TOUCHSTONE GROUP PLC

INTERIM REPORT 1999

TOUCHSTONE

CHAIRMAN'S STATEMENT

I am pleased to report on another period of successful trading for the Group with profits before tax increasing by 53% to £706,000 before amortisation of goodwill compared with £460,000 in the same period last year. Turnover increased by 37% to £4,812,000 compared with £3,508,000 and basic earnings per share before goodwill amortisation increased by 51% to 5.08p compared with 3.36p in the same period last year. The Board has declared an increased interim dividend of 0.35p (0.33p) which will be payable on 14 January 2000 to all shareholders on the register on 10 December 1999.

The trading period has been particularly strong for consulting and support services which showed combined growth of over 55% on the same period last year. This results directly from the Board's policy of promoting additional services and product upgrades to its large and well supported client base which has improved margins and is reinforcing underlying customer loyalty.

During the period the Group made two acquisitions, Resource Systems Ltd (Resource) on 21 July 1999 and Independent Computer Solutions Ltd (ICOS) on 10 September 1999, both of which have made useful contributions to the above results. Like the Group, both these organisations are specialist suppliers of accounting software and services in various niche market sectors. We therefore anticipate that the process of integration should deliver operational and strategic benefits to the Group particularly in the exciting and new fields of e-Business and Customer Relationship Management (CRM).

The Group's Balance Sheet continues to benefit from the positive cash generative nature of the business. This should enable us to finance both recent acquisitions from our own resources whilst still leaving the Group with healthy cash balances. Both recent acquisitions have historically generated cash from their operations and this, together with the existing business, places the enlarged Group in an excellent position to take advantage of further investment opportunities as they arise.

The Group has built a loyal client base of over 1,100 generating an important volume of recurring software support revenue, and this, in conjunction with an experienced and skilled staff of over 100 people, places the Group in a strong position for further development. Within our industry it has been signalled that there will be a Year 2000 slowdown, however with a healthy order book and the benefits of the recent acquisitions, the Board looks forward to the future with confidence.

Philip Birch
Chairman

Cover: Ancient paintings of hands, Cuevos Los Manos, South America.

Copies of the interim statement will be posted to all shareholders of the Company and further copies will be available from the Company's registered office:

5/6 Beauchamp Court,
Victors Way,
High Barnet,
Hertfordshire EN5 5TZ.

UNAUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE PERIOD ENDED 30 SEPTEMBER 1999

	Note	6 months ended 30 September 1999 £000	6 months ended 30 September 1998 £000	Year ended 31 March 1999 £000
Turnover	*1,2*			
Continuing operations		**4,259**	3,508	7,663
Acquisitions		**553**	-	-
Total turnover		**4,812**	3,508	7,663
Cost of sales		**(2,151)**	(1,788)	(3,773)
Gross profit		**2,661**	1,720	3,890
Administrative expenses		**(2,000)**	(1,307)	(2,952)
Operating profit				
Continuing operations		**569**	413	938
Acquisitions (before goodwill amortisation)		**92**	-	-
Amortisation of goodwill		**(28)**	-	-
Operating profit		**633**	**413**	**938**
Other interest receivable and similar income		**52**	49	114
Interest payable and similar charges		**(7)**	(2)	(4)
Profit on ordinary activities before taxation		**678**	**460**	**1,048**
Tax on profit on ordinary activities		**(210)**	(150)	(320)
Profit on ordinary activities after taxation		**468**	310	728
Dividends payable		**(34)**	(33)	(98)
Retained profit for the period		**434**	**277**	**630**

Earnings per share - basic (before goodwill amortisation)	**5.08p**	3.36p	7.7p
Earnings per share - basic (after goodwill amortisation)	**4.80p**	3.36p	7.7p
Earnings per share - diluted (before goodwill amortisation)	**5.04p**	3.34p	7.6p
Earnings per share - diluted (after goodwill amortisation)	**4.75p**	3.34p	7.6p

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 1999

	Note	30 September **1999**		31 March 1999	
		£000	**£000**	£000	£000
Fixed assets					
Tangible assets			**524**		222
Intangible assets			2,708		-
Investments			26		-
			3,258		222
Current assets					
Stocks		**33**		64	
Debtors		**4,062**		2,966	
Cash at bank and in hand		**1,655**		2,972	
		5,750		6,002	
Creditors: amounts falling due within one year		**(3,549)**		(1,527)	
Net current assets			**2,201**		4,475
Total assets less current liabilities			**5,459**		4,697
Accruals and deferred income					
Deferred income		**(2,259)**		(1,829)	
Accruals		**(495)**		(597)	
			(2,754)		(2,426)
Net assets			**2,705**		2,271

The whole of capital and reserves relate to equity interests (see note 7).

UNAUDITED CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIOD ENDED 30 SEPTEMBER 1999

	Note	6 months ended 30 September 1999 £000	6 months ended 30 September 1998 £000	Year ended 31 March 1999 £000
Cash flow from operating activities	*2*	**(587)**	20	1,108
Returns on investments and servicing of finance				
Interest received		**52**	49	114
Interest paid		**(7)**	(1)	(4)
Net cash inflow from returns on investments and servicing of finance		**45**	48	110
Taxation				
Corporation tax paid		**-**	(125)	(272)
Capital expenditure and financial investment				
Purchase of tangible fixed assets		**(75)**	(21)	(88)
Sale of tangible fixed assets		**2**	-	-
Purchase of fixed asset investment		**(26)**	-	(10)
Net cash outflow from capital expenditure		**(99)**	(21)	(98)
Acquisitions and disposals				
Purchase of subsidiary undertakings		**(1,803)**	-	-
Cash acquired with subsidiaries		**1,193**	-	-
Net cash outflow for acquisitions and disposals		**(610)**	-	-
Equity dividends paid		**(66)**	(500)	(532)
Net cash inflow/(outflow) before management of liquid resources and financing		**(1,317)**	(578)	316
Management of cash resources	*4*	**1,400**	(400)	(650)
Financing – issue of shares		**-**	1,085	1,085
Increase in cash in the period	*4*	**83**	107	751

NOTES

1 BASIS OF PREPARATION OF THE INTERIM FINANCIAL STATEMENTS

The interim financial statements have been prepared on the basis of the accounting policies set out in the group's 31 March 1999 annual report and accounts with the exception of the policy on goodwill. Financial reporting Standard ('FRS') 10 "Goodwill and Intangible assets" has been adopted with effect from 1 April 1999 and goodwill arising on acquisitions is amortised over its estimated useful life of 12 years.

The effect in the six months to 30 September 1999 was to reduce consolidated profit before tax by £28,000, from £706,000 to £678,000.

The comparatives at 30 September 1998 are based on the unaudited interim financial statements of Touchstone Group plc at that date.

CASH FLOW STATEMENT

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand. It does not include the treasury cash deposits.

The cash flow statement should be read in conjunction with the supporting notes 2, 3 and 4 to the accounts.

MAINTENANCE REVENUE

Maintenance revenue is recognised over the period of the contract on a pro rata basis. The portion of contracted maintenance revenue relating to periods after the year end is included in deferred income.

TAXATION

The taxation charge is calculated by applying the directors' best estimate of the annual tax rate to the profit of the period.

2 RECONCILIATION OF THE OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	6 months ended 30 September 1999 £000	6 months ended 30 September 1998 £000	Year ended 31 March 1999 £000
Operating profit	**633**	413	938
Depreciation charge	**72**	55	109
Amortisation charge for goodwill	**28**	-	-
Decrease/(increase) in stocks	**31**	(59)	(51)
(Increase) in debtors	**(232)**	(2)	(397)
(Decrease)/increase in creditors	**(1,119)**	(387)	509
Net cash flow from operating activities	**(587)**	20	1,108

The substantial decrease in creditors in the 6 months ended 30 September 1999 is a result of the settlement of two creditor balances totalling £736,000. These creditors were acquired upon acquisition of the subsidiaries and were settled through funds acquired. Excluding the cash outflow effect of these items, the cash inflow from operating activities would have been £149,000.

3 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	6 months ended 30 September 1999 £000	Year ended 31 March 1999 £000
Increase in cash in period	**83**	751
Cash (outflow)/inflow from (decrease)/increase in liquid assets	**(1,400)**	650
Changes in net funds resulting from cash flows	**(1,317)**	1,401
Net funds at start of period	**2,972**	1,571
Net funds at end of period	**1,655**	2,972

4 ANALYSIS OF CHANGES IN NET FUNDS

	At 1 April 1999 £000	**Cashflow** £000	**At 30 September 1999** £000
Cash at bank and in hand	872	83	955
Short term bank deposits	2,100	(1,400)	700
	2,972	(1,317)	1,655

5 EARNINGS PER SHARE

Basic and diluted EPS before goodwill amortisation is based upon group profit after tax of £496,000. Basic and diluted EPS after goodwill amortisation is based upon group profit after tax of £468,000. The comparative EPS figure provided at 30 September 1998 is based upon the number of shares in issue immediately after the capital reconstruction on 4 June 1998. On 8 July 1998 a further 1,428,572 of new ordinary shares were issued on the Alternative Investment Market.

The weighted average number of shares over the six month period ended 30 September 1999 was 9,758,572, over the six month period ended 30 September 1998 was 9,249,766 and over the year ended 31 March 1999 was 9,504,169, using the assumption that the capital reconstruction is backdated to 1 April 1998.

The company has two share option schemes in place:

(a) There are 212,500 of employee share options, exercisable at the allocation price of £1.05, these are exercisable in 2001, at the earliest, depending on the company's performance. There has during the period been 3 staff leavers, leading to the lapsing of 22,500 options since 31 March 1999. There has been a further issue on 30 September 1999 of 42,000 employee options, which are exercisable at an issue price of £1.345 in 2002.

(b) In addition to (a) there is a sharesave scheme with Yorkshire Building Society, which has options in three years on 102,323 shares. The funds saved will be offered to purchase the shares at 84p being a discount of 20% on the allocation price of £1.05.

The fully diluted EPS figures have been calculated in accordance with FRS 14 and has been based on a fair value at 30 September 1999 of £1.375 and a fully diluted weighted average number of shares of 9,848,613.

6 CALLED UP SHARE CAPITAL

	30 September 1999 £000
Authorised	
Number of ordinary shares, 14.21m of 10p each	1,421,000
Allotted, called up and fully paid	
Issued and fully paid up 9,758,572	975,857

7 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS FUNDS

	Share capital **£000**	**Share** premium **£000**	**Merger** reserve **£000**	**Revenue** reserve **£000**	**Total** £000
As at 1 April 1999	976	942	(823)	1,176	2,271
Profit retained for the period	-	-	-	434	434
	976	942	(823)	1,610	2,705

When the company was formed it had issued share capital of £2. On consolidation, using the merger method of consolidation, a merger reserve was created which represents the difference between the cost of investment and the nominal value of the shares acquired and the share premium in Touchstone Computers Limited.

8 ACQUISITIONS

During the period two acquisitions have been made, that have been totally financed from group cash reserves. These acquisitions contributed a total turnover of £553,000 in the period and an operating profit of £92,000, against which there was an amortisation charge of £28,000.

RESOURCE SYSTEMS (RESOURCE)

The acquisition of the entire share capital of Resource and its subsidiary in Ireland was completed on 21 July 1999 for an initial consideration of £644,000. An additional payment of up to £756,000 will become payable subject to the maintenance contract revenue of Resource amounting in aggregate to £700,000 in the twelve months after acquisition. Management's best estimate of the deferred consideration is that the maximum consideration will be payable.

Goodwill of £1,295,000 arose on this acquisition and has been capitalised as an intangible asset. Goodwill is being amortised over 12 years, its estimated useful life.

INDEPENDENT COMPUTER SOLUTIONS (ICOS)

The acquisition of the entire share capital of ICOS was completed on 10 September 1999 for an initial consideration of £1,070,000. An additional payment of £493,000 will become payable in December 2000 (15 months after completion), subject to certain performance criteria being met. Goodwill of £1,441,000 arose on acquisition, which has been capitalised in full. Goodwill is being amortised over 12 years, its estimated useful life.

9 YEAR 2000

During the last 18 months the group has given a high priority to determining the potential impact of the millennium on the group's customers and internal systems.

A compliance steering committee has been established which has constructed a database to co-ordinate information on customers identified as being users of non-compliant systems. An action plan has been implemented to bring to the attention of these customers the benefits of compliant systems and also to actively promote millennium compliance generally. The response from customers has been positive and encouraging.

We continue to advise those remaining customers who are not yet compliant, on the availability of upgrades to compliant systems, by means of specific direct communication. In addition we have an ongoing programme of advice on the subject, which is made available to all our customers through the provision of website information, regular mailshots, product User Group meetings, and product newsletters.

Whilst it is not possible to guarantee that no Year 2000 problems will remain, the directors are confident that the majority of the group's customers should be well prepared.

The directors consider the group's internal systems are now compliant. The cost of the Year 2000 compliance team to date has not been material. The progress on all the above measures continues to be monitored by the board.

TOUCHSTONE GROUP PLC

5/6 Beauchamp Court
Victors Way, High Barnet
Hertfordshire EN5 5TZ

Telephone: 020 8275 3400
Facsimile: 020 8441 5442

www.touchstone.co.uk