Date	16 November 2005	
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Touchstone Group plc

Touchstone Group plc, a leading IT services group supplying integrated business solutions and services to UK companies, announces interim results for the six months to 30 September 2005.

Highlights

- Turnover increased by 26% to £9.8m (2004: £7.7m)
- Record interim adjusted pre-tax profits* with growth to £848k (2004: £241k)
- A return to profit on ordinary activities before tax at £231k (2004: £(196k))
- Adjusted Earnings per Share before goodwill increased to 6.31p (2004:1.83p).
- Interim dividend increased by 27% to 1.4p per share (2004:1.1p)
- Fee-based revenue growth of over 35%
- Strengthening order books providing improved visibility for future trading
- Fee-earning headcount increased by 17% since this time last year with plans for further recruitment
- Recent acquisitions making good contribution to Group performance
- A number of acquisition targets being actively pursued

***** Profit on ordinary activities before goodwill amortization and tax

Commenting, Keith Birch, Chief Executive Officer, said:

"The business has evolved dramatically since IPO in 1998 and now generates over 80% of total income from service related activities. Fee-based income centred on Microsoft technologies is driving much of this growth which is expected to continue in future periods.

We have had an excellent start to the year but recognise that there is still much to do in the second half. The business is in good health with sound order books. Consequently, the Board views the year as a whole with cautious optimism."

END

Chairman's Interim Statement

Results

It is pleasing to report that the Group has achieved good turnover growth together with record interim adjusted pre-tax profits for the period. Turnover is up by 26% to £9.8m compared with £7.7m for the same period last year. Profits before tax are £231k compared to a loss last year of £(196)k. Profits before tax and amortisation of goodwill are £848k compared with £241k last year. Adjusted earnings per share on the same basis are 6.31p per share compared with 1.83p and diluted earnings per share after goodwill are 0.62p compared with a loss per share last year of (2.41)p.

Cash and Dividends

The Group's strong liquid position continues to be an important feature of its financial profile with cash balances at 30th September 2005 of £2.4m. Cash collection since the period end has continued to improve overall liquidity with cash balances standing at nearly £3m at 31st October 2005.

The Board has declared an increased interim dividend of 1.4p per share (2004:1.1p). The interim dividend will be payable on 7th Jan 2006 to all shareholders on the register on 9th Dec 2005.

Review of Operations

The Group is enjoying improved trading conditions with good growth in all subsidiaries. It is also pleasing to report that operations acquired in the last 18 months have been successfully assimilated and are making good contributions to overall Group performance.

Group operations can be split in to four broad disciplines, namely; ERP, Procurement, CRM and Integration. ERP, Procurement and Integration collectively have produced 40% turnover growth on this time last year.

Following a strategic review of supported products, the CRM unit has streamlined its portfolio of solutions. As a consequence, lower margin turnover associated with this decision has resulted in a reduction in CRM income for the period. Fortunately, greater focus on higher margin activities has ensured the unit is in good shape and well placed to capitalise on the imminent launch of Microsoft's new CRM product.

All ERP units have grown well during the period with the Group's recently acquired Microsoft Axapta unit growing by an impressive 89%. This unit's specialist Rental focus and general Microsoft Axapta expertise has won a number of significant contracts and is also preferred supplier on a number of new opportunities. These contract wins have also contributed to a significant increase in total Group order books and provide enhanced visibility over continued good trading.

Growth of service oriented businesses is ultimately determined by a growing skilled workforce. Previous poor market conditions have tempered headcount take-on as the Group carefully balanced resources with business potential. Whilst, the economic climate remains highly competitive, the Group's investment in niche markets and broader skills has provided greater confidence and improved overall visibility. Accordingly, the Group has increased fee-earning headcount by 5% during the period and by over 17% since this time last year. Additionally, a further significant recruitment drive is also underway.

Increasing headcount with improved efficiency combined with a larger project orientation has resulted in fee-based professional service revenue growth of over 35% for the period. Software revenues have experienced good growth of 25% yet now represent less than 20% of overall Group revenues. Recurring support desk income has also grown by over 20% and together with fee-income, ensures that that the Group's total service-related revenue is now 80% of total income. This compares to 62% at the time of the Group's initial public offering in 1998.

Gross margins have also shown a good increase during the period at 55% compared to 49%. Additionally, we are delighted that adjusted pre-tax trading profit margins have also shown a healthy improvement to 9% compared with 3% last year.

Further fee-based growth is anticipated which should have a corresponding improvement on future margins. However, margin increases in the short-term will be dampened by increased recruitment and training costs associated with the take-on of new staff.

Additionally, improving margins will also be slightly impacted by an unexpected increase in software support charges from a key software supplier. This increase will apply from January 2006 and in a full year could result in additional costs of approximately £200k.

It is a pleasure to welcome all new clients to the Group. Amongst these are: Wood Mackenzie, Steria Group, Ceridian Centrefile, Alternative Networks Plc, Amateur Swimming Association, Institute of Directors, Diabetes UK, Golden Tulip Hotels, London & Quadrant Housing Trust and the Bank of England.

For the fourth year running, the Group was awarded membership to Microsoft Business Solutions' prestigious Inner Circle. This award recognises the Group's commitment to customer satisfaction, active pursuit of product and technological advancement, and impressive sales performance. Microsoft has over 9,250 business solution partners yet only 61 organisations were this year awarded Inner Circle membership. Of these, the Group is ranked in the top ten and is also the 2nd fastest growing partner based on year-on-year performance.

Investor Relations & Acquisitions

During the period the Group issued 553,460 new shares representing 5% of total issued share capital. This issue serviced the increasing demand for shares from new institutional and retail shareholders alike and will provide cash resources for future acquisitions. As a consequence, the shareholding of the Birch family, as original founders of the business, has now collectively fallen below 50%.

Growth by acquisition is an important element of the Group's strategy as it enables efficient expansion in to new territories, markets and technologies. The Group is currently engaged in a number of acquisition discussions, two of which are at an advanced stage. The funds generated from the recent share issue will help support the cash requirements of any future acquisition.

Current Trading

We have had an excellent start to the year but recognise that there is still much to do in the second half. The business is in good health with sound order books. Consequently, the Board views the year as a whole with cautious optimism.

David RT Thompson
16th November 2005

Unaudited consolidated profit and loss account
for the period ended 30 September 2005

	Note	**Total for 6 months ended 30 September 2005 £000**	Restated 6 months ended 30 September 2004 £000	Restated Year ended 31 March 2005 £000
Turnover		**9,757**	**7,749**	17,269
Cost of sales		**(4,345)**	**(3,969)**	(9,181)
Gross profit		**5,412**	**3,780**	8,088
Administrative expenses				
Before amortisation of intangibles		**(4,608)**	**(3,485)**	(7,012)
Amortisation of intangibles		**(617)**	**(437)**	(992)
Exceptional items	*1*	-	**(115)**	(268)
Total administrative expenses		**(5,225)**	**(4,037)**	(8,272)
Operating profit /(loss)		**187**	**(257)**	(184)
Other interest receivable and similar income		**48**	**64**	123
Interest payable and similar charges		**(4)**	**(3)**	(21)
Profit/(loss) on ordinary activities before taxation		**231**	**(196)**	(82)
Tax on profit/(loss) on ordinary activities		**(135)**	**(52)**	(222)
Profit/(loss) on ordinary activities after taxation		**96**	**(248)**	(304)
Minority Interests		**(28)**	-	(28)
Profit/ (loss) for the period		**68**	**(248)**	(332)
Ordinary dividend	*5*	**(267)**	**(259)**	(379)
Retained loss for the period		**(199)**	**(507)**	(711)
Profit /(Loss) earnings per share – basic	*6*	**0.63p**	**(2.41)p**	(3.2)p
Profit /(Loss)/earnings per share – diluted	*6*	**0.62p**	**(2.41)p**	(3.2)p

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 2005

				Restated		Restated	
		30 September 2005		30 September 2004		31 March 2005	
	Note	**£000**	**£000**	£000	£000	£000	£000
Fixed assets							
Intangible assets			**4,073**		3,144		4,372
Tangible assets			**274**		385		338
Investments			**118**		244		118
			4,465		3,773		4,828
Current assets							
Stocks		**126**		1		-	
Debtors		**7,576**		5,042		8,326	
Cash at bank and in hand		**2,432**		2,732		2,581	
		10,134		7,775		10,907	
Creditors: amounts falling due within one year		**(2,445)**		(1,914)		(3,552)	
Net current assets			**7,689**		5,861		7,355
Total assets less current liabilities			**12,154**		9,634		12,183
Accruals and deferred income							
Deferred income		**(4,808)**		(3,841)		(4,903)	
Accruals		**(1,229)**		(278)		(1,311)	
			(6,037)		(4,119)		(6,214)
Net assets			**6,117**		5,515		5,969
Capital and reserves							
Called up share capital	*8*		**1,163**		1,030		1,107
Share premium account	*8*		**2,251**		1,034		1,713
Capital redemption reserve	*8*		**19**		19		19
Other reserves	*8*		**20**		20		20
Profit and loss account	*8*		**2,608**		3,412		3,082
Equity shareholders' funds			**6,061**		5,515		5,941
Minority interests			**56**		-		28
			6,117		5,515		5,969

Unaudited consolidated cash flow statement
for the period ended 30 September 2005

	Note	**6 months ended 30 September 2005 £000**	6 months ended 30 September 2004 £000	Year Ended 31 March 2005 £000
Cash flow from operating activities	*2*	**(67)**	243	489
Returns on investments and servicing of finance				
Interest received		**48**	64	123
Interest paid		**(4)**	(3)	(21)
Net cash inflow from returns on investments and Servicing of finance		**44**	61	102
Taxation				
Corporation tax paid		**(185)**	(80)	(337)
Capital expenditure and financial investment				
Purchase of tangible fixed assets		**(57)**	(136)	(214)
Sale of tangible fixed assets		**-**	-	4
Net cash outflow from capital expenditure		**(57)**	(136)	(210)
Acquisitions and disposals				
Acquisition of subsidiary		**-**	-	(434)
Cash acquired with subsidiary		**-**	-	458
Net cash outflow for acquisitions and disposals		**-**	-	24
Equity dividends paid		**(200)**	(253)	(379)
Net cash outflow before management of liquid resources and financing		**(465)**	(165)	(311)
Management of liquid resources		**300**	(100)	-
Purchase of own shares		**-**	(55)	(55)
Purchase of treasury shares		**(275)**	-	-
Issues of shares net proceeds		**594**	-	-
Capital element of finance leases payments		**(3)**	(14)	(19)
Increase/(decrease) in cash in the period	*4*	**151**	(334)	(385)

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 2005 except for the impact of *FRS 21: Post Balance Sheet Events* which prohibits dividends declared after the period end (proposed final dividends) from being recognised as a liability at the balance sheet date.

This change in accounting policy has resulted in the 2004 year end proposed dividend being recorded in the profit and loss account for the period ended 30 September 2004 (with no interim proposed dividend recorded in that period) and the 2005 year end proposed dividend being recorded in the profit and loss account for the period ended 30 September 2005 (with no interim proposed dividend recorded in that period). Net assets at 30 September 2004 and 31 March 2005 as previously reported have increased by £114,000 and £274,000 respectively as a result of this change.

The consolidated profit and loss account and cash flow statements for the six months ended 30 September 2005 and 30 September 2004 and the consolidated balance sheets at 30 September 2005 and 30 September 2004 are unaudited. Financial information for the year ended and as at 31 March 2005 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.

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 prior period represent the costs associated with the relocation and consolidation of our London office space into one building. These costs are non-recurring.

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 2005 £000	6 months ended 30 September 2004 £000	Year ended 31 March 2005 £000
Operating profit / (loss)	**187**	**(257)**	(184)
Depreciation charge	**122**	**140**	284
Amortisation charge for intangibles	**617**	**437**	992
Decrease in working capital	**(993)**	**(77)**	(603)
(Profit) / loss on disposal of fixed assets	**-**	**-**	-
Net cash flow from operating activities	**(67)**	**243**	489

3 Reconciliation of net cash flow to movement in net funds

	6 months ended 30 September 2005 £000	6 months ended 30 September 2004 £000	Year ended 31 March 2005 £000
Increase / (decrease) in cash in period	**151**	**(334)**	(385)
Cash flow from management of liquid resources	**(300)**	**100**	-
Cash out flow from lease financing	**3**	**14**	19
Changes in net funds resulting from cash flows	**(146)**	**(220)**	(366)
Net funds at start of period	**2,578**	**2,944**	2,944
Net funds at end of period	**2,432**	**2,724**	2,578

4 Analysis of changes in net funds

	At 1 April 2005 £000	Cashflow £000	**At 30 September 2005 £000**
Cash at bank and in hand	781	151	**932**
Short term bank deposits	1,800	(300)	**1,500**
Finance leases	(3)	3	**-**
	2,578	(146)	**2,432**

Notes *(continued)*

5 Dividends

The directors have declared an interim dividend of 1.4 pence (1.1pence) on the ordinary shares. The cost of this interim dividend is £160,000 (2004: £114,000). In accordance with *FRS 21: 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. Comparative periods have been restated to take account of this change as appropriate.

6 Earnings per share

	30 September 2005 £000	30 September 2004 £000	31 March 2005 £000
Profit / (loss) for the period / financial year attributable to shareholders	**68**	**(248)**	(332)
Amortisation of capitalised goodwill	**617**	**437**	992
Profit for the financial year before goodwill amortisation	**685**	**189**	660

	30 September 2005 No	**30 September 2004 No**	31 March 2005 No
Weighted average number of shares in issue	**10,850,400**	**10,297,045**	10,482,333
Dilution effect of option schemes:			
- approved employee option scheme (a)	**33,224**	**-**	-
- unapproved employee share option scheme (b)	**17,737**	**14,250**	-
	10,901,361	**10,311,295**	10,482,333

	30 September 2005	30 September 2004	31 March 2005
Earnings per ordinary share before goodwill amortisation	**6.31p**	**1.83p**	6.3p
Loss per ordinary share on goodwill amortisation	**(5.68)p**	**(4.24)p**	(9.5)p
Basic earnings/(loss) per ordinary share	**0.63p**	**(2.41)p**	(3.2)p
Diluted earnings/(loss) per ordinary share	**0.62p**	**(2.41)p**	(3.2)p

(a)As at 30 September 2005, there were 427,771 share options in issue under an approved employee option scheme and (b)372,429 in an unapproved scheme. The options first became exercisable in 2001 dependant on the achievement of certain performance targets.

Notes *(continued)*

7 Called up share capital

	30 September 2005 £000
Authorised	
Number of ordinary shares, 14.21m of 10p each	**1,421**
Allotted, called up and fully paid	
Issued and fully paid up 11,622,885 shares (10.3m – 2004)	**1,163**

The company repurchased 250,000 shares, representing 2% of issued share capital at 30 September 2005, during the year for consideration of £275,000. None of these shares were cancelled as at 30 September 2005. The nominal value and market value of Treasury shares held at 30 September 2005 was £25,000 and £321,250 respectively.

8 Reconciliation of movement in shareholders' funds

	Share capital £000	Share premium £000	Capital redemption reserve £000	Other reserve £000	Profit & loss account £000	Total £000
Equity shareholders' funds at 1 April 2005 (as previously stated)	1,107	1,713	19	20	2,808	5,667
Prior year adjustment in respect of FRS 21	-	-	-	-	274	274
Equity shareholders' funds at 1 April 2005 (as restated)	1,107	1,713	19	20	3,082	5,941
Share issue	56	538	-	-	-	594
Purchase of treasury shares	-	-	-	-	(275)	(275)
Loss for the period	-	-	-	-	(199)	(199)
Equity shareholders' funds at 30 September 2005	**1,163**	**2,251**	**19**	**20**	**2,608**	**6,061**