



annual report & accounts 2004

**“When Customer Systems say
their people are experts in an area,
they REALLY ARE experts.”**

- Eli Lilly and Company Limited

CUSTOMER SYSTEMS PLC

BUSINESS PROFILE

Customer Systems plc was founded in February 1998 and our core business is as a high-quality, specialised supplier of IT consulting services. Our central focus is on the implementation of the CRM software produced by market-leader Siebel Systems, Inc.

CRM or Customer Relationship Management refers to a style of packaged software which started to become very popular around the 1998 period in Europe and, perhaps, a year earlier in the USA, having been little heard of before that.

This style of software deals with the interactions that organisations have with their customers and prospects, and is sometimes alternatively known as “front-office” software. It embraces the software used by operatives in a call-centre, systems designed to optimise and automate the marketing process, and systems by which large organisations achieve enterprise-wide control of their sales operations. It can also encompass field service and other areas of customer support.

This software fulfils a mission-critical role for all but the smallest organisations, and the successful implementation of CRM systems has been a priority concern to almost every significant corporation over the past 6 years. The software suite produced by Siebel Systems, Inc. has been the most successful and is the gold-standard by which other CRM packages are judged.

Our role is to implement this software and to customise it to fit the needs of individual clients. We can handle full implementation projects from requirements definition through to delivery and testing, and we have also added product expertise to projects run by larger systems integrators. We have also extended this to the provision of our own training courses which embody the highly advanced techniques we have developed through our consulting work. For some clients we provide a support service whereby a copy of their special customised software is kept in our office, after the implementation phase is over, and they can call us for telephone response and bug-fixing for any problems that arise.

We have widened out from solely working with Siebel to also develop skills and services related to other software products that can be used in conjunction with Siebel’s software, including report writing tools, analytical software, document management systems, application servers, website portals and back-office integration systems. We have also developed a number of small software products of our own to fill specific areas of need where no other solution seemed to be available on the market.

We have always aimed to be at the high-quality end of the market, providing successful results to blue-chip clients. Our reputation is second to none, and we win a great deal of repeat business and business by referral from existing customers. Our customers generally include nearly all of the largest players in every vertical market sector.

We have made it a speciality to take in new employees with no experience of the software products with which we work, selecting instead for intelligence, determination and the ability to learn new software products and tools very fast. We prefer to train our new employees our way from scratch rather than having to teach them to forget the wrong ways of doing things which they may have picked up elsewhere. This recruitment policy makes us very agile in responding to the needs of different clients with different IT environments, and to new software versions, and to opportunities to work with completely different products.

Our offices are in Egham in the UK and Iselin, New Jersey in the USA. We have delivered our services to customers in 24 countries across Europe, North America, Asia and Australasia.

We remain on the look out for other interesting software products to become expert in, especially where they have a potential interface requirement with the software products which we already know.

In addition, we have expanded recently into executive search and selection with the foundation of a new executive search subsidiary called The Search Group, based in Birmingham. The Search Group specialises in senior appointments in financial services and in the legal and accounting professions. We intend to seek out opportunities for further expansion in the quality end of the recruitment industry.

CUSTOMER SYSTEMS PLC

CHAIRMAN'S STATEMENT FOR THE CONSOLIDATED GROUP RESULTS

For the year ended 31 January 2004

I am glad to be able to report that we achieved a good result in the year just completed in spite of a difficult market.

We did not quite achieve our targets, and our results fell below those of last year, particularly in the second half and this is obviously a cause of some regret. The market seemed to become significantly more resistant to spending money in the last few months of the year. This was followed by a slight up-turn right at the end of the year, and in the earliest part of the new financial year.

Even so we remained, throughout the year, a very profitable and cash-generative business and our results were still better than the best that most of our competitors ever achieved even at the height of the IT boom.

I am very grateful to our employees for their part in this achievement.

Results in Brief

Revenues for the period fell 14.1% to £4.48m (previous year : £5.21m). Profit before tax for the period fell 20.6% to £1.49m (previous year : £1.88m) giving a pre-tax margin of 33.3% (previous year : 36.0%). Earnings per share were 20.9% lower at 9.18 pence (previous year : 11.61 pence).

Our balance sheet remains very strong with a cash balance at the end of the period of £1.45m after the payment of significant dividends, and with net assets of £1.50m and a surplus of current assets over current liabilities of £1.43m.

Dividends

The company paid an interim dividend of 5.5 pence net per share in July 2003 and a further interim dividend of 3.75 pence net per share in January 2004, making a total for the year of 9.25 pence net per share. This compares with the total for last year of 11.2 pence net per share.

It remains the company's policy to pay only interim dividends in order to simplify administration. It also remains our policy to pay surplus cash out to shareholders via dividends unless the company has a reasonably imminent and reasonably probable need for the cash for investment purposes.

If the tax treatment of dividends changes in the 2004 budget, then this policy will, of course, need to be reviewed in the light of those changes.

Officers

I am delighted to announce that Duncan Scattergood has been appointed to the board as Operations Director effective from 1st February 04. Duncan was the first person to join the company after myself. He was originally employed as the company's first ever consultant in May 98 and rose to the point where, for some years now, the majority of the sales and project execution in the company has reported to him. Hence, in a sense, his appointment to the board is a somewhat belated acknowledgement of his seniority in the organisation, and this perhaps reflects my near-excessive conservatism in these matters.

All other officer appointments remain unchanged, and the directors and company secretary have my gratitude for their ongoing commitment and professionalism.

CUSTOMER SYSTEMS PLC

CHAIRMAN'S STATEMENT FOR THE CONSOLIDATED GROUP RESULTS

For the year ended 31 January 2004

Auditors

Prior to joining the OFEX stock market in October 2002, we appointed Bishop Fleming to be our corporate advisers in managing our presence on the OFEX market.

More recently, we have been able to achieve a substantial reduction in the cost of our audit by asking them to quote to become our new auditors and by appointing them to this role.

Business Progress

The softening of the market in the second half of the year, and especially in the last few months of the year, came as a surprise to us and to our most directly comparable competitors. Some of our competitors were compelled to undertake sudden and significant staff reductions. We were spared such necessities and we would like to think that this owed something to our policy of being careful to match staff levels to a slightly conservative projection of demand, and to our policy of constant prudent cost control.

Performance of our US operation was satisfactory but not quite in line with our hopes. It generated 26.8% of our revenues for the year as a whole, compared with 27.7% for the first half of the year. The manager in charge of our US operation, who had previously worked for us in the UK, lost commitment at some point during the second half and chose to leave the company at the end of the year.

A new manager has been appointed from amongst the ranks of our more senior UK employees and is in the process of relocating to the US.

In Europe, the UK remains the dominant market, and mainland Europe remains fairly inactive. During the year, we won our first assignments in Canada, in Australia and in Hong Kong.

Even though we would like the year to have turned out closer to our expectations, it has to be said that our business remains very healthy, profitable and cash-generative. We have now had pre-tax margins in excess of 30% for 5 years running. Our pre-tax cash in-flows are generally about the same as or even greater than our pre-tax profits. Our return on capital employed in the year just finished was 99.47%.

Awards

The growth that the company has achieved in the last few years has been commemorated by two awards made in the past year. Customer Systems was 28th in the Sunday Times Virgin Atlantic Fast Track 100 Awards 2003. This league table covered the whole of the UK and all sectors and commemorated our average 100.4% per annum growth rate between 1999 and 2002.

Similarly, Customer Systems was ranked 9th in the Deloitte & Touche London and South East Technology Fast 50 programme which ranks technology companies in the south east of England based on average annual growth between 1999 and 2002.

CUSTOMER SYSTEMS PLC

CHAIRMAN'S STATEMENT FOR THE CONSOLIDATED GROUP RESULTS

For the year ended 31 January 2004

Outlook

Whilst the IT market in general and the CRM market in particular remain well below their peak levels and perhaps prone to uncomfortable swings, we have seen a slight upturn at the beginning of this year compared to the last few months of the year just closed. We would like to be able to treat the average activity level of the last year as the baseline, but the reality is that we need to treat the less active second half of the year as the level from which we must rebuild by aggressive sales and marketing and by imaginative diversification.

For us, diversification can mean finding new software products to become expert in but it can also involve greater inventiveness than this. We have recently formed a new start-up operation in the area of executive search, called The Search Group, and this is a partially owned subsidiary with a significant ownership by its management and employees. It is very early days for The Search Group but, in the early weeks of the new financial year, it is already beginning to generate revenues.

The good progress achieved at The Search Group so far suggests that this may be an area in which further investment would be justified.

In the past I have made reference to our interest in potential acquisitions. This continues to be a route which interests us but we are also aiming, through The Search Group to explore the possibility that the achievement of a similar result through a start-up operation can be lower in risk, lower in cost and, hopefully, higher in overall profitability.

The board looks forward to another exciting year in the company's development.

Steve Austen
10 March 2004

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CUSTOMER SYSTEMS PLC

REPORT OF THE DIRECTORS

The directors present their report together with the audited financial statements for the year ended 31 January 2004.

Principal activities

The principal activity of the group is to provide highly specialised implementation consulting and training, operating alongside suppliers of leading application software packages.

The group also offers telephone support services and has developed its own range of software products.

The provision of these services and products is focused on the supply of our expertise in the area of customer relationship management systems.

Business review

There was a profit for the year after taxation amounting to £1,043,278 (2003: £1,315,236). Interim dividends of £1,051,120 (2003: £1,268,082) have been paid, leaving a retained loss of £7,842 (2003: £47,154 retained profit).

Directors

The present membership of the Board is set out below.

The interests of the directors and their families in the shares of the company as at 31 January 2004 and 1 February 2003 were as follows:

	31 January 2004	1 February 2003
	1p ordinary shares	1p ordinary shares
Mr S N Austen	10,191,200	10,191,200
Mr S B Sanders	16,800	16,800
Mr D K Scattergood (appointed 1 February 2004)	360,000	360,000

At 31 January 2004 Mr D K Scattergood held options to purchase a further 98,200 shares. These options are exercisable at 25 pence per share between 1 July 2002 and 31 June 2011.

Supplier payment policy

It is the group's policy to pay all valid supplier invoices promptly upon receipt and within agreed terms of payment. This policy means the group maintains no significant trade creditor balance.

CUSTOMER SYSTEMS PLC

REPORT OF THE DIRECTORS

Directors' responsibilities for the financial statements

Company law in the United Kingdom 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 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, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

Bishop Fleming offer themselves for reappointment as auditors in accordance with Section 385 of the Companies Act 1985.

ON BEHALF OF THE BOARD

Mr S N Austen
Director
10 March 2004

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF CUSTOMER SYSTEMS PLC

We have audited the financial statements of Customer Systems plc for the year ended 31 January 2004 which comprise the principal accounting policies, the group profit and loss account, the balance sheets, the group cash flow statement and notes 1 to 18. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the directors and auditors

The directors' responsibilities for preparing the directors' report and the financial statements in accordance with United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards.

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 regarding directors' remuneration and transactions with the group is not disclosed.

We read other information contained in the annual report, and consider whether it is consistent with the audited financial statements. This information comprises the chairman's statement and the report of the directors only. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of 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 group's circumstances, 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.

**REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF
CUSTOMER SYSTEMS PLC**

Opinion

In our opinion the financial statements give a true and fair view of the state of the affairs of the company and the group as at 31 January 2004 and of the profit for the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

**BISHOP FLEMING
CHARTERED ACCOUNTANTS & REGISTERED AUDITORS
19 PORTLAND SQUARE
BRISTOL
BS2 8SJ**

10 March 2004

CUSTOMER SYSTEMS PLC

PRINCIPAL ACCOUNTING POLICIES

BASIS OF PREPARATION

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

The principal accounting policies of the company have remained unchanged from the previous year and are set out below. The directors have reviewed the accounting policies adopted by the group and consider them to be the most appropriate.

BASIS OF CONSOLIDATION

The group financial statements consolidate the financial statements of the company and of its subsidiary undertakings (see note 5). The financial statements of each undertaking in the group have been prepared to 31 January 2004.

REVENUE

Turnover is the total amount receivable by the company for services provided, excluding VAT.

Revenue derived from support contracts is credited to the profit and loss account over the period to which the contract relates.

Revenue recognition relating to the sale of the group’s own software products occurs at the point of delivery in the case of production software sold in such a manner that the obligation to supply is discharged simply by this delivery. However, where there is an inseparable obligation to modify this software for the client’s specific needs, or to deliver additional services without which the standard product would be of no value to the client, then revenue recognition is phased in stages across the delivery process.

Revenue and costs relating to any unbilled completed consultancy days undertaken on a time and materials basis are recognised in the profit and loss account in the period in which they occur. Such unbilled revenue amounts are shown as accrued income on the balance sheet.

DEPRECIATION

Depreciation is calculated to write down the cost less estimated residual value of all tangible fixed assets by equal annual instalments over their expected economic useful lives. The rates generally applicable are:

Motor vehicles	25%
Fixtures and fittings	25% - 50%
Computer equipment	33% - 50%

INVESTMENTS

Investments are included at cost.

DEFERRED TAXATION

Deferred tax is recognised on all timing differences where the transactions or events that give the group an obligation to pay more tax in the future, or a right to pay less in the future, have occurred by the balance sheet date. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

CUSTOMER SYSTEMS PLC

PRINCIPAL ACCOUNTING POLICIES

FOREIGN CURRENCY TRANSACTIONS

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to the profit and loss account.

RESEARCH AND DEVELOPMENT

Research and development expenditure is charged to profits in the period in which it is incurred.

CONTRIBUTIONS TO PENSION SCHEMES

Defined contribution schemes

The pension costs charged against profits represent the amount of the contributions payable to the individual employees' schemes in respect of the accounting period.

LEASED ASSETS

Payments made under operating leases are charged to the profit and loss account on a straight-line basis over the lease term.

FINANCIAL INSTRUMENTS

Financial instruments are recognised in the balance sheet at the lower of cost and net realisable value. Provision is made for diminution in value where appropriate. Interest receivable is accrued and credited to the profit and loss account in the period to which it relates.

CUSTOMER SYSTEMS PLC

GROUP PROFIT AND LOSS ACCOUNT

For the year ended 31 January 2004

	Note	2004 £	2003 £
Turnover	1	4,476,879	5,213,752
Administrative expenses		<u>(3,027,341)</u>	<u>(3,374,956)</u>
Operating profit		1,449,538	1,838,796
Other interest receivable and similar income		<u>42,895</u>	<u>40,113</u>
Profit on ordinary activities before taxation	1	1,492,433	1,878,909
Tax on profit on ordinary activities	3	<u>(449,155)</u>	<u>(563,673)</u>
Profit for the financial year	11	1,043,278	1,315,236
Dividends paid		<u>(1,051,120)</u>	<u>(1,268,082)</u>
Transfer (from)/to reserves	10	<u>(7,842)</u>	<u>47,154</u>
Earnings per share - basic (pence)	4	<u>9.18</u>	<u>11.61</u>
Earnings per share - diluted (pence)	4	<u>9.06</u>	<u>11.44</u>

There were no recognised gains or losses other than the profit for the financial year.

The accompanying accounting policies and notes form an integral part of these financial statements.

CUSTOMER SYSTEMS PLC

GROUP BALANCE SHEET at 31 January 2004

	Note	2004 £	2003 £
Fixed assets			
Tangible assets	6	<u>70,600</u>	<u>91,397</u>
Current assets			
Debtors	7	486,144	873,714
Cash at bank and in hand		<u>1,446,860</u>	<u>1,307,430</u>
		1,933,004	2,181,144
Creditors: amounts falling due within one year	8	<u>(507,445)</u>	<u>(772,202)</u>
Net current assets		<u>1,425,559</u>	<u>1,408,942</u>
Total assets less current liabilities		<u>1,496,159</u>	<u>1,500,339</u>
Minority interests		(47)	-
		<u>1,496,112</u>	<u>1,500,339</u>
Capital and reserves			
Called up share capital	9	113,666	113,572
Share premium account	10	31,934	28,413
Profit and loss account	10	<u>1,350,512</u>	<u>1,358,354</u>
Shareholders' funds	11	<u>1,496,112</u>	<u>1,500,339</u>

The financial statements were approved by the Board of Directors on 10 March 2004

Mr S N Austen

Director

The accompanying accounting policies and notes form an integral part of these financial statements.

CUSTOMER SYSTEMS PLC

COMPANY BALANCE SHEET at 31 January 2004

	Note	2004 £	2003 £
Fixed assets			
Tangible assets	6	70,600	91,397
Investments	5	6,053	6,002
		<u>76,653</u>	<u>97,399</u>
Current assets			
Debtors	7	493,687	742,668
Cash at bank and in hand		1,323,218	1,183,548
		<u>1,816,905</u>	<u>1,926,216</u>
Creditors: amounts falling due within one year	8	<u>(370,561)</u>	<u>(761,053)</u>
Net current assets		<u>1,446,344</u>	<u>1,165,163</u>
Total assets less current liabilities		<u>1,522,997</u>	<u>1,262,562</u>
Capital and reserves			
Called up share capital	9	113,666	113,572
Share premium account	10	31,934	28,413
Profit and loss account	10	1,377,397	1,120,577
Shareholders' funds		<u>1,522,997</u>	<u>1,262,562</u>

The financial statements were approved by the Board of Directors on 10 March 2004

Mr S N Austen

Director

The accompanying accounting policies and notes form an integral part of these financial statements.

CUSTOMER SYSTEMS PLC

GROUP CASH FLOW STATEMENT

For the year ended 31 January 2004

	Note	2004 £	2003 £
Net cash inflow from operating activities	12	1,709,849	1,963,614
Returns on investments and servicing of finance			
Interest received		42,895	40,113
Taxation		(526,747)	(865,427)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(43,435)	(28,520)
Sale of tangible fixed assets		4,373	10,870
Equity dividends paid		(1,051,120)	(1,268,082)
Financing			
Issue of shares		<u>3,615</u>	<u>29,183</u>
Increase/(decrease) in cash	13	<u>139,430</u>	<u>(118,249)</u>

The accompanying accounting policies and notes form an integral part of these financial statements.

CUSTOMER SYSTEMS PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 January 2004

1 TURNOVER AND PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

The turnover and profit before taxation are attributable to one activity.

An analysis of turnover by geographical destination is given below. The analysis by geographical origin is substantially the same:

	2004 £	2003 £
United Kingdom	3,099,490	3,941,219
Overseas	<u>1,377,389</u>	<u>1,272,533</u>
	<u>4,476,879</u>	<u>5,213,752</u>

An analysis of profit before tax by geographical market is given below:

	2004 £	2003 £
United Kingdom	1,132,528	1,542,032
Overseas	<u>359,905</u>	<u>336,877</u>
	<u>1,492,433</u>	<u>1,878,909</u>

An analysis of net assets at the balance sheet date by geographical market is set out below:

	2004 £	2003 £
United Kingdom	1,442,453	1,256,560
Overseas	<u>53,659</u>	<u>243,779</u>
	<u>1,496,112</u>	<u>1,500,339</u>

The profit on ordinary activities before taxation is stated after:

	2004 £	2003 £
Auditors' remuneration - audit services	6,500	9,500
- other services	2,058	2,250
Depreciation of tangible fixed assets, owned	64,232	94,733
Net loss on foreign currency translation	<u>48,391</u>	<u>28,318</u>

The parent company has taken advantage of Section 230 of the Companies Act 1985 and has not included its own profit and loss account in these financial statements. The parent company's profit before dividends for the year was £1,307,940 (2003: £1,077,459). This includes a dividend from its subsidiary Customer Systems International Limited of £510,000 (2003: nil)

CUSTOMER SYSTEMS PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 January 2004

2 DIRECTORS AND EMPLOYEES

Staff costs during the year were as follows:

	2004 £	2003 £
Wages and salaries	1,758,193	1,738,212
Social security costs	192,638	180,575
Other pension costs	99,326	125,935
	<u>2,050,157</u>	<u>2,044,722</u>

The average number of employees of the group during the year was 42 (2003: 44).

Remuneration in respect of directors was as follows:

	2004 £	2003 £
Emoluments	100,586	99,328
Pension contributions	4,331	4,446
	<u>104,917</u>	<u>103,774</u>

Emoluments in respect of the highest paid director were £89,786 (2003: £88,827). Pension contributions relating to the highest paid director were £4,331 (2003: £4,446).

During the year one director (2003: one) participated in a money purchase pension scheme.

3 TAX ON PROFIT ON ORDINARY ACTIVITIES

The tax charge is based on the profit for the year and represents:

	2004 £	2003 £
Corporation tax at 30% (2003: 30%)	462,756	576,748
Overseas tax	316	531
Adjustments in respect of prior years corporation tax	(9,240)	(6,336)
	<u>453,832</u>	<u>570,943</u>
Deferred tax	(4,677)	(7,270)
	<u>449,155</u>	<u>563,673</u>

CUSTOMER SYSTEMS PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 January 2004

3. TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

The factors affecting the tax charge for the year are set out below:

	2004 £	2003 £
Profit before taxation	<u>1,492,433</u>	<u>1,878,909</u>
Profit before taxation multiplied by standard rate of UK corporation tax at 30%	447,730	563,673
Effect of:		
Expenses not allowable for corporation tax purposes	2,356	3,242
Differences in foreign rates of tax	9,947	2,255
Depreciation in excess of capital allowances	5,993	12,369
Marginal rate relief	(2,954)	(4,260)
Adjustments in respect of prior years	(9,240)	(6,336)
	<u>453,832</u>	<u>570,943</u>

4 EARNINGS PER SHARE

The number of shares used in the calculation is the weighted average number of shares in issue during the year.

	Profit after tax (Numerator)		Shares (Denominator)		Per share amount	
	2004 £	2003 £	2004 No.	2003 No.	2004 pence	2003 pence
BASIC EPS						
Profit attributable to ordinary shareholders	<u>1,043,278</u>	<u>1,315,236</u>	<u>11,362,233</u>	11,325,646	<u>9.18</u>	<u>11.61</u>
Effect of dilutive potential shares						
Options	-	-	<u>147,491</u>	<u>169,386</u>	-	-
DILUTED EPS						
Profit attributable to ordinary shareholders plus assumed conversions	<u>1,043,278</u>	<u>1,315,236</u>	<u>11,509,724</u>	<u>11,495,032</u>	<u>9.06</u>	<u>11.44</u>

CUSTOMER SYSTEMS PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 January 2004

5 FIXED ASSET INVESTMENTS

The company

	Shares in subsidiaries £
At 1 February 2003	6,002
Additions	51
At 31 January 2004	6,053

At 31 January 2004 the company held 20% or more of the allotted share capital of the following:

	Class of share capital held	Proportion held	Country of incorporation	Nature of business
Subsidiaries				
Customer Systems International Limited	Ordinary shares	100%	England	IT consultancy
Customer Systems International, Inc.	Ordinary shares	100%	USA	IT consultancy
Customer Systems France SARL	Ordinary shares	100%	France	Dormant
The Search Group Limited	Ordinary shares	52.3%	England	Executive search and selection

The holdings in Customer Systems International, Inc. and Customer Systems France SARL are indirect holdings by virtue of the company's holding in Customer Systems International Limited.

CUSTOMER SYSTEMS PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 January 2004

6 TANGIBLE FIXED ASSETS

The group and the company	Motor Vehicles £	Fixtures and fittings £	Computer equipment £	Total £
Cost				
At 1 February 2003	69,954	46,588	202,013	318,555
Additions	6,260	-	37,175	43,435
Disposals	(13,359)	-	-	(13,359)
At 31 January 2004	62,855	46,588	239,188	348,631
Depreciation				
At 1 February 2003	38,624	19,362	169,172	227,158
Provided in the year	13,927	12,918	37,387	64,232
Eliminated on disposals	(13,359)	-	-	(13,359)
At 31 January 2004	39,192	32,280	206,559	278,031
Net book amount at 31 January 2004	23,663	14,308	32,629	70,600
Net book amount at 31 January 2003	31,330	27,226	32,841	91,397

7 DEBTORS

	Group 2004 £	Company 2004 £	Group 2003 £	Company 2003 £
Trade debtors	437,222	327,807	796,851	658,877
Amounts owed by group undertakings	-	120,373	-	8,686
Other debtors	33	-	-	-
Prepayments and accrued income	36,942	33,560	69,593	67,835
Deferred tax asset	11,947	11,947	7,270	7,270
	486,144	493,687	873,714	742,668

The deferred tax asset is in respect of depreciation charges in excess of capital allowances.

CUSTOMER SYSTEMS PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 January 2004

8 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group 2004 £	Company 2004 £	Group 2003 £	Company 2003 £
Trade creditors	13,227	12,677	-	-
Amounts owed to group undertakings	-	4,621	-	276,217
Corporation tax	264,633	149,498	337,548	238,969
Social security and other taxes	83,701	81,325	107,309	102,224
Accruals and deferred income	145,884	122,440	327,345	143,643
	<u>507,445</u>	<u>370,561</u>	<u>772,202</u>	<u>761,053</u>

9 SHARE CAPITAL

	2004 £	2003 £
Authorised 100 million 1p ordinary shares	<u>1,000,000</u>	<u>1,000,000</u>
Allotted, called up and fully paid 11,366,550 1p ordinary shares (2003: 11,357,150 1p ordinary shares)	<u>113,666</u>	<u>113,572</u>

Allotments during the year

The company made an allotment of 9,400 ordinary 1p shares during the year for a total consideration of £3,615. The difference between the consideration and the nominal value amounts to £3,521 and has been credited to the share premium account.

Contingent rights to the allotment of shares

Options granted in prior years over 179,800 1p ordinary shares remain unexercised at 31 January 2004:

98,200 of these are exercisable at 25p per share between 1 July 2002 and 30 June 2011.
70,000 of these are exercisable at 25p per share between 1 April 2002 and 16 February 2011.
4,000 of these are exercisable at 4p per share between 1 March 2003 and 1 September 2009.
6,400 of these are exercisable at 7.5p per share between 1 October 2002 and 6 December 2009.
1,200 of these are exercisable at 10p per share between 1 June 2004 and 18 January 2010.

The company's shares are listed on OFEX. The market price of the shares between the beginning of the year and the balance sheet date varied between 145p and 120p. The market price of the shares on 31 January 2004 was 120p.

CUSTOMER SYSTEMS PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 January 2004

10 SHARE PREMIUM ACCOUNT AND RESERVES

	Share premium account	Company Profit and loss account	Group Profit and loss account
	£	£	£
At 1 February 2003	28,413	1,120,577	1,358,354
Premium on allotments during the year	3,521	-	-
Retained profit/(loss) for the year	-	256,820	(7,842)
	<u>31,934</u>	<u>1,377,397</u>	<u>1,350,512</u>
At 31 January 2004			

11 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2004 £	2003 £
Profit for the financial year	1,043,278	1,315,236
Dividends	<u>(1,051,120)</u>	<u>(1,268,082)</u>
	(7,842)	47,154
Issue of shares	<u>3,615</u>	<u>29,183</u>
Net (decrease)/increase in shareholders' funds	(4,227)	76,337
Shareholders' funds at 1 February 2003	<u>1,500,339</u>	<u>1,424,002</u>
Shareholders' funds at 31 January 2004	<u>1,496,112</u>	<u>1,500,339</u>

12 NET CASH FLOW FROM OPERATING ACTIVITIES

	2004 £	2003 £
Operating profit	1,449,538	1,838,796
Depreciation	64,232	94,733
Profit on sale of tangible fixed assets	(4,373)	(9,256)
Decrease in stocks	-	16,274
Decrease/(increase) in debtors	392,247	(347,786)
(Decrease)/increase in creditors	<u>(191,795)</u>	<u>370,853</u>
Net cash inflow from operating activities	<u>1,709,849</u>	<u>1,963,614</u>

CUSTOMER SYSTEMS PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 January 2004

13 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	2004 £	2003 £
Increase/ (decrease) in cash in the year	139,430	(118,249)
Net funds at 1 February 2003	1,307,430	1,425,679
	<hr/>	<hr/>
Net funds at 31 January 2004	<u>1,446,860</u>	<u>1,307,430</u>

14 ANALYSIS OF CHANGES IN NET FUNDS

	At 1 February 2003	Cash flow	At 31 January 2004
Cash at bank and in hand	<u>1,307,430</u>	<u>139,430</u>	<u>1,446,860</u>

15 LEASING COMMITMENTS

The group and the company

Operating lease payments amounting to £34,892 (2003: £209,352) are due within one year. The leases to which these amounts relate expire as follows:

	2004 Land and buildings £	2003 Land and buildings £
Within one year	34,892	-
Between one and five years	<u>-</u>	<u>209,352</u>

16 ULTIMATE CONTROLLING RELATED PARTY

The ultimate controlling party is Mr S N Austen by virtue of his majority shareholding.

CUSTOMER SYSTEMS PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 January 2004

17 FINANCIAL INSTRUMENTS

The group has financial instruments comprising cash, debtors and creditors, which arise directly from its operations. The sole purpose of these financial instruments is to provide the working capital of the group. The fair values of the group's financial instruments are considered equal to their book value. Short term debtors and creditors are excluded from the following disclosures except the currency risk disclosures.

Interest rate risk

The group holds significant bank balances. The level of interest receivable on these balances is affected by changes in interest rates.

Liquidity risk

The group seeks to manage financial risk, to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably.

Currency risk

The group is exposed to translation and transaction foreign exchange risk by virtue of selling its services in overseas markets and by the maintenance of small cash balances in US dollars. The group chooses not to actively manage this exposure. At 31 January 2004 the group held cash balances in US dollars amounting to £113,951 (2003: £64,594) and carried trade debtors denominated in US dollars of £110,388 (2003: £137,974). All other financial assets and liabilities are denominated in sterling.

18 RELATED PARTY TRANSACTIONS

The company has taken advantage of exemptions available under FRS 8 not to disclose transactions undertaken with its subsidiary undertakings. At 31 January the following was due from/(to) its subsidiary undertakings

	2004	2003
	£	£
Customer Systems International Limited	38,409	(276,217)
Customer Systems International Inc	81,964	-
Customer Systems France SARL	(4,523)	-
The Search Group Limited	(98)	-

Company registration number: 3509265

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Mr S B Sanders
Mr D K Scattergood

Secretary: Mr J C A Coiley

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