



**Annual Report & Accounts**

*2006*



**CUSTOMER SYSTEMS GROUP  
EIGHT YEAR SUMMARY**

	1999	2000	2001	2002	2003	2004	2005	2006
<b>Turnover</b>	£ 343,741	1,516,055	3,316,133	5,136,166	5,213,752	4,476,879	5,187,766	5,558,813
<b>% growth</b>		341.0%	118.7%	54.9%	1.5%	-14.1%	15.9%	7.2%
<b>Profit before tax</b>	£ 37,262	587,252	1,455,984	2,066,282	1,878,909	1,492,433	2,046,506	2,314,379
<b>% growth</b>		1476.0%	147.9%	41.9%	-9.1%	-20.6%	37.1%	13.1%
<b>Pre-tax margin</b>	10.8%	38.7%	43.9%	40.2%	36.0%	33.3%	39.4%	41.6%
<b>Profit after tax</b>	£ 29,253	431,624	1,032,784	1,434,884	1,315,236	1,043,278	1,425,244	1,608,932
<b>Dividends per share (pence)</b>	0	0	5.4	9	11.2	9.25	12.5	12.5

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 who have recently been acquired by Oracle Corporation.

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 8 years. The Siebel software suite 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, or smaller sub-projects involving the application of very intense technical expertise to particular areas, or rescue missions where other consultancies’ attempts to implement Siebel have gone wrong. Additionally, we have 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 software products of our own to fill specific areas of need, where no other solution seemed to be available on the market. These include interface products to make certain report writing tools work better in conjunction with the Siebel database and a product which dramatically improves the run-time performance of reports developed in the Actuate report writer when they are used against a Siebel database.

We have always aimed to be at the high-quality end of the market, providing successful results to clients who place a high value on guaranteed success. 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

## BUSINESS PROFILE

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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.

What we do is not easy. We have made a significant differentiator out of bringing truly effective skills to bear on the missions we tackle.

Our offices are in Chertsey in the UK and Iselin, New Jersey in the USA. We have delivered our services to customers in 27 countries across Europe, North America, Asia and Australasia. Our shares are traded on the OFEX market.

**Siebel is a trademark of Oracle Corporation**

**Actuate is a trademark of Actuate Corporation.**

**CHAIRMAN'S STATEMENT FOR THE CONSOLIDATED GROUP RESULTS**For the year ended 31 January 2006

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I am delighted to be able to announce record-beating figures for the year ended 31st January 2006. In the year just finished, we recorded our highest ever annual revenue, our highest ever annual profit before tax and our highest ever earnings per share.

The only real asset of our business is its people, and I would like to thank them and congratulate them for this excellent achievement in what has not been the easiest of market periods that we have ever encountered.

During the past year, we have seen redundancies declared by some of our competitors and we have seen one of our competitors go into administration. By contrast, we have grown both the top line and the bottom line, we continue to recruit, and we continue to be a financially sound and financially successful company. We believe that our customers and business partners value not only the technical excellence of our services, but also our solidity as an enduring future partner.

**RESULTS IN BRIEF**

Revenues for the period were 7.15% higher at £5.56m (previous year : £5.19m). Profit before tax for the period increased 13.1% to £2.31m (previous year : £2.05m) giving a pre-tax margin of 41.6% (previous year : 39.4%). Earnings per share were 12.5 % higher at 14.10 pence (previous year : 12.53 pence).

Our balance sheet remains very strong with a cash balance at the end of the period of £1.80m after the payment of significant dividends, and with net assets of £1.69m and a surplus of current assets over current liabilities of £1.62m.

It is worth noting that, at the balance sheet date, the cash balance was slightly inflated (and the debtors figure slightly depressed) by certain special circumstances in which a small number of customers effectively pre-paid for services which were still to be received (although revenue recognition for such services never occurs until they are delivered). This effect was of the order of magnitude of about £0.4m.

**DIVIDENDS**

The company paid an interim dividend of 6.25 pence net per share in July 2005 and a further interim dividend of 6.25 pence net per share in January 2006, making a total for the year of 12.5 pence net per share. This exactly matches the total dividend payment for last year, which was the highest dividend payout in the company's history.

It remains our policy to pay only interim dividends in order to simplify administration, and to time these usually to fall within July and January. It also remains our policy to take surplus cash out of the company and pay it to shareholders unless we can see a reasonably immediate use for the cash for investment purposes, e.g. for a prospective acquisition. If we did identify a significant acquisition we wanted to make, this could result in one or more dividends being reduced or missed.

In the absence of any other pressures or constraints, we normally calculate the dividend in such a way as to leave the company's net asset value roughly the same from year to year. Because we have to calculate the January dividend slightly before the business has closed for the financial year, and slightly before the corporation tax charge is known, there is inevitably a slight degree of approximation in this.

## CHAIRMAN'S STATEMENT FOR THE CONSOLIDATED GROUP RESULTS

For the year ended 31 January 2006

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This year, for the first time, a significant fixed-price contract was being worked on before and after the year-end. The calculation of the correct amount of revenue to recognise in the year ended 31st January 2006 was still being worked on right up to the period end. This meant that the dividend declared in January was not quite large enough to bring the company's net asset value down to the level at the end of the previous year. The net asset value has, in fact, risen by nearly £0.2m.

As a special non-recurring event, we have decided to pay an extra interim dividend which will be announced in detail and paid in April 2006. The intention behind this dividend is twofold, and the first purpose is to eliminate the upward drift in the net asset value referred to in the previous paragraph. The second part of our reasoning is that the accumulated historical evidence has convinced us that the buffer which we hold within the company, after payment of each dividend, in terms of cash, net asset value, and net current asset value is higher than the company needs. Since these resources, in the final analysis, belong to the shareholders, we cannot justify keeping them within the company if the company has no use for them. Hence, our intention is to effect a non-recurring reduction in the company's net asset value, whilst conserving within the company, the resources which prudence suggests would be wise.

### OFFICERS

On 12th May 2005, we announced that our non-executive director, Simon Sanders FCA, would be leaving the board on 31st January 2006, with our gratitude for his four years of valuable service. This plan was completed. Our reasoning, which Simon concurred with, was that a non-executive director should not remain on the board of any one company for too long.

At the same time, the need which we had when we first joined the OFEX market for Simon's OFEX-specific knowledge, and for his extreme financial expertise, had been replaced by a need, if anything, for more sales and marketing input.

Hence, we will be considering where we might find a non-executive director with these characteristics, but we do not intend to rush ourselves into a decision as the current three officers of the company are serving the company's needs very well.

### BUSINESS PROGRESS

The market level of demand which we experience continues to fluctuate. It fell quite a lot during the summer of 2005, after a very strong first half-year, recovered very strongly in the autumn, slackened fractionally in the winter, and slackened a little more during the earliest part of the new financial year, but is better than it was during last summer.

Moreover, the number of new prospects we are uncovering is encouraging, and has recently increased. If we can close a significant proportion of them, then our occupancy rate should return to high levels.

During the year just finished, US revenues represented 28.9% of the annual total, UK revenues : 58.2%, mainland Europe : 5.1% and the rest of the world : 7.8%. Business in the second half of the year became a lot more centred on the UK with the UK representing 67.5% of the total.

**CHAIRMAN'S STATEMENT FOR THE CONSOLIDATED GROUP RESULTS**For the year ended 31 January 2006

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The manager of our US operations, who originally transferred from our UK office has decided that personal considerations require him to return to the UK and he will be taking up a business management role with us in the UK head office. Fortunately, his understudy, the second business manager we appointed in the US is at about the right stage to take over his responsibilities and so will do so in April.

Our business profile continues to include full implementations for which we have total responsibility, coupled with shorter assignments to tackle particular issues.

We have recently found it possible to work more closely recently with the sales force of Siebel, to mutual benefit. We have also formed a new relationship with a software company whose products are complementary to Siebel and this seems to be producing good results both for us and them.

We normally go to great lengths to avoid fixed price contracts with our clients, because we don't particularly relish the risks associated with them, and because we believe that they actually cost the client more than a "time and materials" contract placed with a vendor who has real integrity. However, during this year, we did take on one substantial fixed-price contract and a second contract which has some elements of fixed-price about it. Both contracts are proceeding successfully and the clients are happy with the results which are being produced. However, we continue to aim to persuade clients of the merits of a "time and materials" approach.

The litigation related to The Search Group Limited has been completely discontinued by mutual agreement. Provision for legal costs made during the previous year, and slightly increased at the end of the half-year meant that the affair had only a modest effect on costs during the year just finished and an effect of almost zero on the costs in the second half of that year. The amounts of money involved were, in any case, not large by Customer Systems' standards.

We have looked at whether we are likely to start any new recruitment consulting activity under the banner of The Search Group Limited in the near future and have decided that it is unlikely. For this reason, we have decided to commence the striking off of this company and its two dormant subsidiaries. All creditors of The Search Group Limited were fully paid a long time ago and it is really only an empty shell now.

**OUTLOOK**

We continue to sell and market energetically and to explore options for sensible diversification. The market still throws us surprises in terms of peaks and troughs of demand. Having always pursued a business model in which we aim for strong profitability and cash-generation, the troughs impact us less than they do our competitors.

It remains the case that, from our second month of trading (August 1998) onwards we have never had an unprofitable month.

At the present moment, demand is a little less than we would like but the prospect list is good, and has seen a number of recent additions.

During the year, Siebel Systems, Inc. was acquired by Oracle Corporation, and the intention is presumed to be the merger of the operations and products of the two companies. The merging process has not really begun and

## CHAIRMAN'S STATEMENT FOR THE CONSOLIDATED GROUP RESULTS

For the year ended 31 January 2006

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Oracle has kept Siebel as a structurally autonomous operation so far. Oracle seems to be taking a prudent and cautious approach to make sure that it does not accidentally damage the value of what it has acquired. Oracle has also indicated that a new merged product, scheduled for 2008 release, combining its own application software products and those of its acquisitions, will use Siebel's product as the foundation of the CRM part of the new suite.

In the short term, the Oracle acquisition has had no negative impact and even seems to have had a positive impact on sentiment in the sense that the market seems to have been made content that the future of Siebel has been settled. Customers seem happy to continue to invest in Siebel software and its customisation.

In the medium term, we anticipate this benign environment continuing, though we do not, of course, possess perfect foresight.

In the longer term, we must acknowledge that the Oracle acquisition of Siebel creates uncertainties for us, as well as opportunities. At the very least, we will ultimately need to have a relationship with different people, and, very probably, there will be some differences between the CRM part of the merged product and the Siebel product as we know it today. We may need to re-create the unique differentiator which we possess today in terms of our extreme competence in the Siebel product.

At the same time, there could be opportunities for us in broadening out into tackling other functional areas of the Oracle suite e.g. financials, manufacturing, logistics.

We look forward to these opportunities and challenges with enthusiasm.

**STEVE AUSTEN**

9th March 2006

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## REPORT OF THE DIRECTORS

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The directors present their report together with the audited financial statements for the year ended 31 January 2006.

### 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 £1,608,932 (2005: £1,425,244). Interim dividends of £1,427,594 (2005: £1,422,060) have been paid, leaving a retained profit of £181,338 (2005: £3,184).

### 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 2006 and 1 February 2005 were as follows:

	<b>31 January 2006</b>	<b>1 February 2005</b>
	<b>1p ordinary shares</b>	<b>1p ordinary shares</b>
Mr S N Austen	10,205,867	10,205,867
Mr D K Scattergood	368,200	368,200

At 31 January 2006 Mr D K Scattergood held options to purchase a further 83,000 shares (2005: 90,000 shares). These options are exercisable at 25 pence per share between 1 July 2003 and 30 June 2011.

Mr S B Sanders resigned as a director on 31 January 2006.

### **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.

### **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**  
**9 March 2006**

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

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We have audited the group and parent company financial statements (the “financial statements”) of Customer Systems plc for the year ended 31 January 2006 which comprise the principal accounting policies, the group profit and loss account, the balance sheets, the group cash flow statement and notes 1 to 19. 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 applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 International Standards on Auditing (UK and Ireland).

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 only the business profile, the chairman's statement and the report of the directors. 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 AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 and company'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

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### OPINION

In our opinion the financial statements:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the affairs of the group and the company as at 31 January 2006 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  
16 QUEEN SQUARE  
BRISTOL  
BS1 4NT**

**9 March 2006**

## PRINCIPAL ACCOUNTING POLICIES

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### 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, with the exception of the accounting policy on deferred tax. The principal accounting policies are set out below. The change in accounting policy on deferred tax is disclosed on page 6. 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 2006.

### 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.

Revenue related to fixed price contracts, which are still in progress, is normally calculated by multiplying the percentage completion of the contract by the contract value, as long as the progress and the likely outcome can be assessed with a reasonable degree of certainty and accuracy. Percentage completion, for this purpose, is calculated as the value of effort expended to date divided by the total value of effort anticipated to be required from start to completion. Value of effort, for this purpose, is calculated using notional daily billing rates which reflect the relative values of the different seniorities of the consultants used and of the consultants anticipated to be needed for future work. This revenue calculation is applied to the contract as a whole, except where different parts of the contract are more accurately seen as operating independently of one another, in which case the calculation is applied separately to each part of the contract.

### 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.

**PRINCIPAL ACCOUNTING POLICIES**

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The rates generally applicable are:      Motor vehicles 25%; Plant, 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 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.

This represents a change in accounting policy in that provision is no longer made for deferred tax assets. This is due to the uncertainty over the timing of their reversal. The deferred tax asset that would have arisen in the current year amounts to £12,889. The prior year accounts include a deferred tax asset of £5,262 and have not been restated as the amount is considered to be immaterial.

**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**

The group has financial instruments comprising cash, debtors and creditors. These financial instruments are recognised in the balance sheet at their net realisable value. Interest receivable is accrued and credited to the profit and loss account in the period to which it relates.

**GROUP PROFIT AND LOSS ACCOUNT**

For the year ended 31 January 2006

	Note	2006 £	2005 £
<b>Turnover</b>	<b>1</b>	<b>5,558,813</b>	5,187,766
Administrative expenses		<b>(3,315,382)</b>	(3,207,966)
<b>Operating profit</b>		<b>2,243,431</b>	1,979,800
Other interest receivable and similar income		<b>70,948</b>	66,706
<b>Profit on ordinary activities before taxation</b>	<b>1</b>	<b>2,314,379</b>	2,046,506
Tax on profit on ordinary activities	<b>3</b>	<b>(705,447)</b>	(621,262)
<b>Profit for the financial year</b>		<b>1,608,932</b>	1,425,244
Dividends paid		<b>(1,427,594)</b>	(1,422,060)
<b>Transfer to reserves</b>	<b>10</b>	<b>181,338</b>	3,184
<b>Earnings per share - basic (pence)</b>	<b>4</b>	<b>14.10</b>	12.53
<b>Earnings per share - diluted (pence)</b>	<b>4</b>	<b>13.99</b>	12.40

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.

## GROUP BALANCE SHEET

At 31 January 2006

	Note	2006 £	2005 £
<b>Fixed assets</b>			
Tangible assets	6	78,961	124,672
<b>Current assets</b>			
Debtors	7	694,943	985,730
Cash at bank and in hand		1,795,272	1,253,594
		<b>2,490,215</b>	2,239,324
<b>Creditors: amounts falling due within one year</b>	8	<b>(874,315)</b>	(862,123)
<b>Net current assets</b>		<b>1,615,900</b>	1,377,201
<b>Total assets less current liabilities</b>		<b>1,694,861</b>	1,501,873
<b>Minority interests</b>		-	1,931
		<b>1,694,861</b>	1,503,804
<b>Capital and reserves</b>			
Called up share capital	9	114,278	113,812
Share premium account	10	45,502	34,318
Profit and loss account	10	1,535,081	1,355,674
<b>Shareholders' funds</b>	11	<b>1,694,861</b>	1,503,804

The financial statements were approved by the Board of Directors on 9 March 2006.

**Mr S N Austen**  
Director

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

## COMPANY BALANCE SHEET

At 31 January 2006

	Note	2006 £	2005 £
<b>Fixed assets</b>			
Tangible assets	6	78,961	124,672
Investments	5	6,099	6,094
		<b>85,060</b>	130,766
<b>Current assets</b>			
Debtors	7	414,666	995,102
Cash at bank and in hand		1,597,576	1,013,992
		<b>2,012,242</b>	2,009,094
<b>Creditors: amounts falling due within one year</b>	8	<b>(567,636)</b>	(659,922)
<b>Net current assets</b>		<b>1,444,606</b>	1,349,172
<b>Total assets less current liabilities</b>		<b>1,529,666</b>	1,479,938
<b>Capital and reserves</b>			
Called up share capital	9	114,278	113,812
Share premium account	10	45,502	34,318
Profit and loss account	10	1,369,886	1,331,808
<b>Shareholders' funds</b>		<b>1,529,666</b>	1,479,938

The financial statements were approved by the Board of Directors on 9 March 2006.

**Mr S N Austen**  
Director

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

**GROUP CASH FLOW STATEMENT**

For the year ended 31 January 2006

	Note	2006 £	2005 £
<b>Net cash inflow from operating activities</b>	12	<b>2,565,889</b>	1,781,538
<b>Returns on investments and servicing of finance</b>			
Interest received		70,948	66,706
<b>Taxation</b>		<b>(674,206)</b>	(502,687)
<b>Capital expenditure and financial investment</b>			
Purchase of tangible fixed assets		(10,034)	(121,643)
Sale of tangible fixed assets		5,025	2,350
<b>Equity dividends paid</b>		<b>(1,427,594)</b>	(1,422,060)
<b>Financing</b>			
Issue of shares		11,650	2,530
<b>Increase / (decrease) in cash</b>	13	<b>541,678</b>	<b>(193,266)</b>

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

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 January 2006

## 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:

	2006 £	2005 £
United Kingdom	3,198,042	3,594,335
Overseas	2,360,771	1,593,431
	<b>5,558,813</b>	<b>5,187,766</b>

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

	2006 £	2005 £
United Kingdom	1,239,769	1,405,703
Overseas	1,074,610	640,803
	<b>2,314,379</b>	<b>2,046,506</b>

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

	2006 £	2005 £
United Kingdom	1,653,632	1,479,938
Overseas	41,229	23,866
	<b>1,694,861</b>	<b>1,503,804</b>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 January 2006

**1 TURNOVER AND PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION (CONTINUED)**

The profit on ordinary activities before taxation is stated after:

	2006 £	2005 £
Auditors' remuneration - audit services	8,250	7,750
- other services	2,400	2,075
Depreciation of tangible fixed assets, owned	55,603	67,571
Net (gain) / loss on foreign currency translation	(4,889)	23,565

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 £1,465,672 (2005: £1,376,471). This includes a dividend from its subsidiary Customer Systems International Limited of £695,000 (2005: £330,000).

**2 DIRECTORS AND EMPLOYEES**

Staff costs during the year were as follows:

	2006 £	2005 £
Wages and salaries	1,953,686	1,870,066
Social security costs	242,081	216,557
Other pension costs	84,798	89,640
	<b>2,280,565</b>	<b>2,176,263</b>

The average number of employees of the group during the year was 37 (2005: 39).

Remuneration in respect of directors was as follows:

	2006 £	2005 £
Emoluments	238,607	212,090
Pension contributions	18,240	9,450
	<b>256,847</b>	<b>221,540</b>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 January 2006

## 2 DIRECTORS AND EMPLOYEES (CONTINUED)

Emoluments in respect of the highest paid director were £122,109 (2005: £101,789). Pension contributions relating to the highest paid director were £5,040 (2005: £4,725).

During the year two directors (2005: two) 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:

	2006 £	2005 £
Corporation tax at 30% (2005: 30%)	675,821	617,505
Overseas tax	16,131	4,018
Adjustments in respect of prior years corporation tax	606	(6,946)
	<b>692,558</b>	614,577
Deferred tax	12,889	6,685
	<b>705,447</b>	621,262

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

	2006 £	2005 £
Profit before taxation	2,314,379	2,046,506
Profit before taxation multiplied by standard rate of UK corporation tax at 30%	694,314	613,952
Effect of:		
Expenses not allowable for corporation tax purposes	4,687	4,435
Differences in foreign rates of tax	-	917
Excess of capital allowances over depreciation	(6,684)	(7,186)
Marginal rate relief	(335)	-
Adjustments in respect of prior years	606	(6,946)
Losses not available for group relief carried forward	-	9,405
	<b>692,588</b>	614,577

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 January 2006

**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	
	2006 £	2005 £	2006 No.	2005 No.	2006 pence	2005 pence
<b>BASIC EPS</b> Profit attributable to ordinary shareholders	<b>1,608,932</b>	1,425,244	<b>11,408,425</b>	11,371,417	<b>14.10</b>	12.53
<b>EFFECT OF DILUTIVE POTENTIAL SHARES</b> Options	-	-	<b>91,592</b>	125,930	-	-
<b>DILUTED EPS</b> Profit attributable to ordinary shareholders plus assumed conversions	<b>1,608,932</b>	1,425,244	<b>11,500,017</b>	11,497,347	<b>13.99</b>	12.40

**5 FIXED ASSET INVESTMENTS**

The company	Shares in subsidiaries £
At 1 February 2005	6,094
Additions	5
<b>At 31 January 2006</b>	<b>6,099</b>

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 January 2006

**5 FIXED ASSET INVESTMENTS (CONTINUED)**

At 31 January 2006 the company held 20% or more of the allotted share capital of the following:

	<b>Class of share capital held</b>	<b>Proportion held</b>	<b>Country of incorporation</b>	<b>Nature of business</b>
Subsidiaries				
Customer Systems International Limited	Ordinary shares	100%	England	IT consultancy
Customer Systems UK 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	100%	England	Dormant
Novus Recruitment Limited	Ordinary shares	100%	England	Dormant
Theseus Executive Search Limited	Ordinary shares	100%	England	Dormant

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.

The holdings in Novus Recruitment Limited and Theseus Executive Search Limited are indirect holdings by virtue of the company's holding in The Search Group Limited.

The Search Group Limited ceased to trade on 31 January 2006 and is now dormant.

Since the year end the group has started the process of having the dormant companies struck off.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 January 2006

## 6 TANGIBLE FIXED ASSETS

The group and the company	Motor Vehicles £	Plant, fixtures and fittings £	Computer equipment £	Total £
<b>Cost</b>				
At 1 February 2005	69,005	129,183	240,505	438,693
Additions	-	6,607	3,427	10,034
Disposals	(19,195)	-	-	(19,195)
<b>At 31 January 2006</b>	<b>49,810</b>	<b>135,790</b>	<b>243,932</b>	<b>429,532</b>
<b>Depreciation</b>				
At 1 February 2005	47,972	55,574	210,475	314,021
Provided in the year	10,117	23,766	21,719	55,602
Eliminated on disposals	(19,052)	-	-	(19,052)
<b>At 31 January 2006</b>	<b>39,037</b>	<b>79,340</b>	<b>232,194</b>	<b>350,571</b>
<b>Net book amount at 31 January 2006</b>	<b>10,773</b>	<b>56,450</b>	<b>11,738</b>	<b>78,961</b>
Net book amount at 31 January 2005	21,033	73,609	30,030	124,672

## 7 DEBTORS

	Group 2006 £	Company 2006 £	Group 2005 £	Company 2005 £
Trade debtors	550,199	175,230	939,868	365,004
Amounts owed by group undertakings	-	207,474	-	593,214
Amounts recoverable on contracts	80,405	-	-	-
Other debtors	3,608	-	-	-
Prepayments and accrued income	60,731	31,962	40,600	31,622
Deferred tax asset	-	-	5,262	5,262
	<b>694,943</b>	<b>414,666</b>	<b>985,730</b>	<b>995,102</b>

The deferred tax asset in 2005 is in respect of depreciation charges in excess of capital allowances.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 January 2006

## 8 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group 2006 £	Company 2006 £	Group 2005 £	Company 2005 £
Trade creditors	1,077	1,074	38,451	32,120
Amounts owed to group undertakings	-	35,031	-	4,269
Corporation tax	402,502	196,902	376,523	214,436
Social security and other taxes	140,501	99,879	152,887	147,195
Accruals and deferred income	330,235	234,750	294,262	261,902
	<b>874,315</b>	<b>567,636</b>	<b>862,123</b>	<b>659,922</b>

## 9 SHARE CAPITAL

	2006 £	2005 £
Authorised 100 million 1p ordinary shares	1,000,000	1,000,000
Allotted, called up and fully paid 11,427,750 1p ordinary shares (2005: 11,381,150 1p ordinary shares)	114,278	113,812

## Allotments during the year

The company made an allotment of 46,600 ordinary 1p shares during the year for a total consideration of £11,650. The difference between the consideration and the nominal value amounts to £11,184 and has been credited to the share premium account.

Of these 46,600 allotted shares, 7,000 were in respect of options exercised by the highest paid director.

## Contingent rights to the allotment of shares

Options granted in prior years over 113,400 1p ordinary shares remain unexercised at 31 January 2006:

83,000 of these are exercisable at 25p per share between 1 July 2003 and 30 June 2011.

30,400 of these are exercisable at 25p per share between 1 October 2003 and 16 February 2011.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 January 2006

The company's shares are traded on OFEX. The market price of the shares between the beginning of the period and the balance sheet date varied between 117.5p and 142.5p. The market price of the shares on 31 January 2006 was 140p.

## 10 SHARE PREMIUM ACCOUNT AND RESERVES

	Share premium account £	Company Profit and loss account £	Group Profit and loss account £
At 1 February 2005	34,318	1,331,808	1,355,674
Premium on allotments during the year	11,184	-	-
Retained profit for the year	-	38,078	181,338
Change in minority interests	-	-	(1,931)
<b>At 31 January 2006</b>	<b>45,502</b>	<b>1,369,886</b>	<b>1,535,081</b>

## 11 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2006 £	2005 £
Profit for the financial year	1,608,932	1,425,244
Dividends	(1,427,594)	(1,422,060)
	<b>181,338</b>	3,184
Issue of shares	11,650	2,530
Change in minority interests	(1,931)	1,978
Net increase in shareholders' funds	<b>191,057</b>	7,692
Opening shareholders' funds	<b>1,503,804</b>	1,496,112
Closing shareholders' funds	<b>1,694,861</b>	1,503,804

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 January 2006

**12 NET CASH FLOW FROM OPERATING ACTIVITIES**

	2006 £	2005 £
Operating profit	2,243,431	1,979,800
Depreciation	55,602	67,571
Profit on sale of tangible fixed assets	(4,882)	(2,350)
Decrease / (Increase) in debtors	285,525	(506,271)
(Decrease) / Increase in creditors	(13,787)	242,788
<b>Net cash inflow from operating activities</b>	<b>2,565,889</b>	<b>1,781,538</b>

**13 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS**

	2006 £	2005 £
Increase / (Decrease) in cash in the year	541,678	(193,266)
Opening net funds	1,253,594	1,446,860
<b>Closing net funds</b>	<b>1,795,272</b>	<b>1,253,594</b>

**14 ANALYSIS OF CHANGES IN NET FUNDS**

	At 1 February 2005 £	Cash flow £	At 31 January 2006 £
Cash at bank and in hand	1,253,594	541,678	1,795,272

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 January 2006

**15 LEASING COMMITMENTS****The group and the company**

Operating lease payments amounting to £47,250 (2005: £47,250) are due within one year. The leases to which these amounts relate expire as follows:

	2006 Land and buildings £	2005 Land and buildings £
Within one year	-	-
Between one and five years	47,250	47,250
	47,250	47,250

**16 ULTIMATE CONTROLLING RELATED PARTY**

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

**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

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 January 2006

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**17 FINANCIAL INSTRUMENTS (CONTINUED)**

not to actively manage this exposure. At 31 January 2006 the group held cash balances in US dollars amounting to £106,400 (2005: £209,419) and carried trade debtors denominated in US dollars of £238,790 (2005: £377,511). 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.

The group's headquarters in Chertsey is owned by Mr S N Austen, a director. During the period rent of £47,250 (2005: £31,500) was paid to Mr Austen for the use of the premises. In addition, a further £1,156 (2005: £2,000) was paid to him for storage of surplus furniture during the year in another commercial property owned by him.

At the period end the following balances were due to the directors in respect of expenses incurred on behalf of the group:

Mr S N Austen	nil, (2005: £4,497)
Mr D K Scattergood	nil, (2005: £1,320)

**19 CONTINGENT LIABILITIES**

There were no contingent liabilities at the balance sheet date.

**Company registration number:** 3509265

**Registered office:** 1 Guildford Street  
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**Directors:** Mr S N Austen  
Mr D K Scattergood

**Secretary:** Mr J C A Coiley

**Bankers:** Bank of Scotland  
New Uberior House  
11 Earl Grey Street  
Edinburgh  
EH3 9BN

**Auditors:** Bishop Fleming  
Chartered Accountants  
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Bristol  
BS1 4NT

**Corporate Advisors:** Bishop Fleming  
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**Registrars:** Neville Registrars  
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Our shares are traded on the OFEX market ([www.ofex.com](http://www.ofex.com)) under the dealing symbol CSY. The SEDOL dealing code is 3203 787 and the ISN dealing code is IGB0032037870.

[www.customersystems.com](http://www.customersystems.com)

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