IS Solutions Plc

Annual Report and Accounts
31st December 2003

UK Registerd Office

Windmill House
91-93 Windmill Road
Sunbury-on-Thames
Middlesex
TW16 7EF

Registered number 1892751

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COMPANIES HOUSE 0546
09/07/04

Statement by the Chairman

The 2003 results were in line with expectations with turnover for the full year at £5.985 million (2002: £7.426 million) and pre-tax, pre-goodwill profit of £265k (2002: loss £932k). Earnings per share (excluding goodwill amortisation) were 0.94 pence (2002: loss 3.3 pence) with net assets at 31st December 2003 standing at £2.954 million (2002: £3.190 million). Net cash increased in the year to £1.551 million as at 31st December 2003 (2002: £1.094 million).

Although costs remain in line with the level of turnover, the board feels it is prudent not to pay any dividend until greater signs of an upturn are in evidence.

As stated at the half year, the market for the IT industry in the U.K. remained weak but with the cost controls implemented previously the Group has moved back towards break even.

2003 was the third year running that we experienced restricted investment in IT projects, however the serious decline does appear to have flattened out and the research and investment in new areas (Mobility and Analytics) for business opportunity is expected to bear fruit in the near future.

The second half of the year was disappointing for Outsourcing as, although no contracts were lost, pressure on pricing dropped the overall level of revenue. Despite this however, it still remained a net contributor to the Group and still covers a substantial proportion of the total overheads.

The Financial Products area continued to do well with a number of new customers being signed up in the year for our share data feeds including tonycraze.com, computing.co.uk and The Forsythe Group.

Personnel

Headcount remained flat throughout the year with a zero attrition rate reflecting the general condition of the IT employment market. As we proceed through 2004 we would expect competition for skilled personnel to toughen slightly as the general market improves. The Board would like to express its thanks to all our employees for their mature and professional approach in what has been a difficult three years for our industry.

Outlook

During the first quarter of 2004 we have seen a significant increase in the number of requests for quotes and although this has yet to turn into real business, it is an indication of an improving economic climate in the IT sector. This, coupled with the exploration of new areas of business, leads the Board to be more optimistic about prospects.

Barry Clark, Chairman – 2nd April 2004

Statement by the Managing Director

As our Chairman has stated, 2003 was the third year in which we have seen a downturn in the level of investment in IT projects although the decline appears to have now levelled off.
During the year we won our first local government portal contract in conjunction with Compuware, who we are now partnering with to target other areas of government.

More detail of this is covered in the case study on 'Webster' that follows this report but the tri-partite agreement we have with Torfaen County Borough Council and Compuware to jointly market into this area should bear fruit as we move through 2004.

During the year we continued to invest in our new areas of Analytics and Mobility Services as well as pushing forward with the Financial Feeds business. Below is a brief update on the progress in these areas.

Analytics
2003 saw the signing of our first contracts for the Managed Service offering of our EyeSite brand along with a number of studies for both existing and new customers. We also broadened the EyeSite brand offering by the addition of the Webtrends product from NetIQ. This allows us to offer a lower entry point for Analytics to our customers and is already proving popular with 14 new customers signed up in the second half of the year.

One further benefit from our move into Analytics is the opportunities it is opening up for our more traditional consultancy and design work as a result of the studies and the general broadening of the customer base.

Mobility Services
Mobility Services has been slower to get off the ground than we had hoped although we still believe that it is an area we should continue to develop. Our major focus is still around the Toyota 'GetMeThere.co.uk' to which we plan to add a number of services during this year.

Exploring new relationships
We are constantly seeking new areas and products of IT to exploit and to that end have recently signed agreements with two companies.

Panam Information Systems develops, markets and supports an expanding range of solutions that provide dynamic, web based, process management facilities for intranet and extranet applications. Panam 's BuzzWeb(tm) visual and secure platform helps organisations to build intelligent, customized systems for automating processes. The platform is tightly integrated with Microsoft's Sharepoint Portal Server and BizTalk 2004 and Panam is a key partner for Microsoft's push into collaboration tools. IS Solutions have established a partnership with Panam to deliver their products in the United Kingdom and undertook our first joint project in quarter four.

Everyone is aware of the two major problems currently facing users of the internet; control over what content is viewed both at home and at work and the amount of spam email cluttering people's inboxes. Optenet is a Spanish company that has developed state of the art software to combat these problems and we have recently signed an agreement to act as their reseller and systems integrator in the UK.

John Lythall, Managing Director - 2nd April 2004

Case Study - Toshiba Europe GmbH BroadVision Support

Toshiba Europe GmbH (TEG) is part of Toshiba Corporation, the world's seventh largest integrated manufacturer of electrical and electronic equipment. Toshiba Corporation's diverse activities range from the development of multi-megawatt power stations all the way down to leading-edge power saving miniaturised chip technologies and it employs more than 150,000 people globally.

TEG's product offerings in Europe include personal computers and PDAs, electronic storage devices, LCD projectors and consumer products like televisions and DVD players. IS Solutions has worked with TEG since 1997 on projects that span the range of solutions skills and experience that we offer.

Challenge:
TEG operates a number of public web sites developed using BroadVision and run on infrastructure managed by IS Solutions. Application support, maintenance and further development were initially provided by the original site developers.

Over time, IS Solutions became increasingly involved in the technical management and support of these sites and had been effective at identifying problems and solutions to maximise site availability. In a competitive environment, where maximising value and cost-effectiveness is key, TEG looked to IS Solutions to provide application support and maintenance for their BroadVision public sites. It was envisaged that this would allow TEG to achieve improvements in quality of support at the same time as allowing a reduction in costs.

TEG issued an Invitation to Tender for the support and maintenance of their Computer System Group sites and IS Solutions was pleased to be able to present the proposal that not only won this contract but also extended the relationship between the two companies.

The web sites cover e-selling, e-support and functional portal areas underpinning site variants for some 13 countries. The previous incumbent had provided application support for all of these but IS Solutions had often been required to undertake technical application support at a sufficient level to identify specific problems for the incumbent supplier to fix. This resulted in a situation in which TEG effectively doubled some costs for its BV application support.

TEG therefore sought the advantages of one supplier taking the lead in support situations and chose IS Solutions' proven experience and motivation in identifying and resolving problems.

Market overview:
As business transactions increasingly move towards an end-to-end web-based model, the issue of site availability and resilience becomes ever more crucial. However, the reality of this situation is that the expense of support rises in line with that increasing expectation. TEG was already experiencing very high running costs in the area of support and was keen to reduce this expense, but not by compromising the level of service required.

BroadVision is a robust and reliable web site platform but all applications experience problems from time to time. The key to resolving these problems quickly lies simply in knowing how to respond to them - this is derived almost exclusively from experience with the software itself.
IS Solutions has delivered and supported dozens of BroadVision implementations and possessed the knowledge of the technology, from web servers and interaction managers to client-side tools and rules configuration processes, to ensure the smooth-running of the sites.

Solution:
Service Level Agreement
IS Solutions undertook the support and maintenance activities for the core application under a fixed price contract. This contract includes the provision of all necessary support resources including:

- a development/test system;
- an integration/system test system;
- a pair of staging/live systems;
- use of shared databases with BroadVision development teams;
- all routine support tasks (including answering queries from nominated support representatives on functionality or perceived problems);
- maintenance including fault diagnosis;
- liaison with BroadVision for application issues;
- evaluation and application of patches and minor releases.

In addition, ad-hoc support and minor changes were to be managed under a ServiceBox approach, a support offering from IS Solutions that allows piecemeal ordering of effort against a pre-priced service package. More significant enhancements were to be covered under projects billed directly to individual countries where required.

The main benefit of this fixed price service level agreement (SLA) is that TEG now has a predefined support cost for each half year. There is no risk of costs escalating from unforeseen support issues and, for onward financial planning, IS Solutions reviews the cost of the SLA twice yearly to ensure that TEG continues to get the best value for money. Other advantages of the SLA approach include the fact that it encourages a proactive support attitude and allows the support team to allocate time to maintaining healthy operations as well as reacting to issues that arise.

Service focus

The focus of the service was to proactively manage the supported environment. This involved automating alerts for processes wherever possible to ensure that immediate action could be taken by the support team without a user having to raise a call. As an equivalent service to the call management system used by TEG, IS Solutions also proposed a web call logging system to enable the client to log, track and update calls via the web.

IS Solutions also carried out three take-on projects at a greatly reduced cost to TEG. The motivation for this approach was to familiarise the support team with the environment, after which they provided support for both the developed code and scripts already in production.

Infrastructure support

IS Solutions also took on responsibility for the management and support of a development and test infrastructure, including the operating system, database and all applications necessary to run the system. The development and test infrastructure is made up of five separate servers, designed to resemble the production environment as closely as possible.

Example support tasks to be provided under this contract were:

Application operation and routine support tasks including:

- checking of error and batch processing logs for new messages at regular intervals production of any routine reports or data dumps required as part of the site's support (e.g. counts of users, number of e-mails transmitted, etc.);
- code support e.g. bug fixing;
- application configuration support and product fault issues for BroadVision;
- application scripts – maintaining and supporting existing applications scripts e.g. BroadVision restart, replication, database exports, etc.;
- proactive BroadVision error and application log handling;
- liaison with third party software providers to support and maintain BroadVision;
- patches and minor upgrades for BroadVision;
- application software change management i.e. operating and supporting source code control and a release management system;
- provision, support and maintenance of development environment for the purposes of support. Escalation procedures and reporting requirements such as the ones below were also initiated:
- Contact details for the staff to whom TEG are able to escalate issues. These include Service Manager, Project Manager, Account manager and Technical Director. As these experienced staff members made up part of the application support team, they were aware of current issues and available and able to assist if required.
- Reporting requirements were defined to Toshiba's specific requirements e.g. detailed technical issue reporting. Standard service reports include:
- services performed in the period;
- specific issues that occurred in the period;
- service requests completed;
- statement of account for Service Box usage.
- Service review meetings are held quarterly but more frequent meetings are arranged subject to need. These meetings primarily address the progress of the service against the SLA. Other items that are covered during the review include:
- assessment of overall service delivery and availability;
- application availability;
- calls logged and response times;
- escalation procedures;
- review specific problems and reports;

- review any proposed changes in service delivery;
- discussion of service improvements.

Key technologies:
IS Solutions has been a BroadVision development partner since 1996 and possesses considerable experience operating and supporting multiple BroadVision sites over many years. IS Solutions also had experience of other technologies that form part of the overall network of systems used by TEG including Oracle, Sun Solaris, Microsoft and BEA (Java/J2EE) technologies.

IS Solutions was also able, through our extensive operational and database experience, to investigate the application code and site design with the database design as a whole, to identify areas for performance improvement.

Key activities:
Any third party taking on an existing application will need time and effort to become familiar and completely effective at supporting and developing the code. However, IS Solutions' familiarisation effort was made easier by our experience in this area with previous clients like Eurostar (who also migrated from the same supplier as TEG) and our existing understanding of the site and of the TEG organisation.

A number of our employees already had a reasonable familiarity with the site design, the underlying application and the batch process code and this was reinforced following successful completion of the familiarisation projects. This also had the added benefit of providing TEG with some significant and immediate benefit to their infrastructure, specifically in the areas of error recognition, filtering and handling and database conversion to a UTF8 character set.

In tandem with the key support activities required to migrate the support from the incumbent supplier to IS Solutions, other key areas of experience included strategic consultancy, technical analysis and project management.

Case Study - Community portal for Torfaen County Borough Council

Webster.uk.net

With a population of around 90,000 across three areas – Pontypool, Blaenavon and Cwmbran – Torfaen County Borough Council provides many services that affect the lives of communities and individuals in south-east Wales. The aim of the Council is to improve the quality of life in Torfaen continuously and significantly.

Over 6,500 people work for the Council. The headquarters are in Pontypool with additional offices in Cwmbran and service branches throughout the area.

Challenge:
The Council had long held the view that the application and use of Information and ommunication Technologies (ICT) would be a key enabler in driving social and economic regeneration and a way of improving service accessibility and quality. The identification of the Welsh valleys as a European Objective One region provided an opportunity to tap into the significant amounts of funding which would be required to fuel any major community-focused ICT project.

Following extensive research, a business case was formulated that proposed a large scale pilot scheme aimed at developing *"a practical, inclusive and holistic approach that would energise, encourage and empower the communities and commercial interests in Torfaen by providing a focus, stimulus and capability for personal, community and business development through effective use of ICT."*

Funding for the project was secured from The European Regional Development Fund, the Welsh Development Agency and the Council itself and suppliers selected in the spring of 2003.

Market overview:
Torfaen is a relatively small Welsh unitary authority. In common with most areas, it consists of a number of small communities which have an extensive range of interests, issues and challenges.

The relatively new duty for local authorities to provide proactive support for community development places a new responsibility on both the organisation generally and ICT in particular. Coupled with the central government push that all possible services should be provided electronically, it became clear to the Council that it was time for ICT to move outside the confines of the organisation itself and embrace the local community.

Solution:
IS Solutions, working in partnership with software and services provider Compuware, was responsible for key initiatives at the very outset of this ambitious project. Specifically, IS Solutions was instrumental in soliciting the ground-breaking involvement of local citizens, community groups and businesses in the design process of the portal. A key objective of the portal was for it to be "by the people, for the people" and IS Solutions facilitated this through involvement of local citizens in research before specific ideas about the portal had even been formulated.

This primary research stage focused on the brand and name of the portal and took a market research approach to form a framework with Webster.uk.net as the name and Webster the cat as the embodiment of the brand. Webster was viewed as an appropriate physical representation of the portal as an online neighbourhood guide due to its trustworthiness, enthusiasm and knowledge of the local area; a number of brand attributes were identified and detailed, along with appropriate logo and strapline uses, colourways and typefaces, within a Brand Identity Guidelines document for Council and community use.

IS Solutions used a three-way workshop approach to draw out the user requirements of the portal. The initial set of workshops was conducted with citizens and community groups, clubs and associations. This was followed by the involvement of local SMEs and then by public services providers including the Council itself. The results of this - hundreds of identified requirements - were then developed into an information architecture by IS Solutions' user interface experts. This formed the framework in which the portal was built and was fronted by the initial concepts of the Webster.uk.net design which also called upon the brand guidelines previously defined.

In addition to design architecture, IS Solutions also developed a comprehensive set of marketing plans to promote the portal to the wider community throughout Torfaen. This key stage included a host of marketing communications initiatives aimed at reaching every corner of the County Borough before and during the launch of the portal.

The inclusion of such a broad range of users so early in the project reinforced the ideal of customer-centricity that is core to the modi operandi of both IS Solutions and the Council, and raised considerably the portal's chances of widespread adoption within the community. This was supported by the sheer breadth of services planned to be delivered through the portal, both in terms of functionality and content.

Key activities:

- Business analysis
- Information architecture
- Graphical production
- Brand development
- Marketing consultancy
- Project management

Corporate Governance

Statement by the Directors on compliance with the Combined Code

The company is committed to the principles of Corporate Governance contained in the Combined Code which is appended to the Listing Rules of the Financial Services Authority (the "Combined Code") and for which the Board is accountable to shareholders. This Corporate Governance statement, together with the Report on Directors' Remuneration explains how the company has applied the principles set out in Section 1. of the Combined Code.

The board of directors throughout the year complied with the Combined Code apart from the following:

- The audit committee comprises two independent non-executive directors whilst the Combined Code requires there to be three. The directors believe that two are adequate at this stage of the company's development (D.31);
- Nominations Committee. The Board considers that it is not of sufficient size to warrant a Nominations Committee (A.5.1).
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A statement of the directors' responsibilities in respect of the accounts is set out on page 17. Below is a brief description of the role of the board and its committees, followed by a statement regarding the Group's system of internal financial control.

The board

The board comprises three non-executive directors and five executive directors and is responsible to shareholders for the proper management of the Group. The non-executive directors are Peter English, Michael de Smith and Barrie Clark, who is chairman of the board. Peter English and Barrie Clark are considered to be totally independent within the meaning of provision A3.2 of the Code. Michael de Smith is regarded as effectively independent in that, although he was formerly the Executive Director of an acquired subsidiary company, he relinquished that position in 2000. The board meets regularly, reviewing trading performance, setting and monitoring strategy, and examining major capital expenditure and acquisition opportunities. A procedures manual for directors and senior managers has been adopted which reserves decisions on specific matters to the Board. All directors have access to the advice and services of the company secretary.

Audit committee

The audit committee comprises two non-executive directors of the company, Barrie Clark and Peter English. The committee is chaired by Barrie Clark and its terms of reference require it to meet not less than twice each year. The committee provides a forum for reporting by the Group's auditors. By invitation, the meetings are also attended by the managing director of the company and the financial controller.

The audit committee is responsible for reviewing a wide range of financial matters including ensuring that the financial performance of the Group is adequately measured and controlled, correctly represented, reported to and understood by the board. The audit committee advises the board on the appointment of external auditors and on their remuneration, both for audit and non-audit work, and discusses the nature and scope of their audit.

The committee meets the auditors at least once a year without any executive directors present.

Remuneration committee

The remuneration committee comprises two non-executive directors, Barrie Clark and Peter English, and is chaired by Barrie Clark. The committee's terms of reference also require it to meet not less than twice each year. It is responsible for reviewing and determining the policy of the Group on executive remuneration including specific remuneration packages for each of the executive members of the board, pension rights and compensation payments. The committee is also responsible for monitoring compliance with the implementation by the company, so far as is reasonably practical, of the recommendations and guidelines of the Combined Code.

The Board's report to shareholders on how directors' are remunerated together with details of the individual directors' remuneration packages is to be found on page 12 to 15.

Going Concern
Having reviewed the future plans and projections for the business, the directors believe that the company and its subsidiary undertakings have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Internal controls
The directors are responsible for the Group's system of internal control and for reviewing its effectiveness which, by its nature, can only provide reasonable and not absolute assurance against material misstatement or loss regarding:

i. the safeguarding of assets against unauthorised use or disposition; and
ii. the maintenance of proper accounting records and the reliability of financial information used with the business or for publication.

The Board has reviewed the effectiveness of the Group's internal control systems from the period 1 January 2003 to the date of approval of the financial statements. The Board will review the effectiveness of its control assessment system on a regular basis.

The Board has established procedures which are designed to provide effective internal control for the Group and these include:

Control Environment and Procedure
The directors have in place an organisational structure with clearly defined levels of responsibility and delegation of authority. Group policies and procedures are set out in formal procedure manuals which are held by all operating companies. These include annual budgets, detailed review and appraisal procedures, designated levels of authority and levels for board approval.
In particular, there are clearly defined guidelines for the review and approval of capital xpenditure projects and, where appropriate, due diligence work will be carried out when a business is to be acquired.

It is Board policy that executive directors receive suitable training for their position, which is considered as part of the appraisal process.

The directors and operating company management meet on a regular basis to communicate the Group's commitment to professionalism and competence.

Auditor Independence
The board has considered the issue of external auditor independence and is satisfied that independence has been maintained. During the year no non-audit work has been performed by the external auditor. Audit Committee approval is required before the external auditor may perform any non-audit work.

Risk Management
The directors and operating company management have a clear responsibility for identifying risks facing each of the businesses and for putting in place procedures to mitigate and monitor risks. Risks are formally assessed during the annual budget process, which is monitored by the board, and the ongoing Group strategy process.

Financial Reporting
The Group has a comprehensive system of financial reporting. There is a detailed budgeting system in place which includes the plan of each operating company being approved by the executive directors and the Board approves the overall Group budget. On a monthly basis, actual results are reported against budget and any significant adverse variances examined and remedial action taken.

Revised forecasts for the year are prepared each quarter. Rolling quarterly cash forecasts are prepared on a monthly basis.

Michael Tinling

On behalf of the Board
Michael Tinling LLb, Company Secretary – 2nd April 2004

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31st December 2003.

Principal activity
The group is principally engaged in the distribution, design and installation of computer hardware and software systems.

Business review
The profit before taxation and goodwill amortisation for the year amounted to £265,000 (2002: loss of £932,000). The directors do not recommend the payment of a dividend (2002: £nil).

Creditors payment policy
It is the company's policy to pay all claims from suppliers according to agreed terms of payment upon receipt of a valid invoice which is materially correct. At 31st December 2003 the company had 29 days (2002: 30 days) of outstanding liabilities to creditors.

Directors and directors' interests
The directors who held office during the year were as follows:

BA Clark
JL Dodkins
PD English
PJ Kear
J Lythall
RJC Simons
M de Smith
JC West

In accordance with the company's articles of association, BA Clark and JL Dodkins will retire from office by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

The directors who held office at the end of the financial year had the following interests in the ordinary shares of the company as recorded in the register of directors' share and debenture interests:

	Class of shares	Interest at end of year	Interest at beginning of year
BA Clark	Ordinary 2p	400,000	400,000
JL Dodkins	Ordinary 2p	336,766	336,766
PD English	Ordinary 2p	312,500	312,500
PJ Kear	Ordinary 2p	1,070,652	1,070,652
J Lythall	Ordinary 2p	2,078,860	2,078,860
RJC Simons	Ordinary 2p	200,200	200,200
M de Smith	Ordinary 2p	1,000,000	1,000,000
JC West	Ordinary 2p	245,167	245,167

Substantial holdings

As far as the directors are aware, as at 30th March 2004, the only holdings of 3% or more of the company's issued share capital are the following:

	Number of ordinary shares
Chase Nominees Limited	5,322,370
Southwind Limited	4,700,000
John Lythall Esq	2,078,860
Stephen Forward Esq	1,170,000
Peter Kear Esq	1,070,652
Michael de Smith Esq	1,000,000
John Peter Johnstone Esq	800,000
Mr. Stephen Neil Austen	800,000

Employees

The Group has a policy of offering equal opportunities to employees at all levels in respect of the conditions of work. Throughout the Group it is the Board's intention to provide possible employment opportunities and training for disabled people and to care for employees who become disabled having regard to aptitude and abilities.

Regular consultation and meetings, formal or otherwise, are held with all levels of employees to discuss problems and opportunities. Information on matters of concern to employees is presented in house.

Political and charitable contributions

The Group made no political contributions or charitable donations during the year (2002: £nil)

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

PJ Kear, Director

Windmill House, 91-93 Windmill Road, Sunbury-on-Thames TW16 7EF – 2nd April 2004

Directors' Remuneration Report

Introduction
This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 which introduced new statutory requirements for the disclosure of directors' remuneration in respect of periods ending on or after 31st December 2002. The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the board has applied the Principles of Good Governance relating to directors' remuneration. As required by the Regulations, a resolution to approve the report will be proposed at the Annual General Meeting of the company at which the financial statements will be approved.

The Regulations require the auditors to report to the company's members on the "auditable part" of the Directors' remuneration report and to state whether in their opinion that part of the report has been properly prepared in accordance with the Companies Act 1985 (as amended by the Regulations). The report has therefore been divided into separate sections for audited and unaudited information.

Unaudited information

Remuneration committee
The remuneration committee comprises two non-executive directors, Barrie Clark and Peter English, and is chaired by Barrie Clark. The committee's terms of reference also require it to meet not less than twice each year. It is responsible for reviewing and determining the policy of the Group on executive remuneration including specific remuneration packages for each of the executive members of the board, pension rights and compensation payments. The committee is also responsible for monitoring compliance with the implementation by the company, so far as is reasonably practical, of the recommendations and guidelines of the Combined Code.

None of the Committee has any personal financial interest (other than as shareholders), conflicts of interests arising from cross-directorships or day-to-day involvement in running the business. The Committee makes recommendations to the board. No director plays a part in any discussion about his or her own remuneration.

In determining the directors' remuneration for the year, the Committee consulted Mr. John Lythall (Managing Director) about its proposals.

Remuneration policy
Executive remuneration packages are prudently designed to attract, motivate and retain directors of the high calibre needed to maintain the group's position as a market leader and to reward them for enhancing value to shareholders. The performance measurement of the executive directors and key members of senior management, and the determination of their annual remuneration package are undertaken by the Committee. The remuneration of the non-executive directors is determined by the board within limits set out in the Articles of Association.

There are four main elements of the remuneration package for executive directors and senior management:
- Basic annual salary (including directors' fees) and benefits;
- Annual bonus payments;
- Share option incentives; and
- Pension arrangements.

The company's policy is that a substantial proportion of the potential remuneration of the executive directors should be performance related. As described below, executive directors may earn annual incentive payments of up to 40% of their basic salary together with the benefits of participation in share option schemes.

Executive directors are entitled to accept appointments outside the company providing that the Chairman's permission is sought and fees in excess of £20,000 from all such appointments are accounted for to the company.

Basic salary
An executive director's salary is determined by the Committee in March of each year and when an individual changes position or responsibility. In deciding appropriate levels, the Committee considers the group as a whole and relies on objective research which gives up-to-date information on a comparator group of companies.

Basic salary
An executive director's salary is determined by the Committee in March of each year and when an individual changes position or responsibility. In deciding appropriate levels, the Committee considers the group as a whole and relies on objective research which gives up-to-date information on a comparator group of companies.

In addition to basic salary, the executive directors receive certain benefits-in-kind, principally a car (or car allowance) and private medical insurance.

Annual bonus payments
The Committee establishes the objectives that must be met for each financial year if a cash bonus is to be paid. In setting appropriate bonus parameters the Committee takes cognisance of current economic factors and the performance of the company versus its peers. The Bonus scheme for 2004 is set out below. No bonus payments were made in 2003.

i. 50% of such PBT in excess of £250K and up to and including PBT of £750K will be allotted to an employee bonus pool;
ii. the bonus pool created, as above, will be allocated amongst employees pro rata to their respective salaries

Share options
The executive directors also have options granted to them under the terms of the Company Share Option Scheme which is open to all employees.

The company's policy is to grant options to directors at the discretion of the Committee taking into account individual performance. It is the company's policy to phase the granting of share options rather than to award them in a single large block to any individual.

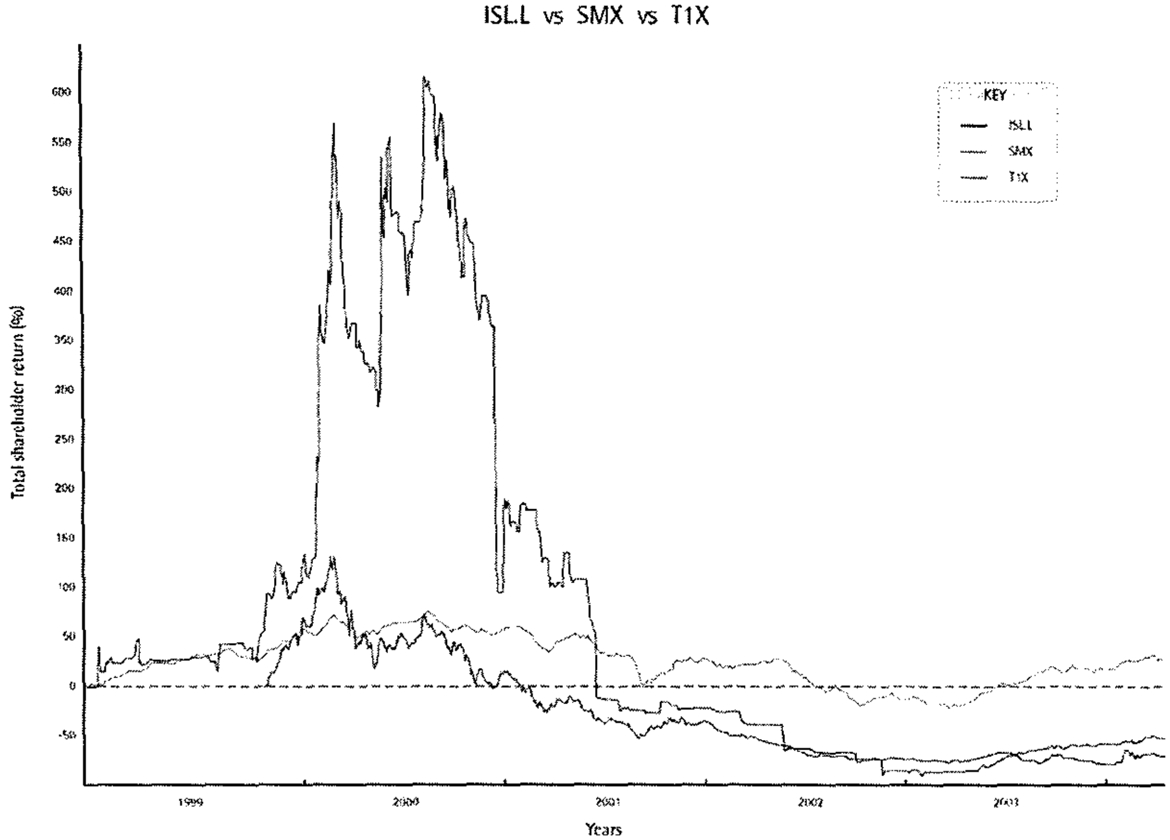
The company does not operate any long-term incentive schemes other than the share option schemes described above. No significant amendments are proposed to be made to the terms and conditions of any entitlement of a director to share options.

Pension arrangements
Executive directors are members of the company pension scheme. The scheme is a Money Purchase Scheme with a linked Life assurance scheme. No other payment to directors are pensionable.

To the extent that contributions to the company scheme are restricted by Inland Revenue limits, the company contributes 6% of the director's salary providing the director contributes a minimum of 4% of his salary. There are no unfunded pension promises or similar arrangements for directors.

Performance graph

The above graph shows the company's performance, measured by total shareholder return, compared with the performance of the FTSE Techmark Index and the FTSE Small Caps Index also measured by total shareholder return. The FTSE Techmark Index has been selected for this comparison because it is the Board's opinion that it gives a true comparison to its peers. However, it has not been running for five years yet and therefore the Small Cap Index has been included to give a five year comparison.



Directors' contracts

It is the company's policy that executive directors should have contracts with an indefinite term providing for a maximum of one year's notice.

Executive Directors

J Lythall, PJ Kear, RJC Simons, JL Dodkins and JC West have directors' service agreements which can be terminated on twelve months notice. These agreements were dated 29th August 1997.

Non Executive Directors

BA Clark, PD English and M de Smith each has an agreement for 12 months which expires on 7th May 2004. The fees of the non-executive directors are determined and confirmed by the full board excluding (in each case) the non-executive director concerned.

In the event of early termination, the directors' contracts provide for compensation up to a maximum of basic salary plus benefits for the notice period.

Audited information

Aggregate directors' remuneration

The total amounts for directors' remuneration were as follows:

	2003 £000	2002 £000
Emoluments	442	537
Money purchase pension contributions	27	27
	469	564

Director emoluments

The remuneration of the individual directors is as follows:

	Fees £000	Basic salary £000	Pension £000	Benefits £000	Total 2003 £000	Total 2002 £000
Executives						
J Lythall	-	79	7	2	88	123
PJ Kear	-	93	6	3	102	123
RJC Simons	-	56	4	6	66	79
JL Dodkins	-	73	5	7	85	99
JC West	-	83	5	1	89	97
Non-Executives						
BA Clark	17	-	-	-	17	19
PD English	11	-	-	-	11	12
M de Smith	11	-	-	-	11	12
Total	39	384	27	19	469	564

Pension costs represent contributions made by the company to the Group money purchase pension scheme.

Directors share options
Aggregate emoluments disclosed above do not include any amounts for the value of options to acquire ordinary shares in the company granted to or held by the directors. No options were exercised during the year.

Details of options for directors who served during the year are as follows:

Number at 1st January 2003		Lapsed during year	Granted during year	Number at 31st December 2003	Option price	Exercisable from	Expiry date
JL Dodkins	36,000	-	-	36,000	52.5p	30.04.2001	30.04.2008
	75,000	75,000	-	-	53.0p	25.10.2002	25.10.2009
	60,000	-	-	60,000	35.5p	27.07.2004	27.07.2011
	70,000	-	-	70,000	6.0p	13.11.2005	13.11.2012
PJ Kear	36,000	-	-	36,000	52.5p	30.04.2001	30.04.2008
	75,000	75,000	-	-	53.0p	25.10.2002	25.10.2009
	60,000	-	-	60,000	35.5p	27.07.2004	27.07.2011
	70,000	-	-	70,000	6.0p	13.11.2005	13.11.2012
RJC Simons	36,000	-	-	36,000	52.5p	30.04.2001	30.04.2008
	75,000	75,000	-	-	53.0p	25.10.2002	25.10.2009
	60,000	-	-	60,000	35.5p	27.07.2004	27.07.2011
	70,000	-	-	70,000	6.0p	13.11.2005	13.11.2012
JC West	36,000	-	-	36,000	52.5p	30.04.2001	30.04.2008
	75,000	75,000	-	-	53.0p	25.10.2002	25.10.2009
	60,000	-	-	60,000	35.5p	27.07.2004	27.07.2011
	70,000	-	-	70,000	6.0p	13.11.2005	13.11.2012
J Lythall	70,000	-	-	70,000	6.0p	13.11.2005	13.11.2012

The market price of the shares at 31st December 2003 was 8.75p (6.0p at 31st December 2002) and the range in the year was 4.5p to 13.2p.

There have been no variations to the terms and conditions or performance criteria for share options during the financial year.

Approval
This report was approved by the board of directors on 2nd April 2004 and signed on its behalf by:

J Lythall

John Lythall, Managing Director

Statement of director's responsibilities

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

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Independent auditors' report to the members of IS Solutions PLC

KPMG Audit Plc
1 Forest Gate, Brighton Road, Crawley, West Sussex, RH11 9PT

Independent Auditors' report to the members of IS Solutions Plc
We have audited the financial statements on pages 20 to 32. We have also audited the information in the directors' remuneration report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's 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 and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors
The directors are responsible for preparing the Annual Report and the Directors' Remuneration Report. As described on page 17, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the group is not disclosed.

We review whether the statement on page 8 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the Corporate Governance Statement and the unaudited part of the Directors' Remuneration Report, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion
We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Independent auditors' report to the members of IS Solutions PLC
(Continued)

Opinion
In our opinion:

- the financial statements give a true and fair view of the state of affairs of the company and the Group as at 31st December 2003 and of the loss of the Group for the year then ended; and
- the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

Chartered Accountants, Registered Auditor – 2nd April 2004

Consolidated Profit and Loss Account for the year ended 31st December 2003

	Notes	2003 Total £'000	2002 Total £'000
Turnover	2	**5,985**	**7,426**
Cost of sales		(3,412)	(4,563)
Gross profit		**2,573**	**2,863**
Distribution costs		(1,977)	(2,578)
Administration expenses *including amortisation of goodwill £450,000 (2002: £436,000)*		(1,272)	(1,662)
Operating loss		**(676)**	**(1,377)**
Profit on sale of discontinued operation		3	–
Profit on sale of investments		455	–
Loss on ordinary activities before interest		**(218)**	**(1,377)**
Investment income	5	30	9
Profit/(loss) before goodwill amortisation		*265*	*(932)*
Amortisation of goodwill		*(453)*	*(436)*
Loss on ordinary activities before taxation	3	**(188)**	**(1,368)**
Tax on loss on ordinary activities	6	(42)	47
Loss on ordinary activities after taxation		**(230)**	**(1,321)**
Equity minority interests	15	9	67
Loss for the financial year		**(221)**	**(1,254)**
Dividends		–	–
Transferred to reserves		**(221)**	**(1,254)**
Earnings per ordinary share			
Basic	7	(0.89)p	(5.06)p
Before goodwill amortisation		*0.94p*	*(3.30)p*
Diluted	7	(0.89)p	(5.06)p

There are no material differences between reported profits and losses and historical profits and losses on ordinary activities before tax.

The notes on pages 24 to 32 form part of these accounts.

Statement of total recognised gains and losses

	Notes	2003 £'000	2002 £'000
Loss for the year		(221)	(1,254)
Currency translation differences		(15)	(18)
Total recognised gains and losses	17	**(236)**	**(1,272)**

Consolidated Balance Sheet as at 31st December 2003

	Notes	2003 £'000	2003 £'000	2002 £'000	2002 £'000
Fixed assets					
Intangible assets	8	591		1,099	
Tangible assets	9	319		428	
Investments	11	4		29	
			914		1,556
Current assets					
Debtors	12	1,505		1,888	
Cash at bank and in hand		1,551		1,094	
		3,056		2,982	
Creditors					
Amounts falling due within one year	13	(1,069)		(1,311)	
Net current assets			1,987		1,671
Total assets less current liabilities			2,901		3,227
Provisions for liabilities and charges	14		–		(82)
Equity minority interests	15		53		45
Net assets			**2,954**		**3,190**
Capital and reserves					
Called up share capital	16		496		496
Share premium account	17		2,133		2,133
Profit and loss account	17		325		561
Equity shareholders' funds	**18**		**2,954**		**3,190**

These financial statements were approved by the board of directors on 2nd April 2004 and were signed on its behalf by

J Lythall

Director

Company Balance Sheet as at 31st December 2003

	Notes	2003		2002 *As restated*	
		£'000	£'000	£'000	£'000
Fixed assets					
Intangible assets	8	648		1,176	
Tangible assets	10	312		386	
Investments	11	374		441	
			1,334		2,003
Current assets					
Debtors	12	1,538		1,832	
Cash at bank and in hand		1,520		1,042	
		3,058		2,874	
Creditors					
Amounts falling due within one year	13	(1,361)		(1,529)	
Net current assets			1,697		1,345
Total assets less current liabilities			3,031		3,348
Net assets			**3,031**		**3,348**
Capital and reserves					
Called up share capital	16		496		496
Share premium account	17		2,133		2,133
Profit and loss account	17		402		719
Equity shareholders' funds	**18**		**3,031**		**3,348**

These financial statements were approved by the board of directors on 2nd April 2004 and were signed on its behalf by

J Lythall

Director

Consolidated cash flow statement for the year ended 31st December 2003

	Notes	2003 £'000	2002 £'000
Net cash flow from operating activities	20	16	469
Returns on investments and servicing of finance			
Interest received		30	9
Net cash flow from returns on investments and servicing of finance		30	9
Taxation		48	(20)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(125)	(128)
Sale of tangible fixed assets		20	59
Sale of investments		480	–
Net capital expenditure and financial investment		375	(69)
Acquisitions and disposals			
Purchase of subsidiary		–	(3)
Sale of subsidiary	22	3	–
Cash acquired with subsidiaries		–	8
Net income from acquisitions and disposals		3	5
Equity dividends paid		–	(40)
Change in cash in the year		**472**	**354**

Reconciliation of net cash flow to movement in net funds

	Notes	2003 £'000	2002 £'000
Change in cash in the year		472	354
Translation differences		(15)	(18)
Movement in net funds in the year		457	336
Net funds at 1st January		1,094	758
Net funds at 31st December	21	**1,551**	**1,094**

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

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

Basis of consolidation

The group accounts consolidate the accounts of IS Solutions Plc and all its subsidiary undertakings. These accounts are made up to 31st December 2003.

In the company's accounts, investments in subsidiary undertakings are stated at cost less provisions. Dividends received and receivable are credited to the company's profit and loss account to the extent that they represent a realised profit for the company.

In accordance with Section 230(4) of the Companies Act 1985 IS Solutions Plc is exempt from the requirement to present its own profit and loss account.

The amount of the loss for the financial year dealt with in the financial statements of IS Solutions Plc is disclosed in note 18 to these financial statements.

Intangible fixed assets

Licenses purchased by the company are amortised in equal annual instalments over their expected useful life of three years.

Tangible assets and depreciation

The group makes provision for depreciation so that the cost less estimated residual value of each asset is written off by equal instalments over its estimated useful economic life as follows:

Leasehold improvements	- 10 years
Fixtures and equipment	- up to 4 years
Motor vehicles	- 3 to 4 years

Acquisitions

On the acquisition of a business fair values are attributed to the group's share of its assets and liabilities. Where the cost of acquisition exceeds the net fair value, the difference is treated as purchased goodwill and capitalised in the balance sheet in the year of acquisition.

Goodwill

Capitalised goodwill is included in intangible assets in the balance sheet and is amortised from the date of acquisition over its expected useful life. The directors consider it prudent that in a rapidly changing information technology world this should not exceed five years.

Investments

Investments held as fixed assets are stated at cost less provision for any impairment.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

For consolidation purposes, the assets and liabilities of overseas subsidiary undertakings are translated at the closing exchange rates. Profit and loss accounts of such undertakings are consolidated at the average rates of exchange during the year. Exchange differences arising on these translations are taken to reserves.

Leases

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

All other leases are accounted for as 'operating leases' and the rentals payable under operating leases are charged to the profit and loss account on a straight line basis over the life of the lease.

Pension costs

The group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the group in an independently administered fund. The amount charged against profits represents the contributions payable to the scheme in respect of the accounting period.

Notes (continued)

Taxation

The charge for taxation is based on the profit for the year. Except as otherwise required by FRS 19, deferred tax is recognised (at the current rates of taxation, without discounting) in respect of all material timing differences in the treatment of certain items for taxation and accounting purposes which have arisen but have not reversed by the balance sheet date.

Turnover

Turnover represents the amounts excluding value added tax derived from the provision of goods and services to third party customers during the year.

Cash and liquid resources

Cash for the purpose of the cash flow statement comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market. Liquid resources comprise term deposits of less than one year (other than cash), government securities and investments in money market managed funds.

2 Segmental information

	2003	2002
	£'000	£'000
Turnover		
UK	5,964	7,155
USA	21	271
	5,985	**7,426**
Loss before taxation		
UK	(221)	(878)
USA	33	(490)
	(188)	**(1,368)**
Net assets/(liabilities)		
UK	2,954	3,426
USA	–	(236)
	2,954	**3,190**

3 Loss on ordinary activities before taxation

Loss on ordinary activities before taxation is stated after charging/(crediting):	2003 £'000	2002 £'000
Auditors' remuneration		
Audit of Group (including Company)	37	36
Audit of Company	30	20
Interim review	5	5
Depreciation and other amounts written off tangible and intangible fixed assets		
Owned	262	407
Profit on disposal of fixed assets	(4)	(7)
Goodwill amortisation	453	436
Research and Development	255	403
Operating leases		
Hire of plant and machinery	11	38
Land and buildings	282	334
Exchange (gain)/loss	(39)	2

Notes (continued)

4 Staff Numbers and Costs

The average number of persons employed by the Group (including directors) during the year, analysed by category, was as follows:

	2003	2002
Sales	10	12
Engineering	46	67
Administration	14	15
	70	**94**

The aggregate payroll costs of these persons were as follows:

	2003 £'000	2002 £'000
Wages and salaries	2,950	3,891
Social security costs	321	394
Pension costs (see note 19)	119	174
	3,390	**4,459**

5 Investment income

	2003 £'000	2002 £'000
Interest receivable on bank deposits	30	9

6 Taxation

	2003 £'000	2002 £'000
UK corporation tax on income for the period	42	(47)
Tax on loss on ordinary activities	**42**	**(47)**

Factors affecting the charge for the period

The current tax charge for the period is higher (2002: higher) than the standard rate of corporation tax in the UK (30%, 2002: 20%). The difference is explained below.

	2003 £'000	2002 £'000
Loss on ordinary activities before taxation	(188)	(1,368)
Current tax at standard rate	(57)	(273)
Research & Development credit	(37)	(32)
Depreciation in excess of capital allowances	7	29
Unrelieved losses	–	140
Goodwill amortisation not deductible	136	87
Other expenses not deductible	8	2
Marginal relief	(15)	–
Total current tax charge (see above)	**42**	**(47)**

No provision has been made, nor is any considered necessary, for deferred tax at the year end (2002: nil). Unrelieved losses amounting to £105,000 from previous years are available for offset against future profits, but this has not been reflected in the accounts

Notes (continued)

7 Earnings per ordinary share

	2003	2002
Loss for the financial year (£'000s)	(221)	(1,254)
Total issued shares (000s)	24,793	24,793
Weighted average number of ordinary shares (000s)	24,793	24,793
Dilutive share options (000s)	–	–
Basic earnings per share	(0.89)p	(5.06)p
Diluted earnings per share	(0.89)p	(5.06)p

8 Intangible fixed assets

Group	Goodwill £'000	Licences £'000	Total £'000
Cost at beginning and end of year	**2,183**	**165**	**2,348**
Amortisation at beginning of year	1,194	55	1,249
Charge for the year	453	55	508
Amortisation at end of year	**1,647**	**110**	**1,757**
Net book value			
At 31st December 2003	**536**	**55**	**591**
At 31st December 2002	989	110	1,099

Company	Goodwill as restated £'000	Licences £'000	Total £'000
Cost at beginning and end of year	**2,012**	**165**	**2,177**
Amortisation at beginning of year	946	55	1,001
Charge for the year	473	55	528
Amortisation at end of year	**1,419**	**110**	**1,529**
Net book value			
At 31st December 2003	**593**	**55**	**648**
At 31st December 2002	1,066	110	1,176

During 2003 the directors noted that £2,012,000 of the investment carrying value in AXL should have been reclassified as goodwill in the company balance sheet on 31 December 2000, when the trade and assets of AXL were hived up into the company. This goodwill would then have been amortised by £473,000 in both 2001 and 2002.

This has been corrected this year by way of a prior period adjustment in the company. There is no impact on the consolidated profit and loss, or balance sheet.

Notes (continued)

9 Tangible fixed assets

Group	Leasehold Improvements £'000	Fixtures & Equipment £'000	Motor Vehicles £'000	Total £'000
Cost				
At beginning of year	165	735	127	1,027
Additions	1	72	52	125
Disposed of with subsidiary	–	(16)	–	(16)
Disposals	(32)	(295)	(47)	(374)
At end of year	**134**	**496**	**132**	**762**
Depreciation				
At beginning of year	56	460	83	599
Charge for year	24	152	31	207
Disposed of with subsidiary	–	(5)	–	(5)
On disposals	(32)	(285)	(41)	(358)
At end of year	**48**	**322**	**73**	**443**
Net book value				
At 31st December 2003	**86**	**174**	**59**	**319**
At 31st December 2002	109	275	44	428

10 Tangible fixed assets

Company	Leasehold Improvements £'000	Fixtures & Equipment £'000	Motor Vehicles £'000	Total £'000
Cost				
At beginning of year	165	599	109	873
Additions	1	65	52	118
Disposals	(32)	(206)	(29)	(267)
At end of year	**134**	**458**	**132**	**724**
Depreciation				
At beginning of year	56	364	67	487
Charge for year	24	133	30	187
On disposals	(32)	(206)	(24)	(262)
At end of year	**48**	**291**	**73**	**412**
Net book value				
At 31st December 2003	**86**	**167**	**59**	**312**
At 31st December 2002	109	235	42	386

Notes (continued)

11 Fixed asset investments

Group	Other Investment £'000
Cost at beginning of year	29
Sale of investment	(25)
Cost and net book value at end of year	**4**

Company	Shares in subsidiary undertakings £'000	Other Investment £'000	Total £'000
Cost at beginning of year as restated (see note 8)	412	29	441
Disposals during year	(3)	(25)	(28)
Cost at end of year	**409**	**4**	**413**
Provision for impairment during year	39	–	39
Provision at end of year	**39**	**–**	**39**
Cost less provisions at end of year	**370**	**4**	**374**

Subsidiary	Country of Incorporation	Principal Activity	Class and Percentage
IS Solutions inc	USA	Dormant	100% of issued share
Open Methods Ltd	England & Wales	Computer and Business Consultants	27.36% of issued share capital
AXL Performance Solutions Ltd	England & Wales	Dormant	100% of issued share capital
AXL Business Solutions Ltd	England & Wales	Dormant	100% of issued share capital
Internet Services Solutions Ltd	England & Wales	Dormant	100% of issued share capital
Internet Systems Solutions Ltd	England & Wales	Dormant	100% of issued share capital
@NetCity Ltd	England & Wales	Dormant	100% of issued share capital

12 Debtors

	Group		Company	
	2003	2002	2003	2002
	£'000	£'000	£'000	£'000
Amount falling due within one year				
Trade debtors	1,270	1,580	1,178	1,354
Amounts owed by subsidiaries	–	–	125	267
Corporation tax refund	–	54	–	54
Prepayments and accrued income	235	254	235	157
	1,505	**1,888**	**1,538**	**1,832**

Notes (continued)

13 Creditors: amounts falling due within one year

	Group		Company	
	2003	2002	2003	2002
	£'000	£'000	£'000	£'000
Trade creditors	357	432	292	389
Amounts owed to subsidiaries	–	–	369	369
Other creditors including tax and social security				
Corporation tax	39	3	39	3
Social Security and Other Taxes	201	274	190	249
Accruals and deferred income	472	602	471	519
	1,069	**1,311**	**1,361**	**1,529**

14 Provisions for liabilities and charges

	Group	Company
	£'000	£'000
Restructuring costs at beginning of year	82	–
Released from P&L during year	(21)	–
Utilised during year	(61)	
Restructuring costs at end of year	**–**	**–**

15 Minority interests

	2003	2002
	£'000	£'000
At beginning of year	(45)	17
Disposal/Acquisition of subsidiary undertaking	1	5
Retained loss for the year	(9)	(67)
At end of year	**(53)**	**(45)**

16 Called up Share Capital

	Authorised		Allotted, Called Up and Fully Paid	
	2003	2002	2003	2002
	£'000	£'000	£'000	£'000
Ordinary Shares of 2p	**750**	**750**	**496**	**496**

Options totalling 2,349,500 shares under the employee share option schemes as at 31st December 2003 (2002 - 2,803,000) were as follows:

Number outstanding	Price per share	Date granted	Date exercisable
211,500	52.5p	30-Apr-1998	30-Apr-2001
758,000	35.5p	27-Jul-2001	27-Jul-2004
1,380,000	6.0p	13-Nov-2002	13-Nov-2005

Notes (continued)

17 Share Premium and Reserves

	Group		Company	
	Share Premium Account	Profit and Loss Account	Share Premium Account	Profit and Loss Account
	£'000	£'000	£'000	£'000
At beginning of year (as previously reported)	2,133	561	2,133	1,665
Prior year adjustment (see note 8)	–	–	–	(946)
At beginning of year (as restated)	2,133	561	2,133	719
Loss for the year	–	(236)	–	(317)
At end of year	**2,133**	**325**	**2,133**	**402**

18 Reconciliation of movements in equity shareholders' funds

	Group		Company	
	2003	2002	2003	2002 *Restated*
	£'000	£'000	£'000	£'000
Opening shareholders' funds (as previously reported)	3,190	4,462	4,294	5,082
Prior year adjustment (see note 8)	–	–	(946)	(473)
At beginning of year (as restated)	3,190	4,462	3,348	4,609
Loss for the financial year	(230)	(1,321)	(317)	(1,261)
Other recognised losses	(15)	(18)	–	–
Equity minority interest	9	67	–	–
At end of year	**2,954**	**3,190**	**3,031**	**3,348**

19 Pension costs

The Group operates defined contribution pension schemes. The pension cost charge for the year represents contributions by the Group to these schemes totalling £119,000 (2002: £174,000). There were no outstanding or prepaid contributions at either the beginning or end of the year.

20 Reconciliation of operating loss to net cash flow from operating activities

	2003	2002
	£'000	£'000
Operating loss	(676)	(1,377)
Net depreciation charge	258	400
Amortisation of goodwill	453	436
Decrease in debtors	329	1,109
Decrease in creditors	(266)	(181)
(Decrease)/increase in provisions	(82)	82
Net cash flow from operating activities	16	469

Notes (continued)

21 Analysis of changes in net cash (£'000)

	At 1/1/03	Cash Flow	Exchange	At 31/12/03
Cash in hand and at bank	**1,094**	472	(15)	**1,551**

22 Sale of subsidiary undertakings

Sale of subsidiary undertakings	**£'000**
Net assets sold	
Tangible fixed assets	11
Creditors	(12)
Minority interest	1
Net asset disposal	0
Proceeds	3
Profit on sale of investment	**3**

23 Commitments

Annual commitments under non-cancellable operating leases are as follows:

	2003		**2002**	
	Land and buildings	Other	Land and buildings	Other
Group and Company	**£'000**	**£'000**	**£'000**	**£'000**
Expiring within one year	–	1	–	10
In the second to fifth years inclusive	80	–	80	1
After five years	240	–	240	–
	320	**1**	**320**	**11**

24 Related party transactions

Under Financial Reporting Standard No 8 the company is not required to disclose details of transactions and balances with companies in the IS Solutions group since all such transactions and balances were eliminated on consolidation.

25 Contingent liabilities

There were no contingent liabilites at the end of 2003 (2002: nil).