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TouchstoneGroup
People • Partnership • Solutions

Touchstone Group Plc

Interim report

30th September 2007

Registered No. 3537238

Contents

Chairman's Interim statement

Results

I have pleasure in announcing our interim results for the half-year ending September 2007; our first financial statements produced under International Financial Reporting Standards (IFRS) guidelines.

Turnover for the period is up by 15% to £15.54m compared with £13.5m for the same period last year. Profits on ordinary activities before tax are £765k compared to £1.1m last year. Profits from operating activities before depreciation, amortisation and share based payments are £1.04m compared with £1.34m last year. Basic earnings per share after amortisation are 4.31p per share compared with 7.19p last year. Diluted earnings per share after amortisation are 4.25p compared with 7.06p last year.

Cash and Dividends

The Group generated good cash flows from operating activities of £1m compared to £100k for the same period last year. Cash balances at 30 September 2007 stood at £2.6m compared to £2.5m at 31 March 2007 and £2.1m at 30 September 2006.

The Board has declared an unchanged interim dividend of 1.5p per share (2006:1.5p). The interim dividend will be payable on 11 Jan 2008 to all shareholders on the register on 14 Dec 2007.

Review of Operations

The Group generates its revenues from supplying business software and related professional services to mid-market and enterprise organisations. Software is principally authored by global technology partners such as Microsoft or Infor. The Group supplies this software along with associated professional services to clients in a range of broad market sectors including Not-for-profit, Financial Services, Media, Technology & Publishing, Professional Services and Hospitality & Leisure.

The Group has also developed its own specialist software based upon Microsoft Dynamics technology. This software helps the Group to address the specific needs of a number of niche markets including Off-shore Wealth Management, Rental & Construction Services and Commodity Trading.

During the period, overall client revenues increased by 15% to £15.54m (2006: £13.5m). This includes software of £3.6m (2006:£2.8m), professional fees of £7.2m (2006: £6.1m) and annual help-desk support revenue of £4.8m (2006: £4.5m).

Revenues from clients who have selected solutions based upon Microsoft Dynamics technology increased by over 38% during the period to £10.3m (2006: £7.5m) and now represent over 66% of total operations (2006: 56%).

Income from the sale of software increased by 27% during the period. Income from the sale of Microsoft Dynamics related software increased by over 125% to £2.4m (2006: £1.1m). This continued success in the supply of Microsoft Dynamics solutions resulted in the Group being confirmed as Microsoft's No.1 business software partner in the UK for the third consecutive year.

Fee income generated from implementing business solutions increased by 18% during the period. Fee income associated with Microsoft Dynamics related solutions grew by 26% to £5.6m (2006: £4.4m).

Annual help-desk support revenue is a significant aspect of Group operations and provides useful revenue visibility. During the period the Group's recurring revenue stream increased by approximately 5% and now represents over 33% of total operations. Annual help-desk revenues from clients who have chosen Microsoft Dynamics related software increased by over 17% to £2.4m (2006: £2m).

Gross margins for the period are slightly lower at 48% (2006: 50%). This is due to lower fee-earning utilisations experienced at the beginning of the period coupled with an increasing proportion of software development being 'off-shored'. As it is the Group's current policy to expense all R&D costs, the R&D costs from the Group's off-shore partners are treated as an effective cost of sale.

Current Trading

Despite a disappointing start to the year, subsequent trading, including the current trading period, has shown a marked improvement on the comparable period last year.

With strong order books and sale pipelines, the Group anticipates continued good levels of trading in its traditionally stronger second half.

David RT Thompson 5 December 2007

Unaudited consolidated profit and loss account

for the period ended 30 September 2007

	Note	For six months ended 30 September 2007 £000	Restated (see Note 7) For six months ended 30 September 2006 £000	Restated (see Note 7) For year ended 31 March 2007 £000
Turnover		**15,540**	13,513	30,165
Cost of sales		(8,092)	(6,764)	(14,354)
Gross profit		**7,448**	6,749	15,811
Other operating expenses		**(6,411)**	(5,408)	(12,678)
Operating profit before depreciation, amortisation and share based payments		**1,037**	1,341	3,133
Depreciation		(85)	(125)	(229)
Amortisation of intangibles		(172)	(122)	(265)
Share based payment costs	*1*	(12)	(12)	(24)
Operating profit		**768**	1,082	2,615
Financial income		31	26	57
Financial expenses		(34)	(9)	(19)
Profit/(loss) on ordinary activities before taxation		**765**	1,099	2,653
Income tax expense		(250)	(288)	(771)
Profit for the period		**515**	811	1,882
Earnings per share				
Basic	*5*	4.31p	7.19p	16.44p
Diluted	*5*	4.25p	7.06p	16.15p

The company has no recognised gains or losses other than those reported in the profit and loss account. Accordingly, a statement of total recognised gains and losses has not been prepared.

The results disclosed in the profit and loss account are on an historical cost basis.

Unaudited consolidated balance sheet

at 30 September 2007

	Note	30 September 2007 £000	Restated (see note 7) 30 September 2006 £000	Restated (see note 7) 31 March 2007 £000
Assets				
Non-Current				
Property,Plant and equipment		378	364	417
Goodwill		5,961	4,415	6,051
Other intangible assets		2,338	1,981	2,420
Investments		145	145	145
		8,822	6,905	9,033
Current assets				
Stocks		57	150	117
Trade and Other Debtors		10,617	9,392	11,918
Cash and cash equivalents		2,618	2,161	2,522
		13,292	11,703	14,557
Total Assets		22,114	18,608	23,590
EQUITY AND LIABILITIES				
Equity attributable to the equity holders of the parent				
Share Capital	*6*	(1,235)	(1,181)	(1,232)
Share premium reserve		(3,225)	(2,461)	(3,210)
Other reserves		(249)	(923)	(207)
Retained earnings		(4,399)	(3,317)	(4,217)
		(9,108)	(7,882)	(8,866)
Non- current Liabilities				
Long-term borrowings		(325)	-	(433)
Deferred tax		(267)	(130)	(297)
Trade and other payables		(208)	(197)	(200)
		(800)	(327)	(930)
Current Liabilities				
Current portion of long-term borrowings		(217)	-	(217)
Trade and other payables		(11,276)	(9,740)	(12,649)
Current tax liabilities		(713)	(659)	(928)
		(12,206)	(10,399)	(13,794)
Total Equity and Liabilities		(22,114)	(18,608)	(23,590)

Consolidated Statement of Changes in Equity (Unaudited)

for the six month period ended 30 September 2007

Attributable to The Equity Holders of The Parent

	Share Capital £'000 *As restated*	**Share Premium Reserve £'000** *As restated*	**Other Reserves # £'000** *As restated*	**Retained Earnings £'000** *As restated*	**Total Equity £'000** *As restated*
Balance at 1 April 2007 Brought forward	1,232	3,210	207	4,217	8,866
Changes in Equity for the six months ended 30 September 2007					
Profit for the period	-	-	-	515	515
Total Recognised Income and Expense for the period	-	-	-	515	515
Dividends	-	-	-	(333)	(333)
Issue of share capital	-	-	-	-	
Exercise of share options	3	15	-	-	18
Grant of options	-	-	12	-	12
Deferred tax on options	-	-	30	-	30
Balance Carried Forward At 30 September 2007	1,235	3,225	249	4,399	9,108

\# At 30 September 2007, other reserves includes a capital redemption reserve of £19,000 and a share option reserve of £200,000.

Restated Consolidated Statement of Changes in Equity (Unaudited)

for the six month period ended 30 September 2006

Attributable to The Equity Holders of The Parent

	Share Capital £'000 *As restated*	**Share Premium Reserve £'000** *As restated*	**Other Reserves # £'000** *As restated*	**Retained Earnings £'000** *As restated*	**Total Equity £'000** *As restated*
Balance at 1 April 2006 Brought forward Adjusted balance	1,164	2,264	865	2,604	6,897
Changes in Equity for the six months ended 30 September 2006					
Net gains not recognised in the income statement:					
Purchase of minority interests in subsidiaries	-	-	-	196	196
Net expense recognised directly in equity	-		-	196	196
Loss for the period	-	-	-	811	811
Total Recognised Income and Expense for the period	-	-	-	1,007	1,007
Dividends	-	-	-	(294)	(294)
Issue of share capital	15	175	-	-	190
Exercise of share options	2	22	-	-	24
Grant of options	-	-	12	-	12
Deferred tax on options	-	-	46	-	46
Balance at 30 September 2006 Carried Forward	1,181	2,461	923	3,317	7,882

\# At 30 September 2006, other reserves includes a capital redemption reserve of £19,000, a reserve of £719,000 representing shares to be issued relating to the acquisition of Touchstone (CI) Limited, and a share option reserve of £185,000.

Restated Consolidated Statement of Changes in Equity (Unaudited)

for the year ended 31 March 2007

Attributable to The Equity Holders of The Parent

	Share Capital £'000 *As restated*	Share Premium Reserve £'000 *As restated*	Other Reserves# £'000 *As restated*	Retained Earnings £'000 *As restated*	Total Equity £'000 *As restated*
Balance at 1 April 2006 Brought forward	1,181	2,461	923	3,317	7,882
Changes in Equity for the year ended 31 March 2007					
Profit for the period	-	-	-	1,071	1,071
Total Recognised Income and Expense for the period	-	-	-	1,071	1,071
Dividends	-	-	-	(171)	(171)
Issue of share capital	48	-	-	-	48
Exercise of share options	3	30	-	-	33
Grant of options	-	-	12	-	12
Shares issued relating to acquisition of Touchstone (CI) Limited	-	719	(719)	-	-
Deferred tax on options	-	-	(9)	-	(9)
Balance at 31 March 2007 Carried Forward	1,232	3,210	207	4,217	8,866

\# At 31 March 2007, other reserves includes a capital redemption reserve of £19,000 and a share option reserve of £188,000.

Unaudited consolidated cash flow statement

for the period ended 30 September 2007

	Note	**6 months ended 30 September 2007 £000**	**6 months ended 30 September 2006 £000**	Year ended 31 March 2007 £000
Cash flow from operating activities				
Cash generated from operations	2	**1,036**	**96**	1,239
Interest paid		**(34)**	**(9)**	(19)
Income taxes paid		**(465)**	**(292)**	(523)
Net cash (used in)/generated from operating activities		**537**	**(205)**	697
Cashflows from investing activities				
Acquisitions of subsidiaries		-	**(382)**	(1,581)
Net Cash acquired on acquisitions of subsidiaries		-	**39**	223
Purchase of minority interests in subsidiaries		-	**(196)**	(196)
Purchase of property, plant and equipment		**(46)**	**(144)**	(261)
Proceeds from sale of property, plant and equipment		-	**5**	5
Purchase of available for sale investments		-	**(50)**	(50)
Proceeds from sale of available for sale investments		-	**21**	21
Interest received		**31**	**26**	57
Net cash used in investing activities		**(15)**	**(681)**	(1,782)
Cashflows from financing activities				
Proceeds from the issue of share capital		-	**190**	238
Proceeds from the exercise of share options		**15**	**24**	57
(Repayments)/proceeds from long term borrowings		**(108)**	-	650
Dividends paid		**(333)**	**(294)**	(465)
Net cash (used in)/generated from financing activities		**(426)**	**(80)**	480
Net cash increase/(decrease) in cash and cash equivalents		**96**	**(966)**	(605)
Cash and cash equivalents at the beginning of the period	3	**2,522**	**3,127**	3,127
Cash and cash equivalents at the end of the period	3	**2,618**	**2,161**	2,522

Notes

1. Basis of preparation of the interim financial statements

The financial information contained in this interim report does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985.

The consolidated financial statements of Touchstone Group Plc have been prepared in accordance with International Financial reporting standards as adopted by the EU ("adopted IFRS")

Transition to adopted IFRSs

The consolidated financial statements have been prepared in accordance with adopted IFRS for the first time and consequently have applied IFRS1. An explanation of how the transition to adopted IFRSs has affected the reported financial position, financial performance and cash flows of the group is provided in note 7.

In addition to exempting companies from the requirement to restate comparatives for IAS 32 and IAS 39, IFRS 1 grants certain exemptions from the full requirements of Adopted IFRSs in the transition period. The following exemptions have been taken in these financial statements:

- Business combinations – Business combinations that took place prior to 1 April 2006 have not been restated.

Measurement convention

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: financial instruments classified as fair value through the profit or loss or as available-for-sale. Non-current assets and disposal groups held for sale are stated at the lower of previous carrying amount and fair value less costs to sell.

Basis of Consolidation

The purchase method of accounting is used to account for the acquisition of subsidiaries by the group. The costs of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at fair value at the acquisition date irrespective of the extent of any minority interest.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the group.

All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment losses.

Depreciation is charged so as to write off the cost of assets, other than land, to their estimated residual values over their estimated useful lives on the following bases:

Fixtures and fittings	20% reducing balance
Computer equipment	over 3 years straight line
Motor vehicles	over 4 years straight line

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

Notes *(Continued)*

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition.

Goodwill on acquisition of subsidiaries is separately disclosed. Goodwill on acquisition of associates and jointly controlled entities is included in investment in associates and jointly controlled entities.

Goodwill is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed. Goodwill is allocated to cash generating units for the purpose of impairment testing.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the amount previously calculated under UK GAAP subject to being tested for impairment at that date. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

Other Intangible Assets

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the group's software product development is recognised only if all of the following conditions are met:

- an asset is created that can be identified;
- it is probable that the asset created will generate future economic benefits;
- the development cost of the asset can be measured reliably;
- the product or process is technically and commercially feasible; and
- sufficient resources are available to complete the development and to either sell or use the asset.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

The Group is anticipating increasing levels of software development activity in the second half of the year and if this expenditure meets the capitalisation criteria above, it will be capitalised.

Intellectual property rights

Intangible assets such as intellectual property rights are measured initially at their purchase cost and amortised on a straight-line basis over their estimated useful lives, on the following bases:

- Intellectual property rights over ten years
- Intangible assets acquired as part of an acquisition are capitalised at their fair value where this can be reliably measured.

Notes *(Continued)*

Impairment Of Tangible And Intangible Assets Excluding Goodwill

At each balance sheet date, the group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated on a first-in first-out basis. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

Cash And Cash Equivalents

Cash and cash equivalents comprise cash in hand, deposits repayable on demand less overdrafts repayable on demand, and short-term bank deposits.

Financial Instruments

Financial assets and financial liabilities are recognised on the group’s balance sheet when the group has become a party to the contractual provisions of the instrument.

Investments

Investments are recognised and derecognised on a trade date where a purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at cost, including transaction costs.

Investments are classified as either held-for-trading or available-for-sale, and are measured at subsequent reporting dates at their fair value. Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in net profit or loss for the period. For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit or loss for the period.

Notes *(Continued)*

Trade receivables

Trade receivables are initially recognised at fair value and then subsequently measured at amortised cost using the effective interest rate method. Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

Bank borrowings

Bank borrowings are initially recognised at fair value and then subsequently measured at amortised cost using the effective interest rate method. Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption, are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade payables

Trade payables are initially recognised at fair value and then subsequently measured at amortised cost using the effective interest rate method. Trade payables are not interest bearing and are stated at their nominal value.

Equity instruments

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the group’s general policy on borrowing costs.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight line basis over the lease term.

Notes *(Continued)*

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, Value Added Tax and other sales related taxes. Sales of goods are recognised when goods are delivered and title has passed.

The group's main revenue categories are as follows:

Software sales

Revenue from direct software sales to end-users is recognised once a non-cancellable purchase order or contract has been received, the product has been delivered and the customer has been invoiced.

Maintenance revenues

Maintenance revenues are recognised over the period of the contract on a pro-rata basis.

Professional services

Revenue from professional services is recognised following provision of those services on an hours completed basis.

Share-Based Payments

The group has applied the requirements of IFRS 2: Share-based Payments. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2006.

The group issues equity-settled and cash-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the group's estimate of shares that will eventually vest.

Fair value is measured by use of an option pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effect of non-transferability, exercise restrictions, and behavioural considerations.

Interest In Own Shares

The group has an Employee Benefit Trust (EBT) to assist with the obligations under share option and other remuneration schemes. The EBT is consolidated as if it were a subsidiary undertaking. Shares in the group held by the EBT are stated at cost and are disclosed as a deduction from equity.

Retirement Benefit Costs

The company operates neither a defined contribution nor a defined benefit pension scheme but makes contributions to employees personal pension schemes. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution plans where the group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit plan.

Notes *(Continued)*

Taxation

The tax expense represents the sum of the current tax and the deferred tax elements.

The current tax is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The group's liability for current tax is calculated by using tax rates that have been enacted or substantively enacted by the balance sheet date.

The Finance Bill 2007 received Royal Assent on 19 July 2007 and as a result the tax rate applicable to the group in the United Kingdom for 2008/2009 will be 28% (2007/2008 and previous years: 30%).

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction which affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in jointly controlled entities, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Critical Accounting Estimates And Judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The group makes estimates and assumptions concerning the future. The resulting accounting judgements will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

- Goodwill has been tested for impairment by comparing the amount of goodwill against a multiple of forecast profit and/or revenue expected to be generated in the future by the appropriate asset, cash-generating unit, or business segment.

- The fair value of share-based payments is measured using an option pricing model which inherently makes use of significant estimates and assumptions concerning the future applied by the directors.

- Deferred tax assets and liabilities are assessed on the basis of assumptions regarding the future, the likelihood that assets will be realised and liabilities will be settled, and estimates as to the timing of those future events and as to the future tax rates that will be applicable.

- Deferred consideration for the vendors of acquired subsidiaries is accrued based on the Directors' best estimate of the amounts that may be due from current performance in the period to the balance sheet date in addition to considering the forecasts of the company in the remaining period of the earn-out period. The accrual is based on the earn out performance formulas as agreed in the respective sale and purchase agreement.

Notes *(Continued)*

2. Reconciliation of the operating profit to net cash inflow from operating activities

	6 months ended 30 September 2007 £000	**Restated 6 months ended 30 September 2006 £000**	Restated Year ended 31 March 2007 £000
Operating profit	**764**	**1,082**	2,615
Depreciation of tangible assets	**85**	**125**	229
Amortisation of intangible assets	**172**	**122**	265
Negative goodwill adjustment	-	(74)	(74)
Share option charge	**12**	**12**	24
Increase / (Decrease) in working capital	**3**	**(1,168)**	(1,825)
(Profit) / loss on disposal of fixed assets	-	**(3)**	5
Net cash flow from operating activities	**1,036**	**96**	1,239

3. Analysis of changes in net funds

	At 1 April 2007 £000	Cashflow £000	**At 30 September 2007 £000**
Cash at bank and in hand	522	96	**618**
Short term bank deposits	2,000	(-)	**2,000**
	2,522	96	**2,618**

Notes *(Continued)*

4. Dividends

The directors have declared an interim dividend of 1.5 pence (2006: 1.5 pence) on the ordinary shares. The cost of this interim dividend is £182,000 (2006: £177,000). In accordance with IAS 10: Post Balance Sheet Events, which prohibits dividends declared after the period end (proposed dividends) from being recognised as a liability at the balance sheet date, the cost of this dividend has not been provided for.

5. Earnings per share

	30 September 2007 £000	**Restated 30 September 2006 £000**	Restated 31 March 2007 £000
Profit for the period/financial year attributable to shareholders	**515**	**811**	1,882
Amortisation of intangibles	**172**	**122**	265
Profit for the financial year before amortisation (adjusted profit)	**687**	**933**	2,147

	30 September 2007 No	**30 September 2006 No**	31 March 2007 No
Weighted average number of shares in issue	**11,948,358**	**11,281,215**	11,444,042
Dilution effect of option schemes:			
- approved employee option scheme (a)	**110,002**	**123,499**	130,069
- unapproved employee share option scheme (b)	**67,612**	**67,654**	78,389
	12,125,972	**11,472,368**	11,652,500

	30 September 2007	**Restated 30 September 2006**	Restated 31 March 2007
Earnings per ordinary share before amortisation	**5.75p**	**8.27p**	18.75p
Loss per ordinary share on amortisation	**(1.44)p**	**(1.08)p**	(2.31)p
Basic earnings per ordinary share	**4.31p**	**7.19p**	16.44p
Diluted earnings per ordinary share	**4.25p**	**7.06p**	16.15p

(a) As at 30 September 2007, there were 160,188 share options in issue under an approved employee option scheme and

(b) 436,326 in an unapproved scheme. The options first became exercisable in 2001 dependant on the achievement of certain performance targets.

6. Called up share capital

	30 September 2007 £000	30 September 2006 £000
Authorised		
Number of ordinary shares, 14.21m of 10p each	**1,421**	**1,421**
Allotted, called up and fully paid		
Issued and fully paid up 12,334,189 shares (2006: 11.81m)	**1,235**	**1,181**

In 2005 the company repurchased 250,000 shares, representing 2% of issued share capital at 30 September 2007, for consideration of £275,000. None of these shares had been cancelled as at 30 September 2007. The nominal value and market value of Treasury shares held at 30 September 2007 was £25,000 and £425,000 respectively.

7. Reconciliation of UK GAAP to IFRS

As stated in note 1, these are the Group's first consolidated financial statements prepared in accordance with Adopted IFRSs.

The accounting policies set out in note 1 have been applied in preparing the financial statements for the period ended 30 September 2007, the comparative information presented in these financial statements for the year ended 31st March 2007 and in the preparation of an opening IFRS balance sheet at 31 March 2007 (the Group's date of transition).

In preparing its opening IFRS balance sheet, the Group has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (UK GAAP). An explanation of how the transition from UK GAAP to Adopted IFRSs has affected the Group's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

Main changes in the basis of preparation between IFRS and UK GAAP

In accordance with the requirements of IFRS 3, goodwill has been frozen at its brought forward net book value at the date of transition, and amortisation charged under UK GAAP for the periods ended 30 September 2006 and 31 March 2007 has been reversed.

In addition, under the requirements of IFRS 3, the fair values of customer relationships and software acquired with the business combinations arising during the periods ended 30 September 2006 and 31 March 2007 have been recognised separately from goodwill and classified as intangible assets to be amortised over their expected useful economic lives of 10 years and 5 years respectively.

The adoption of IFRS has not had an impact on the amount of cash previously disclosed under UK GAAP in any of the periods of account in the financial statements.

7. Reconciliation of UK GAAP to IFRS *(Contd.)*

Consolidated balance sheet reconciliation at 1 April 2006 (Transition date)

	Adjustments	UK GAAP in IFRS format £'000	Effect of transition to IFRS £'000	Reported under IFRS £'000
Assets				
Non-current assets				
Property, plant and equipment		318	-	318
Goodwill		4,501	-	4,501
Other intangible assets		1,300	-	1,300
Deferred tax	*a*	-	53	53
Investments		118	-	118
		6,237	53	6,290
Current assets				
Inventories		33	-	33
Trade and other receivables		10,094	-	10,094
Cash and cash equivalents		3,127	-	3,127
		13,254	-	13,254
Total Assets		19,491	53	19,544
Equity and Liabilities				
Equity attributable to the equity holders of the parent				
Share capital		(1,164)	-	(1,164)
Share premium reserve		(2,264)	-	(2,264)
Other reserves	*a*	(812)	(53)	(865)
Retained earnings		(2,604)	-	(2,604)
		(6,844)	(53)	(6,897)
Minority interest		(196)	-	(196)
Total equity		(7,040)	(53)	(7,093)
Non-current liabilities				
Trade and other payables		(194)	-	(194)
		(194)	-	(194)
Current liabilities				
Trade and other payables		(11,606)	-	(11,606)
Current tax liabilities		(651)	-	(651)
		(12,257)	-	(12,257)
Total Equity and Liabilities		(19,491)	(53)	(19,544)

Adjustments:

a. Deferred tax asset recognised on share options.

Notes *(Continued)*

7. Reconciliation of UK GAAP to IFRS *(Contd.)*

Consolidated balance sheet reconciliation at 30 September 2006

	Adjustments	**UK GAAP in IFRS format £'000**	**Effect of transition to IFRS £'000**	**Reported under IFRS £'000**
Assets				
Non-current assets				
Property, plant and equipment		364	-	364
Goodwill	*a,d*	4,103	312	4,415
Other intangible assets	*b*	1,218	763	1,981
Investments		145	-	145
		5,830	1,075	6,905
Current assets				
Inventories		150	-	150
Trade and other receivables		9,392	-	9,392
Cash and cash equivalents		2,161	-	2,161
		11,703	-	11,703
Total Assets		17,533	1,075	18,608
Equity and Liabilities				
Equity attributable to the equity holders of the parent				
Share capital		(1,181)	-	(1,181)
Share premium reserve		(2,461)	-	(2,461)
Other reserves	*e*	(824)	(99)	(923)
Retained earnings	*a,b,c,d*	(2,471)	(846)	(3,317)
		(6,937)	(945)	(7,882)
Non-current liabilities				
Long-term borrowings		-	-	-
Deferred tax	*d,e*	-	(130)	(130)
Trade and other payables		(197)	-	(197)
		(197)	(130)	(327)
Current liabilities				
Current portion of long-term borrowings		-	-	-
Trade and other payables		(9,740)	-	(9,740)
Current tax liabilities		(659)	-	(659)
		(10,399)	-	(10,399)
Total Equity and Liabilities		(17,533)	(1,075)	(18,608)

Adjustments:

a. Reversing amortisation charged in the period on goodwill (£800,000) and reclassifying amounts previously included in the value of goodwill (£729,000).
b. Recognition of customer relationships and software as separately identifiable intangible assets (£803,000) and the amortisation thereon for the period (£40,000).
c. Negative goodwill arising on acquisition credited to income statement (£74,000).
d. Deferred tax liability recognised in respect of customer relationships and software (£241,000) and reduction in liability during the period (£12,000).
e. Deferred tax asset recognised on share options (£99,000).

Notes *(Continued)*

7. Reconciliation of UK GAAP to IFRS *(Contd.)*

Consolidated balance sheet reconciliation at 31 March 2007

	Adjustments	**UK GAAP in IFRS format £'000**	**Effect of transition to IFRS £'000**	**Reported under IFRS £'000**
Assets				
Non-current assets				
Property, plant and equipment		417	-	417
Goodwill	*a,d*	5,379	672	6,051
Other intangible assets	*b*	1,136	1,284	2,420
Investments		145	-	145
		7,077	1,956	9,033
Current assets				
Inventories		117	-	117
Trade and other receivables		11,918	-	11,918
Cash and cash equivalents		2,522	-	2,522
		14,557	-	14,557
Total Assets		21,634	1,956	23,590
Equity and Liabilities				
Equity attributable to the equity holders of the parent				
Share capital		(1,232)	-	(1,232)
Share premium reserve		(3,210)	-	(3,210)
Other reserves	*e*	(117)	(90)	(207)
Retained earnings	*a,b,c,d,e*	(2,648)	(1,569)	(4,217)
		(7,207)	(1,659)	(8,866)
Non-current liabilities				
Long-term borrowings		(433)	-	(433)
Deferred tax	*d,e*	-	(297)	(297)
Trade and other payables		(200)	-	(200)
		(633)	(297)	(930)
Current liabilities				
Current portion of long-term borrowings		(217)	-	(217)
Trade and other payables		(12,649)	-	(12,649)
Current tax liabilities		(928)	-	(928)
		(13,794)	-	(13,794)
Total Equity and Liabilities		(21,634)	(1,956)	(23,590)

Adjustments:

a. Reversing amortisation charged in the period on goodwill (£1,567,000) and reclassifying amounts previously included in the value of goodwill (£1,311,000).
b. Recognition of customer relationships and software as separately identifiable intangible assets (£1,385,000) and the amortisation thereon for the year (£101,000).
c. Negative goodwill arising on acquisition credited to income statement (£74,000).
d. Deferred tax liability recognised in respect of customer relationships and software (£416,000) and reduction in liability during the year (£31,000).
e. Deferred tax asset recognised on share options (£88,000) and allocated between other reserves (£90,000) and income statement (£2,000) in accordance with IAS 12.

Notes *(Continued)*

7. Reconciliation of UK GAAP to IFRS *(Contd.)*

Reconciliation of the consolidated income statement for the six month period ended 30 September 2006

	Adjustments	**UK GAAP in IFRS format £'000**	**Effect of transition to IFRS £'000**	**Reported under IFRS £'000**
Revenue		13,513	-	13,513
Cost of sales		(6,764)	-	(6,764)
Gross Profit		6,749	-	6,749
Other operating expenses	*a*	(5,482)	74	(5,408)
Result from Operating Activities before Depreciation, Amortisation and Share Based Payment Costs		1,267	74	1,341
Depreciation		(125)	-	(125)
Amortisation of intangibles	*b*	(882)	760	(122)
Share based payment costs		(12)	-	(12)
Operating Profit		248	834	1,082
Investment income		26	-	26
Finance costs		(9)	-	(9)
Profit before Tax		265	834	1,099
Income tax expense	*c*	(300)	12	(288)
Loss for the period		(35)	846	811
Earnings per share: Basic		(0.31)p	7.50p	7.19p
Diluted		(0.31)p	7.50p	7.19p

Adjustments:

a. Negative goodwill arising on acquisition credited to income statement (£74,000).
b. Reversing amortisation charged in the period on goodwill (£800,000) and recognising the amortisation on customer relationships and software (£40,000).
c. Movement in deferred tax liability (£12,000).

Notes *(Continued)*

7. Reconciliation of UK GAAP to IFRS *(Contd.)*

Reconciliation of the consolidated income statement for the year ended 31 March 2007

	Adjustments	**UK GAAP in IFRS format £'000**	**Effect of transition to IFRS £'000**	**Reported under IFRS £'000**
Revenue		30,165	-	30,165
Cost of sales		(14,354)	-	(14,354)
Gross Profit		15,811	-	15,811
Other operating expenses	a	(12,752)	74	(12,678)
Result from Operating Activities before Depreciation, Amortisation and Share Based Payment Costs		3,059	74	3,133
Depreciation		(229)	-	(229)
Amortisation of intangibles	b	(1,731)	1,466	(265)
Share based payment costs		(24)	-	(24)
Operating Profit		1,075	1,540	2,615
Investment income		57	-	57
Finance costs		(19)	-	(19)
Profit before Tax		1,113	1,540	2,653
Income tax expense	c	(800)	29	(771)
Profit for the Year		313	1,569	1,882
Earnings per share: Basic		2.73p	13.71p	16.44p
Diluted		2.69p	13.46p	16.15p

Adjustments:

a. Negative goodwill arising on acquisition credited to income statement (£74,000).
b. Reversing amortisation charged in the year on goodwill (£1,567,000) and recognising the amortisation on customer relationships and software (£101,000).
c. Movement in deferred tax liability (£31,000) and movement in deferred tax asset recognised in income statement (£2,000).

There were no adjustments required to the consolidated cash flow statement for the year ended 31st March 2007 and the six month period ended 30 September 2006