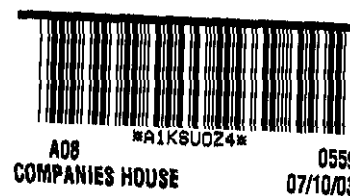


Registered number
01019844

KCS MANAGEMENT SYSTEMS LIMITED
DIRECTORS' REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 2003



KCS MANAGEMENT SYSTEMS LIMITED

COMPANY INFORMATION

Directors

A D Snell
Ms C M Rogers
Ms P M Watson

Secretary

A D Snell

Auditors

Spofforths
20 Old Mill Square
Storrington
West Sussex
RH20 4NQ

Registered office

20 Old Mill Square
Storrington
West Sussex
RH20 4NQ

Registered number

01019844

KCS MANAGEMENT SYSTEMS LIMITED

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The following pages do not form part of the statutory accounts:

Management profit and loss account	16 to 17
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KCS MANAGEMENT SYSTEMS LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 MARCH 2003

The directors present their report and accounts for the year ended 31 March 2003.

Principal activities

The company's principal activity during the year continued to be that of the development, marketing, installation and support of computer software for accounting personnel and payroll systems.

Review of the business and future developments

The directors are pleased to announce a third very successful financial year since the management buy-out with results showing a 13% increase in revenues. Additionally, tight control on overheads has resulted in 92% growth in operating profit in the twelve-month period.

The company continued its principal activities during the year; those of the development, marketing, installation and support of computer software for Integrated HR, Payroll and Time & Attendance systems.

Our sister company, KCS Connect Limited, which was acquired at the beginning of this financial year to provide payroll bureau outsourcing, has exceeded our performance expectations, and has enabled us to provide a completely all round and flexible solution for our clients.

Substantial investment in research and development was made during the year to take full advantage of new technologies. This investment has not only substantially enhanced our Web based applications but also added several new modules to our portfolio of comprehensive software modules. We are confident that this will fully satisfy our clients strategic HR and Payroll's future visions.

Following last year's success in achieving 3 industry awards, we are pleased to announce that we yet again won the prestigious 'Payroll Software Provider of the Year' award, making KCS Management Systems Limited the only company ever to achieve this feat 2 years running.

In a year that presented difficult trading conditions for the IT industry and where many of our competitors were failing and downsizing, KCS Management Systems Limited has continued to grow.

With the enhanced range of products and services now offered, the directors are confident that the company remains well placed to now take full advantage of the improving market, and thus predicts another year of growth next year.

Results and dividends

The profit for the year, after taxation, amounted to £144,649 (2002: £93,037). The directors do not recommend payment of a dividend.

Research and development

The company continues an active programme of research and development, the costs of which during the year amounted to £198,655 (2002: £237,464).

Directors

The directors who served during the year and their interests in the share capital of the parent company were as follows:

		£1 Ordinary shares	
		31	1
		March	April
		2003	2002
A D Snell		64,688	43,125
Ms C M Rogers		45,000	23,438
Ms P M Watson		7,000	-
C Rattigan	Resigned 16 August 2002	-	43,125

The directors had no interest in the share capital of this company.

KCS MANAGEMENT SYSTEMS LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 MARCH 2003

Directors' responsibilities

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Auditors

A resolution to reappoint Spofforths as auditors will be put to the members at the Annual General Meeting.

This report was approved by the board on


A D Snell
Secretary

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF

KCS MANAGEMENT SYSTEMS LIMITED

We have audited the accounts of KCS Management Systems Limited for the year ended 31 March 2003 on pages 4 to 15.

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

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the accounts in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the accounts 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 accounts, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of the company's affairs as at 31 March 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Spofforths
Chartered Accountants and Registered Auditors
20 Old Mill Square
Storrington
West Sussex
RH20 4NQ

Date: 19 September 2003

KCS MANAGEMENT SYSTEMS LIMITED**PROFIT AND LOSS ACCOUNT****FOR THE YEAR ENDED 31 MARCH 2003**

	Notes	2003 £	2002 £
Turnover		3,852,025	3,408,255
Cost of sales		(405,947)	(329,332)
Gross profit		3,446,078	3,078,923
Administrative expenses		(3,269,377)	(2,986,957)
Operating profit	2	176,701	91,966
Interest payable	5	(3,129)	(4,632)
Profit on ordinary activities before taxation		173,572	87,334
Tax on profit on ordinary activities	6	(28,923)	5,703
Retained profit for the financial period	16	144,649	93,037

Continuing operations

None of the company's activities were acquired or discontinued during the above two financial periods.

Statement of total recognised gains and losses

The company has no recognised gains or losses other than the profit for the above two financial periods.

KCS MANAGEMENT SYSTEMS LIMITED

BALANCE SHEET

AS AT 31 MARCH 2003

	Notes	2003	2002
		£	£
Fixed assets			
Intangible assets	7	3,704	6,806
Tangible assets	8	<u>90,472</u>	<u>110,281</u>
		94,176	117,087
Current assets			
Debtors	9	1,104,742	1,158,911
Cash at bank and in hand		<u>319,787</u>	<u>298</u>
		1,424,529	1,159,209
Creditors: amounts falling due within one year	10	<u>(698,086)</u>	<u>(652,428)</u>
Net current assets		<u>726,443</u>	<u>506,781</u>
Total assets less current liabilities		820,619	623,868
Provisions for liabilities and charges	12	(29,064)	(4,548)
Deferred income	13	(383,981)	(356,395)
		<u>407,574</u>	<u>262,925</u>
Capital and reserves			
Called up share capital	14	85,000	85,000
Capital redemption reserve	15	134,000	134,000
Profit and loss account	16	188,574	43,925
Equity shareholders' funds	17	<u>407,574</u>	<u>262,925</u>

A D Snell

Director

Approved by the board on

16/9/03

Cmryles

Ms C M Rogers

Director

KCS MANAGEMENT SYSTEMS LIMITED

CASH FLOW STATEMENT

AS AT 31 MARCH 2003

	Notes	2003 £	2002 £
Reconciliation of operating profit to net cash (outflow) / inflow from operating activities			
Operating profit		176,701	91,966
Depreciation		42,798	72,790
Amortisation of intangible assets		3,102	9,037
Loss on sale of fixed assets		-	1,134
Decrease/(increase) in debtors		54,169	(309,740)
Increase in creditors		219,161	112,337
Net cash inflow/(outflow) from operating activities		495,931	(22,476)
CASH FLOW STATEMENT			
Net cash inflow/(outflow) from operating activities		495,931	(22,476)
Returns on investments and servicing of finance	18	(3,129)	(4,632)
Taxation		(1,421)	(23,242)
Capital expenditure	18	(22,989)	(29,117)
		468,392	(79,467)
Financing	18	(6,980)	(15,790)
Increase/(decrease) in cash		461,412	(95,257)
Reconciliation of net cash flow to movement in net debt			
Increase/(decrease) in cash		461,412	(95,257)
Decrease in debt and lease financing		6,980	15,790
Change in net debt	19	468,392	(79,467)
Net debt at beginning of year		(148,605)	(69,138)
Net funds/(net debt) at end of year		319,787	(148,605)

KCS MANAGEMENT SYSTEMS LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2003

1 Accounting policies

Basis of accounting

The accounts have been prepared under the historical cost convention in accordance with applicable accounting standards.

Turnover

Turnover is the total amount receivable by the company in respect of the sale of licenses installed and accepted, and services provided, excluding VAT and trade discounts. Income arising in respect of maintenance contracts is recognised over a period based upon a proportion of the contract value being released to the profit and loss account when the invoice is raised with the balance being recognised on a straight line basis over the remainder of the contract period.

Software

The intangible fixed asset relates to computer software which is recorded at cost and amortised on a straight-line basis over its estimated useful economic life of 5 years.

Depreciation

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost less estimated residual value of each asset evenly over its expected useful life, as follows:

Furniture and equipment	over 5 to 10 years
Fixtures and fittings	over 10 years
Computer equipment	over 5 years

Deferred taxation

Provision is made at appropriate rates for taxation deferred in respect of all material timing differences to the extent that there is reasonable probability that a liability or asset will crystallise in the foreseeable future.

Leasing and hire purchase commitments

Assets held under finance leases and hire purchase contracts, which are those where substantially all the risks and rewards of ownership of the asset have passed to the company, are capitalised in the balance sheet and depreciated over their useful lives.

The interest element of the rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

Rentals paid under operating leases are charged to income on a straight line basis over the lease term.

Research and development

Research and development expenditure is charged to the profit and loss account in the period in which it is incurred.

Pensions

Contributions in respect of the company's defined contribution pension scheme are charged to the profit and loss account for the year in which they are payable to the scheme. Differences between contributions payable and contributions actually paid in the year are shown as either accruals or prepayments at the year end.

KCS MANAGEMENT SYSTEMS LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2003

2 Operating profit

	2003 £	2002 £
This is stated after charging:		
Depreciation of owned fixed assets	29,317	60,469
Depreciation of assets held under finance leases and hire purchase contracts	13,481	12,321
Amortisation of intangible fixed assets	3,102	9,037
Loss on sale of fixed assets	-	1,134
Operating lease rentals - plant and machinery	18,994	18,994
Operating lease rentals - land and buildings	91,125	91,125
Operating leases - motor vehicles	106,797	152,296
Auditors' remuneration	8,000	12,000

3 Directors' emoluments

	2003 £	2002 £
Emoluments	236,691	255,408
Company contributions to money purchase pension schemes	11,100	15,330
Compensation to past directors for loss of office	33,233	-
	<u>247,791</u>	<u>270,738</u>
Highest paid director:		
Emoluments	85,800	84,240
Company contributions to money purchase pension schemes	6,000	6,000
	<u>91,800</u>	<u>90,240</u>

During the period the company paid £56,628 (2001: £47,303) to T R Executive Services Limited, a company in which Ms C M Rogers is a director and shareholder, in respect of the services of Ms C M Rogers, a director of the company. All transactions were carried out under normal commercial terms.

Number of directors in company pension schemes:

	2003 Number	2002 Number
Money purchase schemes	<u>2</u>	<u>3</u>

KCS MANAGEMENT SYSTEMS LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2003

4 Staff costs

	2003	2002
	£	£
Wages and salaries	1,598,036	1,317,296
Social security costs	142,316	145,773
Other pension costs	67,637	70,380
	<u>1,807,989</u>	<u>1,533,449</u>

Average number of employees during the year

	Number	Number
Administration	3	3
Development	9	9
Customer services	27	28
Sales and marketing	10	7
Management	3	3
	<u>52</u>	<u>50</u>

5 Interest payable

	2003	2002
	£	£
Bank loans and overdrafts	1,911	2,354
Other loans	1,218	234
Finance charges payable under finance leases and hire purchase	-	2,044
	<u>3,129</u>	<u>4,632</u>

KCS MANAGEMENT SYSTEMS LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2003

6 Taxation

Analysis of charge in year

	2003 £	2002 £
Current tax:		
UK corporation tax on profits of the year	23,207	1,421
Adjustments in respect of previous years	5,200	-
	5,200	-
Total current tax	28,407	1,421
Deferred tax:		
Origination and reversal of timing differences (Note 13)	516	(7,124)
Tax on profit on ordinary activities	28,923	(5,703)

Factors affecting tax charge for year

The tax assessed for the year is lower than the standard rate of corporation tax in the UK (30 per cent). The differences are explained below:

	2003 £	2002 £
Profit on ordinary activities before tax	173,572	87,334
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2002 : 20%)	52,073	17,467
Effects of:		
Expenses not deductible for tax purposes	7,037	5,252
Capital allowances for year in excess of depreciation	3,722	5,818
Research and development tax credit	(28,978)	(23,746)
Utilisation of tax losses	-	(2,972)
Marginal relief adjustment	(10,647)	(398)
Adjustments in respect of previous years	5,200	-
Current tax charge for year as above	28,407	1,421

KCS MANAGEMENT SYSTEMS LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2003

7 Intangible fixed assets		Software
		£
Cost		
At beginning of year		45,885
At end of year		45,885
Amortisation		
At beginning of year		39,079
Provided during the year		3,102
At end of year		42,181
Net book value		
At 31 March 2003		3,704
<i>At 31 March 2002</i>		<i>6,806</i>

8 Tangible fixed assets				
	Furniture and equipment	Fixtures and fittings	Computer equipment	Total
	£	£	£	£
Cost				
At beginning of year	58,872	60,779	343,507	463,158
Additions	6,435	7,943	8,611	22,989
At end of year	65,307	68,722	352,118	486,147
Depreciation				
At beginning of year	29,791	36,997	286,089	352,877
Charge for the year	6,542	9,612	26,644	42,798
At end of year	36,333	46,609	312,733	395,675
Net book value				
At 31 March 2003	28,974	22,113	39,385	90,472
<i>At 31 March 2002</i>	<i>29,081</i>	<i>23,782</i>	<i>57,418</i>	<i>110,281</i>
			2003	2002
			£	£
Net book value of assets included above held under finance leases and hire purchase contracts			-	17,816

KCS MANAGEMENT SYSTEMS LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2003

9 Debtors	2003	2002
	£	£
Trade debtors	697,944	866,960
Amounts owed by group undertakings	200,647	133,441
Other debtors	-	6,744
Prepayments and accrued income	206,151	151,766
	1,104,742	1,158,911

10 Creditors: amounts falling due within one year	2003	2002
	£	£
Bank loans and overdrafts	-	141,923
Obligations under finance lease and hire purchase contracts	-	6,980
Trade creditors	235,623	170,129
Corporation tax	28,407	1,421
Other taxes and social security costs	215,782	190,827
Other creditors	13,598	250
Accruals and deferred income	204,676	140,898
	698,086	652,428

11 Obligations under finance leases and hire purchase contracts	2003	2002
	£	£
Amounts payable:		
Within one year	-	6,980

12 Provisions for liabilities and charges	Deferred tax	Other	Total
	£	£	£
At beginning of year	4,548	-	4,548
Charged to the profit and loss account	516	24,000	24,516
At end of year	5,064	24,000	29,064

Deferred taxation provided in the accounts is as follows:

	Provided	Potential	Provided	Potential
	2003	2003	2002	2002
	£	£	£	£
Capital allowances in advance of depreciation	5,064	-	4,548	-

KCS MANAGEMENT SYSTEMS LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2003

13 Deferred income	2003	2002
	£	£
At beginning of year	356,395	258,506
Received during the period	27,586	97,889
At end of year	383,981	356,395

Deferred income arises from maintenance contracts in progress at the balance sheet date. The income deferred is recognised as revenue over the remaining period of the contract.

14 Share capital	2003	2002
	£	£
Authorised:		
Ordinary shares of £1 each	85,000	85,000
	2003	2002
	No	No
Allotted, called up and fully paid:		
Ordinary shares of £1 each	85,000	85,000

15 Reserves	Capital redemption reserve
	£
At beginning of year	134,000
At end of year	134,000

16 Profit and loss account	2003
	£
At beginning of year	43,925
Retained profit	144,649
At end of year	188,574

17 Reconciliation of movement in shareholders' funds	2003	2002
	£	£
Profit for the financial period	144,649	93,037
Net movement in shareholders' funds	144,649	93,037
At beginning of year	262,925	169,888
At end of year	407,574	262,925

KCS MANAGEMENT SYSTEMS LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2003

18 Gross cash flows

	Year to 31 March 2003 £	18 mths to 31 March 2002 £
Returns on investments and servicing of finance		
Interest paid	(3,129)	(2,588)
Interest element of finance lease rental payments	-	(2,044)
	<u>(3,129)</u>	<u>(4,632)</u>
Capital expenditure		
Payments to acquire intangible fixed assets	-	(1,408)
Payments to acquire tangible fixed assets	(22,989)	(31,954)
Receipts from sales of tangible fixed assets	-	4,245
	<u>(22,989)</u>	<u>(29,117)</u>
Financing		
Capital element of finance lease rental payments	<u>(6,980)</u>	<u>(15,790)</u>

19 Analysis of changes in net debt

	At beginning of year £	Cash flows £	At end of year £
Cash at bank and in hand	298	319,489	319,787
Overdrafts	(141,923)	141,923	-
	<u>(141,625)</u>	<u>461,412</u>	319,787
Finance leases	(6,980)	6,980	-
Total	<u>(148,605)</u>	<u>468,392</u>	319,787

20 Pension commitments

The company operates a defined contribution pension scheme for the benefit of the employees including directors. The assets of the scheme are administered by trustees in a fund independent from those of the company.

The total contributions paid in the year amounted to £85,710 (2002: £170,098).

KCS MANAGEMENT SYSTEMS LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2003

21 Other financial commitments

At the year end the company had annual commitments under non-cancellable operating leases as set out below:

	Land and buildings	<i>Land and buildings</i>	Other	<i>Other</i>
	2003	<i>2002</i>	2003	<i>2002</i>
	£	<i>£</i>	£	<i>£</i>
Operating leases which expire:				
within one year	68,944	-	39,659	9,092
within two to five years	-	91,925	170,077	162,000
	68,944	91,925	209,736	171,092

22 Contingent liabilities

A cross guarantee exists between the company and its parent, RJT 260 Limited, in respect of bank loans held by RJT 260 Limited and for the overdraft of KCS Management Systems Limited.

At the balance sheet date, this contingent liability amounts to £737,500 (2002: £787,500).

23 Transactions with directors

During the year the company provided a loan to Ms P M Watson, a director. The loan was interest free and repayable on demand. The outstanding amounts were as follows:

Beginning of the year £ 4,350
End of year £ -
Maximum during the year £ 4,350

24 Related parties

Parent company

The company's ultimate parent undertaking is RJT 260 Limited, a company incorporated in England and Wales.

During the year, RJT 260 Limited charged £81,487 (2002: £38,000) for management services provided. All transactions were carried out under normal commercial terms.

At the period end a balance of £194,938 (2002: £133,441) was due from RJT 260 Limited.

KCS Connect Limited is a 100% owned subsidiary of RJT 260 Limited, KCS Management Services Limited's ultimate parent. At the period end a balance was due from KCS Connect Limited of £5,708.

Ms C M Rogers, a director of KCS Management Services Limited, is also a director of Convergent Network Solutions Limited. During the year, KCS Management Services Limited purchased from Convergent Network Solutions Limited services to the value of £23,662. All transactions were carried out under normal commercial terms.

KCS MANAGEMENT SYSTEMS LIMITED

MANAGEMENT PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 MARCH 2003

	2003		2002	
	£	£	£	£
Turnover		3,852,025		3,408,255
Cost of sales				
Direct costs	405,947		329,332	
	405,947		329,332	
		(405,947)		(329,332)
Gross profit		3,446,078		3,078,923
Less expenses				
Administrative expenses	3,269,377		2,986,957	
		(3,269,377)		(2,986,957)
Profit before interest		176,701		91,966
Interest payable				
On bank loans and overdrafts	1,911		2,354	
On HP and finance leases	-		2,044	
Other interest	1,218		234	
		(3,129)		(4,632)
Interest receivable				
Profit for the year before taxation		173,572		87,334

KCS MANAGEMENT SYSTEMS LIMITED**MANAGEMENT PROFIT AND LOSS ACCOUNT****FOR THE YEAR ENDED 31 MARCH 2003**

	2003 £	2002 £
Analysis of expenses		
Administrative expenses		
Employment costs:		
Directors' remuneration	180,063	197,700
Director's fees	56,628	37,294
Directors' national insurance	30,543	21,755
Directors' pension costs	11,100	15,330
Wages and salaries	1,741,617	1,463,069
Staff training and welfare	44,175	49,853
Staff pension costs	67,637	70,380
	<u>2,131,763</u>	<u>1,855,381</u>
Establishment costs:		
Rent and rates	154,114	154,589
Repairs and maintenance	16,359	1,235
Insurance	24,682	15,857
Hire of equipment	24,550	18,994
	<u>219,705</u>	<u>190,675</u>
Other costs:		
Printing, postage and stationery	28,069	34,498
Telecommunication costs	26,227	29,827
Legal and professional fees	57,729	58,860
Management fees	81,487	38,000
Audit fees	12,850	12,000
Bank charges	13,301	12,739
Motor expenses	163,171	182,335
Travel and subsistence	180,844	166,524
Advertising	178,473	174,770
Sub-contracted services	91,374	90,142
Computer running costs	18,587	23,533
Computer consumables	7,095	6,636
Bad debts	2,574	10,872
Subscriptions and donations	4,323	1,404
Sundry expenses	5,905	15,800
Loss on sale of fixed assets	-	1,134
Amortisation	3,102	9,037
Depreciation	42,798	72,790
	<u>917,909</u>	<u>940,901</u>
	<u><u>3,269,377</u></u>	<u><u>2,986,957</u></u>