



results you can measure

eg solutions plc

INTERIM REPORT

6 MONTHS TO 31 JULY 2006

Company Registration No. 02211062



Corporate statement

eg solutions plc is an IT and software support services business delivering guaranteed improvements in operations management. We use proprietary software packages and an operations management methodology based on production management techniques. We deliver measurable operational improvements in large back office environments.

The Company, which is listed on the Alternative Investment Market ("AIM") of the London Stock Exchange, is committed to customer satisfaction and the ongoing development of its operations management solution.

What we do



eg operational intelligence[®] – the definitive software for producing real-time Operations Management Information ("MI"), provides the most comprehensive Operations MI available, supports the achievement of operational excellence and enables organisations to achieve dramatic improvements in service, efficiency and reduced costs in weeks – guaranteed.



the eg principles of operational management[™] are based on tried, tested and proven methodologies taken from industry. They form the basis of a Manager and Team Leader training and development programme in operations management. Through training and skills transfer, Managers and Team Leaders learn how to use **eg operational intelligence**[®] to provide a consistent approach to actively managing work, resources and performance.



eg operational excellence builds on the successes achieved through improved Operations Management Information and the implementation of the **eg principles of operational management**[™] to improve the end-to-end customer experience and achieve world class operational excellence.

Highlights

Financial highlights

- Turnover up 36.5% to £3.43m (2005: £2.51m)
- Adjusted operating profit* increased 10.5% to £0.63m (2005: £0.57m)
- Profit before tax £0.67m (2005: £0.10m)
- Adjusted earnings per share** of 4.8p (2005: 5.2p)
- Earnings per share were 3.7p (2005: 0.7p)
- Interim dividend of 0.6p per share
- Strong cash generation of £1.3m
- Contracted sales for the year £5.6m (2005: £4.1m)

Business highlights

- Second major general insurer has agreed to roll-out following successful pilot
- Appointment of Ian Wright as Chief Operating Officer
- Hosted application service developed for **eg**'s software suite and first client secured
- Investment in additional resources to support fulfilment
- International business development progressing in Scandinavia

* Adjusted operating profit is defined in Note 3.

** Adjusted earnings per share is defined in Note 4.

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Trading results

I am delighted to report that turnover in the six months ended 31 July increased by 36.5% to £3.43m (2005: £2.51m). Adjusted operating profit, reflecting the change in the Company's pre-listing remuneration policy, increased 10.5% to £0.63m (2005: £0.57m). Adjusted operating margin was 18.4% of turnover, slightly lower than the previous period, primarily as a result of investment in developing new sectors and our overall planned growth.

Adjusted pre-tax profit increased 17% to £0.67m (2005: £0.57m).

Earnings per share increased to 3.7p (2005: 0.7p). Adjusted earnings per share were 4.8p (2005: 5.2p) reflecting the increased profits and also the higher weighted average number of shares in issue as a result of the new shares issued on flotation.

We are paying an interim dividend of 0.6p per share on 11 December 2006 to shareholders on the register on 10 November 2006.

Cash flow was strong during the first half with operating cash conversion of 237% and cash generation of £1.34m. Net funds at the end of the period increased to £3.38m, compared with £2.04m at the end of January 2006.

Operating review

The highlights of the period were the growth in both sales and the number of active clients, as well as the number of sectors covered.

Major clients secured during the period were Co-op Bank and two UK mortgage lending subsidiaries of a US investment bank. New contracts were also secured with our second large general insurance and our first hosted solution customer.

Our market entry strategy for new sectors and international markets is being developed prior to further expansion. We appointed a regional Business Development Manager in Scandinavia and are building a sales pipeline in the region.

“Our sales pipeline and conversion remains strong with contracted sales to date of £5.6m up from £4.1m this time last year.”

In order to improve our fulfilment capacity we increased the number of personnel by 36.8% to 52 (2005: 38). As a result, operating costs have marginally increased compared with the first half of 2005. Overheads represent 51.9% of sales (2005: 50.1%).

The appointment of Ian Wright as Chief Operating Officer in April 2006 has been an important addition to the team. Ian’s responsibility for operational management has enabled Elizabeth Gooch to focus on business development in new sectors and in international markets.

Product development has continued during the period with enhancements to support clients in new sectors. New versions of **eg work manager**[®] and **eg operational intelligence**[®] are being developed for release in 2007. A hosted application service for **eg**’s software suite has also been launched and our first customer secured.

Board developments

During the period we were pleased to appoint Andrew McRae as a Non-executive Director. Andrew brings with him a wealth of international business experience that is already proving invaluable.

Paul Thomas has decided to resign as a Non-executive Director with immediate effect as a result of developments in his career which mean he cannot devote sufficient time to **eg**. The Board would like to thank Paul for his contribution to the Company.

Current trading and outlook

Our sales pipeline and conversion remains strong with contracted sales to date of £5.6m up from £4.1m this time last year. We are currently on target to achieve the Board’s expectations for the year.



Rodney Baker-Bates

Chairman

3 October 2006

Profit and loss account

for the six months ended 31 July 2006

	Note	6 months to 31 July 2006 (Unaudited) £'000	6 months to 31 July 2005 (Unaudited) £'000	Year to 31 January 2006 (Audited) £'000
Turnover		3,430	2,513	5,879
Cost of sales		(1,018)	(684)	(1,572)
Gross profit		2,412	1,829	4,307
Administrative expenses		(1,782)	(1,730)	(3,569)
Operating profit		630	99	738
Other interest receivable		44	7	50
Interest payable and similar charges		—	(4)	(19)
Profit on ordinary activities before taxation		674	102	769
Taxation on profit on ordinary activities		(195)	(19)	(239)
Profit for the period attributable to equity shareholders		479	83	530
Dividends paid on equity shares		(145)	—	—
Retained profit for the period		334	83	530
Basic earnings per share	4	3.7p	0.7p	4.4p
Adjusted earnings per share	4	4.8p	5.2p	8.3p
Diluted earnings per share	4	3.5p	0.7p	4.3p

There are no unrecognised gains or losses for the period.

All activities derive from continuing operations.

Balance sheet

as at 31 July 2006

	31 July 2006 (Unaudited) £'000	31 July 2005 (Unaudited) £'000	31 January 2006 (Audited) £'000
Fixed assets			
Tangible assets	147	117	141
	147	117	141
Current assets			
Stocks	28	19	27
Debtors	1,431	1,362	1,575
Cash at bank and in hand	3,378	2,254	2,035
	4,837	3,635	3,637
Creditors			
Amounts falling due within one year	(2,040)	(1,681)	(1,218)
Net current assets	2,797	1,954	2,419
Total assets less current liabilities	2,944	2,071	2,560
Provisions for liabilities and charges	(6)	(6)	(4)
Net assets	2,938	2,065	2,556
Capital and reserves			
Called up share capital	143	143	143
Share premium account	2,910	2,910	2,910
Capital reserve	120	28	72
Own shares held	(1,000)	(1,000)	(1,000)
Profit and loss account	765	(16)	431
Equity shareholders' funds	2,938	2,065	2,556

Cash flow statement

for the six months ended 31 July 2006

	Note	6 months to 31 July 2006 (Unaudited) £'000	6 months to 31 July 2005 (Unaudited) £'000	Year to 31 January 2006 (Audited) £'000
Cash flow from operating activities	5	1,494	(852)	(210)
Returns on investments and servicing of finance				
Interest received		44	7	50
Interest paid		—	(4)	(19)
Net cash inflow for returns on investments and servicing of finance		44	3	31
Taxation		—	—	—
Investing activities				
Purchase of own shares		—	(1,000)	(1,000)
Purchase of tangible fixed assets		(50)	(62)	(118)
Net cash used in investing activities		(50)	(1,062)	(1,118)
Equity dividend paid		(145)	—	—
Cash inflow/(outflow) before financing		1,343	(1,911)	(1,297)
Financing activities				
Issue of ordinary share capital		—	3,500	3,500
Share issue costs		—	(554)	(554)
Increase in loans from banks		—	1,000	1,000
Loan repayments		—	(167)	(1,000)
Net cash from financing activities		—	3,779	2,946
Increase in cash in the period		1,343	1,868	1,649

Notes to the financial information

1. Basis of preparation

The interim financial information has been prepared on a consistent basis using the accounting policies set out in the report and financial statements for the year ended 31 January 2006.

2. Non statutory accounts

In accordance with S240(3) of the Companies Act 1985, the unaudited results do not constitute statutory financial statements of the Company. The six month results for both years are unaudited. The results for the year ended 31 January 2006 are an abridged version of the financial statements for that year which were audited and reported upon without qualification by Baker Tilly and did not contain a statement under S237(2) or (3) of the Companies Act 1985. The financial statements for the year ended 31 January 2006 have been delivered to the registrar of companies.

3. Adjusted operating profit

Prior to its admission to trading on AIM on 6 June 2005, the Company operated in a private environment and substantially all its trading profits were distributed in the form of remuneration to the Chief Executive Officer, who was also its founder and principal shareholder. On admission the Chief Executive Officer's remuneration was reduced to £150,000 per annum, a level appropriate for a public company at the stage of development of **eg** solutions. The adjusted operating profit figure for 2005 has been calculated for illustrative purposes only to give shareholders an indication of what the operating profits of the Company would have been if the Chief Executive Officer's post admission remuneration arrangements had been in place since 1 February 2004, as follows:

	6 months to 31 July 2005 £'000	Year to 31 January 2006 £'000
Operating profit	99	738
Add actual salary paid	547	622
Deduct new salary	(75)	(150)
Adjusted operating profit	571	1,210

4. Earnings per share

Basic earnings per share is calculated by dividing earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period excluding those held by the employee trust which are treated as cancelled for earnings per share calculation purposes.

Adjusted earnings per share is calculated based on the adjusted operating profit for the period as defined in note 3.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares, which comprise employee share options.

Weighted average number of shares:

	6 months to 31 July 2006	6 months to 31 July 2005	Year to 31 January 2006
Basic	13,117,377	11,069,928	12,012,067
Diluted	13,531,333	11,250,374	12,376,067

5. Notes to the cash flow statement

Reconciliation of operating profit to net cash flow from operating activities:

	6 months to 31 July 2006 £'000 (Unaudited)	6 months to 31 July 2005 £'000 (Unaudited)	Year to 31 January 2006 £'000 (Audited)
Operating profit	630	99	738
Depreciation	44	20	52
Share option charge	48	28	72
(Increase)/decrease in stocks	(1)	5	(3)
Decrease/(increase) in debtors	144	(946)	(1,159)
Increase/(decrease) in creditors	629	(58)	90
Cash inflow/(outflow) from operating activities	1,494	(852)	(210)

Analysis of changes in net cash:

	At 31 January 2006 £'000 (Audited)	Cash flows £'000 (Unaudited)	At 31 July 2006 £'000 (Unaudited)
Cash at bank and in hand	2,035	1,343	3,378
Bank overdraft	—	—	—
Net funds	2,035	1,343	3,378

6. Copies of this statement will be sent to all shareholders and are available from the Company's registered office: The Roller Mill, Teddesley Road, Penkridge, Staffordshire ST19 5BD.



results you can measure

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