

Immediate Release

29 November 2002

Business Systems Group Holdings plc (“BSG” or the “Group”)

Interim results for the six months ended 30 September 2002

Business Systems Group Holdings plc, which provides end-to-end technology solutions for the business-to-business (“B2B”) market, today announces its interim results for the six months ended 30 September 2002.

Highlights

- ◆ Turnover increased 7.5% over the corresponding period last year to £14.1m as a result of new contracts and high retention rate among existing clients
- ◆ Operating loss significantly reduced to £0.6m from £4.9m in the same period last year
- ◆ Gross margins improved to over 19% from only 1% a year ago
- ◆ Cost base of the Group substantially lowered with annual payroll cost savings of over £2.9m
- ◆ Positive earnings before depreciation and amortisation for Webgenerics in the period for first time since its launch in 1999
- ◆ Continuation of strong Balance Sheet with £7.3m of cash and no debt

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CHAIRMAN'S STATEMENT

I am pleased to present the results for Business Systems Group Holdings plc for the six months ended 30 September 2002, which show a considerable improvement over the same period last year.

Financial review

In the first six months of the year, the Group incurred a significantly reduced operating loss of £0.6m compared with an operating loss of £4.9m in the corresponding period of the prior year. The loss before tax was reduced to £0.4m from £4.5m.

The scale of the Group's progress can be seen in its trading cash performance (being the loss before tax, adding back depreciation and amortisation), which shows a profit of £33,000. Excluding exceptional redundancy costs this result was a profit of £195,000.

The improvements have been achieved by:

- Increasing revenues through new contracts and a high retention rate among existing clients, resulting in Group revenues increasing 7.5% on the corresponding period of the prior year to over £14m.
- Improving the gross margin to over 19% from only 1% a year ago. This recovery means that gross margins are now higher than they were in either of the two previous years. A significant driver of better margins has been improved utilisation in the consulting division.
- Lowering the cost base of the Group. Last year the headcount of the Group was reduced from 250 to approximately 180, with a further reduction of 14 positions in April of this year. The result has been a saving in the Group's annual payroll costs of over £2.9m. The exceptional redundancy costs incurred in the first half of this financial year were £162,000.
- Significant success in respect of Webgenerics' hosting offering. This has resulted in revenues for the business quadrupling to over £1.1m for the six months compared with a year earlier. Earnings before depreciation and amortisation were positive in the period for the first time since Webgenerics was launched in 1999.

The Group's balance sheet remains strong with £7.3m of cash and no debt. In the six months the Group invested £400,000 in leasehold improvements on its property to prepare two floors for sub-letting following the expiration of a previous sub-lease. This space is now being marketed. Other than this one-off property investment, capital expenditure for the six months was £130,000.

The Board does not recommend that an interim dividend be paid.

Operational review

The technology market as a whole has remained flat in the first half of this year. Against these difficult conditions, BSG, having concentrated on cutting costs last year, is now growing revenues again. This has meant a focus on improving the quality of service and the degree of innovation used in helping customers to draw real value from their technology investments, as well as expanding our existing customer base as we seek new business opportunities.

One such example of the Group seeking new opportunities is the development of a new service line involving the support and development of JD Edwards enterprise software. With the completion of dotEncrypt, Webgenerics has ceased any new speculative software development. This has freed up the development resource to deliver new services, initially underpinned by demand from existing customers. The first customer for the new JD Edwards practice has already been secured and it will deliver a positive contribution in the second half of the year.

The objective of this service, and other initiatives, is to continue to increase contracted revenues with both new and existing customers. As a result of these initiatives, contracted revenues for the provision of services grew for the whole Group by over a third compared to the corresponding six months last year and it remains one of the Group's aims to increase the stream of annuity income, whilst creating new growth areas in what remains a depressed market.

Outlook

The Board believes that the information technology market will remain subdued for at least another six months, and possibly for all of 2003, as customers continue to delay projects and conserve cash. This is particularly true in relation to hardware and software in BSG's traditional client base, in the City and financial services. Hence, although the Group will continue to invest in its relationships and expertise in these industries, it is developing new markets in the property, publishing and voluntary/charity sectors, where demand remains more robust. However, while the market remains depressed, the Board recognises that the greatest challenge will be to gain new business, especially in the consulting division.

Despite the difficulties of the market, BSG has demonstrated that, having reduced the cost base, it can grow revenues, win new customers and develop new services. It is the Board's aim to continue that growth and development in the second half of the year.

Geoffrey Procter
Chairman
28 November 2002

CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Unaudited six months to 30 September 2002	Unaudited six months to 30 September 2001	Audited year ended 31 March 2002
	Note	£'000	£'000	£'000
Turnover from continuing operations	3	14,051	13,061	24,224
Cost of sales		(11,342)	(12,920)	(22,691)
Gross profit		2,709	141	1,533
Net operating expenses		(3,311)	(5,015)	(12,569)
Operating loss from continuing operations	3, 4	(602)	(4,874)	(11,036)
Net interest receivable		156	335	526
Loss on ordinary activities before taxation		(446)	(4,539)	(10,510)
Taxation		-	-	-
Loss on ordinary activities after taxation		(446)	(4,539)	(10,510)
Retained loss		(446)	(4,539)	(10,510)
Loss per share (basic and fully diluted)	6	(0.55)p	(5.47)p	(12.84)p
Weighted average shares in issue	6	81,204	82,932	81,847

There are no recognised gains or losses other than the loss for the current and preceding financial periods. Accordingly no statement of recognised gains and losses is presented.

CONSOLIDATED BALANCE SHEET

	Unaudited at 30 September 2002 £'000	Unaudited at 30 September 2001 £'000	Audited at 31 March 2002 £'000
Fixed assets			
Intangible assets	1,265	6,236	1,347
Tangible assets	1,793	1,783	1,669
Investments in own shares	595	595	595
	<u>3,653</u>	<u>8,614</u>	<u>3,611</u>
Current assets			
Stock	56	106	137
Debtors	3,768	5,667	4,780
Cash at bank and in hand	7,289	9,147	8,411
	11,113	14,920	13,328
Creditors			
Amounts falling due within one year	(5,033)	(7,384)	(6,760)
Net current assets	<u>6,080</u>	<u>7,536</u>	<u>6,568</u>
Total assets less current liabilities	<u>9,733</u>	<u>16,150</u>	<u>10,179</u>
Capital and Reserves			
Called up share capital	4,209	4,209	4,209
Share premium account	13,940	13,940	13,940
Profit and loss account	(8,416)	(1,999)	(7,970)
Equity shareholders' funds	<u>9,733</u>	<u>16,150</u>	<u>10,179</u>

RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

Loss for the period	(446)	(4,539)	(10,510)
Net additions to shareholders' funds	(446)	(4,539)	(10,510)
Opening shareholders' funds	10,179	20,689	20,689
Closing shareholders' funds	<u>9,733</u>	<u>16,150</u>	<u>10,179</u>

CONSOLIDATED CASH FLOW STATEMENT

	Note	Unaudited six months to 30 September 2002 £'000	Unaudited six months to 30 September 2001 £'000	Audited year ended 31 March 2002 £'000
Net cash outflow from operating activities	8	(657)	(4,268)	(4,810)
Returns on investments and servicing of finance:				
Net interest received		50	338	548
Net cash inflow from returns on investments and servicing of finance		50	338	548
Taxation		-	(37)	(153)
Capital expenditure and financial investment:				
Purchase of tangible fixed assets		(530)	(813)	(1,107)
Sale of tangible fixed assets		15	24	30
Net cash outflow from capital expenditure and financial investment		(515)	(789)	(1,077)
Acquisitions				
Capital costs of acquisition		-	(941)	(941)
Net cash outflow for acquisitions		-	(941)	(941)
Dividends				
Equity dividends paid		-	(84)	(84)
Net cash outflow before financing		(1,122)	(5,781)	(6,517)
Decrease in cash in the period	10	(1,122)	(5,781)	(6,517)

NOTES

1. Basis of preparation

The interim results which are unaudited, have been prepared in accordance with applicable United Kingdom Accounting Standards using accounting policies consistent with those set out in the accounts for the year ended 31 March 2002.

The financial information for the six months ended 30 September 2002 and 30 September 2001 has been neither audited nor reviewed and does not constitute statutory accounts as defined in section 240 of the Companies Act 1985.

The financial information for the year ended 31 March 2002 has been extracted from the statutory accounts for that period which have been filed with the Registrar of Companies. The auditors' report on those accounts was unqualified and did not contain any statement under section 237(2) or (3) of the Companies Act 1985.

The interim results for the six months ended 30 September 2002 were approved by the Board of Directors on 28 November 2002.

2. Basis of consolidation

The Group accounts incorporate the results of the company and its subsidiaries Business Systems Group Limited and Webgenerics Limited.

3. Analysis of turnover, operating loss and net assets

Analyses by class of business of: turnover, operating loss and net assets are stated below:

	<u>Turnover</u>		<u>Operating Loss</u>		<u>Net Assets</u>	
	<i>Unaudited</i>	<i>Audited</i>	<i>Unaudited</i>	<i>Audited</i>	<i>Unaudited</i>	<i>Audited</i>
	Six months to 30 Sept 2002	Year ended 31 March 2002	Six months to 30 Sept 2002	Year ended 31 March 2002	Six months to 30 Sept 2002	Year ended 31 March 2002
	£'000	£'000	£'000	£'000	£'000	£'000
Class of business						
Technology Services and Solutions	12,905	23,573	(448)	(8,541)	14,218	14,510
Technology Applications	1,146	651	(154)	(2,495)	(4,485)	(4,331)
	14,051	24,224	(602)	(11,036)	9,733	10,179

The activities of the Group are wholly undertaken in the United Kingdom.

1. Operating Loss

The operating loss is stated after the following exceptional items:

	Unaudited six months to 30 September 2002 £'000	Unaudited six months to 30 September 2001 £'000	Audited year ended 31 March 2002 £'000
Costs associated with redundancies	162	357	1,037
Impairment of intangible assets	-	-	3,122

1. Dividend

No interim dividend will be paid in respect of the six month period ending 30 September 2002 (2001: nil).

2. Earnings per share

Earnings per share have been calculated by dividing the loss on ordinary activities after taxation by the weighted average number of ordinary shares in issue during the current period.

3. Copies of report

The interim report will be mailed to shareholders and copies will also be available at the Company's registered office at 226 – 236 City Road, London, EC1V 2TT.

8. Reconciliation of operating loss to cash outflow from operating activities

	Unaudited six months to 30 September 2002 £'000	Unaudited six months to 30 September 2001 £'000	Audited year ended 31 March 2002 £'000
Operating loss	(602)	(4,874)	(11,036)
Depreciation of tangible assets	397	347	742
Amortisation of intangible assets	82	398	3,288
(Profit)/loss on disposal of fixed assets	(6)	7	9
Decrease in stock	81	111	80
Decrease in debtors	1,118	1,570	2,441
Decrease in creditors	(1,727)	(1,827)	(334)
Net cash outflow from operating activities	(657)	(4,268)	(4,810)

9. Analysis of net funds

	Audited at 1 April 2002 £'000	Unaudited cash flows £'000	Unaudited at 30 September 2002 £'000
Cash at Bank	8,411	(1,122)	7,289
Net funds	8,411	(1,122)	7,289

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

	Unaudited six months to 30 September 2002 £'000	Unaudited six months to 30 September 2001 £'000	Audited year ended 31 March 2002 £'000
Decrease in cash in the period	(1,122)	(5,781)	(6,517)
Net funds at start of the period	8,411	14,928	14,928
Net funds at end of the period	7,289	9,147	8,411