



interim report 2004

**“A good match of
straight talk
and technical excellence”**

- Boehringer Ingelheim Ltd

CUSTOMER SYSTEMS PLC

CHAIRMAN'S STATEMENT FOR THE CONSOLIDATED UNAUDITED GROUP RESULTS FOR THE HALF YEAR ENDED 31st JULY 2004

I am delighted to be able to report that the first half of this year has been a very considerable improvement on the second half of last year.

I would like to thank everyone in the company for their contribution to this result.

In the numerical comparisons below, the period just finished will not compare favourably with the first half (equivalent period) of our business last year, but that was fully expected and was flagged up in the chairman's statement in the last annual report. The last year was very much a story of two different halves with a significant and largely unexpected drop off in demand in the second half of the year.

Around the turn of the year, demand levels began a steady improvement which has continued right up until the present time. The effect of this has been that the results for the first half of this year look respectable even when compared with the average of the two halves of last year; something which my last chairman's statement hardly dared hope for.

Even in the difficult period of the last half of last year, we remained consistently profitable and cash-generative. Indeed, we have made a profit in every single month of our existence from our second month of trading onwards. As business has picked up, in the first half of this year, our pre-tax margins have returned to the unusually high levels for which we are known.

Results in Brief

The first set of comparisons are against the equivalent period of last year, i.e. the first half of last year. Revenues for the period were 13.26% down at £2.23m (2003 : £2.57m). Profit before tax for the period was 22.94% lower at £0.77m (2003 : £0.99m) giving a pre-tax margin of 34.4% (2003 : 38.7%). Earnings per share were 22.09% lower at 4.80 pence (2003 : 6.17 pence).

However, when viewed as a comparison with the average of the two halves of last year, revenues were down only 0.5% from £2.24m, profit before tax was up 2.67% from £0.75m, and earnings per share were up 4.65% from 4.59 pence. Compared with the average of the two halves, pre-tax margin was up 1.1% from 33.3%.

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CHAIRMAN'S STATEMENT (continued)

Compared with the second half of last year, revenues were up 16.66% from £1.91m, profit before tax was up 53.76% from £0.50m, and earnings per share were 59.27% higher from 3.02 pence. Pre-tax margin improved by 8.3% from 26.1%

At the end of the period, our balance sheet shows cash of £1.33m after the payment of a significant dividend, net assets of £1.59m and net current assets of £1.44m.

Dividends

The company paid an interim dividend of 4 pence net per share in July 2004 and this compares with 5.5 pence net per share for the equivalent period last year, and with 3.75 pence net per share for the second half of last year.

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, eg 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.

Business Progress

Our consulting business is thriving and we are recruiting as fast as we can to try to meet the demand.

We normally operate with a very small order backlog and I often compare our business to that of a doctor's surgery where the work is only booked a few days in advance, but their business relies on the assumption that people, in aggregate, will never stop getting sick.

However, recent demand has meant that we have had to schedule work well out into the future and even turn some work away. We now have an unusually large order backlog, as a result, and long-term involvement with major corporate clients.

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CHAIRMAN'S STATEMENT (continued)

Performance of our US operation has dropped off with only 14.3% of our revenues coming from North America in the last 6 months, as compared with 27.7% in the comparable period last year.

However, we have had so much success in Europe, and especially in the UK lately, that, in the short term, underperformance in the US has been a relief rather than a problem.

Nevertheless, in the longer term, we want to see the US business back on the growth curve. Our new US business manager seems to be making some progress. One criticism that we might justly level at the way we ran our US business in the past is that we allowed it to become over-dependent on one very major (and valued) customer. Fortunately, while that major customer remains extremely significant to us, we have recently begun working with another large organisation who we hope will also remain with us for many years.

We have recently won our first project in Japan, with a major multinational for whom we have done a considerable amount of work in both the USA and the UK.

Our executive search company, The Search Group, formed in January 2004 has made some reasonable progress and began turning in revenues quite early in its existence. It has yet to prove that it can be consistently profitable but has started to have some profitable months. It is quite small compared with the overall business and so its losses to date do not make much of an impression on the considerable profits made by the consulting business.

Hopefully, it is at or close to the turning point and will be a contributor to profits in the second half of the year.

Our opening of The Search Group has attracted some litigation from the previous employer of the most senior employee that we recruited into that business. The litigation has been directed at The Search Group, Customers Systems, me personally and the employee personally. Our belief is that this litigation is pointless and ill-founded, and, consequently, we are fighting it and we expect to win. The amounts of money are not large enough compared with our overall business scale to significantly impact Customer Systems, but it must be said that it is consuming some of my time.

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CHAIRMAN'S STATEMENT (continued)

Premises

Until recently, we have always had our main headquarters premises available to us with minimal security of tenure. In the early years, we operated from serviced offices. Later we progressed to a short term lease of a part of a building in Egham owned by an owner-occupier, and then to a second short term lease on another part of the same building. When that final lease came to an end, we had the option to stay but decided that we wanted more security of tenure, more control of our environment and more control over future occupancy costs.

As a result, after looking at many different options, we decided to go the freehold route. For several reasons, of which one major one had to do with tax efficiency, this was accomplished by me personally acquiring the freehold of a building of just over 3100 square feet in Chertsey, and renting this to the company. This will be reported as a related party transaction in the accounts for the full year.

We moved into the new Chertsey headquarters in June 2004. The premises have turned out to be a great success. Greater security of tenure and greater freedom have allowed the company to design the interior far more closely in line with its specific requirements. The move has also resulted in a dramatic reduction in occupancy costs.

Recruitment : Education, Education, Education

On the recruitment side, we have found 2004 a more difficult year than any previous one. A lot of our recruitment is in the form of graduates joining us straight from university. The changes afoot in the UK education system have meant that the graduates of the class of 2004 are, on average, embarrassingly poorly educated.

This year, I have interviewed numerous graduates who knew, in any practical sense, nothing about their subjects and, equally unfortunately, had no sense of intellectual rigour. The holder of a first class honours degree from a 4 year Masters programme in physics at a famous British university could, typically, tell me nothing about relativity except to confidently assure me that it was "really wild stuff".

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CHAIRMAN'S STATEMENT (continued)

This is by no means an isolated example. Computer science graduates with firsts or upper seconds are leaving university having done virtually no serious programming projects. High-scoring graduate chemists struggle to compete with what I can remember from my O-Level in the subject taken in 1975. Students of control engineering emerge unable to explain the basics of a room thermostat.

Exhaustive searching and the involvement of every manager in the company have meant that we have succeeded in finding some of the very few jewels available in this near wasteland, and all credit to those few gems for having managed to learn their subjects properly in spite of the education system's failures.

With the expenditure of a great deal of effort, we have managed to increase the size of the company by about 15% across the period of the university summer break. We need to find more to meet the level of demand.

Outlook

Our business has little measurable seasonality between the first and second halves of the year. Hence, our business prospects in the immediate future depend on keeping up our occupancy rate and successfully recruiting to more closely meet the demand.

Looking further ahead, the CRM market is obviously not nearly as large as it was during the boom years around the turn of the millennium, and I think we must still accept that this market will have its ups and downs based on buyers' economic confidence. There is no guarantee that we will not be adversely affected by downturns, and this is why we continue to seek routes to diversify.

However, at the moment, our efforts are being rewarded with substantial projects in major clients who are often amongst the most pre-eminent companies in their vertical sectors.

These are serious companies with mission-critical implementation programmes generally stretching over years. As the CRM market has matured, and it has become better known as to who can really deliver in this sphere, I think we have found ourselves gradually replacing some of the more famous generalist consultancies as the natural choice of major corporations.

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CHAIRMAN'S STATEMENT (continued)

At the end of the day, these major customers are pragmatic people. They stick with us as a supplier as long as, but only as long as, we continue to deliver for them.

Fortunately, delivering successful projects happens to be what we enjoy.

Steve Austen

8th September 04

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CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the half year ended 31 July 2004

	Unaudited 6 Months ended 31 July 2004	Unaudited 6 Months ended 31 July 2003	Audited 12 Months ended 31 January 2004
Note	£	£	£
Turnover	2,227,272	2,567,748	4,476,879
Administrative expenses	<u>(1,490,420)</u>	<u>(1,591,465)</u>	<u>(3,027,341)</u>
Operating profit	736,852	976,283	1,449,538
Other interest receivable and similar income	<u>29,283</u>	<u>17,891</u>	<u>42,895</u>
Profit on ordinary activities before taxation	766,135	994,174	1,492,433
Tax on profit on ordinary activities	2 <u>(241,135)</u>	<u>(293,752)</u>	<u>(449,155)</u>
Profit on ordinary activities after taxation	525,000	700,422	1,043,278
Minority interests	<u>21,109</u>	<u>-</u>	<u>-</u>
Profit for the period	546,109	700,422	1,043,278
Dividends paid	<u>(454,662)</u>	<u>(624,874)</u>	<u>(1,051,120)</u>
Transferred to / (from) reserves	5 <u>91,447</u>	<u>75,548</u>	<u>(7,842)</u>
Earnings per ordinary share – basic (pence)	<u>4.80</u>	<u>6.17</u>	<u>9.18</u>
Earnings per ordinary share – diluted (pence)	3 <u>4.75</u>	<u>6.08</u>	<u>9.06</u>
Weighted average number of ordinary shares in issue	11,366,550	11,358,717	11,362,233

CUSTOMER SYSTEMS PLC

CONSOLIDATED BALANCE SHEET

At 31 July 2004

	Unaudited as at 31 July 2004 £	Unaudited as at 31 July 2003 £	Audited as at 31 January 2004 £
Fixed Assets			
Tangible assets	124,693	73,170	70,600
	<u>124,693</u>	<u>73,170</u>	<u>70,600</u>
Current assets			
Debtors	798,146	785,698	486,144
Cash at bank and in hand	1,334,767	1,438,540	1,446,860
	<u>2,132,913</u>	<u>2,224,238</u>	<u>1,933,004</u>
Creditors: amount falling due within one year	<u>(691,109)</u>	<u>(717,965)</u>	<u>(507,445)</u>
Net current assets	<u>1,441,804</u>	<u>1,506,273</u>	<u>1,425,559</u>
Total assets less current liabilities	1,566,497	1,579,443	1,496,159
Minority interests	<u>21,062</u>	<u>-</u>	<u>(47)</u>
	<u>1,587,559</u>	<u>1,579,443</u>	<u>1,496,112</u>
Capital and reserves			
Called up share capital	113,666	113,653	113,666
Share premium account	31,934	31,826	31,934
Profit and loss account	5 1,441,959	1,433,964	1,350,512
Shareholders' funds	<u>1,587,559</u>	<u>1,579,443</u>	<u>1,496,112</u>

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CONSOLIDATED CASH FLOW STATEMENT

For the half year ended 31 July 2004

	Unaudited 6 Months ended 31 July 2004 £	Unaudited 6 Months ended 31 July 2003 £	Audited 12 Months ended 31 January 2004 £
Net cash inflow from operating activities	546,059	996,197	1,709,849
Returns on investments and servicing of finance			
Interest received	29,283	17,891	42,895
Taxation	(148,957)	(245,440)	(526,747)
Capital expenditure and financial investment			
Purchase of tangible fixed assets	(84,951)	(17,857)	(43,435)
Sale of tangible fixed assets	1,135	1,699	4,373
Equity dividends paid	(454,662)	(624,874)	(1,051,120)
Financing			
Issue of shares	-	3,494	3,615
Increase / (decrease) in cash	<u>(112,093)</u>	<u>131,110</u>	<u>139,430</u>

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NOTES TO THE INTERIM REPORT 2004

1. BASIS OF PREPARATION

The accounting policies used for the audited financial statements at 31 January 2004 have been used in the preparation of this interim report.

The interim report is unaudited and does not comprise full financial statements. The results for the year to 31 January 2004 are an abridged statement of the financial statements for that year which have been delivered to the Registrar of Companies, and on which the auditors' report was unqualified.

2. TAX CHARGE

The tax charge relating to the current half year is based on the current estimate of the effective tax rate for the full year.

3. EARNINGS PER SHARE

The diluted earnings per share are based on the profit for the period of £546,109 and on a diluted weighted average number of shares of 11,508,714.

4. FOREIGN CURRENCY

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.

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NOTES TO THE INTERIM REPORT 2004

5. PROFIT AND LOSS ACCOUNT - NOTE

	Unaudited 6 Months ended 31 July 2004 £	Unaudited 6 Months ended 31 July 2003 £	Audited 12 Months ended 31 January 2004 £
Profit and loss account at the start of the period	1,350,512	1,358,354	1,358,354
Retained profit for the period	91,447	75,548	(7,842)
Foreign currency translation	-	62	-
Profit and loss account at the end of the period	<u>1,441,959</u>	<u>1,433,964</u>	<u>1,350,512</u>

**“Very keen to go
the extra mile
to succeed”**

- BT

Company registration number: 3509265

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Our shares are traded on the OFEX market (www.ofex.com) under the dealing symbol CSY. The SEDOL dealing code is 3203 787 and the ISIN dealing code is IGB0032037870.

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