Annual report

For the year ending 31 March 2006

CONTENTS

Officers and professional advisers	4
Financial highlights	5
Operating and financial review	6
Strategy	13
Risks	14
Corporate social responsibility	15
Governance	16
Board of directors	20
Directors' report	22
Remuneration Committee report	24
Statement of directors' responsibilities	33
Independent auditors' report to the members of PayPoint plc	34
Consolidated income statement	36
Consolidated balance sheet	37
Company balance sheet	38
Consolidated cash flow statement	39
Company cash flow statement	40
Notes to the financial statements	41
Notice of annual general meeting	64

OFFICERS AND PROFESSIONAL ADVISERS

Directors

G D Earle
K J Minton*
D J Morrison*
D B Newlands*
A M Robb*
D C Taylor
T D Watkin-Rees
R N Wood*

* Non-executive directors

Secretary

S C Court

Registered office

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

Independent auditors

Deloitte & Touche LLP
Hill House
1 Little New Street
London EC4A 3TR
United Kingdom

Registrars

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

FINANCIAL HIGHLIGHTS

	Year ended 31 March 2006 £m	Year ended 31 March 2005 £m	Increase %
Revenue	**120**	89	35
Net revenue [1, 4]	**46**	37	25
Operating profit before exceptional items [4]	**19**	12	60
Operating profit	**19**	7	159
Profit before tax	**20**	8	152
Basic earnings per share	**25.0p**	8.7p	186
Adjusted earnings per share [2, 4]	**25.0p**	15.5p	61
Proposed final dividend per share	**7.5p**	5.2p	44

OPERATIONAL HIGHLIGHTS

- Transactions processed up 24% to 322 million with strong growth in all sectors
- Operating margins [3, 4] increased from 33% to 42%
- PayPoint terminal outlets have increased to over 15,000, up 17% on March 2005
- New, faster, more reliable terminal now rolled out to agents
- Increased market share of utility and TV licensing payments
- Prepaid energy transactions stimulated by cold weather and energy price increases

David Newlands, Chairman of PayPoint, said "We have had an excellent year with improvements in our range of products and services, brand awareness and the increase in our network stimulating revenue growth. Our operational gearing has delivered most of the growth in net revenue to the bottom line. The BBC TV licence contract awarded to PayPoint in March marks a major milestone in the Company's development, reinforcing our credibility as a sole provider of a national service. We are securing capacity for future profitable growth by investing in infrastructure including new communications and polling hardware, the development of new peripheral information technology systems and the refurbishment and extension of our operating base. We are confident of continuing growth in the current year in which trading has started well."

1 Net revenue is revenue less commissions payable to retail agents and the cost of those 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 operating profit before exceptional items expressed as a percentage of net revenue.
4 Net revenue operating profit before exceptional items, 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 10 and on the face of the consolidated income statement.

PayPoint processed 322 million transactions with a value of £3.8 billion

OPERATING AND FINANCIAL REVIEW

The operating and financial review has been prepared solely to provide additional information to shareholders as a body to assess PayPoint's strategies and the potential for those strategies to succeed, and it should not be relied upon for any other purpose. It contains forward looking statements that have been made by the directors in good faith based on the information available at the time of approval of the annual report and such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward looking information.

Our key performance indicators are transaction volume, numbers of sites (terminals, ATMs and Epos only), the progress of the new terminal roll out measured by the number of new and old terminals in the field, net revenue[1], operating margin[2], and economic profit[3] all of which are addressed below. We have met or exceeded all of our targets except for Epos only sites, where the delay in a retailer's system development has lead to lower than expected Epos only and ATM site numbers, where new site installations have met targets, but lower than planned site numbers have resulted from the removal of under-performing sites, to maintain network quality.

Operational overview

We have continued to grow in all sectors. This growth has been achieved through the success of our strategy to:

- broaden our customer service proposition and increase the range of payments through our network; and
- grow and optimize our network coverage.

During the financial year, PayPoint processed 322 million consumer transactions (2005: 260 million) an increase of 24%, with a value of £3.8 billion (2005: £2.9 billion) up 29%. Commissions paid to agents of £64 million were up 26%, reflecting increased volumes and the heavier mix of ATM transactions, which carry higher agent commission values.

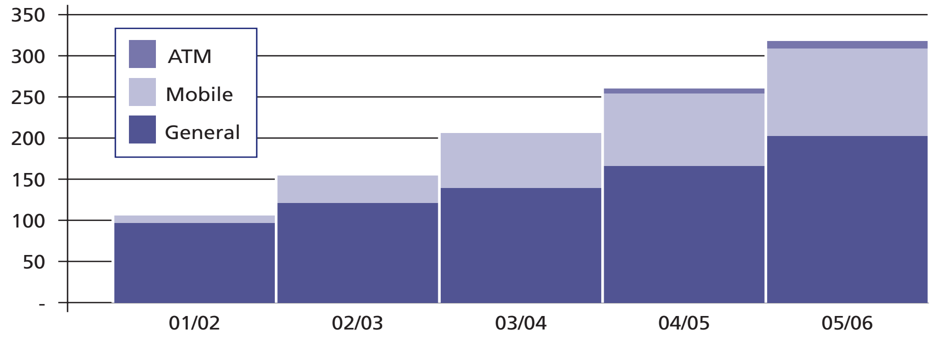
There has been strong growth in transaction volumes across all sectors:

Transactions by sector	**2006 million**	2005 million	Increase %
Bill and general payments*	**205.0**	167.3	23
Mobile top-ups	**108.2**	87.9	23
ATMs	**8.9**	4.6	93
Total	**322.1**	259.8	24

*Including debit/credit transactions.

1 Net revenue is revenue less commissions paid to agents and the cost of those mobile top-ups where PayPoint is the principal.
2 Operating margin is operating profit before exceptional items as a percentage of net revenue.
3 Economic profit is operating profit after tax and a charge for capital employed based on the Company's cost of capital (see Remuneration Committee report page 26).

Transaction volume (million)



Bill and general payments

PayPoint has performed well in this sector with growth stimulated by increased agent numbers, client payment options and brand awareness. Performance has been helped by a migration of market share away from the Post Office, following its branch closure programme, in particular with respect to TV licence payments and utility bill payments. A major new contract with TV Licensing will add to transaction volumes.

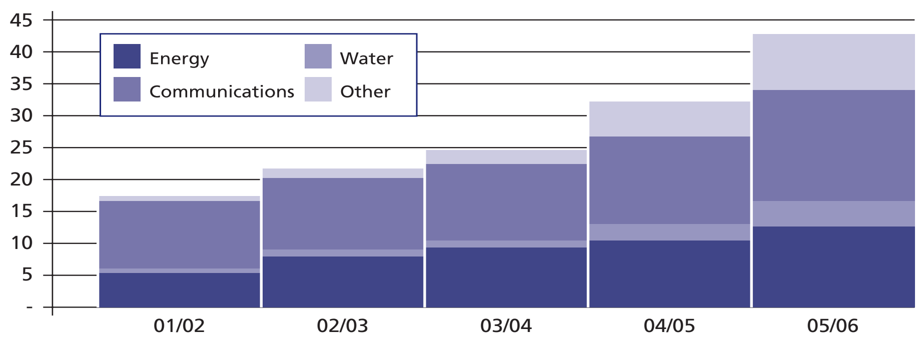
In prepaid energy transactions, the combined effect of colder than average temperatures compared to last year and substantial energy consumer price increases, have also continued to have a beneficial effect on PayPoint's transaction volume, as average transaction values have remained broadly the same.

In transport, we have extended our geographical coverage by signing new contracts with First and Greater Manchester Travelcards, in addition to our existing contracts with Arriva, National Express and Lothian. Whilst current volumes in transport ticketing are relatively modest, there is considerable potential for long term growth if transport authorities take steps to move ticket purchasing off buses. We are also discussing contracts with other operators and transport executives.

A new contract with Western Union will allow PayPoint retail agents to process money transfers to and from Western Union agents all over the world. We are expecting to roll out this service this year to selected agents.

In the rest of the sector (other than prepaid and transport), growth has also been strong, as shown by the chart below.

Bill payment volume (million)



A new contract with TV Licensing will add to transaction volumes

Strong demand for new PayPoint terminal outlets continues... the retail network has grown to 15,296 sites

Mobile top-ups

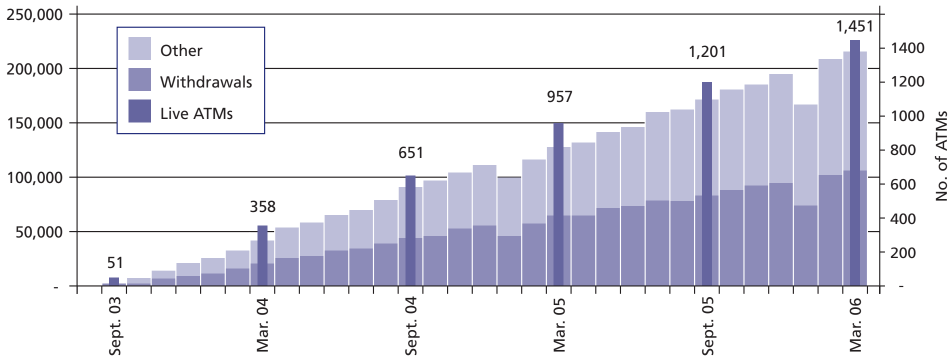
Overall market share is c.27% (last year c.23%) as a result of extending the retail network and the agent re-branding programme through all our independent outlets and over 1,200 of our multiple sites.

Two of our major multiple retailers were expected to transfer mobile top-ups from our terminals to their own till systems during the year, producing lower revenues for PayPoint. One retailer largely completed the transfer in the year. The other retailer is now expected to complete the transfer in the current financial year. The adverse impact on revenues is estimated at £0.5 million in the year under review, rising to a full year impact of £1.5 million when the transfer is completed.

Automatic Teller Machines (ATMs)

Installations have continued in excess of 50 per month, at a broadly similar rate to the whole of last year. Decommissions have, however, increased over last year because we have taken a more rigorous approach to the removal of poor performers. As a result, the installed estate has performed better than expected, with sites averaging 600 transactions per month, split evenly between cash withdrawals and balance enquiries. Installed ATMs have grown to 1,451 (2005: 957).

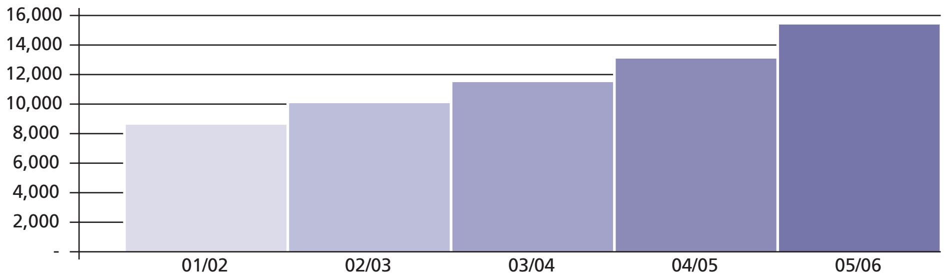
ATM transactions
Average weekly transactions each month



Network growth

Strong demand for new PayPoint terminal outlets continues and the retail network has grown to 15,296 sites at 31 March 2006, a net increase of nearly 2,200 up 17% on 2005. We have added over 3,200 sites and, in addition to normal churn, we decommissioned poorly performing sites, which were not required to maintain coverage and in which the investment in a new terminal was not worthwhile.

Sites with terminals



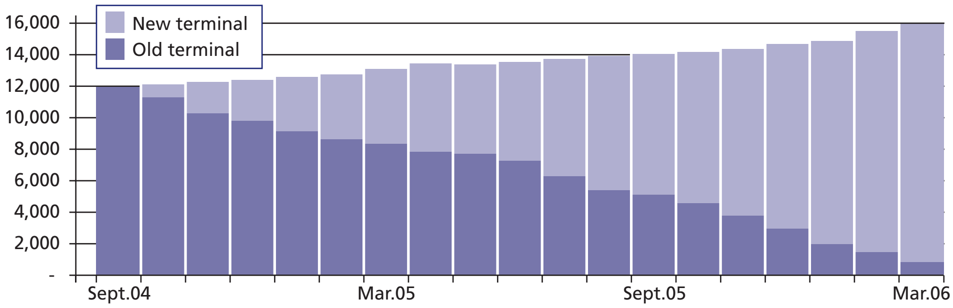
2,300 sites with our terminals also have EPoS connections (2005: 2,000), to allow mobile top-up transactions over the retailers' own till systems and there are a further 2,780 EPoS only sites (2005: 2,880).

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 in the introduction of new products, including the new transport ticketing schemes. The new terminal design is also chip and PIN compliant. The replacement of the old terminals which commenced in October 2004, is now complete.

Revenue was up 35% at £120 million

New terminal roll out

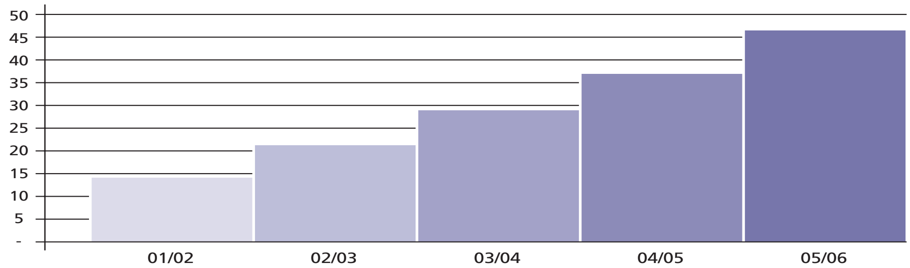


Financial overview

Revenue for the financial year was 35% up at £120 million (2005: £89 million), driven by a 24% increase in transaction volumes and the increase in revenue from the sale of mobile top-ups in Ireland where PayPoint is the principal. Cost of sales was £83 million (2005: £61 million) an increase of 36%. Cost of sales comprises commission paid to agents, the cost of mobile top-ups where PayPoint acts as principal, depreciation and other items including telecommunications costs. Agents' commission increased to £64 million (2005: £50 million), up 26%, slightly ahead of volume growth as a result of the heavier mix of ATM transactions which carry higher than average agent commissions. The cost of mobile top-ups, where PayPoint acts as principal, has risen to £10 million, as a result of a more than fivefold increase in the sale of mobile top-ups in Ireland over the previous year. Depreciation has increased to £2.3 million (2005: £1.8 million) as a result of the new terminal deployment.

Net revenue[1] of £46 million (2005: £37 million) was up 25%, driven primarily by volume growth. Operating margins[2] were 42% (2005: 33%), benefiting from operational gearing and also from a delay in the migration of mobile top-ups, in two of our multiple retailers, from our terminals to those retailers' own till systems.

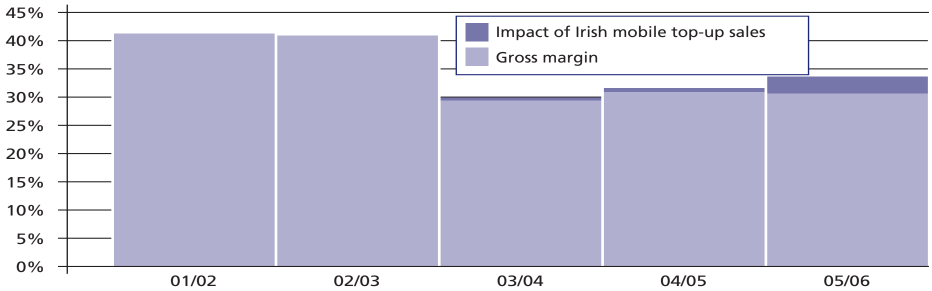
Net revenue (£million)



Net revenue of £46 million was up 25%

Gross profit improved to £37 million (2005: £28 million), 33% ahead of last year, with a gross margin of 30% (2005: 31%). Were it not for the inclusion of the full face value of the Irish mobile top-ups in revenue and their cost within cost of sales, the gross margin would have increased by 1.6 percentage points. The effect of this is shown in the chart below.

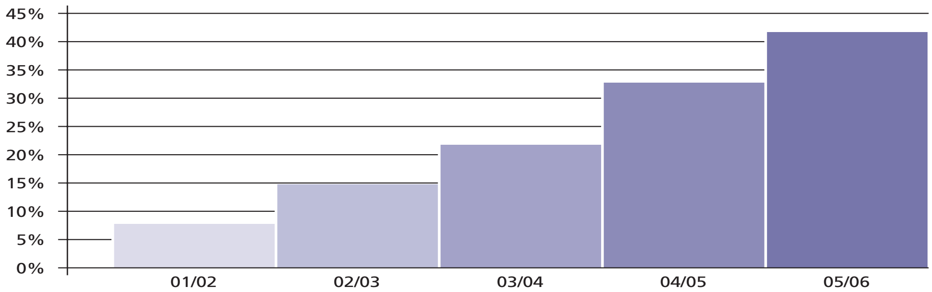
Gross margin



The reduction in gross margin in 03/04 compared to the previous year resulted from the introduction of mobile top-ups which carry higher agent commissions

Operating costs (administrative expenses) before exceptional items have risen to £17 million (2005: £16 million), an increase of 10%, driven by the increase in staff numbers, including the broadening of the senior management team in retail, corporate finance and information technology during the year. Operating profit before exceptional charges was £19 million (2005: £12 million) with a corresponding increase in operating margins[2] as noted above.

Operating margin[2]



1 Net revenue is revenue less commissions paid to agents and the cost of those mobile top-ups where PayPoint is the principal.
2 Operating margins are calculated as operating profit before exceptional items as a percentage of net revenue.

Profit before tax was £20 million, up 152% on the previous year (2005: £8 million). The tax charge was £3.4 million, which mainly relates to current tax following the utilisation of the remaining tax losses which arose in previous years. The tax charge is expected to rise towards 30% in the current year.

Operating cash flow was £14 million (2005: £17 million), reflecting strong conversion of profit to cash offset by the adverse impact of £5 million in respect of the cash held over the Easter bank holiday weekend at the end of the previous financial year for mobile operators. PayPoint has legal title to this cash (client cash), but there is an equal amount included in liabilities. Net capital expenditure of £7 million (2005: £5 million) reflected spend on the new terminals, ATMs, infrastructure assets and the start of the office refurbishment, which will be completed in the current financial year. Net interest received of £1 million (2005: £0.6 million) is as a result of increased cash balances during the year. Equity dividends paid were £5.5 million (2005: £0.8 million). Cash and cash equivalents were £29 million, including client cash of £5 million, up £3 million from £26 million, including client cash of £11 million, at 31 March 2005.

Profit before tax was £20 million, up 152% on the previous year

Dividend

We recommend a final dividend of 7.5p per share to shareholders, subject to approval of the shareholders at the annual general meeting on 29 June 2006. The dividend will be paid on 3 July to shareholders on the register on 2 June 2006, which, together with the interim dividend of 3p per share paid on 2 January 2006, makes a total of 10.5p per share for the year under review.

Liquidity

The group has cash of £24 million excluding client cash and an unsecured 5 year loan facility of £35 million.

Financing and treasury policy

The policy requires a prudent approach to the investment of surplus funds, external financing, settlement, foreign exchange risk and internal control structures. The policy prohibits the use of financial derivatives and sets limits for gearing, cash interest cover and dividend cover.

There are many opportunities to grow the business

International Financial Reporting Standards (IFRS)

Under European Union legislation all listed groups are required to report under IFRS for accounting periods commencing on or after 1 January 2005. This is the first annual report for PayPoint under IFRS. The interim results for the six months ending 30 September 2005 were also prepared in accordance with IFRS principles, with comparative figures being restated as appropriate. There were no substantial changes to the reported results under UK generally accepted accounting principles, other than the reversal of accruals for dividends payable and the reclassification of an accrual for share based payments from liabilities to equity.

Charitable donations

During the year PayPoint provided a scheme to allow the public to make donations to the Disasters Emergency Committee (DEC) for the Asia earthquake appeal through our network of agents at no cost to DEC. Our agents collected £27,000 for the Asia earthquake appeal (2005: £140,500 for the Tsunami) and we would like to thank our agents for accepting these donations at no commission. For the current financial year PayPoint has elected to sponsor a charity for the year and we are pleased to be sponsoring MacMillan Cancer Relief.

Employees

We would like to take this opportunity to thank our staff for their commitment, energy and enthusiasm in achieving their targets that underpin the delivery of these results.

Outlook

There are many opportunities to grow the business in the UK and Ireland with good prospects in all sectors, in particular through broadening the range of payments across the PayPoint retail network. Retail network growth and optimisation will remain priorities and whilst the current focus for international expansion is in Eastern Europe, we will also review other opportunities. Strong cash generation should continue, although capital expenditure on the refurbishment and peripheral information technology systems along with the increased dividends and tax payments will deplete cash balances in the first half of the current year. We are confident of continuing growth in the current year, in which trading has started well.

David Newlands
Chairman

Dominic Taylor
Chief Executive

25 May 2006

STRATEGY

PayPoint aims to continue to grow profits, market share and enhance its competitive positioning through generating greater economies of scale from a central infrastructure that has a substantially fixed cost. Fundamental to this proposition is that marginal revenue is transaction driven, but that marginal costs are largely driven by retail agent numbers. As a result, the strategy focuses on optimising the combination of retail agent numbers and transaction volumes. This strategy continues the approach which has delivered success for PayPoint to date.

The key strategic objectives focus on growing the retail agent network penetration and coverage, increasing transaction volumes of existing services, improving the range of payments provided by the PayPoint terminal and enhancing customer convenience. Specifically, PayPoint is focused to:

- selectively extend coverage to prospective retail agents and continually optimise the retail agent network, facilitated by the use of the new terminal which is allowing PayPoint to target agents currently using inferior solutions;
- work with clients to increase PayPoint's share of their volumes, notably in the light of closures by the Post Office;
- add new clients and new transaction generating services in existing and new sectors to increase the range of payments that can be made by consumers;
- continue to improve service quality to maintain and extend competitive differentiation by investing in technology solutions; and
- review the potential for expansion into new geographies and different payment methods, leveraging existing knowledge, skills and assets.

RISKS

PayPoint's business, financial condition or operations could be materially and adversely affected by the risks summarised below. Although management takes steps to mitigate risks where possible or where the cost of doing so is reasonable in relation to the probability and seriousness of the risk, it may not be possible to avoid crystallisation of some or all of such risks:

Risk	Future prospects depend on our ability to:
Managing growth of the business	manage growth through the employment of adequate skilled resources, whilst maintaining financial controls
The loss of a major contract	renew contracts at expiry (over the next six years) on attractive terms
Dependence on key executives	retain and recruit key staff through a mixture of basic salary, short and long term incentive schemes
Failure of systems	maintain financial controls, defend against natural disasters, terrorist attacks, sabotage, and hacking
Competition	hold and gain market share, particularly in commodity services such as mobile top-ups
Insolvency of a major multiple retail agent	avoid the consequences of insolvency both in terms of the bad debt risk (where we bear it) and the impact of such insolvency on our network coverage
Technological changes	keep pace with technological changes and introduce new developments to compete effectively with our competitors
Reliance on intellectual property	stop third parties from using our products and defend the use of our products from any challenge
The need to raise capital in future	access future capital needs on sufficiently attractive terms to grow the business profitably
Economic, political, legislative, taxation or regulatory changes	to deal with the impact of such changes without adversely affecting the growth or profitability of the business
Taxation	ensure the impact of any adverse changes is mitigated by enhanced performance
Fraudulent or criminal activity	avoid loss of client monies by the rigorous application of controls

CORPORATE SOCIAL RESPONSIBILITY

PayPoint has a set of core corporate social responsibility principles:

- **legal conformance** – we comply with statutory obligations in all areas and subject our practices to high levels of scrutiny through regular compliance audits;
- **protection of our environment** – we identify and manage the environmental impacts associated with our equipment, supplies and service;
- **continuous improvement** – we review our performance and set targets and objectives for growth; and
- **reporting on our performance** – we publish results twice each year, complying with reporting and disclosure obligations.

We recognise the importance of integrating our operations with our business values in order to meet the expectations of our shareholders, clients, suppliers, regulators and our employees.

We manage our social impact in accordance with established best practice employment practices and policies as follows:

- **business ethics** – we set out clear standards for ethical relationships and conduct to be maintained by employees and conduct our business in accordance with the highest ethical standards;
- **equal opportunities** – we treat job applicants, employees and temporary staff in the same way, regardless of their sex, sexual orientation, age, race, ethnic origin or disability. We monitor the composition of our workforce and introduce positive action if necessary;
- **charitable donations** – we support charitable causes in support of the communities in which we do business. We will, without seeking reward or guarantee of recognition, make donations in line with our published policy;
- **environment** – we aim to recycle paper, cans, plastic cups, computers and related equipment and reduce where possible, their use. Environmentally friendly and energy efficient products are being used in our office refurbishment;
- **whistle-blowing** – we are committed to ensuring that malpractice is prevented and, should it arise, immediately dealt with. We encourage employees to raise their concerns about any malpractice at the earliest possible stage and have an established procedure for raising any such concerns;
- **health & safety** – PayPoint recognises that effective health and safety management is a fundamental element of running a successful business and consequently must be ranked equally with other management functions. We are committed to ensuring the health, safety and welfare of employees and to other people who may be affected by our activities, so far as is reasonably practicable. Statutory compliance will be seen as a minimum standard to be achieved, and we will endeavour to improve upon such standards where reasonably practicable;
- **disciplinary & grievance procedures** – we provide a fair and consistent method of dealing with disciplinary problems and treat misconduct with appropriate action. We ensure that we treat any grievance an employee may have relating to their employment in a fair and reasonable manner; and
- **bullying & harassment** – we promote a working environment free of harassment and where individuals who believe that they are being subjected to any form of harassment are encouraged to come forward to have the issue resolved.

GOVERNANCE

Corporate governance

The directors recognise the importance of sound corporate governance, consistent with the size and nature of PayPoint plc (the Company). The Company has fully complied with the provisions set out in Section 1 of the Combined Code on Corporate Governance (Combined Code) for the year up to 31 March 2006 except that David Morrison is 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. David Morrison resigned his membership of both the Audit and Remuneration Committees in January 2006.

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 David Newlands, 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 20 and 21. 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, chairs all board meetings and regularly consults with the executive directors regarding ongoing business. His other significant commitments are disclosed in his biography on page 20. The board considers that these commitments do not hinder his ability to discharge his responsibilities to the Company and its subsidiaries (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 the approval of:

- corporate strategy of the Group and the annual operating and capital expenditure budgets;
- the appointment of the Chief Executive Officer, other directors and the Company Secretary;
- major capital investments;
- 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.

The board met seven times during the year and all members were in attendance with the exception of Roger Wood who was unable to attend one of the meetings.

A formal performance evaluation of the board, its committees and individual directors took place for the first time during the year. The results of the board performance evaluation process have been analysed. There were no suggestions for improvement. The various committees carried out a self-assessment exercise to assess whether their terms of reference had been satisfactorily fulfilled and how their processes could be improved. The non-executive and executive directors' performance was reviewed by the Chairman and Chief Executive respectively, taking into account the views of other directors. The Chairman has carried out a rigorous performance review in respect of David Morrison, who is subject to re-election at the 2006 Annual General Meeting and has served a six year term. He is satisfied that his performance continues to be effective and demonstrates a clear commitment to the role. The performance of the Chairman was reviewed by the non-executive directors led by Kenneth Minton, as Senior Independent Director, also taking into account the views of the executive directors.

Directors' and officers' liability insurance is maintained.

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 are available on the Company's website at www.paypoint.com.

Audit Committee

The Audit Committee comprises Andrew Robb, Kenneth Minton and Roger Wood. It met four times. 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.

The Audit Committee is primarily responsible for monitoring that the financial performance of the Group is properly measured and reported on. During the year it reviewed: reports from the auditors relating to the Group's accounting and internal controls; advised the board on the appointment; performance; independence and objectivity of the auditors; the effectiveness of the Group's systems of internal control including fraud prevention and the appropriateness of the internal audit programme. It also reviewed the operation of the Company's whistle blowing policy during the year. The committee also considered the level of non-audit fees for services provided by the auditors in order to satisfy itself that the auditors' independence is safeguarded. The group has a policy which prohibits the auditors providing certain services which might impair their independence. Proposals to use the auditors for non-audit services are approved by the Audit Committee Chairman. The Audit Committee regularly meets the external auditors without the executive directors being present and procedures are in place which allow access at any time 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, composition and activities 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 24 to 32.

Nomination Committee

The Nomination Committee comprises Andrew Robb, Kenneth Minton, Roger Wood and David Newlands who is its Chairman. It met twice 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 comply with Internal Control: Guidance for Directors on the Combined Code have been in place throughout the year and the directors have conducted a formal review of the effectiveness of the Group's system of internal control during the year. The operational management of the Group is delegated to senior managers who are appointed by the Chief Executive. This group consists of ten senior managers and the three executive directors (the senior management group). The responsibilities of the senior management group include the regular review of the main business risks to the Group.

The Group has prepared a detailed risk register which includes analysis of all the main operational risks identified by the senior management group covering all parts of the Group's business activities. The senior management group, which meets monthly, also evaluates and prioritises the identified key operational risks. In order to ensure that this process is managed effectively, all members of the senior management group are asked to sign off on each risk area by way of confirmation that the potential threats in each area have been properly identified and recorded and the appropriate action taken. This process has been fully embedded into the operations of the business. The Audit Committee has received regular updates on the ongoing risk management and control systems which are discussed at their meetings.

KPMG are the internal auditors and have planned and proposed to the Audit Committee a rigorous internal audit programme covering all the Group's key business areas which has been 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. The internal audit programme for the year to 31 March 2006 has been successfully completed. In addition independent internal audits are conducted for the Group's assessment of compliance against ISO/IEC 27001:2005 (information security management), which takes place twice annually and by LINK auditors, on an annual basis, which assesses the Group's control over LINK related ATM systems and audits by our clients from time to time.

Shareholder relations

The directors consider 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 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 and feedback from these has been reported to the board.

BOARD OF DIRECTORS

David Newlands FCA, non-executive Chairman (aged 59) — appointed 4 August 1998
David has been Chairman of PayPoint since 1998. He was formerly Finance Director of The General Electric Company, p.l.c. (GEC), non-executive Chairman of Britax International plc and Deputy Chairman of The Standard Life Assurance Company. David is non-executive Chairman of Tomkins plc and Kesa Electricals plc, 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 43) — appointed 22 September 1998
Tim was the founder Sales and Marketing Director of PayPoint in 1996. Since 2000, he has been responsible for strategic business development. Prior to PayPoint, he was a specialist in retail banking and payment systems starting with Lloyds Bank in 1984, then as a Senior Consultant with KPMG Management Consultants in 1998 and Head of Business Planning and Director of Consulting with Nexus (later Sligos and now Atos Origin) from 1989. He is qualified as an ACIB (Associate of the Chartered Institute of Bankers).

George Earle, ACA, Finance Director (aged 53) — 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. 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. George joined PayPoint in September 2004 and is responsible for the financial affairs of the Group.

David Morrison, non-executive director (aged 47) — 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, FCMA, non-executive director (aged 63) — appointed 18 August 2004
Andrew worked for the P&O Steam Navigation Company from 1971 to 1989, and was Group Finance Director from 1983 to 1989. He was Group Finance Director of Pilkington plc from 1989 to 2001 and then executive director responsible for relations with partners and affiliates worldwide until he retired in 2003. He was a non-executive director of Alfred McAlpine plc from 1993 to May 2003. He is a non-executive director of Corus Group plc, Kesa Electricals plc, and the Laird Group plc. He is also Chairman of the Pilkington Pension Scheme Trustees.

Kenneth Minton, non-executive director (aged 69) — 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 64) — 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. Roger is currently a non-executive director of Reliance plc.

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 2006.

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 15,000 convenience retail outlets using PayPoint's terminals. On average, over six 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 provides consumers with a one stop shop for making cash payments. In addition PayPoint provides ATMs to retail outlets and processes ATM transactions.

Substantial shareholdings

On 19 May 2006, 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	13,230,192	19.55
Lord Weinstock (Estate of)	9,096,183	13.44
RIT Capital Partners plc	8,308,233	12.28
Landsdowne Partners LP	6,244,603	9.23
Jupiter Asset Management	5,395,683	7.97
AXA Framlington Investment Management	4,260,320	6.30
Legal & General Investment Management	2,833,077	4.19

Directors

The names of the directors at the date of this report and their biographical details are given on pages 20 and 21 and their interests in the ordinary shares of the Company are given on page 32. There were no changes in directors during the year.

Each of the persons who is a director at the date of approval of this report confirms that:

(1) so far as the director is aware, there is no relevant audit information of which the company’s auditors are unaware; and

(2) the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company’s auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

Results for the year

The consolidated income statement, balance sheet and cash flow statement for the year ended 31 March 2006 are set out in pages 36, 37 and 39.

The operating and financial review of the Group for the year ended 31 March 2006, which complies with the Accounting Standards Board's 2006 Statement on Operating and Financial Reviews, including an analysis of the Group's key performance indicators, risks and financing and treasury policy, is set out in pages 6 to 15. The balance sheet and cash flow statement of the holding company for the year ended 31 March 2006 are set out on page 38 and 40.

Suppliers payment policy

The Group aims to pay its creditors promptly, in accordance with terms agreed for payment. The Group had 17 days' purchases outstanding at 31 March 2006, based on the average daily amount invoiced by suppliers during the year.

Charitable and political donations

The group made no political donations during the year (2005: nil). The charitable donations policy can be found within the operating and financial review on page 12.

Employee matters and environmental issues

Employee matters and environmental issues are discussed in the corporate social responsibility report on page 15.

Future developments

Future developments are discussed in the operating and financial review on pages 6 to 15.

Dividends

The directors recommend the payment of a final dividend of 7.5p (2005: 5.2p) per ordinary share amounting to £5,076,000 (2005: £3,473,000) to be paid on 3 July 2006 to members on the register on 2 June 2006. An interim dividend of 3.0p per share (£2,030,000) was declared and paid during the year (2005: £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
25 May 2006

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 unaudited 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. Andrew Robb and Roger Wood are committee members. David Morrison resigned his membership of the Remuneration Committee in January 2006.

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. A copy of the terms of reference is available to shareholders by writing to the Company Secretary whose contact details are set out on page 66. The terms of reference are also available on the Company's website at www.paypoint.com. The Remuneration Committee met twice during the year and all members were in attendance.

Remuneration policy overview - executive directors and senior management group

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 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. Short term incentives (annual bonuses) are designed to produce high returns on capital investment. The long term incentives are designed to reward high Total Shareholder Return (TSR) compared with a comparator group of companies.

The comparator group companies (Acal plc, Alphameric plc, Autonomy Corporation plc, BATM Advanced Communications plc, Big Yellow Group plc, BPP Holdings plc, BTG plc, Detica Group plc, DIcom plc, Diploma plc, Fibernet Group plc, Gresham Computing plc, Intec Telecom Systems plc, Ricardo plc, Spring Group plc, Surfcontrol plc, Tribal Group plc) are drawn from the FTSE All Share Support Services and Software and Computer Services Indices and were selected on their comparability in terms of market capitalisation and size to the Company. The Remuneration Committee, with input from the executive directors, reviews the comparator group to ensure that it is appropriate given the current stage of the Company's development and market factors generally. The Remuneration Committee intends to review the appropriateness of the comparator group during the current year, given the Company's growth over the last year.

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.

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.

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 ending 31 March 2006 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 shares (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 ending 31 March 2006 was 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 targets for growth in economic profit were exceeded and as such maximum bonuses have been earned by the executive directors.

The results are set out below:

	80% payment threshold for on plan delivery £000	100% payment threshold for 110% of plan delivery £000	Actual result £000
Economic profit	9,081	9,989	12,988

The maximum cash bonus potential available for the executive directors for the year ending 31 March 2007 remains at 50% of salary with a maximum bonus potential of 75% of salary, if they participate in the DSB. The bonus plan for the year ending 31 March 2007 is based on the achievement of growth of economic profit. The Remuneration Committee believes that this will encourage a focus on both profit and capital efficiency which are key to driving shareholder value and which are implicit in the calculation 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.

Deferred Share Bonus Plan

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; and
- 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.

The executive directors elected to defer 50% of their cash bonus received in respect of the year ending 31 March 2005. During the year Bonus Shares were purchased and Matching Shares awarded under the DSB based on the value of bonus deferred. Details of the awards made under the DSB during the year are set out on page 31.

Since the year end all the executive directors have elected to defer 50% of the bonus earned in the current year in shares. It is intended that Bonus Shares and Matching Shares awards will be made under the DSB in May 2006.

Long-Term Incentive Plan (LTIP)

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.

During the year Dominic Taylor received an LTIP award equivalent to 120% of salary and George Earle and Tim Watkin-Rees received LTIP awards equivalent to 100% of salary. Awards made in the year were granted as conditional awards of shares. Details of the LTIP awards made during the year are set out on page 31. No LTIP awards were released or lapsed during the year.

The performance conditions for the awards made during the year 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, 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.

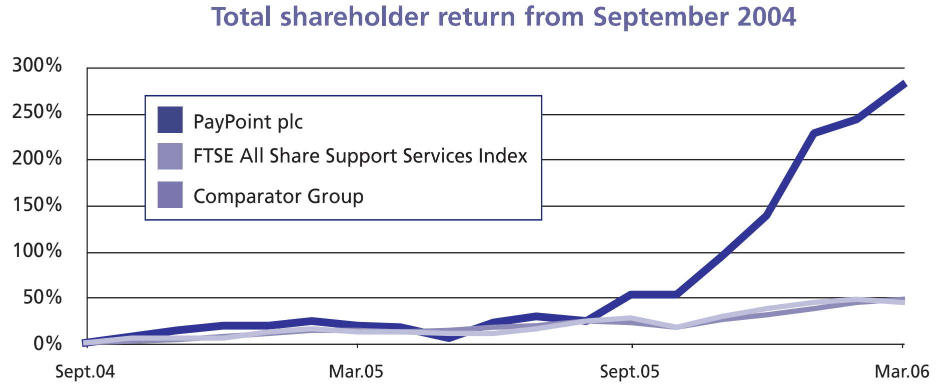
Comparative TSR was selected as the performance condition for LTIP awards by the Remuneration Committee as it ensures that the executives have outperformed their peers in the comparator group over the measurement period in delivering shareholder value before being entitled to receive any of their awards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

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.

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 a portion of their salary in Company shares; and
- build up a shareholding in the Company.

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 one 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 32. Approximately 76% 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 use half of the maximum (5%) to satisfy awards under discretionary or executive plans.

Pension

The Company pays the equivalent of 12% of the executive director's basic salary into a personal pension plan. The DSB and LTIP are not pensionable.

Executive directors' contracts

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

Name	Company Notice Period	Contract Date
D Taylor	12 months	13th September 2004
T Watkin-Rees	12 months	13th September 2004
G Earle	12 months	30th 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 ensures that there have been no unjustified payments for failure.

Non-executive directors' remuneration policy

The Company considers that the recruitment and retention of high calibre non-executive directors is important. Non-executives directors' fees are therefore regularly reviewed to ensure that the Company provides fully competitive remuneration to match these objectives.

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:-

Name	Date of appointment	Expiry date
K Minton	4th August 2004	1st August 2007
D Morrison	10th August 2004	1st August 2007
D Newlands	10th August 2004	1st August 2007
A Robb	10th August 2004	1st August 2007
R Wood	10th September 2004	1st August 2007

Under the Company's articles of association, directors are required to submit themselves for re-election every three 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.

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]		Total	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	£000	£000	**£000**	£000	**£000**	£000	**£000**	£000	**£000**	£000	**£000**	£000
Executive												
D Taylor	**228**	213	**108**	100	**7**	8	**343**	321	**26**	29	**369**	350
T Watkin-Rees	**165**	149	**77**	70	**5**	6	**247**	225	**18**	17	**265**	242
G Earle	**195**	94	**92**	87	**4**	3	**291**	184	**22**	11	**313**	195
Non-executive												
D Newlands	**68**	64	**-**	-	**-**	-	**68**	64	**-**	-	**68**	64
A Robb	**35**	22	**-**	-	**-**	-	**35**	22	**-**	-	**35**	22
K Minton	**35**	23	**-**	-	**-**	-	**35**	23	**-**	-	**35**	23
D Morrison	**30**	23	**-**	-	**-**	-	**30**	23	**-**	-	**30**	23
R Wood	**30**	17	**-**	-	**-**	-	**30**	17	**-**	-	**30**	17
Former directors	-	291[4]	-	25	-	8	-	324	-	13	-	337
	786	896	**277**	282	**16**	25	**1,079**	1,203	**66**	70	**1,145**	1,273

1 Basic salary is the total salary paid during the year and includes, for the executive directors a car allowance as part of the contract of employment.
2 Benefits include the following elements: private medical cover, permanent health insurance and life insurance.
3 Defined contribution pension scheme.
4 Basic salary for former directors includes £165,000 compensation for loss of office.

Long Term Incentive Plan[1]

	Share awards			Value of shares awarded	Date of grant	Release date	Exercise period	
	Number at 1 April 2005	Number awarded during the year	Number at 31 March 2006				From	To
Executive directors								
D Taylor	52,083 [3]		52,083	£100,000	24.09.04		24.09.07	23.09.14
	52,083 [4]		52,083	£100,000	24.09.04	24.09.07		
		103,407 [2,4]	103,407	£258,000	13.06.05	13.06.08		
T Watkin-Rees	52,083 [3]		52,083	£100,000	24.09.04		24.09.07	23.09.14
	2,605 [4]		2,605	£5,000	24.09.04	24.09.07		
		61,723 [2,4]	61,723	£154,000	13.06.05	13.06.08		
G Earle	52,083 [3]		52,083	£100,000	24.09.04		24.09.07	23.09.14
	84,635 [4]		84,635	£162,500	24.09.04	24.09.07		
		73,747 [2,4]	73,747	£184,000	13.06.05	13.06.08		

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 three year holding period at which point 30% of awards will vest, with full vesting occurring for upper quartile performance (proportionate vesting between points).
2 Awards were granted at a price of £2.495 per share (the closing price on the preceding dealing day).
3 Granted in the form of an EMI nil cost option.
4 Granted as a conditional award of shares.

Deferred Share Bonus Plan[1]

	Bonus Shares	Matching Shares[2]			
	Number purchased during the year[3]	Number awarded during the year[4]	Value of shares awarded	Date of grant	Release date
Executive directors					
D Taylor	11,944	20,243	£50,000	13.06.05	13.06.08
T Watkin-Rees	8,361	14,170	£35,000	13.06.05	13.06.08
G Earle	10,451	17,713	£43,750	13.06.05	13.06.08

1 The Bonus Shares were purchased and the Matching Shares awarded at a share price of £2.47.
2 No Matching Shares will be released unless the Company's earnings per share growth is 3% p.a. in excess of the Retail Prices Index over the three year holding period.
3 Bonus Shares are purchased with the deferred bonus after the deduction of tax.
4 Matching Shares are awarded based on the value of the gross bonus deferred.

Share Incentive Plan

	Number of Partnership Shares [1] purchased at 1 April 2005	Number of Matching Shares [2] awarded at 1 April 2005	Number of Free Shares [3] awarded at 1 April 2005	Dividend Shares [4] acquired at 1 April 2005	Total shares at 1 April 2005	Number of Partnership Shares purchased during the year	Matching Shares awarded during the year	Dividend Shares acquired during the year	Dates of release of Matching/ Free Dividend Shares	Total shares at 31 March 2006
Executive Directors										
D Taylor	251	251	1,562	-	2,064	459	459	64	24.09.07-16.03.09	3,046
T Watkin-Rees	251	251	1,562	-	2,064	459	459	64	24.09.07-16.03.09	3,046
G Earle	251	251	-	-	502	459	459	23	24.09.07-16.03.09	1,443

1 Partnership Shares are ordinary shares of the Company purchased on a monthly basis during the year (at prices from £2.30 to £6.25).
2 Matching Shares are ordinary shares of the Company awarded conditionally on a monthly basis during the year (at prices from £2.30 to £6.25) in conjunction with share purchases.
3 Free Shares are ordinary shares of the Company awarded conditionally on 24 September 2004 based on the share price on admission of £1.92.
4 Dividend Shares are ordinary shares of the Company purchased with the value of dividends paid in respect of all other shares held in the plan.

Directors' shareholdings

The directors serving during the period who had interests in the shares of the company were as follows:

	Ordinary shares of 1/3p each 31 March 2006	Ordinary shares of 1/3p each 31 March 2005
D Newlands [1]	951,407	776,307
D Taylor	1,773,502	1,475,832
T Watkin-Rees	864,021	893,901
G Earle	52,083	52,083
R Wood	52,083	52,083
K Minton	130,208	130,208
A Robb	10,417	10,417

1 D. Newlands holds a non-beneficial interest in a further 955,690 shares (at 31 March 2006 and at 31 March 2005) held in various trusts of which D Newlands is a trustee.

The market price of the Company's shares on 31st March 2006 was £7.60 per share and the high and low share prices during the year were £7.60 and £2.185 respectively.

The remuneration report has been approved by the Remuneration Committee.

Kenneth Minton
Chairman, Remuneration Committee

25 May 2006

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the annual report and the financial statements. The directors are required to prepare financial statements for the Group in accordance with International Financial Reporting Standards (IFRS) and have also elected to prepare financial statements for the Company in accordance with IFRS. Company law requires the directors to prepare such financial statements in accordance with IFRS, the Companies Act 1985 and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's Framework for the Preparation and Presentation of Financial Statements. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS. Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a directors' report and directors' remuneration report which comply with the requirements of the Companies Act 1985.

The directors are responsible for the maintenance and integrity of the Company website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PAYPOINT PLC

We have audited the Group and individual company financial statements (the financial statements) of PayPoint plc for the year ended 31 March 2006 which comprise the consolidated income statement, the consolidated and company balance sheets, the consolidated and company cash flow statements, the related notes 1 to 26 and appendices 1 to 4. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report, the Remuneration Committee report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted for use in the European Union are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements and the part of the directors' Remuneration Committee report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with the relevant financial reporting framework and whether the financial statements and the part of the Remuneration Comittee report described as having been audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We report to you whether, in our opinion, the information given in the directors' report is not consistent with the financial statements. We also report to you 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 other transactions is not disclosed.

We also report to you if, in our opinion, the Company has not complied with any of the four directors' remuneration disclosure requirements specified for our review by the Listing Rules of the Financial Services Authority. These comprise the amount of each element in the remuneration package and information on share options, details of long term incentive schemes, and money purchase and defined benefit schemes. We give a statement, to the extent possible, of details of any non-compliance.

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the 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 including the unaudited part of the Remuneration Committee report and we consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 Remuneration Committee 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 Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the directors' Remuneration Committee 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 Remuneration Committee report described as having been audited.

OPINION
In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRS as adopted for use in the European Union, of the state of the Group's affairs as at 31 March 2006 and of its profit for the year then ended;
- the Company financial statements give a true and fair view, in accordance with IFRS as adopted for use in the European Union as applied in accordance with the requirements of the Companies Act 1985, of the state of the individual Company's affairs as at 31 March 2006;
- the financial statements and the part of the Remuneration Committee report described as having been audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the directors' report is consistent with the financial statements.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London
25 May 2006

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 INCOME STATEMENT

Year ended 31 March 2006

Continuing operations	Note	2006 £000	2005 £000
Revenue	2	**119,968**	89,054
Cost of sales	2	**(83,409)**	(61,332)
Gross profit		**36,559**	27,722
Administrative expenses		**(17,248)**	(20,257)
Add back exceptional items	4	**-**	4,572
Administrative expenses excluding exceptional items		**(17,248)**	(15,685)
Operating profit before exceptional items		**19,311**	12,037
Exceptional item	4	**-**	(4,572)
Operating profit	5	**19,311**	7,465
Investment income	7	**1,051**	937
Finance costs	7	**(15)**	(339)
Profit before tax		**20,347**	8,063
Tax	8	**(3,440)**	(2,215)
Profit for the financial year attributable to equity holders of the parent		**16,907**	5,848
Earnings per share			
Basic	10	**25.0p**	8.7p
Diluted	10	**24.7p**	8.7p

The results are presented under IFRS and comparatives have been restated accordingly (see note 1).
There have been no gains or losses attributable to the shareholders other than the profit for the current and preceding financial year, and accordingly no Statement of Total Recognised Income and Expenses is presented.

CONSOLIDATED BALANCE SHEET

at 31 March 2006

	Note	2006 £000	2005 £000
Non-current assets			
Property, plant and equipment	11	**8,894**	4,617
Deferred tax asset	12	**1,184**	1,385
		10,078	6,002
Current assets			
Inventories	14	**1,119**	472
Trade and other receivables	15	**12,112**	7,752
Cash and cash equivalents	16	**29,295**	25,950
		42,526	34,174
Total assets		**52,604**	40,176
Current liabilities			
Trade and other payables	17	**21,371**	22,790
Current tax liabilities		**1,972**	-
Obligations under finance leases	23	**67**	158
		23,410	22,948
Non-current liabilities			
Obligations under finance leases	23	**-**	67
Other liabilities	18	**344**	234
		344	301
Total liabilities		**23,754**	23,249
Net assets		**28,850**	16,927
Equity			
Share capital	19	**226**	226
Share premium account	19	**23,976**	23,976
Capital redemption reserve	19	**14,193**	14,193
Investment in own shares	19	**(1)**	(1)
Share option and SIP reserve	19	**738**	219
Retained earnings	19	**(10,282)**	(21,686)
Total equity attributable to equity holders of the parent company	**20**	**28,850**	16,927

These financial statements were approved by the board of directors on 25 May 2006.

Signed on behalf of the board of directors

Dominic Taylor
Director

COMPANY BALANCE SHEET

at 31 March 2006

	Note	2006 £000	2005 £000
Non-current assets			
Investments	13	**36,546**	36,546
Current assets			
Trade and other receivables	15	**16,879**	9,639
Cash and cash equivalents		**4,008**	47
		20,887	9,686
Total assets		**57,433**	46,232
Current liabilities			
Trade and other payables	17	**612**	59
Non-current liabilities			
Other liabilities	18	**6,712**	-
Total liabilities		**7,324**	59
Net assets		**50,109**	46,173
Equity			
Share capital	19	**226**	226
Share premium account	19	**23,976**	23,976
Capital redemption reserve	19	**14,193**	14,193
Investment in own shares	19	**(1)**	(1)
Share option and SIP reserve	19	**738**	219
Retained earnings	19	**10,977**	7,560
Total equity	20	**50,109**	46,173

Signed on behalf of the board of directors

Dominic Taylor
Director 25 May 2006

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 March 2006

	Note	2006 £000	2005 £000
Net cash flow from operating activities	26	**14,318**	17,164
Investing activities			
Investment income		**1,051**	937
Purchases of property, plant and equipment		**(6,504)**	(4,576)
Proceeds on disposal of property, plant and equipment		**196**	408
Net cash used in investing activities		**(5,257)**	(3,231)
Financing activities			
Repayments of obligations under finance leases		**(213)**	(1,032)
Dividends paid	9	**(5,503)**	(783)
Net cash used in financing activities		**(5,716)**	(1,815)
Net increase in cash and cash equivalents		**3,345**	12,118
Cash and cash equivalents at beginning of year		**25,950**	13,832
Cash and cash equivalents at end of year		**29,295**	25,950

COMPANY CASH FLOW STATEMENT

Year ended 31 March 2006

	Note	2006 £000	2005 £000
Net cash outflow from operating activities	26	**(40)**	(4,790)
Investing activities			
Investment income		**1**	-
Dividends received		**9,503**	5,604
Net cash generated from investing activities		**9,504**	5,604
Financing activities			
Dividends paid	9	**(5,503)**	(783)
Net cash used in financing activities		**(5,503)**	(783)
Net increase in cash and cash equivalents		**3,961**	31
Cash and cash equivalents at beginning of year		**47**	16
Cash and cash equivalents at end of year		**4,008**	47

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

These financial statements have been prepared on a historical cost basis and on the policies set out below.

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) for the first time. The disclosures required by IFRS 1 concerning the transition from UK GAAP to IFRS are given in appendix 1 to 4. The financial statements have also been prepared in accordance with IFRS adopted for use in the European Union and therefore comply with Article 4 of the EU IAS Regulation.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

IFRS 6	Exploration for and Evaluation of Mineral Resources
IFRS 7	Financial Instruments: Disclosures; and the related amendment to IAS 1 on capital disclosures
IFRIC 4	Determining whether an Arrangement contains a Lease
IFRIC 5	Right to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

The directors do not anticipate that the adoption of these Standards and Interpretations will have a material impact on the financial statements of the Group.

The financial statements are presented in pounds sterling because it is the currency of the primary economic environment in which the Group operates.

Management consider that there are no critical accounting judgements and key sources of estimation uncertainty in applying the Group's accounting policies.

The principal accounting policies adopted are set out below.

Basis of consolidation

PayPoint plc (the Company) acts as a holding company. The group accounts consolidate the accounts of the Company and entities controlled by the Company (its subsidiaries) drawn up to March each year. Control is achieved where the Company has the power to govern the financial and operating policies of an entity in which it invests, so as to obtain benefits from its activities. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

The acquisition of subsidiaries is accounted for using the purchase method. Investments are stated at cost less any required provision for impairment. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquired identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date, except for non-current assets that are classified as held for resale in accordance with IFRS 5 Non Current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

Revenue recognition

Group revenue is measured at the fair value of the consideration received or receivable and comprises the value of sales of services (excluding VAT) in the normal course of business. Revenue is wholly attributable to the operation of the Group's payment collection system and ATM business and has arisen solely in the United Kingdom and Republic of Ireland.

Revenue 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 for prepaid mobile telephone top-ups (mobile top-ups). Accordingly, revenue includes the sale price of the mobile top-ups and the cost of sales includes the cost of the mobile top-ups to PayPoint.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Cost of sales

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

Pension costs

The group 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.

Share based payments

Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight line basis over the vesting period, based upon the management's estimate of shares that will eventually vest.

Fair value is measured by use of either a Monte Carlo simulation or Black Scholes model depending upon the scheme. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The group's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is provided in full on temporary differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. The provision is calculated using tax rates that have been substantially enacted by the balance sheet date. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the tax will be realised.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Foreign currency

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. At each balance sheet date, monetary asset and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currency are translated at the rates prevailing at the date when fair value was determined. Gains and losses arising on retranslation are included in net profit or loss for the year, except for exchange differences arising on non-monetary assets and liabilities where the changes in fair value are recognised directly in equity.

On consolidation, the assets and liabilities of the group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the year of disposal of the operation.

Software development expenditure

The Group develops computer software for internal use. Software development expenditure on large projects is recognised as an intangible asset if it is probable that the asset will generate future economic benefits. The costs that are capitalised are the directly attributable costs necessary to create and prepare the asset for operations. Other software costs are recognised in administrative expenses when incurred. Software development costs recognised as an intangible asset are amortised on a straight line basis over the useful life, generally not more than three years.

Goodwill

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

Property, plant and equipment
Property, plant and equipment are stated at cost, net of depreciation. Depreciation is provided 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. The estimated useful lives are as follows:

- leasehold improvements - over the life of the lease;
- terminals - 5 years;
- automatic teller machines - 4 years; and
- other classes of assets - 3 years.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised as income.

Inventories
Inventories are valued at the lower of cost or net realisable value.

Leases
Assets held under finance leases, which confer rights and obligations similar to those attached to owned assets, are capitalised as property, plant and equipment 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 remaining balance of liability.

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

Dividends
Final dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's shareholders. Interim dividends are recognised when declared.

Treasury shares
PayPoint purchases own shares for the purpose of employee share option schemes. Such shares are deducted from equity and no profit or loss is recognised on the transactions.

Cash and cash equivalents
For the purpose of the cash flow statement, cash and cash equivalents comprise cash at bank and in hand and short-term deposits maturing within 3 months and are subject to insignificant risk of changes in value.

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 IAS 14 Segment Reporting due to the fact that principally all operations 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 revenue 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, since the risks and returns are similar across markets in which the Group operates, the Group monitors net revenue (see below) with reference to each sector.

	2006 £000	2005 £000
Revenue - transaction processing	**118,909**	88,518
- lease rental of ATMs	**1,059**	536
	119,968	89,054
less:		
Commission payable to retail agents	**63,558**	(50,348)
Cost of mobile top-ups as principal	**(10,297)**	(1,810)
Net revenue	**46,113**	36,896
Net revenue by market sector		
Bill payments	**21,428**	18,861
Mobile top-ups	**18,966**	15,286
ATMs	**4,124**	1,947
Other	**1,595**	802
Net revenue	**46,113**	36,896

Commission payable is included within cost of sales as shown below

	2006 £000	2005 £000
Revenue	**119,968**	89,054
Cost of sales		
Commission payable to retail agents	**(63,558)**	(50,348)
Cost of mobile top-ups as principal	**(10,297)**	(1,810)
Other	**(9,554)**	(9,174)
Total cost of sales	**(83,409)**	(61,332)
Gross profit	**36,559**	27,722

(iii) Gross throughput

	2006 £000	2005 £000
Gross throughput	**3,784,824**	2,931,423

Gross throughput represents payments made by consumers using the PayPoint service and cash withdrawals from ATMs. Included within gross throughput is £203,630,000 (2005: £103,924,000) relating to the ATM business.

3. Employee information

	Group		Company	
	2006	2005	**2006**	2005
Average number of persons employed (including directors)				
Sales, distribution and marketing	**32**	29	**-**	-
Operations and administration	**188**	171	**5**	5
	220	200	**5**	5
	£000	£000	**£000**	£000
Staff costs during the year (including directors)				
Wages and salaries	**7,182**	6,297	**198**	147
Social security costs	**746**	824	**22**	17
Pension costs (note 22)	**407**	331	**-**	-
	8,335	7,452	**220**	164

Directors' emoluments, pension contributions and share options are discussed in the Remuneration Committee report on pages 24 to 32.

4. Exceptional items

There were no exceptional items in the year. Exceptional charges in 2005 of £4.6 million related to the listing of the Company’s shares on the London Stock Exchange (£4.2 million) and bid defence costs (£0.4 million).

5. Operating profit

	2006 £000	2005 £000
Operating profit is after charging/(crediting):		
Cost of mobile top-ups as principal	**10,297**	1,810
Depreciation		
Owned assets	**2,231**	1,138
Leased assets	**89**	663
Loss/(profit) on disposal of assets	**1**	(33)
Rentals under operating leases		
Hire of plant and machinery	**-**	34
Other operating leases	**412**	407
Income from rental of ATMs	**(1,059)**	(536)
Auditors' remuneration (see note below)	**309**	558
Staff costs	**8,335**	7,452

	Group		Company	
	2006 £000	2005 £000	2006 £000	2005 £000
Audit	**89**	60	**10**	10
As reporting accountants and for related flotation work	**-**	418	**-**	-
Valuation of shares	**-**	10	**-**	30
Other advisory and due diligence	**110**	-	**110**	-
Tax	**110**	70	**46**	-
	309	558	**166**	40

A description of the work of the Audit Committee is set out in the Audit Committee Report on page 18 and includes an explanation of how auditor independence is safeguarded where non-audit services are provided by the auditors.

6. Profit of parent company

The Company has taken advantage of the exemption under section 230 of the Companies Act 1985 and consequently the income statement 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 £8,920,000 (2005: £7,440,000).

7. Investment income and finance costs

Investment income

The Group earns interest on current and deposit accounts.

Finance costs

	2006 £000	2005 £000
Interest on bank loans, overdrafts and other loans repayable within five years	**-**	18
Interest on obligations under finance leases and hire purchase contracts	**15**	132
Bank charges	**-**	189
	15	339

8. Tax charge

Analysis of tax charge:

	2006 £000	2005 £000
Current tax	**3,239**	-
Deferred tax	**201**	2,215
	3,440	2,215

	2006 £000	2005 £000
The charge for the year can be reconciled to the profit before tax as set out in the consolidated income statement		
Profit before tax	**20,347**	8,063
Tax at the UK corporation tax rate of 30%	**6,104**	2,419
Tax effects of:		
Expenses not deductible in determining taxable profit	**181**	1,046
Capital allowances in excess of depreciation	**(55)**	1,762
Utilisation of tax losses not previously recognised	**(2,392)**	(3,012)
Timing differences	**(237)**	-
Other	**(161)**	-
Actual amount of tax charge	**3,440**	2,215

9. Dividends on equity shares

	2006 £000	2005 £000
Equity dividends on ordinary shares		
Interim dividend paid of 3.0p per share (2005: nil)	**2,030**	-
Recommended final dividend of 7.5p per share (2005: paid 5.2p per share)	**5,076**	3,473
Total dividends paid and recommended 10.5p per share (2005: 5.2p per share)	**7,106**	3,473
Amounts recognised as distributed to equity holders in the year		
Final dividend for the prior year	**3,473**	783
Interim dividend for the current year	**2,030**	-
	5,503	783

10. Earnings per share

(a) Basic earnings per share

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

	2006 £000	2005 £000
Profit for the purposes of basic earnings per share being net profit attributable to equity holders of the parent (used for basic earnings per share)	**16,907**	5,848
Potential dilutive impact of interest saved on the conversion of debt (net of tax)	**-**	4
Earnings for the purposes of diluted earnings per share	**16,907**	5,852

	2006 Number of shares	2005 Number of shares
Weighted average number of ordinary shares in issue (for basic earnings per share)	**67,671,307**	67,054,583
Potential dilutive ordinary shares:		
Conversion of convertible debt	**-**	30,550
Long term incentive plan	**733,347**	171,366
Deferred share bonus	**51,518**	-
Diluted basis	**68,456,172**	67,256,499

(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.

	2006 £000	2005 £000
Earnings used for unadjusted basic earnings per share	**16,907**	5,848
add: exceptional item	**-**	4,572
Adjusted basis	**16,907**	10,420

11. Property, plant and equipment

Year ended 31 March 2006

Group	Terminals and ATMs £000	Fixtures, fittings and equipment £000	Total £000
Cost			
At 1 April 2005	14,254	822	15,076
Additions	6,748	46	6,794
Disposals	(385)	-	(385)
At 31 March 2006	20,617	868	21,485
Accumulated depreciation			
At 1 April 2005	9,747	712	10,459
Charge for the year	2,256	64	2,320
Disposals	(188)	-	(188)
At 31 March 2006	11,815	776	12,591
Net book value			
At 31 March 2006	8,802	92	8,894
At 31 March 2005	4,507	110	4,617

The net book value of assets held under finance leases is £160,000 (2005: £251,000).

The cost for ATMs that are rented out under operating leases is £4,258,000 (2005: £2,278,000) and the accumulated depreciation £1,267,000 (2005: £461,000).

Year ended 31 March 2005

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

12. Deferred tax asset

	2006 £000	2005 £000
Movement on deferred tax asset balance		
Opening balance	**1,385**	3,600
Charge to income statement	**(201)**	(2,215)
Deferred tax asset	**1,184**	1,385
Analysis of deferred tax asset		
Capital allowances in excess of depreciation	**947**	1,385
Share based payment	**237**	-
	1,184	1,385

At the balance sheet date:

(i) the Group has unused tax losses of £1,792,000 (2005: £9,765,000) available for offset against future profits. No deferred tax assets have been recognised in respect of these losses due to the unpredictability of future profit streams. All losses may be carried forward indefinitely.

(ii) there were timing differences associated with undistributed earnings of subsidiaries for which a deferred tax liability has not been recognised. No liability has been recognised in respect of these differences because the Group is in a position to control their reversal and it is probable that such differences will not reverse in the foreseeable future. In any case, the timing differences are not material.

13. Investments held as fixed assets

	2006 £000	2005 £000
Investment in subsidiary undertakings	**36,546**	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	Provision of a payment collection service
PayPoint Retail Solutions Limited	Provision of retail services
PayPoint Ireland Limited	Holding company in Ireland
PayPoint Network Ireland Limited	Management of an electronic payment service in Ireland
PayPoint Collections Ireland Limited	Payment collection service in Ireland
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 Limited which is registered in the Isle of Man and PayPoint Network Ireland Limited, PayPoint Collections Ireland Limited and PayPoint Ireland Limited which are all registered in Ireland.

14. Inventories

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

15. Trade and other receivables

	Group		Company	
	2006 £000	2005 £000	**2006 £000**	2005 £000
Trade receivables	**11,075**	6,754	**-**	-
Provision for doubtful debt	**(139)**	(235)	**-**	-
	10,936	6,519	**-**	-
Other receivables	**647**	782	**10**	10
Prepayments and accrued income	**529**	451	**-**	-
Amounts owed by group companies	**-**	-	**16,380**	9,508
Group relief receivable	**-**	-	**489**	121
	12,112	7,752	**16,879**	9,639

16. Cash and cash equivalents

Included within cash and cash equivalents is £5,575,000 (2005: £11,099,000) 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 payables (note 17).

17. Trade and other payables

	Group		Company	
	2006 £000	2005 £000	**2006 £000**	2005 £000
Amounts owed in respect of client cash (see note 16)	**5,575**	11,099	**-**	-
Other trade payables	**7,650**	5,094	**289**	10
Trade payables	**13,225**	16,193	**289**	10
Other taxes and social security	**618**	708	**69**	-
Other payables	**83**	55	**-**	49
Accruals	**7,414**	5,604	**254**	-
Deferred income	**31**	230	**-**	-
	21,371	22,790	**612**	59

Included within trade payables is £5,575,000 (2005: £11,099,000) relating to monies collected on behalf of clients where the Group has title to the funds. An equivalent balance is included within cash (note 16).

18. Other non-current liabilities

	Group		Company	
	2006 £000	2005 £000	**2006 £000**	2005 £000
Deferred income	344	234	-	-
Amounts due to group companies	-	-	6,712	-
	344	234	6,712	-

19. Equity

	Group		Company	
	2006 £000	2005 £000	**2006 £000**	2005 £000
Authorised share capital				
4,365,352,200 ordinary shares of 1/3 p each (2005: 4,365,352,200 ordinary shares of 1/3 p each)	**14,551**	14,551	**14,551**	14,551
	14,551	14,551	**14,551**	14,551
Called up, allotted and fully paid share capital				
67,678,000 ordinary shares of 1/3 p each				
(2005: 67,653,358 ordinary shares of 1/3 p each)	**226**	226	**226**	226
	226	226	**226**	226
Called up share capital				
At start of year	**226**	14,418	**226**	14,418
Shares issued under Share Incentive Plan	**-**	1	**-**	1
Deferred shares purchased and cancelled	**-**	(14,193)	**-**	(14,193)
At end of year	**226**	226	**226**	226
Share premium				
At start of year	**23,976**	23,894	**23,976**	23,894
Loan stock converted	**-**	82	**-**	82
At end of year	**23,976**	23,976	**23,976**	23,976
Capital redemption reserve				
At start of year	**14,193**	-	**14,193**	-
Deferred shares purchased and cancelled	**-**	14,193	**-**	14,193
At end of year	**14,193**	14,193	**14,193**	14,193
Investment in own shares				
At start of year	**(1)**	(25)	**(1)**	(25)
Share incentive plan issue	**-**	24	**-**	24
At end of year	**(1)**	(1)	**(1)**	(1)
Share option and SIP reserve				
At start of year	**219**	-	**219**	-
Movement	**519**	219	**519**	219
At end of year	**738**	219	**738**	219
Retained earnings				
At start of year	**(21,686)**	(26,751)	**7,560**	903
Profit for the year	**16,907**	5,848	**8,920**	7,440
Dividends paid	**(5,503)**	(783)	**(5,503)**	(783)
At end of year	**(10,282)**	(21,686)	**10,977**	7,560

Share Based Payments

Equity-settled share option scheme

The Group has a number of share option schemes as defined in the Remuneration Committee report on pages 24 to 32. The vesting period for all options is 3 years, options are forfeited if the employee leaves the Group before the options vest. All awards made are free shares and do not have an exercise price.

Details of the share options outstanding during the year are as follows:

	2006		2005	
	Number of shares	Weighted average exercise price (in £)	Number of shares	Weighted average exercise price (in £)
Outstanding at 1 April 2005	424,052	-	-	-
Granted during the year – LTIP	400,208	-	424,052	-
Granted during the year – DSB	55,075	-	-	-
Outstanding at 31 March 2006	**879,335**	**-**	424,052	**-**

Options granted:		Number of shares	Exercise date
LTIP	24 September 2004	139,323	24 September 2007
EMI	24 September 2004	284,729	24 September 2006
LTIP	13 June 2005	342,966	13 June 2008
DSB	13 June 2005	55,075	13 June 2008
LTIP	19 September 2005	57,242	19 September 2008

The inputs into the Black Scholes model for the DSB and Monte Carlo model for LTIP and EMI awards are as follows:

	2006		2005	
	LTIP	DSB	LTIP	DSB
Weighted average share price	£1.52	£2.27	£1.30	£1.90
Expected volatility	44%		48%	
Expected life	3 years	3 years	3 years	3 years
Risk free rate	4.3%		4.8%	
Expected dividend yield	2.5%	2.5%	2.5%	2.5%

Other share based payment plans

The employee Share Incentive Plan is open to all employees and provide for a purchase price equal to the market price on the date of purchase. The shares are purchased each month and are placed in the employee share savings plan for a 3 to 5 year period.

20. Statement of changes in equity

	Group		Company	
	2006	2005	**2006**	2005
	£000	£000	**£000**	£000
Opening equity	**16,927**	11,536	**46,173**	39,190
Profit for the year	**16,907**	5,848	**8,920**	7,440
Dividends paid	**(5,503)**	(783)	**(5,503)**	(783)
Investment in own shares	**-**	(1)	**-**	(1)
Share option and SIP reserve	**519**	219	**519**	219
Conversion of loan stock/options	**-**	108	**-**	108
Closing equity	**28,850**	16,927	**49,741**	46,173

21. Related party transactions

Remuneration of the directors, who are the key management of the group, are disclosed in the audited part of the Remuneration Committee report on page 24.

BT and EdF were shareholders of PayPoint and as such were defined as related parties under IAS 24 Related Party Disclosures for the period up to and including 22 July 2004.

BT and EdF ceased to be shareholders and related parties on 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 ended 31 March 2005 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 2005 excluding VAT are given below.

	2005
	£000
During the year	
Charged to BT by PayPoint	1,270
Charged to EdF by PayPoint	3,816
Charged by BT to PayPoint	146
Charged by EdF to PayPoint	-
At the end of the year	
Owed by BT to PayPoint	121
Owed by EdF to PayPoint	760
Owed to BT by PayPoint	9
Owed to EdF by PayPoint	1,270

22. Pension arrangements

The group administers a non-contributory defined contribution scheme for some directors and employees. The amount charged in the consolidated income statement for the period for pension costs of the Group under the scheme was £407,000 (2005: £331,000). There is an accrual of £54,000 for pension contributions at the balance sheet date (2005: £46,000).

23. Financial commitments

Obligations under finance leases	**2006 £000**	2005 £000
Minimum lease payments due:		
Within one year	**67**	158
Within two to five years	-	67
	67	225
Finance charges allocated to future periods	**6**	21
	73	246

Total operating lease commitments

	Land and buildings **2006 £000**	Other **2006 £000**	Land and buildings 2005 £000	Other 2005 £000
Leases which expire:				
Within one year	**-**	**18**	-	-
Within two to five years	**100**	**8**	150	68
After five years	**8,280**	**-**	2,135	-

A new 15 year lease on the Welwyn Garden City office was signed on 10 March 2006.

24. Operating lease receivables

	2006 £000	2005 £000
Amounts receivable under operating leases		
Within one year	**1,183**	640
Within two to five years	**3,364**	2,096
After five years	**-**	-
	4,547	2,736

The group enters into operating leases with some of its agents for the supply of ATM's. The average term of each lease entered into is 5 years.

25. Derivatives and other financial instruments

The Group's financial instruments comprise cash and various items such as trade receivables, prepayments, trade payables 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 speculative trading in financial instruments is prohibited.

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, interests in short term deposits and finance leases over the period currently under review. The Group has no financial assets at 31 March 2006 other than Sterling and Euro deposits of £29,295,000 (2005: £25,950,000). Of these deposits, £5,575,000 (2005: £11,099,000) 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). The Group seeks to maximise interest receipts within these parameters.

Finance leases have been used in previous years 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 2006 and 2005 is provided below:

Weighted average interest rate on fixed rate financial liabilities:

	2006 **%**	2005 %
Finance leases	**12**	12
Convertible loan notes*	**-**	9

*all converted on 1 June 2004

Weighted average period for which interest rate is fixed:

	2006 **months**	2005 months
Finance leases	**5**	14

(b) Liquidity risk
The Group's policy throughout the year ended 31 March 2006 regarding liquidity has been to maintain adequate funds and borrowing facilities. The Group seeks 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 2006 other than short term payables, such as trade payables, 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 income statement. 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. At 31 March 2006 these exposures were €342,000 (2005: €321,000).

(d) Borrowing facilities
On 21 March 2006, the Group entered into a contract with Lloyds TSB for a £35 million loan facility of which £15 million is a revolving loan facility with a term of five years and £20 million is a term loan facility capable of being drawn up to 2 years from inception, repayable five years from inception.

(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 assets and liabilities at 31 March 2006 and 31 March 2005.

(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.

(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:

	2006 £000	2005 £000
In one year or less	**67**	158
In more than one year but not more than two years	**-**	67
	67	225

26. Notes to the cash flow statement

	Group		Company	
	2006 £000	2005 £000	**2006 £000**	2005 £000
Operating profit/(loss) before exceptional items	**19,311**	12,037	**(1,107)**	(287)
Exceptional items (see note 4) -	**-**	(4,572)	**-**	(4,572)
Operating Profit/(loss)	**19,311**	7,465	**(1,107)**	(4,859)
Adjustments for depreciation on property, plant and equipment	**2,320**	1,801	**-**	-
Operating cash flows before movements in working capital	**21,631**	9,266	**(1,107)**	(4,859)
Increase in inventories	**(647)**	(440)	**-**	-
Increase/(decrease) in receivables	**(4,238)**	(731)	**-**	10
(Decrease)/increase in payables				
- client cash	**(5,524)**	6,371	**-**	-
- other payables	**4,008**	2,686	**548**	(160)
Increase in share option and SIP reserve	**519**	219	**519**	219
Cash generated by operations	**15,749**	17,371	**(40)**	(4,790)
Corporation tax paid	**(1,416)**	-	**-**	-
Interest paid	**(15)**	(207)	**-**	-
Net cash from operating activities	**14,318**	17,164	**(40)**	(4,790)

Appendix 1. Explanation of transition to IFRS
Reconciliation of equity at 1 April 2004 - Group

	UK GAAP IFRS format £000	Effect of transition to IFRS £000	IFRS £000
Non-current assets			
Property, plant and equipment	2,217	-	2,217
Deferred tax asset	3,600	-	3,600
	5,817	-	5,817
Current assets			
Trade and other receivables	7,021	-	7,021
Inventories	32	-	32
Cash at bank and in hand	13,832	-	13,832
	20,885	-	20,885
Total assets	26,702	-	26,702
Current liabilities			
Trade and other payables	14,742	783	13,959
Obligations under finance leases	903	-	903
	15,645	783	14,862
Non-current liabilities			
Obligations under finance leases	222	-	222
Other liabilities	82	-	82
	304	-	304
Total liabilities	15,949	783	15,166
Net assets	**10,753**	**783**	**11,536**
Capital and reserves			
Called up share capital	14,418	-	14,418
Share premium account	23,894	-	23,894
Capital redemption reserve	-	-	-
Investment in own shares	(25)	-	(25)
Profit and loss account	(27,534)	783	(26,751)
Total shareholders' funds	**10,753**	**783**	**11,536**

The movement between UK GAAP and IFRS relates to the reversal of proposed dividends.

Appendix 2. Reconciliation of equity at 31 March 2005 - Group

	UK GAAP IFRS format £000	Effect of transition to IFRS £000	IFRS £000
Non-current assets			
Property, plant and equipment	4,617	-	4,617
Deferred tax asset	1,385	-	1,385
	6,002	-	6,002
Current assets			
Trade and other receivables	7,752	-	7,752
Inventories	472	-	472
Cash at bank and in hand	25,950	-	25,950
	34,174	-	34,174
Total assets	40,176	-	40,176
Non-current liabilities			
Obligations under finance leases	67	-	67
Other liabilities	234	-	234
	301	-	301
Current liabilities			
Trade and other payables	26,482	3,692	22,790
Obligations under finance leases	158	-	158
	26,640	3,692	22,948
Total liabilities	26,941	3,692	23,249
Net assets	**13,235**	**3,692**	**16,927**
Capital and reserves			
Called up share capital	226	-	226
Share premium account	23,976	-	23,976
Capital redemption reserve	14,193	-	14,193
Investment in own shares	(1)	-	(1)
Share option and SIP reserve	-	219	219
Profit and loss account	(25,159)	3,473	(21,686)
Total shareholders' funds	**13,235**	**3,692**	**16,927**

The movement between UK GAAP and IFRS relates to the reversal of proposed dividends and the reversal of the UK GAAP accrual for equity settled share based payments and its replacement with the share option and SIP reserve in accordance with IFRS.

There was no effect on the UK GAAP profit for the year ended 31 March 2005 except that dividends payable were shown on the face of the profit and loss account under UK GAAP and therefore no IFRS reconciliations have been prepared.

There were no material differences to the cash flow statement on transition to IFRS.

Appendix 3. Explanation of transition to IFRS
Reconciliation of equity at 1 April 2004 - Company

	UK GAAP IFRS format £000	Effect of transition to IFRS £000	IFRS £000
Non-current assets			
Investments	12,281	-	12,281
		-	
Current assets			
Trade and other receivables	26,975	-	26,975
Cash at bank and in hand	16	-	16
	26,991	-	26,991
Total assets	39,272	-	39,272
Current liabilities			
Trade and other payables	783	783	-
Non-current liabilities			
Other liabilities	82	-	82
Total liabilities	865	783	82
Net assets	**38,407**	**783**	**39,190**
Capital and reserves			
Called up share capital	14,418	-	14,418
Share premium account	23,894	-	23,894
Capital redemption reserve	-	-	-
Investment in own shares	(25)	-	(25)
Profit and loss account	120	783	903
Total shareholders' funds	**38,407**	**783**	**39,190**

The movement between UK GAAP and IFRS relates to the reversal of proposed dividends.

Appendix 4. Reconciliation of equity at 31 March 2005 - Company

	UK GAAP IFRS format £000	Effect of transition to IFRS £000	IFRS £000
Non-current assets			
Property, plant and equipment	36,546	-	36,546
Current assets			
Trade and other receivables	9,420	219	9,639
Cash at bank and in hand	47	-	47
	9,467	219	9,686
Total assets	46,013	219	46,232
Current liabilities			
Trade and other payables	3,532	3,473	59
Total liabilities	3,532	3,473	59
Net assets	**42,481**	**3,692**	**46,173**
Capital and reserves			
Called up share capital	226	-	226
Share premium account	23,976	-	23,976
Capital redemption reserve	14,193	-	14,193
Investment in own shares	(1)	-	(1)
Share option and SIP reserve	-	219	219
Profit and loss account	4,087	3,473	7,560
Total shareholders' funds	**42,481**	**3,692**	**46,173**

The movement between UK GAAP and IFRS relates to the reversal of proposed dividends and the reversal of the UK GAAP accrual for equity settled share based payments and its replacement with the share option and SIP reserve in accordance with IFRS.
There was no effect on the UK GAAP profit for the year ended 31 March 2005 except that dividends payable were shown on the face of the profit and loss account under UK GAAP and therefore no IFRS reconciliations have been prepared.
There were no material differences to the cash flow statement on transition to IFRS.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 2006 annual general meeting of PayPoint plc will be held at the offices of JPMorgan Cazenove, 20 Moorgate, London EC2R 6DA, on 29 June 2006 at 12pm 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 2006.
2. To receive the directors' remuneration and the reports of the directors and the auditors thereon for the year ended 31 March 2006.
3. To declare a final dividend of 7.5p per ordinary share of the Company.
4. To re-elect T Watkin-Rees 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. Morrison as a director who retires by rotation in accordance with Article 37.2 of the Company's articles of association.
6. 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 7 shall be proposed as an ordinary resolution and resolutions 8, 9 and 10 shall be proposed as special resolutions:

7. 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 £74,445 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.
8. 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 7 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 £11,279.

and shall expire upon the expiry of the general authority conferred by resolution 7 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.

9 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 2007, 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.

10. That the Company's Articles of Association be amended by deleting Article 58 and replacing it with the following:

58 Indemnity

Without prejudice to any indemnity to which any person referred to in this Article 58 may otherwise be entitled, every present and former director, alternate director, secretary or other officer (excluding any present or former auditors) of the Company or of any Associated Company (as defined by the Act) of the Company (each such person being an "Indemnified Person") may, at the discretion of the Company, be indemnified by the Company against all liabilities, costs, charges and expenses incurred by him in carrying out his duties to the Company or to any Associated Company, including any liability incurred by any Indemnified Person in defending any proceedings (civil or criminal), which relate to anything done or omitted or alleged to be done or omitted by him as an officer of the Company or an Associated Company, provided that no Indemnified Person shall be entitled to be indemnified for:

(a) any liability incurred by him to the Company or any Associated Company of the Company;

(b) any fine imposed in any criminal proceedings;

(c) any sum payable to a regulatory authority by way of a penalty in respect of non-compliance with any requirement of a regulatory nature howsoever arising;

(d) any amount for which he has become liable in defending any criminal proceedings in which he is convicted and such conviction has become final;

(e) any amount for which he has become liable in defending any civil proceedings brought by the Company or any Associated Company in which a final judgment has been given against him; and

(f) any amount for which he has become liable in connection with any application under sections 144(3) or (4) or 727 of the Act in which the court refuses to grant him relief and such refusal has become final.

The Company may provide funds (either directly or indirectly) to any Indemnified Person to meet expenditure incurred or to be incurred by him in any proceedings (whether civil or criminal) brought by any party which relate to anything done or omitted or alleged to have been done or omitted by him as an officer of the Company or any Associated Company, provided that he will be obliged to repay such amount no later than:

(i) if he is convicted in proceedings, the date when the conviction becomes final;

(ii) if judgment is given against him in proceedings, the date when the judgment becomes final (except that such amount need not be repaid to the extent that the expenditure is recoverable under a valid indemnity given to him by the Company); or

(iii) if the court refuses to grant him relief on any application under sections 144(3) or (4) or 727 of the Act the date when the refusal becomes final.

The Company has the power to purchase and maintain for any Indemnified Person insurance against any liability incurred by him in connection with any negligence, default, breach of duty or breach of trust by him in relation to the Company or any Associated Company or otherwise in connection with his duties, powers or office.

BY ORDER OF THE BOARD

Susan Court

Secretary

25 May 2006

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.

(4) In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, only those members entered on the Company’s register of members not later than 12.00 pm on 27 June 2006 or, if the meeting is adjourned, shareholders entered on the Company’s register of members not later 48 hours before the time fixed for the adjourned meeting, shall be entitled to attend and vote at the meeting.

(1) Resolutions 4 and 5 — 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.

T Watkin-Rees and D Morrison are due to retire by rotation at the AGM and are willing to be reappointed as directors.

Biographical details for those directors seeking election or re-election are shown on page 10 of the 2006 annual report.

(2) Resolution 7 — 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 22,559,351 shares (representing one-third of the issued share capital of the Company as at 19 May 2006). The directors have no present intention of exercising the authority proposed to be conferred pursuant to resolution 7.

(3) Resolution 8 — 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 3,383,902 shares (representing approximately 5% of the issued share capital of the Company as at 19 May 2006) other than on a pre-emptive basis.

(4) Resolution 9 — 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 10,144,940, which is 14.99 per cent. of the issued share capital of the Company as at 19 May 2006. 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.

(5) Resolution 10 – Directors' indemnity

The current Articles of Association provide for the indemnification of the directors and officers by the Company for any costs incurred in defending any proceedings in which they are acquitted or judgment is given in their favour. This was, until the coming into force of the Companies (Audit, Investigations and Community Enterprise) Act 2004 in April 2005, the extent to which the Directors could be indemnified by the Company. With the coming into force of that Act, the circumstances in which directors and officers can be indemnified by the Company have been expanded, and the proposed new article reflects these new provisions. The proposed new article gives the Company the discretion to indemnify Directors and officers of the Company and its Associated Companies against all liabilities incurred by them in the discharge of their duties. Any indemnity given under the proposed article cannot cover liability or expenses incurred by the indemnified persons to the Company or an Associated Company, or in any criminal proceedings in which judgment is given against the indemnified person. The current Articles of Association allow the Company also to purchase insurance for the benefit of the directors and officers, and the proposed new article retains this power.

FORM OF PROXY
PAYPOINT PLC (the Company)

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 29 June 2006 at 12 pm.

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

RESOLUTIONS	FOR***	AGAINST***	WITHHELD***
1 To receive the financial statements and the reports of the directors and auditors thereon for the year ended 31 March 2006			
2. To receive the directors' remuneration report for the year ended 31 March 2006.			
3. To declare a final dividend of 7.5p per ordinary share of the Company			
4. To re-elect T Watkin-Rees 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 Morrison as a director who retires by rotation in accordance with Article 37.2 of the Company's Articles of Association			
6. To re-appoint Deloitte and Touche LLP as auditors of the Company and to authorise the directors to determine their remuneration			
7. To authorise the directors to allot shares pursuant to Section 80 of the Companies Act 1985.			
8. To disapply statutory pre-emption rights pursuant to Section 95 of the Companies Act 1985			
9. To authorise the directors to make market purchases of shares			
10. To amend article 58 of the Company Articles of Association			

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.

Signature ....Date 2006

NOTE: To be valid this form of proxy must be deposited at the Company's Registrars not less than 48 hours before the time for holding the meeting.

Notes:

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 12pm on 27 June 2006, 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 the 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

1st FOLD

2nd FOLD

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