



Kewill Systems plc Annual Report and Accounts 2002

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## Key Points of 2001/02 Trading Results:

- Significant improvement in second-half trading:
  - E-Commerce operating costs reduced by 26%
  - Operating profit\* of £0.4 million before severance costs
  - Cash flow break-even before severance costs
- 2001/02 Core (E-Commerce & US ERP) sales of £48.1 million (2001: £61.9 million), reflecting prevailing economic climate
- 2001/02 Total Group sales of £48.1 million (2001: £68.7 million)
- Full year operating loss\* of £5.1 million (2001: operating profit\* of £5.1 million)
- Net cash at 31 March 2002 of £11.4 million (2001: £20.1 million)
- Loss per share before goodwill write offs of 9.1p\* (2001: earnings per share 8.8p\*)
- New customers include GE Medical, Sprint, Lucent, Bell Helicopter, Coles Department Store, Phillip Morris and The Gap.

# the year's highlights

## Disposals and Acquisitions:

- Disposal of ERP Division for £13 million to Exact Holding N.V., subject to shareholder approval
- Disposal will focus Kewill on opportunities within SCM software and solutions in US and Europe
- Net cash will increase to approximately £22 million, supporting the Group's growth strategy
- E-Commerce Division's market position strengthened with the acquisition of Globeflow on 4 April 2002, extending Kewill's SCM capabilities and geographic presence in Europe

\*Operating profit/loss is before amortisation and impairment of intangible fixed assets.



"Market conditions during the past financial year have been particularly challenging in the IT sector, and there is no immediate prospect of improvement. Kewill has responded with tough financial management of its cost base and cash position. Within these constraints, we are pleased to be able to report results in line with the management's view at the time of the Interim Results.

Despite the current difficult climate for IT companies, the Kewill Board remains convinced of the long-term growth prospects for our E-Commerce Division within supply chain management software and solutions. We will continue to seek opportunities to build our market position in this sector. The disposal of the ERP Division will enable us to concentrate our attention and resources on the successful development of this strategy."

#### Overview

The market conditions during Financial Year 2001/02 have been especially challenging for IT companies. Some 80% of Kewill's operations are now in the US, where markets have been particularly volatile in response to economic and political events.

The Board have responded pro-actively to these circumstances by reducing costs, re-focusing commercial operations and intensifying cash management. We have sought to combine this rigorous approach to financial management with protection of the Group's strategic base in supply chain management (SCM) software.

As announced in April, Kewill finished the year with a strong fourth quarter and extended its product portfolio and geographic base with the acquisition of Globeflow. Although market conditions are likely to remain difficult within the sector, steps taken to improve operational performance and capitalise on the potential for SCM will give Kewill a stronger platform for future expansion.

#### Operating Performance

Following a difficult start to the financial year, the Group's operating performance improved significantly in the second half and, despite the prevailing economic environment, we were able to issue a well-received trading statement in April 2002.

Sales from both E-Commerce and ERP divisions were down 27% to £48.1m (2001: £66.0 million). Total Group sales, including contributions in 2001 from the discontinued Logistics Division, declined 30% (2002: £48.1 million, 2001: £68.7 million). The E-Commerce Division contributed £28.4 million, 59% of revenues in the period. The ERP Division achieved sales of £19.7 million, 41% of Group revenue.

The Group reported an operating loss\* for the full year of £5.1 million (2001: £5.1 million operating profit\*). The ERP Division achieved an operating profit\* of £0.9 million. Within the E-Commerce Division, the major part of the full year operating loss\* of £4.0 million arose in the first quarter. Group overheads for the twelve month period were £2.0 million.

The performance in the first and second half-year periods was markedly different. Group sales remained relatively consistent, with £24.4 million in the six months to September 2001 and £23.7 million in the second half-year. However, reflecting management actions on cost, operating performance showed a significant improvement from the first to the second trading periods. A £4.9 million operating loss\* was incurred in the first half-year, but the Group recovered to above operating break-even in the six months to March, before taking account of the £0.6 million of restructuring costs included in operating costs in that period.

### Disposal of the ERP Division

On 28 May 2002, Kewill announced the disposal of its ERP Division to Exact Holding N.V., the Netherlands based provider of e-business and ERP software and solutions, for a total cash consideration of USD19.0 million (£13.0 million) on a cash and debt free basis. The Disposal will be subject to Kewill shareholder approval at an EGM.

The Board believes that shareholder value will be maximised through the Disposal, as the ERP Division is no longer integral to the Company's long-term strategy and there are few synergies between the two divisions, other than the sharing of Group costs.

The disposal of ERP, which represented 41% of revenue in 2001/02, will be a major structural change for Kewill. It has two principal consequences:

- The Group is now focused on supply chain management software – an area in which Kewill is uniquely specialised and which offers long-term growth prospects.
- The disposal of the ERP Division will enable Kewill to take advantage of any opportunities that may arise from restructuring and consolidation within the IT sector.

### Globeflow

In the Group's trading update on 16 April 2002, Kewill announced the acquisition of certain intellectual property rights, commercial and physical assets of Globeflow S.A. Globeflow S.A. had operations in Germany, Spain and the UK.

The consideration of €560,000 (£343,000) in cash was paid in April 2002. Globeflow supports our strategic direction of increasing the supply chain management capabilities within Kewill.Net and extending our European operating base.

### Intangible Assets Impairment

A further consequence of trading conditions in Financial Year 2001/02 was the requirement to reduce the carrying values of Intangibles arising from prior acquisitions. In the Interim Accounts, the Group made significant adjustments to the value of Intangibles on the balance sheet. We believe that the use of external benchmarks, as well as internal projections, reflected a prudent and transparent approach to this complex accounting issue.

The full year accounts reflect a £44.0 million impairment charge to the profit and loss account, substantially unaltered from the write-down at the half-year. The carrying value of Intangibles has been reduced from £66.3 million at 31 March 2001 to £15.1 million at 31 March 2002. A further consequence will be a reduction in the future annual goodwill amortisation charge to the profit and loss account.

### Cash and Tax

The Group began the financial year with net cash resources of £20.1 million. During the first quarter, £3.4 million was required to meet obligations for deferred consideration on previous acquisitions and to purchase Alliance Manufacturing. In addition, the Group absorbed the cash impact of its first-half trading losses. However, the proactive approach to cash management helped the Group to preserve cash and achieve a net cash position on 31 March 2002 of £11.4 million (2001: £20.1 million). The Group achieved a cash break-even in the second half year, before funding severance costs.

Following the disposal of the ERP Division, net cash resources will increase to around £22 million.

After making the appropriate adjustments for the value of Intangibles, loss after tax for the period was £57.6 million (2001: profit after tax of £0.4 million). Loss per share was 75.2p (2001: earnings per share of 0.5p). Reflecting the Group's tax position and trading performance, there was no significant tax charge in the year.

### Current Trading and Prospects

Kewill remains confident that the market for supply chain management software offers considerable opportunities for growth over the medium-term. The Company intends to build on its existing market position to service evolving customer requirements in this market sector. The disposal of the ERP Division augments Kewill's net cash and underpins this growth strategy.

The current economic environment is constraining many aspects of corporate IT investment, including SCM programmes. This is limiting the speed of customer adoption and, therefore, the level of growth that can be achieved in the short-term. However, the Board believes that SCM software can deliver fundamental benefits in cost reduction and customer service improvement, which will be important drivers for change.

In the current financial year 2002/03, the level of any economic recovery is difficult to predict and trading conditions for the continuing Group remain very uncertain. Kewill will seek to work within the constraints imposed by current market realities to preserve and, where possible, extend its positioning for future growth in SCM software and solutions.

As a restructured and re-focused business, Kewill is well placed to manage through the current economic uncertainties, capitalise on opportunities for growth and benefit from future improvement in commercial sentiment.



Andy Roberts

Chairman

28th May 2002

\* Operating profit/loss is before amortisation and impairment of intangible fixed assets.



As announced in June 2001, I became Chief Executive of Kewill on 1 July 2001. Last year's CEO Report stated that I would continue the Group's strategic direction which was described as being "to evolve more fully into a global e-commerce company, specialising in Internet-based supply chain management solutions."

Conditions in 2001/02 have been extremely difficult and management actions to protect the financial position of the Group have taken precedence over further strategic development. Whilst the management team will continue to give the highest priority to controlling costs and managing the Group's cash position, we remain committed to the future development of the Group in supply chain management software and solutions in the US and Europe.

Where possible, and taking account of situations that may arise from current market conditions, we will consider opportunities to expand both our technical capabilities and commercial positioning. The disposal of the ERP Division will enable Kewill to examine a wider range of strategic options.

#### **Group Financial Overview**

Sales from both E-Commerce and ERP divisions were down 27% to £48.1m (2001: £66.0 million). Overall sales, including the disposal of the Logistics Division, declined 30% (2002: £48.1 million, 2001: £68.7 million).

In line with action on divisional overheads, Group costs have been subject to careful review. In 2001/02, the charge was £2.0 million (2001: £2.9 million) a reduction of 31%.

#### **E-Commerce Division – Operating Performance**

The E-Commerce Division encountered particularly volatile market conditions, especially in the US. Following a successful conclusion to the previous financial year, E-Commerce entered its first trading quarter with a high level of commercial activity around both its traditional products and the new supply chain management capabilities of the Kewill.Net suite.

Along with other IT companies, we experienced a sharp decline in market momentum in the first quarter. Although we took prompt action to reduce costs, the time lag for these to take effect combined with the rapid deterioration in market conditions resulted in a first quarter operating loss\* of £4.4 million.

In the second quarter, the level of orders improved and the operating result benefited from cost reduction programmes actioned at the end of the first quarter. However, the business suffered from the considerable market dislocation, post September 11, in its third trading quarter. Momentum improved in the final quarter enabling Kewill to achieve its original second-half operating target of around break-even.

The division achieved sales of £28.4 million (2001: £39.4 million), a year-on-year reduction of 28% with the level of major licence sales being much reduced from the previous year, as customers suspended major IT initiatives.

Kewill focused sales efforts on core product lines within proven order fulfilment and transportation management software markets. Order fulfilment sales included Mothercare and Allders. Transportation sales included GE Medical, Sprint, Lucent, Bell Helicopter, Coles Department Store, Phillip Morris and The Gap. Kewill also continued to cultivate alliances with transportation carriers to improve its position in the emerging supply chain collaboration market. Kewill extended its commercial relationship with Fedex by securing an agreement to develop a reverse logistics portal, building on the strength of Kewill.Net technology.

The operating loss\* for the year was £4.0 million (2001: operating profit\* of £5.0 million), all of which was incurred in the first half. Operating costs\* for the first six months were £16.0 million, declining to £11.9 million in the second half – a reduction of 26%. Management has continued to reduce costs wherever possible, and financial year 2002/03 will benefit from the full-year effect of these additional actions.

The operating costs include a full year charge of approximately £0.7 million relating to restructuring costs. £0.5 million of this was incurred in the period October to March 2002. Excluding these reorganisation costs, the EC Division achieved a small operating profit in the second six months of trading.

### ERP Division – Operating Performance

The ERP Division started to experience economic pressures in the first calendar quarter of 2001 and conditions remained difficult through the full financial year to 31 March 2002.

Management responded with cost reductions, increased commercial and operational integration of the three business units (JobBoss, MAX and Alliance) and highly targeted marketing and sales activity. As a result, this US division remained profitable, achieving an operating profit of £0.9 million (2001: £3.0 million) on revenues of £19.7 million (2001: £22.5 million).

Over the course of the year, the Board has considered the strategic opportunities for both the E-Commerce and ERP divisions. At this stage in the evolution of the supply chain management software market, there is little synergy between the customer bases, technologies, or strategic direction of the two divisions. Although the ERP Division has potential for further expansion, in the current and foreseeable economic climate, Kewill could not fully support the development of both divisions. Therefore, the Board took the decision to sell the ERP Division.

We recognise the contribution of our former colleagues to Kewill's development and wish them well in their new venture as part of Exact Holding N.V.

### Strategic Development

The strategic direction of Kewill is in the provision of supply chain management (SCM) software in the US and Europe. The change to Internet-based technologies has created new opportunities for customers to realise both service and cost benefits within the management of supply chain relationships and processes. Kewill has extended its traditional strengths and customer base within order management in Europe and shipping systems in the US into a suite of products for advanced supply chain solutions, supported by integration services.

The emerging SCM market is large, complex and immature. Many business and technological trends will influence its evolution over the medium term. The following extracts from an internal Kewill strategy paper illustrate some of the issues:

#### “Benefits of Supply Chain Management:

Costs associated with supply chain activity are huge. At \$3 trillion per annum, supply chain expenditures approach 10% of global GDP and 10-15% of corporate revenue. Europe accounts for the largest proportion of supply chain costs (33%), followed by North America (28%), Asia (24%), and South America (15%). With so much capital tied up in the supply chain, businesses in every industry sector face challenges in managing this aspect of their activities.

Supply chain costs fall roughly into one of three categories: transportation (60%), warehousing/inventory carrying costs (35%) and administration (5%). These cost allocations create powerful market drivers for achieving faster order to delivery cycles, reduced inventory levels, and improvements in transportation asset utilisation. In simple terms, businesses want to spend less time and money moving and storing goods.

The last ten years have seen a doubling of inventory turnover, faster order-to-delivery times, improved forecasting based on real-time access to point of sale activity, lower inventory levels, as well as smaller, more frequent orders and time-definite shipments. Businesses are now using supply chain management strategies as competitive weapons.

Supply chain management strategies focus on controlling and synchronising the movement of goods, using information to get the right goods to the right place at the right time. Trading exchanges and supply chain collaboration technology are emerging markets and, as a consequence, very fragmented. No single vendor offers the domain expertise, products, and scope of services necessary to create and maintain an end-to-end, collaborative supply chain trading solution

#### Kewill's Market Position:

Various studies highlight one particular element of the overall supply chain pattern - businesses are seeking better interaction and coordination between order fulfilment and transportation execution systems. Kewill's expertise sits within this “Order to Delivery” process. Kewill possesses a unique combination of core products, services, and domain expertise that align well with the needs of the current supply chain collaboration market.

**Kewill success factors include:**

- Supply chain execution: Kewill's order fulfilment and transportation execution solutions provide key components for automating order to delivery processes. Carrier compliance domain expertise within transportation execution creates a significant barrier to competition.
- Supply chain event management: Kewill's recent acquisition of Globeflow creates a powerful foundation for achieving visibility and optimising supply chain collaboration using advanced event management technology.
- Large customer base: as Kewill rolls out supply chain trading networks, the ability to link into existing Kewill execution solutions with an established customer base will be an important advantage.
- Integration tools and services: Kewill Solutions Europe will offer a range of integration and workflow tools to manage the exchange of data with back office systems, facilitating supply chain visibility and event management.
- Hosting and community management expertise: Kewill possesses the know-how to implement trading exchanges and manage communities, an important and often overlooked domain expertise.
- US and European presence: Kewill has presence and is recognised as a leader in two of the largest supply chain markets
- Alliance and Channel management: the supply chain market will continue to be fragmented and therefore alliance and channel management expertise will be an important differentiator."

**Globeflow**

Consistent with its strategy in the SCM software market, Kewill has recently announced the acquisition of certain intellectual property rights, commercial and physical assets of Globeflow S.A.. Globeflow had technical and commercial operations in Germany, Spain and the UK.

This acquisition will allow Kewill to expand its continental European E-Commerce operations into Germany and Spain under the "Kewill Solutions Europe" brand and brings highly complementary java-based software technology. This increased European presence and enhanced supply chain product suite will support Kewill's developing relationships with major customers, including logistics carriers.

**Summary and Outlook**

The supply chain market is huge with powerful market drivers that are forcing businesses to improve the way they manage the flow of information and goods for competitive advantage. Businesses are cautious about making supply chain technology investments, focusing on execution improvements with tangible and short-term returns on investment. With its core capabilities in order fulfilment and transportation execution, Kewill is in a strong position to provide practical solutions with real value.

I believe that, although current market conditions will limit the potential for short-term benefits, Kewill will continue to make progress towards its longer-term strategic goals in supply chain management software and solutions.

Robert Malley  
Chief Executive  
28th May 2002

\* Operating profit/loss is before amortisation and impairment of intangible fixed assets.

## directors and advisers

Chairman	<b>Andy Roberts</b> (non-executive)
Directors	<b>Robert Malley</b> (chief executive) <b>Barbara Moorhouse</b> (finance director) <b>Charles Alexander</b> (non-executive) <b>Thomas Angear</b> (non-executive)
Secretary	<b>Barbara Moorhouse</b>
Registered Office	Cedar Court, Guildford Road, Fetcham, Leatherhead, Surrey, KT22 9RX
Status	Kewill Systems plc is listed on the London Stock Exchange
Registered Number	1037515
Financial Adviser	Lazard Brothers & Co Limited, 21 Moorfields, London, EC2P 2HT
Stockbrokers	Deutsche Bank, Winchester House, 1 Great Winchester Street, London EC2N 2DB
Auditors	PricewaterhouseCoopers, Chartered Accountants, 1 Embankment Place, London WC2N 6RH
Solicitors	Lovells, 65 Holborn Viaduct, London EC1A 2DY
Principal Bankers	Barclays Bank plc, 50 Pall Mall, P.O. Box 15162, London, SW1A 1QB
Registrars and Transfer Office	Capita IRG Plc, Balfour House, 390/398 High Road, Ilford, Essex, IG1 1NQ

## Directors' report



**Andy Roberts (50)**  
(Non-Executive Chairman)

Andy Roberts was appointed as a non-executive director to the company in April 1997 and was appointed non-executive chairman in April 1998. He held several senior management positions within ICL between 1982 and 1993 and then served as chief executive of Data Sciences plc between 1993 and 1997. Following the successful turnaround at Data Sciences the company was acquired by IBM in March 1996. In 1997 he served as president of the Computing Services and Software Association and remains active in support of the Association. He is a member of the Industry Advisory Board at Surrey University, a non-executive director of several software related companies and non executive chairman of Vega Group plc.



**Robert Malley (45)**  
(Chief Executive)

Bob Malley is CEO of Kewill Systems plc having been appointed on 1st July 2001. Bob received a law degree from Suffolk University in 1986 and soon thereafter founded Tracer Research, Inc., a software development firm recognised by the Business Technology Association as the industry leader in integrated shipping management systems. Kewill acquired Tracer in 1998 and Bob was named President of Kewill's E Commerce division. Bob was appointed to the Board of Directors in August 2000 as an executive director.



**Barbara Moorhouse (43)**  
(Finance Director)

Barbara Moorhouse FCMA, AMCT was appointed finance director in April 2000. From 1981 to 1995 Barbara Moorhouse held a number of financial and commercial appointments with TI Group plc, Northern Foods plc, Courtaulds plc and South West Water plc. In 1997 she was appointed group finance director of Morgan Sindall plc. In the period leading up to her appointment with the company she has extended her wide business experience through interim senior executive appointments in the information technology, telecommunications and venture capital sectors, with Mondex International, Energis plc and Jigsaw Group.



**Charles Alexander (45)**  
(Non-Executive Director)

Charles was appointed a non-executive director on 4th April 2001. Charles is currently Co-head of European M&A at Lehman Brothers, based in London. Since joining Lehman Brothers in August 1998 he has advised several of the Firm's leading clients on major transactions in the communications industry. Prior to joining Lehman Brothers, Charles worked with JP Morgan from 1987 to 1998. He worked for McKinsey & Company in London and Tokyo from 1982 to 1987 and for the Boston Consulting Group in Boston from 1980 to 1982.



**Thomas Angear (65)**  
(Non-Executive Director)

Thomas Angear has served as a non-executive director of the company since March 1989. He has a degree in industrial economics from Nottingham University and an MBA from Cornell University (USA) where he was a Harkness Fellow. He is an adviser to a mergers and acquisition consulting company.

### Financial Statements

The directors submit their report and the audited financial statements of the group for the year ended 31 March 2002.

### Review of the Business and Future Development

The principal activities of the group during the year were and will continue to be the provision of computer software and associated services.

A review of the group's business activities is contained on pages 2 to 6.

### Financial Results and Dividends

In line with previously announced policy, the board will not be recommending to shareholders the payment of dividends.

A loss of £57,638,000 (2001: profit £376,000) will be charged to reserves.

### Research and Development

Following the completion of the development of Kewill.Net and its successful commercial up-take in the market the level of development spend has significantly reduced in the year to £2.4 million from £7.4 million in the prior year.

Some of this development is jointly funded by individual, or groups of users. All research and development expenditure is written off to the profit and loss account as it is incurred.

### Charitable and Political Donations

Donations for charitable purposes amounted to £9,600 (2001: £6,198). No contributions were made for political purposes.

### Disabled Persons

Group companies give full consideration to suitable applications for employment from disabled persons. Disabled employees, including those who become disabled while in the group's employment, are eligible to participate in all appropriate career development and training opportunities available to staff.

### Employee Involvement

The directors recognise the importance of involving all employees in the performance and development of the group. Accordingly, it is the policy of management to develop and encourage employee involvement throughout the group by regular communication both from the board and between employees within the divisions. In particular Robert Malley, chief executive, makes periodic presentations in staff locations in the USA and Europe.

The directors also believe that the operation of the various share option and share purchase schemes encourages participation directly in the success of the group.

### Payments to Suppliers

The group seeks to abide by the payment terms agreed with suppliers whenever it is satisfied that the supplier has provided the goods and services in accordance with the agreed terms and conditions. The group does not have a universal standard or code which deals specifically with the payment of suppliers. Trade creditors of the company at 31 March 2002 expressed in relation to the total amount invoiced by suppliers for goods and services during the year were equivalent to 35 (2001: 33) creditor days.

### Environmental Policy

The group recognises the importance of good environmental practice. The nature of the group's activities are of minimal environmental impact, but where necessary the business meets its statutory requirements and aims to apply good environmental practice by encouraging re-cycling of waste and minimising the use of paper by the use of electronic mail in communication.

Directors' report *continued***Directors**

On 1st July 2001 Robert Malley was appointed chief executive following Geoffrey Finlay stepping down on 30th June 2001. Charles Alexander was appointed on 4th April 2001 as a non-executive director. All other directors served throughout the year.

Andy Roberts and Barbara Moorhouse retire by rotation and offer themselves for re-election. Barbara Moorhouse has a service contract which is a rolling contract that can be terminated on 12 months written notice by either party. Andy Roberts's terms are set by reference to letters of appointment and the notice is determined as reasonable notice. In the event of a change of control of the Company, Barbara Moorhouse and Robert Malley may terminate their service contracts with immediate effect within six months of that change of control if there is a material reduction in their status or a material change in their terms of employment. In such circumstances, they would be entitled to receive 12 months' salary plus bonus of at least 50% of salary plus the value of other benefits over the 12 months period.

No director has a service contract in excess of one year, except for Charles Alexander who has a fixed term 2 year contract from his appointment date in April 2001. The length was set at 2 years to secure his services and it is intended to revert to a notice period of less than 1 year once the term of his initial contract has expired.

**Directors' Interests**

The beneficial interests of the directors in the share capital of the company at 1 April 2001, at 31 March 2002 and at 28th May 2002, as recorded in the register maintained by the company in accordance with the provision of the Companies Act 1985 were as follows:

	Ordinary Shares of 1p each 28th May 2002	Ordinary Shares of 1p each 31 March 2002**	Ordinary Shares of 1p each 1 April 2001*
A.H.J.Roberts (non-executive chairman)	171,230	171,230	171,230
R.Malley	632,500	632,500	632,500
B.J.Moorhouse	2,500	2,500	2,500
G.J.Finlay		478,080	478,080
T.R.Angear (non-executive)	415,000	415,000	415,000
C. Alexander (non-executive)	5,263	5,263	5,263

\* Or at date of appointment if later

\*\* Or at date of resignation if earlier

Under the senior executive share option schemes certain directors have, at the then prevailing market price, been granted options which must be held for a minimum period of three years before exercise. Details of the directors' share options are set out in Note 14. Under the 1995 executive share option schemes, options may only be exercised provided the percentage increase in the group's annualised earnings per share is at least equal to the average annual percentage increase, if any, in the retail price index over the three years prior to the exercise of the option plus 2% per annum.

**Substantial Shareholders**

	Number of Ordinary Shares held at 28th May 2002	% of total Ordinary Shares
Schroder Investment Management Ltd	9,721,841	12.7%
UBS Global Asset Management Ltd	5,854,025	7.6%
HBOS plc	4,465,648	5.8%
JP Morgan Fleming Asset Management	4,499,527	5.9%
Friends Ivory & Sime plc	2,707,299	3.5%

**Post Balance Sheet Events**

On 4th April 2002 Kewill completed the acquisition of certain intellectual property rights, commercial and physical assets of Globeflow S.A. The consideration of €560,000 (£343,000) in cash was paid in April 2002. Globeflow has operations in Spain, Germany and the UK. The Board announced on 28th May 2002 that it had conditionally agreed to dispose of its ERP Division to Exact Holding N.V., the Netherland based provider of e-business and ERP software and solutions, for a total cash consideration of USD19.0 million (£13.0 million) of which 10% is payable after one year, on a cash and debt free basis. The completion of the disposal is conditional upon the approval of Kewill's shareholders. This will be sought at an Extraordinary General Meeting to be held on 14 June 2002.

**Auditors**

PricewaterhouseCoopers have expressed their willingness to continue in office as auditors and, in accordance with Section 385 (2) of the Companies Act 1985, a resolution proposing their re-appointment will be submitted to the Annual General Meeting.

By Order of the Board

**B.J. Moorhouse**

Secretary

28th May 2002

## Remuneration report

The remuneration committee is composed of the non-executive directors. The remuneration and emoluments of the executive directors are determined and authorised by the non-executive directors.

The committee consults with the chief executive about their proposals and have access to professional advice where necessary.

The committee also reviews and approves the remuneration of senior managers operating at divisional level. The remuneration of the non-executive directors is approved by the full board. Details of the remuneration of the directors during the year and directors' share options are set out in Note 14.

The committee confirms that full consideration has been given to Section 1B of the Combined Code of Corporate Governance adopted by the United Kingdom Listing Authority ("the Combined Code") in framing its remuneration policy. Details of the directors proposed for re-election, directors' service contracts and the interests of the directors in the shares of the company are disclosed in the directors' report.

### Remuneration policy

The committee believes that the executive directors should be rewarded fairly and competitively and takes regard of remuneration of senior managers of similar public companies operating within the computer services industry. The general level of remuneration within countries in which executive directors and senior managers are employed is also taken into account.

Share options are awarded in order to retain and motivate staff including senior managers and executive directors, options are awarded on a regular basis in line with the Association of British Insurers' ("ABI") guidelines. In light of the ABI Guidance issued in March 2001, the remuneration committee place an annual limit on options issued in the year to a maximum value equal to 100% of the employee's remuneration, following approval by shareholders of this rule change in July 2001. All options are subject to the rules relating to performance targets. Consistent with this policy, directors have been awarded share options, details of which are shown in note 14. These issues were made in June and July 2001 in accordance with the scheme rules.

Executive directors are provided with bonus schemes linked to the performance of the group against targets established by the remuneration committee. Consideration has been given to Schedule A of the Combined Code in designing performance related remuneration. Individual annual performance related bonus schemes, reflecting particular responsibilities, are implemented for senior managers. Executive directors participate in benefits generally offered to other staff.

On behalf of the Board

#### T.R. Angear

Chairman of the Remuneration Committee  
28th May 2002

## Corporate governance

### Compliance statement

The group has a policy of maintaining high standards of corporate governance in accordance with the Principles of Good Corporate Governance and Code of Best Practice as set out in Section 1 of the Combined Code as incorporated into the Listing Rules of the Financial Services Authority.

The Listing Rules require the board to report on compliance with the forty-five code provisions throughout the company's accounting period. Except for the exceptions outlined below, the company has complied throughout the accounting period ended 31 March 2002 with the provisions set out in section 1 of the Code:

- the board has not identified a senior independent director as required by provision A.2.1, as in light of the size of the company the governance of the company is considered to be a matter for the board as a whole.
- the board currently does not comply with provisions A.3.2 and B.2.2, in that T Angear is not considered to be independent due to the length of his service which now exceeds ten years.
- The board does not comply with provision A.6.1 as all non-executive directors are not appointed for specific terms.

### Directors

The group is controlled by the board of directors which comprises of five directors, three of whom are non-executives. The post of chief executive is separate from that of the chairman. All directors are subject to election by shareholders at the first opportunity after their appointment and thereafter at intervals of no more than three years. Biographical details of the directors of the company are given on page 8.

All directors have access to the advice and services of the company secretary and the board has established a procedure whereby any director wishing to do so in the furtherance of his/her duties may take independent professional advice at the company's expense.

The board meets around ten times a year and has a formal schedule of matters reserved to it. These include determining overall group commercial strategy, review of the performance of the group, responsibility for monitoring exposure to key business risks, setting and approving annual budgets, determining acquisition and investment policy, senior management appointments and approval of major capital expenditure and development projects. All directors bring an independent judgement to bear on these key business issues.

## Board Committees

The board has delegated specific authority to three main committees of the board as detailed below, all of which have written terms of reference.

The audit committee comprises the three non-executive directors and is chaired by Charles Alexander, while the chief executive and finance director attend by invitation. It meets at least once per year and is attended by the auditors. The audit committee assists the board in reviewing the effectiveness of the internal control system and reviews the annual financial statements to be published prior to release to the board for approval.

The remuneration committee comprises the three non-executive directors and is chaired by Andy Roberts, and is responsible for determining the remuneration and emoluments of the executive directors. It also reviews and approves the remuneration of senior managers operating at the divisional level.

The nomination committee comprises the three non-executive directors and is chaired by Thomas Angear. It is responsible for the nomination for board approval of candidates for board appointment at an executive and non-executive level.

## Relations with shareholders

The company maintains regular contact with its principal institutional shareholders. All shareholders are invited to attend the Annual General Meeting, at which the board presents a review of the results and comments on current business activity and where private investors are encouraged to take advantage of the opportunity to ask questions.

## Risk management and internal controls

The board has reviewed the strategic, operational, compliance and financial controls of the business as required under the Turnbull Committee guidance on internal control issued in September 1999. During the course of the year a formal risk assessment appraisal was undertaken and reviewed by the board, this reviewed the effectiveness of the internal control system. The board has considered this in undertaking its formal review of the effectiveness of the group's system of internal controls. This review process is an on-going process for identifying, evaluating and managing the significant risks faced by the group and will be undertaken every 6 months hereafter.

In the year management has reviewed all areas of risk, reviewed the effectiveness of controls in place to minimise these risks and reported to the board a list of recommended actions. The board has formally reviewed the effectiveness of the risk management processes, together with issues raised by the external auditors.

The directors have responsibility for the group's system of internal control and reviewing its effectiveness, whilst management is responsible for implementing board policies on risk and control.

There are inherent limitations in any system of internal control. Any system, however effective, can provide only reasonable not absolute assurance against material mis-statement or loss. All of the group's controls and procedures are subject to constant review with the object of managing rather than eliminating the risk of failure to achieve business objectives.

The directors meet around 10 times per year to review strategic, operational and financial matters and are responsible for ensuring that the group maintains a system of internal financial control. This system is designed to provide them with reasonable assurance regarding the accounting records, the reliability of financial information used within the business and for publication and to ensure that assets are safeguarded.

### The key elements of internal control within the group include:

- regular risk assessment and compliance reviews;
- establishing clear management responsibilities for each division;
- establishing clear authorisation levels for the board and management at all levels;
- preparation and approval by the board of medium term strategic plans;
- preparation of detailed budgets which require board approval;
- reporting financial results on a monthly basis with comparisons to budget;
- monthly provision of key trading statistics and cashflow information;
- management targets and latest forecasts;
- integration and review of acquisitions;
- HR policies and procedures documented; and
- regular review of security and integrity of software and websites.

## Going Concern

After making inquiries, the directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

## Corporate governance and five year record

### Statement of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the group at the end of the year and of the profit or loss for that year. In preparing those financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company and the group will continue in business; and
- maintain the integrity of the group's website.

The directors confirm that the financial statements comply with the above requirements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and of the group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Information published on the internet is accessible in many countries with different legal requirements relating to the preparation and dissemination of financial statements. UK legislation governing preparation and dissemination of financial statements may therefore differ from that in other jurisdictions.

For and on behalf of the Board of Directors

Directors R. Malley

B.J. Moorhouse

### Five year record

	1998 £000	1999 £000	2000 £000	2001 £000	2002 £000	
Turnover	<u>44,586</u>	<u>60,079</u>	<u>75,245</u>	<u>68,737</u>	<u>48,144</u>	
Gross profit	<u>34,932</u>	<u>47,434</u>	<u>64,013</u>	<u>61,237</u>	<u>42,126</u>	
Operating profit/(loss) before amortisation and impairment of intangibles	<u>7,757</u>	<u>10,775</u>	<u>9,587</u>	<u>5,148</u>	<u>(5,105)</u>	
Amortisation and impairment of intangibles	<u>(1,603)</u>	<u>(3,235)</u>	<u>(5,734)</u>	<u>(6,312)</u>	<u>(50,703)</u>	
Profit/(loss) before taxation	<u>6,346</u>	<u>7,196</u>	<u>1,803</u>	<u>3,279</u>	<u>(57,638)</u>	
Earnings/ (loss) per share	Pence	5.6p	5.6p	(1.2)p	0.5p	(75.2)p
Earnings/ (loss) per share before amortisation and impairment of intangibles	Pence	8.1p	10.4p	6.8p	8.8p	(9.1)p
Dividends per share	Pence	2.2p	2.2p	-	-	-

## Consolidated profit and loss account for the year ended 31 March 2002

		Results before amortisation and impairment*	Amortisation and impairment of intangibles	Consolidated profit and loss	Results before amortisation*	Amortisation of intangibles	Consolidated profit and loss
	Note	2002 £000	2002 £000	2002 £000	2001 £000	2001 £000	2001 £000
<b>Turnover</b>							
Continuing operations		28,415		28,415	39,430		39,430
Discontinuing operations		19,729		19,729	22,475		22,475
Total continuing	10a	48,144		48,144	61,905		61,905
Discontinued		-		-	6,832		6,832
		48,144		48,144	68,737		68,737
Cost of sales		6,018		6,018	7,500		7,500
<b>Gross profit</b>		42,126		42,126	61,237		61,237
Operating expenses		47,231	50,703	97,934	56,089	6,312	62,401
<b>Operating (loss)/profit</b>							
Continuing operations- before development expenditure		(3,503)	(49,252)	(52,755)	9,446	(4,459)	4,987
Continuing operations- development expenditure		(2,466)	-	(2,466)	(7,400)	-	(7,400)
Discontinuing operations		864	(1,451)	(587)	3,019	(1,328)	1,691
Total continuing operations		(5,105)	(50,703)	(55,808)	5,065	(5,787)	(722)
Discontinued operations		-	-	-	83	(525)	(442)
<b>Total operating (loss)/profit</b>	10a	(5,105)	(50,703)	(55,808)	5,148	(6,312)	(1,164)
Net (loss)/profit on disposals	19	(74)	-	(74)	3,805	-	3,805
Amounts written off investments	4	(2,400)		(2,400)	-		-
<b>(Loss)/ profit on ordinary activities before interest</b>		(7,579)	(50,703)	(58,282)	8,953	(6,312)	2,641
Net interest receivable	11	644	-	644	638	-	638
<b>(Loss)/ profit on ordinary activities before taxation</b>	10 a,b	(6,935)	(50,703)	(57,638)	9,591	(6,312)	3,279
Tax on (loss)/ profit on ordinary activities	12	-	-	-	2,903	-	2,903
<b>(Loss)/ profit for the year</b>	9	(6,935)	(50,703)	(57,638)	6,688	(6,312)	376
<b>(Loss)/ earnings per share</b>	13	(9.1)p		(75.2)p	8.8p		0.5p
<b>Diluted (loss)/ earnings per share</b>	13	(9.1)p		(75.2)p	8.7p		0.5p

There is no difference between the loss on ordinary activities before taxation and the loss for the year stated above and their historical cost equivalents.

\* Results before amortisation and impairment of intangibles include all depreciation charges on assets other than purchased intellectual property rights and goodwill.

## Statement of total group recognised gains and losses for the year ended 31 March 2002

	2002 £000	2001 £000
(Loss)/ profit for the financial year	(57,638)	376
Exchange adjustments offset in reserves	(1,590)	2,386
<b>Total group losses and gains recognised since last annual report</b>	<b>(59,228)</b>	<b>2,762</b>

## Consolidated balance sheet as at 31 March 2002

	Note	2002		2001	
		£'000	£'000	£'000	£'000
<b>Fixed assets</b>					
Intangible assets	2		15,107		66,338
Tangible assets	3		2,965		3,863
Investments	4		-		2,400
			<u>18,072</u>		<u>72,601</u>
<b>Current assets</b>					
Inventory	5	443		767	
Debtors	6	11,451		15,468	
Bank balances and cash	7d	<u>11,376</u>		<u>33,217</u>	
		<u>23,270</u>		<u>49,452</u>	
Creditors : amounts falling due within one year	7a	<u>17,251</u>		<u>27,919</u>	
<b>Net current assets</b>			<u>6,019</u>		<u>21,533</u>
<b>Total assets less current liabilities</b>			24,091		94,134
Creditors : amounts falling due after more than one year	7b		<u>461</u>		<u>11,468</u>
<b>Net assets</b>			<u>23,630</u>		<u>82,666</u>
<b>Capital and reserves</b>					
Called up share capital	8		768		765
Share premium account	9		38,163		37,974
Merger reserve	9		10,920		25,263
Profit and loss account	9		<u>(26,221)</u>		<u>18,664</u>
<b>Equity shareholders' funds</b>			<u>23,630</u>		<u>82,666</u>

The financial statements which comprise the consolidated profit and loss account, the consolidated and company balance sheets, the consolidated cash flow statement, the statement of total group recognised gains and losses and related notes were approved by the board of directors on 28th May 2002 and were signed on its behalf by:

Directors R. MALLEY

B. J. MOORHOUSE

	Note	2002		2001	
		£'000	£'000	£'000	£'000
<b>Fixed assets</b>					
Intangible assets	2		-		3,268
Tangible assets	3		971		1,381
Investments	4		<u>8,841</u>		<u>16,344</u>
			9,812		20,993
<b>Current assets</b>					
Inventory	5	121		144	
Debtors	6	14,181		62,995	
Bank balances and cash		<u>9,483</u>		<u>27,642</u>	
		<u>23,785</u>		<u>90,781</u>	
Creditors : amounts falling due within one year	7a	<u>4,401</u>		<u>9,242</u>	
<b>Net current assets</b>			<u>19,384</u>		<u>81,539</u>
<b>Total assets less current liabilities</b>			29,196		102,532
Creditors : amounts falling due after more than one year	7b		-		<u>11,051</u>
<b>Net assets</b>			<u>29,196</u>		<u>91,481</u>
<b>Capital and reserves</b>					
Called up share capital	8		768		765
Share premium account	9		38,163		37,974
Merger reserve	9		8,870		25,263
Profit and loss account	9		<u>(18,605)</u>		<u>27,479</u>
<b>Equity shareholders' funds</b>			<u>29,196</u>		<u>91,481</u>

The financial statements which comprise the consolidated profit and loss account, the consolidated and company balance sheets, the consolidated cashflow statement, the statement of total group recognised gains and losses and related notes were approved by the board of directors on 28 May 2002 and were signed on its behalf by:

Directors R. MALLEY

B. J. MOORHOUSE

## Reconciliation of movements in group shareholders' funds for the year ended 31 March 2002

	2002 £000	2001 £000
(Loss)/ profit on ordinary activities after taxation	(57,638)	376
Exchange adjustments offset in reserves	(1,590)	2,386
New share capital subscribed	192	11,668
Goodwill written-back on disposal of subsidiary	-	3,780
<b>Net (reduction)/ addition to shareholders' funds</b>	<u>(59,036)</u>	<u>18,210</u>
Opening equity shareholders' funds	82,666	64,456
<b>Closing equity shareholders' funds</b>	<u>23,630</u>	<u>82,666</u>

## Consolidated cashflow statement for the year ended 31 March 2002

	2002 £000	2001 £000
Net cash (outflow)/inflow from operating activities (note A)	(4,551)	8,134
Returns on investments and servicing of finance (note B)	644	541
Taxation	(497)	(3,357)
Capital expenditure and financial investment (Note B)	(961)	(5,955)
Acquisitions and disposals (Note B)	<u>(3,546)</u>	<u>468</u>
<b>Cash outflow before use of liquid resources and financing</b>	(8,911)	(169)
Management of liquid resources (Note B)	22,044	6,286
Financing (Note C)	(12,916)	(8,523)
<b>Net increase/ (decrease) in cash</b>	<u>217</u>	<u>(2,406)</u>

	2002 £000	2001 £000
<b>Reconciliation of net cash flow to movement in net funds (Note D)</b>		
<b>Increase/(decrease) in cash in the year</b>	217	(2,406)
Cash outflow from change in debt and lease financing	13,108	10,046
Cash (inflow) from movement in liquid resources	<u>(22,044)</u>	<u>(6,286)</u>
<b>Change in net funds resulting from cash flows</b>	(8,719)	1,354
Exchange movements	<u>(43)</u>	<u>(3,286)</u>
<b>Movement in net funds in the year</b>	(8,762)	(1,932)
Net funds at 1 April 2001	<u>20,132</u>	<u>22,064</u>
<b>Net funds at 31 March 2002</b>	<u>11,370</u>	<u>20,132</u>

## Notes to the consolidated cash flow statement

**A. Reconciliation of operating loss to net cash (outflow)/inflow from operating activities**

	2002 £000	2001 £000
Operating loss	(55,808)	(1,164)
Depreciation charges	1,691	1,496
Amortisation and impairment of intangibles	50,703	6,312
Loss on sale of tangible fixed assets	97	91
Decrease/(increase) in inventory	235	(39)
Decrease in debtors	3,634	4,711
(Decrease) in creditors	<u>(5,103)</u>	<u>(3,273)</u>
<b>Net cash (outflow)/inflow from operating activities</b>	<b><u>(4,551)</u></b>	<b><u>8,134</u></b>

**B. Analysis of cash flows for headings netted in the cash flow statement**

	2002 £000	2001 £000
<b>Returns on investments and servicing of finance</b>		
Interest received	1,094	2,612
Interest paid	<u>(450)</u>	<u>(2,071)</u>
<b>Net cash inflow</b>	<b><u>644</u></b>	<b><u>541</u></b>
<b>Capital expenditure and financial investment</b>		
Purchase of intangible fixed assets	-	(3,381)
Purchase of tangible fixed assets	(1,001)	(2,634)
Proceed from sale of tangible fixed assets	40	60
<b>Net cash outflow</b>	<b><u>(961)</u></b>	<b><u>(5,955)</u></b>
<b>Acquisitions and disposals</b>		
<b>Acquisitions</b>		
Purchase of subsidiary undertakings (note E)	(583)	(19,746)
Acquisition costs	(50)	(110)
Net funds acquired with subsidiary undertakings	-	1,358
Settlement of deferred consideration in respect of acquisitions made in previous years	<u>(3,125)</u>	<u>(1,617)</u>
	<u>(3,758)</u>	<u>(20,115)</u>
<b>Disposals</b>		
Sale of discontinued operations:		
Sale of discontinued business	212	21,523
Net funds disposed of with subsidiary undertakings	-	(121)
Disposal costs	<u>-</u>	<u>(819)</u>
	212	20,583
<b>Net cash (outflow)/inflow</b>	<b><u>(3,546)</u></b>	<b><u>468</u></b>
<b>Management of liquid resources</b>		
<b>Cash withdrawn from short-term deposits</b>	<b><u>22,044</u></b>	<b><u>6,286</u></b>

**C. Financing**

	2002 £000	2001 £000
Issue of ordinary share capital	192	1,523
Capital element of finance lease payments	(19)	(20)
Receipt of bank loan	-	19,746
Repayment of bank loans	(13,089)	(29,772)
<b>Net cash (outflow)</b>	<b>(12,916)</b>	<b>(8,523)</b>

**D. Analysis of net funds**

	Cash	Short term deposits	Bank loan	Finance leases	Net funds
	£000	£000	£000	£000	£000
At 1 April 2001	397	32,820	(13,060)	(25)	20,132
Cashflow	217	(22,044)	13,089	19	(8,719)
Exchange movements	(5)	(9)	(29)	-	(43)
<b>At 31 March 2002</b>	<b>609</b>	<b>10,767</b>	<b>-</b>	<b>(6)</b>	<b>11,370</b>

**E. Purchase of subsidiary undertakings**

	2002 £000	2001 £000
<b>Net assets/(liabilities) acquired</b>		
Tangible fixed assets	97	119
Inventory	15	429
Debtors	206	2,768
Bank balances and cash	-	1,358
Creditors	(601)	(3,262)
	(283)	1,412
Goodwill	916	30,738
	<b>633</b>	<b>32,150</b>
<b>Satisfied by</b>		
Cash	583	19,746
Shares allotted	-	10,145
Deferred consideration	-	2,149
Acquisition costs	50	110
	<b>633</b>	<b>32,150</b>

The acquisition during the year absorbed £943,000 of the group's net operating cash flows, and utilised £nil for investing activities.

## Notes to the financial statements for the year ended 31 March 2002

**1. Accounting policies**

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. Set out below is a summary of the more important accounting policies, which have been applied consistently except as noted below.

**Change in accounting policies**

The group has adopted FRS 19 'Deferred Taxation' in these financial statements. This has required a change in accounting policy. The change does not have a material impact on the deferred taxation position of the Group or the Company as at 31st March 2001 and accordingly no restatement of the comparative results for 2001 has been made.

FRS 18 'Accounting Policies' has also been adopted by the Group. This has not required any change in accounting policies by the Group or Company.

**a) Accounting convention**

The financial statements have been prepared under the historical cost convention.

**b) Consolidation policy**

The group financial statements consolidate the financial statements of the company and all of its subsidiary undertakings. The financial statements of each company in the group have been prepared to 31 March 2002. The results of subsidiary undertakings have been included from the date of acquisition or up to the date of disposal being the date control passes. All intra-group profits are eliminated on consolidation. The parent company has not presented its own profit and loss account, as permitted by section 230 of the Companies Act 1985.

**c) Intangible assets**

Goodwill is stated at cost less accumulated amortisation and where appropriate impairment in value. Goodwill arising on consolidation represents the excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired. Goodwill arising prior to 1 April 1997 has been written off to reserves. Goodwill arising since that date has been capitalised and is being written off on a straight line basis over its expected useful economic life in accordance with FRS10. The expected useful economic life for all acquisitions is 10 years, which is the period over which the directors estimate that the values of the underlying businesses acquired are expected to exceed the value of the underlying asset. This has been changed in the year to bring the useful economic life of non-product acquisitions into line with product acquisitions. Formerly the policy used to be 15 years for non-product business acquisitions.

Other intangible assets are included at cost or fair value to the group at the date of acquisition, assessed on an estimate of the present value of future cashflows projected to arise from the use of those intangible assets, less amounts written off representing impairment in value.

Amortisation is calculated to write off the cost of the intangible assets on a straight line basis over their expected useful economic lives, for each individual asset, in accordance with FRS10. The expected useful economic life for intangibles has been considered by the directors to be 5 years.

Impairment tests on the carrying value of goodwill are undertaken:

- At the end of the first full accounting period following acquisition; and
- Annually thereafter if events or changes in circumstances indicate that the carrying value may not be recoverable.

**d) Tangible fixed assets and depreciation**

Tangible fixed assets are stated at cost or fair value when acquired, less depreciation and when appropriate, provision for impairment. Depreciation is provided at rates calculated to write off the cost of fixed assets less estimated residual value on a straight line basis over the expected useful economic lives of the assets concerned. The annual rates used from date of purchase are:

Freehold and leasehold buildings	2%
Leasehold improvements	10-20%
Office equipment	33%
Fixtures and fittings	20%
Motor vehicles	25%

Freehold land is not depreciated.

**e) Investments**

Investments are included in the balance sheet at cost less amounts written off, representing impairment in value. Impairment charges are recorded if events or changes in circumstances indicate that the carrying value may not be recoverable.

**f) Inventory**

Inventory is stated at the lower of cost and net realisable value after making allowance for slow-moving and obsolete inventory.

Cost of finished goods is based on purchase price on a first in first out basis.

**g) Foreign currencies**

Transactions in foreign currencies are translated into sterling at the rate of exchange ruling on the date of the transaction. Assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. The results of overseas subsidiary undertakings are translated into sterling at the monthly average exchange rate. The assets and liabilities are translated at rates of exchange ruling at the end of the financial year. Differences on exchange arising from the retranslation of the net investment in overseas subsidiary undertakings are taken to reserves and are reported in the statement of total group recognised gains and losses. Other foreign exchange gains and losses are taken to the profit and loss account in the year in which they arise.

**h) Turnover**

Turnover is calculated net of value added tax and represents the total amount receivable by the group in respect of the sale of software licenses, customised software, hardware and fees derived from installation, consultancy, training and support. Revenue is recognised when a contract exists, delivery has occurred and the fee is fixed or determinable.

Income from the sale of software licenses, customised software, hardware and installation is recognised upon shipment to a customer when the significant risks and rewards of ownership have been transferred to the buyer or on completion of contractual milestone performance obligations. Income from training and consultancy is recognised on performance of the service and support is generally invoiced in advance, termed 'deferred income', and taken to income in equal monthly instalments over the relevant periods.

**i) Deferred taxation**

Deferred tax is provided in full on an undiscounted basis, on all timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in tax computations in periods different from those in which they are included in the financial statements.

A net deferred tax asset is regarded as recoverable and is recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be sufficient taxable profits in the foreseeable future from which the reversal of the underlying timing differences can be deducted.

**j) Development expenditure**

Expenditure related to the development of the group's products is written off to the profit and loss account as it is incurred.

**k) Pension costs**

The group operates a number of defined contribution pension schemes. The charge against the profit and loss account is the amount of contributions payable to the pension schemes in respect of the accounting period.

**l) Operating leases**

The amounts payable under operating leases are charged to the profit and loss account in the year in which they are incurred. Rent free periods or any inducement to enter into operating lease agreements are released to the profit and loss account over the period to the date on which the rent is first expected to be adjusted to the prevailing market rate.

**m) Financial instruments**

The group's financial assets and liabilities are recorded at historic cost or fair value, apart from assets and liabilities of overseas subsidiary undertakings which are translated into sterling at rates ruling at the balance sheet date. Income and expenditure arising on financial instruments is recognised on an accruals basis and taken to the profit and loss account in the financial period in which it arises.

**n) Related party transactions**

FRS 8 'Related Party Transactions' requires disclosure of the details of material transactions between the Company and related parties. The Company has taken advantage of the exemptions within FRS 8 not to disclose transactions between Group companies.

**2. Intangible fixed assets and goodwill**

Movements during the year are summarised as follows:

	Intellectual Property £000	Group Goodwill £000	Total Intangibles £000	Intellectual Property £000	Company Goodwill £000	Total Intangibles £000
<b>Group</b>						
<b>Cost</b>						
At 1 April 2001	5,442	73,295	78,737	3,381	-	3,381
Additions	-	916	916	-	-	-
Foreign exchange differences	(3)	(92)	(95)	-	-	-
<b>At 31 March 2002</b>	<b>5,439</b>	<b>74,119</b>	<b>79,558</b>	<b>3,381</b>	<b>-</b>	<b>3,381</b>
<b>Amortisation</b>						
At 1 April 2001	2,174	10,225	12,399	113	-	113
Amortisation	338	6,406	6,744	338	-	338
Impairment charge	2,930	41,029	43,959	2,930	-	2,930
Foreign exchange differences	(3)	1,352	1,349	-	-	-
<b>At 31 March 2002</b>	<b>5,439</b>	<b>59,012</b>	<b>64,451</b>	<b>3,381</b>	<b>-</b>	<b>3,381</b>
<b>Net book value</b>						
At 1 April 2001	3,268	63,070	66,338	3,268	-	3,268
<b>At 31 March 2002</b>	<b>-</b>	<b>15,107</b>	<b>15,107</b>	<b>-</b>	<b>-</b>	<b>-</b>

During the year the useful economic life for goodwill arising from non-product business acquisitions was changed from 15 years to 10 years, in light of a re-assessment by the directors of the useful economic life. The effect of this was to charge an additional £1,319,000 of amortisation in the current year, £904,000 of which related to the adjustment to the brought forward balance and £415,000 for the current year amortisation.

The goodwill impairment in the year totalled £41,029,000. This related to the impairment of the carrying value of goodwill from acquisitions relating to the E-Commerce division. The write down to the carrying value of these acquisitions was calculated by comparing the carrying value to the value in use derived from a discounted cashflow forecast over an 8 year period using a discount factor of 10.5%. The growth rates assumed in this forecast were in line with the long term average growth rates for the country these business are in. In respect of intellectual property there was an impairment charge of £2,930,000.

## Notes to the financial statements for the year ended 31 March 2002

## 3. Tangible fixed assets

Movements during the year are summarised as follows:

	Freehold Property £000	Leasehold Property £000	Leasehold Improvements £000	Fixtures Fittings and Equipment £000	Motor Vehicles £000	Total £000
<b>Group</b>						
<b>Cost</b>						
At 1 April 2001	435	327	612	6,141	147	7,662
Foreign exchange differences	-	-	(3)	(33)	(9)	(45)
Subsidiary undertakings acquired	-	-	2	95	-	97
Additions	-	-	55	931	15	1,001
Disposals	-	-	(29)	(524)	(69)	(622)
<b>At 31 March 2002</b>	<b>435</b>	<b>327</b>	<b>637</b>	<b>6,610</b>	<b>84</b>	<b>8,093</b>
<b>Depreciation</b>						
At 1 April 2001	22	146	266	3,264	101	3,799
Foreign exchange differences	-	-	(3)	(32)	(9)	(44)
Charge for the year	8	6	130	1,523	24	1,691
Disposals	-	-	(12)	(261)	(45)	(318)
<b>At 31 March 2002</b>	<b>30</b>	<b>152</b>	<b>381</b>	<b>4,494</b>	<b>71</b>	<b>5,128</b>
<b>Net book value</b>						
At 1 April 2001	413	181	346	2,877	46	3,863
<b>At 31 March 2002</b>	<b>405</b>	<b>175</b>	<b>256</b>	<b>2,116</b>	<b>13</b>	<b>2,965</b>

**Company****Cost**

At 1 April 2001	435	327	13	1,248	82	2,105
Additions	-	-	-	91	15	106
Disposals	-	-	(6)	(253)	(56)	(315)
<b>At 31 March 2002</b>	<b>435</b>	<b>327</b>	<b>7</b>	<b>1,086</b>	<b>41</b>	<b>1,896</b>

**Depreciation**

At 1 April 2001	22	146	12	485	59	724
Charge for the year	8	6	-	291	14	319
Disposals	-	-	(6)	(79)	(33)	(118)
<b>At 31 March 2002</b>	<b>30</b>	<b>152</b>	<b>6</b>	<b>697</b>	<b>40</b>	<b>925</b>

**Net book value**

At 1 April 2001	413	181	1	763	23	1,381
<b>At 31 March 2002</b>	<b>405</b>	<b>175</b>	<b>1</b>	<b>389</b>	<b>1</b>	<b>971</b>

The unexpired term of the leasehold property exceeds fifty years.

Fixed assets of the group with a net book value of £ nil (2001: £24,000) were held under finance leases and hire purchase arrangements. The depreciation charge in respect of these assets for the year was £ nil (2001: £16,000).

## 4. Investments

	Group £000	Company £000
<b>Investments in subsidiary undertakings</b>		
At 1 April 2001	-	13,944
Additions	-	42,141
Write-down of investments	-	(47,244)
At 31 March 2002	<u>-</u>	<u>8,841</u>
<b>Other investments</b>		
At 1 April 2001	2,400	2,400
Write-down of investments	(2,400)	(2,400)
At 31 March 2002	<u>-</u>	<u>-</u>
Total investments at 31 March 2001	<u>2,400</u>	<u>16,344</u>
<b>Total investments at 31 March 2002</b>	<b>-</b>	<b>8,841</b>

During the year inter-company debt totalling £42,141,000 was capitalised.

The principal subsidiary undertakings of the group as at 31 March 2002 were as follows:

TRADING AND NON-TRADING	Country of incorporation/ registration	% of equity and voting rights held at 31 March 2002
Kewill Systems, Inc	USA	100
Kewill ERP, Inc a)	USA	100
JobBOSS Software, Inc a) d)	USA	100
Aristo Computers, Inc a) d)	USA	100
Kewill Electronic Commerce, Inc a)	USA	100
Aristo Research, Inc a)	USA	100
Kewill Systems BV (e)	Netherlands	100
Kewill GMBH (f)	Germany	100
Kewill Systems (UK) Limited b)	England and Wales	100
Kewill-Xetal Systems Limited b)	England and Wales	100
Scott-Anglia Holdings Limited b)	England and Wales	100
Meadowhouse Bar-Laser Limited b) c)	England and Wales	100

The above companies operated principally in their countries of incorporation/registration and have March year ends. The principal nature of business of trading subsidiary undertakings is the development and distribution of computer software and associated services.

a) shares owned by subsidiary undertaking;

b) non-trading subsidiary undertakings where trading continues in Kewill Systems plc;

c) 25% of shares are owned by Kewill Systems plc and 75% by the immediate parent company;

d) non-trading subsidiary undertakings where trading continued in immediate parent undertaking or other group undertaking;

e) name changed in year from HAN Dataport Holdings BV;

f) name changed in year from Meadowhouse Bar-Laser Deutschland GmbH.

## Notes to the financial statements for the year ended 31 March 2002

## 5. Inventory

	Group		Company	
	2002 £000	2001 £000	2002 £000	2001 £000
<b>Finished goods</b>	<b>443</b>	<b>767</b>	<b>121</b>	<b>144</b>

There was no significant difference between the replacement cost of finished goods and the value indicated in the financial statements.

## 6. Debtors

	Group		Company	
	2002 £000	2001 £000	2002 £000	2001 £000
Trade debtors	10,408	13,422	1,939	1,934
Amounts owed by subsidiary undertakings	-	-	11,906	60,338
Other debtors	143	688	12	226
Prepayments and accrued income	900	1,358	324	497
	<b>11,451</b>	<b>15,468</b>	<b>14,181</b>	<b>62,995</b>

All amounts included above are receivable within one year of the balance sheet date.

## 7a. Creditors: amounts falling due within one year

	Group		Company	
	2002 £000	2001 £000	2002 £000	2001 £000
Bank loans	-	2,009	-	2,009
Trade creditors	1,350	2,146	406	860
Amounts owed to subsidiary undertakings	-	-	-	547
UK corporation tax	687	1,648	687	1,648
Other taxes and social security costs	1,127	1,466	213	128
Finance lease obligations	-	25	-	15
Other creditors	1,291	400	185	198
Accruals	3,053	5,649	873	2,001
Deferred income	9,743	11,484	2,037	1,836
Deferred consideration	-	3,092	-	-
	<b>17,251</b>	<b>27,919</b>	<b>4,401</b>	<b>9,242</b>

## 7b. Creditors: amounts falling due after more than one year

	Group		Company	
	2002 £000	2001 £000	2002 £000	2001 £000
Bank loans	-	11,051	-	11,051
Finance lease obligations	6	-	-	-
Deferred income	455	417	-	-
	<b>461</b>	<b>11,468</b>	<b>-</b>	<b>11,051</b>

**7c. Group debt**

The group's debt maturity including finance lease obligations at 31 March 2002 is as follows:

	Total £000	Bank loans £000	Finance leases £000	Deferred consideration £000
In one year or less	-	-	-	-
Between one and two years	6	-	6	-
Between two and five years	-	-	-	-
Over five years	-	-	-	-
<b>Total at 31 March 2002</b>	<b>6</b>	<b>0</b>	<b>6</b>	<b>0</b>
In one year or less	5,126	2,009	25	3,092
Between one and two years	2,009	2,009	-	-
Between two and five years	6,027	6,027	-	-
Over five years	3,015	3,015	-	-
<b>Total at 31 March 2001</b>	<b>16,177</b>	<b>13,060</b>	<b>25</b>	<b>3,092</b>

**7d. Financial instruments and risk management****Treasury management**

The group centrally manages cash, investing of surplus funds and managing and reducing financial risks. The objective is to provide efficient cash and tax management and cost effective core funding to operating businesses and this is undertaken by centrally pooling of surplus funds and via the use of intra-group loans.

The group's financial instruments comprise cash and liquid resources, along with various items, such as trade debtors and trade creditors. During the year the group has repaid all borrowings to increase returns on net investments and minimise interest and exchange rate risk. The group policy does not permit entering into speculative trading of financial instruments and this policy has continued to be applied throughout the year.

The main risks arising from the group's financial instruments are liquidity risk, foreign currency risk and interest rate risk. The group monitors these risks primarily through cashflow forecasting and sensitivity analysis.

The board reviews and agrees policies for managing each of the risks identified below and the policies to manage these risks have remained the same throughout the year and since the year end.

**Liquidity risk**

The group has financed its operations through a mixture of retained profits, new equity, deferred consideration and bank borrowings. Throughout the year the group has had significant net funds which have financed the current year losses. The group has continued with its policy of ensuring that there are sufficient funds available to meet the expected funding requirements of the group operations and investment opportunities. The group continues to monitor its liquidity position through cashflow forecasting.

**Foreign currency risk and hedging**

The group's principal exposure to exchange rate fluctuations arises on the translation of overseas net assets and results into sterling for accounting purposes. Following the repayment of the long term borrowing for the reasons explained above, the overseas investments are no longer hedged. The board regularly considers the issue of such balance sheet exposure. In addition translation exposures on fund transfers between group countries are managed by reviewing movements on exchange rates.

**Interest rate risk**

Net interest receivable reflects the underlying returns on investments less any cost of borrowings. Prior to repayment the majority of the group's borrowings were US dollar loans at floating rates of interest which were set quarterly upon the relevant quarter's London Interbank market interest rates. Interest rate risk is managed by cashflow forecasting and discussions with the company's bankers.

In February 2002 cash deposits totalling £11.6 million were used to repay all US dollar borrowings in advance of normal repayment dates in order to reduce exposure of net cash funds to foreign exchange differences.

Interest income is generated from cash and short term deposits held by the group. The majority of funds during the year were held in short term fixed interest deposits. These consisted of both certificates of deposits and fixed rate bank deposits which mature within one year.

## Notes to the financial statements for the year ended 31 March 2002

**Financial assets**

The interest rate profile of the group's financial assets at 31 March 2002 was:

	Currency	Total £000	Floating rate financial assets £000	Fixed rate financial assets £000	Average fixed interest %
Cash	Sterling	302	302	-	
	US Dollar	-	-	-	
	Euros	307	307		
Short term deposits	Sterling	9,242	-	9,242	3.46%
	US Dollar	1,525	-	1,525	1.30%
<b>Total at 31 March 2002</b>		<b>11,376</b>	<b>609</b>	<b>10,767</b>	
Cash	Sterling	24	24	-	
	US Dollar	83	83	-	
	Euros	290	290	-	
Short term deposits	Sterling	26,704	-	26,704	5.72%
	US Dollar	6,116	-	6,116	4.90%
<b>Total at 31 March 2001</b>		<b>33,217</b>	<b>397</b>	<b>32,820</b>	

The average investment period for the fixed rate short term deposits was less than one month for the Sterling, EU and Dollar short term deposits.

Floating rate cash earns interest based on relevant national interest rates.

The fair value of the financial assets approximates to their book values.

All the group's debtors falling due within one year (other than bank and cash) are excluded from the above table.

There are amounts in the company accounts, where the functional currency is sterling, owed by subsidiary undertakings totalling £11,813,000 which are denominated in US dollars.

**Financial liabilities**

The interest rate profile of the group's financial liabilities at 31 March 2002 was:

	Currency	Total £000	Floating rate financial liabilities £000	Fixed rate financial liabilities £000	Financial liabilities on which no interest is paid £000
Bank loans	US Dollar	-	-	-	-
Finance lease obligations	Sterling	-	-	-	-
Finance lease obligations	US Dollar	6	-	6	-
Deferred consideration	US Dollar	-	-	-	-
<b>Total at 31 March 2002</b>		<b>6</b>	<b>0</b>	<b>6</b>	<b>0</b>
Bank loans	US Dollar	13,060	13,060	-	-
Finance lease obligations	Sterling	15	-	15	-
Finance lease obligations	US Dollar	10	-	10	-
Deferred consideration	US Dollar	3,092	-	-	3,092
<b>Total at 31 March 2001</b>		<b>16,177</b>	<b>13,060</b>	<b>25</b>	<b>3,092</b>

The fair value of financial liabilities approximates to their book value.

**Borrowing facilities**

At 31st March 2002 the group had no undrawn borrowing facilities.

The maturity profiles of the above liabilities can be found in note 7 (c). The fixed rate financial liabilities relate to leased equipment which bears interest at an aggregate rate of 11 %.

All the group's creditors falling due within one year (other than bank, other borrowings, deferred consideration and finance leases) are excluded from the above tables.

**Unhedged financial assets and liabilities**

There are no liabilities not denominated in the functional currency of the company or its subsidiaries. The inter-company loans to the US companies are no longer hedged by the third party borrowings.

The following assets were held at 31st March 2002 which were not held in the functional currency of the company or its subsidiaries:

	Functional currency	Currency	Total £000	Floating rate financial assets £000	Fixed rate financial assets £000
	Sterling	US Dollar	1	1	-
	Sterling	Euros	139	139	-
<b>Total at 31 March 2002</b>			<b>140</b>	<b>140</b>	<b>-</b>
	Sterling	US Dollar	947	-	947
	Sterling	Euros	126	126	-
<b>Total at 31 March 2001</b>			<b>1,073</b>	<b>126</b>	<b>947</b>

## Notes to the financial statements for the year ended 31 March 2002

## 8. Called up share capital

	Number	2002 £000	Number	2001 £000
<b>Authorised:</b>				
Ordinary shares of 1p each	100,000,000	1,000	100,000,000	1,000
<b>Issued, allotted, called up and fully paid:</b>				
Ordinary shares of 1p each	76,776,296	768	76,477,822	765

During the year 298,474 ordinary shares were issued at an aggregate nominal value of £2,985 and at a premium of £189,443 in connection with the share option schemes. Of these 293,211 related option issued in relation to share option schemes and 5,263 in relation to payment in lieu of services.

Ordinary shares over which options have been granted under the Senior Staff and Savings-related share option schemes at 31 March 2002 total 4,450,669. These options may be exercised at prices between 38.7p and £21.73 on various dates between April 2002 and June 2011.

## Senior staff and savings-related share options schemes

Options to subscribe under various schemes for ordinary shares of 1p, including those noted in directors' interests in note 14 are shown in the table below:

	Date options granted	Exercise price per share (pence)	Exercisable from	2002 Numbers	2001 Numbers
Senior Staff	29 Jul 1996	86.2	28 Jul 1999	-	50,000
	21 Jul 1997	129.2	20 Jul 2000	12,500	42,500
	7 Aug 1997	129.0	6 Aug 2000	60,000	107,500
	28 Apr 1998	175.0	27 Apr 2001	575,000	575,000
	22 Feb 1999	315.0	21 Feb 2002	105,000	105,000
	24 Mar 1999	304.0	23 Mar 2002	50,000	115,000
	1 Apr 1999	296.0	31 Mar 2002	300,000	300,000
	19 Apr 1999	300.6	18 Apr 2002	-	50,000
	1 May 1999	291.0	30 Apr 2002	40,000	40,000
	1 Jun 1999	258.5	31 May 2002	-	25,000
	2 Aug 1999	390.0	1 Aug 2002	52,500	92,500
	13 Aug 1999	406.5	12 Aug 2002	50,000	50,000
	27 Sep 1999	421.0	26 Sep 2002	12,500	12,500
	12 Oct 1999	512.0	11 Oct 2002	25,000	25,000
	16 Nov 1999	1188.0	15 Nov 2002	12,000	12,000
	4 Jan 2000	1565.0	3 Jan 2003	23,084	25,000
	27 Mar 2000	2173.0	26 Mar 2003	6,120	19,500
	19 Jun 2000	875.0	18 Jun 2003	192,822	282,250
	16 Aug 2000	873.0	15 Aug 2003	50,000	50,000
	15 Nov 2000	409.5	14 Nov 2003	166,850	166,850
	23 Dec 2000	329.0	22 Dec 2003	-	15,000
	13 Jun 2001	110.0	12 Jun 2004	500,000	-
	27 Jun 2001	76.0	26 Jun 2004	1,414,500	-
	13 Jul 2001	95.5	12 Jul 2004	400,000	-
				<b>4,047,876</b>	<b>2,160,600</b>
Savings-related schemes					
UK savings-related scheme	27 Aug 1996	77.6	26 Aug 2001	-	40,775
UK savings-related scheme	1 Oct 1999	359.0	30 Sep 2002	28,019	108,590
Employee share purchase plan (ESPP) USA	15 Jan 2001	298.4	14 Jul 2001	-	182,309
Employee share purchase plan (ESPP) USA	15 Jan 2002	38.7	14 Jul 2002	374,774	-
				<b>402,793</b>	<b>331,674</b>
<b>Total</b>				<b>4,450,669</b>	<b>2,492,274</b>

During the year 3,059,090 options were granted and 293,211 were exercised and 807,484 lapsed.

## 9. Reserves

Group	Share capital £000	Share premium account £000	Merger Reserve £000	Profit and loss account £000	Total £000
At 1 April 2001	765	37,974	25,263	18,664	82,666
Capital increase	3	189	-	-	192
Loss for the year	-	-	-	(57,638)	(57,638)
Current year transfer from merger reserve	-	-	(14,343)	14,343	-
Exchange loss	-	-	-	(1,590)	(1,590)
<b>At 31 March 2002</b>	<b>768</b>	<b>38,163</b>	<b>10,920</b>	<b>(26,221)</b>	<b>23,630</b>

  

Company	£000	£000	£000	£000	£000
At 1 April 2001	765	37,974	25,263	27,479	91,481
Capital increase	3	189	-	-	192
Loss for the year	-	-	-	(62,477)	(62,477)
Current year transfer from merger reserve	-	-	(16,393)	16,393	-
<b>At 31 March 2002</b>	<b>768</b>	<b>38,163</b>	<b>8,870</b>	<b>(18,605)</b>	<b>29,196</b>

The loss of the parent company attributable to ordinary shareholders for the financial year is £62,477,000 (2001 profit of £9,043,000). The cumulative amount of goodwill written off to reserves in earlier financial years is £4,262,000 (2001:£4,262,000).

The current year transfer from the merger reserve relates to the release of the reserve to reflect the impairment and amortisation charge made in the year to the carrying value of goodwill on acquisitions.

## Notes to the financial statements for the year ended 31 March 2002

## 10a. Segmental analysis

Turnover and (loss)/profit are attributable to the one activity of the group, the provision of computer software and associated services.

	2002 £000	2001 £000	2002 £000	2001 £000	2002 £000	2001 £000
	Europe		USA		Total Group	
Continuing operations	7,888	11,579	20,527	27,851	28,415	39,430
Discontinuing operations	-	-	19,729	22,475	19,729	22,475
Total continuing operations	7,888	11,579	40,256	50,326	48,144	61,905
Discontinued operations	-	5,476	-	1,356	-	6,832
<b>Turnover by origin</b>	<b>7,888</b>	<b>17,055</b>	<b>40,256</b>	<b>51,682</b>	<b>48,144</b>	<b>68,737</b>
<b>Operating (loss)/profit</b>						
Continuing operations - before development expenditure and group administration costs	598	4,544	(2,085)	7,835	(1,487)	12,379
Continuing operations - development expenditure	(756)	(1,938)	(1,710)	(5,462)	(2,466)	(7,400)
Discontinuing operations	-	-	864	3,019	864	3,019
Group administration costs	-	-	-	-	(2,016)	(2,933)
Total continuing operations	(158)	2,606	(2,931)	5,392	(5,105)	5,065
Discontinued operations	-	552	-	(469)	-	83
<b>Total operating (loss)/ profit before amortisation</b>	<b>(158)</b>	<b>3,158</b>	<b>(2,931)</b>	<b>4,923</b>	<b>(5,105)</b>	<b>5,148</b>
<b>Amortisation and impairment of goodwill and intangibles</b>						
Continuing operations	(3,381)	(113)	(45,871)	(4,346)	(49,252)	(4,459)
Discontinuing operations	-	-	-	(1,328)	-	(1,328)
Total continuing operations	(3,381)	(113)	(45,871)	(5,674)	(49,252)	(5,787)
Discontinued operations	-	(84)	(1,451)	(441)	(1,451)	(525)
<b>Total amortisation and impairment of goodwill and intangibles</b>	<b>(3,381)</b>	<b>(197)</b>	<b>(47,322)</b>	<b>(6,115)</b>	<b>(50,703)</b>	<b>(6,312)</b>
Amounts written off investments	(2,400)	-	-	-	(2,400)	-
(Loss)/profit on disposal	(183)	3,729	109	76	(74)	3,805
Net interest receivable	-	-	-	-	644	638
<b>(Loss)/ profit before tax</b>	<b>(6,122)</b>	<b>6,690</b>	<b>(50,144)</b>	<b>(1,116)</b>	<b>(57,638)</b>	<b>3,279</b>
Territory net assets	36,615	101,358	(12,979)	(5,607)	23,636	95,751
Group interest bearing debt	-	-	-	-	(6)	(13,085)
<b>Total net assets</b>	<b>36,615</b>	<b>101,358</b>	<b>(12,979)</b>	<b>(5,607)</b>	<b>23,630</b>	<b>82,666</b>

Segment net assets exclude interest bearing third party loans and loan notes which fund the acquisition of subsidiary undertakings. Prior year net assets disclosure has been re-stated to show inter-company loans and investments within the division.

Excluded from operating costs and operating profits are inter segmental development expenditure of £0.75 million in the USA and the UK respectively Other than this turnover analysis by geographical destination is not significantly different from geographical origin.

## Analysis by division

A summary of turnover and operating (loss)/ profit (before amortisation and impairment, profit/(loss) on disposals, interest and taxation) and net assets by division is as follows:

	Turnover		(Loss)/profit before amortisation, impairment, disposals, interest & taxation		Net Assets	
	2002 £000	2001 £000	2002 £000	2001 £000	2002 £000	2001 £000
Electronic Commerce:						
-continuing operations:						
before development expenditure	28,415	39,430	(1,487)	12,379	5,961	52,741
-continuing operations:						
development expenditure	-	-	(2,466)	(7,400)	-	-
Total Electronic Commerce	28,415	39,430	(3,953)	4,979	-	-
Logistics -discontinued operation	-	2,685	-	(377)	-	-
ERP:						
- discontinuing operation	19,729	22,475	864	3,019	-	-
- discontinued operation	-	4,147	-	460	-	-
Total ERP	19,729	26,622	864	3,479	7,825	9,371
Group administration costs	-	-	(2,016)	(2,933)	-	2,400
Group Net funds (excluding finance leases)	-	-	-	-	11,376	20,157
UK and overseas corporate tax	-	-	-	-	(1,532)	(2,003)
	<b>48,144</b>	<b>68,737</b>	<b>(5,105)</b>	<b>5,148</b>	<b>23,630</b>	<b>82,666</b>

The loss before interest and tax for Electronic commerce division was £55,679,000 (2001: loss £424,000) , ERP was £587,000 loss (2001 profit 3,937,000), and £2,016,000 (2001: £2,555,000) for Group net costs, totalling a loss of £58,282,000 (2001: profit 2,641,000).

Net assets disclosure by division excludes inter-company, cash and investments.

Analysis of continuing and discontinued operations	2002 £000	2001 £000
<b>Turnover</b>		
Continuing operations	28,415	39,430
Discontinuing operations	<u>19,729</u>	<u>22,475</u>
Total continuing	48,144	61,905
Discontinued	-	<u>6,832</u>
	<u>48,144</u>	<u>68,737</u>
<b>Cost of sales</b>		
Continuing operations	4,418	4,845
Discontinuing operations	<u>1,600</u>	<u>1,751</u>
Total continuing	6,018	6,596
Discontinued	-	904
	<u>6,018</u>	<u>7,500</u>
<b>Gross profit</b>		
Continuing operations	23,997	34,585
Discontinuing operations	<u>18,129</u>	<u>20,724</u>
Total continuing	42,126	55,309
Discontinued	-	<u>5,928</u>
	<u>42,126</u>	<u>61,237</u>
<b>Operating expenses before amortisation and impairment of intangibles</b>		
Continuing operations	29,966	32,539
Discontinuing operations	<u>17,265</u>	<u>17,705</u>
Total continuing	47,231	50,244
Discontinued	-	5,845
	<u>47,231</u>	<u>56,089</u>
<b>Operating (loss)/ profit before amortisation and impairment of intangibles</b>		
Continuing operations	(5,969)	2,046
Discontinuing operations	<u>864</u>	<u>3,019</u>
Total continuing	(5,105)	5,065
Discontinued	-	83
	<u>(5,105)</u>	<u>5,148</u>
<b>Amortisation and impairment of intangibles</b>		
Continuing operations	(49,252)	(4,542)
Discontinuing operations	<u>(1,451)</u>	<u>(1,329)</u>
Total continuing	(50,703)	(5,871)
Discontinued	-	(441)
	<u>(50,703)</u>	<u>(6,312)</u>
<b>Operating (loss)/profit</b>		
Continuing operations	(55,221)	(2,496)
Discontinuing operations	<u>(587)</u>	<u>1,690</u>
Total continuing	(55,808)	(806)
Discontinued	-	(358)
	<u>(55,808)</u>	<u>(1,164)</u>

Operating expenses relate to administration expenses with an immaterial amount relating to distribution costs.

10b. (Loss)/profit on ordinary activities before taxation	2002 £000	2001 £000
Group (loss)/profit on ordinary activities before taxation is after charging:		
Auditors' remuneration - group	134	202
Auditors' remuneration - parent company	75	119
Non audit fees paid to the UK auditors	18	44
Depreciation of tangible fixed assets	1,691	1,496
Loss on disposal of fixed assets	97	91
Amortisation of goodwill and intangibles	6,744	6,312
Impairment of goodwill and intangibles	43,959	-
Operating lease rentals - land and buildings	1,677	1,807
- other assets	94	250
Research & development	2,466	7,400
Restructuring severance costs	700	165
<b>11. Net interest receivable</b>		
	2002 £000	2001 £000
Interest receivable	1,094	2,709
Interest payable: Bank loans and overdrafts	(450)	(2,071)
<b>Net interest receivable</b>	<u>644</u>	<u>638</u>

## Notes to the financial statements for the year ended 31 March 2002

12.a Tax on (loss)/profit on ordinary activities	2002 £000	2001 £000
Taxation based on group (loss)/ profits:		
UK corporation tax at 30% (2001 - 30%)	140	1,945
Release of UK tax relating to an over-provision from prior years	(140)	-
Total UK Tax	-	1,945
Overseas taxes	-	958
<b>Total tax: UK and overseas</b>	<b>0</b>	<b>2,903</b>

**12. b Reconciliation of current tax**

The actual tax charge for the current and prior year differs from the weighted average rate for the reasons set out in the following reconciliation:

	2002 £000	2001 £000
(Loss)/profit on ordinary activities before tax	(57,638)	3,279
Tax on (loss)/profit on ordinary activities at weighted average rate	(19,421)	778
<b>Factors affecting charge for the period:</b>		
Impairment and amortisation charges	16,993	1,540
Other disallowable expenditure	95	59
Capital allowances for period in excess of depreciation	(148)	(217)
Adjustment to tax charge in respect of prior years	(140)	-
Utilisation of brought forward capital losses	-	(801)
Disallowed interest expense	761	1,387
Short-term timing differences	(297)	163
Other permanent disallowable expenditure	23	(6)
Unrecognised deferred tax asset in respect of operating losses	2,134	-
Total actual amount of current tax	0	2,903

UK figures use a tax rate of 30% and the US figures use a rate of 34%, the weighted average rate of tax for the group for the year is 33.7% (2001: 23.7%)

**12.c Unrecognised deferred tax asset**

The group has an unprovided deferred tax asset of £13,200,000 (2001: £4,290,000) as follows:

	Group		Company	
	2002 £000	2001 £000	2002 £000	2001 £000
Accelerated depreciation and amortisation of tangible and intangible fixed assets	6,088	(21)	801	27
Short-term timing differences	1,944	1,392	-	-
Unrecognised deferred tax asset in respect of operating losses	5,168	2,919	-	-
	<b>13,200</b>	<b>4,290</b>	<b>801</b>	<b>27</b>

**13. (Loss)/earnings per share**

(Loss)/ earnings per share ("EPS") have been calculated on the (loss)/profit on ordinary activities after tax divided by the weighted average number of shares in issue during the period based on the following:

	Results before amortisation and impairment Year to 31 March 2002 £000	Consolidated profit and loss Year to 31 March 2002 £000	Results before amortisation and impairment Year to 31 March 2001 £000	Consolidated profit and loss Year to 31 March 2001 £000
(Loss)/profit on ordinary activities after tax	(6,935)	(57,638)	6,688	376
Average number of shares in issue	76,605,578	76,605,578	75,991,015	75,991,015
Effect of dilutive options	-	-	1,271,694	1,271,694
Average number of shares in issue plus dilutive options	76,605,578	76,605,578	77,262,709	77,262,709
Basic (loss)/earnings per share	(9.1p)	(75.2p)	8.8p	0.5p
Diluted (loss)/earnings per share	(9.1p)	(75.2p)	8.7p	0.5p

(Loss)/earnings per share before amortisation and impairment has been disclosed as the directors consider this provides a more relevant performance indicator.

None of the contingently issuable share options give rise to a dilution in the loss per share due to the losses made in the year.

**14. Employees**

The average monthly number of group employees, including executive directors, during the year was as follows:

	2002 Number	2001 Number
Technical and sales	493	603
Administrative	95	115
<b>Total employees</b>	<b>588</b>	<b>718</b>

Of the 588 employees, 24 (2001: 50) were freelance contractors working regularly for the group, and 112 (2001: 185) were employed within the UK.

## Notes to the financial statements for the year ended 31 March 2002

Staff costs during the year, including executive directors, excluding contractors, amounted to:

	2002 £000	2001 £000
Wages and salaries	27,491	31,052
Social security costs	3,699	3,667
Other pension costs	455	403
National insurance on share options	-	(415)
<b>Total staff costs</b>	<b>31,645</b>	<b>34,707</b>

Remuneration of the directors during the year, while in office, was as follows:

	Salary & Fees £000	Bonus £000	Other benefits £000	2002 Total before pension contributions £000	2001 pension contributions £000	2002 Pension contributions £000	2001 £000	2002 Gains made on exercise of share options £000	2001 £000
Executive directors									
R. Malley	151	-	5	156	113	3	2	-	-
B. Moorhouse	140	-	10	150	281	7	6	-	-
G. Finlay (a)	48	-	3	51	366	-	23	-	-
R. Broad (b)	-	-	-	-	62	-	6	-	-
Non-executive directors									
A. Roberts	50	-	-	50	50	-	-	-	-
T. Angear	25	-	-	25	18	-	-	-	-
C. Alexander	20	-	5	25	-	-	-	-	-
Total 2002	434	0	23	457		10		-	
Total 2001	532	324	34		890		37		-

(a) Geoffrey Finlay retired as a director on 30th June 2001. He then acted as a consultant to the company for the period to 31st December 2001 and was paid £120,000 for these services.

(b) Richard Broad retired on 20th October 2000.

Only salary payments are pensionable. The remuneration of the non-executive directors relates to sums paid to third parties for directors' services and are non-pensionable. Director bonuses are awarded in line with the criteria set by the remuneration committee relating to the achievement of profit targets. The pension contributions made on behalf of Barbara Moorhouse were to a private pension plan.

Details of the directors' share options in Kewill Systems plc at 31 March 2002 were as follows:

	Notes	1-Apr-01 Number	Granted in year	Exercised in year	31-Mar-02 Number	Exercise price (p)	Exercise period from to	
R. Malley	(a)	50,000	-	-	50,000	304	24 Mar 2002	23 Mar 2009
		20,000	-	-	20,000	875	19 Jun 2003	18 Jun 2010
		-	500,000	-	500,000	110	13 Jun 2004	12 Jun 2011
		-	100,000	-	100,000	95.5	13 Jul 2004	12 Jul 2011
B. Moorhouse	(a)	50,000	-	-	50,000	875	19 Jun 2003	18 Jun 2010
		166,850	-	-	166,850	409.5	15 Nov 2003	14 Nov 2010
		-	300,000	-	300,000	95.5	13 Jul 2004	12 Jul 2011

(a) granted under the senior executive share option schemes.

(b) the performance criteria for the exercise of the above options is disclosed in the directors' report.

(c) no options lapsed in the year.

(d) the above options were granted at no cost.

(e) the outstanding share options at 28th May 2002 were as at 31 March 2002.

(f) the market price of the shares at 31st March 2002 was 19p and the range during the financial year was 16p - 150p.

NetConnect Limited was paid £86,000 in the year to provide various computer support services to the Kewill group in the UK, and received £105,000 in the year from NetConnect for various computer services supplied. Kewill holds a 10% equity holding in NetConnect Limited.

### 15. Pension Scheme Costs

The group operates a number of defined contribution schemes in the United Kingdom and the USA. The total contributions payable in respect of these schemes amounted to £455,000 (2001 - £403,000). There were neither outstanding nor prepaid contributions at 31 March 2002 in respect of the above schemes.

## Notes to the financial statements for the year ended 31 March 2002

**16. Financial Commitments**

At 31 March 2002 the group was committed to making the following payments during the next year in respect of operating leases:

	Land and Buildings		Other Assets	
	2002 £000	2001 £000	2002 £000	2001 £000
Operating leases which expire:				
Within one year	131	25	3	159
In the second to fifth years inclusive	1,199	2,010	6	47
After five years	<u>22</u>	<u>288</u>	<u>-</u>	<u>-</u>
	1,352	2,323	9	206

**17. Contingent Liabilities**

At the year end there is an outstanding legal claim totalling £3,833,000, in respect of warranty claims arising from a disposal made in a previous year. The directors believe that by virtue of various limitations and exclusions in the contractual agreement in dispute Kewill will be able to defend this claim and that any amounts which may be recovered will be substantially less than those claimed, and not material to the reported results.

**18 Acquisitions**

On 30th April 2001 Kewill ERP Inc., a subsidiary company of Kewill Systems Inc., which is a subsidiary of Kewill Systems plc, signed an agreement to acquire the business, certain assets at a fair value of \$454,000 (£316,000) and certain deferred income and certain employee related liabilities at aggregate fair value of \$860,000 (£600,000) of California US based Alliance Manufacturing Software Inc and its UK subsidiary company Alliance Software Limited for a payment in cash, including related costs of acquisition of \$905,000 (£632,000) using an exchange rate of US\$1.431: £1. Goodwill arising on the acquisition was \$1,311,000 (£916,000).

The consideration was paid in cash. The combined results of the organisation have been accounted for using acquisition accounting from 30th April 2001. Due to the materiality of the acquisition it has been disclosed in total continuing operations.

**19. (Loss)/profit on disposal**

	2002 £000	2001 £000
Loss on disposal of net assets of US Mailing businesses	109	-
Profit on disposal of net assets of Logistics business	-	5,081
Profit on disposal of net assets of Trifid Software business	-	1,435
Profit on disposal of net assets of Dynamics business	-	850
Profit on disposal of net assets of ERP UK	-	702
Loss on disposal of net assets of Alpha Numeric	-	(861)
(Loss)/profit on disposal of other group assets	(183)	378
Goodwill on disposal previously written off to reserves	-	(3,780)
Net (loss)/profit on disposal of discontinued operations	<u>(74)</u>	<u>3,805</u>

A taxation charge of £nil has been provided in respect of the loss on disposal (2001: £641,000).

During the first half of the year the business and assets of the US mailing businesses owned by Kewill Electronic Commerce Inc. were sold. These were originally acquired with the EVCOR acquisition in June 2000. The loss on disposal of these mailing businesses represents total cash consideration of £0.2 million from the disposal of net assets of £0.1 million.

## Report of the independent auditors

### Independent auditors' report to the members of Kewill Systems plc

We have audited the financial statements which comprise the consolidated profit and loss account, the consolidated and company balance sheets, the consolidated cashflow statement, the statement of total group recognised gains and losses and the related notes, which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies.

#### Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards issued by the Auditing Practices Board and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report, the chairman's statement, the chief executive's review, the remuneration report and the corporate governance statement.

We review whether the corporate governance statement reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, 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 to form an opinion on the effectiveness of the company's or group's corporate governance procedures or its risk and control procedures.

#### Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. 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 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.

#### Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group at 31 March 2002 and of the loss and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers  
Chartered Accountants and Registered Auditors  
London  
28th May 2002

## Notice of annual general meeting

Notice is hereby given that the 2002 Annual General Meeting of Kewill Systems plc will be held on Tuesday 23rd July 2002 at 10am at Kewill Systems plc, Cedar Court, Guildford Road, Fetcham, Leatherhead Surrey KT22 9RX at which the following resolutions will be proposed as ordinary resolutions and special resolutions respectively:

#### Ordinary Resolutions

1. To receive and adopt the Directors' Report and the Audited Financial Statements of the Company for the year ended 31 March 2002.
2. To receive the Board remuneration report.
3. To re-elect as a Director of the Company Andy Roberts.
4. To re-elect as a Director of the Company Barbara Moorhouse
5. THAT PricewaterhouseCoopers be reappointed auditors of the Company to hold office until the conclusion of the next general meeting at which accounts are laid before the Company and that the directors be authorised to fix the auditors' annual remuneration.

## Notice of annual general meeting continued

6. THAT in addition to and without prejudice to any other authority conferred upon the Directors to allot relevant securities (as defined in Section 80(2) of the Companies Act 1985 ("the Act")), the Directors of the Company be and they are hereby generally and unconditionally authorised for the purposes of Section 80 of the Act to exercise all the powers of the Company to allot relevant securities up to an aggregate nominal amount of £232,237 (representing 30.3% of the share capital in issue as at the date of this meeting), such authority to expire at the conclusion of the Annual General Meeting of the Company next following the Meeting at which this resolution is passed save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities pursuant to such an offer or agreement as if the power conferred hereby had not expired.

### Special Resolutions

7. THAT the Company be and is hereby generally and unconditionally authorised in accordance with Section 166 of the Companies Act 1985 to make market purchases (within the meaning of Section 163 of the Companies Act 1985) of shares in the capital of the Company ("Shares") provided that:
- the maximum aggregate number of Shares hereby authorised to be purchased is 3,838,815.
  - the maximum price which may be paid for a Share is an amount equal to 105 per cent. of the average of the middle market quotations for a Share (as derived from the London Stock Exchange Daily Official List) for the five dealing days immediately preceding the day on which the Share is purchased, exclusive of expenses;
  - the minimum price which may be paid for a Share is its nominal value, exclusive of expenses;
  - the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company, unless such authority is renewed prior to such time; and
  - the Company may make a contract to purchase Shares under the authority hereby conferred prior to the expiry of such authority, which will or may be executed wholly or partly after the expiry of such authority and may make a purchase of Shares in pursuance of any such contract.
8. THAT, subject to and conditional upon the passing of resolution number 6 above, the Directors be and are hereby empowered in accordance with Section 95 of the Companies Act 1985 to allot equity securities (as defined in Section 94(2) of the Companies Act 1985) pursuant to the authority conferred by resolution number 6 above as if Section 89(1) of the Companies Act 1985 did not apply to any such allotment provided that this power should be limited to:
- the allotment of equity securities in connection with an offer by way of rights in favour of ordinary shareholders where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate (as nearly as may be) to the respective number of ordinary shares held by them but subject to such exclusions as the Directors may deem necessary or expedient to deal, inter alia, with shares representing fractional entitlements and legal or practical problems arising under the laws of, or the requirements of a recognised regulatory body or a stock exchange in, any territory; and
  - the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities which are, or are to be, wholly paid up in cash up to the aggregate nominal amount of £38,388 within the permitted level of 5% of issued share capital

and shall expire at the conclusion of the next Annual General Meeting of the Company or 15 months after the passing of this resolution, whichever is the earlier, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

By Order of the Board

B.J. Moorhouse, Secretary  
28 May 2002

Cedar Court, Guildford Road  
Fetcham, Leatherhead  
Surrey KT22 9RX

### NOTES

- A member of the Company who is entitled to attend and vote is entitled to appoint one or more proxies to attend and vote in his stead. A proxy need not be a member of the Company. To be effective, instruments of proxy must be received by the Company's Registrars, Capita IRG Plc, Balfour House, 390/398 High Road, Ilford, Essex IG1 1NQ, not less than 48 hours before the time appointed for holding the Meeting.
- A Form of Proxy for use by ordinary shareholders is enclosed.
- The following documents, which are available for inspection during normal business hours at the registered office of the Company on any weekday (Saturdays and Public holidays excluded) will also be available for inspection at the place of the Annual General Meeting from 15 minutes before the Meeting until the conclusion of the Meeting:
  - copies of the service contracts of the Directors of the Company; and
  - the Register of Interests of the Directors (and their families) in the share capital of the Company.
- Resolution 3 and 4 - biographical details for all the Directors are contained at page 8 of the Annual Report and Accounts.
- Resolution 6 - apart from the issue of securities on exercise of share options the Directors have no present intention to exercise this authority.
- Resolution 7 - the Directors believe that it is advantageous for the Company to continue to have the flexibility to purchase its own Shares and this resolution seeks authority from the Shareholders to do so. The Directors would only exercise this authority after considering the effect on earnings per share and the benefits for Shareholders generally. Resolution 7 would renew the authority given to the Directors at the Annual General Meeting on 13 July 2001 and would be limited to 3,838,815 Shares, representing 5% of the issued share capital at the date of this Notice. Any Shares purchased in this way will be cancelled and the number of Shares in issue would be reduced accordingly. As at the date of this Notice, there were options outstanding over 4,450,669 Shares, representing 5.8% of the Company's issued share capital. If the authority given by this resolution were to be fully used, these would represent 10.8% of the Company's issued share capital. There are no warrants outstanding.

**Kewill Systems plc** Cedar Court, Guildford Road, Fetcham, Leatherhead, Surrey, KT22 9RX  
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