

Intercede Group plc
Annual Report and Accounts
For the year ended 31 March 2004

Registered number: 4101977



Directors' Report

For the year ended 31 March 2004

The Directors present their Annual Report and the audited financial statements for the year ended 31 March 2004.

Principal Activities

The Group is a leading independent developer of electronic identity management software. It is also a supplier of third party security products and devices.

The Company

The Company is a holding company which was set up to facilitate the admission of the Group onto AIM.

Review of Developments and Future Prospects

A review of developments during the year and prospects for the future is provided in the Chairman's Statement and the Operating and Financial Review on pages 2 to 5.

Results and Dividends

The audited accounts for the year ended 31 March 2004 are set out on pages 11 to 24. The Group's retained loss was £863,000 (2003: £911,000). As stated in the Prospectus prepared in connection with the Group's admission onto AIM, it is the Directors' intention for the Group to retain its future earnings to finance growth and accordingly they do not intend to pay dividends in the foreseeable future.

Research and Development Expenditure

Since the Group's trading activities commenced in 1992 there has been an ongoing programme of research and development. The total cost of development during the year ended 31 March 2004 was £743,000 (2003: £835,000) which has been written off as incurred.

Intellectual Property

The Group's revenues are increasingly derived from licensing its proprietary eDefence product. Intercede Limited owns the copyright for this product. The Group relies on trademark laws and the law of passing off, or its equivalent in non-UK countries, to protect the trademarks which it uses. Intercede Limited is the proprietor or applicant of certain trademarks in important markets. The Group also endeavours to protect its intellectual property through the filing of patent applications where appropriate.

Employees

It is the Group's policy to provide, where possible, employment opportunities for disabled people and to care for people who become disabled whilst in the Group's employment. The Group operates an equal opportunities employment policy. Employees are kept informed of the performance and objectives of the Group through a combination of regular formal and informal meetings.

Supplier Payment Policy

It is the Group's policy to pay its suppliers in accordance with the terms and conditions agreed in advance of each transaction once satisfactory performance of service or receipt of goods has been achieved. The Company has no trade creditors. The Group's creditor days at 31 March 2004 were 67 (2003: 67).

Directors and their Interests

Details of the present Directors are provided on page 6. Jayne Murphy resigned from the Board as of 29 May 2003 for corporate governance reasons. She continues to be employed by the Group in the same executive capacity.

The Director retiring by rotation in accordance with the Articles of Association is Richard Parris who does intend to offer himself for re-election. Details of the Directors' service contracts with the Company are given in the Report of the Remuneration Committee on page 9.

The beneficial interests of the Directors who held office at 31 March 2004, and their immediate families, in the shares of the Company are set out below.

	Ordinary Shares	
	2004	2003
RA Parris	6,412,232	5,643,000
AM Walker	1,248,077	158,333
JS Sikorski	54,487	16,666
R Hoggarth	90,770	20,281
GJ Roediger	-	-

There have been no changes in the Directors' interests between 31 March 2004 and 25 May 2004. None of the Directors had any material interest in any contract or arrangement made by the Company during the year with the exception of those referred to in note 24.

Substantial Shareholders

As at 6 May 2004, the following had notified the Company of disclosable interests in 3% or more of the Company's issued share capital.

	Ordinary Shares	
	Number	%
RA Parris	6,412,232	18.9
Bear Stearns Securities Corporation	5,081,885	15.0
Plastic Technologies Limited	3,147,436	9.3
Euroclear Nominees Limited	1,933,759	5.7
Cogefin (Bermuda) Limited	1,582,541	4.7
React Investment Limited	1,344,683	4.0
AM Walker	1,248,077	3.7

Political and Charitable Contributions

The Group has made no political or charitable contributions during either of the past two years.

Annual General Meeting

The fourth Annual General Meeting of the Company will be held at 9:00 am on Wednesday 7 July 2004 at Lutterworth Hall, St Mary's Road, Lutterworth, Leicestershire, LE17 4PS. The Notice of the Annual General Meeting can be found on page 25 of this Annual Report.

On 1 August 2003, Deloitte & Touche, the Company's auditors, transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The Company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1 August 2003 under the provisions of section 26(5) of the Companies Act 1989. A resolution to re-appoint Deloitte & Touche LLP as the Company's auditor will be proposed at the forthcoming Annual General Meeting.

The following special business is also to be transacted :-

The authority given to the Directors to allot further shares in the capital of the Company requires the prior authorisation of the shareholders in General Meeting under Section 80 of the Companies Act 1985. Resolution 4 will be put to members seeking authority to allot current unissued ordinary share capital of up to 11,321,146 shares of 1p each, being one third of the current issued ordinary share capital. The Directors have no present intention to exercise this authority which will expire at the earlier of the next Annual General Meeting or 7 October 2004 and replaces a similar authority which was granted on 1 July 2003.

Resolution 5 grants the Directors a limited authority under Section 95 of the Companies Act 1985 to allot shares for cash other than pro rata to existing shareholders. Except in the case of a rights issue, the authority is limited to 3,396,344 ordinary shares of 1p, being approximately 10% of the current issued ordinary share capital. The Directors have no present intention to exercise this authority which will expire at the earlier of the next Annual General Meeting or 7 October 2004 and replaces a similar authority, which was granted on 1 July 2003.

By order of the Board



Andrew Walker
Company Secretary
25 May 2004

Corporate Governance

For the year ended 31 March 2004

The Group is committed to high standards of corporate governance. As an AIM company it is not required to comply with the requirements of the Combined Code but, given that the Group is committed to meeting these principles as far as it reasonably can, the commentary below reflects the extent to which voluntary compliance has been achieved during the period under review.

Board of Directors

The Company is controlled through the Board of Directors which currently comprises two executive and three independent non-executive directors.

The Company has historically combined the posts of Chairman and Chief Executive in one person, namely Richard Parris. The Board believes that to separate the roles would be detrimental at this stage of the Group's development. All directors, in accordance with the Code, submit themselves for re-election at least every three years.

Committees of the Board

The Board has established two standing committees, the Audit Committee and the Remuneration Committee. These operate within defined terms of reference that are reviewed by the Board annually. The Group does not have a Nominations Committee at present, but all Board level appointments are dealt with by the Board as a whole.

The Audit Committee consists of the Non-Executive Directors under the chairmanship of Greg Roediger. Its duties include the review of the Group's financial controls and accounting policies and the review of the annual and interim financial statements prior to submission to the Board. The Finance Director is normally invited to attend each meeting as are the external auditors, who have direct access to the Chairman of the Committee at all times.

The Remuneration Committee also consists of the Non-Executive Directors under the chairmanship of Jurek Sikorski. The Committee's responsibilities are to advise upon and make recommendations to the Board with regard to the salaries of the Executive Directors, and to approve proposals for the granting of share options.

Relations with Shareholders

The Company gives high priority to communications with current and potential future shareholders by means of an active investor relations programme. The principal communication with private investors is through the website (www.intercede.com) and the provision of Annual and Interim Reports. All shareholders will receive at least twenty working days notice of the Annual General Meeting at which all of the Directors will be present and available for questions.

Going Concern

After making appropriate enquiries as indicated in the Operating and Financial Review, the Directors consider that the Company and the Group 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 Control

The Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by Group which complies with the guidance "Internal Control: Guidance for Directors on the Combined Code (The Turnbull Report)".

The key features of the Group's internal control systems are as follows:

Group Organisation and Culture

The Board meets regularly, and is responsible for the overall Group strategy, acquisition and divestment policy, approval of major capital expenditure projects and consideration of significant financing matters. It monitors the key business risks and reviews the strategic direction of the Group, its codes of conduct, forward projections and progress towards their achievement. Senior management concentrates on the formulation of strategic proposals to the Board and operational decision making.

Delegation of Authority

The Board reserves to itself a range of key decisions to ensure it retains proper direction and control of the Group, whilst delegating authority to individual directors who are responsible for the day to day management of the business.

Financial Reporting

There is a comprehensive planning system, including regular periodic forecasts which are presented to and approved by the Board. The performance of the Group is reported monthly and compared to the latest forecast and the prior period.

Report on Directors' Remuneration

For the year ended 31 March 2004

The Company is not required to comply with the requirements of the Combined Code. This report is made voluntarily.

The Remuneration Committee is composed entirely of the Non-Executive Directors. None of the Committee members has any personal interest in the matters to be decided. The Chairman & Chief Executive is invited to attend committee meetings but is not present during discussions relating to his own remuneration.

Unaudited Information

Remuneration Policy

The remuneration packages for Executive Directors are intended to incentivise them to meet the financial and strategic objectives of the Group. The policy is to pay individual directors a salary at market levels for comparable jobs recognising the size of the Group and the business sector in which it operates. The main components are base salary, car allowance, a bonus plan, pension contributions and share options. Note 7 to the financial statements provides details of the remuneration paid and payable in respect of the year ended 31 March 2004.

Service Contracts

The Executive Directors have service contracts that are terminable by either party giving 12 month's notice to the other. The Non-Executive Directors service contracts are terminable on three month's notice by either party with the exception of GJ Roediger whose services are provided via Credo Corporate Finance, corporate finance advisers to the Group. This engagement is terminable on 30 days' notice by either party.

Pension Arrangements

The Group makes pension contributions to money purchase schemes in respect of each of the Executive Directors.

Audited Information

Share Options

The Board believes that employees should be encouraged to participate in the performance of the Group over the longer term and that this can be achieved by encouraging them to hold shares in the Company. The Company operates a Share Option Plan which comprises three parts in similar form ie an EMI Part, an Approved Part and an Unapproved Part. The Plan is open to all employees and directors, with the grant of options being supervised by the Remuneration Committee of the Board.

Prior to the Group's admission to AIM, a number of options were granted for nil consideration under the Plan. No performance criteria were attached to these options since they were primarily intended to recognise past performance. As at 31 March 2004 the following options were outstanding, none having been exercised to date:

Plan	Date of Grant	No. of Shares	Exercise Price	Dates Exercisable
EMI	22 Dec 2000	164,175	47.0p	22 Dec 2001 to 21 Dec 2010
Approved	22 Dec 2000	35,475	47.0p	22 Dec 2001 to 21 Dec 2010

On 3 July 2002 further options were granted under the Plan. With the 2001 Award having fully lapsed, the Remuneration Committee decided to grant these options on a more restricted basis. No performance criteria were attached to these options. As at 31 March 2004 the following options were outstanding:

Plan	Date of Grant	No. of Shares	Exercise Price	Dates Exercisable
EMI	3 July 2002	149,078	40.5p	3 July 2003 to 2 July 2012
Unapproved	3 July 2002	260,922	40.5p	3 July 2003 to 2 July 2012

AM Walker was granted 128,150 options under the EMI part of the Plan prior to the Group's admission to AIM. He was also granted a further 240,000 unapproved options on 3 July 2002. No other Director has been granted options to date. The Group's shares commenced trading on 5 January 2001 at an issue price of 60p and, as at 31 March 2004, the mid market price was 24.5p. The share price fluctuated between a high of 25.25p and a low of 13.5p during the year ended 31 March 2004.

Statement of Directors' Responsibilities

For the year ended 31 March 2004

United Kingdom 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 the Group and of the profit or loss of the Group for the 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 being disclosed and explained in the financial statements

- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company and 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 the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps to detect and prevent fraud and other irregularities.

Independent Auditors' Report to the Members of Intercede Group plc

For the year ended 31 March 2004

We have audited the financial statements of Intercede Group plc for the year ended 31 March 2004 which comprise the Profit and Loss Account, the Balance Sheets, the Cash Flow Statement and the related notes numbered 1 to 24. These financial statements have been prepared under the accounting policies set out therein.

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 auditors' 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' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are 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 regarding directors' remuneration and transactions with the Company is not disclosed.

We read the Directors' Report and the other information contained in the Annual Report for the above year as described in the contents section, and consider the implications for our report if we become aware of any misstatements or material inconsistency with the financial statements. This other information comprises only the Chairman's Statement, Operating and Financial Review, Corporate Governance Statement, Report of the Remuneration Committee and the Statement of Directors' Responsibilities. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

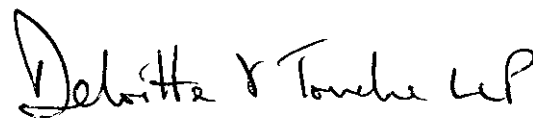
We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the

Directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the Company and of the Group, 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 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.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group at 31 March 2004 and of the Group's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche LLP
Chartered Accountants & Registered Auditors
Birmingham
25 May 2004

Consolidated Profit and Loss Account

For the year ended 31 March 2004

	Notes	2004 £'000	2003 £'000
Turnover	2	1,605	1,819
Cost of sales		(266)	(528)
Gross profit		1,339	1,291
Other operating expenses	3	(1,960)	(2,365)
Operating loss		(621)	(1,074)
Interest receivable and similar income	4	34	29
Interest payable and similar charges	5	(74)	(78)
Loss on ordinary activities before taxation	6	(661)	(1,123)
Taxation	8	(202)	212
Retained loss on ordinary activities after taxation and for the year	19	(863)	(911)
Basic and diluted loss per ordinary share	10	(2.9)p	(5.6)p

All operations of the Group continued throughout both years and no operations were acquired or discontinued.

There are no recognised gains or losses in either year other than the loss for the year.

The accompanying notes are an integral part of this consolidated profit and loss account.

Balance Sheets

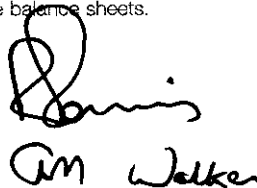
At 31 March 2004

	Notes	2004 £'000	Group 2003 £'000	2004 £'000	Company 2003 £'000
Fixed assets					
Tangible assets	11	42	70	-	-
Investments	12	-	-	2,916	2,916
Current assets					
Stocks	13	-	2	-	-
Debtors	14	119	544	405	3,871
Cash at bank and in hand		1,068	317	-	-
Creditors: Amounts falling due within one year	15	(778)	863 (337)	405 (186)	3,871 (110)
Net current assets/(liabilities)		409	(24)	219	3,761
Total assets less current liabilities		451	46	3,135	6,677
Creditors: Amounts falling due after more than one year					
Convertible debt	16	(1,432)	(1,432)	(1,432)	(1,432)
Other creditors	16	-	(2)	-	-
	16	(1,432)	(1,434)	(1,432)	(1,432)
Net (liabilities)/assets		(981)	(1,388)	1,703	5,245
Capital and reserves					
Called-up share capital	18	4,271	4,095	4,271	4,095
Share premium account	19	2,107	1,013	2,107	1,013
Other reserves	19	1,508	1,508	-	-
Profit and loss account	19	(8,867)	(8,004)	(4,675)	137
Shareholders' (deficit)/funds - all equity	20	(981)	(1,388)	1,703	5,245

The accompanying notes are an integral part of these balance sheets.

Signed on behalf of the Board

R A Parris Director
A M Walker Director



25 May 2004

Consolidated Cash Flow Statement

For the year ended 31 March 2004

	Notes	2004 £'000	2003 £'000
Net cash outflow from operating activities	21	(525)	(1,608)
Returns on investments and servicing of finance			
Interest received		31	30
Interest paid		(1)	(17)
Interest element of finance lease rentals		(2)	(5)
Net cash inflow from returns on investments and serving of finance		28	8
Taxation received		-	190
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(6)	(11)
Cash outflow before financing		(503)	(1,421)
Financing			
Issue of ordinary share capital		1,270	7
Repayment of secured loan		(10)	(10)
Capital element of finance lease rentals		(6)	(31)
Net cash inflow/(outflow) from financing		1,254	(34)
Increase/(decrease) in cash in the year	22	751	(1,455)

The accompanying notes are an integral part of this consolidated cash flow statement.

Notes to the Accounts

31 March 2004

1 Accounting policies

The financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards. A summary of the principal accounting policies, which have been applied consistently, is set out below.

a) Basis of consolidation

The Group Accounts consolidate the accounts of Intercede Group plc and its subsidiary undertakings drawn up to 31 March each year.

b) Turnover

Turnover comprises the value of goods and services sold within the normal course of business after deduction of trade discounts and value added tax.

c) Revenue recognition

The Group's revenue recognition policies are detailed below:

Software licence sales	—	Turnover is recognised upon delivery of the software. Where a licence is supplied as part of an integrated consulting and development package which spans accounting periods, turnover is recognised on a time and materials basis.
Consulting and development services	—	Turnover on consulting and development services is recognised on completion of the relevant project or on a time and materials basis as costs are incurred where a project spans accounting periods.
Support and maintenance	—	Support and maintenance services are provided on fixed fee contracts. Maintenance fees are invoiced at the beginning of the period to which they relate and are initially recorded as deferred income. Revenue is then recognised rateably over the maintenance period.
Distribution of hardware	—	Turnover is recognised upon delivery of the product.
Training and installation services	—	Turnover is recognised upon the completion of training or installation services.

d) Development costs

Development costs are written off in the Profit and Loss Account in the year in which they are incurred.

e) Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment.

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life as follows:

Fixtures and fittings	15% pa
Computer and office equipment	25% pa or over the period of the lease

f) Investments

Fixed asset investments are shown at cost, net of any provision for impairment.

In the Company Balance Sheet, for investments in subsidiaries acquired for consideration including the issue of shares qualifying for merger relief, cost is measured by reference to the nominal value only of the shares issued.

g) Stocks

Stocks are stated at the lower of cost and net realisable value. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and sale. Provision is made for obsolete, slow-moving or defective items where appropriate.

h) Taxation

UK corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the Balance Sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the Balance Sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the Balance Sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable tax profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the Balance Sheet date. Deferred tax is measured on a non-discounted basis.

i) Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged, at the forward contract rate. Monetary assets and liabilities denominated in foreign currencies at the Balance Sheet date are reported at the rates of exchange prevailing at that date or, if appropriate, at the forward contract date. All exchange differences are included in the Profit and Loss Account.

j) Pension costs

The Group operates a money purchase pension scheme via an independent provider. Contributions are charged to the Profit and Loss Account as incurred.

k) Leases

Assets held under finance leases and other similar contracts, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and are depreciated over the shorter of the lease terms and their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the Profit and Loss Account over the period of the leases to produce a constant rate of charge on the balance of capital repayments outstanding.

Rentals costs under operating leases are charged on a straight-line basis over the lease term.

Notes to the Accounts

31 March 2004

2 Turnover

All of the Group's turnover, operating losses and net assets originate from operations in the United Kingdom. The Directors consider that the activity of the Group constitutes a single class of business.

The split of turnover by geographical destination can be analysed as follows:

	2004 £'000	2003 £'000
United Kingdom	1,281	1,326
Rest of Europe	77	28
USA	180	465
Rest of World	67	-
	1,605	1,819

3 Other operating expenses

	2004 £'000	2003 £'000
Sales and marketing expenses	370	522
Administrative expenses	1,590	1,843
	1,960	2,365

Cost of sales includes software development costs of £14,000 (2003: £4,000). Administrative expenses include software development costs of £729,000 (2003: £831,000).

4 Interest receivable and similar income

	2004 £'000	2003 £'000
Bank interest receivable	34	29

5 Interest payable and similar charges

	2004 £'000	2003 £'000
Bank loan	1	1
Finance leases	1	5
Other loans	72	72
	74	78

6 Loss on ordinary activities before taxation

Loss on ordinary activities before taxation is stated after charging:

	2004 £'000	2003 £'000
Exchange losses	7	2
Depreciation of tangible fixed assets		
– owned	27	33
– held under finance leases	7	18
Research and development expenditure	743	835
Operating lease rentals	82	81
Auditors' remuneration for audit services	18	18

Amounts payable to Deloitte & Touche LLP by the Company and its UK subsidiary in respect of non-audit services were £nil (2003: £nil).

7 Staff costs

The average monthly number of employees (including Executive Directors of the Group) was:

	2004 Number	2003 Number
Technical	18	20
Sales and marketing	5	6
Administration	5	6
	28	32

Their aggregate remuneration comprised:

	2004 £'000	2003 £'000
Wages and salaries	1,284	1,531
Social security costs	143	163
Pension costs	52	60
	1,479	1,754

Pension contributions totalling £6,000 (2003: £7,000) are included within year end creditors.

Directors' remuneration

The aggregate remuneration of the Directors was as follows:

	2004 £'000	2003 £'000
Emoluments	228	300
Company contributions to money purchase pension scheme	12	15
	240	315

Emoluments exclude fees paid to third parties.

Directors' emoluments

	Salary and fees 2004 £'000	Bonus 2004 £'000	Benefits in kind 2004 £'000	Total 2004 £'000	Total 2003 £'000	Pension contributions 2004 £'000	Pension contributions 2003 £'000
Executive Directors							
RA Parris	105	-	-	105	105	8	8
JK Murphy (Resigned 29 May 2003)	11	-	-	11	75	-	3
AM Walker	85	-	-	85	85	4	4
Non-Executive Directors							
JS Sikorski	15	-	-	15	16	-	-
R Hoggarth	12	-	-	12	8	-	-
JL Hubbard-Ford (Resigned 16 August 2002)	-	-	-	-	11	-	-
	228	-	-	228	300	12	15
Fees paid to third parties	9	-	-	9	9	-	-

Fees to third parties comprise amounts paid to Credo Corporate Finance Limited under an arrangement to provide the Group with the services of GJ Roediger as a Non-Executive Director. GJ Roediger is a Director of Credo Corporate Finance Limited.

Notes to the Accounts

31 March 2004

8 Tax on loss on ordinary activities

The tax (charge)/credit comprises:

	2004 £'000	2003 £'000
Current year – UK corporation tax	–	201
Adjustment in respect of prior periods	(202)	11
	(202)	212

The difference between the (charge)/credit tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the loss before tax is as follows:

	2004 £'000	2003 £'000
Loss on ordinary activities before taxation	(661)	(1,123)
Loss on ordinary activities at UK corporation tax rate of 30% (2003: 30%)	198	337
Research and development tax credit claimable at 24% (2003: 24%)	–	(50)
Adjustments to tax in respect of a research and development tax credit relating to the prior period	(202)	11
Depreciation in excess of capital allowances	(5)	(6)
Losses carried forward	(193)	(80)
Tax (charge)/credit for the year	(202)	212

There is no charge in respect of corporation tax in either year due to the availability of losses. No benefit has been taken in the current year in respect of the Group's claim for a research and development tax credit. An adjustment has also been made in respect of the prior period. The tax credit will be recognised as and when the research and development claims have been agreed by the Inland Revenue.

There was no deferred taxation provided at either year end. Unprovided tax losses carried forward as at 31 March 2004 total £5,054,000 (2003: £3,567,000). A deferred tax asset has not been recognised as there is insufficient evidence that the asset will be recovered in the immediate future. The amount of the asset not recognised is £1,516,000 (2003: £1,070,000) measured at the UK corporation tax rate of 30%. The asset would be recovered if the Group makes taxable profits in the future.

9 Loss attributable to Intercede Group plc

The loss for the financial year dealt with in the accounts of the parent company, Intercede Group plc, was £4,812,000 (2003: profit of £105,000). As permitted by Section 230 of the Companies Act 1985, no separate Profit and Loss Account is presented in respect of the parent company.

10 Basic and diluted loss per ordinary share

The calculations of loss per ordinary share are based on the loss for the financial year and the weighted average number of ordinary shares in issue during each year. Diluted loss per share is the same as basic loss per share as there were no potentially dilutive ordinary shares in the current or prior period.

	2004 £'000	2003 £'000
Loss for the year	(863)	(911)
	Number	Number
Weighted average number of shares	29,672,863	16,372,931
	Pence	Pence
Basic and diluted loss per ordinary share	(2.9)	(5.6)

11 Tangible fixed assets

Group	Fixtures and fittings £'000	Computer and office equipment £'000	Total £'000
Cost			
At beginning of year	87	158	245
Additions	1	5	6
Disposals	(1)	-	(1)
At end of year	87	163	250
Depreciation			
At beginning of year	63	112	175
Charge for the year	7	27	34
On disposals	(1)	-	(1)
At end of year	69	139	208
Net book value			
At beginning of year	24	46	70
At end of year	18	24	42

The Company had no tangible fixed assets at either year end.

12 Investments

	2004 £'000	Company 2003 £'000
Cost and net book value		
Investment in subsidiary undertakings	2,916	2,916

The company's subsidiaries, all of which have been consolidated in the Group's financial statements at 31 March 2004, are as follows:

	Country of incorporation	Class of shares	% held	Principal activity
Intercede Limited	England and Wales	Ordinary	100	Software developer
Intercede 2000 Limited	England and Wales	Ordinary	100	Dormant

13 Stocks

	2004 £'000	Group 2003 £'000
Finished goods and goods for resale	-	2

There is no material difference between the carrying value of stocks and their replacement cost. The Company had no stocks at either year end.

14 Debtors: Amounts falling due within one year

	2004 £'000	Group 2003 £'000	Company 2004 £'000	Company 2003 £'000
Trade debtors	89	304	-	-
Loans to group undertakings	-	-	-	3,632
Amounts owed by group undertakings	-	-	405	235
Prepayments and accrued income	30	38	-	4
Taxation recoverable	-	202	-	-
	119	544	405	3,871

A loan to a subsidiary undertaking totalling £1,270,000 was entered into on 1 July 2003 and consolidated with the two other existing loans totalling £3,632,000. The total loan amount of £4,902,000 owed by the subsidiary company, Intercede Limited, was written off during the year and formally waived by the Company on 10 May 2004.

Notes to the Accounts

31 March 2004

15 Creditors: Amounts falling due within one year

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Obligations under finance leases	-	6	-	-
Bank loan	2	10	-	-
Trade creditors	183	265	-	-
Taxation and social security	69	120	-	-
Accruals	265	206	186	110
Deferred income	259	280	-	-
	778	887	186	110

Deferred income includes £nil (2003: £52,000) in respect of advance licence commitments received from channel partners.

16 Creditors: Amounts falling due after more than one year

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Convertible debt				
5% convertible unsecured loan stock (11 December 2006)	982	982	982	982
5% convertible unsecured loan stock (31 March 2007)	450	450	450	450
	1,432	1,432	1,432	1,432
Other creditors				
Bank loan	-	2	-	-
	1,432	1,434	1,432	1,432

On 6 December 2001, the Group obtained further funding totalling £982,000 in the form of a 5% convertible unsecured loan which is convertible at a price of 60p per ordinary share (up to a maximum of 1,636,043 shares) on or prior to the fifth anniversary of the drawdown of the funds (11 December 2006). Unless previously redeemed or converted, the loan will be redeemed at par on the fifth anniversary.

On 27 March 2002, the Group agreed a variation of terms with the holders of its existing £450,000 unsecured loan stock. As a result this loan stock now carries a coupon of 5% and will be redeemed at par, unless previously redeemed or converted, on 31 March 2007. The conversion price of 41.4p per ordinary share (up to a maximum of 1,086,800 shares) remains unchanged.

In recognition of the diD
to subscribe for uD
and 31 March 2007 respectively.

Borrowings are repayable as follows:

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Convertible debt				
Between two and five years	1,432	1,432	1,432	1,432
Bank loan				
Between one and two years	-	2	-	-
On demand or within one year	2	10	-	-
	2	12	-	-
Finance leases				
On demand or within one year	-	6	-	-
Total borrowings including finance leases				
Between one and two years	-	2	-	-
Between two and five years	1,432	1,432	1,432	1,432
	1,432	1,434	1,432	1,432
On demand or within one year	2	16	-	-
	1,434	1,450	1,432	1,432

17 Derivatives and other financial instruments

The numerical disclosures in this note deal with financial assets and financial liabilities as defined in Financial Reporting Standards 13 "Derivatives and other financial instruments: Disclosures" ("FRS 13"). As permitted by FRS 13, short term debtors and creditors have been excluded from the disclosures, with the exception of the currency disclosures.

The Group's financial instruments comprise borrowings, finance leases, cash at bank and in hand and various items such as trade debtors and trade creditors which arise directly from its operations. The main purpose of these financial instruments is to fund the Group's operations. It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk and foreign currency risk. The Board has reviewed these risks on an ongoing basis throughout the year. The policy for their management is summarised below:

Interest rate risk

The Group has financed its operations to date through a variety of sources of external finance including convertible loans and a DTI bank loan. These borrowings, which are all denominated in Sterling, bear interest at fixed and floating rates respectively.

Liquidity risk

The Group's policy has been to ensure continuity of funding throughout the year.

Foreign currency risk

A major supplier invoices the Group in US Dollars. The Group has also entered into a number of agreements to license its technology and sell its products via other international organisations. This will increasingly result in invoices being raised in currencies such as US Dollars and Euros. These exposures are not hedged and the exchange differences are recognised in the Profit and Loss Account in the year in which they arise.

Interest rate profile

The Group has no financial assets other than cash deposits of £1,068,000 (2003: £317,000). This includes US Dollar deposits of £58,000 (2003: £94,000) and Euro deposits of £32,000 (2003: £nil). Interest rates on cash deposits are based on LIBOR.

The interest rate profile of the Group's financial liabilities at 31 March 2004 and 31 March 2003 was as follows:

	Total 2004 £'000	Floating rate 2004 £'000	Fixed rate 2004 £'000	Total 2003 £'000	Floating rate 2003 £'000	Fixed rate 2003 £'000
Sterling						
- convertible debt	1,432	-	1,432	1,432	-	1,432
- finance leases	-	-	-	6	-	6
- bank loan	2	2	-	12	12	-
Total	1,434	2	1,432	1,450	12	1,438

Interest is payable on the floating rate bank loan at a rate of 3% above the prevailing base rate per annum.

Further analysis of the interest rate profile at 31 March 2004 and 31 March 2003 is as follows:

	2004 Fixed rate		2003 Fixed rate	
	Weighted average interest rate %	Weighted average period for which rate is fixed Years	Weighted average interest rate %	Weighted average period for which rate is fixed Years
Sterling				
- convertible debt	5.0	2.8	5.0	3.8
- finance leases	-	-	8.1	0.6
Total	5.0	2.8	5.0	3.8

Notes to the Accounts

31 March 2004

17 Derivatives and other financial instruments (continued)

Currency exposures

The table below shows the Group's currency exposures; in other words, those transactional exposures that give rise to the net currency gains and losses recognised in the Profit and Loss Account. Such exposures comprise the monetary assets and monetary liabilities of the Group that are not denominated in the operating (or "functional") currency of the Group (Sterling). These exposures were as follows:

	Net foreign currency monetary assets/(liabilities)		
	US Dollar £'000	Euro £'000	Total £'000
At 31 March 2004	(13)	33	20
At 31 March 2003	(31)	-	(31)

Maturity of financial liabilities

The maturity profile of the Group's borrowings at 31 March 2004 and 31 March 2003 (see note 16) was as follows:

	Total 2004 £'000	Total 2003 £'000
In one year or less	2	16
In more than one year but not more than two years	-	2
In more than two years but not more than five years	1,432	1,432
Total	1,434	1,450

Borrowing facilities

The Group has no undrawn committed borrowing facilities (2003: £nil).

Fair values

The Directors consider that the fair values of the Group's financial assets and liabilities are not materially different to their book values.

18 Called-up share capital

	2004 £'000	2003 £'000
<i>Authorised</i>		
481,861,616 ordinary shares of 1p each (2003: 35,000,000 ordinary shares of 25p each)	4,819	8,750
393,138,384 deferred shares of 1p each (2003: No deferred shares)	3,931	-
	8,750	8,750
<i>Allotted, called-up and fully-paid</i>		
33,963,438 ordinary shares of 1p each (2003: 16,380,766 ordinary shares of 25p each)	340	4,095
393,138,384 deferred shares of 1p each (2003: No deferred shares)	3,931	-
	4,271	4,095

The changes in the authorised and issued share capital arose as a result of a Placing which was approved by the Group's shareholders at the 1 July 2003 Extraordinary General Meeting. The Placing resulted in 17,582,672 new ordinary shares of 1p each being issued at 7.8p per share. Approval was also granted for the issue of warrants in connection with the Placing to the loan stock holders (see note 16) and to Credo Corporate Finance (see note 24).

Since the Placing price was less than the then nominal value of the ordinary shares, a capital reorganisation was completed which served to reduce the nominal value of the ordinary shares from 25p to 1p. The capital reorganisation has no economic advantage or disadvantage for shareholders who continued to hold the same number of ordinary shares following the Placing prior to any participation in that Placing. The deferred shares which were created have minimal rights attaching to them and are effectively worthless.

19 Reserves

	Share premium account £'000	Other reserves £'000	Profit and loss account £'000	Total £'000
Group				
At beginning of year	1,013	1,508	(8,004)	(5,483)
Share issue	1,094	-	-	1,094
Retained loss for the year	-	-	(863)	(863)
At end of year	2,107	1,508	(8,867)	(5,252)

	Share premium account £'000	Other reserves £'000	Profit and loss account £'000	Total £'000
Company				
At beginning of year	1,013	-	137	1,150
Share issue	1,094	-	-	1,094
Retained loss for the year	-	-	(4,812)	(4,812)
At end of year	2,107	-	(4,675)	(2,568)

Other reserves relate to the merger reserve arising on the acquisition of Intercede Limited, which has been recognised in accordance with the provisions of FRS 6 "Acquisitions and Mergers".

20 Reconciliation of movement in Group shareholders' deficit

	2004 £'000	2003 £'000
Retained loss for the year	(863)	(911)
Issue of shares	1,270	7
Net reduction/(increase) in shareholders' deficit	407	(904)
Opening shareholders' deficit	(1,388)	(484)
Closing shareholders' deficit	(981)	(1,388)

21 Reconciliation of operating loss to operating cash flow

	2004 £'000	2003 £'000
Operating loss	(621)	(1,074)
Depreciation charge	34	51
Decrease in stock	2	6
Decrease/(increase) in debtors	226	(119)
Decrease in creditors	(166)	(472)
Net cash outflow from operating activities	(525)	(1,608)

Notes to the Accounts

31 March 2004

22 Analysis and reconciliation of net debt

	2003 £'000	Cash flow £'000	2004 £'000
Cash at bank and in hand	317	751	1,068
Debt due within one year	(10)	8	(2)
Debt due after one year	(1,434)	2	(1,432)
Finance leases	(6)	6	-
	(1,450)	16	(1,434)
Net debt	(1,133)	767	(366)

The reconciliation of net cash flow to the movement in net debt is as follows:

	2004 £'000	2003 £'000
Increase/(decrease) in cash in the year	751	(1,455)
Cash inflow from decrease in debt and lease financing	16	41
Movement in net cash in the year	767	(1,414)
Net (debt)/cash at beginning of year	(1,133)	281
Net debt at end of year	(366)	(1,133)

23 Financial commitments

a) Capital commitments

The Group and the Company had no capital commitments at the year end (2003: £nil).

b) Operating leases

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

Group	2004 Land and buildings £'000	2003 Land and buildings £'000
Expiry date:		
- after five years	65	65

On 7 April 2000, the Group entered into a non-cancellable operating lease in respect of its offices. The annual lease rental is £65,000 on a fifteen year lease.

The Company had no annual commitments under non-cancellable operating leases at either year end.

24 Related party transactions

During the year ended 31 March 2004, GJ Roediger served as a Non-Executive Director. GJ Roediger is also a director of Credo Corporate Finance Limited, the Group's corporate finance adviser. Consultancy fees charged by Credo Corporate Finance Limited to the Group in respect of his services as a Non-Executive Director and general corporate finance advice, and balances outstanding at the year ends were as follows:

	2004 £'000	2003 £'000
Consultancy fees charged	9	9
Balance outstanding at year end	6	3

Credo Corporate Finance also received fees totalling £82,000 (2003: £nil) during the period in connection with Placing (see note 18) along with a warrant to subscribe for up to 1,017,100 ordinary shares at the Placing Price of 7.8p at any time up to 29 May 2008.