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BUSINESS SYSTEMS GROUP HOLDINGS PLC

INTERIM REPORT 2004

Chairman's Statement

I am pleased to present the results for the Group for the six months ended 30 September 2004 which show continued progress. This period saw a return to profitability and revenue growth.

Acquisition

A key development during this period was the acquisition of the Unix business of Global Network Solutions Europe Limited (GNS) on 16 August. This business comprises contractual revenues in maintenance and managed hosting along with revenues derived from associated hardware sales. The business services approximately 80 customers and a team of 14 engineers and salespeople transferred to BSG.

The initial cash consideration was £118k in addition to which there is a nine month earn-out to 15 May 2005, equal to 50% of contribution above the initial consideration.

In the first six weeks following acquisition, full integration of the business was completed, over £1m of revenues were invoiced and a positive contribution was achieved after amortisation of goodwill.

Financial Review

The Group has continued to make progress in its strategy of increasing the value it adds to its customers, through growing the managed services offering. In addition, despite the market showing little sign of improvement, the Group's concerted effort to reverse the recent decline in the hardware business has succeeded.

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

- In the first six months of the year, the Group produced an operating profit of £31k compared with an operating loss of £536k in the corresponding period of the prior year. The profit before tax was £196k, up from a loss of £407k in the corresponding period of the prior year.

- Revenues rose by 21% from £10.5m to £12.6m. Whilst the GNS acquisition made a material contribution, organic growth of 10% accounted for nearly half of this, with every division showing a year on year increase.

- Contractual revenues have grown to an annualised £6.6m as at September 2004, from an annualised £5.8m at March 2004.

- Gross margin was 22%, up from 21% in the first half of last year.

- Investment in sales and marketing has increased and the sales team has been expanded.

- The Group's balance sheet remains strong with £7.5m of cash and no debt. This compares with £7.1m of cash a year ago.

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

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Chairman's Statement (continued)

Operational Review

As reported in previous statements, BSG is developing the relationships that it has with its customers by increasing the added value contained within its offering. This is an on-going process. During the period under review the Group has achieved this in several ways:

- The acquisition of GNS has widened the Group's offering to include complex Unix managed services. The staff who have transferred to BSG as a result of this transaction have skills in a range of new technologies that will enable BSG to service wider needs within its customer base.

- Investment in the Group's pre-sales team has been steadily increasing for the last six months and will continue to rise until the year end. This team brings an added depth to BSG's ability to develop solutions for our customers in a whole range of technologies - technologies which are increasingly high on the agenda for many of our clients such as storage, disaster recovery and back up, high end servers and connectivity.

- Managed Services continue to be developed. It is a stated objective of the Group to have a managed service for each of its products. BSG's range of innovative offerings ensures that customers have a wider choice than the simple purchase of a product or solution which is then supported in-house. By purchasing a managed service, customers can decide on a range of purchase and hiring options along with a spectrum of support levels ranging from out of hours cover for a 24 x 7 application to total outsourcing of their IT department.

Outlook

Whilst the IT marketplace continues to be challenging, the platform from which the Group approaches that market is more solid than at any time in the recent past. As reported above, the Group has made recent investment not only in the acquisition of GNS, but also by growing its sales team and developing a world class pre-sales capability. By capitalising on these investments, the Group aims to build on the improvements seen in the first half of the year and is cautiously optimistic about the future.

Roger Keenan
Chairman
22 November 2004

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Consolidated Profit and Loss Account

	Notes	Unaudited Six months to 30 September 2004 £'000	Unaudited Six months to 30 September 2003 £'000	Audited Year ended 31 March 2004 (as restated per note 1) £'000
Turnover				
Continuing Operations	3	11,467	10,457	22,643
Acquisitions		1,157	-	-
Total Turnover		12,624	10,457	22,643
Cost of sales		(9,872)	(8,279)	(17,650)
Gross profit		2,752	2,178	4,993
Net operating expenses		(2,721)	(2,714)	(5,378)
Operating profit/(loss)				
Continuing Operations	3	6	(536)	(385)
Acquisitions		25	-	-
Operating profit/(loss)	4	31	(536)	(385)
Net interest receivable		165	129	268
Profit/(Loss) on ordinary activities before taxation		196	(407)	(117)
Taxation	5	165	-	-
Profit/(Loss) on ordinary activities after taxation and retained profit/(loss)		361	(407)	(117)
Basic profit/(loss) per share	7	0.46p	(0.52)p	(0.15)p
Diluted profit per share	7	0.45p	-	-

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.

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Consolidated Balance Sheet

	Notes	Unaudited at 30 September 2004 £'000	Unaudited at 30 September 2003 (as restated per note 1) £'000	Audited at 31 March 2004 (as restated per note 1) £'000
Fixed Assets				
Intangible assets		97	-	-
Tangible assets		1,045	1,317	1,124
		1,142	1,317	1,124
Current Assets				
Stock		121	138	97
Debtors		3,893	3,312	4,057
Cash at bank and in hand		7,470	7,070	7,945
		11,484	10,520	12,099
Creditors				
Amounts falling due within one year		(4,874)	(4,232)	(5,783)
Net Current Assets		6,610	6,288	6,316
Total Assets less Current Liabilities		7,752	7,605	7,440
Provision for Liabilities and Charges		(317)	(833)	(367)
Net Assets		7,435	6,772	7,073
Capital and Reserves				
Called up share capital		4,209	4,209	4,209
Share premium account		-	13,940	-
Profit and loss account		3,806	(10,782)	3,445
EBT reserve	1	(580)	(595)	(581)
Equity Shareholders' Funds		7,435	6,772	7,073

RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

Profit/(Loss) for the period		361	(407)	(117)
Decrease in EBT reserve		1	-	14
Loss on EBT redemptions		-	-	(3)
Net additions/(reductions) to shareholders' funds		362	(407)	(106)
Opening shareholders' funds (as restated per note 1)		7,073	7,179	7,179
Closing shareholders' funds (as restated per note 1)		7,435	6,772	7,073

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Consolidated Cash Flow Statement

	Notes	Unaudited Six months to 30 September 2004 £'000	Unaudited Six months to 30 September 2003 £'000	Audited Year ended 31 March 2004 £'000
Net cash (outflow)/inflow from operating activities	9	(436)	(732)	1
Returns on investments and servicing of finance				
Net interest received		165	81	268
Net cash inflow from returns on investments and servicing of finance		165	81	268
Taxation				
UK corporation tax received		-	165	165
Capital expenditure and financial investment				
Purchase of tangible fixed assets		(69)	(71)	(134)
Sale of tangible fixed assets		-	-	7
Net cash outflow from capital expenditure and financial investment		(69)	(71)	(127)
Acquisitions and disposals				
Consideration for acquisitions		(136)	-	-
Net cash outflow for acquisitions		(136)	-	-
Cash (outflow)/inflow before management of liquid resources and financing		(476)	(557)	307
Financing				
Issue of shares from EBT		1	-	11
(Decrease)/increase in cash in the period	11	(475)	(557)	318

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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 2004, except for the adoption of UITF abstract 38 "Accounting for ESOP trusts".

Adoption of UITF 38 requires assets of the Group's Employee Benefit Trust (EBT) to be recognised in the financial statements where there is de facto control of those assets. The company's own shares held in the EBT should be deducted from shareholders' funds. Prior to the adoption of UITF 38, the company's own shares held in the EBT were recognised as an asset on the balance sheet at the lower of cost and net realisable value. UITF 38 has been adopted in these financial statements and all primary statements and notes relating to the accounts have been restated accordingly. Compliance with UITF 38 has reduced the investments and shareholders' funds by £211,000 (being £595,000 cost less £384,000 provision) at 30 September 2003 and by £467,000 (being £595,000 cost less £128,000 provision) at 31 March 2004. Additionally the result for the year ended 31 March 2004 has been restated down by £256,000, being the release of the provision accounted for as an exceptional credit. There is no impact on the current period's profit or cash flows.

The financial information for the six months ended 30 September 2004 and 30 September 2003 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 2004, with the exception of the prior year restatement for UITF 38 noted above, 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 2004 were approved by the Board of Directors on 22 November 2004.

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 profit/(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.

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Notes (continued)

4.Operating Profit/(Loss)

The operating profit/(loss) is stated after the following exceptional items:

	Unaudited Six months to 30 September 2004	Unaudited Six months to 30 September 2003	Audited Year ended 31 March 2004 (as restated per note 1)
	£'000	£'000	£'000
Restructuring costs	-	-	(290)
Provision for unoccupied property	-	-	300

5.Taxation

The corporation tax credit recognised in the period ended 30 September 2004 relates to a research and development tax credit. The product set this credit relates to is now complete.

6.Dividend

No interim dividend will be paid in respect of the six month period ending 30 September 2004 (2003: nil).

7.Earnings per share

Basic earnings per share have 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. When a loss is incurred, since the conversion of potential Ordinary shares to Ordinary shares would decrease net loss per share, options are not dilutive and therefore diluted and basic losses per share are the same.

	Unaudited Six months to 30 September 2004	Unaudited Six months to 30 September 2003	Audited Year ended 31 March 2004 (as restated per note 1)
Profit/(Loss) for the financial period and basic and diluted earnings attributable to ordinary shareholders (£'000)	361	(407)	(117)
Weighted average number of ordinary shares ('000)	78,315	78,163	78,185
Effect of dilutive share options ('000)	2,800	614	1,192
Adjusted weighted average number of ordinary shares ('000)	81,115	78,777	79,377
Earnings per share	0.46 p	(0.52)p	(0.15)p
Diluted earnings per share	0.45 p	-	-

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Notes (continued)

8.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.

9.Reconciliation of operating profit/(loss) to cash (outflow)/inflow from operating activities

	Unaudited Six months to 30 September 2004 £'000	Unaudited Six months to 30 September 2003 £'000	Audited Year ended 31 March 2004 (as restated per note 1) £'000
Operating profit/(loss)	31	(536)	(385)
Depreciation of tangible assets	206	306	558
Amortisation of intangible assets	24	-	-
Profit on disposal of fixed assets	-	-	(3)
Decrease in provisions	(50)	(167)	(633)
Increase in stock	(24)	(47)	(6)
Decrease in debtors	144	1,117	324
(Decrease)/increase in creditors	(767)	(1,405)	146
Net cash (outflow)/inflow from operating activities	(436)	(732)	1

10.Analysis of Net Funds

	Audited at 1 April 2004 £'000	Unaudited Cash flows £'000	Unaudited at 30 September 2004 £'000
Cash at bank and in hand	7,945	(475)	7,470
Net funds	7,945	(475)	7,470

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

	Unaudited Six months to 30 September 2004 £'000	Unaudited Six months to 30 September 2003 £'000	Audited Year ended 31 March 2004 £'000
(Decrease)/increase in cash in the period	(475)	(557)	318
Net funds at start of the period	7,945	7,627	7,627
Net funds at end of the period	7,470	7,070	7,945

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