

ARC International plc
Consolidated profit and loss account
for the year ended 31 December 2002

| | 3 months ended 31 December 2002 (unaudited) £'000 | 3 months ended 31 December 2001 (unaudited) £'000 | Year ended 31 December 2002 (unaudited) £'000 | Year ended 31 December 2001 (audited) £'000 |
|---|---|---|---|---|
| Turnover | 3,195 | 2,272 | 11,702 | 11,450 |
| Less: Operating costs | | | | |
| Goodwill amortisation | 1,024 | 1,017 | 4,093 | 4,075 |
| Exceptional (credit)/costs (note 4) | (600) | (1,291) | 1,501 | 5,526 |
| Other operating costs | 8,051 | 8,689 | 32,488 | 38,277 |
| | 8,475 | 8,415 | 38,082 | 47,878 |
| Loss before interest and tax | 5,280 | 6,143 | 26,380 | 36,428 |
| Add: Interest receivable and similar income | 1,055 | 1,282 | 4,414 | 6,586 |
| Less: Interest payable and similar charges | 7 | - | 11 | 2 |
| Loss on ordinary activities before tax | 4,232 | 4,861 | 21,977 | 29,844 |
| Less: Tax on loss on ordinary activities | 36 | 77 | 69 | 81 |
| Retained loss for the period | 4,268 | 4,938 | 22,046 | 29,925 |
| | | | | |
| Basic loss per share | 1.43p | 1.76p | 7.34p | 10.83p |
| Diluted loss per share | 1.43p | 1.76p | 7.34p | 10.83p |
| Pre-exceptional loss per share | 1.63p | 2.24p | 6.86p | 8.83p |
| | | | | |
| Summary of operating expenses | | | | |
| Operating costs | | | | |
| Cost of sales | 344 | 377 | 1,323 | 1,683 |
| Research and development | 3,306 | 3,346 | 13,052 | 13,291 |
| Sales and marketing | 2,560 | 2,890 | 10,053 | 14,293 |
| General and administration | 973 | 1,257 | 4,913 | 6,583 |
| Depreciation of fixed assets | 868 | 819 | 3,147 | 2,427 |
| Amortisation of goodwill | 1,024 | 1,017 | 4,093 | 4,075 |
| Exceptional costs – NIC on share options | - | 66 | - | (1,026) |
| Exceptional costs – Provision release | (600) | - | (899) | - |
| Exceptional costs – Restructuring | - | (1,357) | 2,400 | 6,552 |
| Total operating expenses | 8,475 | 8,415 | 38,082 | 47,878 |

ARC International plc
Consolidated statement of total recognised gains and losses
for the year ended 31 December 2002

| | 3 months ended 31 December 2002 | 3 months ended 31 December 2001 | Year ended 31 December 2002 | Year ended 31 December 2001 |
|---------------------------------|---------------------------------------|---------------------------------------|-----------------------------------|-----------------------------------|
| | <i>(unaudited)</i> | <i>(unaudited)</i> | <i>(unaudited)</i> | <i>(audited)</i> |
| | | £'000 | £'000 | £'000 |
| Retained loss for the period | (4,268) | (4,938) | (22,046) | (29,925) |
| Currency translation difference | (390) | (118) | (664) | 71 |
| Total loss for the period | (4,658) | (5,056) | (22,710) | (29,854) |

ARC International plc
Consolidated balance sheet
as at 31 December 2002

| | As at 31 December 2002 <i>(unaudited)</i> £'000 | As at 31 December 2001 <i>(audited)</i> £'000 |
|--|---|---|
| Fixed Assets | | |
| Intangible assets | 7,765 | 12,280 |
| Investment in own shares | 1,660 | - |
| Tangible assets | 6,419 | 6,702 |
| | 15,844 | 18,982 |
| Current Assets | | |
| Stock | 88 | 156 |
| Debtors | 4,981 | 3,710 |
| Investments – bank deposits | 98,064 | 119,401 |
| Cash at bank and in hand | 2,921 | 1,449 |
| | 106,054 | 124,716 |
| Creditors – amounts fully due within one year | (4,578) | (5,198) |
| Net current assets | 101,476 | 119,518 |
| Total assets less current liabilities | 117,320 | 138,500 |
| Creditors - Amounts falling due after more than one year | - | (2,000) |
| Provision for liabilities and charges | (2,566) | (2,433) |
| Net assets | 114,754 | 136,065 |
| Capital and reserves | | |
| Called up share capital | 300 | 283 |
| Share premium account | 152,661 | 151,033 |
| Exchangeable shares | 4,040 | 4,286 |
| Merger reserve | 107 | 107 |
| Other reserves | 23,065 | 24,702 |
| Profit and loss account | (65,419) | (44,346) |
| Total shareholders' funds | 114,754 | 136,065 |

ARC International plc
Consolidated cash flow statement
for the year ended 31 December 2002

| | | 3 months ended 31 December 2002 <i>(unaudited)</i> £'000 | 3 months ended 31 December 2001 <i>(unaudited)</i> £'000 | Year ended 31 December 2002 <i>(unaudited)</i> £'000 | Year ended 31 December 2001 <i>(audited)</i> £'000 |
|---|------|---|---|--|--|
| | note | | | | |
| Net cash outflow from operating activities | 1 | (4,306) | (7,122) | (19,627) | (27,304) |
| Returns on investments, servicing of finance and taxes paid | | | | | |
| Taxes paid | | (81) | - | (81) | - |
| Interest received | | 555 | 1,328 | 3,732 | 6,365 |
| Bank interest paid | | (11) | - | (11) | - |
| Interest element on finance lease rentals | | | (2) | | (2) |
| Net cash inflow from returns on investments and servicing of finance | | 463 | 1,326 | 3,640 | 6,363 |
| Capital expenditure and financial investment | | | | | |
| Purchase of tangible fixed assets | | (1,563) | (416) | (3,295) | (5,315) |
| Purchase of intangible fixed assets | | (64) | - | (64) | - |
| Sale of tangible fixed assets | | - | - | - | 8 |
| Investment in own shares | | (1,660) | - | (1,660) | - |
| Net cash outflow from capital expenditure and financial investment | | (3,287) | (416) | (5,019) | (5,307) |
| Net cash outflow before management of liquid resources and financing | | (7,130) | (6,212) | (21,006) | (26,248) |
| Management of liquid resources | 3 | | | | |
| Movement on term deposits | | 7,201 | 5,492 | 21,337 | 23,888 |
| Financing | | | | | |
| Issue of ordinary share capital – IPO and options | | 215 | 448 | 1,399 | 1,243 |
| Capital element of finance lease rentals | | - | (1) | (5) | (20) |
| Decrease in borrowings | | - | - | - | (17) |
| Net cash inflow from financing | | 215 | 447 | 1,394 | 1,206 |
| (Decrease)/Increase in net cash during the period | | 286 | (273) | 1,725 | (1,154) |