

31 JULY 2003

**ARC RISK MANAGEMENT GROUP PLC**

**(AIM)**

**FINAL RESULTS FOR THE YEAR TO 31 MARCH 2003**

ARC Risk Management plc ("ARC" or the "Company"), the AIM-listed security and risk management consultants, announces today its results for the year to 31 March 2003.

**SUMMARY FOR THE YEAR TO 31 MARCH 2003**

- Reduced Loss before tax: £903,015 (2002: 15 months - loss £994,249) which includes £370,104 relating to amortisation of goodwill and impairment of intangible fixed assets
- Reduced Loss per share: 1.09p (2002: loss 2.89p)
- No dividend recommended
- Shareholders' funds at £348,758
- Training division profitable, through significantly increased sales
- Consultancy division profitable with revenue up 45%
- Red24 multi-lingual versions installed
- £250,000 raised in May 2003

**Commenting on today's announcement, Simon Richards, Chairman of ARC, stated:**

"I am pleased to report that the training division has had a sound year, with significantly increasing sales. The consultancy division has now been reorganised with some success and Red24 has been well-received, both by assistance companies and financial institutions.

"Your Board has been making significant efforts to boost revenues and reduce costs, and losses in the current financial year are substantially below budget, as a result of which it is hoped that a break-even situation will be achieved before the end of this year."

**---ENDS---**

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Chairman

ARC Risk Management Group plc

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## **CHAIRMAN'S STATEMENT**

### **Introduction**

The results cover the year to 31<sup>st</sup> March 2003 and incorporate the acquisition of ARC Risk Management Limited ("ARC"), which was completed on 29<sup>th</sup> July 2002. The initial prospects for ARC were described in the prospectus issued last July and in the Interim Statement sent to shareholders in November last year.

### **Results and Dividend**

The losses on ordinary activities for the 12 months to 31 March 2003 amounted to £903,015 (2002 15 months: loss £994,249). This figure includes a provision of £250,579 in respect of the impairment of the book value of certain intangible fixed assets. The loss per share is 1.09p (2002: loss 2.89p) and no dividend is recommended. As a result of this loss, shareholders funds at 31<sup>st</sup> March 2003 amounted to £348,758.

### **Business review**

ARC has three business divisions: security training, consultancy and Red24. However, although sales from these divisions rose from £431,877 in the 10 months to 31 March 2002 to £858,024 in the 12 months to 31 March 2003, only the sales for the 8 months from the date of acquisition of ARC to 31 March 2003 are included in the Group accounts.

The training division has had a sound year, significantly increasing sales and developing new training courses to meet the needs of our blue chip client base. The division strengthened its team during the year and is now recognised as the UK's leading provider of security management training and, internationally, as one of the leading security management training organisations in the world. This division is profitable at the operating level and has continued to develop its income since the year end, sales in the first quarter being 50% up on the same period in the previous year.

The consultancy division incorporates the work done for insurance underwriters, project management and the sale of contingency planning products derived from the original investment in Level One. In my Interim Report I said that sales in this area had been disappointing, but I am pleased to report that the division has now been reorganised with some success to focus on developing work for key underwriters. Revenue in the second half year was 45% higher than in the first half year and has continued to grow since, the first quarter's revenue being twice that of the same period in the previous year. This improvement in revenue has made the division profitable at the operating level and has enabled it to develop further its product offering to address the concerns of underwriters that the cover offered was too wide for the premium charged. The new product incorporates a significant training element and will benefit both this division and the training division. The division is in advanced discussions with a leading broker to launch the product on an exclusive basis this autumn with the product cover backed up by a leading underwriter.

Red24 and the products derived from it remain both the most exciting and, at the same time, the most frustrating part of the business. Red24 was launched in the summer of 2002 and has been well received both by assistance companies and financial institutions, who perceive the need to provide their customers with a security assistance product along the lines of the well established medical, travel and legal assistance products. The division has spent a considerable amount of time and money in developing and providing this assistance and, during the year, non

English language versions have been made available as have specialist assistance products for particular markets such as Red24 Auto. A major international bank now incorporates Red24 as a standard part of its Platinum and International insurance products and Red24 is also offered at advantageous rates in many employment benefit packages. In the UK, Times Right Marketing have been appointed as marketing agents for the product and we are also close to signing a licensing agreement for the North American market. In South Africa we are endeavouring to develop the market itself through links with car rental and tourist organisations. Whilst it has taken considerably longer than anticipated to translate all this activity into sales revenues, your Board still believes that Red24 is not only the best security assistance product commercially available but also the least expensive. Revenue is building, albeit slowly, and if it continues to grow according to plan this division should have acquired sufficient mass to be self sufficient by the end of the year.

### **Financial position**

Your Board has been making significant efforts to boost revenues and reduce costs, and losses in the current financial year are substantially below budget. It is therefore anticipated that breakeven can be achieved before the year end. However, the delays in translating the Red24 sales activity into revenue has increased the Group's working capital requirements beyond the level anticipated last July. Consequently, although a further £250,000 was raised in May 2003, principally in equity, after the AGM the Board will be seeking to place further shares to raise up to £250,000 to satisfy the Company's working capital requirements, and your authority to do so will be sought at the AGM. Unfortunately it will not be possible to undertake a formal rights issue or similar share offer to all shareholders as the Board considers that, given the costs and time involved when compared to the size of the fundraising being considered, this would not be in the best interests of the Company. As there can be no guarantee that such an equity fundraising can be successfully completed, the Board will also explore other methods of finance and in that event, the Company has received assurances from the Directors and their associates that they would provide funds to a value of £100,000 if required.

### **The Board**

In June 2003 Rupert Reid resigned to pursue other interests and has not been replaced. The Board would like to express their appreciation of the contribution he has made to the Company's development.

The Board have reviewed the needs of the Company and have concluded that these can be met satisfactorily without replacing Mr Reid. The structure of the Board will be kept under review as the business grows.

### **Outlook**

I believe that your Company has developed an exciting range of security related products and services and I am cautiously optimistic that, provided the necessary finance is available, these products and services will produce the income and profitability to justify the investment shareholders have made in them and in the Company.

**Simon Richards**  
**Chairman**

**30th July 2003**

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Year ended 31 March 2003 £	15 months ended 31 March 2002 £
<b>TURNOVER</b>		
Acquired operations	620,857	-
Discontinued operations	-	1,167,005
	<u>620,857</u>	<u>1,167,005</u>
Cost of sales	(276,180)	(375,924)
<b>GROSS PROFIT</b>	<u>344,677</u>	<u>791,081</u>
Administrative expenses	(998,855)	(1,350,226)
Administrative expenses - impairment of intangible fixed assets	(250,579)	-
	<u>(1,249,434)</u>	<u>(559,145)</u>
<b>OPERATING LOSS</b>		
Continuing operations	(187,868)	(133,964)
Acquired operations	(716,889)	-
Discontinued operations	-	(425,181)
	<u>(904,757)</u>	<u>(559,145)</u>
Exceptional item - loss on disposal of fixed assets (discontinued operations)	-	(442,307)
Interest receivable	7,255	9,428
Interest payable	(5,513)	(2,225)
<b>LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	<u>(903,015)</u>	<u>(994,249)</u>
Taxation	-	-
<b>LOSS FOR THE PERIOD</b>	<u>(903,015)</u>	<u>(994,249)</u>
Accumulated losses brought forward	(1,407,103)	(412,854)
<b>ACCUMULATED LOSSES CARRIED FORWARD</b>	<u>(2,310,118)</u>	<u>(1,407,103)</u>
<b>LOSS PER SHARE</b>	<u>(1.09p)</u>	<u>(2.89p)</u>

### TOTAL RECOGNISED GAINS AND LOSSES

The group had no recognised gains or losses other than those shown in the profit and loss account.

## CONSOLIDATED BALANCE SHEET

	2003		2002	
	£	£	£	£
<b>FIXED ASSETS</b>				
Intangible assets		684,000		-
Tangible assets		<u>47,444</u>		<u>683</u>
		731,444		683
<b>CURRENT ASSETS</b>				
Debtors: amounts falling due within one year	217,332		60,294	
Cash at bank and in hand	<u>42,539</u>		<u>525,485</u>	
	259,871		585,779	
CREDITORS: amounts falling due within one year	<u>(561,739)</u>		<u>(65,989)</u>	
<b>NET CURRENT (LIABILITIES) ASSETS</b>		<u>(301,868)</u>		<u>519,790</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		429,576		520,473
CREDITORS: amounts falling due after more than one year		<u>(80,818)</u>		<u>-</u>
<b>NET ASSETS</b>		<u>348,758</u>		<u>520,473</u>
<b>EQUITY CAPITAL AND RESERVES</b>				
Called up share capital		2,443,675		1,720,000
Share premium account		215,201		207,576
Profit and loss account		<u>(2,310,118)</u>		<u>(1,407,103)</u>
<b>EQUITY SHAREHOLDERS' FUNDS</b>		<u>348,758</u>		<u>520,473</u>

## CONSOLIDATED CASH FLOW STATEMENT

	Year ended 31 March 2003		15 months ended 31 March 2002	
	£	£	£	£
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	Note 6	(684,249)		(714,720)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE				
Interest received		7,255		9,428
Interest paid		(5,513)		(2,225)
NET CASH INFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		1,742		7,203
CAPITAL EXPENDITURE				
Proceeds of sale of tangible fixed assets		50,000		945,559
Payments to acquire tangible fixed assets		(28,899)		(3,558)
NET CASH INFLOW FROM CAPITAL EXPENDITURE		21,101		942,001
ACQUISITIONS				
Purchase of subsidiary undertakings		(137,436)		-
Net cash acquired with subsidiary undertakings		42,737		-
NET CASH OUTFLOW FROM ACQUISITIONS		(94,699)		-
NET CASH (OUTFLOW) INFLOW BEFORE FINANCING		(756,105)		234,484
FINANCING				
Repayment of hire purchase loans		-		(32,674)
Issue of ordinary share capital (net of expenses)		219,831		-
Repayment of bank loans		(6,672)		-
Other loans		60,000		-
NET CASH INFLOW (OUTFLOW) FROM FINANCING		273,159		(32,674)
(DECREASE) INCREASE IN CASH	Note 7	(482,946)		201,810

## NOTES

- The financial information set out in this preliminary announcement does not constitute statutory accounts as defined in section 240 of the Companies Act 1985.

The financial information has been extracted from the group's 2003 financial statements. Those financial statements have not yet been delivered to the Registrar, however the group's auditors have given an unqualified audit opinion on those financial statements.

- Basis of preparation

The preliminary results have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards. The principal accounting policies of the group are set out in the group's 2002 annual report and financial statements. The policies in this preliminary announcement have remained unchanged from those 2002 financial statements.

- Loss per share

	Year ended 31 March 2003	15 months ended 31 March 2002
Attributable loss (£)	<u>(903,015)</u>	<u>(994,249)</u>
Average number of ordinary shares in issue	<u>82,975,445</u>	<u>34,400,000</u>
Basic loss per share (pence)	<u>(1.09p)</u>	<u>(2.89p)</u>

- Reconciliation of movement in equity shareholders' funds

	Group		Company	
	Year ended 31 March 2003 £	15 months ended 31 March 2002 £	Year ended 31 March 2003 £	15 months ended 31 March 2002 £
Opening shareholders' funds	520,473	1,514,722	520,473	1,514,722
Loss for the year	(903,015)	(994,249)	(398,102)	(994,249)
Issue of shares	904,594	-	904,594	-
Share issue expenses	(173,294)	-	(173,294)	-
Closing shareholders' funds	<u>348,758</u>	<u>520,473</u>	<u>853,671</u>	<u>520,473</u>

- Reconciliation of operating loss to net cash outflow from operating activities

	Year ended 31 March 2003 £	15 months ended 31 March 2002 £
Operating loss	(904,757)	(559,145)
Depreciation charges	9,641	114,490
Amortisation charges	119,525	-
Impairment of intangible fixed assets	250,579	-
Loss on disposal of tangible fixed assets	-	5,969
Decrease in stocks	-	29,071
(Increase) decrease in debtors	(24,334)	182,060
Decrease in creditors	<u>(134,903)</u>	<u>(487,165)</u>
Net cash outflow from operating activities	<u>(684,249)</u>	<u>(714,720)</u>

6. Reconciliation of net cash flow to movement in net funds

	Year ended 31 March 2003 £	15 month ended 31 March 2002 £
(Decrease) increase in cash	(482,946)	201,810
Bank loan of subsidiary company on acquisition	(97,498)	-
Decrease in hire purchase loans	-	32,674
Decrease in bank loan	6,672	-
Increase in other loans	(60,000)	-
	<hr/>	<hr/>
(DECREASE) INCREASE IN NET FUNDS	(633,772)	234,484
OPENING NET FUNDS	525,485	291,001
	<hr/>	<hr/>
CLOSING NET (DEBT) FUNDS	(108,287)	525,485

7. The Directors are not proposing that a dividend payment be made.

8. Copies of the Report and Accounts will be available from the Company's office at 18 High St, Goring-on-Thames, Oxfordshire RG8 9AR.