

## Financial Review

### Results

#### Group

Turnover for the year to 31 March 2001 rose by 12% to £37.7m from £33.3m for the equivalent 12 month period. Gross margin for the Group at 18.1% (1999: 19.2%) was adversely affected by poor consulting utilisation within BSG in the first half of the year and by the inclusion of the Group's new subsidiary, Webgenerics Limited, which is not yet generating the level of sales anticipated on flotation.

Group operating expenses before goodwill, listing expenses and interest increased by 38% to £7.2m compared with the previous twelve months of £5.2m. The additional expense includes £1.6m of operating expenses relating to Webgenerics Limited together with additional marketing and management spend.

#### BSG

In the first six months of the year, utilisation levels in the consulting division suffered as a result of projects being deferred. However, in the second half of the year trading improved substantially to achieve turnover at the year end of £37.3m and gross profit of £6.8m. Net profit before interest and taxation amounted to £1.2m.

#### Webgenerics

On 8 June 2000, the Group acquired the entire share capital of Webgenerics Limited for a consideration of £3.6m by way of a share for share exchange. Goodwill arising on such acquisition amounted to £3.95m and is being amortised over a 10 year period. The amortisation charge for the period subsequent to acquisition amounted to £330k.

Revenue for the 10 month period to 31 March 2001 was £630k and loss before tax was £1.6m. This loss is attributable to the costs associated with development of the Company's product offerings which have now all been launched but which will continue to be enhanced and repackaged as the ASP market matures and develops.

### Listing

The Group was listed on the London Stock Exchange as a constituent of the TechMark Index on 7 July 2000, raising £15m before expenses through the issue of 12.6m shares. Costs associated with this listing and with the Group reorganisation immediately prior to listing amounting to £1.1m, have been charged directly against reserves. However, further exceptional listing and reorganisation costs amounting to £219k have been charged to the profit and loss account thereby contributing to the overall Group loss for the year. The purpose of the listing was to raise sufficient additional capital to fund:

- further development in Webgenerics Limited; and
- investment in capital infrastructure in Webgenerics Limited over a three year period while the company was established.

The listing was also designed to raise the general awareness of the Group and its capabilities and to fund ongoing marketing campaigns.

## Taxation

The Group's effective rate of taxation is greater than the standard rate of UK Corporation Tax and is attributable to the disallowance for taxation purposes by the Inland Revenue of certain costs such as listing expenses and the amortisation of goodwill. The effective rate of taxation is also affected by differences in the timing of the grant for taxation purposes of capital allowances in respect of capital infrastructure and the depreciation costs charged thereon through the profit and loss account. The rate is further affected as the Group can only relieve part of the loss for the year of Webgenerics Limited.

## Dividends

The Board paid an interim dividend of 0.1p per share on 17 January 2001 and is proposing to pay a final dividend of 0.1p per share payable on 10 August 2001 to shareholders on the register as at 13 July 2001. This gives a total dividend for the year of 0.2p per share.

## Treasury and Financial Risk Management

The Group's financial instruments comprise cash and liquid resources, as well as items such as trade debtors and trade creditors that arise directly from the Group's operations.

The Group's policy is that no trading in financial instruments is undertaken.

### Liquidity and Interest Rate Risk Management

The Group finances its operations through retained earnings in combination with the cash generated from its recent share issue.

Cash balances have been invested in AAA rated liquidity funds or placed directly with banks for periods of up to three months. Deposits placed directly with banks are at fixed rates of interest while those invested in liquidity funds accrue interest at varying rates.

The fair value of cash invested in liquidity funds and bank deposits is equal to book value.

While a proportion of cash may be placed for fixed terms, the majority of the Group's funds are invested in immediately realisable liquidity funds so as to ensure that sufficient liquidity is always maintained.

### Foreign Currency Risk Management

The Group has no material exposure to assets or liabilities denominated in foreign currencies. Should such exposure arise, the Group's policy would be to hedge such exposures using forward foreign exchange contracts.

## Cash flows

Overall the Group was strongly cash positive during the year generating £12.5m as a result of proceeds raised from its share issue.

BSG remains cash generative and provides £1.5m of cash inflow from trading. As planned, Webgenerics is a net consumer of cash at the moment. The Group's cash burn rate for the year prior to financing activities, was £1.4m and such a rate can easily be absorbed by existing cash resources until such time that Webgenerics contributes positive cashflows in its own right.

As at 31 March 2001 cash balances stood at £14.9m.

**Mark Atkinson** Finance Director

## Directors' Report

The directors present their report and financial statements for the year ended 31 March 2001.

### Principle Activities

The Group carried on the business of the full service provision of ebusiness solutions and ASP software and ebusiness services.

### Review of Developments

A detailed account of the Group's progress during the year and future prospects are set out in the Chairman's statement on page 2, and in the Operating Review and Financial Review on pages 3 to 12.

### Dividends

The Board recommends a final dividend of 0.1pence per share amounting to £84k to be paid on 10 August 2001 to shareholders on the register on 13 July 2001. This, together with the interim dividend paid of 0.1 pence per ordinary share, gives a total dividend for the year of 0.2 pence (2000: Nil pence).

### Research and Development

The Group continues an active programme of research and development primarily in the areas of ASP software and ebusiness services. The costs of this activity during the year amounted to £602k (2000: £ Nil).

### Directors and their Interests

The Directors of the Company are shown on the back cover to this report. N Gerard served as a director throughout the year. M Atkinson and N Wilding were appointed on 23 May 2000 and G Procter, M Coleman and R Brasher were appointed on 8 June 2000. In accordance with the Company's Articles of Association, Messrs Wilding and Procter retire by rotation and, being eligible, offer themselves for re-election at the AGM. Details of directors' service contracts with the Company are given in the Report of the Board to the Shareholders on Directors' Remuneration.

Further details relating to directors' shareholdings are given in note 6a to the accounts.

The directors had no interests in the shares of the Company's subsidiaries.

### Material Interests

At 15 June 2001, the Company had been notified of the following material interests in three percent or more of the issued ordinary share capital:-

Name	Number of Ordinary Shares of 5p each	% shareholding
N Gerard	48,322,643	57.4
P Buckingham	8,373,241	9.95

## Donations

The Group made charitable donations of £2,760 (2000: Enil) during the year. It made no political donations (2000: Enil).

## Employee Involvement

Regular meetings are held between managers and employees to discuss topical issues and the prospects of the Group. Opportunity is given at these meetings for senior executives to be questioned about matters which concern the employees. Information about the Group is disseminated to employees across the Group's intranet. Employees participate directly in the success of the Group through participation in the Group's Share Scheme.

## Employment of Disabled Persons

The Group applies employment policies whereby applications for employment by disabled persons are given full and fair consideration for all vacancies, having regard to their particular aptitudes and abilities. Where existing employees become disabled it is the Group's policy, wherever practicable, to provide continuing employment under normal terms and conditions.

## Supplier Payment Policy

It is the Group's policy that payments to suppliers are made in accordance with those terms and conditions agreed between Group companies and their suppliers based upon the timely receipt of an accurate invoice. Trade creditor days of the Group as at 31 March 2001 were 38 days calculated in accordance with the requirements of the Companies Act 1985. The holding company, Business Systems Group Holdings plc, does not have any trade creditors.

## Auditors

Deloitte and Touche have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

## Annual General Meeting

The Notice of the Meeting contained on pages 40 and 41 includes two items of special business. Resolution 6 is an ordinary resolution which seeks to renew the Directors' authority to allot unissued share capital up to an aggregate nominal amount of £990,852 (representing the lesser of one third of the issued ordinary share capital and the authorised but unissued share capital at the date of this report).

Resolution 7 is a special resolution which seeks to renew the power of the Directors to allot shares for cash without first offering those shares pro rata to existing shareholders up to an aggregate nominal amount of £210,457 (representing 5% of the issued ordinary share capital at the date of this report).

The Directors consider that it is in the best interests of the Company that they should have the flexibility conferred by the above authorities to make small issues of shares for cash as suitable opportunities arise, although save in relation to shares being issued under the Company's share schemes, they have no present intention of exercising these authorities. Both of these authorities comply with the guidelines set by the various Investor Protection Committees and will expire at the earlier of 15 months from the date of passing of the resolutions and the conclusion of the next annual general meeting.

## Details of Directors seeking re-election

### Geoffrey Procter (age 53), Non Executive Chairman

Geoff graduated in 1970 with a BSc Hons in Chemical Engineering from Leeds University. He began his career with Fisons Limited and after working in fertilizer production, and as staff assistant to the Group CEO and Chairman, joined the Agrochemical Division as product manager. In 1977, he joined Air Products plc as the UK Sales Manager for long term supply contracts (Onsites). Subsequently, he held a number of increasingly important management positions in Europe and Asia including, European General Manager of the Electronics Business, European General Manager of Helium, General Manager of the UK Gases business, European General Manager of Onsites and Vice President of the Gases and Equipment Business in Asia. From 1997, he held a European role involving acquisitions, disposals and joint venture formation, in Eastern Europe, India and the Middle East. He is a member of the Institute of Directors. Geoff joined the Group and was appointed to the Board as Non-Executive Chairman in June 2000. Geoff is a member of the Audit, Nomination and Remuneration Committees.

### Nick Wilding (age 41), Group Marketing Director

Nick graduated in 1982 with a BA (Hons) in Geography from Reading University. He joined the Automobile Association in 1986 and became Head of the London Operations Centre, managing the implementation of a new command and control system. While the Developments Manager at the Automobile Association he launched new vehicle breakdown products and services and pioneered a new business managing motorway breakdowns in partnership with UK Police Forces. In 1994, Nick moved to EULER Trade Indemnity, part of EULER SA, the world's largest credit insurance group, where he was responsible for strategy and product development including all e-business developments and for changing the traditional underwriting culture to a client driven culture. He joined the Group in March 2000 and was appointed to the Board as Group Marketing Director in May 2000. Nick is a member of the Chartered Institution of Marketing.

Approved by the Board of Directors  
and signed on behalf of the Board

C Bishop Secretary

15 June 2001

# Corporate Governance

The Combined Code, as appended to the London Stock Exchange Listing Rules, was based on the report of the Hampel Committee. It sets out Principles of Good Corporate Governance and Code provisions which consolidate the work of the earlier Cadbury and Greenbury Committees. Section 1 of the Code is applicable to companies.

A narrative statement on how the Company has applied the Principles and a statement explaining the extent to which the provisions in the Code have been complied with appear below.

## Narrative Statement

The Code establishes 14 Principles of Good Governance which are split into the four areas described below.

### Directors

The company is controlled through the Board of Directors which comprises three executive and three non-executive directors. All the non-executive directors are considered to be independent. As the Chairman is mainly responsible for the running of the Board, he has to ensure that all directors receive sufficient relevant information on financial, business and corporate issues prior to meetings. The Chief Executive's responsibilities focus on running the Group's businesses and implementing Group strategy. All directors are able to take independent professional advice in furtherance of their duties if necessary.

The Board has a formal schedule of matters reserved to it and meets quarterly. It is responsible for overall Group strategy, acquisition and divestment policy, approval of major capital expenditure projects and consideration of significant financing matters. It monitors the exposure to key business risks and reviews the strategic direction of individual trading subsidiaries, their codes of conduct, their annual budgets, their progress towards achievement of those budgets and their capital expenditure programmes. The Board also considers environmental and employee issues and key appointments. It also ensures that all directors receive appropriate training on appointment and then subsequently as appropriate. All directors, in accordance with the Code, will submit themselves for re-election at least once every three years.

The Board has established a number of standing committees. Each committee operates within defined terms of reference. The principal committees are the Management Committee of each operating subsidiary, which operate as general executive management committees, the Audit Committee, the Remuneration Committee and a Nominations Committee. Trading companies have separate boards of directors. The minutes of their meetings and of the standing committees are circulated to and reviewed by the Board of Directors.

Although the Board believes it is a 'small' Board in the context of the Code and therefore does not need to establish a Nominations Committee, it considers that such a Committee, which makes recommendations to the Board on all new board appointments, will reassure shareholders as to the suitability of chosen directors. Consequently, a Nominations Committee has been established and its members have agreed to meet at least twice a year and will also advise on general Board composition.

Those attending and the frequency of Board and Committee meetings during the year were as follows:

### Board Meetings 3

G Procter (Non-Executive Chairman)  
 N Gerard (Chief Executive)  
 M Atkinson  
 N Wilding  
 R Brasher (non-executive)  
 M Coleman (non-executive)

### Remuneration Committee 4

G Procter (Non-Executive Chairman)  
 R Brasher (non-executive)  
 M Coleman (non-executive)

**Nominations Committee** 2

G Procter (chairman)  
M Coleman  
R Brasher  
N Gerard  
M Atkinson

**Audit Committee** 1

G Procter (chairman)  
M Coleman  
R Brasher

**Directors' Remuneration**

The Remuneration Committee, under the chairmanship of Mr Procter, measures the performance of the executive directors and key members of senior management as a prelude to recommending their annual remuneration, bonus awards and awards of share options to the Board for final determination. The remuneration of the non-executive directors is recommended by Mr Gerard and Mr Atkinson and takes account of the time spent on Committee matters. The final determinations are made by the Board as a whole but no director plays a part in any discussion about their own remuneration. The Committee consults the Chairman and the Chief Executive about its proposals and has access to professional advice from inside and outside the Company.

The Report of the Board to the shareholders on Directors' Remuneration is set out on pages 18 to 19 and includes details of directors' incentive payments and the related performance criteria.

**Relations with Shareholders**

The Company encourages two way communication with both its institutional and private investors and responds quickly to all queries received. The Chief Executive and the Finance Director attended thirty meetings with analysts and institutional shareholders in the year ended 31 March 2001. All shareholders have at least twenty working days' notice of the Annual General Meeting at which all directors are introduced and are available for questions.

**Accountability and Audit**

**Financial reporting**

Detailed reviews of the performance and financial position of each trading subsidiary are included in the Operating and Financial Review. The Board uses this, together with the Chairman's report and the Directors' Report on pages 1 to 13, to present a balanced and understandable assessment of the Group's position and prospects. The directors' responsibilities for the financial statements are described on page 20.

**Audit Committee and auditors**

The Audit Committee, comprising the non-executive directors, has specific terms of reference which deal with its authority and duties. It meets at least twice a year with the external auditors attending by invitation. The Committee receives and considers reports relating to the monitoring of the adequacy of the Group's internal controls, the suitability of its accounting policies and financial reporting, the audit arrangements and matters arising from the external auditors' work. The chairman of the Audit Committee makes a report to the Board following each committee meeting.

**Going concern basis**

After making enquiries, the directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason the directors continue to adopt the going concern basis in preparing the financial statements. This statement also forms part of the Operating and Financial Review.

**Internal control**

The Company as required by the London Stock Exchange has complied with the Combined Code provisions on internal control having established the procedures necessary to implement the guidance (b) issued in September 1999 (the Turnbull committee report) and by reporting in accordance with that guidance.

Set out below is the Group Statement on internal control in accordance with the guidance provided by the Turnbull Report.

### **Internal financial control**

The Board is responsible for the overall system of internal control for the Company and its subsidiaries and for reviewing the effectiveness of these controls. The system is designed to manage risks that may impede the achievement of the Company's business objectives rather than to eliminate these risks. The internal control system can therefore only provide reasonable assurance, not absolute assurance, against material misstatement or loss.

The key control procedures are described under the following five headings:

#### **Financial information**

The Group has a comprehensive system for reporting financial results to the Board. Monthly results are prepared for each division with a comparison against budget. The Management Committee of each subsidiary reviews these and then a summary is presented to the Board for the Group as a whole who determine any appropriate action.

#### **Quality and integrity of personnel**

The Group's policies are detailed in the 'Employee Handbook', to which all operating units are required to adhere.

#### **Operating unit controls**

Key controls over major business risks include reviews against performance indicators and exception reporting. The operating units make regular assessments of their exposure to major business risks and the extent to which these risks are controlled.

#### **Computer systems**

The Group has established controls and procedures over the security of data held on computer systems and put in place comprehensive disaster recovery arrangements. These arrangements are tested regularly and reviewed by the Group's Management Committees.

#### **Controls over central functions**

A number of the Group's key functions, including treasury and taxation, are dealt with centrally and are required to report to the Board on a quarterly basis. These central functions are also subject to self-assessment and visits by the Group's external auditors.

There is and has been an ongoing process for identifying, evaluating, and managing the significant risks faced by the Company and its subsidiaries. Although appropriate internal controls were in place prior to flotation, the process was not formalised until flotation in July 2000 and is now regularly reviewed by the Board.

The Group's management operates a risk management process which identifies the key risks facing each business and reports to the Audit Committee on how those risks are being managed. This is based on each department and major project producing a risk register which identifies their key risks, the probability of those risks occurring, their impact if they do occur and the actions being taken to manage those risks to the desired level. This information is passed up on a filter basis culminating in the production of business unit risk registers and, finally, a Group risk register. This identifies the key risks facing the Group across all the businesses under a number of generic risk areas.

The Board includes on its agenda matters relating to significant risks that may impede meeting business objectives. In addition, internal control and business risk issues have been regularly reviewed by the management committees of both subsidiary companies and the Audit Committee as set out above.

The Board with advice from the Audit Committee has completed its annual review of the system of internal control in accordance with the Turnbull Report for the period since 7 July 2000 to the date of this report and is satisfied that it is in accordance with that guidance. The assessment included consideration of the effectiveness of the Board's ongoing process for identifying, evaluating, and managing the risks of the business.

### **Compliance Statement**

The Listing Rules require the Board to report on compliance with the forty-five Code provisions throughout the accounting period. The Company has complied throughout the period, from its re-registration as a public limited company on 8 June 2000, to 31 March 2001 with the provisions set out in Section 1 of the Code.

# Report of the board to the shareholders on Directors' Remuneration

## Remuneration Committee

The Committee consists solely of three non-executive directors: Messrs Procter, Coleman and Brasher. None of the committee has any personal financial interests (other than as shareholders), conflicts of interests arising from cross-directorships or day-to-day involvement in running the business. The Committee consults the Chief Executive about its proposals and has access to professional advice from inside and outside the Company. The Committee makes recommendations to the Board. No director plays a part in any discussion about his own remuneration.

## Remuneration Policy

Executive remuneration packages are prudently designed to attract, motivate and retain directors of the high calibre needed to maintain the Company's position as a market leader and to reward them for enhancing value to shareholders. The performance measurement of the executive directors and key members of senior management and the determination of their annual remuneration package is undertaken by the Committee. The remuneration of the non-executive directors is determined by the Board within the limits set out in the Articles of Association.

There are four main elements of the remuneration package for executive directors and senior management:

- (a) basic annual salary and benefits;
- (b) annual bonus payments;
- (c) incentives under the Company employee share schemes; and
- (d) pension arrangements

Executive directors are entitled to accept appointments outside the Company

## Basic Salary

An executive director's basic salary is determined by the Remuneration Committee at the beginning of each calendar year and when an individual changes position or responsibility. In deciding appropriate levels the Committee considers the Group as a whole and relies on objective research which gives up-to-date information on a comparator group. Basic salaries were reviewed in December 2000. No salary increases were awarded. Executive directors' contracts of service which include details of remuneration will be available for inspection at the Annual General Meeting.

## Annual Bonus Payments

The Committee establishes the objectives that must be met for each financial year if a cash bonus is to be paid. In setting appropriate bonus parameters the Committee refers to the objective research on comparator groups of companies as noted above. The Committee believes that any incentive compensation awarded should be tied to the interests of the Company's shareholders and that the principal measure of those interests is total shareholder return. There were no incentive payments for the year ended 31 March 2001. This reflects the fact that the Company has only recently listed and it was therefore deemed too soon after listing to make suitably related judgements regarding performance.

## Awards under the Employee Share Schemes

The Board, acting on the recommendations of the Remuneration Committee, proposes to issue new shares under the existing Staff Share Scheme. The Remuneration Committee will have responsibility for supervising the grant of awards under its terms.

### **Awards under the Employee Share Schemes (continued)**

Executive directors' existing awards were granted under the terms of the 2000 Executive Scheme which was open to certain senior employees. Under that scheme awards were allocated to qualifying employees by reference to seniority, length of service and basic salary. Under the 2000 scheme, the ability of the Executive to sell, and hence profit from, his share allocation is dependent upon the increase in earnings per share for the Company exceeding the increase in the Retail Price Index by 10% over a period of three years from the date the award was granted. Should the performance criteria not be met, the shares will convert into deferred ordinary shares which effectively have no value. In addition, the Executive is required to hold the shares for a minimum of three years. At the end of this period, any profit gained from the sale of shares will be capped at a level equal to twice the listing price plus the subscription price. If the Executive ceases to be employed by, or act as an officer, of the Group during the three year period, the Ordinary Shares must be offered for sale to the ESOP at a price equal to the price payable on acquisition.

The Committee has minuted a decision that, given the circumstances, the members in Annual General Meeting need not be invited to approve other aspects of the remuneration policy set out in this report. The Chairman of the Committee will, however, be available to answer questions on any aspect of the remuneration policy at the Annual General Meeting.

### **Directors' pension arrangements**

Executive directors are members of the Group pension scheme which is a non-contributory defined contribution scheme to which the Group contributes 5% of a director's basic salary. Their dependants are eligible for dependants' pensions and the payment of a lump sum in the event of death in service. The pension costs of directors are charged in the profit and loss account in the period in which they are made. There have been no changes in the terms of directors' pension entitlements during the year. There are no unfunded pension promises or similar arrangements for directors.

### **Directors' Contracts**

All Executive directors have service contracts terminable on six months' notice in writing. In respect of the Executive directors, the Company has a contractual obligation to pay the relevant executive his salary and other benefits in lieu of the unexpired portion of his entitlement to notice upon termination. No other payments are made for compensation for loss of office.

Mr Procter and Mr Wilding are due to retire by rotation and offer themselves for re-election.

### **Non-Executive Directors**

All Non-executive directors have service contracts which expire on 8 June 2001. It is the Board's intention to renew these contracts for a further fixed term of one year. All non-executive directors have specific terms of engagement and their remuneration is determined by the Board within the limits set out in the Articles of Association and based upon independent surveys of fees paid to non-executive directors of similar companies. The fee paid to the Chairman in the year was £24,461. The fee paid to Mr Brasher was £16,307. No remuneration was paid to Mr Coleman. Non-executive directors are not eligible to join the Company's pension scheme.

### **Details of Directors' Remuneration and Share Options**

This report should be read in conjunction with note 6 to the accounts which also constitutes part of this report giving full details of the amounts in the remuneration package of each director and details of each director's share awards.

By order of the Board

C Bishop Secretary

15 June 2001

## Statement of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board

C Bishop Secretary

15 June 2001

# Auditors' report to the Members of Business Systems Group Holdings plc

We have audited the financial statements on pages 22 to 39 which have been prepared under the accounting policies set out on pages 26 and 27.

## Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including, as described on page 20, preparation of the financial statements, which are required to be prepared in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the UK Listing Authority and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We review whether the corporate governance statement on pages 15 and 16 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the UK Listing Authority and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

## Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 March 2001 and of the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche

Chartered Accountants and Registered Auditors

15 June 2001

Hill House  
1 Little New Street  
London  
EC4A 3TR

Consolidated Profit and Loss Account  
Year ended 31 March 2001

	Note	Year ended 31 March 2001 £'000	Year ended 31 March 2001 £'000	Nine months ended 31 March 2000 £'000
<b>Turnover</b>	3			
Continuing Operations		37,133		24,993
Acquisition		574		-
		<u>          </u>		<u>          </u>
Total Turnover			37,707	24,993
Cost of sales			(30,897)	(20,190)
			<u>          </u>	<u>          </u>
<b>Gross Profit</b>			6,810	4,803
Administrative expenses			(8,022)	(4,173)
Other operating income			288	270
			<u>          </u>	<u>          </u>
<b>Operating (Loss)/Profit</b>	3, 4, 5			
Continuing Operations		589		
Acquisitions		(1,513)		
		<u>          </u>		
Group Operating (Loss)/Profit			(924)	900
Other interest receivable and similar income	7		776	80
Interest payable and similar charges	8		-	(1)
			<u>          </u>	<u>          </u>
<b>(Loss)/Profit on Ordinary Activities before Taxation</b>			(148)	979
Tax on (loss)/profit on ordinary activities	9		(125)	(293)
			<u>          </u>	<u>          </u>
<b>(Loss)/Profit on Ordinary Activities after Taxation</b>			(273)	686
Equity dividends	11		(167)	-
			<u>          </u>	<u>          </u>
<b>Retained (loss)/profit for the year/period</b>			(440)	686
			<u>          </u>	<u>          </u>
<b>(Loss)/earnings per share</b>	12		(0.37)p	2.40 p
			<u>          </u>	<u>          </u>

All activities derive from continuing operations.

There are no recognised gains and losses for this financial year or the previous period other than as stated above and therefore no separate statement of total recognised gains and losses or reconciliation of movement in shareholders' funds has been presented.

Combined Statement of Movements in Shareholders Funds  
and Statement of Movements on Reserves  
Year ended 31 March 2001

	Share Capital	Share Premium Account	Profit and Loss Account	Total
	£'000	£'000	£'000	£'000
<b>THE GROUP</b>				
Balance at 1 April 2000	25	-	2,980	3,005
Issue of 32,385 ordinary shares of £1 each at £111 per share to acquire Webgenerics Limited	32	3,562	-	3,594
Issue of 2,456 ordinary shares of £1 each to the Staff Share Scheme at £111 per share	3	270	-	273
Bonus share issue	3,515	(3,515)	-	-
Issue of 12,627,445 ordinary shares of 5p each at £1.19 per share	631	14,395	-	15,026
Issue of 2,825 ordinary shares of £1 each to the Executive Share Scheme at 10p per share following conversion to 3,220,500 ordinary shares of 5p each	3	320	-	323
Costs of share issue	-	(1,092)	-	(1,092)
Retained loss for the year	-	-	(273)	(273)
Equity dividends	-	-	(167)	(167)
<b>Balance at 31 March 2001</b>	<u>4,209</u>	<u>13,940</u>	<u>2,540</u>	<u>20,689</u>
<b>THE COMPANY</b>				
Balance at 1 April 2000	25	-	1,817	1,842
Issue of 32,385 ordinary shares of £1 each at £111 per share to acquire Webgenerics Limited	32	3,562	-	3,594
Issue of 2,456 ordinary shares of £1 each to the Staff Share Scheme at £111 per share	3	270	-	273
Bonus share issue	3,515	(3,515)	-	-
Issue of 12,627,445 ordinary shares of 5p each at £1.19 per share	631	14,395	-	15,026
Issue of 2,825 ordinary shares of £1 each to the Executive Share Scheme at 10p per share following conversion to 3,220,500 ordinary shares of 5p each	3	320	-	323
Costs of share issue	-	(1,092)	-	(1,092)
Retained profit for the year	-	-	364	364
Equity dividends	-	-	(167)	(167)
<b>Balance at 31 March 2001</b>	<u>4,209</u>	<u>13,940</u>	<u>2,014</u>	<u>20,163</u>

## Balance Sheets

31 March 2001

	Note	Group		Company	
		2001 £'000	2000 £'000	2001 £'000	2000 £'000
<b>Fixed Assets</b>					
Intangible assets	13	3,626	-	-	-
Tangible assets	14	1,347	1,571	-	-
Investments	15	-	-	4,613	1,000
Investments in own shares	20	595	-	595	-
		<u>5,568</u>	<u>1,571</u>	<u>5,208</u>	<u>1,000</u>
<b>Current Assets</b>					
Stocks	16	217	426	-	-
Debtors	17	7,240	6,120	829	1,338
Cash at bank and in hand		14,928	2,427	14,538	29
		<u>22,385</u>	<u>8,973</u>	<u>15,367</u>	<u>1,367</u>
<b>Creditors: amounts falling due within one year</b>	18	<u>(7,264)</u>	<u>(7,539)</u>	<u>(412)</u>	<u>(525)</u>
<b>Net Current Assets</b>		<u>15,121</u>	<u>1,434</u>	<u>14,955</u>	<u>842</u>
<b>Total Assets less Current Liabilities</b>		<u>20,689</u>	<u>3,005</u>	<u>20,163</u>	<u>1,842</u>
<b>Capital and Reserves</b>					
Called up share capital	20	4,209	25	4,209	25
Share Premium Account		13,940	-	13,940	-
Profit and loss account		2,540	2,980	2,014	1,817
<b>Equity Shareholders' Funds</b>		<u>20,689</u>	<u>3,005</u>	<u>20,163</u>	<u>1,842</u>

These financial statements were approved by the Board of Directors on 15 June 2001

Signed on behalf of the Board of Directors

**N Gerard** Director

Consolidated Cash Flow Statement  
Year ended 31 March 2001

	Note	Year ended 31 March 2001		Nine months ended 31 March 2000	
		£'000	£'000	£'000	£'000
Net cash (outflow)/inflow from operating activities	21		(1,928)		1,658
<b>Returns on investments and servicing of finance</b>					
Interest received		708		80	
Interest paid		-		(1)	
		<u>708</u>		<u>79</u>	
Net cash inflow for returns on investments and servicing of finance			708		79
Taxation			(198)		(367)
<b>Capital expenditure</b>					
Payments to acquire tangible assets		(1,029)		(422)	
Receipts from sales of tangible fixed assets		1,111		-	
		<u>82</u>		<u>(422)</u>	
Net cash inflow/(outflow) for capital expenditure			82		(422)
<b>Aquisitions</b>					
Capital costs of acquisitions		(18)		-	
Cash acquired with subsidiary under taking		4		-	
		<u>(14)</u>		<u>-</u>	
Net cash outflow for acquisitions			(14)		-
Equity dividends paid			(83)		(100)
			<u>(83)</u>		<u>(100)</u>
Net cash (outflow)/inflow before management of liquid resources and financing			(1,433)		848
<b>Financing</b>					
Shares issued net of expenses		13,934		-	
Capital element of finance lease contracts		-		(36)	
		<u>13,934</u>		<u>(36)</u>	
Net cash inflow/(outflow) from financing			13,934		(36)
Increase in cash in the year/period	23		<u>12,501</u>		<u>812</u>

## Notes to the Accounts

Year ended 31 March 2001

### 1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. The particular accounting policies adopted are described below.

#### Accounting convention

The financial statements are prepared under the historical cost convention.

#### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and all its subsidiaries.

#### Acquisitions and disposals

On the acquisition of a business, including an interest in an associated undertaking, fair values are attributed to the Group's share of net separable assets. Where the cost of acquisition exceeds the fair values attributable to such net assets the difference is treated as purchased goodwill and capitalised in the balance sheet in the year of acquisition.

The profit or loss on the disposal or closure of a previously acquired business includes the attributable amount of any purchased goodwill relating to that business not previously charged the profit and loss account.

The results and cash flows relating to a business are included in the consolidated profit and loss account and the consolidated cash flow statement from the date of acquisition or up to the date of disposal.

#### Goodwill and Intangible Fixed Assets

For acquisitions of a business, including an interest in an associated undertaking purchased goodwill is capitalised in the year in which it arises and amortised over its estimated useful life up to a maximum of 10 years. The directors regard 10 years as a reasonable maximum for the estimated useful life of goodwill since it is difficult to make projections exceeding this period

Capitalised purchased goodwill in respect of subsidiaries is included within intangible fixed assets. Capitalised purchased goodwill relating to associates is included within the carrying value of the associate.

#### Tangible Fixed Assets

Depreciation is provided on fixed assets to write off the cost or revalued amounts less estimated residual value (based on prices prevailing at the date of acquisition or revaluation) in equal annual instalments over the estimated useful economic lives of the assets. The estimated useful economic lives are as follows:

Plant and machinery	3 years
Fixtures and fittings	4 years
Motor vehicles	4 years
Leased assets	The shorter of the term of the lease and the useful economic life of the asset

## Notes to the Accounts

Year ended 31 March 2001

### Investments

Investments held as fixed assets are stated at cost less provision for any impairment.

### Stocks

Stocks and work in progress are stated at the lower of cost and net realisable value. Cost comprises the purchase cost of materials. Net realisable value is based on estimated selling prices less all relevant marketing, selling and distribution costs.

### Deferred Taxation

Deferred taxation is provided on timing differences arising from the different treatment of items for accounting and taxation purposes which are expected to reverse in the future without replacement, calculated at the rates at which it is expected that tax will arise.

### Foreign Exchange

Transactions denominated in foreign currencies are translated into the functional currency at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the rates ruling at that date. These translation differences are dealt with in the profit and loss account.

### Leases

Assets held under finance leases and hire purchase contracts are capitalised at their fair value on the inception of the leases and depreciated over the shorter of the period of the lease and the estimated useful economic lives of the assets. The finance charges are allocated over the period of the lease in proportion to the capital amount outstanding and are charged to the profit and loss account.

Operating lease rentals are charged to profit and loss in equal annual amounts over the lease term.

### Pensions

Pension contributions represent payments to defined contribution schemes, the assets of which are held separately from those of the Group. Payments made are charged to the profit and loss account in the period to which they relate.

### Research and Development

Research and development expenditure is charged to the profit and loss account as incurred.

### Financial Instruments

Derivative instruments are not used by the Group. The Group does not enter into speculative derivative contracts.

## Notes to the Accounts

Year ended 31 March 2001

## 2. ACQUISITIONS AND GOODWILL AND GROUP REORGANISATION

## Acquisitions and Goodwill

On 8 June 2000 the Company acquired the entire share capital of Webgenerics Limited. This acquisition has been accounted for using the acquisition method of accounting. The acquisition was achieved by way of share exchange whereby the Company issued 32,385 ordinary shares of £1 each at £111 per share in exchange for the entire share capital of Webgenerics Limited.

<b>Results of Webgenerics Limited prior to acquisition</b>	<b>£'000</b>
Loss for the seven month period from the date of incorporation to 8 June 2000	(343)
	<u>(343)</u>

The following table summarises the major categories of assets and liabilities acquired, the fair value of which was equivalent to the book value:

	£'000	£'000
Tangible fixed assets		329
Current Assets		128
Creditors and provisions		(774)
Taxation		(26)
<b>Consideration</b>		<u>(343)</u>
Shares issued	(3,595)	
Stamp duty	(18)	
	<u>(3,613)</u>	
Goodwill		<u>(3,956)</u>

Goodwill as detailed above has been capitalised in the current financial year under the accounting policy stated in Note 1.

## Notes to the Accounts

Year ended 31 March 2001

**Group Reorganisation**

During the year the Group was reorganised with the effect that:

The Company's interest in Nickco Limited was sold to N Gerard, a director of the Company, at book value which was equivalent to fair value.

Philco Limited sold its interest in freehold property to P Buckingham, then a director of the Company, at book value which was equivalent to fair value and was then struck off.

The Company acquired the entire share capital of Business Systems Group Limited from its intermediate holding company, Flemnocase Limited, for £1,000,000. Flemnocase Limited was then struck off.

The non-operating subsidiaries of Flemnocase Limited, namely Advanced Video Products Limited and The Brilliant Agency Limited, and of Business Systems Group Limited, namely Business Systems Group Software Development Limited, were struck off.

There were no profits or losses arising from this reorganisation.

**3. ANALYSES OF TURNOVER, OPERATING (LOSS)/PROFIT AND NET ASSETS**

Analyses by class of business of: turnover, operating (loss)/profit and net assets are stated below.

Class of business	Turnover		Operating (Loss)/Profit		Net Assets	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Full service provision of ebusiness solutions	37,133	24,993	589	900	22,818	1,971
ASP software and ebusiness services	574	-	(1,513)	-	(1,920)	-
	<u>37,707</u>	<u>24,993</u>	<u>(924)</u>	<u>900</u>		
Other tangible fixed assets					-	1,034
					<u>20,898</u>	<u>3,005</u>

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

## Notes to the Accounts

Year ended 31 March 2001

## 4. EXCEPTIONAL ITEMS

	Year Ended 31 March 2001 £'000	Nine months ended 31 March 2000 £'000
Listing and reorganisation expenses		
Legal and professional fees	219	-
	<u>219</u>	<u>-</u>

These costs have been included in administrative expenses.

## 5. OPERATING PROFIT

	Year Ended 31 March 2001 £'000	Nine months ended 31 March 2000 £'000
Operating (loss)/profit is after charging/(crediting):		
Amortisation of intangible fixed assets	330	4
Depreciation of tangible fixed assets:		
Owned	481	197
Leased	26	34
Operating lease rentals in respect of land and buildings	500	375
Auditors' remuneration		
Group audit fees	45	30
Company audit fees	15	3
Other services	78	-
(Profit)/loss on disposal of fixed assets	(36)	2
Rents receivable	(288)	(270)
	<u>(288)</u>	<u>(270)</u>

## Notes to the Accounts

Year ended 31 March 2001

## 6. DIRECTORS AND EMPLOYEES

## 6(a) DIRECTORS' REMUNERATION

	Fees 2001 £'000	Basic Salaries 2001 £'000	Pension Contributions 2001 £'000	Benefits in Kind 2001 £'000	Total 2001 £'000	Total 2000 £'000
Executive Directors						
N Gerard	-	145	2	3	150	67
M Atkinson	-	113	6	1	120	-
N Wilding	-	75	4	1	80	-
Non Executive Directors						
G Procter	24	-	-	-	24	-
R Brasher	16	-	-	-	16	-
M Coleman	-	-	-	-	-	-
	<u>40</u>	<u>333</u>	<u>12</u>	<u>5</u>	<u>390</u>	<u>67</u>

The Directors' beneficial interests in the ordinary shares of the Company at 31 March 2001 and at 1 April 2000 were:

		2001 Number	2000 Number
N Gerard	- Ordinary Shares	*48,322,643	12,501
	- N Ordinary Shares	-	50
M Atkinson	- Ordinary Shares	358,329	-
N Wilding	- Ordinary Shares	265,016	-

\*Of the total holding:

- 35,000,000 shares are registered in the joint names of M Coleman and N Gerard as trustees of the N Gerard Life Interest Trust of 3 July 2000, the principal beneficiary of which is N Gerard.
- 1,652,334 are held on trust for N Harper.

## Notes to the Accounts

Year ended 31 March 2001

Those shares held by M Atkinson and N Wilding were issued under the 2000 Executive Share Scheme. The rules of this scheme provide that if the Senior Executive ceases to be employed by, or act as an officer, of the Group during a three year period commencing on the date that the Ordinary Shares were issued, the Ordinary Shares must be offered for sale to the ESOP at a price equal to the price payable on acquisition. The rules further provide that if after the end of the three year period the Senior Executive wishes to sell the Ordinary Shares then he must first offer such Ordinary Shares for sale to the ESOP. If the ESOP elects to accept such offer then the price per Ordinary Share will be the lesser of market value and the Cap (in this instance set at twice the listing price of the shares plus the subscription price). The invitation to acquire shares is subject to performance conditions being achieved. These conditions require that the increase in the Company's earnings per share exceeds the growth in the Retail Price Index by 10% over a period of three years from the date the award was granted. If such conditions have not been satisfied by the end of the three year period, then all of the Ordinary Shares shall convert into deferred shares of 5p each. Deferred Shares carry no rights to vote nor to receive a dividend and on a return of capital the holder is only entitled to the subscription price paid on such Deferred Shares.

This scheme is no longer in operation and all future awards of shares will be made under the Group Staff Share Scheme.

## 6(b) INFORMATION REGARDING EMPLOYEES

	Year ended 31 March 2001 No.	Nine months ended 31 March 2000 No.
<b>Number of employees</b>		
The average number of persons employed by the Group in the year/period was:		
Sales and administration	231	219
<b>Staff costs incurred during the period/year in respect of these employees were:</b>	<b>£'000</b>	<b>£'000</b>
Wages and salaries	8,543	6,078
Social security costs	930	648
Other pension costs	209	132
	<u>9,682</u>	<u>6,858</u>

The Company operates a share scheme for the benefit of all employees in the Group under which shares are awarded annually to employees. The rules of this scheme provide that if an employee ceases to be employed by, or act as an officer, of the Group during the three year period commencing on the date that the Ordinary Shares were issued, the Ordinary Shares must be offered for sale to the ESOP at a price equal to the price payable on acquisition. The rules further provide that if after the end of the three year period the employee wishes to sell the Ordinary Shares then he must first offer such Ordinary Shares for sale to the ESOP. If the ESOP elects to accept such offer then the price paid per Ordinary Share will be equal to market value. The invitation to acquire shares may be subject to performance conditions being achieved. Such conditions must be objective and relate to the three year period after the Ordinary Shares are acquired. If such conditions have been prescribed and by the end of the three year period they have not been satisfied, then all or a proportion of the Ordinary Shares will convert into deferred shares of 5p each. Deferred Shares carry no rights to vote nor to receive a dividend and on a return of capital the holder is only entitled to the subscription price paid on such Deferred Shares. No performance conditions attach to any of the shares currently held by employees.

As at 31 March 2001 4,003,710 (2000: nil) shares were held by staff members.

Notes to the Accounts  
Year ended 31 March 2001

## 7. OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

	Year ended 31 March 2001 £'000	Nine months ended 31 March 2000 £'000
Bank interest	776	80
	<u>776</u>	<u>80</u>

## 8. INTEREST PAYABLE AND SIMILAR CHARGES

	Year ended 31 March 2001 £'000	Nine months ended 31 March 2000 £'000
Bank overdraft	-	1
	<u>-</u>	<u>1</u>

## 9. TAX ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES

	Year ended 31 March 2001 £'000	Nine months ended 31 March 2000 £'000
United Kingdom corporation tax at 30% (2000 – 30%)	125	302
Adjustments in respect of prior periods	-	(9)
	<u>125</u>	<u>293</u>

The tax charge is high because the Group can only relieve part of the loss for the year in respect of the company acquired during the period and has not recognised the movement in the Deferred Tax asset.

## Notes to the Accounts

Year ended 31 March 2001

## 10. PROFIT OF PARENT COMPANY

As permitted by section 230 of the Companies Act 1985, the parent company's profit and loss account has not been included in these financial statements. The parent company's profit for the financial year amounted to £364,000 (2000: £7,000).

## 11. DIVIDENDS

	Year ended 31 March 2001 £'000	Nine months Year ended 31 March 2000 £'000
Ordinary interim paid (0.1p per share)	83	-
Ordinary final proposed (0.1p per share)	84	-
	<u>167</u>	<u>-</u>

## 12 (LOSS)/EARNINGS PER ORDINARY SHARE

Basic (loss)/earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue and ranking in full for dividend, during the year.

Shares held by the trustees of the employee share schemes and which have not been allotted to staff rank for dividend only to the extent of 0.01p per share and have, therefore, been excluded from the calculation of the weighted average number of shares.

Prior year earnings per share have been calculated using the equivalent number of shares following the Group's capital reorganisation.

	2001	2000
Weighted average number of ordinary shares ('000)	72,953	28,616
Basic and fully diluted (loss)/earnings per share	<u>(0.37)p</u>	<u>2.40p</u>

## Notes to the Accounts

Year ended 31 March 2001

## 13. INTANGIBLE FIXED ASSETS

Group	Goodwill £'000
<b>Cost:</b>	
At 1 April 2000	10
Additions	3,956
Disposals	(10)
At 31 March 2001	<u>3,956</u>
<b>Amortisation:</b>	
At 1 April 2000	10
Charge for the year	330
On disposals	(10)
At 31 March 2001	<u>330</u>
<b>Net book value:</b>	
At 31 March 2001	<u>3,626</u>
At 31 March 2000	<u>-</u>

## 14. TANGIBLE FIXED ASSETS

Group	Freehold properties £'000	Plant and machinery £'000	Fixtures, fittings and equipment £'000	Motor vehicles £'000	Total £'000
<b>Cost:</b>					
At 1 April 2000	1,034	1,397	1,054	290	3,775
Acquired with subsidiary	-	373	-	-	373
Additions	-	704	289	36	1,029
Disposals	(1,034)	(107)	(9)	(227)	(1,377)
At 31 March 2001	<u>-</u>	<u>2,367</u>	<u>1,334</u>	<u>99</u>	<u>3,800</u>
<b>Depreciation:</b>					
At 1 April 2000	-	1,130	847	227	2,204
Acquired with subsidiary	-	44	-	-	44
On disposals	-	(99)	(9)	(194)	(302)
Charge for the year	-	357	122	28	507
At 31 March 2001	<u>-</u>	<u>1,432</u>	<u>960</u>	<u>61</u>	<u>2,453</u>
<b>Net book value</b>					
At 31 March 2001	<u>-</u>	<u>935</u>	<u>374</u>	<u>38</u>	<u>1,347</u>
At 31 March 2000	<u>1,034</u>	<u>267</u>	<u>207</u>	<u>63</u>	<u>1,571</u>

The net book value of fixed assets includes £3,000 (2000 - £43,000) in respect of motor vehicles held under finance leases or hire purchase contracts.

## Notes to the Accounts

Year ended 31 March 2001

## 15. FIXED ASSET INVESTMENTS

Company	Shares in subsidiary undertakings £'000
<b>Cost</b>	
At 1 April 2000	1,000
Additions	4,613
Disposals	(1,000)
At 31 March 2001	<u>4,613</u>

The Company's subsidiaries and their principal activities are as follows:

Business Systems Group Limited – Provision of full service ebusiness solutions

Webgenerics Limited – Provision of ASP software and ebusiness services

The ordinary share capital of all subsidiaries is wholly owned by Business Systems Group Holdings plc.

All subsidiaries are incorporated in Great Britain and registered in England and Wales.

## 16. STOCKS

Group	2001 £'000	2000 £'000
Finished goods and goods for resale	<u>217</u>	<u>426</u>

## 17. DEBTORS

	Group		Company	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Trade debtors	6,788	5,137	6	-
Amounts owed by group undertakings	-	-	740	1,014
Other debtors	87	851	-	324
Prepayments and accrued income	365	132	83	-
	<u>7,240</u>	<u>6,120</u>	<u>829</u>	<u>1,338</u>

## Notes to the Accounts

Year ended 31 March 2001

## 18. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Trade creditors	4,040	4,218	18	-
Amounts owed to group undertakings	-	-	162	512
Corporation tax	224	271	86	(6)
Other taxation and social security	863	720	42	1
Other creditors	33	54	5	-
Accruals and deferred income	2,020	2,276	15	18
Proposed dividend (note 11)	84	-	84	-
	<u>7,264</u>	<u>7,539</u>	<u>412</u>	<u>525</u>

## 19. DEFERRED TAX

The amount of deferred tax provided in the financial statements and the potential amounts not provided are:

Group	Provided		Unprovided	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Capital allowances in excess of depreciation	143	-	(91)	(113)
Losses	(143)	-	(100)	(58)
	<u>-</u>	<u>-</u>	<u>(191)</u>	<u>(171)</u>

## 20. CALLED UP SHARE CAPITAL

	2001 Number	2001 £'000	2000 Number	2000 £'000
<b>Authorised:</b>				
Ordinary Shares of £1 each	-	-	100,000	100
'N' ordinary shares of £1 each	-	-	50	-
'P' ordinary shares of £1 each	-	-	50	-
Ordinary Shares of 5 p each	104,000,000	5,200	-	-
	<u>104,000,000</u>	<u>5,200</u>	<u>100,100</u>	<u>100</u>
<b>Called up, allotted and fully paid:</b>				
Ordinary Shares of £1 each	-	-	25,002	25
'N' ordinary shares of £1 each	-	-	50	-
'P' ordinary shares of £1 each	-	-	50	-
Ordinary Shares of 5 p each	84,182,965	4,209	-	-
	<u>84,182,965</u>	<u>4,209</u>	<u>25,102</u>	<u>25</u>

Movements in share capital during the year were as follows:

On 8 June 2000, 32,385 ordinary shares of £1 each in the capital of the Company were issued at £111 fully paid up in exchange for the entire issued share capital of Webgenerics Limited.

## Notes to the Accounts

Year ended 31 March 2001

On 9 June 2000:

2,456 ordinary shares of £1 each in the capital of the Company were allotted fully paid to Kleinwort Benson (Guernsey) Trustees Limited as trustees of the Company's Share Ownership Plan 2000 at £111 per ordinary share;

2,825 ordinary shares of £1 each in the capital of the Company were allotted to certain senior executives of the Group pursuant to the terms of the 2000 Executive Share Scheme. These shares were allotted nil paid. Following the subdivision and bonus issue referred to below, these 2,825 ordinary shares of £1 each were converted to 3,220,500 ordinary shares of 5p each and were subscribed for at 10p per share.

Each of the P Shares and the N Shares were converted into one ordinary share of £1 in the capital of the Company.

Each of the ordinary shares of £1 each in the capital of the Company (whether issued or unissued) were subdivided into 20 ordinary shares.

The authorised share capital of the Company was increased from £100,100 to £5,200,000 by the creation of 101,998,000 new ordinary shares.

£3,515,008 of the sum standing to the credit of the share premium account of the Company was capitalised and applied in allotting and paying-up to the holders of ordinary shares, immediately following the sub-division referred to above becoming effective, 70,300,160 new ordinary shares as bonus shares, in the proportion of 56 new ordinary shares for every one ordinary share then held.

On 7 July 2000, 12,627,445 ordinary shares of 5p each were allotted fully paid at £1.19 per ordinary share by private placement.

## 21. RECONCILIATION OF OPERATING (LOSS)/PROFIT TO NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES

	2001 £'000	2000 £'000
Operating (loss)/profit	(924)	900
Depreciation of tangible assets	507	231
Amortisation of intangible assets	330	4
(Profit)/loss on disposal of tangible assets	(36)	2
Decrease/(increase) in stocks	209	(24)
Increase in debtors	(928)	(548)
(Decrease)/increase in creditors within one year	(1,086)	1,093
Net cash (outflow)/inflow from operating activities	<u>(1,928)</u>	<u>1,658</u>

## 22. ANALYSIS OF NET FUNDS

	At 1 April 2000 £'000	Cash flows £'000	At 31 March 2001 £'000
Cash at bank and in hand	2,427	12,501	14,928
Net funds	<u>2,427</u>	<u>12,501</u>	<u>14,928</u>

## Notes to the Accounts

Year ended 31 March 2001

## 23. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	2001 £'000	2000 £'000
Increase in cash in the year/period	12,501	812
Cash outflow from decrease in debt	-	36
	<u>12,501</u>	<u>848</u>
Change in net debt resulting from cash flows		
	<u>12,501</u>	<u>848</u>
<b>Movement in net funds in the year/period</b>	<b>12,501</b>	<b>848</b>
Opening net funds	2,427	1,579
	<u>14,928</u>	<u>2,427</u>
Closing net funds	<u>14,928</u>	<u>2,427</u>

## 24. FINANCIAL COMMITMENTS

At 31 March 2001 the Group had annual commitments under non-cancellable operating leases as follows:

	Land and buildings		Other	
	31 March 2001 £'000	31 March 2000 £'000	31 March 2001 £'000	31 March 2000 £'000
Expiry date:				
Between one and five years	500	-	10	-
	<u>500</u>	<u>-</u>	<u>10</u>	<u>-</u>
Between two and five years	-	500	-	10
	<u>-</u>	<u>500</u>	<u>-</u>	<u>10</u>

## 25. RELATED PARTY DISCLOSURES

During the year the following transactions were made with directors of the Group:

- The outstanding loan of £8,000 to P Buckingham was repaid in full.
- The Group's interest in property was sold to P Buckingham for £510,901. This amount was paid in full as described in note 2.
- The Group's entire interest in Nickco Limited was sold to N Gerard for £1 (see note 2). Following this, the outstanding loan balance due from Nickco Limited to the Group of £531,225 was repaid in full.
- Included within the prior year cash at bank was £28,000 in a bank account in the name of P Buckingham and N Gerard. This was repaid in full during the year.

The Company has taken advantage of the exemptions granted under paragraph 3 of FRS 8 Related Party Disclosures and has not made disclosure of transactions with other group companies.

## 26. EVENT OCCURRING AFTER END OF YEAR

On 8 June 2001 the Company acquired the Experience Design Team of Atomic Tangerine Inc for an initial consideration of £932,000. This was satisfied by cash. Deferred consideration of up to £5.75 million is payable on meeting certain revenue targets. The deferred consideration will be satisfied through cash.

## Notice of Meeting

NOTICE IS HEREBY GIVEN that the ANNUAL GENERAL MEETING of BUSINESS SYSTEMS GROUP HOLDINGS PLC ("the Company") for 2001 will be held at BSG House, 226-236 City Road, London EC1V 2TT on 31 July 2001 at 10 a.m. for the following purposes:-

### Ordinary Business

1. To receive the accounts of the Company for the year ended 31 March 2001 and the reports of the Directors and auditors on those accounts.
2. To declare a final dividend of 0.1p per ordinary share to members on the register at the close of business on 13 July 2001.
3. To re-appoint Geoffrey Procter who retires by rotation under Regulation 83 of the Company's articles of association and, being eligible offers himself for re-appointment as a Director.
4. To re-appoint Nick Wilding who retires by rotation under Regulation 83 of the Company's articles of association and, being eligible offers himself for re-appointment as a Director.
5. To re-appoint Deloitte & Touche as auditors of the Company to hold office until the conclusion of the next general meeting of the Company at which accounts are laid before members and to authorise the Directors to fix their remuneration.

### Special Business

To consider and, if thought fit, pass the following resolutions of which resolution 6 will be proposed as an ordinary resolution and resolution 7 will be proposed as a special resolution.

6. THAT, the Directors be and are hereby generally and unconditionally authorised pursuant to Section 80 of the Companies Act 1985 ("the Act") and in accordance with Regulation 5 of the articles of association of the Company to exercise all the powers of the Company to allot relevant securities (as defined in Section 80(2) of the Act) up to an aggregate amount of £990,852 for a period expiring at the conclusion of the next annual general meeting of the Company or, if earlier, 15 months after the date of passing of this resolution unless previously renewed or revoked, save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry, and the Directors may allot relevant securities in pursuance of such offer or agreement as if this power had not expired.
7. THAT, subject to the passing of resolution 6 above, the Directors be and are hereby empowered pursuant to Section 95 of the Act to allot equity securities (within the meaning of Section 94(2) of the Act) for cash pursuant to the authority conferred by resolution 6 above and in accordance with regulation 6 of the articles of association of the Company as if Section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to an allotment:-
  - (i) of equity securities in connection with a rights issue in favour of existing holders of ordinary shares where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them, but the Directors may make such exclusions or other arrangements as they may deem necessary or expedient in relation to fractional entitlements or legal problems under the laws of any territory or the requirements of any recognised regulatory body or stock exchange; and
  - (ii) of equity securities (other than pursuant to sub-paragraph (i) above) up to an aggregate nominal value of £210,457 being 5% of the nominal value of ordinary shares in issue on 15 June 2001.

The authority shall expire on conclusion of the next annual general meeting of the Company or, if earlier, 15 months after the date of passing of this resolution (unless previously renewed or revoked), save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement notwithstanding that this power has expired.

By Order of the Board

**Caroline Bishop** Secretary

BSG House  
226-236 City Road  
London EC1V 2TT

15 June 2001

## Notes

- (1) If you have sold or transferred all your shares you should pass this document and the form of proxy to the person through whom the sale or transfer was effected, for transmission to the purchaser or transferee.
- (2) A member entitled to attend and vote at the meeting may appoint a proxy or proxies to attend and, on a poll, to vote on his/her behalf at the meeting. A proxy need not be a member of the Company. To be valid, a form of proxy together with a power of attorney, or other authority (if any) under which it is signed, or a notarially certified copy thereof, must be deposited with Capita IRG plc, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU not less than 48 hours before the time of the annual general meeting. Completion and return of the proxy form will not preclude a member from attending and voting.
- (3) The Company pursuant to Regulation 34 of the Uncertificated Securities Regulations 1995, specifies that only those shareholders registered in the register of members of the Company as at 10am on 30 July 2001 shall be entitled to attend or vote at the annual general meeting in respect of the number of shares registered in their name at that time. Changes to entries on the register after 10am on 30 July 2001 shall be disregarded in determining the rights of any person to attend or vote at the meeting.
- (4) There will be available for inspection at the registered office of the Company during normal business hours on any working day (public holidays excepted) from the date of this notice until the date of the annual general meeting and, at the place of the meeting for 15 minutes prior to and during the meeting:-
  - (a) the register of Directors' interests in shares in the Company kept in accordance with section 325 of the Companies Act 1985; and
  - (b) copies of the contracts of service between the Directors and the Company or any of its subsidiaries