



BUSINESS SYSTEMS GROUP HOLDINGS PLC
INTERIM REPORT 2008

Chairman's Statement

I am pleased to present the results for the Group for the six months ended 30 September 2008. It has been an encouraging six months which has seen increased profitability and continued growth in Managed Services.

Business Systems Group (BSG) has three businesses; Managed Services, Hardware supply and Solutions (applications development). While all three businesses are targeted to increase profitability, it is growth of the Managed Services business that is core to the Group's strategy. Managed Services typically are sold to medium sized businesses for an initial contract period of three to five years. The service will usually entail the monitoring and support of customer applications on a system that has been designed and deployed by BSG, and often on a platform owned by the Group. Hence we aim to have a long-term and strategic partnership with our customers, which should produce predictable cash flows and lower sales costs.

The key points to note for the period were:

- In the first six months of the year, the Group produced an operating profit of £544k compared with £225k in the corresponding period of the prior year, a rise of 142%. The profit before tax was £808k, up from £465k in the same period of the prior year, a rise of 74%.
- EBITDA* grew to £975k for the six months, up from £552k in the corresponding period of the prior year, a rise of 77%.
- Revenue rose by 14% from £15.8m to £18.0m. This reflected growth in all divisions. Compared to the same period a year before Hardware grew by 14%, Managed Services by 12% and Solutions by 18%.
- Contractual revenues grew to an annualised £8.8m as at September 2008, from an annualised £8.4m at March 2008, an increase of £400k.
- Gross margins reflected the rise in services sales with an increase from 21% in the previous financial year to 22% in the first six month of this year. Importantly the gross margin on Managed Services rose from 28% last year to 32%, demonstrating the economics of scale possible in this business.
- The Group's balance sheet remains strong with £8.1m cash and no debt. This compares with £7.1m of cash a year ago.
- Earnings per share were 1.04p, up from 0.61p in the same period in 2007, a rise of 70%.

* Earnings before interest tax depreciation and amortisation (EBITDA) is operating profit plus depreciation.

Outlook

The Group has performed strongly in the first six months of this year. It is particularly pleasing to report that contractual revenues have reached a new record for the Group and that profit margins in this business are improving. The Board expects these trends to continue in the second half of the year, with the share of gross profit arising from Managed Services likely to reach 50% of the Group's total for the first time. This will help to protect the Group from any wider slow down in demand for IT as the macro economic environment deteriorates. While there is likely to be some impact on project driven revenues, we will work hard with our customers to ensure they reap the benefits from harnessing the latest advances in information technology as they address the challenges in their own markets. At the same time our investment in Managed Services, and the growth of contractual revenues, will continue.

Vin Murria
Chairman
20 November 2008



Consolidated Income Statement

	Notes	Unaudited Six months to 30 September 2008 £'000	Unaudited Six months to 30 September 2007 £'000	Audited Year ended 31 March 2008 £'000
Revenue	2	17,970	15,823	31,427
Cost of sales		(14,078)	(12,664)	(24,891)
Gross profit	2	3,892	3,159	6,536
Administrative expenses		(3,348)	(2,934)	(6,120)
Operating profit	2	544	225	416
Finance income		264	240	509
Profit before taxation		808	465	925
Taxation	3	-	-	-
Profit for the period	2	808	465	925
Basic earnings per share	5	1.04p	0.61p	1.22p
Diluted earnings per share	5	1.02p	0.60p	1.18p

OPERATE



DEPLOY



DESIGN



Consolidated Balance Sheet

	Unaudited at 30 September 2008 £'000	Unaudited at 30 September 2007 £'000	Audited at 31 March 2008 £'000
Non-current Assets			
Property, plant and equipment	1,603	1,393	1,534
	<u>1,603</u>	<u>1,393</u>	<u>1,534</u>
Current Assets			
Inventories	131	78	95
Trade and other receivables	7,084	7,811	5,784
Cash and cash equivalents	8,099	7,140	9,331
	<u>15,314</u>	<u>15,029</u>	<u>15,210</u>
Current Liabilities			
Trade and other payables	(7,874)	(8,452)	(8,217)
	<u>7,440</u>	<u>6,577</u>	<u>6,993</u>
Net Current Assets			
	<u>9,043</u>	<u>7,970</u>	<u>8,527</u>
Net Assets			
Equity			
Share capital	4,209	4,209	4,209
Own shares held	(749)	(872)	(749)
Retained earnings	5,609	4,725	5,114
EBT reserve	(26)	(92)	(47)
	<u>9,043</u>	<u>7,970</u>	<u>8,527</u>
Total Equity			

Consolidated Statement of Changes in Equity

	Share capital	Own shares held	Retained earnings	EBT reserve	Total
	£'000	£'000	£'000	£'000	£'000
Balance at 1 April 2007	4,209	(872)	4,255	(93)	7,499
Profit for the period	-	-	465	-	465
Movement in reserves from					
EBT redemptions	-	-	-	1	1
Share-based payment	-	-	5	-	5
Balance at 30 September 2007	4,209	(872)	4,725	(92)	7,970
Balance at 1 April 2008	4,209	(749)	5,114	(47)	8,527
Profit for the period	-	-	808	-	808
Movement in reserves from					
EBT redemptions	-	-	(5)	21	16
Dividends	-	-	(311)	-	(311)
Share-based payment	-	-	3	-	3
Balance at 30 September 2008	4,209	(749)	5,609	(26)	9,043

OPERATE



DEPLOY



DESIGN



Consolidated Cash Flow Statement

	Unaudited Six months to 30 September 2008 £'000	Unaudited Six months to 30 September 2007 £'000	Audited Year ended 31 March 2008 £'000
Cash flows from operating activities			
Profit after taxation	808	465	925
Adjustments for:			
Depreciation	431	327	692
Share-based payment	3	5	13
Interest income	(264)	(240)	(509)
Decrease in provisions	-	(150)	(150)
Operating cash flows before movement in working capital	978	407	971
(Increase)/decrease in inventories	(36)	63	46
(Increase)/decrease in trade and other receivables	(1,300)	(1,593)	434
(Decrease)/increase in trade payables	(345)	263	28
Cash (used)/generated from operations	(703)	(860)	1,479
Income taxes paid	-	-	-
Net cash (outflow)/inflow from operating activities	(703)	(860)	1,479
Cash flows from investing activities			
Purchase of property, plant and equipment	(501)	(485)	(991)
Interest received	264	240	509
Net cash used in investing activities	(237)	(245)	(482)
Cash flows from financing activities			
Proceeds of sale of shares from EBT	16	1	6
Proceeds of sale of shares from treasury	3	-	84
Dividends paid	(311)	-	-
Net cash (used)/generated from financing activities	(292)	1	90
Net (decrease)/increase in cash and cash equivalents	(1,232)	(1,104)	1,087
Cash and cash equivalents at beginning of period	9,331	8,244	8,244
Cash and cash equivalents at end of period	8,099	7,140	9,331

OPERATE



DEPLOY



DESIGN



Notes

1. Basis of Preparation

These interim condensed consolidated financial statements are for the six months ended 30 September 2008. They have been prepared on a basis consistent with anticipated IFRS (International Financial Reporting Standards) accounting policies based on those IFRS which are expected to be endorsed by the European Commission by the time the Group prepares its consolidated financial statements as at 31 March 2009. They do not include all the information required for full annual financial statements.

These financial statements have been prepared under the historical cost convention.

The financial information for the six months ended 30 September 2008 and 30 September 2007 have been neither audited nor reviewed and does not constitute statutory accounts as defined in section 240 of the Companies Act 1985.

The financial statements and statutory accounts for the year ended 31 March 2008 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 2008 were approved by the Board of Directors on 20 November 2008.

The preparation of financial statements under IFRS requires the Board to make judgements, estimates and assumptions that affect the application of accounting policies, the reported amounts of balance sheet items at the period end and the reported amount of revenue and expense during the reporting period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements that are not readily apparent from other sources. However, the actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an on-going basis.

The recognition of revenue and profit on projects which span the period end constitutes the main area of judgement exercised by the Board in respect of the Group's results. The Board has relied on its experience and that of the teams involved and project management methodologies used by the business to estimate the final outcome of each project, and to recognise the appropriate portion for the period.

Additionally the Board exercises judgement in assessing the extent to which a deferred tax asset is recognised, based on the probability that future profit will be available to utilise the asset.

The accounting policies which the Group has adopted under IFRS, have been applied consistently to all periods presented.

Basis of Consolidation

The Group accounts incorporate the results of the Company and its subsidiaries, Business Systems Group Limited and Webgenerics Limited. The principal activities of the Group are the provision of managed IT services to customers, and the design and deployment of IT infrastructure solutions.

OPERATE



DEPLOY



DESIGN



Notes

2. Business Segmentation

The Group's turnover and profit on ordinary activities are derived entirely from its principal activity. For management purposes the Group had three operating units during the period; Hardware, Managed Services and Solutions (application development). These units are the primary segments of the Group.

	Unaudited Six months to 30 September 2008 £'000	Unaudited Six months to 30 September 2007 £'000	Audited Year ended 31 March 2008 £'000
Revenue			
Hardware	10,690	9,392	18,223
Managed Services	5,480	4,910	10,163
Solutions	1,800	1,521	3,041
Total	17,970	15,823	31,427
Gross Profit			
Hardware	1,310	1,181	2,410
Managed Services	1,755	1,348	2,892
Solutions	827	630	1,234
Total	3,892	3,159	6,536
Operating profit			
Hardware	672	546	1,151
Managed Services	879	589	1,297
Solutions	647	522	981
Central costs	(1,654)	(1,432)	(3,013)
Operating profit	544	225	416
Finance income	264	240	509
Profit for the period	808	465	925

The operations are integrated to such an extent that it is not practical to disaggregate the assets and liabilities of the Group into segments.

3. Taxation

The Group has not incurred any taxation in the period due to the losses available for relief. A deferred tax asset has not been recognised in respect of timing differences relating to depreciation in excess of capital allowances claimed and losses carried forward as there is insufficient evidence that the asset will be recovered.

Notes

4. Dividend

No interim dividend will be paid in respect of the six month period ending 30 September 2008 (2007: nil).

5. Earnings per share

Basic earnings per share has been calculated by dividing the profit on ordinary activities after taxation by the weighted average number of ordinary shares in issue during the period.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue on the assumption of conversion of all dilutive potential ordinary shares. The Group has only one category of dilutive potential ordinary shares, those share options granted under the Enterprise Management Incentive Plan.

	Unaudited Six months to 30 September 2008 £'000	Unaudited Six months to 30 September 2007 £'000	Unaudited Year ended 31 March 2008 £'000
Profit for the financial period and basic and diluted earnings attributable to ordinary shareholders (£'000)	808	465	925
Weighted average number of ordinary shares ('000)	77,633	75,946	76,079
Effect of dilutive share options ('000)	1,405	2,204	1,985
Adjusted weighted average number of ordinary shares ('000)	79,038	78,150	78,064
Earnings per share	1.04p	0.61p	1.22p
Diluted earnings per share	1.02p	0.60p	1.18p

6. Copies of Interim 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 and at the Company's website at www.bsg.co.uk.

OPERATE



DEPLOY



DESIGN





DESIGN



DEPLOY



OPERATE

BUSINESS SYSTEMS GROUP HOLDINGS PLC

BSG HOUSE | 226 - 236 CITY ROAD | LONDON | EC1Y 2TT

www.bsg.co.uk

REGISTERED IN ENGLAND NO. 2923809