

STRATHMORE GROUP LIMITED

Directors' Report

The loss of \$1.5m, including goodwill amortisation of \$1.08m, largely reflects the fact that both the technology development companies Wellington Drive Technologies Ltd (33.3% owned) and CES Communications Ltd (52.7% owned) continue to trade at a loss. In addition a provision has been made against our investment in CES Communications.

The Wellington Drive result was released yesterday and that result announcement is attached. Wellington Drive has made substantial progress over the last six months and we are confident that we will be well rewarded from this investment.

The establishment by CES Communications of a US subsidiary to raise finance to assist in the further development of the technology and to expand the marketing effort has been delayed. However sales of CES's secure phones and faxes have accelerated over the last six months but these sales are not yet at a sufficient level to cover corporate overheads. The conditional acceptance of a substantial foreign government contract is in hand.

Dr R.J. Thomson
Chairman of Directors
29 March 1999

STRATHMORE GROUP LIMITED

Consolidated Statement of Financial Performance

	Six months ended 31 January		Year ended 31 July
	1999	1998	1998
	\$000s	\$000s	\$000s
Operating Revenue			
Interest income	60	525	777
Other revenue	346	-	263
Total operating revenue	\$406	\$525	\$1,040
(Deficit)/Surplus before taxation	(1,497)	132	(23)
Less taxation expense	-	-	-
(Deficit)/Surplus after taxation	(1,497)	132	(23)
Minority interests	108	-	114
Share of deficits of associate entities after tax	(146)	(570)	(862)
Group deficit attributable to the shareholders of the parent company	(\$1,535)	(\$438)	(\$771)

Consolidated Statement of Movements in Equity

Equity at 1 August	5,760	16,302	16,302
Net deficit for period	(1,535)	(438)	(771)
Shares re-purchased	-	-	(9,995)
Movement in minority interest	(108)	-	213
Share of movements in associate company reserves	(5)	(14)	11
Equity at 31 January 1999	\$4,112	15,850	\$5,760

There have been no change in accounting policies, which have been applied on the bases consistent with the previous year.

STRATHMORE GROUP LIMITED

Consolidated Statement of Financial Position

	As at 31 January		As at 31 July
	1999	1998	1998
	\$000s	\$000s	\$000s
Non Current Assets			
Fixed assets	32	4	43
Investments in Associate entities	1,534	75	1,366
Deferred development costs	375	-	425
Goodwill on consolidation	-	2,753	969
	1,941	2,832	2,803
Current Assets			
Cash, call & term deposits, & commercial bills	2,272	13,006	3,047
Receivables & tax	256	5	147
Inventories	156	-	161
Investments	18	21	18
	2,702	13,032	3,373
Total assets	\$4,643	\$15,864	\$6,176
Shareholders' Equity			
22,152,684 (1/98 – 50,652,684, 7/98 – 22,152,684) fully paid ordinary shares	29,655	39,650	29,655
Accumulated deficit	(25,654)	(23,786)	(24,119)
Share of associate entity reserves	6	(14)	11
	4,007	15,850	5,547
Minority interests	105	-	213
	4,112	15,850	5,760
Current Liabilities			
Bank overdraft	55	-	-
Creditors & accruals	476	14	416
	531	14	416
Total funds employed	\$4,643	\$15,864	\$6,176

These half year accounts have not been audited.

STRATHMORE GROUP LIMITED**Consolidated Statement of
Cash Flows**

	Six months ended		Year ended
	31 January		31 July
	1999	1998	1998
	\$000s	\$000s	\$000s
Operating cash flows:			
Gross cash received from customers, interest & dividends	257	525	788
Exchange gains/(losses)	(177)	-	183
Payments to suppliers, employees, interest & tax	(501)	(103)	(483)
	(421)	422	488
Investing cash flows:			
Sale/(purchase) of fixed assets	1	2	-
Proceeds from shareholders	22	-	-
Purchase of share investments	(432)	(560)	(588)
	(409)	(558)	(588)
Financing cash flows:			
Repurchase of shares	-	-	(9,995)
Net increase/(decrease) in cash held	(830)	(136)	(10,095)
Cash at beginning of period	3,047	13,142	13,142
Cash at end of period	\$2,217	\$13,006	\$3,047

**Reconciliation of Net Surplus to
Operating Cash Flows**

Net surplus after tax	(1,497)	132	(23)
<i>Add non cash items:</i>			
Depreciation & loss on sale	10	1	9
Amortisation of non current assets	1,132	299	586
<i>Proceeds from shareholders classified as creditors</i>	(22)	-	-
<i>Add/(Less) working capital movements:</i>			
Receivables & tax	(109)	(3)	(64)
Creditors & accruals	60	(7)	(10)
Inventories	5	-	(10)
Net operating cash flows	(\$421)	\$422	\$488

STRATHMORE GROUP LIMITED**Interim Report****31 January 1999**