

gresham computing plc

interim report 2004



Directors and Advisers	01
Chairman's Statement	02
Group Profit and Loss Account	05
Group Balance Sheet	06
Group Statement of Cash Flow	07
Notes to the Interim Financial Statements	08



Gresham Computing plc
Registered No. 1072032

Directors

A M Howarth
J E Aves

A J S Walton-Green
S W Purchase
D Osman
C M Errington

Non-Executive Chairman
Non-Executive Director,
Chairman of Audit and Remuneration Committees
Chief Executive
Commercial Director
Operations Director
Finance Director

Secretary

C M Errington

Registered Office

Sopwith House
Brook Avenue
Warsash
Southampton
SO31 9ZA

Auditors

Ernst & Young LLP
Wessex House
19 Threefield Lane
Southampton
SO14 3QB

Registrars

Lloyds TSB Registrars
Registrar's Department
The Causeway
Worthing
West Sussex
BN99 6DA

Brokers

KBC Peel Hunt Ltd
62 Threadneedle Street
London
EC2R 8HP

Bankers

HSBC Bank plc
165 High Street
Southampton
SO14 2NZ

Solicitors

Blake Laphorn Linnell
Kings Court
21 Brunswick Place
Southampton
SO15 2AQ

In my first report to you as Chairman, I am pleased to report:

- Turnover up by 26% and losses reduced by 45%;
- Excellent progress with the Cable & Wireless Real Time Nostro ("CWRTN") service;
- Significant improvement in our Integration and Storage businesses; and
- Generally much improved market conditions.

First half performance

- Group turnover for the period was £6.14m (6 month period to 30 June 2003: £4.87m);
- Group loss before tax was £0.59m for the period (6 month period to 30 June 2003: £1.07m); and
- The Group funding position remains strong, with cash resources of £3.4m at 30 June 2004.

Banking

The progress with the CWRTN service during the first half of the year has been very encouraging.

As you will know, the service went live earlier this year with Royal Bank of Scotland receiving US Dollar information provided by JP Morgan Chase. This was a major step forward since it demonstrated that the technology works and that the service is of commercial value.

Since then we have seen continued progress.

Citibank, the largest provider of payment services in the world, signed up as a data provider as did Standard Bank of South Africa, joining: ANZ, Barclays, Bangkok Bank, JP Morgan Chase, Mizuho Corporate Bank and Royal Bank of Canada Global Services. As of today, Royal Bank of Scotland and Santander Central Hispano are subscribers to the service and Dresdner Kleinwort Wasserstein has agreed to be a subscriber to the service.

Cable & Wireless, through a closer relationship with SWIFT, have announced that the preferred method of data delivery to the RTN hub is via the SWIFTNet IP infrastructure. SWIFT is the industry-owned co-operative supplying secure, standardised messaging services and interface software to 7,600 financial institutions in 200 countries. Co-operation with SWIFT is key, enabling banks to maximise the value of their investment in the SWIFTNet IP infrastructure and also conferring a level of industry acceptance for the CWRTN service, which is most encouraging.

During the period, we were also pleased to see an increasing number of participants in the Real Time Nostro User Group, chaired by senior industry figure,

Richard Pattinson of Barclays Bank. This group continues as a successful forum for sharing CWRTN service ideas and experiences as well as key issues associated with cash management. The forum reinforces Real Time Nostro as a global industry initiative, again featuring as one of the themes at the SWIFT sponsored annual global payments industry conference and exhibition, SIBOS, which this year takes place in Atlanta, Georgia, USA in October.

Market acceptance for CWRTN continues to grow. The ongoing addition of new data providers is important as the board believes that the speed of roll-out of CWRTN to subscribers will be determined by the value users can extract from the service. That value increases in line with the number of major data providers that sign up to the service since this broadens the currency coverage and value of funds over which subscribers can obtain real time information.

While revenues will initially be relatively small and take years to build to their full potential, we continue to believe that CWRTN is our most significant market opportunity and has the potential to deliver the largest returns in the Group's history. Progress over the past few months has moved us considerably closer to realising this potential.

Integration

We experienced solid revenue growth in our Integration business. The most significant single contract was a bank to corporate contract with a major UK bank. This contract, announced in April 2004, was to license Casablanca, our flagship integration software, in conjunction with a third party's application software to provide a working capital "straight through processing" solution between the bank and its major corporate customers. We have now successfully deployed and delivered the software for the first project under this contract, involving one of the bank's larger customers and anticipate building on this success in the future.

The bank to corporate working capital area is becoming a significant focus for us and is expected to continue to develop.

We are also pleased to report that we are developing a relationship with a major hardware vendor based on the unique qualities of our integration software. While this particular relationship has yet to produce first revenues, this new opportunity helps to underline the increasing value we believe we will derive from Casablanca. Casablanca underpins our offerings both in our bank to bank and bank to corporate initiatives giving our clients and partners a significant advantage over more traditional integration products or approaches.



Storage

The upturn in market conditions for storage seen towards the end of 2003 continued into the first half of 2004, with Storage revenues up significantly in the period compared to the first half of 2003, despite increasing market competition and a weak dollar. We have also continued to invest in the development of our storage products in order to expand their market reach.

We are now rolling out our global agreement with StorageTek, which enables StorageTek to offer Gresham's advanced storage software to customers, broadening our route to market and providing StorageTek customers with easy access to the value added functionality of StorageTek tape solutions.

Future Outlook

Our strategy continues to be to build on opportunities generated in our chosen markets and delivered by utilising our specialist industry knowledge, know-how, technology and skills. In particular, we intend to continue to focus on the finance and banking sector to expand our offerings in the rapidly growing bank to bank and bank to corporate markets.

The board believes that this will be achieved by continuing to:

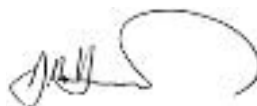
- design innovative yet practical solutions;
- maintain the high quality services

that will continue to extend our brand, value and profile;

- enhance the level and maturity of our relationships with clients and partners; and
- manage our business with vision, leadership and clarity.

The general trend of improved trading is encouraging and has continued into the second half. CWRTN continues to be well received by the banking community and recent developments underline the vitality that this service has now gained. The Integration business continues to gain momentum as our focus has improved. Established relationships with world class companies such as StorageTek place our Storage division in a good position to build on its first half performance.

The board believes that progress made over the last period is therefore encouraging and that the Group is well placed to continue the improvement in results into the second half of the year and beyond.



Alan Howarth

Chairman

13 September 2004

GROUP PROFIT AND LOSS ACCOUNT

FOR THE SIX MONTHS ENDED 30 JUNE 2004

		Six months ended		Year ended
		30 June	30 June	31 December
		2004	2003	2003
		Unaudited	Unaudited	Audited
	Notes	£'000	£'000	£'000
Group turnover	2	6,136	4,870	10,245
Cost of sales		2,789	2,374	4,535
Gross profit		3,347	2,496	5,710
Administrative expenses		4,049	3,680	7,868
Operating loss		(702)	(1,184)	(2,158)
Net interest receivable		115	116	203
Loss on ordinary activities before taxation		(587)	(1,068)	(1,955)
Taxation on loss on ordinary activities		—	(11)	(12)
Loss on ordinary activities after taxation		(587)	(1,057)	(1,943)
Retained loss for the period		(587)	(1,057)	(1,943)
Basic loss per share (pence)	3	(1.19)	(2.24)	(4.05)
Diluted loss per share (pence)	3	(1.19)	(2.24)	(4.05)



	At 30 June 2004 Unaudited £'000	At 30 June 2003 Unaudited £'000	At 31 December 2003 Audited £'000
Fixed assets			
Intangible assets	1,102	1,067	1,043
Tangible assets	1,303	1,413	1,336
	<u>2,405</u>	<u>2,480</u>	<u>2,379</u>
Current assets			
Debtors	7,541	5,502	6,301
Cash at bank and in hand	3,411	6,327	4,923
	<u>10,952</u>	<u>11,829</u>	<u>11,224</u>
Creditors: amounts falling due within one year	4,239	3,478	3,820
Net current assets	<u>6,713</u>	<u>8,351</u>	<u>7,404</u>
Total assets less current liabilities	<u>9,118</u>	<u>10,831</u>	<u>9,783</u>
Creditors: amounts falling due after more than one year	394	674	477
	<u>8,724</u>	<u>10,157</u>	<u>9,306</u>
Capital and reserves			
Called up share capital	2,470	2,430	2,464
Share premium account	9,670	9,529	9,639
Special reserve	313	313	313
Merger reserve	726	726	726
Profit and loss account	(4,455)	(2,841)	(3,863)
Shareholders' funds — equity interests	<u>8,724</u>	<u>10,157</u>	<u>9,306</u>

GROUP STATEMENT OF CASH FLOW

FOR THE SIX MONTHS ENDED 30 JUNE 2004

	Six months ended 30 June 2004 Unaudited £'000	30 June 31 December 2003 Unaudited £'000	Year ended 31 December 2003 Audited £'000
Operating loss	(702)	(1,184)	(2,158)
Depreciation	155	210	390
Amortisation	94	54	132
Increase in debtors	(1,240)	(630)	(1,586)
Increase/(decrease) in creditors	448	(23)	139
Net cash outflow from operating activities	(1,245)	(1,573)	(3,083)
Returns on investment and servicing of finance			
Net interest received	100	113	219
	100	113	219
Taxation paid	(26)	(13)	(9)
Capital expenditure and financial investment			
Payments to acquire intangible fixed assets	(234)	—	—
Payments to acquire tangible fixed assets	(127)	(41)	(167)
Receipts from sale of tangible fixed assets	3	—	—
	(358)	(41)	(167)
Acquisitions and disposals			
Disposal of associated undertaking	—	—	—
Costs of disposal	—	(16)	(25)
	—	(16)	(25)
Financing			
Repayment of finance leases	(3)	(60)	(76)
Net proceeds of shares issued	37	3,908	4,052
Net inflow from financing	34	3,848	3,976
(Decrease)/increase in cash in the period	(1,495)	2,318	911
Group net funds			
Opening net funds	4,918	3,928	3,928
Closing net funds	3,409	6,288	4,918



1 These unaudited financial statements, which do not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985, have been prepared using the accounting policies set out in the Group's 2003 statutory accounts. The statutory accounts for the year ended 31 December 2003 received an unqualified auditor's report and have been delivered to the Registrar of Companies. The interim report will be sent to shareholders. Further copies may be obtained from the Company Secretary, Gresham Computing plc, Sopwith House, Brook Avenue, Warsash, Southampton, SO31 9ZA.

2 Turnover and segmental analysis

All turnover relates to continuing operations.

Analysis of turnover by business segment:

	Six months ended 30 June 2004			Six months ended 30 June 2003		
	Segment turnover £'000	Inter- segment turnover £'000	External turnover £'000	Segment turnover £'000	Inter- segment turnover £'000	External turnover £'000
Solutions	2,280	—	2,280	1,453	—	1,453
Specialist contract staff	950	—	950	988	(7)	981
Enterprise solutions	3,230	—	3,230	2,441	(7)	2,434
Enterprise software	2,910	(4)	2,906	2,436	—	2,436
	6,140	(4)	6,136	4,877	(7)	4,870

Geographical analysis of turnover by source:

	Six months ended 30 June 2004			Six months ended 30 June 2003		
	Turnover £'000	Inter- segment turnover £'000	External turnover £'000	Turnover £'000	Inter- segment turnover £'000	External turnover £'000
United Kingdom	4,092	—	4,092	2,950	(12)	2,938
North America	997	(4)	993	1,128	(24)	1,104
Rest of World	1,491	(440)	1,051	1,198	(370)	828
	6,580	(444)	6,136	5,276	(406)	4,870

Geographical analysis of turnover by destination:

	Six months ended 30 June	
	2004 £'000	2003 £'000
United Kingdom	3,692	2,675
Europe	707	375
North America	854	774
Rest of World	883	1,046
	6,136	4,870

3 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		Year ended
	30 June 2004 £'000	30 June 2003 £'000	31 December 2003 £'000
Earnings			
Basic and fully diluted earnings	(587)	(1,057)	(1,943)
	(587)	(1,057)	(1,943)
For basic weighted average Potential ordinary shares	49,310,700 —	47,186,369 —	48,022,384 —
Diluted weighted average number of shares	49,310,700	47,186,369	48,022,384

Diluted earnings per share are identical to basic earnings per share in all cases because potential diluting events would have the effect of reducing the loss per ordinary share.

4 Reconciliation of shareholders' funds

	Six months ended		Year ended
	30 June 2004 £'000	30 June 2003 £'000	31 December 2003 £'000
Loss for the period	(587)	(1,057)	(1,943)
Exchange difference on retranslation of net assets of subsidiary undertakings	(32)	(1)	(110)
Total recognised gains and losses	(619)	(1,058)	(2,053)
Shares issued	37	3,908	4,052
Total movements during the year	(582)	2,850	1,999
Opening shareholders' funds	9,306	7,307	7,307
Closing shareholders' funds	8,724	10,157	9,306



Sopwith House Brook Avenue Warsash Southampton SO31 9ZA

Tel: +44 (0)1489 555500 Fax: +44 (0)1489 555560 www.gresham-computing.com