

Business Systems Group Holdings plc

Preliminary results for the year ended 31 March 2004

Business Systems Group Holdings plc, the information technology practice providing business solutions, products and services for the entire technology lifecycle, today announces its preliminary results for the year ended 31 March 2004.

Highlights

- Profit before tax of £139k compared to a loss of £2.9m in the prior year.
- The Group's trading performance showed a second consecutive annual improvement with the pre-tax loss, excluding exceptional items, falling to £127k from £383k in the prior year.
- Gross margin improved to 22% from 20% in the prior year
- Cash balances increased to £7.9m at the year end, up from £7.6m a year ago and £7.1m at the interims.
- Exceptional credit of £266k compared to an exceptional expense of £2.6m in the prior year, the credit including a provision release due to the long term lease of part of the Group's excess office space.
- The Group revenues reduced by 14% to £22.6m from £26.5m in the prior year. The principal reason for the reduction was a 23% year on year decline in hardware revenues.
- Strategy of shifting business to managed services continues

Trading update

Whilst the Board is confident that the contractual revenues of the Group will continue to rise in the coming year, it is mindful that the contribution of the hardware business will probably continue to decline. The market for managed services is growing and, with BSG continuing to develop its offerings, the services side of the Group should, as a result, continue to evolve. The challenge remains to expand this side of the business faster than the hardware division contracts and at the same time reduce the Group's reliance on one-off projects. The performance in the new financial year to date reflects this balancing act, with the hardware business continuing to reduce year on year, project revenue remaining unpredictable and contractual revenues growing.

Board changes

The Board also announces today that Richard Brasher, a non-executive director, has resigned from the Group in order to focus on his recent appointment to the main board of Tesco plc. He will leave the Group with effect from 18 June 2004 and will receive no compensation. The Board wishes to congratulate Richard and thank him for his extremely helpful guidance and advice to the Group over the last four years.

Share Listing

Shareholders will be aware that the shares of the Company are listed on the Official List of the London Stock Exchange. After careful consideration, the Board has concluded that the costs and compliance aspects related to this listing currently outweigh the benefits, and therefore it will shortly be making an application to the UK Listing Authority for cancellation of the listing and applying to the London Stock Exchange for admission to the AIM market. Further information in relation to this will be made available in due course.

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CHAIRMAN'S STATEMENT

The year ended 31 March 2004 saw a continued improvement in the Group's pre-tax performance. This is the second consecutive year that the Group's operating results have improved despite trading in difficult markets. The Group is also making progress in implementing its strategy of shifting the emphasis of the business to managed services.

SUMMARY OF RESULTS

- Whilst turnover for the year reduced by 14% to £22.6m from £26.5m in the prior year, revenues grew in the second half compared to the first. The principal reason for the reduction was a 23% year on year decline in hardware revenues.
- The Group produced a profit before tax of £139k after exceptional items. This compares to a loss after exceptionals of £2.9m in the prior year.
- The trading performance of the Group improved for the second year in succession. Excluding exceptional items, the Group reported a pre-tax loss of £127k, down from a loss of £383k in the prior year.
- Gross margins improved, rising to 22% from 20% in the prior year. This reflects the continuing shift of the business mix from hardware to services.
- The improving trading performance was reflected in the positive cash generation in the second half. Cash balances rose from the interims by £0.8m to £7.9m.
- Contractual revenues by the year end had risen to an annualised £5.8m and growing these business streams is central to the Group's strategy.
- At the Extraordinary General Meeting on 23rd December 2003 the resolution to cancel the share premium account was unanimously passed. The court order was subsequently given on 4th February 2004. As a consequence the deficit on the profit and loss account has been turned into a surplus, and the Group once again has distributable reserves.
- Subsequent to the year end the Group secured long term tenants for part of its excess office space.

CURRENT TRADING AND OUTLOOK

The Board is confident that the contractual revenues of the Group will continue to rise in the coming year. This is due to the growing demand for managed services, combined with BSG's ongoing development of its services offerings. The constant tightening of the hardware markets, combined with BSG's declining focus on this area, means that the exact timing of BSG's return to operating profitability remains uncertain and hinges on whether the profits from managed services can be increased faster than the profits from hardware decline. Performance in the new financial year has followed this trend with hardware sales falling year on year.

I would like to take this opportunity to thank BSG's staff. The improvement in the Group's performance is in no small part down to their hard work and customer focus during a time of great uncertainty and praise is therefore thoroughly deserved.

Roger Keenan
Chairman

CONSOLIDATED PROFIT AND LOSS ACCOUNT
Year Ended 31 March 2004

	Note	Year ended 31 March 2004 Total £'000	Year ended 31 March 2003 Total £'000
TURNOVER		22,643	26,475
Cost of sales		(17,650)	(21,074)
GROSS PROFIT		4,993	5,401
Administrative expenses	2	(5,233)	(8,823)
Other operating income		111	170
OPERATING LOSS		(129)	(3,252)
Other interest receivable and similar income		268	303
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		139	(2,949)
Tax on profit/(loss) on ordinary activities		-	160
PROFIT/(LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION AND RETAINED PROFIT/(LOSS) FOR THE YEAR		139	(2,789)
Basic profit/(loss) per share		0.18p	(3.44)p
Diluted profit/(loss) per share		0.17p	(3.44)p

There are no recognised gains and losses for this financial year or the previous period other than as stated above and therefore no separate statement of total recognised gains and losses has been presented.

All results are derived from continuing operations.

**COMBINED STATEMENT OF MOVEMENT IN SHAREHOLDERS' FUNDS
AND STATEMENT OF MOVEMENTS ON RESERVES
Year Ended 31 March 2004**

	Share Capital £'000	Share Premium Account £'000	Profit and Loss Account £'000	Total £'000
THE GROUP				
Balance at 1 April 2003	4,209	13,940	(10,759)	7,390
Cancellation of share premium	-	(13,940)	13,940	-
Retained profit for the year	-	-	139	139
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Balance at 31 March 2004	4,209	-	3,320	7,529
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BALANCE SHEET
31 March 2004

	Group 2004 £'000	Group 2003 £'000
FIXED ASSETS		
Tangible assets	1,124	1,552
Investments	-	-
Investments in own shares	467	211
	<hr/>	<hr/>
	1,591	1,763
CURRENT ASSETS		
Stocks	97	91
Debtors	4,057	4,381
Cash at bank and in hand	7,934	7,627
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	12,088	12,099
CREDITORS: amounts falling due within one year	(5,783)	(5,472)
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NET CURRENT ASSETS	6,305	6,627
	<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES	7,896	8,390
PROVISION FOR LIABILITIES AND CHARGES	(367)	(1,000)
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NET ASSETS	7,529	7,390
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CAPITAL AND RESERVES		
Called up share capital	4,209	4,209
Share premium account	-	13,940
Profit and loss account	3,320	(10,759)
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EQUITY SHAREHOLDERS' FUNDS	7,529	7,390
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CONSOLIDATED CASH FLOW STATEMENT
Year Ended 31 March 2004

	Year ended 31 March 2004 £'000	Year ended 31 March 2004 £'000	Year ended 31 March 2003 £'000	Year ended 31 March 2003 £'000
Net cash inflow/(outflow) from operating activities		1		(446)
Returns on investments and servicing of finance				
Interest received	268		351	
Net cash inflow from returns on investments and servicing of finance		268		351
Taxation				
UK corporation tax paid/(received)		165		(4)
Capital expenditure				
Payments to acquire tangible fixed assets	(134)		(706)	
Receipts from sales of tangible fixed assets	7		21	
Net cash outflow for capital expenditure		(127)		(685)
Increase/(decrease) in cash in the year		307		(784)

Notes to the Preliminary Statement

1. The financial information set out above does not constitute the Company's statutory accounts for the year ended 31 March 2004 or 2003, but is derived from those accounts. Statutory accounts for 2003 have been delivered to the Registrar of Companies and those for 2004 will be delivered following the Company's annual general meeting. The auditors have reported on those accounts; their reports were unqualified and did not contain statements under s237(2) or (3) Companies Act 1985.

2 EXCEPTIONAL ITEMS

	Year ended 31 March 2004 £'000	Year ended 31 March 2003 £'000
Impairment of intangible fixed assets	-	(1,182)
Appreciation/(diminution) of value of investment in own shares	256	(384)
Provision for unoccupied property	300	(1,000)
Restructuring costs	(290)	-
	<u>266</u>	<u>(2,566)</u>

These costs have been included within administrative expenses.

The Group has succeeded in leasing part of its excess office space on a long term basis. The contract rent is above the rent the Group pays on the space. This has enabled the release of £300,000 of the provision made a year ago. In the prior year the Group made a provision of £1,000,000 on two floors of its London premises which fell vacant and were put up for let.

The Group has a loan to an Employee Benefit Trust (EBT), which used the proceeds to purchase shares for use in employee share schemes. In the prior year, following the closure of the then existing schemes the investment in own shares was written down through an exceptional charge of £384,000 to the market value of the shares held by the EBT at the year end. Since then the Group's share price has recovered and the carrying value of investment in own shares has been restated to the level of options granted over the shares to staff under the Group's Enterprise Management Initiative (EMI) scheme that was launched during the year. This gave rise to an exceptional credit in the year of £256,000.

The Group suffered a further £290,000 restructuring cost in relation to redundancies.

3 RECONCILIATION OF OPERATING LOSS TO NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES

	2004	2003
	£'000	£'000
Operating loss	(129)	(3,252)
Depreciation of tangible assets	558	781
Amortisation of intangible assets	-	1,347
(Profit)/loss on disposal of tangible assets	(3)	21
(Decrease)/increase in provisions	(633)	1,000
(Appreciation)/diminution in value of investment in own shares	(256)	384
(Increase)/decrease in stocks	(6)	46
Decrease in debtors	324	444
Increase/(decrease) in creditors within one year	146	(1,217)
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Net cash inflow/(outflow) from operating activities	1	(446)
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4 ANALYSIS OF NET FUNDS

	At		At
	1 April	Cash	31 March
	2003	flows	2004
	£'000	£'000	£'000
Cash at bank and in hand	7,627	307	7,934
	<hr/>	<hr/>	<hr/>
Net funds	7,627	307	7,934
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

5 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	2004	2003
	£'000	£'000
Increase/(decrease) in cash in the year	307	(784)
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Movement in net funds in the year	307	(784)
Opening net funds	7,627	8,411
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Closing net funds	7,934	7,627
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