



interim report 2005

“Customer Systems consultants are always highly experienced and always perform an excellent role”

- ATS Euromaster

CUSTOMER SYSTEMS PLC

CHAIRMAN'S STATEMENT FOR THE CONSOLIDATED UNAUDITED GROUP RESULTS FOR THE HALF YEAR ENDED 31ST JULY 2005

I am happy to be able to report an excellent performance for the half-year which ended on 31st July 05. Revenue, profit before tax and earnings all showed substantial growth over the equivalent period last year.

However, the level of business in the early part of the second half of this year has not been as good as that achieved in the first half, and I discuss this further in the Business Progress and Outlook sections below. Nevertheless, we remain, as always a highly profitable and cash-generative company.

My thanks to everyone in the company who has contributed to another successful result.

Results in Brief

Revenues for the six-month period were £2.93m: a 31.69% increase over the revenues of £2.23m for the corresponding period last year. Profit before tax was 51.89% higher at £1.16m (2004: £0.77m). The pre-tax margin was 39.7% compared with the 34.4% reported for the first half of last year.

Basic earnings per share were 44.79% higher at 6.95 pence (2004: 4.80 pence).

Our balance sheet remains very strong. At 31st July 2005, after payment of a significant July 2005 dividend, the cash balance was £1.59m. Net assets were £1.59m at the balance sheet date and net current assets were £1.50m.

Dividends

An interim dividend of 6.25 pence net per share was paid in July 2005. During the corresponding period last year, an interim dividend of 4.0 pence net per share was paid. An interim dividend of 8.5 pence net per share was paid in January 2005, i.e. in the final month of the last financial year. This makes the July 2005 interim dividend equal to 50% of the total dividends paid in the last financial year.

It remains the policy of the board to pay only interim dividends in order to simplify administration, and to time these usually to fall within July and January. It also remains the policy of the board to take surplus cash out of the company and pay it

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CHAIRMAN'S STATEMENT (continued)

to shareholders unless it is required for investment purposes, eg for a prospective acquisition.

Should a significant acquisition opportunity arise or appear to be about to arise, then dividends may be reduced or omitted in order to make that investment possible.

Business Progress

The demand we have experienced for our services has not been constant during the period since our last annual report. At the start of the period in question, demand was very strong and we were struggling to find enough people to meet the requests of our customers and prospective customers.

Towards the end of the first half of the year and in the weeks since then, demand has been less strong and we have, of course, responded by applying ourselves as fully as possible to the sales and marketing mission.

Our occupancy rate fell to a level considerably lower than we are accustomed to during the holiday period of August. However, we remained profitable, and it remains the case that we have been profitable in every individual month of our existence from the second month of trading (August 1998) onwards.

As we came out of the holiday period, demand picked up, and some marketing initiatives we commenced during the summer bore fruit in the form of new customers resulting directly from those initiatives. This is actually a remarkably short lead-time from marketing spend to revenue, and taught us some useful lessons about how we can approach the marketing process in future.

At the time of writing, we have a good level of ongoing business, but we do not have full occupancy.

Our major Japanese project came to a very successful end. Our US business has increased and represented 37.3% of our revenue during the first half of this year. This compares very favourably with the figures of 14.3% for the equivalent period of last year, and 22% for the whole of last year.

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CHAIRMAN'S STATEMENT (continued)

This is very gratifying. I have always believed that a substantial untapped market for our services exists in the USA, though it would be fair to say that we are still learning how best to access it. We have always had reasonable success in the USA making only a modest and cautious investment in the size of our management and sales team there. By contrast, many British organisations trying to penetrate the US market, take a huge leap in the dark, invest in a very expensive sales infrastructure and generally retire hurt a short time later.

On the basis of the recent success in growing the US business we have decided to increase the amount of sales and management resource applied to the market. However, I should stress that the recent success is the achievement of those of our people who have been plugging away at the US market for some time.

Our executive search subsidiary, The Search Group Limited, could not ultimately achieve consistent profitability and so we have suspended its operations while reviewing its future. It presently has no employees. The litigation against Customer Systems plc, The Search Group Limited, me personally and an ex-director of The Search Group Limited continues. Proceedings against the last defendant mentioned have been stayed but this does not prevent the case continuing against the other three defendants. It will probably come to trial in the spring or summer of 2006. We are not at all impressed with the merits of the other side's claim and the amounts of money involved are not large compared to the overall size of Customer Systems' business.

Outlook

In spite of the excellent results for the first half of the year, we feel that the present level of business is indicating a need for some caution about the likely figures for the second half of the year. It cannot, at this stage, be safe to assume that the full year's figures will show growth over last year's excellent result, especially since the results for the last financial year contained a major product sale which has to be considered as something of a "one-off" event.

Nevertheless, this remains a very healthy business with an impressive profit margin and an impressive ability to generate cash.

It was recently announced on the NASDAQ market that our main software partner, Siebel Systems, Inc. is to be acquired by Oracle Corp. It is a little too early to say

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CHAIRMAN'S STATEMENT (continued)

what impact this might have on our business, but the very earliest indications are that its short term effects should be minor. In the longer term, we will need to adapt to working with a new partner organisation, and it is likely that the product strategy for the merger of Siebel's products with those of Oracle will significantly influence us, and our work, in ways which cannot be fully predicted at this time.

In parallel with learning to work with this new partner, we will continue to explore options to diversify.

We have been encouraged that recent marketing initiatives have produced new customers so quickly and this suggests that there are still untapped opportunities out in the market which we can access to progress our business.

After a rather quiet August, we are seeing the occupancy rate rise, we are contracting with new customers, we are uncovering new prospective customers, and we are continuing to renew our involvement with highly valued existing customers.

Steve Austen

27 September 2005

CUSTOMER SYSTEMS PLC

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the half year ended 31 July 2005

	Unaudited 6 Months ended 31 July 2005	Unaudited 6 Months ended 31 July 2004	Audited 12 Months ended 31 January 2005
Note	£	£	£
Turnover	2,933,077	2,227,272	5,187,766
Administrative expenses	<u>(1,803,252)</u>	<u>(1,490,420)</u>	<u>(3,207,966)</u>
Operating profit	1,129,825	736,852	1,979,800
Other interest receivable and similar income	<u>33,879</u>	<u>29,283</u>	<u>66,706</u>
Profit on ordinary activities before taxation	1,163,704	766,135	2,046,506
Tax on profit on ordinary activities	2 <u>(369,293)</u>	<u>(241,135)</u>	<u>(621,262)</u>
Profit on ordinary activities after taxation	794,411	525,000	1,425,244
Minority interests	<u>(1,931)</u>	<u>21,109</u>	<u>0</u>
Profit for the period	792,480	546,109	1,425,244
Dividends paid	<u>(713,359)</u>	<u>(454,662)</u>	<u>(1,422,060)</u>
Transferred to reserves	<u>79,121</u>	<u>91,447</u>	<u>3,184</u>
Earnings per ordinary share – basic (pence)	<u>6.95</u>	<u>4.80</u>	<u>12.53</u>
Earnings per ordinary share – diluted (pence)	3 <u>6.89</u>	<u>4.75</u>	<u>12.40</u>
Weighted average number of ordinary shares in issue	11,396,100	11,366,550	11,371,417

CUSTOMER SYSTEMS PLC

CONSOLIDATED BALANCE SHEET

At 31 July 2005

	Unaudited as at 31 July 2005 £	Unaudited as at 31 July 2004 £	Audited as at 31 January 2005 £
Fixed Assets			
Tangible assets	93,676	124,693	124,672
	<u>93,676</u>	<u>124,693</u>	<u>124,672</u>
Current assets			
Debtors	952,744	798,146	985,730
Cash at bank and in hand	1,585,545	1,334,767	1,253,594
	<u>2,538,289</u>	<u>2,132,913</u>	<u>2,239,324</u>
Creditors: amount falling due within one year	<u>(1,040,891)</u>	<u>(691,109)</u>	<u>(862,123)</u>
Net current assets	<u>1,497,398</u>	<u>1,441,804</u>	<u>1,377,201</u>
Total assets less current liabilities	1,591,074	1,566,497	1,501,873
Minority interests	<u>0</u>	<u>21,062</u>	<u>1,931</u>
	<u>1,591,074</u>	<u>1,587,559</u>	<u>1,503,804</u>
Capital and reserves			
Called up share capital	114,137	113,666	113,812
Share premium account	42,142	31,934	34,318
Profit and loss account	<u>1,434,795</u>	<u>1,441,959</u>	<u>1,355,674</u>
Shareholders' funds	<u>1,591,074</u>	<u>1,587,559</u>	<u>1,503,804</u>

CUSTOMER SYSTEMS PLC

CONSOLIDATED CASH FLOW STATEMENT

For the half year ended 31 July 2005

	Unaudited 6 Months ended 31 July 2005 £	Unaudited 6 Months ended 31 July 2004 £	Audited 12 Months ended 31 January 2005 £
Net cash inflow from operating activities	1,223,561	546,059	1,781,538
Returns on investments and servicing of finance			
Interest received	33,879	29,283	66,706
Taxation	(221,399)	(148,957)	(502,687)
Capital expenditure and financial investment			
Purchase of tangible fixed assets	(1,080)	(84,951)	(121,643)
Sale of tangible fixed assets	2,200	1,135	2,350
Equity dividends paid	(713,359)	(454,662)	(1,422,060)
Financing			
Issue of shares	8,149	0	2,530
Increase / (decrease) in cash	331,951	(112,093)	(193,266)

CUSTOMER SYSTEMS PLC

NOTES TO THE INTERIM REPORT 2005

1. BASIS OF PREPARATION

The accounting policies used for the audited financial statements at 31 January 2005 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 2005 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 £792,480 and on a diluted weighted average number of shares of 11,499,124.

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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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.

www.customersystems.com