

# Chairman's report

I am pleased to report encouraging results for the year ended 31 March 2001, a year in which the Group (comprising Business Systems Group Holdings plc and its two subsidiaries, BSG Limited and Webgenerics Limited) was floated on the London Stock Exchange and in which the market has experienced a radical shift in how internet technology is used to influence business models.

## Summary of results

Turnover for the year increased to £37.7 million from £33.3 million for the equivalent 12 month period and the Group produced a loss before tax of £148,000 after taking into account £1.6 million of operating expenses incurred by Webgenerics Limited and £219,000 of costs associated with the Group reorganisation and listing which were not able to be offset against reserves. Whilst these results and the progress that we have made in the development of our range of web applications are encouraging, the gross margin achieved in the year of 18.1% was disappointing. The lower than expected margin was caused by low utilisation levels within the consulting division of BSG Limited in the first half of the year and by the operating costs in Webgenerics Limited.

We raised £15 million gross at the time of our listing in July 2000 in order to fund the development of Webgenerics and to build the infrastructure necessary to deliver our product to market. This, together with cash already in the balance sheet at the time of flotation, resulted in us still having net cash balances of £14.9 million at 31 March 2001.

## BSG Limited

After a difficult first half when our utilisation levels were below expectations the second half year has been more successful with a number of 'full service' clients being won in that period. This improvement led to a profit from this Company of £1.2 million for the full year (first half - £261,000).

## Webgenerics Limited

During the second half of the year Webgenerics has grown and consolidated its framework by continuing to extend its distribution partner network, by the launch of new products and by growing its customer base. The loss of £1.6 million was after revenues of £630,000 and represents principally the costs of development of new products.

Over the last twelve months we have seen considerable evolution in perceptions as to how the internet can be used to support business models, which has caused us to reassess the manner in which we should market our products. The market response to our new dotEncrypt product has indicated that providers of services over the internet require products or services to enable them to secure, securely distribute and sell products over the internet. As such, the dotEncrypt product has been strategically positioned as the leader of the Group's product set. As referred to in our statement released on 2 May 2001 the market uptake for the Application Server Provider ("ASP") concept has been slower than expected. To bring greater focus to these innovative products, BSG Limited will act as a reseller to further exploit the UK market.

## Acquisition

We announced on 11 June that we had acquired the 'Experience Design' team of Atomic Tangerine Inc. for an initial consideration of £932,000 and deferred consideration of up to £5.75 million over the next twelve months, depending upon the level of revenues generated by the 'Experience Design' team over that period.

## Current trading

Although we achieved a significant improvement in revenues in BSG Limited in the second half of last year, in these weak markets the current level of trading is more in line with that experienced in the first half of last year. Furthermore, we have incurred, and will continue to incur, some further restructuring costs as we position ourselves for the future, although this should be offset by an increasing contribution later in the year from the 'Experience Design' team. We are beginning to experience good interest in our Webgenerics products which we expect will produce significant revenue growth during the coming year.



**Geoffrey Procter** Chairman