

Gresham Computing plc
Interim Report 2002



GRESHAM
Banking • Integration • Storage





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Gresham Computing plc
Registered No. 1072032

Directors

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Non-Executive
Chairman

J E Aves
Non-Executive Director

A J S Walton-Green
Chief Executive

S W Purchase
Commercial Director

D Osman
Finance Director

Secretary

D Osman

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Results

I am pleased to report the group's interim results for the six-month period ended 30 June 2002. Comparative figures are for the six months ended 30 June 2001 instead of the six months to 30 April 2001, which were shown in the 2001 interim report due to the change in year end in 2001 from October to December.

Trading conditions throughout the period have remained difficult across all areas of the business. Notwithstanding this, we have continued to invest in the development of the business in line with our strategy. The operating results reflect these factors.

The group's recorded turnover for the period was £6.2 million (2001: £13 million of which £7.8 million was from ongoing operations). The total operating loss was £2.3 million (2001: £0.8 million). After the disposal of SIM Group Limited (see below) profit before taxation for the period was £2.7 million (2001: £1.7 million) with retained profits for the period of £2.3 million (2001: £1.2 million). The resultant basic earnings per share is 4.94 pence (2001: 2.67 pence).

Disposal of SIM Group

On 15 April 2002 the group completed the disposal of its remaining shares in SIM Group Limited for total estimated proceeds of £7.4 million resulting in a

profit on disposal in the period of £4.9 million. The proceeds include an amount of £0.7 million in the form of convertible bonds which are redeemable after 31 July 2003 and a further amount, currently anticipated to be £0.5 million, based on the turnover achieved by SIM Group Limited in the year ending 31 October 2002, which is expected to be received from escrow in December 2002.

From the date of the disposal of the first tranche of shares on 25 June 2001 until the disposal of the remaining shares on 15 April 2002, financial information relating to SIM Group Limited has been included in Gresham's results as an associate undertaking. The total operating loss for the period to 30 June 2002 includes a £0.4 million loss attributable to the trading activities and goodwill amortisation of SIM Group Limited as an associate (2001: £0.6 million profit as a subsidiary undertaking).

The group's financial position has been strengthened during the period with a net cash position at 30 June 2002 of £5.2 million compared with £0.5 million at 31 December 2001.

Strategy

As I stated in my report in April, our strategy is to focus on and invest in the three areas of the business that we

consider to have significant growth prospects; Finance and Banking Systems, Integration and Storage Management. The board believes that this strategy has the potential to deliver substantial shareholder returns over the medium and long term. We have continued to make a considerable investment in the restructuring and refocus of the business and, during the last six months, I believe that we have made considerable progress towards our strategic objectives.

Finance and Banking Systems

Our primary focus in this area is the delivery of the Cable & Wireless Real Time Nostro ("RTN") service to the market. The proposed service has been well received by the market. Detailed discussions are under way with a number of potential clients of the service and we expect commitment from the initial users of RTN during this calendar year. We continue to believe that revenue from RTN will build as the service is rolled out and that RTN will provide the group with the potential for significant recurring profitable revenue growth in 2003 and beyond.

Integration

Considerable investment has been made in Casablanca, our flagship integration product, to develop it into a world-class offering. Casablanca rapidly and effectively integrates legacy and open systems without the need for large-scale system redevelopment. The release of Casablanca version 3.2 in September 2002 has moved us considerably closer to our aim of providing near code-free integration. Casablanca is now generating widespread interest, particularly in the Finance and Banking sector where legacy systems predominate. In order to fully develop

the market potential of this product we have recently significantly strengthened our Integration team.

Storage Management

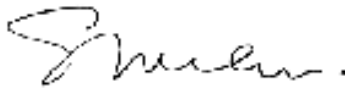
The market for storage products has not improved over the first half of this year. It remains a highly competitive market with price competition being one of the key differentiators. Although the results achieved by our Storage division have been disappointing, our client base of blue chip storage customers is now in excess of 150 users. Our current storage product family, EDT, is a niche offering with a finite number of potential users. We are continuing to invest in expanding the scope and functionality of our range of storage products in order to enhance our offering to the wider storage market. We anticipate bringing our new product set to market in the first half of 2003, which we believe will address a significantly wider market.

Outlook

Over the past six months considerable progress has been made towards the achievement of the group's objectives, namely the development and realisation of the long-term growth potential of the business. This has involved considerable ongoing investment and a strategic refocusing of the business into our three core areas. We believe that the potential

of these areas will start to be delivered in the coming months and provide the group with a platform for sustainable growth in 2003 and beyond.

The progress of the past few months has only been possible as a result of the enthusiasm, dedication and innovative approach of our staff and I extend my thanks and appreciation to every one of them.



Sid Green

Chairman

18 September 2002

	Notes	Six months ended 30 June 2002		
		Before goodwill £'000	Goodwill amortisation £'000	£'000
Turnover				
Continuing operations	2	6,152	—	6,152
Discontinued operations	2	—	—	—
Group turnover		6,152	—	6,152
Cost of sales		3,853	—	3,853
Gross profit		2,299	—	2,299
Administrative expenses — pre-exceptional items		4,178	54	4,232
Administrative expenses — exceptional items		—	—	—
Operating loss		(1,879)	(54)	(1,933)
Continuing operations		(1,879)	(54)	(1,933)
Discontinued operations		—	—	—
Share of operating (loss)/profit in associate		(340)	(56)	(396)
Total operating loss: group and share of associate (Loss)/profit on disposal of tangible fixed assets (continuing operations)		(2,219)	(110)	(2,329)
Profit on sale of operations (discontinued operations)		(3)	—	(3)
		4,902	—	4,902
		4,899	—	4,899
Profit/(loss) on ordinary activities before interest and taxation		2,680	(110)	2,570
Net interest receivable/(payable)		104	—	104
Profit/(loss) on ordinary activities before taxation		2,784	(110)	2,674
Taxation on result on ordinary activities	3	371	—	371
Profit/(loss) on ordinary activities after taxation		2,413	(110)	2,303
Dividends — non-equity interests		—	—	—
Retained profit/(loss) for the period		2,413	(110)	2,303
Basic earnings per share (pence)	4			4.94
Fully diluted earnings per share (pence)	4			4.87

Six months ended 30 June 2001			14 months ended 31 December 2001		
Before goodwill	Goodwill amortisation		Before goodwill	Goodwill amortisation	
£'000	£'000	£'000	£'000	£'000	£'000
7,845	—	7,845	18,321	—	18,321
5,181	—	5,181	6,440	—	6,440
13,026	—	13,026	24,761	—	24,761
7,338	—	7,338	13,988	—	13,988
5,688	—	5,688	10,773	—	10,773
6,118	346	6,464	12,643	627	13,270
71	—	71	260	1,155	1,415
(501)	(346)	(847)	(2,130)	(1,782)	(3,912)
(1,271)	(162)	(1,433)	(3,034)	(1,533)	(4,567)
770	(184)	586	904	(249)	655
12	—	12	450	(88)	362
(489)	(346)	(835)	(1,680)	(1,870)	(3,550)
—	—	—	84	—	84
2,647	—	2,647	2,647	—	2,647
2,647	—	2,647	2,731	—	2,731
2,158	(346)	1,812	1,051	(1,870)	(819)
(137)	—	(137)	(154)	—	(154)
2,021	(346)	1,675	897	(1,870)	(973)
465	—	465	444	—	444
1,556	(346)	1,210	453	(1,870)	(1,417)
33	—	33	66	—	66
1,523	(346)	1,177	387	(1,870)	(1,483)
		2.67			(3.32)
		2.59			(3.32)

	at 30 June 2002 £'000	at 30 June 2001 £'000	at 31 December 2001 £'000
Fixed assets			
Intangible assets	1,190	2,622	1,274
Tangible assets	1,648	2,162	1,832
Investment in associate	—	2,657	2,865
	2,838	7,441	5,971
Current assets			
Debtors	5,251	5,184	4,008
Cash at bank and in hand	5,284	2,105	958
	10,535	7,289	4,966
Creditors: amounts falling due within one year	4,350	5,436	4,146
Net current assets	6,185	1,853	820
Total assets less current liabilities	9,023	9,294	6,791
Creditors: amounts falling due after more than one year	588	949	763
	8,435	8,345	6,028
Capital and reserves			
Called up share capital	2,349	2,714	2,332
Share premium account	5,699	5,232	5,614
Special reserve	313	313	313
Merger reserve	726	726	726
Profit and loss account	(652)	(640)	(2,957)
	8,435	8,345	6,028
Shareholders' funds			
Equity interests	8,435	7,835	6,028
Non-equity interests	—	510	—
	8,435	8,345	6,028

Group Statement of Cash Flow

for the six months ended 30 June 2002

	Six months ended		14 months ended
	30 June 2002 £'000	30 June 2001 £'000	31 December 2001 £'000
Net cash (outflow)/inflow from operating activities	(1,933)	(847)	(3,912)
Depreciation	288	439	887
Amortisation and provision for impairment in value of intangible assets	84	411	1,903
(Increase)/decrease in debtors	(141)	(624)	1,150
Increase/(decrease) in creditors	113	921	(876)
Foreign exchange movement	(9)	(32)	—
Net cash (outflow)/inflow from operating activities	(1,598)	268	(848)
Returns on investment and servicing of finance			
Net interest received/(paid)	112	(137)	(168)
Dividends paid to preference shareholders	(66)	—	(132)
	46	(137)	(300)
Taxation paid	(27)	(81)	(144)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets	(140)	(137)	(477)
Receipts from sale of tangible fixed assets	44	27	442
	(96)	(110)	(35)
Acquisitions and disposals			
Sale of subsidiary undertaking	6,220	5,250	5,850
Costs of disposal	(3)	(255)	(434)
Net cash disposed of with subsidiary undertaking	—	(363)	(363)
	6,217	4,632	5,053
Financing			
Repayment of long-term loans	—	(2,500)	(2,500)
Receipt of short-term loans	—	—	250
Repayment of short-term loans	(250)	(284)	(219)
Repayments of finance leases	(68)	(144)	(216)
Net proceeds of shares issued	102	—	—
Net (outflow) from financing	(216)	(2,928)	(2,685)
Increase in cash in the period	4,326	1,644	1,041
Group net funds/(debt)			
Opening net funds/(debt)	513	(3,053)	(3,217)
Closing net funds	5,157	1,523	513

- 1 The interim accounts have been prepared on the basis of the accounting policies set out in the group's 2001 statutory accounts and are unaudited. The interim financial statements do not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985.

2 **Turnover and segmental analysis**

Analysis of turnover by business segment

	Six months ended 30 June 2002			Six months ended 30 June 2001		
	Segment turnover £'000	Inter- segment turnover £'000	External turnover £'000	Segment turnover £'000	Inter- segment turnover £'000	External turnover £'000
Solutions	1,518	(18)	1,500	2,318	—	2,318
Specialist contract staff	2,026	(36)	1,990	2,724	(887)	1,837
Enterprise Solutions	3,544	(54)	3,490	5,042	(887)	4,155
Enterprise Software	2,694	(32)	2,662	3,690	—	3,690
Continuing operations	6,238	(86)	6,152	8,732	(887)	7,845
SIM Testing (discontinued)	—	—	—	5,181	—	5,181
	6,238	(86)	6,152	13,913	(887)	13,026

Geographical analysis of turnover by source

	Six months ended 30 June 2002			Six months ended 30 June 2001		
	Turnover £'000	Inter- segment turnover £'000	External turnover £'000	Turnover £'000	Inter- segment turnover £'000	External turnover £'000
United Kingdom:						
— continuing operations	4,030	(11)	4,019	5,680	(931)	4,749
— discontinued operations	—	—	—	5,181	—	5,181
North America	1,055	(9)	1,046	2,113	(72)	2,041
Rest of the World	1,693	(606)	1,087	1,055	—	1,055
	6,778	(626)	6,152	14,029	(1,003)	13,026

Notes to the Interim Accounts

for the six months ended 30 June 2002

Geographical analysis of turnover by destination

	Six months ended 30 June	
	2002 £'000	2001 £'000
United Kingdom — continuing operations	3,876	4,365
United Kingdom — discontinued operations	—	5,181
Europe — continuing operations	802	543
Europe — discontinued operations	—	—
North America	702	2,025
Rest of the world	772	912
	6,152	13,026

3 Taxation

The taxation charge for the six months ended 30 June 2002 is based on the estimated effective tax rate for the full year, together with the estimated taxation payable in respect of the disposal, net of applicable loss relief. The taxation charge is net of a credit of £104,000 in respect of the associate undertaking for the period prior to its disposal.

4 Earnings per Share

Earnings per share has been calculated in accordance with FRS 14 using the following earnings and weighted average shares outstanding:

	Six months ended		14 months ended
	30 June 2002 £'000	30 June 2001 £'000	31 December 2001 £'000
Earnings			
Basic	2,303	1,177	(1,483)
Preference dividends	—	33	—
Fully diluted earnings	2,303	1,210	(1,483)
Weighted average number of shares			
Basic weighted average	46,636,479	44,078,778	44,625,110
Potential ordinary shares	688,605	2,563,949	—
Fully diluted weighted average	47,325,084	46,642,727	44,625,110

Diluted earnings per share is identical to basic earnings per share for the 14 months ended 31 December 2001 because potential diluting events would have the effect of reducing the loss per ordinary share.

5 Reconciliation of shareholders' funds

	Six months ended		14 months ended
	30 June 2002	30 June 2001	31 December 2001
	£'000	£'000	£'000
Profit/(loss) for the period	2,303	1,210	(1,417)
Exchange difference on retranslation of net assets of subsidiary undertakings	2	(25)	(2)
Total recognised gains and losses	2,305	1,185	(1,419)
Dividends	—	(33)	(66)
Shares issued	102	—	—
Shares to be issued	—	—	—
Total movements during the year	2,407	1,152	(1,485)
Opening shareholders' funds	6,028	7,193	7,513
Closing shareholders' funds	8,435	8,345	6,028

6 Discontinued Operations

Discontinued operations comprise the activities of the SIM Group prior to the group's disposal of a first tranche of shares of 50.01% of the issued share capital of SIM Group on 25 June 2001. The group's share of the results of SIM Group subsequent to that date until the disposal of the group's remaining shares in SIM Group, which was completed on 15 April 2002, are accounted for as an associate undertaking.

The profit on disposal of SIM in the six months ended 30 June 2001 and 14 months ended 31 December 2001 included deferred proceeds of £600,000 which was dependent on the performance of SIM Group and was received on 24 December 2001. The profit on disposal of SIM Group for the six months ended 30 June 2002 includes estimated net proceeds of £487,000 which are dependent on the turnover achieved by the SIM Group in the 12 months ending 31 October 2002 which is expected to be received by 31 December 2002 and £692,000 of interest bearing convertible bonds which are redeemable after 1 August 2003.



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