

Advanced business solutions
for the financial services and
energy industries

Raft International plc

Annual report and accounts
Year ended 31 October 2002



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Raft International plc

Our focus:

Raft International plc is a leading supplier of component based software solutions for the financial services and energy industries.

Corporate summary

- Difficult trading environment continues with loss before tax in line with market expectations
- Reduced exposure to Investment Banking sector hit hard by economic downturn
- Focus on energy and operational risk sectors begins to pay dividends
- Three contract wins in the last quarter reflect success of new market strategy with a combined value of £2.2 million
- Stringent cost controls produce £0.6 million of savings for the year
- Deferred income of £0.4 million at year end
- Strong cash position of £3.7 million at year end
- USA offers significant potential
- New Houston office will drive further revenue growth in this territory
- New CEO appointment allows strategic redeployment of senior management
- Long term prospects remain encouraging

Our business at a glance

Raft International offers component based solutions for banks and energy companies. It specialises in credit risk management across both sectors, operational risk management for investment banks and wealth management for the private banking sector.

Features

Investment banking

Raft's solutions in this area are focused on managing the credit risk that a counterparty, or trading partner, will not be able to pay what they owe on the due date.

In particular, our solution encompasses functions for the dealer to pre-check trades with automatic linking into credit workflow for approvals, denials and excesses. Detailed credit exposure analysis shows risk concentrations with full deal drill down including netting effects. A fully integrated set of functions also enables collateral to be managed by the collateral

team with full workflow functionality and deal mark to market reconciliation.

In addition all regulatory and solvency calculations and reporting are supported. The solution operates in a global manner across three different time zones and is in operation on a 24x7 basis.

Product coverage includes a range of treasury and capital markets instruments with a flexible underlying model which is easily extendable to other instruments.

Operational risk

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. Raft's solution, marketed as Raft Radar, provides a range of modules to cover the full range of operational risk requirements. All the modules use a common database schema to provide a consistent and controlled view of the client organisation.

Incidents and indicator information can be collected either manually, through browser pages, or uploaded in batches. The process and controls module provides

a simple mechanism for identifying "hot-spots" in the risk map of the organisation, and creating new controls to mitigate those risks. The capital adequacy requirements expressed in the Basel Capital Accord are covered, as is the allocation of capital to individual products or profit centres.

Raft Radar's infrastructure module provides facilities for users to attach notes, files or actions to any item. Action items are automatically routed through to the email system for notification. Outstanding actions are automatically chased or escalated as they age.

Energy credit risk management

While the requirements are similar to those in the Banking sector there are significant differences arising from the wide disparity in creditworthiness of counterparties, the lack of market data and the complexity of the inter-relationships and correlations between energy products.

In moving into the energy sector with an implementation for one of the leading global players we found ready application for the most sophisticated features of our credit risk management product. The strength of Raft's component based development method was demonstrated by the ease with which

it was possible to incorporate some key differences in the structure of the energy market.

The Raft energy solution is designed to manage and report future exposure for energy products covering electricity, gas, oil, coal and weather. Physicals and derivatives, and netting and collateral agreements, are covered in the scope. Advanced techniques allow interfaces with existing client systems to be built rapidly. Any exposure can be drilled through the various levels of aggregation down to the individual transaction level.

Wealth management

Raft's Wealth Management solution consists of a set of co-operating modules aimed at the different sections of the institution's organisation. Account Managers or Relationship Managers can make use of the portfolio tools to get an up to date picture of their clients' assets, including the effects of all the latest trades and any outstanding orders. These tools include specialised restriction tools that analyse the makeup of the portfolio against pre-defined rules and notify the client of any violations.

New orders or trades entered into the system are also compared against these restrictions. If acceptable they can be passed directly to the institution's settlement system, and are immediately reflected in the portfolio asset allocation figures.

This product enables the private banker to collate and present accurate, timely and reliable information about the client's portfolio.

Benefits

Credit management continues to grow in importance across the entire corporate universe. Our strategy is to address specific business sectors with a product developed from a common set of components; banking credit risk is our initial credit product.

We are actively marketing the Banking Credit Management product across the spectrum, but specifically targeting the medium and smaller sized banks. We are well positioned to take advantage of an up-turn in the market's appetite to invest in high quality credit solutions.

Given the diverse approaches to operational risk management, Raft Radar is designed and marketed as a series of stand alone functional modules which can interact with each other. Each module delivers business benefits and can be implemented independently of the others.

Our strategy is to market the product to all segments of the banking market, adding modules and functionality in response to actual client needs.

We view the energy trading sector as one of our most important. As well as leading edge component technology, we uniquely bring substantial expertise in credit techniques from our banking background. The US and European markets are both very attractive.

The recently announced relationship with KWI who supply transaction processing software to energy trading companies is the latest addition to our partnership programme.

The product is mature and installed successfully in a number of locations in Europe.

The market for this product is currently depressed. Raft Wealth Management is therefore not being actively marketed or developed. We are maintaining adequate expertise within the firm to be able to activate the product quickly when conditions change.

Share of turnover

Chairman's statement

At the end of the last financial year we reported that successful completion of new transactions was unlikely to have an impact on our results until late in 2002. Unfortunately, the down turn in information technology spending in the financial services sector lasted for longer than we had expected or hoped for and as a result the sector has continued to suffer from delayed IT spend decisions, lengthened sales cycles and pricing pressures. On top of these issues, bearish market conditions and its impact on investor confidence resulted in a weakened performance from our traditional investment banking solution. The combination of these factors during 2002 has consequently produced a disappointing set of results.

Your Board is committed to returning the Group to profitability and as part of this strategy, the Group intends to grow licence fee income rather than by increasing per diem-based fees. In support of this strategy we are widening our channels to market through third party sales and distribution agreements.

In addition to these measures, we have a focused marketing strategy primarily aimed at the investment banking, energy and operational risk markets. The recent contract wins demonstrate the significant potential of these markets going forward. The considerable potential in the energy trading sector has been recognised by the opening of an office in Houston to lead our sales efforts in this sector. This marketing focus has been combined with improved business efficiencies and stringent cost controls across the entire Group.

We have also made fundamental management changes. The appointment of Derek Hall as the Group's London-based CEO in June 2002 provided the opportunity to distribute key executive directors across three continents to focus on sales, routes to market and R&D.

Despite the losses of this financial year, we remain optimistic about the future. We are a well capitalised company, we have a significant pipeline across all our actively marketed products and we will continue to address the difficult conditions by widening our channels to market, controlling expenses and exploiting our existing infrastructure and product range.

Finally, the Board would like to thank all members of staff for their loyalty and dedication throughout this very difficult year. Our growing reputation for world-class client service is testament to our staff's abilities and commitment to excellence.



David Priestley
Chairman

17 December 2002

We are a well capitalised company, we have a significant pipeline across all our actively marketed products and we will continue to address the difficult conditions by widening our channels to market, controlling expenses and exploiting our existing infrastructure and product range.

Board of directors

01 - David Priestley

Executive Chairman

David co-founded Raft International in 1995 after 16 years in the financial services IT industry. David has established and run companies providing consulting services and trading software development services to leading banks. In his role as executive chairman, David is specifically responsible for corporate expansion and acquisition, as well as being responsible for the Group's strategy in the energy sector.

02 - Derek Hall

Chief Executive Officer

Derek has a wealth of experience in both Information Technology and Financial Services having spent 22 years with J.P. Morgan before retiring at Managing Director level. He was previously with Andersen Consulting. He is an internationally experienced manager and a change-leader in information technology, bank operations and risk management. His direct commercial banking experience and unique skill set will provide Raft with an additional broad and robust approach to strategic and managerial issues.

03 - Sandra Kelly ACA

Chief Financial Officer

Sandra joined Raft International having previously worked as CFO setting up the European division of a US on-line retail organisation and as Financial Controller for a prestigious car manufacturer. Sandra is a qualified Chartered Accountant who started her career at one of the world's leading Accountancy organisations. She has more than 20 years finance experience and is responsible for the Financial and administrative affairs of the Group.

04 - Asim Shah

Chief Technical Officer

Asim co-founded Raft International with David Priestley in 1995. Asim's career started in software development, prior to moving into development management and eventually overall IT strategy. Asim is now based in Raft International's Research and Development Centre in India, from where he is responsible for the Company's technical architecture, research and development of emerging technologies and overall ownership of the Raft Component Inventory.

05 - Frank Møbjerg

Executive Director

Frank has over 20 years experience in financial IT from within the banking environment itself. Prior to joining Raft International in 1996, Frank was a senior vice president in a leading Scandinavian bank responsible for IT development. Frank's initial role with the Company was the establishment of the Copenhagen office, while he is now responsible also for the Group's strategy in the investment banking sector.

06 - Lance Moir FCT ACIB

Non-executive Director

Lance has extensive financial management and financial services experience from both a banking and a corporate perspective and has previously served as the financial director of a quoted public company. Lance lectures at Cranfield School of Management in the fields of Accounting and Finance and is a Fellow and member of council of the Association of Corporate Treasurers and an Associate of the Chartered Institute of Bankers.

Operating review

Our organisation and management structure is able to ensure that we can take maximum advantage of the opportunities which exist today – we have the right types of expertise in the right places.

In our 2001 annual report we forecast that our business would be primarily driven by the demands arising from the increased regulation of both the financial services and energy sector and that we would be active in four product areas across these sectors. In general, this forecast has turned out to be the case although we have reduced the number of products being actively marketed but widened our geographic presence. Our new Houston office is added to the existing locations of London, Copenhagen, Mumbai and Stockholm.

The difficult market conditions highlighted at the time of our 2001 annual report have remained throughout this financial year. We have taken measures to address these conditions as well as the general changes occurring in our market place. One of the more significant measures has been the relocation of some of our staff. In addition to the distribution of the executive directors referred to earlier, highly experienced individuals have been assigned from Europe to Houston and Mumbai to ensure that these locations are able to maximise their contributions as early as possible.

The average headcount during the year declined from 73 to 69 with the expense-cutting programmes removing seven from

the permanent payroll. However, we are now hiring very selectively, particularly in the US, to service the large pipeline we have built.

Our research and development spend in 2002 was £0.4 million (2001: £0.6 million). We made substantial additions to the component inventory as well as important enhancements to the technical infrastructure. The research and development budget will continue to be set relative to our revenue and our policy of executing the work in Mumbai, India helps ensure the maximum return on the investment.

Product review

The core product and business strategies remain those set out in our 2000 flotation prospectus. We supply two types of product: pre-assembled products based on component technology and targeted at specific sectors and secondly, the component technology tools themselves. This two-track approach enables us to offer a wider choice to the market place and to rapidly create new pre-packaged products for specific market sectors. We have an active partnership programme to supplement our functionality.

Credit risk

In common with all of Raft's other products, Raft Credit is available as a series of modules that can be installed in a phased manner bringing immediate business benefits at each stage. Specific versions are available for the banking and energy sectors. We have won a major contract to extend our coverage of an existing energy client. The new project introduces retail functionality to the system and we are confident the Retail module will be a good source of future revenues.

Operational risk

Raft Radar was successfully implemented at a major international bank in London during the year. In response to client needs the product was enhanced to provide self assessment, processes & controls management, capital modelling and allocation and cost per transaction calculations. Interest in operational risk and other risk management topics has been sharpened by the more demanding regulations set out in the New Basel Capital Accord.

We have added another customer for Raft Radar which will add further functionality and widen the product offering.

Wealth management

Raft Wealth is aimed at portfolio managers and client managers in the private banking/wealth management sector. It is used by a number of clients across Europe, but opportunities for new product sales are very limited in today's difficult market.

Component approach

The component architecture underpinning these products is a product in its own right as shown by the recent contract win with the Copenhagen Stock Exchange to provide a system that maintains and distributes standard stock exchange information services. Raft's general approach is to satisfy our clients' specific requirements by selecting and assembling components that provide the prescribed functionality from the constantly growing inventory of components. We are among the world's front runners in this field.

Professional services

We continue to provide consultancy services independent of product-related work to specific clients.

Technology

We are proud to be a Microsoft Certified Solution Provider. Our core component technology is based on the Microsoft DNA architecture and this is migrating to the emerging Microsoft .NET environment. We remain convinced that this building block approach to software development brings significant advantages in terms of flexibility, responsiveness and speed to market. We are actively reviewing the commercial opportunities that would emerge if we also offered a Java alternative to our clients.

Outlook

Our organisation and management structure is able to ensure that we can take maximum advantage of the opportunities which exist today – we have the right types of expertise in the right places. We are able to scale up to handle a larger number of concurrent implementation projects. We are confident that we will be able to satisfy the expected higher levels of demand from our chosen market sectors.



Derek Hall
Chief Executive Officer
17 December 2002

Financial review

In 2003, we expect a larger proportion of our business to come from sales in the USA and have opened an office in Houston to support this anticipated growth in sales.

Key figures

	2002 £'000	2001 £'000
Turnover	6,666	9,468
Loss on ordinary activities before taxation	2,113	826
Cash position	3,709	5,295

Opening results

The Group's turnover declined by £2.8 million to £6.7 million (2001: £9.5 million) and the loss before taxation increased by £1.3 million to £2.1 million (2001: £0.8 million).

Turnover

The decline in turnover is primarily attributed to lower sales in the investment banking sector. Whilst this decline in Group turnover is extremely disappointing, we are pleased to note that the rate of this decline has now slowed, such that the turnover in the second half of 2002 was only 3.5% lower than the first half. Performance in the two months since the year end would suggest that this decline appears to have been reversed. In addition we are continuing to reduce the dependency of the Group on our traditional investment banking sector by focusing on our two new markets of energy credit risk and operational risk management.

Turnover has fallen both in the UK and the rest of Europe but has risen in the USA by £0.7 million, primarily due to increased sales of our energy credit product. In 2003, we expect a larger proportion of our business to come from sales in the USA and have opened an office in Houston to support this anticipated growth in sales.

Outright licence fees account for 5% of our turnover (2001: 11%) with the proportion of income from maintenance and recurring licence fees rising to 5% (2001: 2%).

Share of gross profit

Pricing and margins have come under continued pressure this year and with the reduction in the proportion of our turnover attributed to licence fees the overall gross margin has fallen to 32% (2001: 40%).

Further key financial information

The cost savings review mentioned in the 2001 Chairman's statement resulted in the forecasted overheads savings of £0.6 million. This decline in overheads arose mainly through staff reductions and lower marketing expenditure following the investment in the development of the brand in 2001.

Deferred income in the Group balance sheet of £0.4 million (2001: £nil) represents amounts invoiced but not yet recognised as revenue. This primarily relates to amounts invoiced for products services that have not been delivered, completed or fully accepted at the balance sheet date.

The Group balance sheet remains strong and closing cash balances at the end of the year were £3.7 million (2001: £5.3 million). The reduction in cash arises from the loss for the year.

In light of the importance of revenue recognition within the software industry, the Group is providing more information on its accounting policy for revenue recognition in Note 1 to the financial statements.



Sandra Kelly
Chief Financial Officer
17 December 2002

Report of the directors

for the year ended 31 October 2002

The directors present their report with the financial statements of the Group for the year ended 31 October 2002.

Principal activity

The principal activity of the Group in the year under review was that of the provision of computer software services to international banks, energy trading companies and other financial institutions.

Review of the business

A review of the business during the year is given in the Chairman's Statement, in the Operating Review and in the Financial Review. Included in these reviews are references to the Group's future prospects and these statements should be read as part of this report.

Results for the year

The results for the year ended 31 October 2002 and the financial position at that date are set out in the financial statements. The loss after taxation of the Group amounted to £2,038,000 (2001: £893,000 loss).

Dividends

The directors do not recommend the payment of a dividend on the ordinary shares.

Research and development

During the year, the Group expended £402,000 (2001: £632,000) on research and development activities.

Directors

The directors during the year and their interests in the 5p ordinary shares of the Company were as follows:

	31 October 2002 Number	31 October 2001 or date of appointment Number
C D Priestley	15,623,945	15,623,945
A Shah	19,599,147	19,599,147
F Møbjerg	6,201,268	6,201,268
L Moir	20,000	20,000
S Kelly	27,000	27,000
D Hall - appointed 7 January 2002	21,000	-

Details of directors' share options are included in the Remuneration Report. There were no changes between 31 October 2002 and 17 December 2002.

Share capital

As at 17 December 2002, the Company had been notified that the following persons or entities had an interest of 3 percent or more in the issued share capital of the Company:

P Curtis	5.55%
I Tobin	7.85%

Report of the directors continued

for the year ended 31 October 2002

Statement of directors' responsibilities

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

- select suitable accounting policies and then apply them consistently
- make judgments and estimates that are reasonable and prudent
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business
- state whether applicable Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and 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 the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The maintenance and integrity of the Group's website is the responsibility of the directors; the work of the auditors does not involve a consideration of these matters and accordingly, the auditors accept no responsibility for any changes that may have occurred to the information contained in the financial statements as they are presented on the website.

Policy on payment to suppliers

The Group agrees terms and conditions for its business transactions with suppliers. Payment is then made on these terms, subject to the terms and conditions being met by the supplier. At 31 October 2002 Group trade creditors represented approximately 24 days (2001: 31 days).

Employment policies

The Group seeks to offer equal opportunities to employees regardless of disability, sex, race or religion. The Group also recognises its obligation to provide a safe working environment for its staff.

Independent auditors

The auditors, Baker Tilly (formerly HLB Kidsons), will be proposed for re-appointment in accordance with Section 385 of the Companies Act 1985.

On behalf of the Board



S Kelly

Director

17 December 2002

Corporate governance

for the year ended 31 October 2002

The directors acknowledge the importance of the Combined Code and have complied with its requirements so far as is appropriate to a Group of the size and nature of Raft International plc.

Going concern

The directors have satisfied themselves that the Group has adequate resources to continue in operational existence for the foreseeable future, and for this reason the financial statements have been prepared on a going concern basis.

Directors

The Board currently consists of five executive directors and one non-executive director. Following the appointment of D Hall as CEO the Board now represents three significant shareholder directors and three minor shareholder directors. Given the mix of significant shareholders and other directors, potential conflicts of interest can be managed by an appropriate combination of at least two directors, always chaired by the non-executive director.

Meeting structure

Following the restructuring of the Group, a new meeting structure has been adopted which reflects the international basis of personnel and to better manage the business.

Meeting	Attendees	Frequency	Purpose
Board	Board	Quarterly	Strategic direction of the Group
Oversight	Non-executive director, CEO and CFO	Monthly	Review the financial affairs of the Group
Executive	Board excluding the non-executive director	Monthly	Operational management of the Group
Operating	Executive directors and product managers	Fortnightly	Decisions on bidding, projects, pricing, clients and resourcing.
Audit	Non-executive director, CEO, CFO and auditors	Quarterly	Review financial controls, reporting of results, effectiveness and costs of the audit
Remuneration	Non-executive director, CEO and CFO	Biannually	Framework of executive remuneration and its cost

Risk management and internal control

The Board has overall responsibility for the Group's system of risk management and internal controls.

The schedule of matters reserved for the Board ensures that the directors maintain full and effective control over all significant strategic, financial, organisational and compliance issues.

The directors have delegated to executive management the establishment and implementation of a system of internal controls appropriate to the various business environments in which it operates. The Group operates under a system of controls that have been developed and refined over time to meet its current and future needs and the risks and opportunities to which it is exposed. These controls include but are not limited to:

- strategic planning and the related annual planning and quarterly re-forecasting process including the ongoing review by the Board of the Group's strategies
- the definition of the organisational structure and the appropriate delegation of authorities to operational management
- the establishment of individual business unit performance targets and the monthly business review of actual performance
- the internal financial reporting and review of financial results and other key performance criteria
- accounting and financial reporting policies to ensure consistency, integrity and accuracy of the Group's financial records
- specific treasury policies and objectives
- procedures for the authorisation of capital expenditure

Independent auditors' responsibilities

Any work undertaken by the Group's auditors outside of the audit engagement is approved by the independent member of the audit committee in advance of the work being undertaken after enquiries to satisfy themselves that no potential conflict of interest arises from this work.

Remuneration report

for the year ended 31 October 2002

The Remuneration Committee comprises of L Moir with at least one executive director in attendance at meetings. Directors are not involved in deciding their own remuneration.

The terms of reference of the committee are that it makes recommendations to the Board on the framework of executive remuneration and its cost.

The overall policy of the committee is to provide pay and benefits packages to executive directors that are appropriate to retain and motivate them to meet the objectives set by the Board. Both short-term rewards (base salary, annual sales commission, bonuses and fringe benefits) and longer-term benefits (share options) reflect the responsibilities and performance of individual executives. Those directors with direct sales responsibilities have a base salary supplemented by sales commission. Other executive directors have a base salary supplemented by a profit related bonus.

In recognition of the financial under performance of the Group the directors agreed to a decrease in salary for the period from 1 April 2002 until 31 October 2002. Details of the reduction are recorded below.

Emoluments paid to each director are as follows:

	Salary £	Sales Commission £	Salary reduction £	Benefits £	Pension £	2002 Total £	2001 Total £
C D Priestley	160,000	10,463	(18,667)	—	16,000	167,796	176,000
A Shah	120,000	—	(14,000)	—	—	106,000	120,000
F Møbjerg	77,040	—	(17,500)	14,935	13,427	87,902	98,256
D Hall ¹	37,045	—	—	—	—	37,045	—
L Moir	28,750	—	(1,458)	—	—	27,292	15,000
S Kelly	110,000	—	(5,833)	—	—	104,167	51,756
M T Dowding ²	—	—	—	—	—	—	131,667
	532,835	10,463	(57,458)	14,935	29,427	530,202	592,679

Note 1 – appointed 7 January 2002.

Note 2 – resigned 24 May 2001. Includes £59,000 payment made at the time of his resignation as a director.

In addition, during the year payments were made to business entities in which certain directors had a material interest:

	2002 £	2001 £
FM Investment & Consulting APS (F Møbjerg)	62,208	66,433
Creative Business Solutions Limited (M T Dowding)	—	18,459
	62,208	84,892

The service contracts of the directors are terminable on 12 months notice (S Kelly, D Hall and L Moir: six months) by the Company.

Details of directors' outstanding share options are shown below:

	EMI scheme		Unapproved scheme		Exercise dates	
	Ordinary shares	Exercise price	Ordinary shares	Exercise price	From	To
F Møbjerg	—	—	575,242	5.2p	April 2002	April 2008
S Kelly	150,000	38p	—	—	May 2004	May 2011
S Kelly	365,625	5.25p	—	—	June 2005	June 2012
D Hall	1,000,000	5.25p	—	—	June 2005	June 2012

The market price of the Company's Ordinary shares ranged from a high of 11p to a low of 2p during the year from 1 November 2001 to 31 October 2002. Since 31 October 2002 to the date of this report, no options have been exercised by the directors.

Independent auditors' report to the members of Raft International plc

for the year ended 31 October 2002

We have audited the financial statements on pages 15 to 26.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom 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 and United Kingdom Auditing Standards.

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 report of the directors 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 regarding directors' remuneration and transactions with the Company is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the corporate summary, business at a glance, chairman's statement, operating review, financial review, report of the directors, corporate governance report and remuneration report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of 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 the Company's and the Group's affairs at 31 October 2002 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Baker Tilly

Registered Auditors

Chartered Accountants

Spectrum House
20-26 Cursitor Street
London
EC4A 1HY

17 December 2002

Consolidated profit and loss account

for the year ended 31 October 2002

	Note	2002 £'000	2001 £'000
Turnover	2	6,666	9,468
Cost of sales		(4,579)	(5,690)
Gross profit		2,087	3,778
Administrative expenses		(4,355)	(4,902)
Operating loss	4	(2,268)	(1,124)
Interest receivable and similar income		155	300
Interest payable and similar charges	5	–	(2)
Loss on ordinary activities before taxation		(2,113)	(826)
Tax on loss on ordinary activities	6	75	(67)
Loss after taxation retained for the financial year		(2,038)	(893)
Loss per share (pence)	7	(3.10)	(1.36)
Fully diluted loss per share (pence)	7	(3.10)	(1.32)

Statement of total recognised gains and losses

for the year ended 31 October 2002

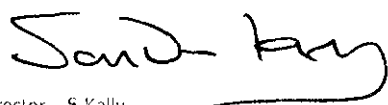
	2002 £'000	2001 £'000
Loss for the year	(2,038)	(893)
Exchange adjustments on foreign currency investments	8	4
Total losses recognised for the year	(2,030)	(889)

Balance sheets

as at 31 October 2002

		Group		Company	
	Note	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Tangible fixed assets	8	322	619	-	-
Investments	9	-	-	2,788	2,788
		322	619	2,788	2,788
Current assets					
Debtors	10	1,562	1,590	2,453	3,201
Cash at bank and in hand		3,709	5,295	2,056	2,947
		5,271	6,885	4,509	6,148
Creditors: amounts falling due within one year	11	(1,355)	(1,222)	(99)	(124)
Net current assets		3,916	5,663	4,410	6,024
Total assets less current liabilities		4,238	6,282	7,198	8,812
Creditors: amounts falling due after more than one year	12	-	(12)	-	-
Provisions for liabilities and charges	14	-	(2)	-	-
		4,238	6,268	7,198	8,812
Capital and reserves					
Called up share capital	15	3,286	3,286	3,286	3,286
Share premium account	16	5,765	5,765	5,765	5,765
Profit and loss account	18	(4,813)	(2,783)	(1,853)	(239)
Equity shareholders' funds	19	4,238	6,268	7,198	8,812

The accounts were approved by the Board on 17 December 2002.



Director - S. Kelly



Director - D. Vial

Consolidated cash flow statement

for the year ended 31 October 2002

	Note	2002 £'000	2001 £'000
Net cash outflow from operating activities	a	(1,642)	(1,132)
Returns on investments and servicing of finance			
Interest received		155	300
Interest paid		—	(2)
		155	298
Taxation		(67)	(89)
Capital expenditure			
Sale of tangible fixed assets		—	15
Purchase of tangible fixed assets		(31)	(422)
Net cash outflow before financing		(1,585)	(1,330)
Financing			
Capital element of hire purchase contract payments		(16)	(16)
Repayment of loans		(7)	(20)
Issue of equity shares		—	5
Decrease in cash in the year		(1,608)	(1,361)

Notes to consolidated cash flow statement

for the year ended 31 October 2002

a) Reconciliation of operating result to net cash flow from operations

	2002 £'000	2001 £'000
Operating loss	(2,268)	(1,124)
Depreciation	287	108
Loss on disposal of asset	—	11
Decrease in provisions	(2)	—
Decrease/(Increase) in debtors	124	(260)
Increase in creditors	217	133
	(1,642)	(1,132)

b) Reconciliation of net cash flow to movement in net funds

	2002 £'000	2001 £'000
Decrease in cash in the year	(1,608)	(1,361)
Exchange adjustments on foreign currency investments	22	37
Cash outflow from hire purchase	16	16
Cash outflow from loans	7	20
Change in net funds arising from cash flow	(1,563)	(1,288)
Movement in funds in the year	(1,563)	(1,288)
Net funds at start of year	5,260	6,548
Net funds at end of year	3,697	5,260

c) Analysis of net funds

	1 November 2001 £'000	Exchange differences £'000	Cash flow £'000	31 October 2002 £'000
Cash at bank	5,295	22	(1,608)	3,709
Loans due within one year	(7)	—	7	—
Hire purchase contracts	(28)	—	16	(12)
	5,260	22	(1,585)	3,697

Notes to the financial statements

for the year ended 31 October 2002

1 Accounting policies

Accounting convention

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards and the accounting policies set out below.

Basis of consolidation

The consolidated accounts include the accounts of the Company and its subsidiary undertakings and have been prepared using merger accounting principles.

The Company has not prepared its own profit and loss account as permitted by Section 230 (3) of the Companies Act 1985.

Revenue recognition

Turnover represents amounts invoiced to customers, excluding value added tax, adjusted for opening and closing accrued income.

The Group has three types of revenue streams:

(a) *Licence fees* are recognised over the period from delivery of the system to the point at which there are no significant vendor obligations remaining and the collection of the resulting receivable is considered probable. This recognition is based on the actual costs incurred and estimated likely future costs to the point at which there are no significant vendor obligations remaining.

(b) *Maintenance fees and recurring licence fees* are recognised rateably over the period of the contract.

(c) *Professional services fees*, such as implementation, are recognised as the services are performed.

Tangible fixed assets

Depreciation is provided on a straight-line basis over the following periods in order to write off each asset over its estimated useful life or, if held under a finance lease, over the lease term, whichever is the shorter.

Leasehold property	–	over the period of the lease
Improvements to property	–	over the period of the lease
Fixtures, fittings and computer equipment	–	four years
Computer software	–	two years

Deferred taxation

Provision is made at current rates for taxation deferred in respect of all material timing differences. Deferred tax assets are only recognised where recovery is more likely than not.

Research and development

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

Foreign currencies

Differences on exchange arising from the retranslation at closing rates of the opening net investment in overseas subsidiary companies, and from the translation of the results of those companies, are taken to reserves and are reported in the statement of total recognised gains and losses. All other exchange differences are taken into account in arising at the operating result.

Hire purchase and leasing commitments

Assets obtained under hire purchase contracts or finance leases are capitalised in the balance sheet. Those held under hire purchase contracts are depreciated over their estimated useful lives. Those held under finance leases are depreciated over their estimated useful lives or the lease term, whichever is the shorter.

The interest element of these obligations is charged to the profit and loss account over the relevant period. The capital element of the future payments is treated as a liability.

Rentals paid under operating leases are charged to the profit and loss account as incurred.

Notes to the financial statements continued

for the year ended 31 October 2002

2 Turnover and geographical segmental analysis

Turnover is analysed by sales into the following geographical markets:

	Turnover		(Loss)/profit before tax		Net assets/(liabilities)	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000	2002 £'000	2001 £'000
United Kingdom	3,973	4,903	(2,046)	(895)	4,560	6,009
Europe	2,821	4,478	(242)	215	(166)	308
Rest of World	772	87	175	(146)	(156)	(49)
	6,666	9,468	(2,113)	(826)	4,238	6,268

3 Staff costs

	2002 £'000	2001 £'000
Wages and salaries	2,883	3,411
Social security costs	238	261
Pension costs	29	24
	3,150	3,696

The average number of employees (including executive directors) during the year was as follows:

Computer programmers	41	42
Administration	28	31
	69	73

4 Operating loss

	2002 £'000	2001 £'000
The operating loss is stated after charging:		
Operating leases - rent of land and buildings	237	103
Depreciation - owned assets	271	92
Depreciation - assets on hire purchase contract	16	16
Auditors' remuneration - audit	32	33
- other	21	12
Research and development	402	632
Directors' emoluments (excluding pension contributions)	501	568

Other fees paid to auditors principally related to local and international tax advice.

Detailed information concerning directors' emoluments, share options and consideration payable to third parties for making available the services of the directors is disclosed in the remuneration report.

Notes to the financial statements continued

for the year ended 31 October 2002

5 Interest payable and similar charges

	2002 £'000	2001 £'000
Bank interest	–	2

6 Taxation

The tax on the loss on ordinary activities for the year was as follows:

	2002 £'000	2001 £'000
UK corporation tax	(10)	–
Overseas taxation	1	69
(Over provision)/under provision in prior years	(64)	15
Tax (credited)/charged for the year	(73)	84
Deferred taxation	(2)	(17)
	(75)	67

Tax reconciliation

Loss before taxation	(2,113)	(826)
Tax at 20%	(423)	(165)
(Overprovision)/underprovision in prior years	(64)	15
Disallowed expenses	12	25
Timing differences	63	22
Additional tax repayment from research and development tax credit	(2)	–
Addition to tax losses	341	146
Profits arising overseas that are subject to rates of tax other than the UK small companies' rate	–	41
Tax (credited)/charged for the year	(73)	84
Tax losses available in future years	2,180	486

7 Loss per share

Loss per share is calculated on a net basis using the loss on ordinary activities after taxation and the weighted average number of shares detailed below:

	2002 £'000	2001 £'000
Basic and diluted loss attributable to ordinary shareholders	(2,038)	(893)
	Number	Number
Weighted average number of Ordinary shares	65,720,874	65,624,980
Diluted share options	–	2,259,686
Adjusted weighted average number of Ordinary shares	65,720,874	67,884,666
Loss per share (pence)	(3.10)	(1.36)
Diluted loss per share (pence)	(3.10)	(1.32)

Notes to the financial statements continued

for the year ended 31 October 2002

8 Tangible fixed assets

	Leasehold property £'000	Fixtures and fittings £'000	Computer equipment and software £'000	Total £'000
Group				
Cost				
1 November 2001	75	103	663	841
Differences on exchange	—	(4)	(3)	(7)
Transfers	—	96	(96)	—
Additions	—	2	29	31
Revaluations	(34)	—	—	(34)
Disposals	(26)	—	(2)	(28)
As at 31 October 2002	15	197	591	803
Depreciation				
1 November 2001	21	52	149	222
Transfers	—	22	(22)	—
Depreciation for the year	11	32	244	287
Disposals	(26)	—	(2)	(28)
As at 31 October 2002	6	106	369	481
Net book value				
As at 31 October 2002	9	91	222	322
As at 31 October 2001	54	51	514	619

Fixed assets, included in the above, which are held under hire purchase contracts are as follows:

	Fixtures and fittings £'000
Group	
Cost	
As at 31 October 2002 and 31 October 2001	63
Depreciation	
1 November 2001	33
Depreciation for the year	16
As at 31 October 2002	49
Net book value	
As at 31 October 2002	14
As at 31 October 2001	30

Notes to the financial statements continued

for the year ended 31 October 2002

9 Fixed asset investments

£'000

Company

Cost as at 31 October 2002 and 31 October 2001

2,788

The Company's investment in subsidiary undertakings comprises 100% of the issued share capital of the following companies:

	Country of incorporation	Principal activity
Raft International A/S	Denmark	Computer software services
Raft International (UK) Ltd*	England and Wales	Computer software services
Raft Software Private Ltd**	India	Computer software services
Raft (Overseas) Ltd*	England and Wales	Intermediate holding company
Raft International Inc	USA	Computer software services
R.a.f.t. International AB	Sweden	Computer software services

* Directly owned by Raft International plc.

** Owned by Raft International (UK) Limited.

All other subsidiary undertakings are owned by Raft (Overseas) Limited.

10 Debtors

	Group		Company	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Amounts falling due within one year:				
Trade debtors	1,209	1,284	—	—
Amounts due from Group undertakings	—	—	2,410	3,200
Corporation tax	89	186	—	—
Other debtors	149	120	1	1
Prepayments and accrued income	115	—	42	—
	1,562	1,590	2,453	3,201

11 Creditors

	Group		Company	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Amounts falling due within one year:				
Trade creditors	835	771	39	—
Other loans	—	7	—	—
Corporation tax	1	53	—	—
Social security and other taxes	86	231	26	108
Hire purchase contracts	12	16	—	—
Other creditors	44	144	34	16
Deferred income	377	—	—	—
	1,355	1,222	99	124

Notes to the financial statements continued

for the year ended 31 October 2002

12 Creditors: Amounts falling due after more than one year

	Group		Company	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Amounts falling due after one year:				
Hire purchase contracts	—	12	—	—

13 Obligations under hire purchase contracts and leases

	Hire purchase contracts			
	Group		Company	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Gross obligations repayable:				
Within one year	12	16	—	—
Between one and five years	—	12	—	—
	12	28	—	—

	Operating leases			
	Land and buildings		Other	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Leases expiring:				
Within one year	215	19	14	—
Between one and five years	69	103	20	—
More than five years	—	—	—	—
	284	122	34	—

14 Provisions for liabilities and charges

	Deferred tax	
	2002 £'000	2001 £'000
Balance as at 1 November 2001	2	19
Decrease in provision	(2)	(17)
Balance as at 31 October 2002	—	2

15 Share capital

	Ordinary shares of 5p each	
	2002 and 2001	
	Number	£'000
Authorised	200,000,000	10,000
Allotted, called up and fully paid	65,720,874	3,286

Notes to the financial statements continued

for the year ended 31 October 2002

16 Share premium

	Group and Company £'000
As at 31 October 2002 and 31 October 2001	5,765

17 Share options

At 31 October 2002 the following options to subscribe for Ordinary shares were outstanding:

Exercise period	Ordinary shares at 5p each				
	Exercise price	Unapproved share option scheme	EMI scheme	2002 Total	2001 Total
April 2001 – April 2008	5.2 p	2,588,590	–	2,588,590	2,588,590
June 2002 – June 2009	26.6 p	108,563	–	108,563	379,266
March 2003 – March 2010	26.6 p	43,707	–	43,707	215,715
October 2003 – October 2010	64.0 p	–	295,066	295,066	1,331,350
May 2004 – May 2011	38.0 p	76,604	373,396	450,000	1,050,000
February 2005 – February 2012	10.0 p	–	150,000	150,000	–
June 2005 – June 2012	5.0 p	167,000	–	167,000	–
June 2005 – June 2012	5.25p	405,954	2,782,352	3,188,306	–
		3,390,418	3,600,814	6,991,232	5,564,921

During the year 2,078,995 share options were cancelled.

18 Profit and loss account

	Group		Company	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
As at 1 November	(2,783)	(1,894)	(239)	317
Loss for the year	(2,038)	(893)	(1,614)	(556)
Exchange adjustments on foreign currency investments	8	4	–	–
Balance as at 31 October	(4,813)	(2,783)	(1,853)	(239)

19 Reconciliation of movements in equity shareholders' funds

	2002 £'000	2001 £'000
Loss for the year	(2,038)	(893)
Exchange adjustments on foreign currency investments	8	4
Issue of shares including premium	–	5
Opening shareholders' funds	6,268	7,152
Balance as at 31 October	4,238	6,268

Notes to the financial statements continued

for the year ended 31 October 2002

20 Financial instruments and risk profile

The main objective of the Group's treasury policy is to protect post-tax cash flows of the core business from the adverse effects of financial risks.

The main risks arising from the Group's operations are interest rate and foreign exchange risk. The Board reviews and agrees policies for managing each of these risks.

The Group is risk adverse and is therefore only concerned with avoiding actual losses or cost increases and not with the opportunity costs of potential gains.

The Group's financial assets and liabilities comprise of cash and liquid resources, and various items, such as trade debtors and trade creditors that arise directly from its operations.

No financial instruments were held for the purpose of dealing or other financial instrument trading activities.

Interest rate risk

The Group has financed its operations through funds raised at the time of the Initial Public Offering. The Group's exposure arises from falling interest rates. The Group uses a combination of fixed and floating deposits for its cash balances. The Group has not hedged the exposure to interest rate fluctuations through the use of derivative instruments. Funds on deposit at the balance sheet date bear interest at rates based on LIBOR.

Foreign exchange risk

Financial instruments for foreign exchange are limited to forward currency agreements. No forward contracts or hedging transactions were entered into during the year. Exchange losses were immaterial.

Translation exposure arising from the translation of the profits, losses, assets or liabilities of non-sterling businesses is not hedged.

Group information

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India

Unique Centre
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Texas 77098

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Nominated Adviser and Broker

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London EC4V 4JL

Independent Auditors

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Key Dates

Annual General Meeting	19 February 2003 at 10.00am
Interim results	23 June 2003
Preliminary results	17 December 2003

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