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Touchstone Group plc

Further Profit Growth at Half Year

Touchstone Group plc, a leading IT services group supplying integrated business solutions and services to mid-size UK companies, announces interim results for the six months to 30 September 2002.

Highlights

- Turnover up 2.8% to £6.912m (2001: £6.725m)
- Pre-tax profit up 3% to £794,000 before amortisation of goodwill, exceptional costs and tax (2001: £771,000)
- Interim dividend of 1p per share (2001: 0.47p)
- Good growth in service-based revenues
- Early successes in sales of e-procurement systems

Commenting, Keith Birch, Managing Director, said:

“I am pleased to announce modest growth in what has been a difficult trading environment. We continue to benefit from increasing service-based revenues and are encouraged by the early gains in sales of our new e-procurement systems.

“Signs of improved sales activity in recent weeks leads us to view the prospects for the rest of the year with cautious optimism.”

Chairman's statement

Results

It is pleasing to report that the Group has achieved modest growth in a climate of difficult trading conditions. Turnover is up by 2.8% at £6,912,000 compared with £6,725,000 for the same period last year. Profits before tax are marginally ahead of last year at £611,000 compared with £606,000. Profits, before tax and amortisation of goodwill, are £794,000 compared with £771,000 last year. Earnings per share on the same basis are 5.5p per share (2001:5.4p).

Dividend

The Group's strong liquid position continues to be an important feature of its financial profile with cash balances at £2.4m after funding dividends and special dividends of £0.5m. In line with its progressive dividend policy the Board has declared an increased interim dividend of 1p per share (2001: 0.47p). The interim dividend will be payable on 10 Jan 2003 to all shareholders on the register on 6 Dec 2002.

Operations

The Group continues to benefit from its large and loyal client base. During the period, there has been an increase in the sales of our specialist services directed at optimising customers existing systems. This trend has developed as a result of some businesses deferring decisions on the purchase of replacement systems and placing greater emphasis on increasing the efficiency of their existing systems. Inevitably, this has led to a reduction in the level of software sales although that reduction has been offset by higher service revenues.

During the period we also added new procurement-based systems to the portfolio of solutions available to our customers. Controlling maverick spending by the use of e-Procurement systems is becoming an increasingly important facet of business life. The Group's marketing effort in this important new area has started to make some early gains and we are hopeful of continued success.

The Group has gained some notable new business for back-office finance and front-office CRM systems. These include major projects for Citibank, Brother UK, Royal Automobile Club, Legal & General, The Wildfowl & Wetlands Trust, Careers Services Unit and Eldridge Pope. Further, we are pleased to note that Touchstone has been the recipient of several awards this summer. Microsoft Business Solutions confirmed Touchstone as their 2002 Outstanding Partner for Europe based upon quality of service and value of sales. This together with awards from Multiactive Software and SalesLogix reaffirms the Groups progress towards becoming a premier systems integrator, with a significant presence in the mid-market sector.

Current Trading

Generally, trading remains difficult to forecast. However, in recent weeks we have seen signs of improved sales activity and accordingly the Board views the prospects for the year as a whole with cautious optimism.

Philip Birch

13th November 2002

Unaudited consolidated profit and loss account
for the period ended 30 September 2002

	6 months ended 30 September 2002 £000	6 months ended 30 September 2001 £000	Year ended 31 March 2002 £000
Turnover	6,912	6,725	14,187
Cost of sales	(3,119)	(3,060)	(5,694)
Gross profit	3,793	3,665	8,493
Administrative expenses			
Before amortisation of goodwill	(3,044)	(2,946)	(6,442)
Amortisation of goodwill	(183)	(165)	(357)
Operating profit	566	554	1,694
Other interest receivable and similar income	50	54	93
Interest payable and similar charges	(5)	(2)	(17)
Profit on ordinary activities before taxation	611	606	1,770
Tax on profit on ordinary activities	(225)	(220)	(628)
Profit on ordinary activities after taxation	386	386	1,142
Dividends payable	5 (105)	(47)	(570)
Retained profit for the period	281	339	572
Earnings per share - basic (before goodwill amortisation)	6 5.5p	5.4p	14.9p
Earnings per share - basic (after goodwill amortisation)	6 3.7p	3.8p	11.4p
Earning per share - diluted (after goodwill amortisation)	6 3.7p	3.8p	10.9p

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 2002

	30 September 2002		30 September 2001		31 March 2002	
	£000	£000	£000	£000	£000	£000
Fixed assets						
Intangible assets		3,476		3,507		3,659
Tangible assets		441		457		418
Investments		205		179		106
		<u>4,122</u>		<u>4,143</u>		<u>4,183</u>
Current assets						
Stocks	76		3		3	
Debtors	4,997		4,018		5,074	
Cash at bank and in hand	2,436		2,405		3,262	
		<u>7,509</u>		<u>6,426</u>		<u>8,339</u>
Creditors: amounts falling due within one year		<u>(1,993)</u>		<u>(849)</u>		<u>(2,342)</u>
Net current assets		<u>5,516</u>		<u>5,577</u>		<u>5,997</u>
Total assets less current liabilities		<u>9,638</u>		<u>9,720</u>		<u>10,180</u>
Provisions for liabilities & charges		-		(117)		-
Accruals and deferred income						
Deferred income	(3,112)		(2,985)		(3,367)	
Accruals	(712)		(1,827)		(1,310)	
		<u>(3,824)</u>		<u>(4,812)</u>		<u>(4,677)</u>
Net assets		<u>5,814</u>		<u>4,791</u>		<u>5,503</u>

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

Unaudited consolidated cash flow statement
for the period ended 30 September 2002

	Note	6 months ended 30 September 2002 £000	6 months ended 30 September 2001 £000	Year Ended 31 March 2002 £000
Cash flow from operating activities	2	99	1,027	2,483
Returns on investments and servicing of finance				
Interest received		50	54	93
Interest paid		(5)	(1)	(3)
Interest element of finance lease rentals		—	(1)	—
		—————	—————	—————
Net cash inflow from returns on investments and servicing of finance		45	52	90
Taxation				
Corporation tax paid		(246)	(156)	(780)
		—————	—————	—————
Capital expenditure and financial investment				
Purchase of tangible fixed assets		(147)	(124)	(182)
Sale of tangible fixed assets		15	9	59
Purchase of fixed asset investments		(99)	(21)	—
		—————	—————	—————
Net cash outflow from capital expenditure		(231)	(136)	(123)
Acquisitions and disposals				
Purchase of business operations (including deferred consideration in respect of prior year acquisitions)		—	(545)	(545)
Cash acquired with subsidiary undertakings		—	90	90
		—————	—————	—————
Net cash outflow for acquisitions and disposals		—	(455)	(455)
Cash receipts from options exercised		30	45	—
Equity dividends paid		(523)	(88)	(133)
		—————	—————	—————
Net cash inflow/(outflow) before management of liquid resources and financing		(826)	289	1,082
Management of cash resources	4	700	(300)	(1,000)
Financing		—	(1)	63
		—————	—————	—————
Decrease in cash in the period	4	(126)	(12)	145
		=====	=====	=====

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 2002.

The consolidated profit and loss account and cash flow statements for the six months ended 30 September 2002 and 30 September 2001 and the consolidated balance sheets at 30 September 2002 and 30 September 2001 are unaudited. Financial information for the year ended and as at 31 March 2002 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 2002 £000	6 months ended 30 September 2001 £000	Year ended 31 March 2002 £000
Operating profit	566	554	1,694
Depreciation charge	115	106	231
Amortisation charge for goodwill	183	165	357
(Increase)/decrease in working capital	(759)	211	205
(Profit)/loss on disposal of fixed assets	(6)	(9)	(4)
Net cash flow from operating activities	99	1,027	2,483

Notes (continued)

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

	6 months ended 30 September 2002 £000	6 months ended 30 September 2001 £000	Year ended 31 March 2002 £000
(Decrease)/Increase in cash in period	(126)	(12)	145
Cash flow from change in liquid assets	(700)	300	1,000
Changes in net funds resulting from cash flows	(826)	288	1,145
Finance leases	-	16	16
Net funds at start of period	3,262	2,101	2,101
Net funds at end of period	2,436	2,405	3,262

4. Analysis of changes in net funds

	At 1 April 2002 £000	Cashflow £000	At 30 September 2002 £000
Cash at bank and in hand	762	(126)	636
Finance leases	(16)	16	-
Short term bank deposits	2,500	(700)	1,800
	<u>3,246</u>	<u>(810)</u>	<u>2,436</u>

5. Dividends

The directors have declared an interim dividend of 1.0pence (0.47pence) on the ordinary shares. The cost of this interim dividend is £105,000 (£47,000)

Notes (continued)

6. Earnings per share

	30 September 2002 £000	30 September 2001 £000	31 March 2002 £000
Profit for the period / financial year attributable to shareholders	386	386	1,142
Amortisation of capitalised goodwill	183	165	357
	<hr/>	<hr/>	<hr/>
Profit for the financial year before goodwill amortisation	569	551	1,499
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
	30 September 2002 No	30 September 2001 No	31 March 2002 No
Weighted average number of shares in issue	10,338,455	10,095,961	10,054,464
Dilution effect of option schemes:			
- approved employee option scheme (a)	16,205	15,895	57,932
- unapproved employee share option scheme (a)	-	-	22,997
- share save scheme (b)	-	9,493	-
	<hr/>	<hr/>	<hr/>
	10,354,660	10,121,349	10,135,393
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
	30 September 2002	30 September 2001	31 March 2002
Earnings per ordinary share before goodwill amortisation	5.5p	5.4p	14.9p
Loss per ordinary share on goodwill amortisation	(1.8)p	(1.6)p	(3.5)p
	<hr/>	<hr/>	<hr/>
Basic earnings per ordinary share	3.7p	3.8p	11.4p
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Diluted earnings per ordinary share	3.7p	3.8p	10.9p
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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.

a) As at 30 September 2002, there were 439,583 share options in issue under an approved employee option scheme and 362,106 in an unapproved scheme. The options first became 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. These were all exercised in the period to 31 March 2002.

Notes (continued)

7. Called up share capital

	30 September 2002 £000
Authorised	
Number of ordinary shares, 14.21m of 10p each	1,421
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Allotted, called up and fully paid	
Issued and fully paid up 10,491,000	1,049
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8. Reconciliation of movement in shareholders funds

	Share capital	Shares to be issued	Share premium	Other reserve	Profit & loss account	Total
	£000	£000	£000	£000	£000	£000
As at 1 April 2002	1,013	452	1,006	(399)	3,431	5,503
Issue of new shares	36	(452)	28	418	-	30
Profit retained for the period	-	-	-	-	281	281
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
As at 30 September 2002	1,049	-	1,034	19	3,712	5,814
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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.

As at 31 March 2002 there was a deferred consideration provision of 334,918 shares, nominal value £33,492 in respect of the acquisition of Chartland Associates plc. The market value of the 334,918 shares was £452,140 which was reflected within "Shares to be issued" on the balance sheet. These shares were issued in the period under review.