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Touchstone Group plc

Further Profit Growth at Half Year

Touchstone Group plc, a leading IT services group supplying business solutions to mid-size UK companies, announces interim results for the six months to 30 September 2001.

Highlights

- Turnover up by 22% to £6.725m supported by strong recurring revenues
- Profits before tax ahead 48% to £606,000 (2000: £410,000)
- Earnings per share increased 52% to 3.8p and the interim dividend by 24% to 0.47p per share
- Continued strong cash flows resulting in cash balances of £2.4m
- Chartland Associates, acquired during the period, made a useful contribution to profits

Commenting on prospects, Managing Director, Keith Birch, said:

"Our product mix now includes more fee-based services, and we now offer a much broader set of software solutions to a wider cross-section of client industries.

"Current trading is still running ahead of last year and we view the outcome for the year as a whole with cautious optimism."

Chairman's statement

It is pleasing to report that the half year results have again shown growth for the Group with turnover up by over 22% at £6,725,000 compared with £5,490,000 for the same period last year. Profits before tax are 48% ahead at £606,000 compared with £410,000 last year. Profits before tax, amortisation of goodwill and exceptional items also rose strongly to £771,000 from £681,000 for the same period last year. This has resulted in a 52% increase in earnings per share to 3.8 pence per share compared with 2.5 pence per share last year.

Strong recurring revenues and the cash generative nature of the business continue to be a feature of the Group's liquidity resulting in cash balances of some £2.4m *(2000: £1.4m).* The Board are committed to maximising returns for shareholders and recognise that an appropriate distribution of the Group's cash balances is a major factor in this regard. The Board has decided therefore to declare an increased interim dividend of 0.47 pence per share *(2000: 0.38 pence).* The interim dividend will be payable on 10 January 2002 to all shareholders on the register on 7 December 2001.

During the period the Group acquired Chartland Associates Plc., a small software and services consultancy specialising in front-office CRM and Sales Force Automation systems. Chartland has made a useful contribution to Group profits and we look forward to increasing benefits to the Group from their continued efforts.

Overall trading for the Group shows a change of product mix towards the provision of more fee-based services. This has been combined with a much broader set of software solutions supplied to a wider cross-section of client industries, giving the Group a much broader-based IT services profile.

Current trading is running ahead of last year with good order books and a healthy level of new enquiry. There are a number of indicators, which point to a slowing of the UK economy and therefore the Board views the year as a whole with cautious optimism.

Philip Birch
13 November 2001

Unaudited consolidated profit and loss account

for the period ended 30 September 2001

	Note	**6 months ended 30 September 2001 £000**	6 months ended 30 September 2000 £000	Year Ended 31 March 2001 £000
Turnover				
Continuing operations		**6,121**	5,490	11,807
Acquisitions	*9*	**604**	-	-
Total turnover		**6,725**	5,490	11,807
Cost of sales		**(3,060)**	(2,499)	(4,979)
Gross profit		**3,665**	2,991	6,828
Administrative expenses				
Before exceptional items and amortisation of goodwill		**(2,946)**	(2,350)	(5,013)
Exceptional items		**-**	(142)	(142)
Amortisation of goodwill		**(165)**	(129)	(262)
Operating profit				
Continuing operations		**505**		
Acquisitions		**49**		
Total operating profit		**554**	370	1,411
Other interest receivable and similar income		**54**	43	77
Interest payable and similar charges		**(2)**	(3)	(7)
Profit on ordinary activities before taxation		**606**	410	1,481
Tax on profit on ordinary activities		**(220)**	(163)	(508)
Profit on ordinary activities after taxation		**386**	247	973
Dividends payable	*5*	**(47)**	(37)	(123)
Retained profit for the period		**339**	210	850
Earnings per share - basic (before goodwill amortisation)	*6*	**5.4p**	3.8p	12.7p
Earnings per share - basic (after goodwill amortisation)	*6*	**3.8p**	2.5p	10.0p
Earning per share - diluted (after goodwill amortisation)	*6*	**3.8p**	2.5p	9.8p

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 2001

	30 September 2001		30 September 2000		31 March 2001	
	£000	**£000**	£000	£000	£000	£000
Fixed assets						
Intangible assets		**3,507**		3,165		2,959
Tangible assets		**457**		416		414
Investments		**179**		69		159
		4,143		3,650		3,532
Current assets						
Stocks	**3**		41		1	
Debtors	**4,018**		3,743		4,534	
Cash at bank and in hand	**2,405**		1,375		2,117	
	6,426		5,159		6,652	
Creditors: amounts falling due within one year	**(849)**		(2,068)		(1,945)	
Net current assets		**5,577**		3,091		4,707
Total assets less current liabilities		**9,720**		6,741		8,239
Creditors: amounts falling due after more than one year		**-**		(24)		-
Provisions for liabilities & charges		**(117)**		(246)		(246)
Accruals and deferred income						
Deferred income	**(2,985)**		(2,372)		(3,015)	
Accruals	**(1,827)**		(785)		(1,024)	
		(4,812)		(3,157)		(4,039)
Net assets		**4,791**		3,314		3,954

The whole of capital and reserves relate to equity interests (see note 8).

Unaudited consolidated cash flow statement

for the period ended 30 September 2001

	Note	**6 months ended 30 September 2001 £000**	**6 months ended 30 September 2000 £000**	Year Ended 31 March 2001 £000
Cash flow from operating activities	*2*	**1,027**	**615**	1,740
Returns on investments and servicing of finance				
Interest received		**54**	**43**	77
Interest paid		**(1)**	**(1)**	(5)
Interest element of finance lease rentals		**(1)**	**(2)**	(2)
Net cash inflow from returns on investments and servicing of finance		**52**	**40**	70
Taxation				
Corporation tax paid		**(156)**	**-**	(230)
Capital expenditure and financial investment				
Purchase of tangible fixed assets		**(124)**	**(71)**	(196)
Sale of tangible fixed assets		**9**	**4**	86
Purchase of fixed asset investments		**(21)**	**(69)**	(159)
Net cash outflow from capital expenditure		**(136)**	**(136)**	(269)
Acquisitions and disposals				
Purchase of business operations (including deferred consideration in respect of prior year acquisitions)		**(545)**	**(1,565)**	(1,555)
Cash acquired with subsidiary undertakings		**90**	**-**	-
Net cash outflow for acquisitions and disposals		**(455)**	**(1,565)**	(1,555)
Cash receipts from options exercised		**45**	**-**	-
Equity dividends paid		**(88)**	**(74)**	(110)
Net cash inflow/(outflow) before management of liquid resources and financing		**289**	**(1,120)**	(354)
Management of cash resources	*4*	**(300)**	**700**	(200)
Capital element of finance lease payments		**(1)**	**(16)**	(40)
Decrease in cash in the period	*4*	**(12)**	**(436)**	(594)

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. Financial information is presented on the basis of the accounting policies set out in the annual report of the group for the year ended 31 March 2001.

The consolidated profit and loss account and cash flow statements for the six months ended 30 September 2001 and 30 September 2000 and the consolidated balance sheets at 30 September 2001 and 30 September 2000 are unaudited. Financial information for the year ended and as at 31 March 2001 has been extracted from the statutory accounts filed with the Registrar of Companies which contained an unqualified audit report and no adverse statement under Section 237 (2) or (3) of the Companies Act 1985.

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 2001 £000	6 months ended 30 September 2000 £000	Year ended 31 March 2001 £000
Operating profit	**554**	370	1,411
Depreciation charge	**106**	92	187
Amortisation charge for goodwill	**165**	129	262
Decrease/(increase) in working capital	**211**	28	(147)
(Profit)/loss on disposal of fixed assets	**(9)**	(4)	27
Net cash flow from operating activities	**1,027**	615	1,740

Notes *(continued)*

3. Reconciliation of net cash flow to movement in net funds

	6 months ended 30 September 2001 £000	6 months ended 30 September 2000 £000	Year ended 31 March 2001 £000
(Decrease) in cash in period	**(12)**	(436)	(594)
Cash outflow from decrease in liquid assets	**300**	(700)	200
Changes in net funds resulting from cash flows	**288**	(1,136)	(394)
Finance leases	**16**	18	40
Net funds at start of period	**2,101**	2,455	2,455
Net funds at end of period	**2,405**	1,337	2,101

4. Analysis of changes in net funds

	At 1 April 2001 £000	Cashflow £000	**At 30 September 2001 £000**
Cash at bank and in hand	617	(12)	**605**
Finance leases	(16)	16	**-**
Short term bank deposits	1,500	300	**1,800**
	2,101	304	**2,405**

5. Dividends

The directors have declared an interim dividend of 0.47 pence (0.38pence) on the ordinary shares. The cost of this interim dividend is £47,000 (£38,000).

Notes (continued)

6. Earnings per share

	30 September 2001 £000	30 September 2000 £000	31 March 2001 £000
Profit for the period / financial year attributable to shareholders	**386**	247	973
Amortisation of capitalised goodwill	**165**	129	262
Profit for the financial year before goodwill amortisation	**551**	376	1,235

	30 September 2001 No	30 September 2000 No	31 March 2001 No
Weighted average number of shares in issue	**10,095,961**	9,759,274	9,759,040
Dilution effect of option schemes:			
- approved employee option scheme (a)	**15,895**	115,159	105,885
- unapproved employee share option scheme (a)	**-**	-	23,606
- share save scheme (b)	**9,493**	49,239	42,411
	10,121,349	9,923,672	9,930,942

	30 September 2001	30 September 2000	31 March 2001
Earnings per ordinary share before goodwill amortisation	**5.4p**	3.8p	12.7p
Loss per ordinary share on goodwill amortisation	**(1.6)p**	(1.3)p	(2.7)p
Basic earnings per ordinary share	**3.8p**	2.5p	10.0p
Diluted earnings per ordinary share	**3.8p**	2.5p	9.8p

The weighted average number of shares on which the 2001 EPS was calculated reflects the increase in issued shares following the exercise of the options in the period (total 52,335 new shares) and the issue of a further 284,332 shares as partial consideration for the acquisition of Chartland Associates plc (see note 8).

a) As at 30 September 2001, there were 378,513 share options in issue under an approved employee option scheme and 238,187 in an unapproved scheme. The options first become exercisable in 2001 dependant on the achievement of certain performance targets.

b) As at 30 September 2001, 29,666 options were held through a share save scheme with the Yorkshire Building Society

Notes (continued)

7. Called up share capital

	30 September 2001 £000
Authorised	
Number of ordinary shares, 14.21m of 10p each	**1,421**
Allotted, called up and fully paid	
Issued and fully paid up 10,095,961	**1,010**

8. Reconciliation of movement in shareholders funds

	Share capital £000	Share premium £000	Merger reserve £000	Revenue reserve £000	Total £000
As at 1 April 2001	976	942	(823)	2,859	3,954
Issue of new shares	34	464	-	-	498
Profit retained for the period	-	-	-	339	339
As at 30 September 2001	**1,010**	**1,406**	**(823)**	**3,198**	**4,791**

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.

9. Acquisitions

During the period the company acquired Chartland Associates plc, a CRM consultancy based in SevenOaks, for an initial consideration of £666,000 made up of a combination of shares and cash. The final consideration is to be determined as a result of the company's post acquisition profit performance to the 31 March 2002. The directors current estimate is that the profits forecast to the end of the year would result in approximately a further £114,000 being payable. The calculation of goodwill arising on consolidation is based on this estimate of total consideration, and is being amortised over 12 years.