

**GX NETWORKS PLC** Interim Report 2003



**GX NETWORKS**

### **Chairman's statement**

GX Networks' results at the half-way stage reflect the successful merger integration process. While the substantial increase in revenues is largely a reflection of the merger, a significant reduction in losses has been achieved by a dramatic streamlining and refocusing of the Company. Gross margin has also improved from 15% to 40% for the period under review as a result of the new product mix.

The balance of the Company's revenue base has shifted away from lower margin and higher churn products and services to higher margin services in faster growing market segments. This, together with more sales into the corporate markets, will continue to yield improvements in performance which will be better reflected in the full year results.

### **Results**

Turnover for the half year was £11,141,000 (2002: £2,324,000), an increase that primarily reflected the benefits of the combination of the former GX Networks and Zipcom businesses following the GX Networks acquisition in 2002. EBITDA losses were cut to £1,874,000 (2002: £3,258,000). This was a £1.4 million improvement despite the inclusion of substantial one-off restructuring costs. The underlying operational loss therefore reflects an even healthier position. After such costs, depreciation and goodwill amortisation, the net reported operating loss was £3,699,000 (2002: £3,957,000). The Company finished the first half with cash balances of £5,083,000 (2002: £6,668,000).

### **Management and personnel**

In preparation for the strengthening of the group's management and Board, on 26 June 2003 I relinquished my position as a non-executive director and was appointed Executive Vice Chairman.

On 10 September Mike Read was appointed to the Board as Chief Executive Officer. Mike, previously Managing Director of GX Networks, has considerable experience across the telecommunications industry. Christina Kennedy, previously Company Secretary, was appointed to the Board as a non-executive director, whilst Jon Richards retired as a non-executive director. Grahame Purvis, previously Chairman and CEO, resigned, and I was elected as Executive Chairman. Stewart Porter remains as Finance

Director and Laurence Blackall, who was the founder and CEO of the core GX business until its acquisition by XO in 2000, remains a non-executive director.

### **Outlook**

Since the period end, the Company has completed three extremely important acquisitions. CIX, one of the country's longest established Internet Service Providers, and XTML, a leading web hosting business, were acquired in July this year. The acquisition of Firstnet, a Leeds based business-to-business service provider, was completed in August. These acquisitions will influence the future of the business, and have not only doubled our revenue run rate to £43 million but will also enable us to achieve measurable improvements in operational efficiency.

These acquisitions have done more than add revenue as they have enabled management to recast and stabilise the Company's service mix. Leased lines now only account for 38% of the Company's revenues, down from 60% at the start of the year, while hosting has risen from 7% to 20%. During the second half of the year the business will benefit from the broader product range, the enlarged customer base, and the geographical expansion of our operations.

We are operating in a very dynamic and fast-moving sector of the telecommunications industry in which it is vital that we offer the leading-edge solutions that our customers demand. The changes we have implemented position the Company well to meet these challenges.

All the components are in place for a successful second half. I look forward to reporting to you at the year-end on a transformed Company.

Peter Dubens

Chairman

30 September 2003

**Consolidated profit and loss account (unaudited)**  
*for the six months to 30 June 2003*

	Note	<b>6 months to 30 June 2003 Unaudited £000</b>	6 months to 30 June 2002 Unaudited £000	Year to 31 December 2002 Audited £000
<b>Turnover</b>		<b>11,141</b>	2,324	8,059
Cost of sales		<b>(6,736)</b>	(1,980)	(6,083)
<b>Gross profit</b>		<b>4,405</b>	344	1,976
Operating expenses		<b>(8,104)</b>	(4,301)	(13,728)
<b>Operating loss</b>		<b>(3,699)</b>	(3,957)	(11,752)
Net interest (payable)/receivable		<b>(109)</b>	26	(10)
<b>Loss on ordinary activities before taxation</b>		<b>(3,808)</b>	(3,931)	(11,762)
Tax on loss on ordinary activities		-	-	-
<b>Loss for the financial period</b>		<b>(3,808)</b>	(3,931)	(11,762)
Loss per ordinary share – basic	3	0.5p	1.4p	3.2p

There are no recognised gains or losses other than the loss for the period and accordingly no Statement of Total Recognised Gains and Losses has been produced.

**Consolidated balance sheet (unaudited)**  
*at 30 June 2003*

	<b>At 30 June 2003 Unaudited £000</b>	At 30 June 2002 Unaudited £000	At 31 December 2002 Audited £000
<b>Fixed assets</b>			
Intangible assets			
Positive goodwill	<b>8,617</b>	-	9,078
Negative goodwill	<b>(432)</b>	(657)	(544)
	<b>8,185</b>	(657)	8,534
Tangible assets	<b>11,592</b>	4,207	12,445
	<b>19,777</b>	3,550	20,979
<b>Current assets</b>			
Debtors	<b>1,457</b>	1,005	3,016
Cash at bank and in hand	<b>5,083</b>	6,668	5,368
	<b>6,540</b>	7,673	8,384
<b>Creditors: amounts falling due within one year</b>	<b>(15,714)</b>	(4,156)	(16,194)
<b>Net current (liabilities)/ assets</b>	<b>(9,174)</b>	3,517	(7,810)
<b>Total assets less current liabilities</b>	<b>10,603</b>	7,067	13,169
<b>Creditors: amounts falling due after one year</b>	<b>(2,750)</b>	(1,675)	(6,166)
<b>Provisions for liabilities and charges</b>	<b>(390)</b>	(13)	(752)
<b>Net assets</b>	<b>7,463</b>	5,379	6,251
<b>Capital and reserves</b>			
Called up share capital	<b>9,530</b>	2,857	7,100
Share premium account	<b>20,173</b>	16,595	17,583
Capital reserve	<b>207</b>	207	207
Other reserves	<b>3,472</b>	-	3,472
Profit and loss account	<b>(25,919)</b>	(14,280)	(22,111)
<b>Equity shareholders' funds</b>	<b>7,463</b>	5,379	6,251

**Consolidated cash flow statement (unaudited)**  
*for the six months to 30 June 2003*

	<b>6 months to 30 June 2003 Unaudited £000</b>	6 months to 30 June 2002 Unaudited £000	Year to 31 December 2002 Audited £000
<b>Operating loss</b>	<b>(3,699)</b>	(3,957)	(11,752)
Depreciation	<b>1,476</b>	812	2,039
Amortisation	<b>349</b>	(113)	(74)
Profit on sale of fixed assets	-	-	(46)
(Increase)/decrease in working capital	<b>(1,839)</b>	(152)	2,378
Non cash (credit)/charge in respect of provisions	<b>(362)</b>	(34)	48
<b>Cash outflow from operating activities</b>	<b>(4,075)</b>	(3,444)	(7,407)
<b>Returns on investment and servicing of finance</b>			
Interest element of finance lease payments	<b>(55)</b>	(104)	(190)
Interest received	<b>18</b>	133	202
	<b>(37)</b>	29	12
<b>Capital expenditure and financial investment</b>			
Purchase of tangible fixed assets	<b>(623)</b>	(116)	(480)
Proceeds from disposals of fixed assets	-	-	64
<b>Acquisitions</b>	-	-	168
<b>Cash outflow before financing and management of liquid resources</b>	<b>(4,735)</b>	(3,531)	(7,643)
<b>Management of liquid resources</b>			
Cash withdrawn from deposit	<b>199</b>	3,266	6,041
<b>Financing</b>			
Issue of ordinary share capital	<b>5,029</b>	-	2,930
Expenses on issue of ordinary share capital	<b>(184)</b>	-	(477)
Issue of convertible loan stock	-	-	1,570
Net cash outflow on finance leases	<b>(395)</b>	(304)	(1,515)
<b>Net cash inflow/(outflow) from financing</b>	<b>4,450</b>	(304)	2,508
<b>(Decrease)/Increase in cash in the period</b>	<b>(86)</b>	(569)	906

**Reconciliation of net cash flow to movement in net funds/(debt)  
(unaudited)  
for the six months to 30 June 2003**

	<b>6 months to 30 June 2003 Unaudited £000</b>	6 months to 30 June 2002 Unaudited £000	Year to 31 December 2002 Audited £000
<b>(Decrease)/Increase in cash in period</b>	<b>(86)</b>	(569)	906
Net movement in liquid resources	<b>(199)</b>	(3,266)	(6,041)
Conversion of loan stock	<b>175</b>	-	-
Net movement in finance leases	<b>127</b>	-	402
Cash inflow from convertible loan stock	-	-	(1,570)
Issue of loan notes	-	-	(3,490)
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Movement in net funds	<b>17</b>	(3,835)	(9,793)
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Opening net (debt)/ funds	<b>(2,500)</b>	7,293	7,293
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<b>Closing net (debt)/funds</b>	<b>(2,483)</b>	3,458	(2,500)
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**Reconciliation of movements in shareholders' funds (unaudited)  
for the six months to 30 June 2003**

	<b>6 months to 30 June 2003 Unaudited £000</b>	6 months to 30 June 2002 Unaudited £000	Year to 31 December 2002 Audited £000
<b>Loss for the financial period</b>	<b>(3,808)</b>	(3,931)	(11,762)
New share capital subscribed (net of issue costs)	<b>4,845</b>	-	8,703
Conversion of loan stock	<b>175</b>	-	-
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<b>Net increase/(reduction) in shareholders' funds</b>	<b>1,212</b>	(3,931)	(3,059)
Opening shareholders' funds	<b>6,251</b>	9,310	9,310
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<b>Closing shareholders' funds</b>	<b>7,463</b>	5,379	6,251
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## Notes

### 1. Financial information

The financial information contained in this interim report does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. Financial information is presented on the basis of the accounting policies of the Group as set out in the Annual Report for the year ended 31 December 2002.

The consolidated profit and loss account and cash flow statements for the 6 months to 30 June 2003 and 30 June 2002 and the consolidated balance sheets at 30 June 2003 and 30 June 2002 are unaudited. The financial information for the year ended 31 December 2002 has been extracted from the statutory accounts filed with the Registrar of Companies which contained an unqualified audit report and no adverse statement under Section 237 (2) or (3) of the Companies Act 1985.

### 2. Dividend

The directors do not recommend the payment of an interim dividend (2002: nil).

### 3. Loss per share

	<b>6 months to 30 June 2003</b>	6 months to 30 June 2002	Year to 31 December 2002
Loss for the financial period attributable to shareholders	£3,808,000	£3,931,000	£11,762,000
Weighted average number of equity shares in issue	839,342,596	285,724,272	365,930,209
Basic loss per equity share	0.5p	1.4p	3.2p

### 4. Post balance sheet events

#### Loan stock conversions

From 8 July 2003 to 23 September 2003 £1,105,000 of Unsecured Convertible Redeemable 7.5% 2012 Loan Stock was converted to 40,181,817 ordinary shares of 1p each at 2.75p.

#### Acquisitions

On 18 July 2003, the Company acquired XTML Limited and Compulink Information eXchange Limited ("CIX") which were previously part of the Telenor Business Holdings UK Limited Group. The total consideration paid in respect of the acquisitions was £1.0 million, satisfied by the allotment, on 14 August 2003, of 20,366,599 ordinary shares of 1p each at 4.91p.

On 28 August 2003, the Company acquired Firstnet Services Limited for cash consideration of £3.2 million and £1.1 million in ordinary shares of 1p each at a price of 4.98p, which will be allotted no sooner than seven months following completion.

#### Placing

On 28 August 2003, the Company placed 261,894,737 new ordinary shares of 1p each at a price of 4.75p per share on AIM. The placing raised £12.4 million (before expenses) (£12 million net) for the Company.

**Independent review report by KPMG Audit Plc to GX Networks plc**

We have been engaged by the company to review the financial information set out on pages 4 to 8 and we have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company in accordance with the terms of our engagement. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report or for the conclusions we have reached.

**Directors' responsibilities**

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors.

**Review work performed**

We conducted our review in accordance with guidance contained in the Bulletin 1999/4: '*Review of Interim Financial Information*' issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review is substantially less in scope than an audit performed in accordance with Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

**Review conclusion**

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2003.

**KPMG Audit Plc**  
Chartered Accountants  
London

**30 September 2003**



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