



Focus Solutions Group plc



Interim Results
Six months ended 30 September 2004





Focus Solutions Group design, deliver and implement customer management solutions for the UK financial services market, using **goal:technology**, its innovative XML toolkit.

There are two key elements to **Our Strategy**:

– to become the leading provider of customer management solutions to the financial services market, built using **goal:technology**

– to exploit the potential of our XML development toolkit, **goal:technology**, in new markets through partners

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Key Highlights

“Results for the first half were in line with expectations. We have continued to make good progress with our **goal:technology** licence and related services sales delivering revenues up 18% in the period, while Norwich Union’s RIO project now represents just 13% of total revenues compared to 44% in the same period last year and 69% in the year before. Our Solutions business continued to win additional business from established customers in the UK life and pensions market and we made further progress in enhancing our position in the UK mortgage market. As the impact of regulatory changes in the UK financial services markets become clearer, we have seen an increase in high quality opportunities in our sales pipeline. We expect this to contribute materially to improving our financial performance in the second half. Going forward, changes in the Group structure will enable the Software business to develop additional revenue streams from other markets.”

John Streets

Chief Executive, Focus Solutions Group

- Revenue
 - goal:technology** licence and related services revenue increased by 18% to £1.7 million (2003: £1.4 million) and now represents 87% of total turnover of £1.9 million (2003: 54%; £2.6 million)
- First half costs down 14% on first half 2003 to £2.75 million
- Operating loss before tax and interest £0.8 million (2003: £0.7 million)
- Cash balance £0.5 million (2003: £1.3 million)
- New contract wins with Mortgages plc, Prudential Plc and The Exchange
- Sales pipeline at all time high
- Continued investment in new product development of £0.5 million in first half, and further £0.5 million spend planned for second half
- Loss per share 2.8 pence (2003: 2.1 pence)

Chairman's Statement

Business Review

The Group made good progress towards its objective of creating a sustainable and scalable business against a backdrop of continued tough conditions in our core market, UK life and pensions. Sales of **goal:technology** licences and services rose by 18% from £1.4 million to £1.7 million. The continued and expected run-down in work on Norwich Union's RIO project, with revenue falling from £1.3 million in the first six months of last year to £0.2 million in this period, contributed directly to the reduction in overall revenue. Sales of **goal:technology** licences and associated services now represent 87% of total sales.

During the period we continued to generate new business from established UK life and pensions customers. We also secured important new contracts with the Prudential and The Exchange. Our ability to rapidly generate and deploy software delivering return on investment in exceptionally short timescales remains a major differentiator. This has enabled Focus to extend its market reach from the UK life and pensions market into the UK mortgage market.

Following on from our first orders during FY2004 for Multi Channel Advice ("MCA") solutions for the UK mortgage market, during the period we won a new customer, Mortgages plc. We worked on a number of enhancements to their web-based service for intermediaries in preparation for "M-Day", 31 October 2004, when new regulations to control the mortgage sales process were introduced. This project was delivered on time, within budget and transactions processed have exceeded Mortgages plc's expectations. Mortgages plc also provide a "white-label" service for seven other mortgage lenders.

Since the end of the period, we have announced a strategic partnership with Trigold, a leading provider of software to the intermediary mortgage market, to create a new e-commerce community within the mortgage market. By integrating **goal:technology** into Trigold's mortgage sourcing software, advisers will be able to complete and

submit validated electronic mortgage applications. Over 130 mortgage lenders, whose products are available on Trigold, will have the opportunity to transform their online mortgage offering with an easy to use electronic application. This capability to enable straight through processing will provide significant savings in the costs of processing new mortgage business. This provides us with a significant opportunity going forward.

We are also at an advanced stage of contract negotiations with an established customer regarding a Point of Sale system. We are hopeful that we can announce some more details in this regard in the next few weeks.

Financial Review

Turnover in the first half of the year was down 25% at £1.9 million (2003: £2.6 million), principally as a result of the Norwich Union RIO POS project moving from the development phase into ongoing support and enhancement. Operating loss was £0.8 million, compared to £0.7 million in the same period last year. As in previous years, we expect revenues to be substantially more in the second half than in the first half.

Administration costs of £2.7 million are £0.6 million down on the same period last year, a reduction of 18%. The reduction in costs reflects continued tight management control over discretionary spending and some reduction in headcount numbers during the period. Over the course of the last year, our administration costs have fallen from an annualised rate of £6.6 million to £5.4 million.

Cash balances at the end of September were £0.5 million (2003: £1.3 million; 31 March 2004: £1.5 million). We remain debt free, although we do have overdraft facilities totalling £350k with our bankers, HSBC plc. Cash burn from operating activities in the first half was £973k (2003: £1,037k). With the expected improvement in trading in the second half, we anticipate that the business will be cash generative in the second half.

Chairman's Statement *continued*

The loss per share of 2.8 pence per share compares to 2.1 pence per share in the same period last year.

Operational Review

Whilst life and pensions companies remain cautious about committing to new investment, the strategic drive to cut costs and improve customer service through the introduction of electronic trading remains. During the period, important contracts were signed with the Prudential and The Exchange and we continued to make progress extending the uptake of our products and services within our customer base.

This established base, coupled with new opportunities in the mortgage sector, continues to offer excellent prospects for growth. The changes in the way life and pensions products will be distributed, introducing multi-tied sales channels, has contributed to a growing pipeline of prospective sales orders from UK life and pensions organisations and we expect to secure other significant contract wins in the near future, a large proportion of which will be billable in the second half of the year.

Investment in development has continued, extending the breadth of the product range offered to our customers and in new technologies. This supports the Group's move into other market sectors, such as the UK mortgage market and protects its user base. We are committed to keeping Focus at the forefront of technology offerings available to the UK financial services market.

During the period, we announced that we were working together with BEA Systems Inc to provide a joint solution aimed at enabling customers to rapidly create XML user interfaces that extend the BEA WebLogic Platform™ front-end capability. We continue to work closely with BEA on this project. We believe that developing relationships with technology partners is of paramount importance to our business and expect that significant revenues will be generated from these relationships in future years.

Group Structure

It is our strategy to create a sustainable and scalable business. Over the past year, it has become increasingly clear that a change in the Group's operating structure was required to achieve that objective. To achieve further growth, the Board believes there is significant opportunity in exploiting **goal:technology** software more widely, through developing partnership agreements with organisations operating in different geographical and vertical markets.

During the period we undertook the formal split of the business into two divisions; Solutions and Software. These two operating businesses now have separate, discrete management structures, supported by central services.

Outlook

The fundamental drivers for the business remain unchanged. Our customers operate in extremely competitive and heavily regulated markets and we believe that to maintain competitive advantage, they must continue to invest in electronic trading. These drivers are already having an impact on the UK mortgage market and similar changes in regulation in the general insurance market will take effect in 2005. The introduction of depolarisation in December 2004, creating a multi-tied distribution channel for the sale of insurance and pensions products, has contributed to an increase in levels of activity in our core market. We have a strong competitive position in this sector and are bidding for a number of substantial contracts. Our sales pipeline has never been higher and these higher activity levels will contribute to a significant improvement in financial performance in the second half. We are starting to recruit additional staff, for the first time for two years, and research and development spend will be maintained.



Alastair Taylor

Chairman

Summarised Consolidated Profit and Loss Account

for the six months ended 30 September 2004

	6 months ended 30 September 2004 £'000	6 months ended 30 September 2003 £'000	Year ended 31 March 2004 £'000
Turnover	1,921	2,581	5,388
	1,921	2,581	5,388
Operating loss before re-organisation costs	(829)	(589)	(470)
Re-organisation costs	–	(90)	(119)
Operating loss	(829)	(679)	(589)
Gain on disposal of US operations	–	–	167
Loss on ordinary activities before interest	(829)	(679)	(422)
Net interest receivable	20	16	40
Loss on ordinary activities before taxation	(809)	(663)	(382)
Taxation	–	100	100
Loss on ordinary activities after taxation and retained loss for the period	(809)	(563)	(282)
Basic and diluted loss per ordinary share (note 2)	(2.8p)	(2.1p)	(1.0p)

No separate statement of total recognised gains and losses has been presented as all such gains and losses have been dealt with in the profit and loss account.

Summarised Consolidated Balance Sheet

for the six months ended 30 September 2004

	6 months ended 30 September 2004 £'000	6 months ended 30 September 2003 £'000	Year ended 31 March 2004 £'000
Fixed assets			
Tangible assets	152	134	171
	152	134	171
Current assets			
Debtors	1,529	1,626	1,845
Short term investments – money market deposits	250	752	250
Cash at bank and in hand	263	568	1,234
	2,042	2,946	3,329
Creditors: amounts falling due within one year	(818)	(1,239)	(1,331)
Net current assets	1,224	1,707	1,998
Total assets less current liabilities	1,376	1,841	2,169
Creditors: amounts falling due in more than one year	–	–	–
Net assets	1,376	1,841	2,169
Capital and reserves			
Called up share capital	2,859	2,824	2,851
Shares to be issued	–	–	–
Share premium	9,828	9,799	9,819
Merger reserve	220	220	220
Profit and loss account	(11,531)	(11,002)	(10,721)
Shareholders' funds			
Equity interest	1,376	1,841	2,169

Summarised Consolidated Cash Flow Statement

for the six months ended 30 September 2004

	6 months ended 30 September 2004 £'000	6 months ended 30 September 2003 £'000	Year ended 31 March 2004 £'000
Net cash outflow from operating activities	(973)	(1,037)	(927)
Returns on investments and servicing of finance	20	16	40
Taxation	–	56	56
Capital expenditure and financial investment	(34)	(38)	(56)
Cash outflow before management of liquid resources and financing	(987)	(1,003)	(887)
Management of liquid resources	–	(96)	406
Financing	16	628	676
(Decrease)/increase in cash	(971)	(471)	195
Change in net debt resulting from cash flows			
(Decrease)/increase in cash in the period	(971)	(471)	195
Change in net funds resulting from financing	–	–	–
Cash outflow from increase in liquid resources	–	96	(406)
Movement in net funds in the period	(971)	(375)	(211)
Net funds at start of year	1,484	1,695	1,695
Net funds at end of period	513	1,320	1,484

Notes to the Interim Financial Statements

1 Basis of preparation

The summarised half year financial information is unaudited and does not constitute statutory accounts for the purposes of section 240 of the Companies Act 1985. The statutory accounts for the year ended 31 March 2004, which received an unqualified audit report, have been delivered to the Registrar of Companies.

The unaudited financial information has been prepared on the basis of the accounting policies set out in the Group's 31 March 2004 audited statutory accounts.

2 Loss per ordinary share

	30 September 2004 £'000	30 September 2003 £'000	31 March 2004 £'000
Earnings attributable to ordinary shareholders			
Loss for the financial period	(809)	(563)	(282)
Weighted average number of ordinary shares issued during the year (000's)	28,581	26,621	27,504
Dilutive effect of share options	-	-	-
Basic earnings per share	(2.8p)	(2.1p)	(1.0p)

FRS 14 requires presentation of diluted EPS when a company could be called upon to issue shares that would decrease net profit or increase net loss per share. For a loss making company with outstanding share options, net loss per share would only be increased by the exercise of underwater share options. Since it seems inappropriate to assume that option holders would exercise underwater share options, and there are no other diluting future share issues, diluted EPS has not been presented.

Advisors and Shareholder Information

Company Number

3911357 (England and Wales)

Registered Office

Cranford House
Kenilworth Road
Leamington Spa
Warwickshire CV32 6RQ

Nominated Advisor and Nominated Broker

Evolution Beeson Gregory plc
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London
EC2V 7AN

Solicitors

Hammonds
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148 Edmund House
Birmingham B3 2JR

Wragge & Co LLP
55 Colmore Row
Birmingham
B3 2AS

Auditors

Deloitte & Touche LLP
Birmingham

Registrars

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

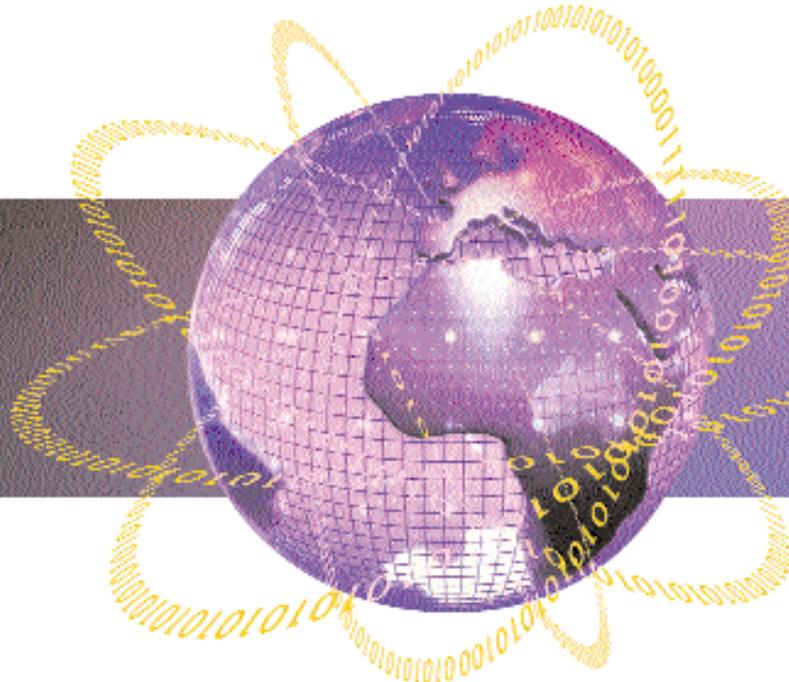
Principal Bankers

HSBC plc
PO Box 68
130 New Street
Birmingham B2 4JU

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10 Old Jewry
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Financial Calendar

Announcement of results 2004-2005	June 2005
Annual General Meeting	July 2005



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