Kewill Systems plc **Interim statement 30 September 2005**

Financial Highlights:

- Group revenues increased by 4% to £13.7m (H1 2004/5: £13.2m)
  - Order Management increased sales by 8%
  - International Trade Management grows revenue 10%
- Operating profit increased by 40% to £0.9m (H1 2004/5: £0.7m)
- Profit on ordinary activities before tax of £1.3m up 32% (H1 2004/5: £1.0m)
- Cash generation from operations of £0.7m
- Net cash on the balance sheet at the period end of £18.9m

Operational Highlights:

- £2 million acquisition of Perwill added non-retail UK customers
- Partnership with Inovis adds new offerings for European markets
- Launch of Flagship Export (integrated shipping/international trade) well received
- 12 enterprise level shipping management deals (H1 FY04/05: 10)
- Partnership with SAP America Inc. enables new shipping management extensions to integrate into SAP's integrated business management solution for small and midsize enterprises
- Offshore development facility expanded to 78 staff from 45

Post period end

- €11.2 million (£7.6 million) acquisition of Interchain adds European customers and products to Kewill's supply chain execution portfolio

Overview

The Board is pleased to report that Kewill has significantly increased its profitability in the first half of the year, in line with our expectations. Operating profits before non-cash share-based payments and amortisation of intangibles for the first half of 2005/6 increased by 37% to £1.1 million (H1 2004/5: £0.8 million) and operating profits were £0.9 million, up 40% (H1 2004/5: £0.7 million). Profit before tax on ordinary activities was £1.3 million (H1 2004/5: £1.0 million). As noted at the preliminary results in June, we have restated the interim results for the six months ended 30 September 2004 and the annual results for the year ended 31 March 2005 in accordance with International Financial Reporting Standards (IFRS).

Despite continued challenging conditions, Kewill has grown Group revenues by 4% over the same period last year and has launched several strategic initiatives to improve its growth prospects in the second half of the year. The Shipping Management business has added 12 (10 in H1 2004/5) new enterprise level deals as it expands its available markets with the first deliveries of projects for the combined Flagship Export international shipping solution and systems supporting non-US domestic carriers. The Order Management and Visibility division has achieved 8% revenue growth as a result of the Perwill acquisition adding new markets in insurance and financial services, and has won its first deals as a result of the European distribution agreement signed with Inovis earlier in the year. The International Trade business has continued its strong growth with revenues up 10% on H1 2004/5 as customs brokers and freight forwarders replace in-house systems with our solutions, in which we have and will continue to make significant product investments over the course of the year.

The acquisition of Interchain, announced post-period end, brings a strong technology base in the European logistics software market and a plethora of blue chip customers as well as strong cross-selling opportunities.

Operations and financial performance

Revenue for the first half was £13.7 million (H1 2004/5: £13.2 million).

The Order Management and Visibility division increased sales by 8% to £4.7 million (H1 2004/5: £4.4 million), including the Perwill acquisition which contributed £0.5 million of sales in its first 3 months within the Group. Business within the Retail sector has continued to be flat in the UK, although we have seen several small to medium size projects being contracted as a result of our product's strong cost savings and return on investment. An example of this is the recently announced contract with Bob Martin, the manufacturer of pet products, which chose to outsource its electronic trading system as a result of increased demand from its customers. We have also won several pieces of new business with our existing customers including a three year extension to our long term relationship with J Sainsbury. This now provides them with an additional 1,200 supplier subscriptions on the hosted Kewill Trade solution taking the total number of Sainsbury's suppliers being managed by Kewill to over 3,500. As a result of the Perwill acquisition we have reduced our dependence on the retail market with the addition of 150 customers mainly in the insurance, financial services and food services sectors. This includes an implementation with Legal & General, enabling them to electronically communicate in real time with their broker network. The partnership with Inovis, announced in May 2005, has already delivered its first successes with the announcement of a Global Data Synchronisation (GDS) solution for Debenhams across their supplier base and Nisa Today's change of VAN provider to the Inovis Value Added Network to be delivered and supported by Kewill. Nisa Today's have also placed an order with Kewill to implement the Kewill TradeForms solution across 300 of their suppliers.

The International Trade division (formerly Tradepoint) delivered revenues of £3.9 million, up 10% on last year (H1 2004/5: £3.6 million). International Trade Management have recently seen the strongest sales in their long history, closing over $3 million (£1.7 million) of new business in the first half, including a five year contract with A.N. Deringer, one of the largest customs house brokers in the US. They also won and delivered a key system for International Forwarders Inc., a large freight forwarder and closed a few smaller deals during the period. The market for Customs Broker and Freight Forwarding systems has grown in the past year as the larger clients look to outsource what have traditionally been in-house developed systems. This is largely a result of the growing complexity of customs regulations necessitating that customers turn to Kewill for its breadth and depth of expertise in these areas, with its 11 qualified customs house brokers on the staff. In trade compliance we saw the addition of twelve new clients for our Export compliance ASP solution and four new clients for the SPEX export documentation solution, two of which were a result of sales of the integrated Flagship Export international shipping solution. We see a growing pipeline for these integrated solutions as our enterprise customers look increasingly to control both domestic and international shipments with one solution.

Revenues in the Shipping Management business decreased by 4% from £5.2 million in H1 2004/5 to £5.0 million. This decline was due to a reduction in small and medium-sized enterprise (SME) systems revenue. However, enterprise level sales were up 11% on the previous year. This reflects the increased demand we have seen for international shipping solutions referred to above, equally seen at UPS and Fedex, where international shipping volumes are growing at an order of magnitude above domestic growth. During H1 we launched our integrated Flagship Export solution, which has already contributed two of the 12 enterprise level shipping deals in H1 (10 in H1 2004/5), including a sale to Ozburn-Hessey Logistics and to Garmin International Inc., a leader in Global Positioning System technology. A key element in our strategy for growth is to market our shipping solutions internationally and extend our traditional US domestic footprint. As a result, we have invested this year in building non-US carrier compliance into our Flagship ES solution and will be releasing availability for additional Canadian and European carriers over the second half of the year. In order to redress the decline in sales to the SME business we have announced a partnership with SAP in America, that will give access to Kewill shipping software to over 100 SAP business partners to add to their ERP portfolio.

Operating profits before non-cash share-based payments and amortisation of intangibles increased significantly to £1.1 million (H1 2004/5: £0.8 million). The Order Management and Visibility business improved its profits to £1.1 million (H1 2004/5: £0.5 million) including a first contribution from the Perwill acquisition of £0.1 million. International Trade Management delivered a similar profit to last year (£0.4 million) on improved revenues, reflecting the planned extra investment this year in updating key products to capitalise on the growing demand from existing and new customers. The Shipping Management business was able to maintain last year's profit level of £0.4 million despite reduced revenue as a result of a focus on higher margin business and reduced costs. Central cost increased on last year to £0.7 million (H1 2004/5: £0.5 million) as a result of some abortive transaction costs. Operating profits were £0.9 million, up 40% (H1 2004/5: £0.7 million). Interest income of £0.4 million (H1 2004/5: £0.4 million) and the absence of last year's profit on disposal of previously discontinued businesses of £0.3 million, means that the group made a profit before tax of £1.3 million (H1 2004/5: £1.0 million). Earnings per share is lower than the same period last year because of the non-recurrence of a one-off profit on disposal. The effect of the implementation of International Financial Reporting Standards (IFRS) is discussed below.

The Group's cash balances were £18.9 million at 30 September 2005 (H1 2004/5: £17.9 million) despite acquisition payments in the period of more than £2.0 million. Group net assets now amount to £26.1 million (H1 2004/5: £22.2 million).

Acquisition of Interchain

Following the period end, we announced the acquisition of Interchain Holding BV, a leading provider of sophisticated, integrated, multi-modal supply chain management software to the European market. Interchain's solution offering, Chainware, is designed for large scale, multi-national Logistics Services Providers (LSP) operating in an international environment.

The combination of Kewill's existing international trade, shipping and order management solutions with Interchain's supply chain offerings creates a powerful single source of software and services to help shippers and logistics providers with the end-to-end management of orders, transportation, warehousing, forwarding, customs brokerage, and ultimate distribution of goods from a single provider with North American and European capability.

The initial consideration for the acquisition was satisfied on completion by €11.2 million (£7.6 million) in cash. On the date of completion, net cash within Interchain amounted to €1.2 million (£0.8 million). The initial net cash consideration therefore amounts to €10 million (£6.8 million) which is equivalent to 1.15 times trailing twelve months revenue to 31 October 2005. In addition, in each of the two twelve month periods following completion, the amount by which Interchain's revenue exceeds €8.6 million (£5.8 million) in each year, will be payable in cash as deferred consideration, subject to an overall maximum amount payable of €3.5 million (£2.4 million).

In its results for the year ended 31 December 2004, Interchain made a profit before tax of €0.6 million (£0.4 million) and had gross assets of €4.8 million (£3.4 million) at that date. It is expected that the acquisition of Interchain will be earnings enhancing for Kewill in the financial year ending 31 March 2006.

The impact of International Financial Reporting Standards (IFRS)

As can be clearly seen from note 1 to the financial statements accompanying this review, there are three adjustments in Kewill's accounts for the required implementation of IFRS this financial year, along with the restatement of the comparative results for 2004/5. We understand that the European Union will not formally adopt IFRS until 31 December 2005 and therefore there may be further amendments to individual standards during the remainder of 2005. Therefore, whilst we do not expect any material changes it is possible that there may be further adjustments that arise when we issue our full year audited accounts for 2005/6 under IFRS.

The first of these is a charge to the profit and loss account for share-based payments. This charge relates to the share options issued to employees. Under IFRS, the options must be valued based on a market or estimated market value at inception and this cost is being spread over the option vesting period (three years). There are a number of assumptions which affect the value and the Board has considered carefully these assumptions in order to derive an appropriate charge for the cost of options. As a result there is a charge of £93,000 (H1 2004/5: £150,000) relating to share based payments. There is no cash impact to the Group as a result of this new accounting standard.

The second adjustment relates to goodwill amortisation and results in goodwill on acquisitions being 'frozen' with effect from 1 April 2004 and no further amortisation being provided from that date, subject to annual impairment reviews. This requires adjustments to the goodwill carrying value at 1 April 2004 and the amortisation of goodwill since that date. As a result there is no amortisation of goodwill in the restated accounts for 2004/5 or for the first half of 2005/6.

The third change in accounting standards that impacts Kewill's accounts is the requirement to allocate goodwill on acquisitions to its underlying intangible components. This results in the Perwill acquisition in July 2005 generating intangible assets other than goodwill of £1.9 million and a charge to the profit and loss account for the first half of 2005/6 of £97,000 for the amortisation of these intangible assets. There is also now a requirement under IFRS to capitalise product development costs where recognition criteria are met, which under UK GAAP were previously written off. The Board have considered these costs and concluded that those meeting the recognition criteria are immaterial and so no adjustment to the accounts is required.

Strategy and Prospects

The Software and IT services markets in which Kewill operates are growing at just under 5% per annum in the US and Europe. In the first half Kewill has broadly managed to match this level of revenue growth as a result of the Perwill acquisition and strong growth in the international trade sector making up for slow sales in UK retail and a decline in low-end systems in the US for our shipping management solutions. We anticipate that the International Trade business will continue to grow revenues in the second half and we expect to see improved growth in the Shipping Management Division as enterprise level projects continue to be won and delivered. The Order Management business will show growth on last year as a result of the acquisition of Perwill. Overall, we expect growth in the second half in all businesses over the same period last year, giving a full year performance in excess of the general market growth and in line with our expectations.

Consolidated interim income statement *for the six months to 30 September 2005*

	Consolidated income statement Six months to 30 Sept 2005 (unaudited) £000	Consolidated income statement Six months to 30 Sept 2004 (unaudited) £000	Consolidated income statement Year to 31 March 2005 (unaudited) £000
Turnover	**13,699**	**13,198**	**26,680**
Cost of sales	(1,538)	(1,543)	(2,787)
Gross profit	**12,161**	**11,655**	**23,893**
Total net operating expenses	(11,242)	(10,998)	(21,741)
Operating profit	**919**	**657**	**2,152**
Analysed as:			
Operating profit before amortisation, profit on sale of properties and share based payments	**1,109**	**807**	**2,259**
Amortisation of intangibles	(97)	-	-
Net profit on sale of properties in continuing operations	-	-	179
Share based payments	(93)	(150)	(286)
Operating profit	**919**	**657**	**2,152**
Interest receivable	420	354	742
Profit on ordinary activities before taxation	**1,339**	**1,011**	**2,894**
Tax on profit on ordinary activities	(122)	43	321
Profit for the financial period from continuing operations	**1,217**	**1,054**	**3,215**
Discontinued operations			
Net (loss)/profit from discontinued operations	(2)	270	297
Profit for the financial period	**1,215**	**1,324**	**3,512**
Earnings per share	1.5p	1.7p	4.5p
Diluted earnings per share	1.5p	1.6p	4.4p

Consolidated interim statement of changes in shareholders equity *for the six months to 30 September 2005*

	30 Sept 2005 (unaudited) £000	30 Sept 2004 (unaudited) £000	31 March 2005 (unaudited) £000
Profit for the financial period	1,215	1,324	3,512
Exchange adjustments offset in reserves	385	31	(191)
Proceeds of ordinary shares issued for cash	14	-	28
Shares issued in lieu of services provided	-	-	5
Nominal value of ordinary shares issued for acquisitions	-	11	11
Premium on ordinary shares issued for acquisitions	-	698	697
Share issue expenses (acquisitions)	-	(4)	(4)
Share based payments	93	150	286
Net increase in shareholders' funds	**1,707**	**2,210**	**4,344**
Opening shareholders' equity	24,365	20,021	20,021
Closing shareholders' equity	**26,072**	**22,231**	**24,365**

Basis of presentation

This interim statement has been prepared on the basis of the accounting policies set out in the company's annual report and accounts for the year ended 31 March 2005 except where adjustments have been made to reflect the changes in accounting standards from UK GAAP as a result of the introduction of IFRS. The interim statement was approved by the board on the 14th November 2005 and has not been audited or reviewed by the company's auditors PricewaterhouseCoopers LLP. Figures for the year ended 31 March 2005 are non-statutory, have been extracted from the financial statements filed with the Registrar of Companies, and which contain an unqualified audit report and no statements under sections 237(2) or 237(3) of the Companies Act 1985 and have been re-stated in accordance with IFRS.

Consolidated interim balance sheet *as at 30 September 2005*

	30 Sept 2005 (unaudited) £000	30 Sept 2004 (unaudited) £000	31 March 2005 (unaudited) £000
Assets			
Non current assets			
Goodwill	10,421	10,329	10,014
Intangible assets	1,839	-	-
Property, plant and equipment	940	960	523
	13,200	11,289	10,537
Current assets			
Inventories	139	101	87
Trade and other receivables	5,912	5,211	5,734
Cash and cash equivalents	18,907	17,886	20,244
	24,958	23,198	26,065
Liabilities			
Current liabilities			
Trade and other payables	10,803	10,428	10,580
Current tax liabilities	236	65	135
Provisions and other liabilities	1,047	1,763	1,522
	12,086	12,256	12,237
Net current assets	12,872	10,942	13,828
Net assets	**26,072**	**22,231**	**24,365**
Shareholders' equity			
Capital and reserves			
Called up share capital	788	786	787
Share premium account	38,252	38,208	38,239
Merger reserve	976	976	976
Cumulative translation reserve	194	31	(191)
Profit & loss account	(14,138)	(17,770)	(15,446)
Total shareholders' equity	**26,072**	**22,231**	**24,365**

Consolidated interim cash flow statement *for the six months to 30 September 2005*

	Six months to 30 Sept 2005 (unaudited) £000	Six months to 30 Sept 2004 (unaudited) £000	Year to 31 March 2005 (unaudited) £000
Cash flows from operating activities			
Cash generated from operations	677	724	2,184
Interest received	420	354	742
Taxation	(29)	27	13
Net cash generated from operating activities	**1,068**	**1,105**	**2,939**
Cash flows from investing activities			
Acquisition of subsidiaries (net of cash acquired)	(2,068)	(2,240)	(2,021)
Purchase of property, plant and equipment	(553)	(144)	(400)
Proceeds from the sale of property, plant and equipment	1	-	577
Net cash used in investing activities	**(2,620)**	**(2,384)**	**(1,844)**
Cash flows from financing activities			
Proceeds from issue of ordinary shares	14	(4)	24
Net cash generated by/(used in) financing activities	**14**	**(4)**	**24**
Net (decrease)/increase in cash and cash equivalents	**(1,538)**	**(1,283)**	**1,119**
Cash and cash equivalents at the start of period	**20,244**	**19,145**	**19,145**
Effect of exchange rates	201	24	(20)
Cash and cash equivalents at the end of period	**18,907**	**17,886**	**20,244**

Reconciliation of profit for the period to net cash generated from operating activities

	Six months to 30 Sept 2005 (unaudited) £000	Six months to 30 Sept 2004 (unaudited) £000	Year to 31 March 2005 (unaudited) £000
Profit for the financial period	1,215	1,324	3,512
Tax on profits on ordinary activities	122	(43)	(321)
Depreciation charges	239	200	454
Amortisation of intangible assets	97	-	-
Loss/(profit) on sale of tangible fixed assets	-	2	(179)
Loss/(profit) on discontinued operations	2	(270)	(297)
Interest receivable	(420)	(354)	(742)
Share based payments	93	150	286
(Increase)/decrease in inventories	(52)	75	89
Decrease/(increase) in trade and other receivables	387	(524)	(1,151)
(Increase)/decrease in trade and other payables and provisions	(1,006)	164	533
Cash generated from operations	**677**	**724**	**2,184**

Notes to the interim accounts

1. Reconciliation between UK GAAP and IFRS

Reconciliation of profit for the period

	Six months to 30 Sept 2005 (unaudited) £000	Six months to 30 Sept 2004 (unaudited) £000	Year to 31 March 2005 (unaudited) £000
Profit for the period - UK GAAP	**785**	**784**	**2,764**
Amortisation of goodwill	620	690	1,034
Amortisation of intangibles	(97)	-	-
Share based payments	(93)	(150)	(286)
Profit for the period - IFRS	**1,215**	**1,324**	**3,512**

Reconciliation of capital employed and total equity

	Six months to 30 Sept 2005 (unaudited) £000	Six months to 30 Sept 2004 (unaudited) £000	Year to 31 March 2005 (unaudited) £000
Capital employed - UK GAAP	**24,477**	**21,447**	**23,344**
Goodwill adjustment	1,654	690	1,034
Amortisation of intangibles	(97)	-	-
Translation reserve impact of goodwill adjustment	38	94	(13)
Capital employed - IFRS	**26,072**	**22,231**	**24,365**

Reconciliation of retained earnings

	Six months to 30 Sept 2005 (unaudited) £000	Six months to 30 Sept 2004 (unaudited) £000	Year to 31 March 2005 (unaudited) £000
Retained earnings - UK GAAP			
Opening position - UK GAAP	(15,539)	(18,523)	(16,658)
Goodwill adjustment	1,654	690	1,034
Amortisation of intangibles	(97)	-	-
Cumulative translation reserve plus impact of goodwill adjustment	(156)	63	178
Retained earnings - IFRS	**(14,138)**	**(17,770)**	**(15,446)**

Copies of this interim report will be sent to shareholders and copies will be available for inspection at the Company's registered office at Oaklands House, 34 Washway Road, Sale, Cheshire, M33 6FS.