

CUSTOMER SYSTEMS PLC
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 JANUARY 2005



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 7 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. 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 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.

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 25 countries across Europe, North America, Asia and Australasia. Our shares are traded on the OFEX market.

CUSTOMER SYSTEMS PLC

CHAIRMAN'S STATEMENT FOR THE CONSOLIDATED GROUP RESULTS

For the year ended 31 January 2005

I am very happy to be able to announce excellent figures for the year ended 31st January 2005, continuing the trend set by our interim results. These results have allowed us to pay dividends during the year totalling 12.5 pence per share, which represents the highest total in the history of the company.

Our business is founded on the unique capabilities and commitment of our people, and I would like to extend my thanks to all of them for making these results possible.

We are not a large company, by many people's standards, but the work we do for our customers, and in conjunction with our partners, especially Siebel Systems, has an impact which is disproportionately significant when gauged against our headcount or our revenue.

Major corporations trust us to ensure that their substantial investments in CRM systems produce genuine pay-back for them in the fastest time possible, and with the greatest possible certainty.

In line with our principle of managing the business prudently and conservatively, we remain a highly profitable and cash-generative company and, in fact, continued to be so, even in the more difficult previous year which we have now left behind.

RESULTS IN BRIEF

Revenues for the period were 15.9% higher at £5.19m (previous year : £4.48m). Profit before tax for the period increased 37.1% to £2.05m (previous year : £1.49m) giving a pre-tax margin of 39.4% (previous year : 33.3%). Earnings per share were 36.5% higher at 12.53 pence (previous year : 9.18 pence).

Our balance sheet remains very strong with a cash balance at the end of the period of £1.25m after the payment of significant dividends, and with net assets of £1.50m and a surplus of current assets over current liabilities of £1.38m.

DIVIDENDS

The company paid an interim dividend of 4 pence net per share in July 2004 and a further interim dividend of 8.5 pence net per share in January 2005, making a total for the year of 12.5 pence net per share. This is the highest dividend payout in the company's history and compares favourably with the total for last year of 9.25 pence net per share.

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.

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, which means that the net asset value can actually fluctuate from year to year by immaterial amounts.

CUSTOMER SYSTEMS PLC

CHAIRMAN'S STATEMENT FOR THE CONSOLIDATED GROUP RESULTS

For the year ended 31 January 2005

I would like to enter, at this point, a heartfelt plea to our shareholders. We work hard to earn the profits that allow us to pay dividends to you, and we work hard to get the correct cheques drawn up and sent to the right addresses. But, if (as 10% of our shareholders have done recently) you move house and do not notify the company's registrar and do not leave a forwarding address, then it is very hard to get the money to you. Please write to the company's registrar and notify them if your address changes.

BUSINESS PROGRESS

As described in the interim report, demand for our services has been and remains very healthy. Although we are no longer having to turn work away, we have a strong backlog of work reaching out into the future and our business is more constrained at present by our ability to find enough of the right recruits than by shortage of demand.

Our Japanese project has now reached a peak staffing level of 6 people and continues to be very successful.

US revenues represented 22% of the annual total. This was not a bad result in itself, but the situation was complicated by the fact that well over half of the US revenue represented projects sold into the US by our UK operation, which means that our US office still needs to do more to develop its own customer base.

In Europe, the UK remains very much the dominant market. Mainland Europe shows occasional signs of picking up but these are usually false dawns. Mainland Europe represented 3.3% of our total revenues for the year. In the UK, we are seeing continued strong demand.

Our business profile continues to trend towards larger teams, and involvement over longer periods with prestigious customers. In the company's early years we found ourselves frequently operating as a subcontractor, under a major systems integrator, providing a narrow technical input. Increasingly, our reputation for delivery has meant that we tend more to be engaged to deliver entire implementation projects, including business advice, project management and integration with other systems.

However, we aim to retain the agility and cost-effectiveness which has been such a hallmark of our services. It is our intention that it will always remain possible for a client to buy one man-day of our assistance, if that is what is appropriate to their needs.

Our executive search subsidiary, The Search Group Limited, has not yet managed to achieve consistent profitability and I have been in discussions with all of the employees of this company to see what ideas emerge for its future direction. The amounts of money involved are not large by Customer Systems' standards.

The litigation related to The Search Group Limited progresses through all of its necessary stages, which, by their nature may take some considerable time. A provision has been made in the accounts of the year just closed, related to the legal costs of fighting this unmeritorious case. Although it represents something of a distraction, I am resigned to the idea that it may drag on for a couple of years yet. The amounts of money involved are not large by Customer Systems' standards.

One particularly pleasant event in the penultimate month of the financial year was the sale of two of our own software products to a major multinational, representing a total investment on their part in excess of £200,000. Whilst we are accustomed to consulting projects which run to much larger sums than this, this is the largest single sale of our own software products achieved to date, and the customer is very happy with the results achieved.

CUSTOMER SYSTEMS PLC

CHAIRMAN'S STATEMENT FOR THE CONSOLIDATED GROUP RESULTS

For the year ended 31 January 2005

AWARDS

The company won two awards during the year, commemorating its growth, relative to other technology companies, over a 5 year period 1999 to 2003. We achieved 8th place in the Deloitte London and South East Technology Fast 50 Awards, and 65th place in the Deloitte Fast 500 European Technology Awards.

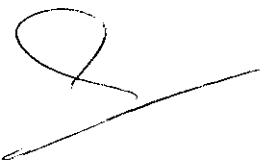
OUTLOOK

We have seen from the experience of the last few years that the market for CRM implementation services, and the wider IT market, are capable of fluctuating in such a way as to impact our revenues and profits. Hence, we should not allow ourselves to believe that the future is guaranteed. Indeed, we continue to apply ourselves to marketing and selling our services and strive not to fall into the trap of complacency.

The 37.1% increase in pre-tax profit this year signifies a recovery from the preceding dip. It is extremely unlikely that a figure like this could be repeated in the coming year by organic growth. If for no other reason, we simply cannot find enough of the right calibre of people in the market to recruit, to repeat such an increase.

However demand for our services is presently strong and this gives us good cause to be optimistic about the progress of the business.

We deliver high quality services to high quality customers. We do so economically and with integrity, seeking to minimise cost to the customer. Increasingly, the market is recognising that we are differentiated in this way, and, increasingly, the market is demonstrating that it prefers our way of doing it to the alternatives.



Steve Austen
14 March 2005

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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 2005.

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 £1,425,244 (2004: £1,043,278). Interim dividends of £1,422,060 (2004: £1,051,120) have been paid, leaving a retained profit of £3,184 (2004: £7,842 retained loss).

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 2005 and 1 February 2004 were as follows:

	31 January 2005	1 February 2004
	1p ordinary shares	1p ordinary shares
Mr S N Austen	10,205,867	10,191,200
Mr S B Sanders	16,800	16,800
Mr D K Scattergood (appointed 1 February 2004)	368,200	360,000

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

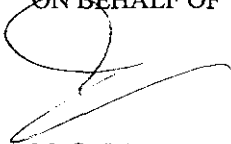
- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the 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
14 March 2005

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 2005 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 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 2005 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**

14 March 2005

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 2005.

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%
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, 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 2005

	Note	2005 £	2004 £
Turnover	1	5,187,766	4,476,879
Administrative expenses		<u>(3,207,966)</u>	<u>(3,027,341)</u>
Operating profit		1,979,800	1,449,538
Other interest receivable and similar income		<u>66,706</u>	<u>42,895</u>
Profit on ordinary activities before taxation	1	2,046,506	1,492,433
Tax on profit on ordinary activities	3	<u>(621,262)</u>	<u>(449,155)</u>
Profit for the financial year	11	1,425,244	1,043,278
Dividends paid		<u>(1,422,060)</u>	<u>(1,051,120)</u>
Transfer to/(from) reserves	10	<u>3,184</u>	<u>(7,842)</u>
Earnings per share - basic (pence)	4	<u>12.53</u>	<u>9.18</u>
Earnings per share - diluted (pence)	4	<u>12.40</u>	<u>9.06</u>

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

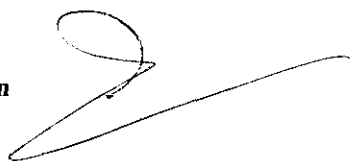
The accompanying accounting policies and notes form an integral part of these financial statements.

CUSTOMER SYSTEMS PLC**GROUP BALANCE SHEET at 31 January 2005**

	Note	2005 £	2004 £
Fixed assets			
Tangible assets	6	<u>124,672</u>	<u>70,600</u>
Current assets			
Debtors	7	985,730	486,144
Cash at bank and in hand		<u>1,253,594</u>	<u>1,446,860</u>
		<u>2,239,324</u>	<u>1,933,004</u>
Creditors: amounts falling due within one year	8	<u>(862,123)</u>	<u>(507,445)</u>
Net current assets		<u>1,377,201</u>	<u>1,425,559</u>
Total assets less current liabilities		<u>1,501,873</u>	<u>1,496,159</u>
Minority interests		1,931	(47)
		<u>1,503,804</u>	<u>1,496,112</u>
Capital and reserves			
Called up share capital	9	113,812	113,666
Share premium account	10	34,318	31,934
Profit and loss account	10	<u>1,355,674</u>	<u>1,350,512</u>
Shareholders' funds	11	<u>1,503,804</u>	<u>1,496,112</u>

The financial statements were approved by the Board of Directors on 14 March 2005.

Mr S N Austen



Director

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

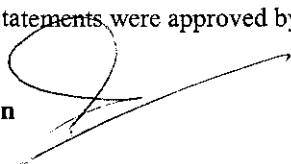
CUSTOMER SYSTEMS PLC

COMPANY BALANCE SHEET at 31 January 2005

	Note	2005 £	2004 £
Fixed assets			
Tangible assets	6	124,672	70,600
Investments	5	<u>6,094</u>	<u>6,053</u>
		130,766	76,653
Current assets			
Debtors	7	995,102	493,687
Cash at bank and in hand		<u>1,013,992</u>	<u>1,323,218</u>
		2,009,094	1,816,905
Creditors: amounts falling due within one year	8	<u>(659,922)</u>	<u>(370,561)</u>
Net current assets		<u>1,349,172</u>	<u>1,446,344</u>
Total assets less current liabilities		<u>1,479,938</u>	<u>1,522,997</u>
Capital and reserves			
Called up share capital	9	113,812	113,666
Share premium account	10	34,318	31,934
Profit and loss account	10	<u>1,331,808</u>	<u>1,377,397</u>
Shareholders' funds		<u>1,479,938</u>	<u>1,522,997</u>

The financial statements were approved by the Board of Directors on 14 March 2005.

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 2005

	Note	2005 £	2004 £
Net cash inflow from operating activities	12	1,781,538	1,709,849
Returns on investments and servicing of finance			
Interest received		66,706	42,895
Taxation		(502,687)	(526,747)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(121,643)	(43,435)
Sale of tangible fixed assets		2,350	4,373
Equity dividends paid		(1,422,060)	(1,051,120)
Financing			
Issue of shares		2,530	3,615
(Decrease)/increase in cash	13	<u>(193,266)</u>	<u>139,430</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 2005

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:

	2005 £	2004 £
United Kingdom	3,594,335	3,099,490
Overseas	1,593,431	1,377,389
	<u>5,187,766</u>	<u>4,476,879</u>

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

	2005 £	2004 £
United Kingdom	1,405,703	1,132,528
Overseas	640,803	359,905
	<u>2,046,506</u>	<u>1,492,433</u>

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

	2005 £	2004 £
United Kingdom	1,459,052	1,442,453
Overseas	33,124	53,659
	<u>1,492,176</u>	<u>1,496,112</u>

The profit on ordinary activities before taxation is stated after:

	2005 £	2004 £
Auditors' remuneration - audit services	7,750	6,500
- other services	2,075	2,058
Depreciation of tangible fixed assets, owned	67,571	64,232
Net loss on foreign currency translation	<u>23,565</u>	<u>48,391</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 £1,376,471 (2004: £1,077,459). This includes a dividend from its subsidiary Customer Systems International Limited of £330,000 (2004: £510,000).

CUSTOMER SYSTEMS PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 January 2005

2 DIRECTORS AND EMPLOYEES

Staff costs during the year were as follows:

	2005 £	2004 £
Wages and salaries	1,870,066	1,758,193
Social security costs	216,557	192,638
Other pension costs	89,640	99,326
	<u>2,176,263</u>	<u>2,050,157</u>

The average number of employees of the group during the year was 39 (2004: 42).

Remuneration in respect of directors was as follows:

	2005 £	2004 £
Emoluments	212,090	100,586
Pension contributions	9,450	4,331
	<u>221,540</u>	<u>104,917</u>

Emoluments in respect of the highest paid director were £101,789 (2004: £89,786). Pension contributions relating to the highest paid director were £4,725 (2004: £4,331).

During the year two directors (2004: 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:

	2005 £	2004 £
Corporation tax at 30% (2004: 30%)	617,505	462,756
Overseas tax	4,018	316
Adjustments in respect of prior years corporation tax	(6,946)	(9,240)
	<u>614,577</u>	<u>453,832</u>
Deferred tax	6,685	(4,677)
	<u>621,262</u>	<u>449,155</u>

CUSTOMER SYSTEMS PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 January 2005

3. TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

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

	2005 £	2004 £
Profit before taxation	<u>2,046,506</u>	<u>1,492,433</u>
Profit before taxation multiplied by standard rate of UK corporation tax at 30%	613,952	447,730
Effect of:		
Expenses not allowable for corporation tax purposes	4,435	2,356
Differences in foreign rates of tax	917	9,947
(Excess) / shortfall of capital allowances over depreciation	(7,186)	5,993
Marginal rate relief	-	(2,954)
Adjustments in respect of prior years	(6,946)	(9,240)
Losses not available for group relief carried forward	<u>9,405</u>	<u>-</u>
	<u>614,577</u>	<u>453,832</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	
	2005 £	2004 £	2005 No.	2004 No.	2005 pence	2004 pence
BASIC EPS						
Profit attributable to ordinary shareholders	<u>1,425,244</u>	<u>1,043,278</u>	<u>11,371,417</u>	<u>11,362,233</u>	<u>12.53</u>	<u>9.18</u>
Effect of dilutive potential shares						
Options	<u>-</u>	<u>-</u>	<u>125,930</u>	<u>147,491</u>	<u>-</u>	<u>-</u>
DILUTED EPS						
Profit attributable to ordinary shareholders plus assumed conversions	<u>1,425,244</u>	<u>1,043,278</u>	<u>11,497,347</u>	<u>11,509,724</u>	<u>12.40</u>	<u>9.06</u>

CUSTOMER SYSTEMS PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 January 2005

5 FIXED ASSET INVESTMENTS

The company

	Shares in subsidiaries £
At 1 February 2004	6,053
Additions	41
At 31 January 2005	<u>6,094</u>

At 31 January 2005 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	94.36%	England	Executive search and selection
Novus Recruitment Limited	Ordinary shares	94.36%	England	Dormant
Theseus Executive Search Limited	Ordinary shares	94.36%	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.

CUSTOMER SYSTEMS PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 January 2005

6 TANGIBLE FIXED ASSETS

The group and the company	Motor Vehicles £	Plant, fixtures and fittings £	Computer equipment £	Total £
Cost				
At 1 February 2004	62,855	46,588	239,188	348,631
Additions	11,300	82,595	27,748	121,643
Disposals	(5,150)	-	(26,431)	(31,581)
At 31 January 2005	69,005	129,183	240,505	438,693
Depreciation				
At 1 February 2004	39,192	32,280	206,559	278,031
Provided in the year	13,930	23,294	30,347	67,571
Eliminated on disposals	(5,150)	-	(26,431)	(31,581)
At 31 January 2005	47,972	55,574	210,475	314,021
Net book amount at 31 January 2005	<u>21,033</u>	<u>73,609</u>	<u>30,030</u>	<u>124,672</u>
Net book amount at 31 January 2004	<u>23,663</u>	<u>14,308</u>	<u>32,629</u>	<u>70,600</u>

7 DEBTORS

	Group 2005 £	Company 2005 £	Group 2004 £	Company 2004 £
Trade debtors	939,868	365,004	437,222	327,807
Amounts owed by group undertakings	-	593,214	-	120,373
Other debtors	-	-	33	-
Prepayments and accrued income	40,600	31,622	36,942	33,560
Deferred tax asset	5,262	5,262	11,947	11,947
	<u>985,730</u>	<u>995,102</u>	<u>486,144</u>	<u>493,687</u>

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 2005

8 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group 2005 £	Company 2005 £	Group 2004 £	Company 2004 £
Trade creditors	38,451	32,120	13,227	12,677
Amounts owed to group undertakings	-	4,269	-	4,621
Corporation tax	376,523	214,436	264,633	149,498
Social security and other taxes	152,887	147,195	83,701	81,325
Accruals and deferred income	294,262	261,902	145,884	122,440
	<u>862,123</u>	<u>659,922</u>	<u>507,445</u>	<u>370,561</u>

9 SHARE CAPITAL

	2005 £	2004 £
Authorised		
100 million 1p ordinary shares	<u>1,000,000</u>	<u>1,000,000</u>
Allotted, called up and fully paid		
11,381,150 1p ordinary shares (2004: 11,366,550 1p ordinary shares)	<u>113,812</u>	<u>113,666</u>

Allotments during the year

The company made an allotment of 14,600 ordinary 1p shares during the year for a total consideration of £2,530. The difference between the consideration and the nominal value amounts to £2,384 and has been credited to the share premium account.

Contingent rights to the allotment of shares

Options granted in prior years over 161,200 1p ordinary shares remain unexercised at 31 January 2005:

90,000 of these are exercisable at 25p per share between 1 July 2003 and 30 June 2011.

70,000 of these are exercisable at 25p per share between 1 April 2002 and 16 February 2011.

1,200 of these are exercisable at 10p per share between 1 June 2004 and 18 January 2010.

The company's shares are traded on OFEX. The market price of the shares between the beginning of the year and the balance sheet date varied between 107.5p and 120p. The market price of the shares on 31 January 2005 was 117.5p.

CUSTOMER SYSTEMS PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 January 2005

10 SHARE PREMIUM ACCOUNT AND RESERVES

	Share premium account	Company Profit and loss account	Group Profit and loss account
	£	£	£
At 1 February 2004	31,934	1,377,397	1,350,512
Premium on allotments during the year	2,384	-	-
Retained profit/(loss) for the year	-	(45,589)	3,184
Change in minority interests	-	-	1,978
At 31 January 2005	<u>34,318</u>	<u>1,331,808</u>	<u>1,355,674</u>

11 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2005 £	2004 £
Profit for the financial year	1,425,244	1,043,278
Dividends	<u>(1,422,060)</u>	<u>(1,051,120)</u>
	3,184	(7,842)
Issue of shares	2,530	3,615
Change in minority interests	1,978	-
Net increase/(decrease) in shareholders' funds	<u>7,692</u>	<u>(4,227)</u>
Opening shareholders' funds	<u>1,496,112</u>	<u>1,500,339</u>
Closing shareholders' funds	<u>1,503,804</u>	<u>1,496,112</u>

12 NET CASH FLOW FROM OPERATING ACTIVITIES

	2005 £	2004 £
Operating profit	1,979,800	1,449,538
Depreciation	67,571	64,232
Profit on sale of tangible fixed assets	(2,350)	(4,373)
(Increase)/decrease in debtors	(506,271)	392,247
Increase/(decrease) in creditors	<u>242,788</u>	<u>(191,795)</u>
Net cash inflow from operating activities	<u>1,781,538</u>	<u>1,709,849</u>

CUSTOMER SYSTEMS PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 January 2005

13 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	2005 £	2004 £
(Decrease)/ increase in cash in the year	(193,266)	139,430
Opening net funds	1,446,860	1,307,430
	<u>1,253,594</u>	<u>1,446,860</u>
Closing net funds		

14 ANALYSIS OF CHANGES IN NET FUNDS

	At 1 February 2004	Cash flow	At 31 January 2005
Cash at bank and in hand	<u>1,446,860</u>	<u>(193,266)</u>	<u>1,253,594</u>

15 LEASING COMMITMENTS

The group and the company

Operating lease payments amounting to £47,250 (2004: £34,892) are due within one year. The leases to which these amounts relate expire as follows:

	2005 Land and buildings £	2004 Land and buildings £
Within one year	-	34,892
Between one and five years	<u>47,250</u>	<u>-</u>
	<u>47,250</u>	<u>34,892</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 2005

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 2005 the group held cash balances in US dollars amounting to £209,419 (2004: £113,951) and carried trade debtors denominated in US dollars of £377,511 (2004: £110,388). 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 year rent of £31,500 was paid to Mr Austen for the use of the premises. In addition, a further £2,000 is due to him for storage of surplus furniture in another commercial property owned by him.

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

Mr S N Austen	£4,497 (2004: nil)
Mr D K Scattergood	£1,320 (2004: £269)

19 CONTINGENT LIABILITIES

Customer Systems plc is one of four defendants in a claim brought for alleged breach of contract by a former employer of a member of staff of its subsidiary The Search Group Limited. The Search Group Limited is also one of the four defendants. The amount being claimed is not a fixed figure.

The company and the other parties involved are strongly defending themselves against the claim. At this stage there can be no certainty as to the outcome.

CUSTOMER SYSTEMS PLC

DIRECTORS, OFFICERS AND ADVISORS

Company registration number: 3509265

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

Secretary: Mr J C A Coiley

Bankers: Bank of Scotland
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EH3 9BN

Auditors: Bishop Fleming
Chartered Accountants
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Corporate Advisors: Bishop Fleming
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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