from prior years	4.7p	-
Diluted earnings per share from tax adjustment from prior years	4.6p	-
Basic earnings per share excluding capital repayment	30.1p	21.2p
Diluted earnings per share excluding capital repayment	29.4p	20.7p
Basic earnings per share on gain relating to capital repayment of Touchpaper "B" Loan Notes	1.5p	1.5p
Diluted earnings per share on gain relating to capital repayment of Touchpaper "B" Loan Notes	1.6p	1.6p
Basic earnings per share	31.6p	22.7p
Diluted earnings per share	31.0p	22.3p

8 Trade and other receivables

	2005	2004
	£'000	£'000
Trade receivables	14,657	9,230
Amount due from subsidiaries	-	-
Prepayments	1,639	1,379
Accrued revenue	1,262	1,346
Other receivables	1,057	832
Total trade and other receivables	<u>18,615</u>	<u>12,787</u>

9 Current liabilities; trade and other payables

	2005	2004
	£'000	£'000
Trade payables	1,640	1,989
Amount due to subsidiaries	-	-
Accrued expenses	9,064	6,176
Deferred revenue	8,327	5,337
Other taxes and social security	1,645	1,347
Total trade and other payables	<u>20,676</u>	<u>14,849</u>

10 Explanation of transition to IFRS

These are the Company's and the Group's first consolidated financial statements prepared in accordance with IFRSs. The accounting policies applied in preparing the consolidated financial statements for the year ended 31st December 2005, the comparative information 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 and comparative information 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:		31 st December 2004	1 st January 2004
	Note	£'000	£'000
Total equity reported under UK GAAP		26,753	21,525
Intangible assets; product development capitalised	a	6,511	6,224
Deferred tax liability; product development capitalised	a	(1,953)	(1,867)
Staff benefits; share-based payments	b	(22)	(93)
Deferred tax asset; share-based payments	b	370	570
Dividends payable	c	1,851	9,941
Total equity reported under IFRS		<u>33,510</u>	<u>36,300</u>

Profit for the period:		12 months to 31 st December 2004
	Note	£'000
Profit for the period reported under UK GAAP		7,607
Product development; capitalisation and amortisation	a	287
Product development; change in tax charge	a	(86)
Share-based payments; expensed in the income statement	b	(343)
Share-based payments; change in tax charge in the income statement	b	(240)
Profit for the period reported under IFRS		<u>7,225</u>

An explanation of how the transition from UK GAAP to IFRS has affected the Group's earnings per share for the 12 months to 31st December 2004 is in the table below.

	Under UK GAAP	Effect of transition to IFRS	IFRS
Basic earnings per share	23.9p	(1.2p)	22.7p
Diluted earnings per share	23.4p	(1.1p)	22.3p

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 development will provide economic benefit, considering its commercial and technological feasibility, resources are available for 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 income statement 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 all 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 income statement.

c. Dividends payable

Under IFRS dividends are charged to the income statement when paid or approved and not in the period to which they relate as required previously by UK GAAP. This typically results in dividends being deducted from equity in a later period.