TOUCHSTONE GROUP PLC

INTERIM REPORT 2000

TOUCHSTONE

CHAIRMAN'S STATEMENT

Despite a slow start to the year it is pleasing to report that the Group has achieved turnover growth for the period of over 14% at £5,490,000 compared with £4,812,000 for the same period last year. The incidence of higher administrative costs arising from the integration of operations acquired last year, combined with depressed revenues in the first quarter, have impacted on the Group s results for the period. Consequently, Operating Profits before tax, goodwill and exceptional costs are slightly down on last year at £641,000 compared with £661,000 in 1999. Due to the impact of exceptional costs, basic earnings per share before goodwill amortisation are 3.85p compared to 5.08p for the same period last year.

A rationalisation programme of both staff and premises has now been completed and as a result the relationship between revenue earning staff and overhead has been restored to former levels. The Board feels sufficiently confident to continue its progressive dividend policy and has declared an increased interim dividend of 0.38p (0.35p) which will be payable on 12th January 2001 to all shareholders on the register on 8th December 2000.

Touchstone s traditional business is the supply of financial accounting software and services to medium-sized operations in the UK, principally with market leading software packages from Systems Union Group plc and Great Plains Inc. Acquisitions over the last 18 months have further consolidated Touchstone s position with these two products and now provide the Group with annual recurring revenues of over £4.3m (last year £3.08m) generated from a large, loyal and well managed customer base. These recurring revenue streams are the bedrock of Touchstone s accounting divisions providing solid revenue during periods of market hesitancy such as experienced earlier this year.

Whilst each of our accounting product divisions have enjoyed growth over the last 6 months, it is particularly pleasing to report the progress made by the Group s Great Plains division. The combined sales of this division, including the recently acquired contracts from Kewill Systems plc, now accounts for over 16% of Group turnover, compared with 5% last year.

Since June the Group s SunSystems division has made up early lost-ground and is now benefiting from a significant increase in orders from existing and new clients. Further confidence has been provided to the market by a reorganised and rejuvenated Systems Union Group plc together with the planned release of their new generation of SunSystems software.

The acquisition of Independent Computer Solutions (ICOS) last year provided the Group with an important foothold in the exciting and growing internet-based Customer Relationship Management marketplace (e-CRM). The acquisition of Tenuteq International Ltd s CRM contracts earlier this summer has further consolidated our position within this market and the Group s CRM division now accounts for almost 14% of Group turnover compared to virtually nil a year ago.

The Group s acquisitions since flotation have been entirely funded through its own cash resources. The Group s current liquid position remains strong and with the cash generative nature of its operations will continue to strengthen in the period ahead.

The improvement in trading in the second quarter has helped to offset the slow start to the year. This, together with a strong order book in all divisions combined with leading edge products and a more streamlined operation, leads the Board to look forward to the future with confidence.

Philip Birch

Chairman

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.

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

UNAUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE PERIOD ENDED 30 SEPTEMBER 2000

	Note	**6 months ended 30 September 2000 £000**	6 months ended 30 September 1999 £000	Year ended 31 March 2000
Turnover				
Continuing operations		**5,313**	4,812	10,511
Acquisitions	8	**177**	-	-
Total turnover		**5,490**	4,812	10,511
Cost of sales		**(2,499)**	(2,151)	(4,431)
Gross profit		**2,991**	2,661	6,080
Administrative expenses				
-Before exceptional items and amortisation of goodwill		**(2,350)**	(2,000)	(4,650)
-Exceptional items	1	**(142)**	-	(180)
-Amortisation of goodwill		**(129)**	(28)	(142)
Operating profit		**370**	633	1,108
Other interest receivable and similar income		**43**	52	98
Interest payable and similar charges		**(3)**	(7)	(10)
Profit on ordinary activities before taxation		**410**	678	1,196
Tax on profit on ordinary activities		**(163)**	(210)	(256)
Profit on ordinary activities after taxation		**247**	468	940
Dividends payable		**(37)**	(34)	(107)
Retained profit for the period		**210**	434	833
Earnings per share - basic (before goodwill amortisation)	5	**3.85**	5.08	11.09
Earnings per share - basic (after goodwill amortisation)	5	**2.53**	4.80	9.63
Earnings per share - diluted (before goodwill amortisation)	5	**3.79**	5.04	10.94
Earnings per share - diluted (after goodwill amortisation)	5	**2.48**	4.75	9.50

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 2000

	30 September2000		30 September1999		31 March 2000	
	£000	**£000**	£000	£000	£000	£000
Fixed assets						
Intangible assets		**3,165**		2,708		2,601
Tangible assets		**416**		524		518
Investments		**69**		26		-
		3,650		3,258		3,119
Current assets						
Stocks	**41**		33		3	
Debtors	**3,743**		4,062		3,820	
Cash at bank and in hand	**1,375**		1,655		2,511	
	5,159		5,750		6,334	
Creditors: amounts falling due within one year	**(2,068)**		(3,549)		(1,598)	
Net current assets		**3,091**		2,201		4,736
Total assets less current liabilities		**6,741**		5,459		7,855
Creditors: amounts falling due after more than one year		**(24)**		-		(43)
Provisions for liabilities & charges		**(246)**		-		(1,181)
Accruals and deferred income						
Deferred income	**(2,372)**		(2,259)		(2,518)	
Accruals	**(785)**		(495)		(1,009)	
		(3,157)		(2,754)		(3,527)
Net assets		**3,314**		2,705		3,104

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

UNAUDITED CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIOD ENDED 30 SEPTEMBER 2000

	Note	**6 months ended 30 September 2000 £000**	6 months ended 30 September 1999 £000	Year ended 31 March 2000 £000
Cash flow from operating activities	2	**615**	(587)	652
Returns on investments and servicing of finance				
Interest received		**43**	52	82
Interest paid		**(1)**	(7)	(4)
Interest element of finance lease rentals		**(2)**	-	(6)
Net cash inflow from returns on investments and servicing of finance		**40**	45	72
Taxation				
Corporation tax paid		**-**	-	(231)
Capital expenditure and financial investment				
Purchase of tangible fixed assets		**(71)**	(75)	(176)
Sale of tangible fixed assets		**4**	2	2
Purchase of fixed asset investment		**(31)**	(26)	-
Employee Trust share investments		**(38)**	-	-
Net cash outflow from capital expenditure		**(136)**	(99)	(174)
Acquisitions and disposals				
Purchase of business operations		**(790)**	(1,803)	-
Purchase of subsidiary undertaking		**(775)**	-	(1,867)
Cash acquired with subsidiary undertakings		**-**	1,193	1,194
Net cash outflow for acquisitions and disposals		**(1,565)**	(610)	(673)
Equity dividends paid		**(74)**	(66)	(100)
Net cash (outflow) before management of liquid resources and financing		**(1,120)**	(1,317)	(454)
Management of cash resources	4	**700**	1,400	800
Capital element of finance lease payments		**(16)**	-	(7)
(Decrease) / increase in cash in the period	4	**(436)**	83	339

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 2000 annual report and accounts.

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.

EXCEPTIONAL ITEMS

Exceptional items in the period under review represent professional fees incurred in transferring to the Official List of the London Stock Exchange (£30,000) and integration costs following acquisitions of operations (£112,000).

TAXATION

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

NOTES (CONTINUED)

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

	6 months ended 30 September 2000 £000	6 months ended 30 September 1999 £000	Year ended 31 March 2000 £000
Operating profit	**370**	633	1,108
Depreciation charge	**92**	72	176
Amortisation charge for goodwill	**129**	28	142
Decrease/(increase) in stocks	**(38)**	31	61
Decrease/(Increase) in debtors	**70**	(232)	(125)
(Decrease)/increase in creditors	**(4)**	(1,119)	(708)
Profit on disposal of fixed assets	**(4)**	-	(2)
Net cash flow from operating activities	**615**	(587)	652

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 2000 £000	6 months ended 30 September 1999 £000	Year ended 31 March 2000 £000
(Decrease)/ increase in cash in period	**(436)**	83	339
Cash outflow from decrease in liquid assets	**(700)**	(1,400)	(800)
Changes in net funds resulting from cash flows	**(1,136)**	(1,317)	(461)
Finance leases	**18**	-	(56)
Net funds at start of period	**2,455**	2,972	2,972
Net funds at end of period	**1,337**	1,655	2,455

4 ANALYSIS OF CHANGES IN NET FUNDS

	At 1 April 2000	**Cashflow**	**At 30 September 2000**
	£000	£000	£000
Cash at bank and in hand	1,211	(436)	775
Finance leases	(56)	18	(38)
Short term bank deposits	1,300	(700)	600
	2,455	(1,118)	1,337

5 EARNINGS PER SHARE

	30 September 2000 £000	30 September 1999 £000	31 March 2000 £000
Profit for the period / financial year attributable to shareholders	247	468	940
Amortisation of capitalised goodwill	129	28	142
Profit for the financial year before goodwill amortisation	376	496	1,082

	30 September 2000 No	30 September 1999 No
Weighted average number of shares in issue	9,759,274	9,758,572
Dilution effect of option schemes:		
- approved employee option scheme (a)	115,159	69,048
- sharesave scheme (b)	49,239	20,993
	9,923,672	9,848,613

	30 September 2000	30 September 1999
Earnings per share ordinary share before goodwill amortisation.	3.85p	5.08p
Loss per ordinary share on goodwill amortisation	(1.32)p	(0.28)p
Basic earnings per ordinary share	2.53p	4.80p
Diluted earnings per ordinary share	2.48p	4.75p

The weighted average number of shares on which the 1999 EPS was calculated reflects the 8,330,000 shares in issue immediately after the capital reconstruction that took place on 4 June 1998 plus the 1,428,572 shares which were subsequently issued on the Alternative Investment Market. 702 further shares have been issued during the period year to 30 September 2000, arising from the exercise of options.

a) As at 30 September 2000, there were 472,490 share options in issue under an approved employee option scheme and 8,210 in an unapproved scheme. The options first become exercisable in 2001 dependant on the achievement of certain performance targets.

b) As at 30 September 2000, 78,401 options were held through a sharesave scheme with the Yorkshire Building Society

c) Basic earnings per share figures for the year ended 31 March 2000 are calculated based on a weighted average number of shares of 9,758,572. The dilution effect of option schemes increases the weighted average number of shares to 9,889,920. This figure has been used in calculating diluted earnings per share.

6 CALLED UP SHARE CAPITAL

	30 September 2000 £000
Authorised	
Number of ordinary shares,14.21m of 10p each	1,421
Allotted, called up and fully paid	
Issued and fully paid up 9,759,274	976

7 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS FUNDS

	Share Capital	**Share premium**	**Merger reserve**	**Revenue Reserve**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**
As at 1 April 2000	976	942	(823)	2,009	3,104
Profit retained for the period	-	-	-	210	210
As at 30 September 2000	**976**	**942**	**(823)**	**2,219**	**3,314**

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 the company acquired certain contracts and staff from **Kewill Systems plc** and **Tenuteq International Limited** for a cash consideration of £790,000. The goodwill arising is to be amortised over 12 years.

As these contracts and staff have been integrated into the existing business of the Group, it has not been possible to separately identify the impact on operating profit for the period.

TOUCHSTONE GROUP PLC

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