



Business Systems Group Holdings plc

Interim Report 2003

Chairman's Statement

In my first reporting period as Chairman of Business Systems Group Holdings plc, I am pleased to present the results for the Group for the six months ended 30 September 2003.

Financial Review

The Group has continued to make progress in its strategy of shifting the emphasis of the business from the provision of hardware to that of services and solutions. However, this change is being managed against a backdrop of very difficult market conditions - a situation about which the Company informed its investors in June when it announced its full year results.

In the first six months of the year, the Group incurred an operating loss of £536k compared with an operating loss of £602k in the corresponding period of the prior year. The loss before tax reduced slightly to £407k from £446k in the corresponding period of the prior year.

The key points to note in the financial results for the period were:

- Revenues fell by 26% compared to the same period last year, falling from £14.1m to £10.5m. The main reason for this was a 34% reduction in hardware sales.
- Contractual revenues grew in all parts of the business in the first half of the year. Services and solutions business now represents 60% of the Group's gross profit.
- Gross margins rose in the first half to 21% compared to 19% in the same period last year. This was due to the continuing shift of the business away from hardware and to steady margins in services and solutions.
- Costs remain under tight control and the savings achieved via restructuring over the last two years have been retained.
- The Group's balance sheet remains strong with £7.1m of cash and no debt. This compares with £7.3m of cash a year ago and £7.6m at 31 March 2003.
- BSG Holdings plc is in the process of seeking shareholder and court approval for a reduction in capital. If this is successful, this will allow the company to eliminate the deficit on its profit and loss reserves using the balance in the share premium reserve.

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

Chairman's Statement (continued)

Operational Review

Customers continue to seek more return from their existing technology assets. The Group is able to add more value to its clients' incremental technology investments through its services and solutions businesses than through pure infrastructure supply, whilst also generating more stable and predictable revenue streams. The Group's focus has therefore been in developing its service and solutions offerings and concentrating on winning contracted revenues across all business lines.

- The managed services offerings have benefited from renewed focus and are being repackaged and re-launched. This is part of creating a scalable and resilient services model that can offer either individual lines of service or a full service outsourcing package. The latter comprises a bespoke combination of any of the services, provided by BSG, which a client needs. Early success has resulted in £500k of contracts for managed wide area networks (WANs), commencing in the second half of the year.
- Whilst the Group's Application Hosting Services have been a great success in the last two years, the Group will be re-launching this line of service during the next half year. This will further differentiate BSG from the bulk hosting providers, offering services that measure performance and availability at the customer application level and offering innovative real time replication business continuity models. This remains a core part of the Group's "data centre to desktop" service offering.
- The solutions business has grown its client base, particularly in the financial services sector. This includes successfully delivering and operating the pilot phase of a retail product selection tool for a major UK clearing bank and using its reputation for cutting edge skills in software design and user functionality, to win new contracts servicing organisations who themselves provide software to the financial services sector. Nevertheless, visibility remains a challenge and furthermore, in today's cautious climate, projects continue to be phased by customers to give them maximum flexibility. Whilst our solutions business has a unique phased approach that is ideal for customers with this style of purchasing, it does mean that true visibility remains limited.

Outlook

The Group is taking longer than anticipated to get back to profit due to depressed demand and deflation in the hardware market. However the Board believes the strategy of growing the services and solutions businesses remains correct and the business is in good shape to take advantage of customer pressure to get increased value and cost savings from their technology assets. Early signs of success of the broader services offering and the widening of the solutions customer base, mean that the Board expects the Group's results to start to improve in the second half of the year. The focus on winning good quality contracted business will continue. The Board is not relying on any improvement in the technology market in the near term, and therefore there will be a continued emphasis on the innovation of services, demonstrably adding value to customers and containing costs.

Roger Keenan
Chairman
27 November 2003

Consolidated Profit and Loss Account

	Notes	Unaudited Six months to 30 September 2003 £'000	Unaudited Six months to 30 September 2002 £'000	Audited Year ended 31 March 2003 £000
Turnover from continuing operations	3	10,457	14,051	26,475
Cost of sales		(8,279)	(11,342)	(21,074)
Gross profit		2,178	2,709	5,401
Net operating expenses		(2,714)	(3,311)	(8,653)
Operating loss from continuing operations	3,4	(536)	(602)	(3,252)
Net interest receivable		129	156	303
Loss on ordinary activities before taxation		(407)	(446)	(2,949)
Taxation		-	-	160
Loss on ordinary activities after taxation		(407)	(446)	(2,789)
Retained loss		(407)	(446)	(2,789)
Basic loss per share	6	(0.52)p	(0.55)p	(3.44)p
Diluted loss per share	6	(0.50)p	(0.55)p	(3.44)p

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

Consolidated Balance Sheet

	Unaudited at 30 September 2003 £'000	Unaudited at 30 September 2002 £'000	Audited at 31 March 2003 £000
Fixed Assets			
Intangible assets	-	1,265	-
Tangible assets	1,317	1,793	1,552
Investments in own shares	211	595	211
	<u>1,528</u>	<u>3,653</u>	<u>1,763</u>
Current Assets			
Stock	138	56	91
Debtors	3,312	3,768	4,381
Cash at bank and in hand	7,070	7,289	7,627
	<u>10,520</u>	<u>11,113</u>	<u>12,099</u>
Creditors			
Amounts falling due within one year	(4,232)	(5,033)	(5,472)
Net Current Assets	<u>6,288</u>	<u>6,080</u>	<u>6,627</u>
Total Assets less Current Liabilities	<u>7,816</u>	<u>9,733</u>	<u>8,390</u>
Provision for Liabilities and Charges	<u>(833)</u>	<u>-</u>	<u>(1,000)</u>
Net Assets	<u>6,983</u>	<u>9,733</u>	<u>7,390</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	(11,166)	(8,416)	(10,759)
Equity Shareholders' Funds	<u>6,983</u>	<u>9,733</u>	<u>7,390</u>

RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

Loss for the period	(407)	(446)	(2,789)
Net reductions to shareholders' funds	(407)	(446)	(2,789)
Opening shareholders' funds	7,390	10,179	10,179
Closing shareholders' funds	<u>6,983</u>	<u>9,733</u>	<u>7,390</u>

Consolidated Cash Flow Statement

	Notes	Unaudited Six months to 30 September 2003 £'000	Unaudited Six months to 30 September 2002 £'000	Audited Year ended 31 March 2003 £000
Net cash outflow from operating activities	8	(732)	(657)	(446)
Returns on investments and servicing of finance:				
Net interest received		81	50	351
Net cash inflow from returns on investments and servicing of finance		81	50	351
Taxation		165	-	(4)
Capital expenditure and financial investment:				
Purchase of tangible fixed assets		(71)	(530)	(706)
Sale of tangible fixed assets		-	15	21
Net cash outflow from capital expenditure and financial investment		(71)	(515)	(685)
Decrease in cash in the period	10	(557)	(1,122)	(784)

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 2003.

The financial information for the six months ended 30 September 2003 and 30 September 2002 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 2003 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 2003 were approved by the Board of Directors on 27 November 2003.

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

The Group operates in one principal activity, that of the provision of integrated technology solutions, products and services. The activity is wholly undertaken in the United Kingdom.

4. Operating Loss

The operating loss is stated after the following exceptional items:

	Unaudited Six months to 30 September 2003 £'000	Unaudited Six months to 30 September 2002 £'000	Audited Year ended 31 March 2003 £000
Costs associated with redundancies	-	162	-
Diminution of value of investment in own shares	-	-	384
Provision for unoccupied property	-	-	1,000
Impairment of intangible fixed assets	-	-	1,182

5. Dividend

No interim dividend will be paid in respect of the six month period ending 30 September 2003 (2002: nil).

6. Earnings per share

Basic 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.

Notes (continued)

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 2003 £'000	Unaudited Six months to 30 September 2002 £'000	Audited Year ended 31 March 2003 £000
Loss for the financial period and basic and diluted earnings attributable to ordinary shareholders (£'000)	(407)	(446)	(2,789)
Weighted average number of ordinary shares ('000)	78,163	81,204	81,144
Effect of dilutive share options ('000)	3,238	-	-
Adjusted weighted average number of ordinary shares ('000)	81,401	81,204	81,144
Earnings per share	(0.52)p	(0.55)p	(3.44)p
Diluted earnings per share	(0.50)p	(0.55)p	(3.44)p

7. 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 2003 £'000	Unaudited Six months to 30 September 2002 £'000	Audited Year ended 31 March 2003 £000
Operating loss	(536)	(602)	(3,252)
Depreciation of tangible assets	306	397	781
Amortisation of intangible assets	-	82	1,347
(Profit)/loss on disposal of fixed assets	-	(6)	21
(Decrease)/increase in provisions	(167)	-	1,000
Diminution in value of investment in own shares	-	-	384
(Increase)/decrease in stock	(47)	81	46
Decrease in debtors	1,117	1,118	444
Decrease in creditors	(1,405)	(1,727)	(1,217)
Net cash outflow from operating activities	(732)	(657)	(446)

Notes (continued)

9. Analysis of Net Funds

	Audited at 1 April 2003 £'000	Unaudited Cash flows £'000	Unaudited at 30 September 2003 £000
Cash at bank and in hand	7,627	(557)	7,070
Net funds	7,627	(557)	7,070

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

	Unaudited Six months to 30 September 2003 £'000	Unaudited Six months to 30 September 2002 £'000	Audited Year ended 31 March 2003 £000
Decrease in cash in the period	(557)	(1,122)	(784)
Net funds at start of the period	7,627	8,411	8,411
Net funds at end of the period	7,070	7,289	7,627



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Registered in England No. 2923809