



Interim Report

2007

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CUSTOMER SYSTEMS PLC

CHAIRMAN'S STATEMENT FOR THE CONSOLIDATED UNAUDITED GROUP RESULTS FOR THE HALF YEAR ENDED 31st JULY 2007

I am happy to be able to announce a very successful performance for the half-year ending on 31st July 07.

The strong revenues and profits which we achieved in the second half of last year have continued into the current year, allowing us to considerably outperform the corresponding period from last year.

Results in Brief

Revenues for the six-month period were £3.04m: a 26.06% increase from the figure of £2.41m for the corresponding period last year. Profit before tax was 38.43% higher at £1.36m (2006: £0.98m). The pre-tax margin was 44.6% : an improvement on the already more than satisfactory figure of 40.6% for the first half of last year.

Basic earnings per share were 38.46% up at 8.31 pence (2006: 6.00 pence).

Our balance sheet remains strong, in spite of the payment of £0.80m in dividends during the half-year. At 31st July 2007, the cash balance was £1.72m. Net assets at the balance sheet date were £1.39m and net current assets were £1.34m.

Dividends

A first interim dividend for the year of 7 pence net per share was paid in April 2007. This cannot easily be compared with the corresponding period of last year because that period contained two dividends, one of 6 pence and one of 5.75 pence net per share, and the first of those two was intended to be special and non-recurring.

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CHAIRMAN'S STATEMENT (continued)

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 April and October. It also remains the policy of the board to take surplus cash out of the company and pay it 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

Our business in the period just finished has been remarkably similar to the second half of last year; with healthy demand and revenues sometimes constrained by lack of staff. A 26.06% increase in revenues over the corresponding period of last year clearly shows a healthy demand for our services.

Against a background of strong revenues and healthy demand, the geographical makeup of our business and the degree to which we export is a more complex picture. The UK represented 80.1% of our business as against 75.6% for the same period last year. The US percentage was 9.6% as against 20.1% last year and mainland Europe rose to 9.3% from 4.3%.

The interpretation of these figures is not simple and may be debatable. But it seems to me that we can say that our sales efforts in the USA need some improvement, and that finally maybe mainland Europe's economic situation is improving.

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CHAIRMAN'S STATEMENT (continued)

Unfortunately, it also occurs to me that this shows that we export less by proportion when we are short of staff. Although we have 3 consultants and one manager permanently based and employed in the USA, we normally need to use UK-based resources to meet some of the overseas demand. When resources are in short supply and we have to decide which of several demands to satisfy, we tend to satisfy the demand closest to home first, because it is cheaper and easier to do so. For instance, sending someone to a 4 day assignment in Leeds (or even Frankfurt) is a lot more cost-effective than satisfying a 4 day requirement in Chicago. But, when we have enough resources, then it is cost-effective to satisfy all of them, which is what we really want to do both from the business perspective and the customer service perspective.

Recruitment

The fact that our staff levels have been lower than our business could sustain is due to the shortage of good candidates available to recruit and, since most of our new recruits come to us as new or recent graduates, this has a lot to do with the shortage of good graduates coming out of UK universities. As I discussed in the interim report of three years ago, I believe this to be very simply a consequence of government policy on education (and I include the actions of the Qualifications and Curriculum Authority very firmly within this).

Although things had been deteriorating even before that, decisions enacted by the government from 2000 onwards, and the example which those decisions set to UK universities, caused an alarming drop in the educational quality of many graduates in scientific and engineering subjects emerging from university from 2004 onwards. They also caused an equally alarming debasement of degree grades awarded by many universities from that point onwards.

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CHAIRMAN'S STATEMENT (continued)

This effect was, from our point of view, most pronounced in the output of the Russell Group of universities, the supposed “ivy league” of the UK. They are a group of 20 universities who receive most of the UK’s university research funding, and who have traditionally been our main hunting ground for graduate talent. From 2004 onwards, we have interviewed a seemingly endless stream of graduates with first and upper seconds from some of these universities who clearly did not know even the basics of their subjects.

We continue to try to make the best of a bad situation and have just significantly increased our graduate salary packages to try to ensure that we get a decent share of the very few graduates who make it through the system with their intellects intact. We have also taken steps to make sure that we are not missing out on any suitable candidates with more postgraduate experience.

Share Liquidity

In October 2002, our shares were admitted to trading on what was then called the OFEX Market. Various changes in the OFEX Market itself, which is now known as the PLUS Market, mean that our status is now correctly described as that of a “PLUS-quoted” company. This status distinguishes us from “PLUS-traded” companies who were admitted to listing on other markets (typically AIM or the LSE full listing) and can now be traded using the PLUS Market. It also distinguishes us from “PLUS-listed” companies: a recently introduced category, which will allow companies to achieve a listing through the PLUS market but via what we assume to be a more rigorous and more expensive process, which satisfies the demands of EU Regulation and “Recognised Investment Exchange” status.

From the moment we joined the market to the present day, we have been disappointed with the liquidity that our shares have received in the market, but have always hoped that it would get better. As the PLUS Market has become more complex, with the addition of these other categories, our membership fees have steadily risen, presumably to pay for the creation of the extra complexity, but there has been no alleviation of the illiquidity problem.

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CHAIRMAN'S STATEMENT (continued)

We have been asked to understand that the addition of these other segments to the PLUS Market would allow us to bathe in the reflected glory of larger companies becoming part of the PLUS Market and so achieve greater liquidity. This greater liquidity has not been evident. And, it occurs to me, anyway, that our earnings and dividend record speaks for itself and does not require the reflection of anyone else's glory.

We continue to keep this situation under review, and, as the costs of membership rise, we pay more attention to this issue. So far we have not been shown a clearly better alternative, by which I mean one where we are sure that the relationship between cost and liquidity is clearly better. However, we are receptive to the idea of talking to other exchanges, and we will continue to review all other possible options.

Outlook

We have been operating in the Siebel implementation market for long enough now to become somewhat accustomed to the idea that demand in the market fluctuates. Whilst accepting that this is the nature of the environment, we continue to try to find ways to establish and reinforce upward trends, and the results we are announcing here are, indeed, very heartening.

It might be said that our strategy is a) to provide a truly excellent, differentiated service, no matter what others might choose to do b) to run a profitable, prudent business no matter what others might choose to do and c) to persevere consistently with these two principles in the confidence that the right approach allows you to eventually outlast the competition.

In this context, it also heartening that the number of our competitors in the Siebel market steadily decreases through time. Whilst not all of them by any means could be categorised this way, the more modern approach (to some people's minds) of raising a large sum of capital and then running a loss-making business until the capital is exhausted has not proven successful in this market any more than it does in most markets.

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CHAIRMAN'S STATEMENT (continued)

That said, the market is not played out. In our home market of the UK there are still a number of companies whom we would like to persuade to try us and, in the USA, our market penetration is very light indeed. Moreover, the market for implementation of Oracle's flagship reporting tool, OBIEE, is effectively a whole new market place for us and for several other players. So our sales and marketing must remain energetic and imaginative.

It is appropriate that I comment periodically on any impact that Oracle Corporation's acquisition of our main software partner, Siebel Systems, Inc., has had on our business.

The uncertainties that this acquisition created for our business do still exist, but so far the real effects have been benign. We have continued to widen our circle of contacts within Oracle's CRM business unit beyond those who were transferred from Siebel, with the aim of getting to know also the new hires and the established Oracle employees who have moved into that unit. We have made some good progress in this.

Oracle's commitment to maintaining and developing the Siebel software (in addition to developing the Fusion suite) has reassured customers that it is still wise to continue to invest in developing their Siebel installations further.

We look forward to the second half of the year and to working with the new recruits who are coming on board to help us, and we hope that our recruitment efforts will bear even greater fruit in the second half of the year.

Steve Austen

6th September 2007

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CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the half year ended 31 July 2007

	Unaudited 6 Months ended 31 July 2007	Unaudited 6 Months ended 31 July 2006	Audited 12 Months ended 31 January 2007
	£	£	£
Turnover	3,039,754	2,411,266	5,282,401
Administrative expenses	<u>(1,718,269)</u>	<u>(1,462,515)</u>	<u>(3,023,361)</u>
Operating profit	1,321,485	948,751	2,259,040
Interest receivable	<u>34,111</u>	<u>30,541</u>	<u>57,709</u>
Profit on ordinary activities before taxation	1,355,596	979,292	2,316,749
Tax on profit on ordinary activities	2 <u>(402,488)</u>	<u>(293,298)</u>	<u>(692,277)</u>
Profit for the period	<u>953,108</u>	<u>685,994</u>	<u>1,624,472</u>
Earnings per ordinary share – basic (pence)	<u>8.31</u>	<u>6.00</u>	<u>14.20</u>
Earnings per ordinary share – diluted (pence)	3 <u>8.27</u>	<u>5.95</u>	<u>14.13</u>
Weighted average number of ordinary shares in issue	11,471,650	11,431,917	11,438,108

CUSTOMER SYSTEMS PLC

CONSOLIDATED BALANCE SHEET

At 31 July 2007

	Unaudited as at 31 July 2007 £	Unaudited as at 31 July 2006 £	Audited as at 31 January 2007 £
Fixed Assets			
Tangible assets	47,329	66,967	64,825
	<u>47,329</u>	<u>66,967</u>	<u>64,825</u>
Current assets			
Debtors	1,059,191	953,080	946,859
Cash at bank and in hand	1,724,176	797,251	1,218,350
	<u>2,783,367</u>	<u>1,750,331</u>	<u>2,165,209</u>
Creditors: amount falling due within one year	<u>(1,439,301)</u>	<u>(778,542)</u>	<u>(988,731)</u>
Net current assets	<u>1,344,066</u>	<u>971,789</u>	<u>1,176,478</u>
Total assets less current liabilities	<u>1,391,395</u>	<u>1,038,756</u>	<u>1,241,303</u>
Capital and reserves			
Called up share capital	114,717	114,327	114,717
Share premium account	56,038	46,702	56,038
Profit and loss account	<u>1,220,640</u>	<u>877,727</u>	<u>1,070,548</u>
Shareholders' funds	<u>1,391,395</u>	<u>1,038,756</u>	<u>1,241,303</u>

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CONSOLIDATED CASH FLOW STATEMENT

For the half year ended 31 July 2007

	Unaudited 6 Months ended 31 July 2007 £	Unaudited 6 Months ended 31 July 2006 £	Audited 12 Months ended 31 January 2007 £
Net cash inflow from operating activities	1,397,420	705,051	2,076,539
Returns on investments and servicing of finance			
Interest received	34,111	30,541	57,709
Taxation	(114,689)	(382,686)	(601,965)
Capital expenditure and financial investment			
Purchase of tangible fixed assets	(8,000)	(10,598)	(32,945)
Sale of tangible fixed assets	0	1,770	1770
Equity dividends paid	(803,016)	(1,343,348)	(2,089,005)
Financing			
Issue of shares	0	1,249	10,975
Increase / (decrease) in cash	505,826	(998,021)	(576,922)

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NOTES TO THE INTERIM REPORT 2007

1. BASIS OF PREPARATION

The accounting policies used for the audited financial statements at 31 January 2007 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 2007 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.

Full unaudited interim financial statements for the half year ended 31 July 2007 have been sent to the Registrar of Companies.

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 £953,108 and on a diluted weighted average number of shares of 11,528,627.

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 2007

5. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Unaudited 6 Months ended 31 July 2007 £	Unaudited 6 Months ended 31 July 2006 £	Audited 12 Months ended 31 January 2007 £
Profit for the period	953,108	685,994	1,624,472
Dividends	(803,016)	(1,343,348)	(2,089,005)
	150,092	(657,354)	(464,533)
Issue of shares	-	1,249	10,975
Net increase / (decrease) in shareholders' funds	150,092	(656,105)	(453,558)
Opening shareholders' funds	1,241,303	1,694,861	1,694,861
Closing shareholders' funds	1,391,395	1,038,756	1,241,303

“ Very professional and a very structured approach. ”

- Philip Morris, Netherlands

Company registration number: 3509265

Registered office: 1 Guildford Street
Chertsey
Surrey
KT16 9BG

Directors: Mr S N Austen
Mr D K Scattergood

Secretary: Mr J C A Coiley

Auditors: Bishop Fleming
Chartered Accountants
16 Queen Square
Bristol
BS1 4NT

Corporate Advisors: Bishop Fleming
Chartered Accountants
16 Queen Square
Bristol
BS1 4NT

Registrars: Neville Registrars
Neville House
18 Laurel Lane
Halesowen
West Midlands
B63 3DA

**Our shares are quoted on the PLUS market (www.plusmarketsgroup.com)
under the dealing symbol CSY. The SEDOL dealing code is 3203 787 and
the ISIN dealing code is IGB0032037870.**

Customer Systems plc

1 Guildford Street
Chertsey
Surrey
KT16 9BG
UK

Tel: 07000 287835

Fax: 07000 287329

International: +44