Annual Report

for the year ended
31 March 2005


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MOBILE TOP-UP

Contents

Officers and professional advisors

Directors

G Earle	appointed 20 September 2004
K Minton*	appointed 4 August 2004
D Morrison*	
D B Newlands*	
A Robb*	appointed 18 August 2004
D Taylor	
T Watkin-Rees	
R Wood*	appointed 9 September 2004
M Astbury	resigned 31 August 2004
S Bott	resigned 20 July 2004
I Bull	resigned 4 August 2004
W Murphy	resigned 6 August 2004
K Steele	resigned 13 September 2004
M Wilson	resigned 16 August 2004

* Non-executive directors

Secretary

S Court

Registered office

1 The Boulevard
Shire Park
Welwyn Garden City
Hertfordshire AL7 1EL
United Kingdom
Registered in England and Wales number 3581541

Independent auditors

Deloitte & Touche LLP
St Albans
United Kingdom

Registrars

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Financial highlights

	Year ended 31 March 2005	2004
Turnover	**£89.1m**	£67.1m
Net revenue[1, 4]	**£36.9m**	£28.6m
Operating profit before exceptional items[4]	**£12.0m**	£6.2m
Operating profit	**£7.5m**	£6.2m
Adjusted earnings per share[2, 4]	**15.5p**	9.1p
Basic earnings per share	**8.7p**	9.1p
Proposed dividend per share	**5.2p**	1.6p

Key highlights:

- Turnover of £89.1 million up 33%
- Transactions processed up 27% to 259 million with strong growth in all sectors
- Net revenues[1, 4] up 29% with operating margins[3, 4] increased to 33%
- Operating profit before exceptional items nearly doubled to £12 million
- Adjusted earnings per share[2, 4] of 15.5p up 70%
- PayPoint terminal outlets have increased to over 13,000 up 15% on March 2004
- 4,700 second generation terminals rolled out to agents

David Newlands, Chairman of PayPoint, said "We are pleased to report strong growth in all sectors, generating improved margins and excellent cash flow. We are confident of continued growth, bringing on new revenue streams and expanding the existing trade in the coming year."

1 Net revenue is turnover net of the deduction of commissions paid to retail agents and the cost of e-vouchers for mobile top-ups where PayPoint is the principal.
2 Adjusted earnings per share are based on profits before exceptional items after taxation.
3 Operating margins are calculated as operating profit before exceptional items as a percentage of net revenue.
4 Net revenue, operating profit before exceptional items (£4.6 million, mainly the cost of flotation), adjusted earnings per share and operating margins are measures which the directors believe assist with a better understanding of the underlying performance of the Group. The reconciliation to statutory amounts can be found in notes 2 and 6 on the face of the profit and loss account.

Operating and financial review

Growth has been achieved through the success of our strategy to: increase and optimise network coverage; increase throughput per agent; and grow the range of payments through our network.

Operational overview

During the financial year, PayPoint processed 259 million consumer transactions (2004: 205 million) an increase of 27%, with a value of £2.9 billion (2004: £2.3 billion) up 30%. Agent commission charges of £50.3 million were up 33%, reflecting increased volumes and new products carrying higher agent commission, in particular the heavier mix of e-top up and ATM volumes.

There has been strong growth in transaction volumes across all sectors:

Transactions by sector	**2005 millions**	2004 millions	Increase %
Bill and general payments	**166.0**	137.6	21
Mobile top-ups	**87.9**	66.2	33
ATMs	**4.6**	0.7	593
Total	**258.5**	204.5	27

Bill and general payments

This sector has benefited from continued transaction volume growth helped by a migration away from the Post Office following its branch closure programme, in particular with respect to TV licence payments, BT and British Gas bill payments. In the case of the latter, gas consumer price increases have also continued to have a beneficial effect on PayPoint's transaction volume. Transport ticketing remains an important area for growth and whilst current volumes are relatively modest, there is considerable potential for long term growth.

Mobile top-ups

Mobile growth has been strong as the migration to electronic tops-ups from paper vouchers nears completion, accelerated by the introduction of an e-voucher product by all but one network operator. Once this migration is complete, future growth in mobile volumes is expected to be in line with mobile operators' revenues. Margins have also continued ahead of expectations as a result of a slower migration of volume away from terminals to the multiple retailers' own electronic point of sale (EPOS) till systems, which we expect to take place during the current financial year, which will reduce revenue by £1.5 million.

ATMs

The ATM business has performed in line with expectations, with new machines rolling out at an average of 50 new sites per month. Transaction volumes and revenue are in line with expectations for the year as a whole. Our current intention is to continue to roll out ATMs until 2,000 machines have been placed at a total cost of £6 million which will be recovered, either by the sale or rental of the ATMs, to agents.

Network growth

PayPoint terminal outlets have grown to over 13,000 sites at 31 March 2005 (2004: 11,400) an increase of 15%. Installed ATMs have grown to 957 (31 March 2004: 358).

New terminal

The second generation terminal is proving to be popular with retailers. The new terminal offers much faster processing, better reliability and new functionality through a touch screen and a contactless smartcard reader. These functions help new products, including the new transport ticketing schemes, to be introduced rapidly and efficiently. The new terminal design is also chip and PIN compliant. The replacement of the old terminals commenced in October last year, with some 6,000 new terminals now in operation. It is anticipated that the old terminal estate will have been substantially replaced by the end of the current financial year at a total cost of approximately £6 million.

Financial overview

Turnover for the financial year was £89.1 million (2004: £67.1 million) up 33% driven by a 27% increase in transaction volumes. Cost of sales was £61.3 million (2004: £47.3 million) an increase of 30%. Cost of sales comprises commission paid to agents, depreciation and other items including telecommunications. Agents' commission increased to £50.3 million (2004: £37.7 million) up 33%, slightly ahead of volume growth as a result of the heavier mix of higher agent commission schemes, in particular mobile top-ups and ATM volumes. Depreciation has reduced to £1.8 million (2004: £2.0 million) because the first generation terminal estate has been completely written off and the new terminal deployment will not be completed until the end of the current financial year.

Other costs of sales increased overall mainly as a consequence of the growth in the Irish mobile top-up business where PayPoint acts as principal and so the cost of the top-up is included in cost of sales[1]. Gross profit improved to £27.7 million (2004: £19.8 million), 40% ahead of last year, with a gross margin of 31% (2004: 29%).

Net revenue of £36.9 million (2004: £28.6 million) was up 29%, driven primarily by volume growth. Operating margins[2] were 33% (2004: 22%), benefiting from operational gearing and also from a delay in the migration of mobile top-ups, in some of our multiple retailers, from our terminals to the retailers' own till systems.

Operating costs (administrative expenses) before exceptional items have risen to £15.7 million (2004: £13.6 million), an increase of 15%, driven largely by increased marketing expense in rolling out the new point of sale materials to independent retailers and investment in providing retailers with the ability to top-up mobile telephones using their own EPOS systems on PayPoint's network. Operating profit before exceptional charges was £12.0 million (2004: £6.2 million) with a corresponding increase in operating margins[2] as noted above.

We incurred exceptional costs of £4.6 million of which £4.2 million related to the successful listing of the Company's shares on The London Stock Exchange and £0.4 million related to bid defence costs.

Profit before tax after exceptional items was £8.1 million (2004: profit before tax £6.0 million). The tax charge of £2.2 million results from the partial release of the brought forward deferred tax asset of £3.6 million. The remaining deferred tax asset of £1.4 million relates to capital allowances in excess of depreciation.

Operating cash flow was £17.4 million (2004: £12.5 million), reflecting strong conversion of profit to cash and the impact of the Easter bank holiday weekend at the end of our financial year, which increased cash held for mobile operators to which PayPoint has legal title, but for which an equal amount is included in creditors (client cash). Net capital expenditure of £4.2 million (2004: £1.1 million) reflected spend on new terminals, ATMs and infrastructure assets. Net interest received of £0.6 million compared to a net interest paid of £0.1 million in 2004, as a result of the repayment of finance leases and increased net funds in 2005. Equity dividends paid were £0.8 million (2004: £0.3 million). The net financing outflow of £0.9 million was the repayment of leases and compares to a net outflow of £1.5 million last year, being £1.9 million of lease repayments, offset by £0.4 million of new lease finance.

Net funds were £25.7 million including client cash of £11.1 million, up £13.1 million from £12.6 million including client cash of £4.7 million at 31 March 2004.

Dividend

We propose to pay a final dividend of 5.2p per share to shareholders in July, subject to approval of the shareholders at the annual general meeting. The dividend will be payable to shareholders on the register on 24 June 2005. No interim dividend was paid, as stated in the listing particulars.

1 In Ireland, PayPoint purchases the e-voucher and holds it in stock prior to the sale to the consumer. The full value of the sale is included in turnover and the cost of the e-voucher and agents' commission is included in cost of sales. This contrasts with the UK where for mobile top-ups, turnover includes the commission only.

2 Operating margins are calculated as operating profit before exceptional items as a percentage of net revenue.

International Financial Reporting Standards (IFRS)

Under European Union legislation all listed groups will be required to report under IFRS for accounting periods commencing on or after 1 January 2005. The first annual report for PayPoint under IFRS will be in respect of the year ending 31 March 2006. The interim results for the six months ending 30 September 2005 will also be prepared in accordance with IFRS principles, with all comparative figures being restated as appropriate. As no substantial change is expected to the reported results, other than the reversal of accruals for dividends payable, we do not currently expect to make a separate announcement concerning the impact of IFRS.

Employees

We would like to take this opportunity to thank PayPoint's staff for their commitment and energy in achieving these results.

Outlook

There are many opportunities to grow the business in the UK and Ireland with good prospects in all markets, in particular through broadening the range of payments across the PayPoint retail network. Retail network growth and optimisation will continue to be priorities and we will review the potential for international expansion. Strong cash generation should continue, although capital expenditure for new terminals and ATMs, the reversal of the exceptional level of client cash, tax and dividend payments will deplete cash balances this year. In the first two months of the current year, trading has started well and we are confident of continuing growth.

David Newlands
Chairman

Dominic Taylor
Chief Executive

13 June 2005

Governance

Corporate governance

The directors recognise the importance of sound corporate governance, whilst taking into account the size and nature of the Company. Following admission to the official list on the London Stock Exchange on 24 September 2004 the Company has fully complied with the provisions set out in Section 1 of the Combined Code on Corporate Governance ("Combined Code") appended to the Listing Rules of the Financial Services Authority for the period up to 31 March 2005 except for the following matters:

- David Morrison, although not considered to be independent for the purposes of provision A.3.1 of the Combined Code due to his association with two significant shareholders, is a member of the board and each of the committees. The board considers that David Morrison has expertise in the workings of each of the committees which is considered to be relevant to the efficient discharge of their duties.
- A performance evaluation for the purposes of provision A.6.1 of the Combined Code has not been performed since the Company's admission. Full performance evaluations of the board, its committees and individual directors will be conducted during 2005.
- The policy on whistleblowing was not formally reviewed and adopted by the Audit Committee until 27 April 2005 for the purposes of provision C.3.4 of the Combined Code although the policy was operated by the Company from admission.

This statement describes how the principles of corporate governance in the Combined Code are applied by the Company.

The board

The board comprises eight directors: David Newlands, the non-executive Chairman, three executive directors, Dominic Taylor, George Earle and Tim Watkin-Rees and four non-executive directors, Kenneth Minton, David Morrison, Andrew Robb and Roger Wood. Kenneth Minton is the senior independent non-executive director.

The board considers that the non-executive directors Andrew Robb, Kenneth Minton and Roger Wood are independent for the purposes of the Combined Code. Given the size of the Company and its ownership structure the board has concluded that the proportion of independent non-executive directors is appropriate.

All the non-executive directors bring considerable knowledge and experience to board deliberations. Non-executive directors do not participate in any of the Company's share schemes or bonus schemes and their service is non-pensionable.

Full biographical details of each of the directors are set out on pages 10 and 11. Procedures exist to allow the directors to seek independent professional advice in respect of their duties at the Company's expense where the circumstances are appropriate. All directors have access to the Company Secretary for advice and are subject to re-election at intervals of no more than three years.

The terms and conditions of appointment of the non-executive directors and the executive directors' service contracts are available for inspection at the Company's registered office during normal business hours and will be available at the AGM.

The Chairman, David Newlands, attends all board meetings and regularly consults with the executive directors regarding ongoing business. His other significant commitments are disclosed in his biography on page 10. The board considers that these commitments do not hinder this ability to discharge his responsibilities to the Group effectively.

The directors believe it is essential for the Company to be led and controlled by an effective board which monitors progress through monthly reports and management accounts. The board has a schedule of matters reserved for its approval. The most significant of these are approval of:

- the corporate strategy of the Company and its subsidiary undertakings (the Group) and the annual operating and capital expenditure budgets;
- major capital investments;
- the annual and interim report and accounts; and
- acquisitions and disposals.

Following the appointment of new directors, a full, formal and tailored induction programme is arranged.

Following flotation the board met four times and all members were in attendance.

Committees of the board

The following formally constituted committees deal with specific aspects of the Group's affairs in accordance with the duties and responsibilities formally delegated to them by the board. The terms of reference for each of the committees have been made available on request following admission and, since May 2005, on the Company's website at www.paypoint.com.

Audit Committee

The Audit Committee comprises all the non-executive directors other than David Newlands. It met three times following flotation. All meetings were chaired by Andrew Robb who the board considers to have recent and relevant financial experience. All members were in attendance with the exception of Roger Wood who was unable to attend one of the meetings. Meetings were also attended, by invitation, by David Newlands, George Earle, Dominic Taylor and the auditors.

The Audit Committee is primarily responsible for ensuring that the financial performance of the Group is properly measured and reported on, for reviewing reports from the auditors relating to the Group's accounting and internal controls, for advising the board on the appointment, independence and objectivity of the auditors, for reviewing the effectiveness of the Group's systems of internal control and for the appointment of the internal auditors. The Audit Committee regularly meets the external auditors without the executive directors being present and procedures are in place which allow access at anytime of both external and internal auditors to the Audit Committee. The Chairman of the committee reports the outcome of each meeting to the board which is provided with the minutes of all meetings.

Remuneration Committee

The role and composition of the Remuneration Committee and details of how the Company applies the principles of the Combined Code in respect of directors' remuneration are set out in the Remuneration Committee report on pages 14 to 22.

Nomination Committee

The Nomination Committee comprises all the non-executive directors including David Newlands who is its Chairman. It met once following flotation and all members were in attendance.

The Nomination Committee is responsible for considering and making recommendations on the appointment of additional directors, the retirement of existing directors and for reviewing the size, structure and composition of the board and membership of board committees. There have been no changes to the composition of the board since admission.

Risk management and internal control

The directors are responsible for establishing and maintaining the Group's system of internal control which has been designed to meet the particular needs of the Group and its risks. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. All procedures necessary to implement "Internal Control: Guidance for Directors on the Combined Code" were in place for the period from flotation to the date of approval of the annual report.

The operational management of the Group is delegated to senior managers who are appointed by the Chief Executive. This group consists of six senior managers and the three executive directors (the Executive). The responsibilities of the Executive include the regular review of the main business risks to the Group including the operation of the financing and treasury policy which was established by the board following admission. Its underlying philosophy is that PayPoint's financial policy should be prudent, consistent with the overall business strategy, but flexible to respond to sudden, unpredicted changes of strategic direction or economic conditions.

The Group has prepared a detailed risk register which includes analysis of all the main risks identified by the Executive management of the Group covering all parts of the Group's business activities. The Executive, which meets monthly, also evaluates and prioritises the identified key risks forming a threat to the key business processes and the achievement of corporate objectives by reviewing the risk register at each meeting. The Audit Committee has received regular updates on the progress of the implementation of the risk management and control system and has discussed this at their meetings. Steps are being taken to embed internal control and risk management further into the operations of the business and to deal with areas of improvement which come to management's attention.

Following a tender and selection process governed by the Audit Committee, the Group appointed KPMG as internal auditors on 23 March 2005. KPMG have planned and proposed to the Audit Committee a rigorous internal audit programme covering all the Group's key business areas which is scheduled to take place between 2005 and 2007. Key risk areas are to be covered each year, with the balance of the programme to be completed over the three years. In addition independent internal audits are conducted for the Group's assessment of compliance against BS7799-2:2002 (information security management), which takes place twice annually and by LINK, on an annual basis, which assesses the Group's control over LINK related ATM systems.

Auditor independence

The Company has adhered to a policy approved by the Audit Committee which is designed to ensure that the external auditors' independence is not compromised by their undertaking inappropriate non-audit work. Under this policy only certain non-audit work may be commissioned from the external auditors without the committee's approval.

Shareholder relations

The directors believe that the annual report and accounts play an important role in providing shareholders with an evaluation of the Company's position and prospects. The board aims to achieve clear reporting of financial performance to all shareholders. The board acknowledges the importance of an open dialogue with its institutional shareholders and welcomes the interest of private investors. It believes that in addition to the annual report and the Company's website, the annual general meeting is an ideal forum at which to communicate with investors and the board encourages their participation. The senior independent non-executive director is available to address unresolved shareholder concerns.

The Company, including the Chairman, held briefings with institutional fund managers, analysts and other investors following the announcement of interim results. Presentations have been held at other times during the year when appropriate in the short period since the Company's flotation. All findings have been reported back to the board.

Board of directors

David Newlands, non-executive Chairman (aged 58) — appointed 4 August 1998

David has been Chairman of PayPoint since 1998. He was previously Finance Director of The General Electric Company, p.l.c. (GEC) and non-executive Chairman of Britax International plc. David is currently non-executive Chairman of Tomkins plc and Kesa Electricals plc, Deputy Chairman of The Standard Life Assurance Company and a director of a number of other companies.

Dominic Taylor, Chief Executive (aged 47) — appointed 4 August 1998

Dominic was a Royal Naval officer for 12 years, following which he completed an MBA at the Cranfield School of Management. In 1991 Dominic joined the Vodafone Group where he led a number of initiatives including the development of its SMS service and a bid for the National Lottery, before becoming Sales and Marketing Director for the indirect sales of mobile phones to retailers. In 1996 Dominic joined Granada plc as a director of Granada Technology Group and Managing Director of Granada Business Technology, supplying film and telecoms products into the hotel and leisure sectors. He joined PayPoint in 1997 as Retail Director and was appointed to his current role in August 1998.

Tim Watkin-Rees, Business Development Director (aged 42) — appointed 22 September 1998

Tim joined Lloyds Bank's Management Programme in 1984 working in London branches and selling payment systems, qualifying as an ACIB (Associate of The Chartered Institute of Bankers). In 1987 he joined KPMG as a senior consultant specialising in retail banking and payment systems. From 1989 Tim was the head of business planning for Nexus, an MBO company specialising in payments, responsible for strategy and product development. Sligos SA (now Atos Origin) acquired Nexus in 1992 and Tim held top sales, marketing and strategy positions with them. Tim left Sligos in 1996 to become a founder of PayPoint. Until February 2000, he was Sales & Marketing Director responsible for creating the PayPoint brand and delivering initial sales success. Since then, Tim has been responsible for longer-term strategic opportunities.

George Earle, ACA, Finance Director (aged 51) — appointed 20 September 2004

George qualified as a chartered accountant with Touche Ross & Co (now Deloitte & Touche LLP) in 1979, where he served in the corporate finance and audit groups becoming a partner in 1984. In 1987, George moved to Saatchi & Saatchi plc serving as Deputy Finance Director. George subsequently moved to GEC in 1989, where, until 2001, he fulfilled the role of Financial Services Director and was responsible for the successful delivery of the separation of Marconi Electronic Systems from GEC and its subsequent merger with BAE Systems. George left Marconi (formerly GEC) in 2001 to work as Group Director, Chief Executive's Office at Centrica plc, and in 2003 was appointed as Director of Financial Control responsible for group financial and management accounting. George joined PayPoint in September 2004 and is responsible for the financial affairs of the Group.

David Morrison, non-executive director (aged 46) — appointed 12 January 1999

David has been Chief Executive of Prospect Investment Management since 1999, when he started the company. He became a director of PayPoint in 1999 following an investment in the company by clients of Prospect. Prior to establishing Prospect he had worked in the venture capital sector with 3i, Abingworth Management and Botts & Company. He is currently a director of a number of public and private companies in the UK.

Andrew Robb, non-executive director (aged 62) — appointed 18 August 2004

Andrew worked for P&O Steam Navigation Co. from 1971 to 1989, initially as Financial Controller and, from 1983, as Group Finance Director. From 1989 to 2001 he was Group Finance Director of Pilkington plc. Andrew has also served on the board of Alfred McAlpine plc as a non-executive director and Chairman of the Audit Committee. Andrew is a Fellow of the Chartered Institute of Cost and Management Accountants and is currently a non-executive director of Kesa Electricals plc, Corus Group plc and The Laird Group plc.

Kenneth Minton, non-executive director (aged 68) — appointed 4 August 2004

Kenneth spent most of his career at Laporte plc and held the position of Chief Executive officer for ten years. Kenneth has held roles as executive Chairman of Arjo Wiggins Appleton plc and Inveresk plc and non-executive Chairman of John Mowlem & Company plc and SGB Group plc. Kenneth is currently a non-executive director of Tomkins plc and Solvay UK Holding Company Limited and executive Chairman of 4Imprint Group plc.

Roger Wood, non-executive director (aged 62) — appointed 9 September 2004

Roger began his career at International Computers Limited (ICL) becoming a director of ICL (UK) Limited. Roger was subsequently appointed as Managing Director of STC/Northern Telecom Limited and then Vice President of Nortel Europe SA. In 1993, he became Director General for Matra Marconi Space NV. Roger joined the board of Centrica plc in 1997 following the de-merger from British Gas plc initially as Managing Director of British Gas Services Limited, and was subsequently appointed Managing Director of the Automobile Association in 1999 after Centrica's acquisition of the business until he retired in 2004.

Directors' report

The directors present their annual report on the affairs of the Company and of the Group, together with the financial statements and independent auditors' report, for the year ended 31 March 2005.

Principal activity

The Company is a holding company and its subsidiaries are engaged in developing and operating an electronic payment collection system for its clients.

PayPoint collects payments on behalf of the UK and Ireland's leading utility and customer service organisations, and there are over 13,000 convenience retail outlets using PayPoint's terminals. Five million consumer transactions are processed weekly through PayPoint terminals placed in store or through the retailers' own EPOS systems. At a PayPoint outlet, the wide range of PayPoint's clients uniquely provides consumers with a 'one stop shop' for making cash payments. In addition PayPoint provides ATMs to retail outlets and processes ATM transactions.

Share capital

On 1 June 2004 convertible unsecured loan stock to the value of £82,288 was converted into 61,099 ordinary shares of 1p each.

On 23 July 2004 1,210,587,111 F shares of 1p were each converted into and were redesignated as 1,210,587,111 deferred shares. As a result of this conversion there were no remaining F shares in the capital of the Company.

On 13 September 2004 1,419,322,731 deferred shares of 1p each were purchased (for a total sum of 1p for all deferred shares) and cancelled by the Company in accordance with its articles of association. As a result of this repurchase there were no remaining deferred shares in the capital of the Company.

On 13 September 2004 all the issued and unissued ordinary shares of 1p each were sub-divided into Ordinary shares of $\frac{1}{3}$ p each.

On 24 September 2004 the Company's shares were admitted to the official list on the London Stock Exchange. Immediately after listing the company's share capital was:

	£
Authorised share capital	
4,365,352,200 Ordinary shares of $\frac{1}{3}$ p	14,551,174
Issued share capital	
67,465,794 Ordinary shares of $\frac{1}{3}$ p	224,886

Substantial shareholdings

On 31 May 2005, the Company had been notified, in accordance with Sections 198 to 208 of the Companies Act 1985, of the following material interests of more than 3% in the ordinary share capital of the Company:

Name of holder	No. of ordinary shares	Percentage of issued capital
Invesco Asset Management	11,276,654	16.67
Lord Weinstock (Estate of)	9,096,183	13.44
RIT Capital Partners plc	9,096,183	13.44

Directors

The names of the directors at the date of this report and their biographical details are given on pages 10 and 11 and their interests in the ordinary shares of the Company are given on page 22. The changes in directors during the year are given on page 2.

Results for the year

The consolidated profit and loss account, balance sheet and cash flow statement for the year ended 31 March 2005 are set out in pages 26, 27 and 29.

The operational review of the Group's business for the year ended 31 March 2005 is set out in pages 4 to 6. The balance sheet of the holding company as at 31 March 2005 is set out on page 28.

Suppliers payment policy

The Group aims to pay its creditors promptly, in accordance with terms agreed for payment. The Group had 24 days' purchases outstanding at 31 March 2005, based on the average daily amount invoiced by suppliers during the year.

Future developments

Future developments are discussed in the operating and financial review on pages 4 to 6.

Dividends

The directors recommend the payment of a final dividend of 5.2p (2004: 1.6p) per ordinary share (£3,473,000) (2004: £777,000) to be paid on 21 July 2005 to members on the register on 24 June 2005. No interim dividend was declared during the year (2004: £277,000).

Going concern

The directors are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future, a period of not less than 12 months from the date of this report. Therefore, the financial statements have been prepared on an ongoing basis.

Independent auditors

Deloitte & Touche LLP have expressed their willingness to continue as the Company's auditors and a resolution for their re-appointment will be proposed at the forthcoming annual general meeting.

Approved by the board of directors and signed on behalf of the board

Susan Court
Secretary

13 June 2005

Remuneration Committee report

Introduction

This report has been prepared in accordance with The Directors' Report Regulations 2002 (the Regulations). The auditors are required to report on the 'auditable' part of this 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 is therefore divided into separate sections for audited and un-audited information.

Unaudited information

Remuneration Committee

The Remuneration Committee is responsible for developing policy on remuneration for executive directors and senior management and for determining specific remuneration packages for each of the executive directors. Kenneth Minton is Chairman of the committee with David Morrison, Andrew Robb and Roger Wood acting as committee members.

The Chief Executive also attends Remuneration Committee meetings and other executive directors attend when required except that no executive director takes part in discussions relating to his own remuneration and benefits. The Remuneration Committee received wholly independent advice on executive compensation and incentives from Halliwell Consulting during the year. No other services were provided to the Company by Halliwell Consulting during the year.

The Remuneration Committee is formally constituted with written terms of reference with the full remit of the committee role described. The Remuneration Committee did not meet between the flotation and the end of the Company's financial year. It has met once since the year end and all members were in attendance. The meeting was also attended, by invitation, by David Newlands, George Earle and Dominic Taylor.

Remuneration policy overview

The Remuneration Committee has adopted a remuneration policy so that total levels of compensation encourage and reward high performance and attract and retain individuals of the right calibre to ensure that the Company meets its objectives. It is the opinion of the Remuneration Committee that shareholders' interests are best served by focusing a greater proportion of total remuneration on performance related compensation. As such, base salaries are set at around the median level with the balance of remuneration provided through the annual bonus plan and long term share incentives.

Short and long term incentives are structured so as to align their interests with those of shareholders by rewarding them for enhancing shareholder value. It should be noted that the real value received by the executive directors under the share incentive arrangements will be dependent upon the degree to which the associated performance conditions have been satisfied at the end of the three year performance period and the share price of the Company at that time. This ensures that substantial rewards are only received when value has been created in the business.

The Remuneration Committee will continue to review the policy on an annual basis to ensure that it is in line with the Company's objectives and shareholders' interests.

The Company's comparator group for the purposes of benchmarking remuneration and comparative total shareholder return (TSR) performance under the PayPoint Long-Term Incentive Plan (the LTIP) is set out below:

Acal plc	Diploma plc
Alphameric plc	Fibernet Group plc
Autonomy Corporation plc	Gresham Computing plc
BATM Advanced Communications plc	Intec Telecom Systems plc
Big Yellow Group plc	Ricardo plc
BPP Holdings plc	Spring Group plc
BTG plc	Surfcontrol plc
Detica Group plc	Tribal Group plc
Dicom plc	

The comparator group companies are drawn from the FTSE All Share Support Services and Software and Computer Services Indices and are comparable in terms of market capitalisation and size to the Company. On an ongoing basis the Remuneration Committee, with input from the executive directors, will continue to review the comparator group to ensure that it is appropriate given the current stage of the Company's development and market factors generally.

Over 50% of the executive directors' total remuneration packages are based on performance related elements. The main elements of these packages and the performance conditions are described below.

Basic salary

The Remuneration Committee's policy is to set base salaries at median level. Salaries are reviewed annually. When determining the salary of the executive directors, the Remuneration Committee takes into consideration the levels of base salary for similar positions with comparable status, responsibility and skills, in organisations of broadly similar size and complexity, in particular the median salary levels of those companies within the comparator group. These factors are considered in parallel with the following:

- the performance of the individual executive director;
- the individual executive director's experience and responsibilities; and
- pay and conditions throughout the Company.

Annual performance related bonus

The annual bonus plan for the year ended 31 March 2005 provided for a maximum cash bonus of 50% of salary. Executive directors were also eligible to participate in the PayPoint plc Deferred Share Bonus Plan (DSB). Under the DSB they are able to choose to defer up to 50% of the bonus awarded (i.e. up to 25% of salary) and acquire shares (Bonus Shares), with the opportunity of an additional award of Matching Shares of an equivalent value to the gross bonus deferred (i.e. up to 25% of salary) which equates to a maximum bonus potential of 75% of salary.

The Company's bonus plan for the year ended 31 March 2005 was based on the achievement of earnings per share targets (60%) and free cash flow targets (40%). Both the earnings per share and free cash flow targets were exceeded and as such maximum bonuses have been earned by the executive directors.

The results are set out below:

	50% payment threshold	Maximum threshold	Actual result
Adjusted earnings per share(1)	12.7p	13.1p	15.5p
Free cash flow £000(2)	2,460	2,710	12,002

(1) Adjusted earnings per share is based on profits before exceptional items after tax on the actual weighted average number of shares in issue.

(2) Free cash flow is the cash flow generated excluding exceptional cash flows, client cash and the payment of dividends.

The DSB was approved by shareholders prior to admission and was adopted by the Company on admission. Executive directors and senior executives of the Company are able to participate in the DSB. The maximum individual limit under the DSB is such that the maximum value of cash bonus, Bonus Shares and Matching Shares in any bonus year shall not exceed 100% of a participant's salary.

The release of Matching Shares is subject to:

- minimum earnings per share growth of the Company of RPI + 3% p.a. over a three year period
- the participant still being employed by the Company at the end of the three year deferral period from the award date.

If a participant disposes of any of the Bonus Shares during the three year deferral period a corresponding proportion of Matching Shares will be forfeited. Since the year end Executive Directors have elected to defer 50% of the bonus earned in the year in shares. It is intended that Bonus and Matching Shares awards will be made under the DSB in June 2005.

The maximum bonus potential available for the executive directors for the year ending 31 March 2006 remains 75% of salary. The bonus plan for the year ending 31st March 2006 is based on the achievement of growth of economic profit (operating profit after tax and a charge for capital employed based on the Company's cost of capital). The Remuneration Committee believes that this performance measure will encourage a focus on both profit and capital efficiency which are key to driving shareholder value and which are implicit in the computation of economic profit.

Bonus targets are reviewed and agreed by the Remuneration Committee at the beginning of each financial year. Bonus payments are not pensionable.

Long term incentives

Prior to admission

Prior to admission, the only executive director who held an option was Mark Astbury who was granted an unapproved option by the trustee of the PayPoint Employee Incentive Trust by way of an individual option agreement. Mark Astbury exercised his option on admission. Further details are set out on page 22. Mark Astbury resigned as director on 31 August 2004 but is still employed by the Company.

Ongoing

The LTIP was approved by shareholders prior to admission and adopted by the Company on admission.

Executive directors and senior executives are eligible to participate in the LTIP. Under the rules, the maximum annual award that can be made to an individual is 150% of salary.

Eligible executives are awarded rights to acquire a maximum number of shares at the beginning of a three year period, a proportion of which they will be entitled to acquire at the end of that period depending on the extent to which (if at all) the challenging performance conditions set by the Remuneration Committee at the time the allocation is made, are satisfied.

On admission and in accordance with the information provided to shareholders in the listing particulars, Dominic Taylor received LTIP awards equivalent to 100% of salary and George Earle and Tim Watkin-Rees received LTIP awards equivalent to 75% of salary. In addition George Earle received a one-off LTIP award on his recruitment equivalent to 75% of salary. Details of the LTIP awards made during the year are set out on page 20.

The LTIP awards made in the year were granted as:

- nil cost Inland Revenue Enterprise Management Incentive options (up to the individual tax approved limit) which are exercisable, subject to the satisfaction of performance conditions, between 3 and 10 years from the date of grant; and
- the balance as conditional awards of shares.

The performance conditions for the first grant of awards under the LTIP are set out in the following table:

TSR position against comparator group	LTIP % of shares released
Below median	0%
Median	30%*
Upper quartile	100%*

*There is proportionate vesting between points

In addition to the above comparative TSR performance of the Company, which will be calculated in accordance with the Regulations, the Remuneration Committee will, in any event, satisfy itself that the recorded TSR is a genuine reflection of the underlying financial performance of the Company before the release of any share awards under the LTIP in accordance with the ABI guidelines, e.g. growth in earnings per share or economic profit.

Comparative TSR was selected as the performance condition for LTIP awards by the Remuneration Committee as it ensures that the executives have outperformed their peers in the comparator group over the measurement period in delivering shareholder value before being entitled to receive any of their awards irrespective of general market conditions.

Performance measurement

The Remuneration Committee determines whether the performance conditions for share awards are satisfied. Where the performance requirements are based on earnings per share the committee will use the principles behind the audited figures disclosed in the Company's financial statements, and may take advice from independent advisors as to whether any adjustments are required to ensure consistency in accordance with the terms of the performance conditions. Halliwell Consulting, the Remuneration Committee's advisors, shall calculate the TSR where used as the performance measure. Performance conditions under the LTIP and DSB are not subject to re-testing.

PayPoint plc Share Incentive Plan (SIP)

The SIP was approved by shareholders prior to admission and adopted by the Company at admission.

The board of the Company was keen to give all employees the opportunity to:

- invest in Company shares; and
- build up a shareholding in the Company.

In addition and as disclosed in the listing particulars, the Company made awards of free shares to employees who had been employed by the Company for at least six months at the date of admission (Free Shares). The value of awards was based on length of service at the date of admission with the maximum award being £3,000. These Free Shares are forfeitable and must normally be held in the SIP for three years from the date of award.

The Company is currently offering eligible employees, including executive directors and senior executives, the opportunity of purchasing £1,500 of shares a year out of pre-tax salary and provide additional matching shares on a 1 matching share for every share purchased basis. These matching shares will be normally released three years after they have been awarded provided that the associated shares purchased by the employee have been retained and provided the employee is still employed by a Group company at this time.

Details of shares held in the SIP by executive directors are set out on page 21. Approximately 60% of eligible group employees currently participate in the purchase and matching element of the plan.

Dilution

In accordance with the ABI guidelines, the Company can issue a maximum of 10% of its issued share capital in a rolling ten year period to employees under all its share plans. The Company can only issue half of the maximum (5%) to satisfy awards under discretionary or executive plans.

Pensions

The Company pays the equivalent of 12% of each of the executive director's basic salary into a personal pension plan of the director's choice.

Executive directors' contracts

Details of the service contracts of the executive directors of the Company are as follows:

	Company notice period	Contract date
D Taylor	12 months	13 September 2004
T Watkin-Rees	12 months	13 September 2004
G Earle	12 months	30 September 2004

There are no special provisions in service contracts relating to cessation of employment or change of control. The policy on termination is that the Company does not make payments beyond its contractual obligations and executive directors will be expected to mitigate their loss. In addition, the Remuneration Committee is responsible for ensuring that there will be no unjustified payments for failure.

Payments received and potential share awards from previous shareholders

BT on 19 August 2004 and EdF on 16 September 2004 made ex-gratia payments to an account held for the benefit of certain directors (see below) totalling £2,134,511 and £2,045,513 respectively, before the deduction of PAYE and employees' NI. BT and EdF also paid employer's NIC on the payments. In addition, advisors to RIT Capital Partners (RIT) are considering transferring 787,950 shares in the Company to a discretionary trust whose beneficiaries include the same directors. The Executors of the Weinstock Estate, who were considering a similar transfer of shares have indicated that they will not make the transfer. The directors also entered into a deed relating to the application of cash sums and any shares transferred based on the overall intention that Dominic Taylor, David Newlands, Tim Watkin-Rees, Mark Astbury and Kim Steele would ultimately share in the aggregate value (of cash provided by BT and EdF and shares in the Company to be provided by RIT and the Executors) as to 34%, 20%, 24%, 12% and 10% respectively. Since Kim Steele is no longer employed by the PayPoint group, it was agreed that Kim Steele would receive cash only, whereas the other directors would receive a mixture of cash and shares. The Company has been advised, by its lawyers, that neither the cash payments nor any transfer of shares falls within the definition of directors' emoluments. The arrangements for the cash have been structured (and the arrangements for any transfer of shares will be structured) to ensure no cost of income tax or NI will be borne by the Company or the Group.

Non-executive directors' policy

The remuneration of the non-executive directors is determined by the board based upon recommendations from the Chairman and Chief Executive (or, in the case of the Chairman, based on recommendations from the senior independent non-executive director and the Chief Executive) and is within the limits set by the articles of association.

Non-executive directors do not participate in any bonus plan or share incentive programme operated by the Company and are not entitled to pension contributions or other benefits provided by the Company.

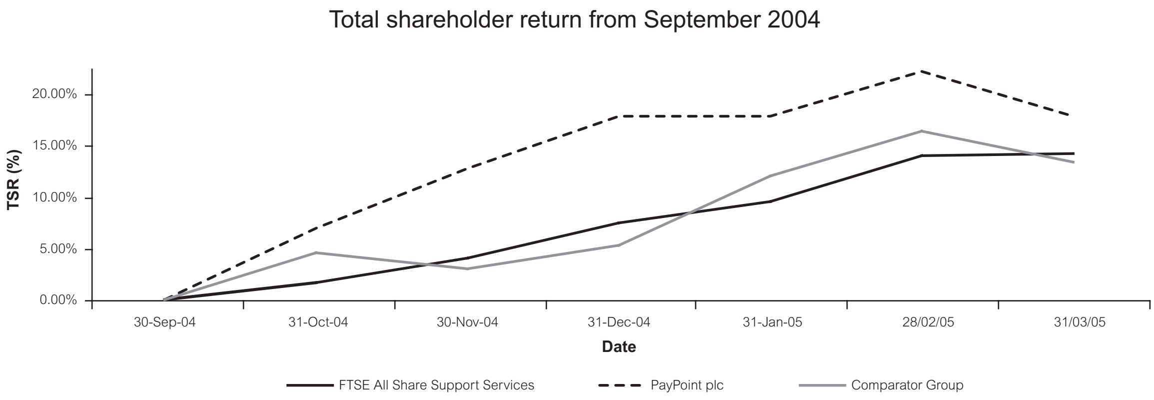
Details of the terms of appointment of the non-executive directors are set out in the table below:

	Contract date	Expiry date of contract
K Minton	4 August 2004	1 August 2007
D Morrison	10 August 2004	1 August 2007
D Newlands	10 August 2004	1 August 2007
A Robb	10 August 2004	1 August 2007
R Wood	10 September 2004	1 August 2007

Under the Company's articles of association, each director is required to submit themselves for re-election every 3 years. The board has determined that the basis of appointment for all non-executive directors will be that they will ordinarily serve two three year terms, but that any additional three year terms may be agreed by the board on a case-by-case basis.

Total shareholder return performance graph

The graph shows the Company's performance, measured by TSR, compared with to the constituents of the FTSE All Share Support Services Index and the Company's comparator group since admission.



The Remuneration Committee consider the FTSE All Share Support Services Sector Index a relevant index for TSR comparison as the index members represent the broad range of UK quoted support service companies comparable to the Company's business.

Compliance

The board has reviewed the Group's compliance with the Combined Code on remuneration related matters. It is the opinion of the board that the Group complied with all remuneration related aspects of the Combined Code during the period since admission.

Audited information

Directors' emoluments

	Basic salary(1)		Bonuses		Benefits in kind(2)		Total		Pension(3)		Compensation for loss of office		Total	
	2005 £000	2004 £000	**2005 £000**	2004 £000	**2005 £000**	2004 £000	**2005 £000**	2004 £000	**2005 £000**	2004 £000	**2005 £000**	2004 £000	**2005 £000**	2004 £000
Executive														
D Taylor	**213**	196	**100**	93	**8**	6	**321**	295	**29**	20	**–**	–	**350**	315
T Watkin-Rees	**149**	137	**70**	63	**6**	5	**225**	205	**17**	15	**–**	–	**242**	220
G Earle	**94**	–	**87**	–	**3**	–	**184**	–	**11**	–	**–**	–	**195**	–
Non-executive														
D Newlands	**64**	56	**–**	–	**–**	–	**64**	56	**–**	–	**–**	–	**64**	56
A Robb	**22**	–	**–**	–	**–**	–	**22**	–	**–**	–	**–**	–	**22**	–
K Minton	**23**	–	**–**	–	**–**	–	**23**	–	**–**	–	**–**	–	**23**	–
D Morrison(4)	**23**	9	**–**	–	**–**	–	**23**	9	**–**	–	**–**	–	**23**	9
R Wood	**17**	–	**–**	–	**–**	–	**17**	–	**–**	–	**–**	–	**17**	–
Former directors														
K Steele	**66**	132	**–**	63	**5**	5	**71**	200	**7**	15	**165**	–	**243**	215
S Bott	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
W Murphy	**5**	9	**–**	–	**–**	–	**5**	9	**–**	–	**–**	–	**5**	9
I Bull	**–**	10	**–**	–	**–**	–	**–**	10	**–**	–	**–**	–	**–**	10
M Astbury(5)	**55**	122	**25**	58	**3**	5	**83**	185	**6**	13	**–**	–	**89**	198
M Wilson	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
	731	671	**282**	277	**25**	21	**1,038**	969	**70**	63	**165**	–	**1,273**	1,032

(1) Basic salary is the total salary paid during the year and includes payment of a car allowance as part of the contract of employment. Actual salary levels at 31 March 2005 were as disclosed in the listing particulars on admission.

(2) Benefits include the following elements: private medical cover, permanent health insurance and life assurance.

(3) Defined contribution pension scheme, of which 3 current directors are members (2004: 4).

(4) £8,000 was paid to Prospect Investment Management for the services of David Morrison.

(5) Mark Astbury resigned as a main board director on 31 August 2004 but is still employed by the Company. He was entitled to a full year's bonus for the year ended 31 March 2005 but the amount shown has been pro-rated for the period he was employed as a director of the company.

Long Term Incentive Plan(1)

	Conditionally awarded during the year		**Date of grant**	**Release date**	**Exercise period**	
	Number	**Value(2)**			**From**	**To**
Executive directors						
D Taylor(3)	52,083	£100,000	24.09.04		24.09.07	23.09.14
D Taylor(4)	52,083	£100,000	24.09.04	24.09.07		
T Watkin-Rees(3)	52,083	£100,000	24.09.04		24.09.07	23.09.14
T Watkin-Rees(4)	2,605	£5,000	24.09.04	24.09.07		
G Earle(3)	52,083	£100,000	24.09.04		24.09.07	23.09.14
G Earle(4)	84,635	£162,500	24.09.04	24.09.07		
M Astbury(3)	30,989	£59,500	24.09.04		24.09.07	23.09.14

(1) Awards under the LTIP will only vest if the Company's comparative TSR performance is equal to or greater than the median level of performance over the 3 year holding period at which point 30% of awards will vest, with full vesting occurring for upper quartile performance (proportionate vesting between points).

(2) Value based on the price of the Company's ordinary shares on admission of £1.92.

(3) Granted in the form of an EMI nil cost option.

(4) Granted as a conditional award of shares.

Inland Revenue approved Share Incentive Plan

Operated from 24 September 2004

	Number of Partnership Shares(1) purchased	Matching Shares(2) conditionally awarded during the year	Free Shares(3) conditionally awarded during the year
Executive directors			
D Taylor	251	251	1,582
T Watkin-Rees	251	251	1,582
G Earle	251	251	
M Astbury	251	251	1,250

(1) Partnership Shares are ordinary shares of the Company purchased on a monthly basis (at prices from £2.38 to £2.55).

(2) Matching Shares are ordinary shares of the Company awarded conditionally on a monthly basis (at prices from £2.38 to £2.55) in conjunction with share purchases.

(3) Free Shares are ordinary shares of the Company awarded conditionally on 24 September 2004 based on share price on admission of £1.92.

Share option schemes

	Number of options at 1 April 2004	Exercised during the year	Gain on exercise	Market price of a share on exercise	Number of options at 31 March 2005	Date of grant	Exercise price per share
M Astbury	252,219	252,219	£483,420	192p	—	18 October 2000	$^1/_3$ p

Directors' shareholdings

The directors serving during the period who had interests in the shares of the Company, all held beneficially, were as follows:

	Ordinary shares of $^1/_3$ p each 31 March 2005	Deferred shares(1) of 1p each 31 March 2004 or date of appointment	Ordinary shares(2) of $^1/_3$ p each 31 March 2004 or date of appointment
D B Newlands(3)	**776,307**	12,297	1,787,682
D Taylor	**1,475,832**	12,297	1,475,832
T Watkin-Rees	**893,901**	314,389	710,604
G Earle	**52,083**	—	—
R Wood	**52,083**	—	—
K Minton	**130,208**	—	—
A Robb	**10,417**	—	—

(1) On 13 September 2004 all deferred shares were purchased (for a total sum of 1p for all such deferred shares) and cancelled by the Company in accordance with its articles of association. As a result of such repurchase there were no remaining deferred shares in the capital of the Company.

(2) Equivalent number of shares of $^1/_3$ p following sub division of 1p shares on 13 September 2004.

(3) D Newlands holds a non-beneficial interest in a further 955,690 shares held in various trusts of which D Newlands is a trustee.

The directors' holdings of convertible loan stock are disclosed in note 20.

The market price of the Company's shares on 31 March 2005 was 244.5p per share and the high and low share prices during the year were 264p and 204.5p respectively.

There have been no changes in directors' interests in shares from 31 March 2005 up to the date of this report except for shares purchased under the SIP.

The remuneration report has been approved by the Remuneration Committee.

Kenneth Minton
Chairman, Remuneration Committee

13 June 2005

Statement of directors' responsibilities

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 Group as at the end of the financial year and of the profit or loss of the Group 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company 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 are also responsible for the system of internal control, safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report to the members of PayPoint plc

We have audited the financial statements of PayPoint plc for the year ended 31 March 2005 which comprise the consolidated profit and loss account, the consolidated balance sheet, the Company balance sheet, the consolidated cash flow statement and the related notes a to d and 1 to 23. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of 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 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

As described in the statement of directors' responsibilities, the Company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. They are also responsible for the preparation of the other information contained in the annual report including the directors' remuneration report. Our responsibility is to audit the financial statements and the part of the directors' remuneration report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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 described as having been audited have 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 regarding directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the July 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, 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 directors' report and the other information contained in the annual report for the above year as described in the contents section including the unaudited part of the directors' remuneration report and 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 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 and the part of the directors' remuneration report described as having been 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 circumstances of the Company and 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 and the part of the directors' remuneration report described as having been 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 described as having been audited.

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 31 March 2005 and of the profit of the Group for the year then ended; and

the financial statements and that part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors

St Albans
United Kingdom

13 June 2005

Notes: An audit does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the financial statements since first published. These matters are the responsibility of the directors but no control procedures can provide absolute assurance in this area.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions

Consolidated profit and loss account

Year ended 31 March 2005

	Note	2005 £000	2004 £000
Turnover	2	**89,054**	67,132
Cost of sales		**(61,332)**	(47,331)
Gross profit		**27,722**	19,801
Administrative expenses		**(20,257)**	(13,629)
Add back exceptional items	4	**4,572**	—
Administrative expenses excluding exceptional items		**(15,685)**	(13,629)
Operating profit before exceptional items		**12,037**	6,172
Exceptional items	4	**(4,572)**	—
Operating profit	4	**7,465**	6,172
Interest receivable and similar income	6	**937**	240
Interest payable and similar charges	6	**(339)**	(388)
Profit on ordinary activities before taxation		**8,063**	6,024
Tax charge on profit on ordinary activities	7	**(2,215)**	(4)
Profit on ordinary activities after taxation for the financial year		**5,848**	6,020
Dividend payable	8	**(3,473)**	(1,055)
Retained profit for the year	18	**2,375**	4,965
Earnings per share			
Basic	9	**8.7p**	9.1p
Diluted	9	**8.7p**	9.0p
Adjusted basic	9	**15.5p**	9.1p
Dividend per share	8	**5.2p**	1.6p

All turnover and operating profit is derived from continuing operations.

There have been no recognised gains and losses attributable to the shareholders other than the profit for the current and preceding financial year, and accordingly no Statement of Total Recognised Gains and Losses is presented.

Consolidated balance sheet

As at 31 March 2005

	Note	2005 £000	2004 £000
FIXED ASSETS			
Tangible assets	10	**4,617**	2,217
CURRENT ASSETS			
Stocks	12	**472**	32
Debtors — amounts falling due within one year	13	**9,137**	10,246
Debtors — amounts falling due after more than one year	13	**—**	375
Debtors		**9,137**	10,621
Cash at bank and in hand	14	**25,950**	13,832
		35,559	24,485
CREDITORS: amounts falling due within one year	15	**(26,640)**	(15,645)
NET CURRENT ASSETS		**8,919**	8,840
TOTAL ASSETS LESS CURRENT LIABILITIES		**13,536**	11,057
CREDITORS: amounts falling due after more than one year	16	**(301)**	(304)
NET ASSETS		**13,235**	10,753
CAPITAL AND RESERVES			
Called up share capital	17	**226**	14,418
Share premium account	18	**23,976**	23,894
Capital redemption reserve	18	**14,193**	—
Investment in own shares	18	**(1)**	(25)
Profit and loss account	18	**(25,159)**	(27,534)
TOTAL SHAREHOLDERS' FUNDS	19	**13,235**	10,753
Shareholders' funds are analysed as:			
Equity interests		**13,235**	(3,440)
Non-equity interests		**—**	14,193
		13,235	10,753

These financial statements were approved by the board of directors on 13 June 2005.

Signed on behalf of the board of directors

Dominic Taylor
Director

13 June 2005

Company balance sheet

As at 31 March 2005

	Note	2005 £000	2004 £000
FIXED ASSETS			
Investments	11	**36,546**	12,281
CURRENT ASSETS			
Debtors — amounts falling due within one year	13	**131**	156
Debtors — amounts falling due after more than one year	13	**9,290**	26,813
Debtors		**9,421**	26,969
Cash at bank and in hand		**47**	16
		9,468	26,985
CREDITORS: amounts falling due within one year	15	**(3,532)**	(777)
NET CURRENT ASSETS		**5,936**	26,208
TOTAL ASSETS LESS CURRENT LIABILITIES		**42,482**	38,489
CREDITORS: amounts falling due after more than one year	16	**—**	(82)
NET ASSETS		**42,482**	38,407
CAPITAL AND RESERVES			
Called up share capital	17	**226**	14,418
Share premium account	18	**23,976**	23,894
Capital redemption account	18	**14,193**	—
Investment in own shares	18	**(1)**	(25)
Profit and loss account	18	**4,088**	120
TOTAL SHAREHOLDERS' FUNDS	19	**42,482**	38,407
Shareholders' funds are analysed as:			
Equity interests		**42,482**	24,214
Non-equity interests		**—**	14,193
		42,482	38,407

Signed on behalf of the board of directors

Dominic Taylor
Director

13 June 2005

Consolidated cash flow statement

Year ended 31 March 2005

	Note	2005 £000	2004 £000
Net cash inflow from operating activities	a	**17,371**	12,451
Returns on investments and servicing of finance	b	**598**	(148)
Capital expenditure	b	**(4,168)**	(1,127)
		13,801	11,176
Equity dividends paid		**(783)**	(277)
Net cash inflow before financing		**13,018**	10,899
Management of liquid resources — increase in short term deposits		**(3,500)**	(6,500)
Financing	b	**(900)**	(1,467)
Net cash inflow		**8,618**	2,932

Reconciliation of net cash inflow to movement in cash at bank and in hand

	2005 £000	2004 £000
Net cash inflow	**8,618**	2,932
Increase in short term deposits	**3,500**	6,500
Increase in cash at bank and in hand	**12,118**	9,432

Notes to the cash flow statement

a. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2005 £000	2004 £000
Operating profit before exceptional items	**12,037**	6,172
Exceptional items	**(4,572)**	—
Operating profit	**7,465**	6,172
Depreciation charge	**1,801**	2,011
Increase in stocks	**(440)**	(32)
(Increase)/decrease in debtors	**(731)**	786
Increase/(decrease) in creditors — client cash (note 14)	**6,371**	4,110
— other creditors	**2,905**	(596)
Net cash inflow from operating activities	**17,371**	12,451

b. ANALYSIS OF CASH FLOWS

	2005 £000	2004 £000
Returns on investments and servicing of finance		
Interest received	**937**	240
Interest paid	**(207)**	(123)
Interest element of finance leases	**(132)**	(265)
	(339)	(388)
	598	(148)
Capital expenditure		
Purchase of tangible fixed assets	**(4,576)**	(1,392)
Receipts from sales of tangible fixed assets	**408**	265
	(4,168)	(1,127)
Financing		
Increase in asset finance	**—**	401
Capital element of finance lease rental payments	**(900)**	(1,868)
	(900)	(1,467)

c. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	2005 £000	2004 £000
Net cash inflow	**8,618**	2,932
Cash inflow from management of liquid resources	**3,500**	6,500
Cash outflow from change in debt and lease financing	**900**	1,467
Change in net funds resulting from cash flows	**13,018**	10,899
Debt converted	**82**	310
New finance leases	**—**	(760)
Movement in net funds in the year	**13,100**	10,449
Net funds at 1 April	**12,625**	2,176
Net funds at 31 March	**25,725**	12,625

d. ANALYSIS OF CHANGES IN NET FUNDS

	At beginning of year £000	Cash flows £000	Non-cash movements £000	At end of year £000
Cash	7,332	8,618	—	15,950
Short term deposits	6,500	3,500	—	10,000
Cash at bank and in hand	13,832	12,118	—	25,950
Other loans	(82)	—	82	—
Finance leases	(1,125)	900	—	(225)
	12,625	13,018	82	25,725

Notes to the financial statements

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

Accounting convention

The financial statements are prepared under the historical cost convention.

Basis of consolidation

(i) The group financial statements consolidate the financial statements of PayPoint plc and its subsidiary undertakings drawn up to 31 March 2005.

Acquisitions are accounted for under the acquisition method, so that the results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed.

(ii) The accounting policies used in the preparation of these financial statements remain unchanged from those set out in the Group's 2004 statutory financial statements, except that the Group has implemented UITF 38 Accounting For ESOP Trusts from 1 April 2004. UITF 38 requires own shares held under trust to be deducted in arriving at shareholders' funds. Previously own shares held under trust were presented as fixed asset investments. Accordingly own shares held under trust at a book value of £25,000 have been reclassified from fixed asset investments to shareholders' funds. The implementation of UITF 38 had no material impact on the Group's previously reported profits and losses. Comparative figures have been restated in the balance sheet and related notes.

Turnover

Group turnover comprises the value of sales (excluding VAT) of services in the normal course of business. Turnover is wholly attributable to the operation of the group's electronic payment collection system and ATM business and has arisen solely in the United Kingdom and Republic of Ireland.

Turnover and cost of sales are recorded according to the actual transactions that occur in a given period. In Ireland, PayPoint is principal in the supply chain of mobile top-ups. Accordingly revenue includes the sale price of the top-up sold and cost of sales includes the cost to PayPoint of the sale.

Cost allocation

Cost of sales includes agents' commission, the cost of e-vouchers where PayPoint acts as principal in the purchase and sale of mobile top-ups, consumables, maintenance and field service costs. All other costs are allocated to administrative expenses.

Development expenditure and licence costs

Development expenditure and licence costs are written off as they are incurred.

Pension costs

The Company makes payments to a number of defined contribution pension schemes. The amounts charged to the profit and loss account in respect of pension costs represent contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Deferred taxation

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation. Depreciation is provided on all tangible 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:

Leasehold improvements over the lease term

Terminals	5 years
Automatic Teller Machines	4 years
Other assets	3 years

Leases

Assets held under finance leases, 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 under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight line basis over the lease term, except where the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the shorter period is used.

Rentals received from ATMs rented to retail agents under operating leases are credited to income on a straight line basis over the lease term.

Investments

Fixed asset investments are shown at cost less provision for any impairment in value.

Stocks

Stocks of e-vouchers are held at the lower of cost or net realisable value.

Notes (continued)

2. SEGMENTAL REPORTING, NET REVENUE ANALYSIS AND GROSS THROUGHPUT

(i) Segmental information

(a) Geographical segments

The Group operates in both the UK and Republic of Ireland but the Group has only one reportable geographical segment as defined in SSAP 25 Segmental Reporting due to the fact that principally all operations and sales occur in the UK.

(b) Classes of business

The Group has one class of business, being cash payment collection and distribution services.

(ii) Analysis of revenues by market

Group turnover comprises the value of sales (excluding VAT) of services in the normal course of business and includes amounts billed to customers to be passed on to retail agents as commission payable. Cost of sales includes the cost to the Group of the sale, including commission to retail agents and the cost of mobile top-ups where PayPoint is the principal in the supply chain.

Revenue performance of the business is measured by net revenue which is calculated as the total turnover from clients less commission payable to retail agents and the cost of mobile top-ups where PayPoint is the principal in the supply chain.

Although there is only one class of business, the Group monitors net revenue with reference to each market in which the Group operates as follows:

	2005 £000	2004 £000
Turnover	**89,054**	67,132
less:		
Commission payable to retail agents	**(50,348)**	(37,743)
Cost of e-vouchers on mobile top-up sales as principal	**(1,810)**	(793)
Net revenue	**36,896**	28,596
Net revenue by market		
Bill and general payments	**18,861**	15,005
Mobile top-ups	**15,286**	12,625
ATMs	**1,947**	307
Other	**802**	618
Net revenue before deferred revenue release	**36,896**	28,555
Deferred revenue release	**—**	41
Net revenue including deferred revenue release	**36,896**	28,596

Commission payable is included within cost of sales as shown below

	2005 £000	2004 £000
Turnover	**89,054**	67,132
Cost of sales		
Commission payable to retail agents	**(50,348)**	(37,743)
Cost of e-vouchers on mobile top-up sales as principal	**(1,810)**	(793)
Other	**(9,174)**	(8,795)
Total cost of sales	**(61,332)**	(47,331)
Gross profit	**27,722**	19,801

(iii) Gross throughput

	2005 £000	2004 £000
Gross throughput	**2,931,423**	2,269,178

Gross throughput represents payments made by consumers using the PayPoint service and cash withdrawals from ATMs. Included within gross throughput is £103,924,000 (2004: £14,083,000) relating to the ATM business.

3. EMPLOYEE INFORMATION

	2005 £000	2004 £000
Average number of persons employed		
Sales, distribution and marketing	**29**	21
Operations and administration	**171**	168
	200	189
Staff costs during the year (including directors)		
Wages and salaries	**6,297**	5,718
Social security costs	**824**	609
Pension costs (note 21)	**331**	307
	7,452	6,634

Directors' emoluments, pension contributions and share options are discussed in the Remuneration Committee report on pages 14 to 22.

Notes (continued)

4. OPERATING PROFIT

	2005 £000	2004 £000
Operating profit is after charging/(crediting):		
Depreciation and amortisation		
Owned assets	**1,138**	850
Leased assets	**663**	1,161
(Profit)/loss on disposal of assets	**(33)**	5
Rentals under operating leases		
Hire of plant and machinery	**34**	27
Other operating leases	**407**	355
Income from rental of ATMs	**(536)**	(123)
Auditors' remuneration (see note below)	**558**	118
Exceptional items	**4,572**	—

Exceptional charges of £4,572,000 relate to the listing of Company's shares on The London Stock Exchange of £4,217,000 which includes the auditors' charges for the flotation and bid defence costs of £355,000.

Auditors' remuneration

	Group		Company	
	2005 £000	2004 £000	2005 £000	2004 £000
Audit	**60**	42	**36**	10
As reporting accountants and related flotation work	**418**	27	**418**	—
Valuation of shares	**10**	30	**10**	30
Tax	**70**	19	**—**	—
	558	118	**464**	40

5. PROFIT OF PARENT COMPANY

The Company has taken advantage of section 230 of the Companies Act 1985 and consequently the profit and loss account of the parent company is not presented as part of these financial statements. The profit of the parent company for the financial year amounted to £7,441,000 (2004: profit of £1,464,000).

6. INTEREST

Interest receivable and similar income

The Company earns interest on current and deposit accounts.

Interest payable and similar charges

	2005 £000	2004 £000
Bank loans, overdrafts and other loans repayable within five years	**18**	35
Finance leases and hire purchase contracts	**132**	265
Bank charges	**189**	86
Agents' charges	**—**	2
	339	388

7. TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES

Analysis of tax charge on ordinary activities

	2005 £000	2004 £000
Deferred tax		
Timing differences origination and reversal	**—**	(4)
Partial release of deferred tax asset	**(2,215)**	—
	(2,215)	(4)
Factors affecting the tax (charge)/credit		
Profit on ordinary activities before tax	**8,063**	6,024
Corporation tax at 30% thereon	**(2,419)**	(1,807)
Effects of:		
Expenses not deductible for tax purposes	**(1,046)**	(145)
Capital allowances in excess of depreciation	**436**	318
Utilisation of tax losses	**3,012**	1,811
Movement in short term timing differences	**17**	2
Other deferred tax movements	**—**	4
Losses created in the year not utilised	**—**	(183)
Actual amount of current year tax	**—**	—

Future periods

A deferred tax asset has not been recognised in respect of timing differences primarily relating to tax losses, as there is insufficient evidence that the asset will be recovered. The amount of these assets not recognised is £2,853,000 (2004: £3,967,000). The asset would be recovered if sufficient taxable profits arise in the future.

8. DIVIDENDS ON EQUITY SHARES

	2005 £000	2004 £000
Equity dividends on ordinary shares		
Interim dividend (2004: 0.4p per share*)	**—**	277
Final dividend proposed 5.2p per share (2004: 1.2p per share*)	**3,473**	778
	3,473	1,055

* The 2004 pence per share is based on the adjusted number of shares after the split as described in note 17.

Notes (continued)

9. EARNINGS PER SHARE

(a) Basic earnings per share

Basic and diluted earnings per share are calculated on the following profits and number of shares.

	2005 £000	2004 £000
Profit on ordinary activities after taxation (used for basic earnings per share)	**5,848**	6,020
Potential dilutive impact of interest saved on the conversion of debt	**4**	35
Diluted basis	**5,852**	6,055

	Number of shares	Number of shares
Weighted average number of ordinary shares in issue (for basic earnings per share)	**67,054,583**	65,850,855
Potential dilutive ordinary shares:		
Conversion of convertible debt	**30,550**	652,979
Long term incentive plan	**171,366**	—
Exercise of share options	**—**	496,336
Diluted basis	**67,256,499**	67,000,170

On 13 September 2004, the authorised share capital of 1,455,117,400 ordinary shares of 1p each were sub-divided into 4,365,352,200 ordinary shares of $\frac{1}{3}$ p each. In accordance with Financial Reporting Standard 14 Earnings Per Share, the comparative figures for the numbers of shares used in the earnings have been adjusted retrospectively as if the shares had been denominated at $\frac{1}{3}$ p each.

(b) Adjusted earnings per share

The adjusted earnings per share are calculated on the profit after tax but before exceptional items (see note 4).

This adjusted measure has been presented in order to demonstrate the growth in earnings in the underlying business.

	2005 £000	2004 £000
Earnings used for unadjusted basic earnings per share	**5,848**	6,020
add: exceptional item	**4,572**	—
Adjusted basis	**10,420**	6,020

10. TANGIBLE FIXED ASSETS

Group	Terminals and ATMs £000	Fixtures, fittings and equipment £000	Total £000
Cost			
At 1 April 2004	10,197	723	10,920
Additions	4,477	99	4,576
Disposals	(420)	—	(420)
At 31 March 2005	14,254	822	15,076
Accumulated depreciation			
At 1 April 2004	8,042	661	8,703
Charge for the year	1,749	52	1,801
Disposals	(44)	(1)	(45)
At 31 March 2005	9,747	712	10,459
Net book value			
At 31 March 2005	4,507	110	4,617
At 31 March 2004	2,155	62	2,217

The net book value of assets held under finance leases is £251,000 (2004: £1,010,000).

The cost for ATMs that are rented out under operating leases is £2,278,000 (2004: £865,000) and the accumulated depreciation £461,000 (2004: £130,000).

11. INVESTMENTS HELD AS FIXED ASSETS

	Investment in subsidiaries at cost £000
At 1 April 2004	12,281
Additions (increased capital in existing subsidiaries)	24,265
At 31 March 2005	36,546

Subsidiary undertakings

The Company, a holding company, has investments (directly or indirectly) in the following subsidiary undertakings:

Subsidiary of the company	Principal activity
PayPoint Network Limited	Management of an electronic payment service
PayPoint Collections Limited	Payment collection service
PayPoint Retail Solutions Limited	Provision of retail services.
Counter Payment Managers Limited	ESOP scheme

All of the above companies are 100% owned. The companies are all registered in England and Wales other than Counter Payment Managers which is registered in the Isle of Man.

Notes (continued)

12. STOCKS

In Ireland, PayPoint trades as principal for the processing and sale of mobile phone top-ups. Stocks of e-vouchers are held at cost.

13. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2005	2004	**2005**	2004
	£000	£000	**£000**	£000
Trade debtors	**6,519**	5,910	**—**	—
Other debtors	**782**	276	**10**	—
Prepayments and accrued income	**451**	460	**—**	—
Deferred tax asset (see below)	**1,385**	3,600	**—**	—
Group relief receivable	**—**	—	**121**	156
	9,137	10,246	**131**	156

AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group		Company	
	2005	2004	**2005**	2004
	£000	£000	**£000**	£000
Amounts owed by group undertakings	**—**	—	**9,290**	26,813
Other debtors	**—**	375	**—**	—
	—	375	**9,290**	26,813

	2005	2004
	£000	£000
Movement on deferred tax asset balance		
Opening balance	**3,600**	3,604
Charge to profit and loss account	**(2,215)**	(4)
Deferred tax asset	**1,385**	3,600
Analysis of deferred tax asset		
Capital allowances in excess of depreciation	**1,385**	—
Losses	**—**	3,600
	1,385	3,600

14. CASH AT BANK AND IN HAND

Included within cash at bank and in hand in the consolidated balance sheet is £10,000,000 (2004: £6,500,000) which is not accessible within 24 hours without penalty and has been classified as liquid resources in the cash flow statement in accordance with Financial Reporting Standard 1 Cash Flow Statements (revised).

Included within cash at bank and in hand is £11,099,000 (2004: £4,728,000) relating to monies collected on behalf of clients where the Group has title to the funds (client cash). An equivalent balance is included within trade creditors (note 15). At 31 March 2005, the amount held included five days' collections (one day, two bank holidays and a weekend) rather than three days' collections (one day and a weekend) at 31 March 2004.

15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2005	2004	**2005**	2004
	£000	£000	**£000**	£000
Amounts owed in respect of client cash (see note 14)	**11,099**	4,728	**—**	—
Other trade creditors	**5,094**	3,675	**10**	—
Trade creditors	**16,193**	8,403	**10**	—
Obligations under finance leases	**158**	903	**—**	—
Other taxes and social security	**708**	138	**—**	—
Other creditors	**55**	515	**49**	—
Accruals	**5,823**	4,544	**—**	—
Dividends payable	**3,473**	777	**3,473**	777
Deferred income	**230**	365	**—**	—
	26,640	15,645	**3,532**	777

Included within trade creditors is £11,099,000 (2004: £4,728,000) relating to monies collected on behalf of clients where the Group has title to the funds. An equivalent balance is included within cash (note 14).

16. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group		Company	
	2005	2004	**2005**	2004
	£000	£000	**£000**	£000
Obligations under finance leases	**67**	222	**—**	—
Convertible or redeemable loan stock	**—**	82	**—**	82
Deferred income	**234**	—	**—**	—
	301	304	**—**	82

17. CALLED UP SHARE CAPITAL

	2005	2004
	£000	£000
Authorised		
4,365,352,200 ordinary shares of $^1/_3$ p each		
(2004: 244,530,200 ordinary shares of 1p each)	**14,551**	2,445
2004: 1,210,587,200 F shares of 1p each	**—**	12,106
	14,551	14,551
Called up, allotted and fully paid		
67,653,358 ordinary shares of $^1/_3$ p each		
(2004: 22,427,499 ordinary shares of 1p each)	**226**	225
2004: 208,735,620 deferred ordinary shares of 1p each	**—**	2,087
2004: 1,210,587,111 F shares of 1p each	**—**	12,106
	226	14,418

Capital reorganisation

On 23 July 2004 1,210,587,111 F Shares of 1p each were converted into and were redesignated as 1,210,587,111 deferred shares of 1p each. As a result of this conversion there are no remaining F shares in the capital of the Company.

Notes (continued)

17. CALLED UP SHARE CAPITAL (continued)

On 13 September 2004 1,419,322,731 deferred shares of 1p each were repurchased (for a total sum of 1p for all deferred shares) and cancelled by the Company in accordance with its articles of association. As a result of this repurchase there were no remaining deferred shares in the capital of the Company. This transaction created a capital redemption reserve of £14,193,000.

On 13 September 2004 1,455,117,400 ordinary shares of 1p each were sub-divided into 4,365,352,200 ordinary shares of $^{1}/_{3}$ p each.

During the year £82,288 worth of convertible loan stock was converted into £611 of ordinary share capital. This resulted in an increase of the share premium account of £81,677.

	Group		Company	
	2005	2004	**2005**	2004
	£000	£000	**£000**	£000
Called up share capital				
At start of year	**14,418**	14,415	**14,418**	14,415
Loan stock converted	**—**	3	**—**	3
Shares issued under Share Incentive Plan	**1**	—	**1**	—
Deferred shares purchased and cancelled	**(14,193)**	—	**(14,193)**	—
At end of year	**226**	14,418	**226**	14,418

18. RESERVES AND INVESTMENT IN OWN SHARES

	Group		Company	
	2005	2004	**2005**	2004
	£000	£000	**£000**	£000
Share premium				
At start of year	**23,894**	23,586	**23,894**	23,586
Loan stock converted	**82**	308	**82**	308
At end of year	**23,976**	23,894	**23,976**	23,894
Capital redemption reserve				
At start of year	**—**	—	**—**	—
Deferred shares purchased and cancelled	**14,193**	—	**14,193**	—
At end of year	**14,193**	—	**14,193**	—
Investment in own shares				
At start of year as originally stated	**—**	—	**—**	—
Reclassified (see note 1(ii))	**(25)**	(25)	**(25)**	(25)
At start of year restated	**(25)**	(25)	**(25)**	(25)
Issued on exercise of options	**25**	—	**25**	—
Share incentive plan issue	**(1)**	—	**(1)**	—
At end of year	**(1)**	(25)	**(1)**	(25)
Profit and loss account				
At start of year	**(27,534)**	(32,499)	**120**	(300)
Profit for the year	**2,375**	4,965	**3,968**	420
At end of year	**(25,159)**	(27,534)	**4,088**	120

19. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	Group		Company	
	2005	2004	**2005**	2004
	£000	£000	**£000**	£000
Opening shareholders' funds as previously stated	**10,778**	5,503	**38,432**	37,677
Profit for the year (see note 1(ii))	**(25)**	(25)	**(25)**	(25)
Opening shareholders' funds as restated	**10,753**	5,478	**38,407**	37,677
Profit for the year	**2,375**	4,965	**3,968**	420
Investment in own shares	**(1)**	—	**(1)**	—
Conversion of loan stock/options	**108**	310	**108**	310
Closing shareholders' funds	**13,235**	10,753	**42,482**	38,407

20. RELATED PARTY TRANSACTIONS

BT and EdF were defined as related parties under FRS 8 Related Party Transactions up to and including 22 July 2004 .

The contracts with both BT and EdF for the payment of pre-pay and post-pay bills were for an original length of between 3 to 5 years, and were in place at the beginning of the year.

All contracts entered into have been at arm's length.

The main services provided during the year were as follows:

BT

Provision of an electronic payment system for payment of post-pay bills for telecommunication services

EdF

Provision of an electronic payment system for payment of pre-pay and post-pay bills for energy.

The amounts included in the accounts for the year ended 31 March excluding VAT are given below.

	2005	2004
	£000	£000
During the year		
Charged to BT by PayPoint	**1,270**	547
Charged to EdF by PayPoint	**3,816**	4,035
Charged by BT to PayPoint	**146**	1,594
Charged by EdF to PayPoint	**—**	—
At the end of the year		
Owed by BT to PayPoint	**121**	48
Owed by EdF to PayPoint	**760**	147
Owed to BT by PayPoint	**9**	80
Owed to EdF by PayPoint	**—**	—

BT and EdF ceased to be shareholders and related parties on 22 July 2004.

Tim Watkin-Rees, a director held £82,288 convertible loan stocks in the Company as at 31 March 2004 which were converted during the year.

21. PENSION ARRANGEMENTS

The group administers a non-contributory defined contribution scheme for some directors and employees. The amount charged in the consolidated profit and loss account for the period for pension costs of the group under the scheme was £331,000 (2004: £307,000). There is an accrual of £46,000 for pension contributions at the balance sheet date (2004: Nil).

Notes (continued)

22. FINANCIAL COMMITMENTS

Obligations under finance leases

	2005 £000	2004 £000
Minimum lease payments due:		
Within one year	**158**	903
Within 2 to 5 years	**67**	222
	225	1,125
Finance charges allocated to future periods	**21**	142
	246	1,267

Annual operating lease commitments

	Land and buildings 2005 £000	Other 2005 £000	Land and buildings 2004 £000	Other 2004 £000
Leases which expire:				
Within two to five years	**50**	**34**	50	26
After five years	**305**	**—**	305	—

23. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

The Group's financial instruments comprise cash and various items such as trade debtors, prepayments, trade creditors and accruals, which arise directly from the Group's operations. It is, and has been throughout the period under review, the Group's policy that no speculative trading in financial instruments shall be undertaken. Certain financial assets such as investments in subsidiaries are excluded from the scope of these disclosures. As permitted by FRS 13 Derivatives And Other Financial Instruments: Disclosures, short-term debtors and creditors have been excluded from the disclosures, other than the currency disclosures.

The main risks arising from the Group's financial instruments are interest rate risk and liquidity risk. The directors review and agree policies for managing each of these risks and they are summarised below. These policies have remained unchanged during the year. The Group has not used derivative instruments to manage its foreign exchange exposure.

(a) Interest rate risk

The Group has been funded by equity, convertible loan stock, interests in short term deposits and finance leases over the period currently under review. The Group has no financial assets at 31 March 2005 other than Sterling and Euro deposits of £25,950,000 (2004: £13,832,000). Of these deposits, £11,099,000 (2004: £4,728,000) relates to monies held on behalf of clients where PayPoint has title to the funds for periods of up to 7 days.

All sterling funds earn interest at the prevailing rate, some money is deposited on short-term deposits (normally weekly or monthly) and are at call. The Group seeks to maximise interest receipts within these parameters.

Finance leases have been used to finance certain asset purchases within the Group.

Interest is charged on these leases at fixed contractual rates.

Further analysis of the interest rate profile of the fixed rate financial liabilities as at 31 March 2005 and 2004 is provided below:

Weighted average interest rate on fixed rate financial liabilities:

	2005	2004
	%	%
Finance leases	**12**	11
Convertible loan notes*	**9**	9

*all converted on 1 June 2004

Weighted average period for which interest rate is fixed:

	2005	2004
	months	months
Finance leases	**14**	14
Convertible loan notes	**—**	16
	14	14

(b) Liquidity risk

The Group's policy throughout the year ended 31 March 2005 regarding liquidity has been to maximise the return on funds placed on deposit within the constraint of minimising the associated risk.

The Group had no financial liabilities at 31 March 2005 other than short term creditors, such as trade creditors, accruals and finance leases and amounts due in more than one year comprising finance leases and deferred income.

(c) Foreign exchange risk

To date, the Group has not engaged in an active programme of foreign exchange risk management. Given the size and nature of the Group's non-sterling denominated balances, the directors do not consider a hedging strategy to be necessary.

The Group's currency exposures comprise 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 operating unit involved. As at 31 March 2005 these exposures were €342,000 (2004: €321,000).

(d) Borrowing facilities

The Group has no borrowing facilities other than the lease facilities described above.

(e) Fair value of financial assets and liabilities

The directors consider there to be no material difference between the book value and the fair value of the Group's financial instruments as at 31 March 2005 and 31 March 2004.

(f) Market price risk

The Group's exposure to market price risk comprises interest rate exposure. Group funds are invested in money market cash deposits with the objective of maintaining a balance between accessibility of funds and competitive rates of return. In practice, this has meant that no deposits were made with a maturity greater than 30 days during the year.

Notes (continued)

23. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS (continued)

(g) Maturity profile of financial liabilities

The Group's financial liabilities consist of finance leases and convertible debt. The finance leases and convertible debt mature as follows:

	2005 **£000**	2004 £000
In one year or less	**158**	903
In more than one year but not more than two years	**67**	304
	225	1,207

Notice of annual general meeting

Notice is hereby given that the 2005 annual general meeting of PayPoint plc will be held at the offices of JPMorgan Cazenove, 20 Moorgate, London EC2R 6DA, on Tuesday 19 July 2005 at 1.30 pm at JPMorgan Cazenove, 20 Moorgate, London EC2R 6DA for the transaction of the following business:

1. To receive the financial statements and the reports of the directors and the auditors thereon for the year ended 31 March 2005.
2. To receive the directors' remuneration and the reports of the directors and the auditors thereon for the year ended 31 March 2005.
3. To declare a final dividend of 5.2p per ordinary share of the Company.
4. To re-elect D Newlands as a director who retires by rotation in accordance with Article 37.2 of the Company's articles of association.
5. To re-elect D Taylor as a director who retires by rotation in accordance with Article 37.2 of the Company's articles of association.
6. To elect G Earle as a director who retires by rotation in accordance with Article 32.2 of the Company's articles of association.
7. To re-appoint Deloitte & Touche LLP as auditors of the Company and to authorise the directors to determine their remuneration.

To consider and, if thought fit, to pass the following resolutions, as to which resolution 8 shall be proposed as an ordinary resolution and resolutions 9 and 10 shall be proposed as special resolutions:

8. That the directors be and they are hereby generally and unconditionally authorised in accordance with Section 80(1) of the Companies Act 1985 (the "Act") to exercise all the powers of the Company to allot relevant securities (as defined in Section 80(2) of the Act) up to an aggregate nominal amount of £67,661 provided that this authority shall expire at the conclusion of the next annual general meeting of the Company after the passing of this resolution, save that the Company shall be entitled to make offers or agreements before the expiry of such authority which would or might require relevant securities to be allotted after such expiry and the directors shall be entitled to allot relevant securities pursuant to any such offer or agreement as if this authority had not expired; and all unexercised authorities previously granted to the directors to allot relevant securities be and are hereby revoked.
9. That the directors be and they are hereby empowered pursuant to Section 95 of the Companies Act 1985 (the "Act") to allot equity securities (as defined in Section 94(2) of the Act) for cash (pursuant to the authority conferred by resolution 8 above being passed) and for this purpose allotment of equity securities shall include as sale of relevant shares as provided in Section 94(3A) of that Act as if Section 89(1) of that Act did not apply to any such allotment, provided that this power shall be limited to:

    (a) the allotment of equity securities in connection with a rights issue, open offer or other offer of securities in favour of the holders of ordinary shares on the register of members at such record date(s) as the directors may determine where the equity securities respectively attributable to the interests of the ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them on any such record date(s), subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with fractional entitlements or legal or practical problems arising under the laws of any overseas territory or the requirements of any regulatory body or stock exchange or by virtue of shares being represented by depositary receipts or any other matter whatever; and

    (b) the allotment (otherwise than pursuant to sub-paragraph (a) above) to any person or persons of equity securities up to an aggregate nominal amount of £10,149.

    and shall expire upon the expiry of the general authority conferred by resolution 9 above, save that the Company shall be entitled to make offers or agreements before the expiry of such power which would or might require equity securities to be allotted after such expiry and the directors shall be entitled to allot equity securities pursuant to any such offer or agreement as if the power conferred hereby had not expired.

10. That subject to, and in accordance with the Company's articles of association, the Company be generally and unconditionally authorised to make market purchases (within the meaning of Section 163(3) of the Companies Act 1985) of ordinary shares of the Company provided that:-

    (a) the maximum number of ordinary shares hereby authorised to be acquired is 14.99 per cent;

    (b) the minimum price which may be paid for an ordinary share is the nominal value of such share;

    (c) the maximum price which may be paid for any such share is an amount equal to 105 per cent. of the average of the middle market quotations for an ordinary share in the Company as derived from The London Stock Exchange Daily Official List for the five business days immediately preceding the day on which such share is contracted to be purchased;

    (d) the authority hereby conferred shall expire at the conclusion of the annual general meeting of the Company held in 2006, or if earlier, on the date which is 18 months from the date of this resolution;

    (e) the Company may make any purchase of its ordinary shares pursuant to a contract concluded before the authority hereby conferred expires and which will or may be executed wholly or partly after the expiry of such authority;

    (f) all shares purchased pursuant to the said authority shall either: (i) be cancelled immediately on completion of the purchase; or (ii) held, sold, transferred or otherwise dealt with as treasury shares in accordance with the provisions of the Act.

BY ORDER OF THE BOARD

Susan Court

Secretary

15 June 2005

Registered Office:
1 The Boulevard
Shire Park
Welwyn Garden City
Hertfordshire
AL7 1EL

Notes to the Notice of annual general meeting:

(1) A member entitled to attend and vote at the annual general meeting (AGM) may appoint a proxy (who need not be a member of the Company) to attend and, on a poll, to vote on his or her behalf. In order to be valid an appointment of proxy must be returned by post, by courier or by hand to the Company's Registrars, Capita Registrars, Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU and must be received by the Company not less than 48 hours before the time of the meeting.

(2) A form of proxy is enclosed for use by shareholders and, if appropriate, must be deposited with the Company's Registrars, Capita Registrars, Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4BR not less than 48 hours before the time of the AGM. Appointment of a proxy does not preclude a shareholder from attending the AGM and voting in person.

(3) Copies of the directors' service contracts with the Company and the register of interests of the directors in the share capital of the Company are available for inspection at the registered office of the Company during usual business hours (Saturdays, Sundays and public holidays excepted) and will be available at the place of the AGM from 15 minutes prior to and during the AGM.

Explanatory notes to certain of the resolutions to be proposed at the annual general meeting

(1) Resolutions 4, 5 and 6 — Re-election of directors

Under the articles of association of the Company, the following are required to retire by rotation each year: (i) any director who was a director at the time of the two preceding annual general meetings and who did not retire at either of those meetings; and (ii) such additional directors together with those retiring under (i) which make one-third (or the nearest to but not exceeding one-third) of the board of directors.

D Newlands and D Taylor are due to retire by rotation at the AGM and are willing to be reappointed as directors.

G Earle was appointed after the previous AGM and, in accordance with the Company's articles of association, he will retire by rotation at the AGM and offer himself for election as a director.

Biographical details for those directors seeking election or re-election are shown on page 10 of the 2005 annual report.

(2) Resolution 8 — Renewal of directors' authority to allot shares

By virtue of Section 80 of the Act, the directors require the authority of shareholders of the Company to allot shares or other relevant securities in the Company. The resolution numbered 8 authorises the directors to make allotments of up to an additional 22,553,652 shares (representing one-third of the issued share capital of the Company as at 31 May 2005). The directors have no present intention of exercising the authority proposed to be conferred pursuant to resolution 8.

(3) Resolution 9 — Disapplication of statutory pre-emption rights

By virtue of Section 89 of the Act any issue by the Company of equity capital for cash made otherwise than to existing shareholders on a proportional basis requires the consent of shareholders of the Company unless the Company has obtained the authority of the shareholders under section 95 of the Act. The resolution numbered 9 is for that purpose. It authorises the directors to allot shares by way of rights or pursuant to an open offer or otherwise than strictly pro rata when the directors consider that it is expedient to do so and allows them to issue for cash up to 3,383,048 shares (representing approximately 5% of the issued share capital of the Company as at 31 May 2005) other than on a pre-emptive basis.

(4) Resolution 10 — Authority to make market purchases of ordinary shares

By virtue of Section 166 of the Act, the Company may make market purchases of its own ordinary shares if authorised to do so by shareholders. Under resolution 10 the directors seek to introduce an annual authority to make market purchases of shares: each year the directors will seek to renew this authority at the Company's AGM. Any ordinary shares purchased under this authority would be cancelled and the number of ordinary shares in issue reduced accordingly. The maximum number of ordinary shares which could be purchased pursuant to this authority is 10,142,377, which is 14.99 per cent. of the issued share capital of the Company as at 31 May 2005. Any repurchase of ordinary shares carried out by the Company pursuant to this authority would be at a maximum price per ordinary share of 105 per cent. of the average middle market price for the Company's ordinary shares for the five business days immediately preceding the date of the purchase, and at a minimum price of the nominal value of an ordinary share. The authority to repurchase ordinary shares will, if approved by shareholders, only be exercised after careful consideration by the directors, and if such exercise would result in an increase in earnings per share and would be in the best interests of shareholders generally.

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PayPoint plc Form of Proxy

I/We ....(full name*)

of ....(address*)
being a member/members of the above named Company, hereby appoint the Chairman of the Meeting

or ....** as my/our proxy to vote in my/our name(s) and on my/our behalf at the Annual General Meeting of the Company, to be held on 19 July 2005 at 1.30 pm at JPMorgan Cazenove, 20 Moorgate, London EC2R 6DA.

My/our proxy is to vote on the resolutions to be proposed at the Annual General Meeting as follows:

Resolutions	For***	Against***
1. To receive the financial statements and the reports of the directors and the auditors thereon for the year ended 31 March 2005	☐	☐
2. To receive the directors' remuneration and the reports of the directors and the auditors thereon for the year ended 31 March 2005	☐	☐
3. To declare a final dividend of 5.2p per ordinary share of the Company	☐	☐
4. To re-elect D Newlands as a director who retires by rotation in accordance with Article 37.2 of the Company's articles of association	☐	☐
5. To re-elect D Taylor as a director who retires by rotation in accordance with Article 37.2 of the Company's articles of association	☐	☐
6. To elect G Earle as a director who retires by rotation in accordance with Article 32.2 of the Company's articles of association	☐	☐
7. To re-appoint Deloitte & Touche LLP as auditors of the Company and to authorise the directors to determine their remuneration	☐	☐
8. To authorise the directors to allot shares pursuant to Section 80 of the Companies Act 1985	☐	☐
9. To disapply statutory pre-emption rights pursuant to Section 95 of the Companies Act 1985	☐	☐
10. To authorise the directors to make market purchases of shares	☐	☐

The proxy may vote as he/she thinks fit (or abstain) on any resolutions where no specific direction is given or any other business which may properly come before this meeting.

Signed: .... Dated: 2005

NOTES

To be valid, the proxy form must be received by the Registrars no later than 48 hours before the commencement of the meeting.

1.* Please complete in block capitals with your full name and address.

2.** If you wish to appoint someone other than the Chairman of the meeting, please cross out these words and insert the full name(s) of the person(s) you wish to appoint. A proxy need not be a member of the Company.

3.*** Please indicate, by inserting a cross in the appropriate box, how you wish your votes to be cast on each Resolution. If you sign this Form of Proxy and return it without any specific directions, your proxy will vote or abstain at his discretion. This Form of Proxy will only be used in the event of a poll being directed or demanded.

4. This Form of Proxy must be deposited at the Company's Registrars, at The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, NOT LATER than 1.30 pm on 17 July 2005, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof. The completion and return of this Form of Proxy will not, however, preclude (a) holders(s) of Ordinary shares from attending and voting at the meeting if they so wish.

5. Any alterations to this Form of Proxy should be initialled.

6. In the case of joint holders, the signature of one holder will be accepted, but the names of all joint holders should be given.

7. In case of a corporation, this Form of Proxy should be either given under its common seal or signed on its behalf by an officer or attorney duly authorised.

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Capita Registrars
Registrars for PayPoint plc
Proxy Department
PO Box 25
Beckenham
Kent
BR3 4BR

2nd FOLD

1st FOLD

Pay
Point
easier
top-up

PayPoint
1 The Boulevard Shire Park Welwyn Garden City Hertfordshire AL7 1EL England
Telephone: 01707 600300 Fax: 01707 600333 www.paypoint.co.uk