TOUCHSTONE GROUP PLC

ANNUAL REPORT & ACCOUNTS 2001

TOUCHSTONE

CONTENTS

Cover:
Ancient paintings
of hands,
Cuevos Los Manos,
South America

COMPANY PROFILE

Touchstone Group plc are one of the leading suppliers of Financial Management and Customer Relationship software to mid-market organisations in the UK. Incorporated in 1982, Touchstone have grown to become the UK's most successful provider of Great Plains, Pivotal and SunSystems solutions across a number of strategic industry sectors. In addition, Touchstone provide a selection of services designed to ensure customers maximise their investment in these software applications.

Training offers scheduled courses with classroom, on-site and tailored training options.

Consultancy provides implementation, project management, site audit, software upgrades and technology consulting.

Support offers unrivalled Help Desk telephone support with a choice of support levels.

Account Management & Information Services provide a varied agenda of workshops, seminars, conferences and user groups.

These services combined with a successful company, good products and professional staff characterise Touchstone's offering and reflect a 'business partnership' approach to customer service.

Touchstone delivers consistent, high quality service to its customers applying the expertise gained from focused industry teams, which enhance customer satisfaction. These specialist industry teams and examples of clients using their services are as follows:

- **Finance** including Banking, Stockbroking, Insurance and Underwriting with customers like Corporation of Lloyds, Invesco Europe Ltd, Lloyds TSB Commercial Finance Ltd, Winterthur International, Securiplan Plc, Carr Sheppards Crosthwaite Ltd
- **Hospitality and Leisure** including Hotels, Restaurants, Leisure and Transport with customers like Welcome Break, Corus and Regal Hotels, Millennium & Copthorne Hotels Plc, Hanover International, Metropolitan Restaurant Group, Greene King and LA Fitness Plc
- **Media and Technology** including wcities.com Ltd, easyEverything, Associated Press Television News (APTN), Virgin Radio, Reed Elsevier (UK), Kall-Kwik Printing (UK) Ltd and United Business Media International Ltd
- **Not for Profit** including Charities, Government, Utilities, Regulatory Bodies, Police, Education and Health with customers like Friends of the Earth, Scope, Terrence Higgins Trust Lighthouse, NHS Logistics Authority, Royal Academy of Arts, Crisis and Comic Relief Limited and Charity Projects
- **Commercial** including Retail, Distribution, Mining and Manufacturing with customers like Suzuki GB Plc, Blue Circle Cement, Ghost, Dunlop Slazenger International Ltd, Kraft Foods Middle East & Africa and Toshiba
- **Business & Professional Services** including Legal, Recruitment, Property and Services with customers like JMP Consultants Ltd, Levy Gee Accountants, Heron Corporation, Abbey Storage Ltd, Aukett Europe, Drivas Jonas and Dexterus Ltd

Touchstone's portfolio of sophisticated products include:

- **Great Plains eEnterprise and Dynamics** – These cost-effective solutions deliver strong business management capabilities, integrating with the Internet and the latest Windows 2000 technology.
- **Systems Union's SunSystems** – SunSystems' single integrated ledger and flexible analysis coding combined with strong multi-currency functionality and global support makes it a leading international solution offering powerful financial and business functionality and exceptional flexibility.
- **Pivotal Relationship** – Relationship is a rapidly deployable, internet enabled, sales, marketing and customer support system that integrates with Dynamics and SunSystems and efficiently manages customer relationships throughout their entire life cycle.
- **SalesLogix, Maximizer and Entice!** – These are affordable easy to use, quick to deploy Customer Relationship Management, sales force automation, ecommerce, and contact management tools that integrate with leading back-office solutions to provide critical customer information.

Chairman's Statement

Results

It is pleasing to report that the Group has produced another set of good results. The improvement in trading that I reported in the second quarter has continued into the second half with turnover up 12% for the year to £11.8m compared with £10.5m last year. Profits for the year before amortisation of goodwill, exceptional costs and tax have increased by 25% to £1.9m, compared with £1.5m last year. Profit before tax has increased by 24% to £1.5m compared with £1.2m last year.

Earnings and Dividend

Basic earnings per share have risen by 14% to 12.7p compared to 11.1p last year. The Board is recommending a final dividend of 0.88p to be paid on 7 August 2001 to shareholders registered at close of business on 29 June 2001. This makes a total dividend for the year of 1.26p an increase of 15% on last year.

Balance Sheet

The cash positive nature of the Group's revenue stream is reflected in the strength of its balance sheet where the liquid position remains strong and will continue to strengthen in the period ahead.

Recurring Revenues

A major part of the Group's turnover is the recurring revenues derived from the support and maintenance of client's systems in all divisions. Contractual recurring revenue represents 35% of turnover, with further growth expected in the future.

Trading and Product Expansion

All of the Group's product divisions have enjoyed growth during the year and it is particularly pleasing to report an overall increase in sales from the SunSystems division, this despite the reported slow start to the year. The recent successful introduction of a new generation of software will further enhance the division's prospects.

The acquisition of Kewill's Great Plains division last summer now means that the Group has the largest installed base of Great Plains clients in the UK thus providing an opportunity for further expansion in the sales of this software product and associated services.

The Group has been following a policy to broaden its products and services. It now has an important presence in the relatively immature but rapidly growing Customer Relationship Management (CRM) market. From a modest start last year the CRM division now accounts for some 11% of turnover.

Since the year end the company has acquired Chartland Associates plc; a company specialising in the supply of CRM solutions to mid-size organisations in the UK. The combination of Chartland with the Group's existing CRM division will provide a more comprehensive range of products and services and give considerable scope for future expansion in this field.

Current Trading

The current year has started with the Group enjoying improved trading compared with the same period last year. This, together with a healthy order book and an enlarged portfolio of products, leads the Board to look forward to another year of good progress.

The Board joins me in thanking the management and staff for their contribution to another successful year.

Philip Birch 12 June 2001
Chairman

DIRECTORS' REPORT

The Directors present their Annual Report and the audited financial statements for the year ended 31 March 2001.

PRINCIPAL ACTIVITIES

Touchstone Group plc is a holding company.

The principal activity of its trading subsidiaries during the financial period was that of the supply and support of business software.

BUSINESS REVIEW

A review of the Group's business and development for the year ended 31 March 2001 is set out in the Chairman's Statement on page 2. The results for the year ended 31 March 2001 are set out in the consolidated profit and loss account on page 11.

POLICY AND PRACTICE ON PAYMENT OF CREDITORS

The Group's policy is to pay suppliers in accordance with terms and conditions agreed when orders are placed. Although the Group does not follow any code or standard on payment policy, where payment terms have not been specifically agreed, invoices dated in one calendar month are paid close to the end of the following month. At 31 March 2001 there were 57 days' purchases in Group trade creditors *(2000: 60 days)*. The Company did not have any trade creditors at 31 March 2001 *(2000:nil)*.

TREASURY AND FUNDING ACTIVITIES

The Group's financial instruments comprise cash, obligations under finance leases, bank borrowing facilities and various items such as trade debtors and trade creditors that arise directly from its operations. No material foreign currency transactions are entered into and no foreign currency balances are held.

The Group finances its operations primarily through retained profits. Whilst bank borrowing facilities are in existence, they have not been utilised in the current year or the preceding year due to the availability of surplus cash balances throughout those years.

As such, it has no significant interest rate risk or liquidity risk.

DIRECTORS AND DIRECTORS' INTERESTS

The Directors who held office during the year are listed on the inside back cover of this report. All Directors held office throughout the year under review.

DIRECTORS AND DIRECTORS' INTERESTS (CONTINUED)

The Directors who held office at the end of the financial year had the following interests in the ordinary shares of the Company according to the register of Directors' interests:

	Interest at end of year	Interest at beginning of year
P Birch *	2,152,624	2,152,624
DD de Carle	23,500	23,500
DRT Thompson	9,500	9,500
KGJ Birch **	3,030,547	3,030,547
DP Birch	1,728,257	1,728,257
C Butler	7,500	7,500

* The interests of Philip Birch include 30,000 ordinary shares held on behalf of his immediate family.
** The interests of Keith Birch include 232,000 ordinary shares held as a trustee of the TCL Settlement Trust 1998.

According to the register of Directors' interests, no rights to subscribe for shares in or debentures of Group companies were granted to any of the Directors or their immediate families, or exercised by them, during the financial year except as indicated below:

Number of options during the year					Exercise price (pence)	Date from which exercisable	Expiry date
	At start of year	Granted	Exercised	At end of year			
C Butler	15,000	–	–	15,000	105p	July 2001	July 2008
C Butler	12,000	–	–	12,000	134.5p	Sep 2002	Sep 2009
C Butler	–	20,000	–	20,000	196.7p	Aug 2003	Aug 2010
C Butler	–	40,000	–	40,000	122p	Dec 2003	Dec 2010

The highest and lowest share prices during the year were 257.5p and 107.5p respectively and the market price at 31 March 2001 was 130.0p.

SUBSTANTIAL HOLDINGS

Except for the holdings of ordinary shares listed below, the Directors are not aware of any person holding 3% or more of the ordinary share capital of the Company at 21 May 2001, the latest practicable date prior to the issue of this report.

Name	Number of shares	Percentage
KGJ Birch (including 232,000 ordinary shares held as a trustee of the TCL Settlement Trust 1998)	3,030,547	31.1%
P Birch (including 30,000 ordinary shares held on behalf of his immediate family)	2,152,624	22.1%
DP Birch	1,728,257	17.7%
Chase Nominees Limited	370,000	3.8%

DIRECTORS' REPORT (CONTINUED)

POLITICAL AND CHARITABLE CONTRIBUTIONS

The Group made charitable contributions of £5,000 during the year. No political donations were made.

ENVIRONMENTAL POLICY

Recognising that the Group's operations are themselves of minimal environmental impact, the Group's environmental policy is to:

- Meet the statutory requirements placed on us.
- Apply good environmental practice both in our business operations and in the development of systems and products for our customers, recognising however, that we are contractually obliged to conform with our customers' requirements.

EMPLOYMENT POLICIES

The Group places great emphasis on providing equality of opportunity for all employees and in particular ensures that fair selection and development procedures apply. The aim of the policy is to ensure that no job applicant or employee received less favourable treatment on the grounds of age, sex, sexual orientation, disability, marital status, colour, religion, race or ethnic origins.

In the event that members of staff become disabled, every effort is made to ensure that their employment within the Group continues and that appropriate training is arranged.

AUDITORS

In accordance with Section 385 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board

KGJ Birch
Director

5/6 Beauchamp Court
Victors Way
High Barnet
Herts EN5 5TZ

12 June 2001

CORPORATE GOVERNANCE

STATEMENT OF COMPLIANCE

The Directors have reviewed the governance arrangements of Touchstone Group plc in the context of the Combined Code, issued in June 1998. The principles of the Code have been applied as follows:

a) The Board of Directors represents the shareholders' interests in maintaining and growing a successful business including optimising consistent long-term financial returns.

b) The Board comprises three executive Directors, Keith Birch, David Birch and Christian Butler, and three non-executive Directors, Philip Birch, David de Carle and David Thompson. David de Carle and David Thompson are considered to be independent by the Board. Philip Birch, non-executive Chairman, has a material shareholding in the Group and a family connection to two of the executive Directors. The appointed senior non-executive Director is David de Carle.

c) The Board meets six times a year. A formal agenda is prepared for each meeting and all Board papers and information are circulated to the Board 48 hours before the meetings.

d) One third of the Directors are subject to re-election by the shareholders at the Annual General Meeting.

e) The remuneration of the executive Directors is recommended by the Remuneration Committee, whose members are Philip Birch, David de Carle and David Thompson. A separate report with respect to Directors' remuneration is included below.

f) The Managing Director and the Finance Director are responsible for investor relations. Shareholders are invited to attend the AGM at least 20 working days in advance of that meeting.

g) The Audit Committee, comprising Philip Birch, David de Carle and David Thompson, meet with the auditors as necessary.

The Group has complied with the provisions set out in Section 1 of the Combined Code appended to the Listing Rules of the London Stock Exchange, apart from those listed below, since listing on the London Stock Exchange on 27 July 2000. Where non-compliance is reported, this is because, in the opinion of the Board, it is not appropriate to change current practice due to the size and constitution of the Board. The provisions of the Combined Code not complied with are as follows:

a) The Company does not have any formal arrangements for Directors, in the furtherance of their duties, to take independent professional advice.

b) A formal schedule of matters specifically reserved for the Board is not required, since the Board forms the executive management of the Group.

c) The Company does not have a Nominations Committee due to the small size of the Board. As envisaged by the Combined Code, a separate Committee is therefore not considered necessary at this stage of the company's development. The Board as a whole is responsible for the appointments of its members.

d) The Remuneration Committee includes one non-executive director who is not independent. The Combined Code requires that all members of the Remuneration Committee are independent non-executives. This is not practicable given the size and constitution of the Board.

Prior to the Company listing on the London Stock Exchange, the Company was not required to apply the principles of, or to disclose the extent of compliance with, the Combined Code. The Company did not comply with the recommendations of the Code during that pre-listing period. However, during the entire period, the Directors have been working to formalise the Group's controls and procedures to meet the recommendations of the Code.

CORPORATE GOVERNANCE (CONTINUED)

GOING CONCERN

The Directors, having made enquiries, consider that the Group has adequate resources to continue in operational existence for the foreseeable future, and that therefore it is appropriate to adopt the going concern basis in preparing the financial statements.

INTERNAL CONTROLS

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

The main elements of the internal control system are:

a) The results of individual operating units are reported monthly and reviewed by the Board at its six Board meetings a year.
b) The management reports of each operating unit are tailored to suit the business and management needs of local management. Each operating unit has its own performance indicators and these are regularly reviewed and assessed.
c) In addition to the monthly reporting, individual operating units report certain management information more frequently where it is considered appropriate.
d) All operating units prepare annual budgets, which are reviewed by the Board.

The Combined Code introduced a requirement that the Directors review the effectiveness of the Group's system of internal controls. This extends the existing requirement in respect of internal financial controls to cover all controls including financial, operational, compliance, and risk management. Following publication of guidance for the Directors – *Internal Control: Guidance for Directors on the Combined Code* (the Turnbull guidance), the Board confirm that there is an ongoing process for, and an annual review covering, the identification, evaluation and management of the significant risks faced by the Group, that has been in place for the year under review since listing on the London Stock Exchange and up to the date of approval of the annual report and accounts and that this process is regularly reviewed by the Board and accords with the guidance. The process is carried out through, inter alia:

a) Group Board Meetings.
b) Quarterly subsidiary Board meetings.
c) Quarterly strategy meetings.
d) Presentations by subsidiary Chief Executive officer to the Board.
e) Discussions and review by the Executive Board and the finance department during the several visits per year to individual operating units.
f) Discussions with professional advisers where appropriate.

The Board has considered the need for an internal audit function, but has resolved that, due to the size of the Group, this cannot be justified on the grounds of cost effectiveness at present.

REMUNERATION REPORT

DIRECTORS' REMUNERATION

The Remuneration Committee advises the Board on the remuneration and other terms of employment of Executive Directors. With respect to Directors' remuneration the Board report that:

a) Remuneration levels are set by reference to individual performance, experience and market conditions with a view to providing a package which is appropriate for the responsibilities involved.

b) Performance related bonuses are given, relating to the Group's profitability.

c) Each Executive Director has a defined contribution personal pension plan.

d) No Director has a service contract of more than six months' duration, with the exception of Keith Birch and David Birch who have 12 month service contracts.

Details of Directors' remuneration and benefits are given below:

Name	Salary, fees and benefits in kind £000	Bonus £000	Pension £000	**2001 £000**	2000 £000
KGJ Birch	115	16	10	**141**	123
DP Birch	85	10	7	**102**	92
C Butler	71	10	4	**85**	77
P Birch	10	–	–	**10**	10
DD de Carle	10	–	–	**10**	10
DRT Thompson	10	–	–	**10**	10
	301	36	21	**358**	322

The performance related elements of remuneration also include share options and the dividends received by Director shareholdings.

Details of share options and interests in shares held by directors are included in the Directors' report on page 4 of these accounts.

The Remuneration Committee is constituted in accordance with the relevant provisions of Section B of the Combined Code, save that its terms of reference are not formally documented and its membership includes one non-executive director who is not independent. The Remuneration Committee has given full consideration to Section B of the Combined Code Provisions in framing its remuneration policy.

DIRECTORS' BIOGRAPHIES

Philip Birch

Non-executive Chairman, aged 68, joined Touchstone as non-executive chairman in 1986. At the time, he was Chairman and Chief Executive of Ward White Group plc, which owned Halfords, Payless DIY and AG Stanley, and which was subsequently acquired by The Boots Company plc in 1989.

Keith Birch

Managing Director, aged 44, joined Touchstone in 1982. He became Managing Director in 1986 and is responsible for sales and marketing, together with managing the relationship with major software authors. Additionally, Keith has been pivotal to the selection of most of the new products and services supplied together with negotiating acquisitions.

Christian Butler

Finance Director, aged 36, joined Touchstone in May 1998 from The Mountain View Group Limited, a marketing and advertising business, where he was Finance Director. Prior to this Christian worked with Carlson Marketing Group, and trained with Coopers & Lybrand.

David Birch

Commercial Director and Company Secretary, aged 46, joined Touchstone in January 1986. Prior to this David was an executive at William Davies Limited and Wimpey (Homes) Group Limited, with involvement in large project implementation.

David de Carle

Non-executive Director, aged 73, joined Touchstone in June 1997. He was formerly a senior partner at the City solicitors, Simmons & Simmons, and vice-chairman of Ward White Group plc.

David Thompson

Non-executive Director, aged 55, formerly managing director of Druid Group plc, which was floated on the Official List of the London Stock Exchange in 1996. He is a director of Advent 2 VCT plc and has over 30 years information technology experience in all aspects of the industry, having previously held positions with Vickers plc and General Electric Company.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and Group and of the profit or loss for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

KPMG Audit Plc
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United Kingdom

REPORT OF THE AUDITORS TO THE MEMBERS OF TOUCHSTONE GROUP PLC

We have audited the financial statements on pages 11 to 31.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors are responsible for preparing the Annual Report. As described on page 9 this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions with the Company is not disclosed.

We review whether the statement on page 6 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

BASIS OF OPINION

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 March 2001 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc 12 June 2001
Chartered Accountants
Registered Auditor

CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2001

	Note	**Year ended 31 March 2001 £000**	Year ended 31 March 2000 £000
Turnover			
Continuing operations		**11,142**	10,511
Acquisitions	*26*	**665**	–
Total turnover	*1,2*	**11,807**	10,511
Cost of sales		**(4,979)**	(4,431)
Gross profit		**6,828**	6,080
Administrative expenses			
– Before exceptional items and goodwill amortisation		**(5,013)**	(4,650)
– Exceptional items	*6*	**(142)**	(180)
– Goodwill amortisation		**(262)**	(142)
Total administrative expenses		**(5,417)**	(4,972)
Operating profit		**1,411**	1,108
Interest receivable	*7*	**77**	98
Interest payable and similar charges	*8*	**(7)**	(10)
Profit on ordinary activities before taxation	*3*	**1,481**	1,196
Tax on profit on ordinary activities	*9*	**(508)**	(256)
Profit on ordinary activities after taxation		**973**	940
Dividends paid and proposed	*10*	**(123)**	(107)
Retained profit for the year	*21*	**850**	833
Adjusted earnings per share – basic (before goodwill amortisation)	*11*	**12.7p**	11.1p
Earnings per share – basic (after goodwill amortisation)	*11*	**10.0p**	9.6p
Earnings per share – diluted (after goodwill amortisation)	*11*	**9.8p**	9.5p

The results disclosed in the consolidated profit and loss account are on an historical cost basis.

All of the above results are from continuing operations. During the year the Company acquired certain contracts and staff (see note 26). As these contracts and staff have been integrated into the existing business of the Group, it has not been possible to separately identify the impact on operating profit for the period.

The Group has no recognised gains or losses in either the current or preceding year other than those reported in the consolidated profit and loss account. Accordingly, a statement of total recognised gains and losses has not been prepared.

CONSOLIDATED BALANCE SHEET
AT 31 MARCH 2001

	Note	**2001 £000**	**2001 £000**	2000 £000	2000 £000
Fixed assets					
Intangible assets	*12*		**2,959**		2,601
Tangible assets	*13*		**414**		518
Investments	*14*		**159**		–
			3,532		3,119
Current assets					
Stocks	*15*	**1**		3	
Debtors	*16*	**4,534**		3,820	
Cash at bank and in hand		**2,117**		2,511	
		6,652		6,334	
Creditors: amounts falling due within one year	*17*	**(1,945)**		(1,598)	
Net current assets			**4,707**		4,736
Total assets less current liabilities			**8,239**		7,855
Creditors: amounts falling due after morethan one year	*17*		**–**		(43)
Provisions for liabilities and charges	*18*		**(246)**		(1,181)
Accruals and deferred income					
Deferred income	*19*	**(3,015)**		(2,518)	
Accruals	*19*	**(1,024)**		(1,009)	
			(4,039)		(3,527)
Net assets			**3,954**		3,104
Capital and reserves					
Called up share capital	*20*		**976**		976
Share premium account	*21*		**942**		942
Other reserves	*21*		**(823)**		(823)
Profit and loss account	*21*		**2,859**		2,009
Equity shareholders' funds			**3,954**		3,104

These financial statements were approved by the Board of Directors on 12 June 2001 and were signed on its behalf by:

KGJ Birch
Director

BALANCE SHEET
AT 31 MARCH 2001

	Note	2001 £000	2001 £000	Restated 2000 £000	Restated 2000 £000
Fixed assets					
Investments	*14*		**2,458**		2,458
Current assets					
Debtors	*16*	**1,242**		1,136	
Cash at bank and in hand		**2**		67	
		1,244		1,203	
Creditors: amounts falling due within one year	*17*	**(1,712)**		(1,273)	
Net current (liabilities)			**(468)**		(70)
Total assets less current liabilities			**1,990**		2,388
Provision for liabilities and charges	*18*		**–**		(425)
Net assets			**1,990**		1,963
Capital and reserves					
Called up share capital	*20*		**976**		976
Share premium account	*21*		**942**		942
Profit and loss account	*21*		**72**		45
Equity shareholders' funds			**1,990**		1,963

These financial statements were approved by the Board of Directors on 12 June 2001 and were signed on its behalf by:

KGJ Birch
Director

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2001

CASH FLOW STATEMENT

	Note	2001 £000	2000 £000
Cash flow from operating activities	*23*	**1,740**	652
Returns on investments and servicing of finance	*24*	**70**	72
Taxation		**(230)**	(231)
Capital expenditure and financial investment	*24*	**(269)**	(174)
Acquisitions and disposals	*24*	**(1,555)**	(673)
Equity dividends paid		**(110)**	(100)
Cash (outflow) before management of liquid resources and financing		**(354)**	(454)
Management of liquid resources	*24*	**(200)**	800
Financing	*24*	**(40)**	(7)
(Decrease)/increase in cash in the period		**(594)**	339

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	Note	2001 £000	2000 £000
(Decrease)/increase in cash in the period		**(594)**	339
Cash outflow from decrease in debt and lease financing		**40**	7
Cash outflow/(inflow) from increase/(decrease)in liquid resources		**200**	(800)
Change in net funds resulting from cash flows		**(354)**	(454)
Loans and finance leases acquired with subsidiaries		**–**	(63)
Movement in net funds in the period		**(354)**	(517)
Net funds at the start of the period		**2,455**	2,972
Net funds at the end of the period	*25*	**2,101**	2,455

RECONCILIATIONS OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

FOR THE YEAR ENDED 31 MARCH 2001

	Group		Company	
	2001	2000	**2001**	2000
	£000	£000	**£000**	£000
Profit for the financial year	**973**	940	**150**	150
Dividends	**(123)**	(107)	**(123)**	(107)
Retained profit for the financial year	**850**	833	**27**	43
Opening shareholders' funds	**3,104**	2,271	**1,963**	1,920
Closing equity shareholders' funds	**3,954**	3,104	**1,990**	1,963

NOTES
(FORMING PART OF THE FINANCIAL STATEMENTS)

1 ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements.

BASIS OF PREPARATION

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules with the exception of the following:

The Directors consider that in order to give a true and fair view of the financial position of Touchstone Group plc in its individual balance sheet, a departure is required from the requirements of the Companies Act 1985.

On 1 April 2000, the trade and assets and liabilities of Independent Computer Solutions Ltd (ICOS), a subsidiary of Touchstone Group plc, were transferred at book value to Touchstone Computers Ltd, a fellow subsidiary of Touchstone Group plc. Subsequent to the financial year end, ICOS was dissolved.

The Companies Act 1985 requires that the carrying amount of assets are written down to the extent that they have suffered an impairment in value. This would have resulted in a charge to the profit and loss account for the year ended 31 March 2001 of Touchstone Group plc of £1,628,000.

However, as the trade and assets associated with ICOS have not left the Group, instead having enhanced the value of Touchstone Computers Ltd, the amount of £1,628,000, has been reallocated to the carrying amount of the investment in Touchstone Computers Ltd in the balance sheet of Touchstone Group plc.

This represents a departure from the requirements of the Companies Act 1985, as the impairment in the value of the investment in ICOS, being a realised loss, has been offset by an unrealised revaluation gain in Touchstone Computers Limited.

This departure has no effect on the consolidated financial statements.

BASIS OF CONSOLIDATION

On 4 June 1998, as part of a group reconstruction, Touchstone Group Ltd (now Touchstone Group plc) became the holding company of Touchstone Computers Ltd. The financial statements of this group have been prepared using merger accounting principles in accordance with Financial Reporting Standard 6: Mergers and Acquisitions and Schedule 4 (A) of the Companies Act 1985.

The subsidiaries acquired subsequent to the group reconstruction have been consolidated using the principles of acquisition accounting. Goodwill arising on acquisitions is capitalised on the balance sheet and amortised through the profit and loss account in equal annual instalments over its estimated useful economic life.

Under section 230(4) of the Companies Act 1985 the Company is exempt from the requirement to present its own profit and loss account. The profit for the financial year dealt within the financial statements of the holding company was £150,000 *(2000:£150,000)*.

1 ACCOUNTING POLICIES (CONTINUED)

GOODWILL

Goodwill arising on acquisitions is recorded at cost and amortised on a straight line basis over its estimated useful economic life not exceeding 20 years.

INVESTMENTS

In the Company's financial statements, investments in subsidiary undertakings are stated at cost less any provision for impairment with the exception of the Company's investment in Touchstone Computers Ltd as detailed on page 16.

TANGIBLE FIXED ASSETS AND DEPRECIATION

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets over their estimated useful economic lives as follows:

Fixtures and fittings	–	20% reducing balance
Computer equipment	–	$33\frac{1}{3}$% straight line
Motor vehicles	–	25% straight line

LEASES

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

POST RETIREMENT BENEFITS

The Group operates neither a defined contribution nor a defined benefit pension scheme but makes contributions to employees' personal pension schemes. The amount charged to the profit and loss account represents the contributions payable to employees' personal pension schemes in respect of the accounting period.

RESEARCH AND DEVELOPMENT EXPENDITURE

Expenditure on research and development is written off in the profit and loss account in the year in which it is incurred.

STOCKS

Stocks are stated at the lower of purchase cost, calculated on a first-in first-out basis, and net realisable value.

MAINTENANCE REVENUE

Maintenance revenue is recognised over the period of the contract on a pro-rata basis. That portion of contracted maintenance revenue relating to periods after the year end is included in deferred income.

NOTES (CONTINUED)

1 ACCOUNTING POLICIES (CONTINUED)

TAXATION

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

TURNOVER

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to third party customers.

CASH AND LIQUID RESOURCES

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

Liquid resources comprise current asset investments held as readily disposable stores of value as defined by Financial Reporting Standard: 1(Revised 1996) Cash flow statements. Liquid resources held in both the current and preceding year comprise short term bank deposits.

2 SEGMENTAL INFORMATION

All of the Group's turnover and profits before tax arise from its activities in the UK and Eire alone. Turnover and profits before tax arising in Eire are not material.

The Directors consider that the Group offers one class of business only and therefore does not present a segmental analysis.

3 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

		2001	2000
		£000	£000
Profit on ordinary activities before taxation is stated after charging:			
Auditors' remuneration:			
Group	– audit	**30**	28
	– fees paid to the auditors in respect of other services	**41**	25
Company	– audit	**3**	2
Depreciation and other amounts written off tangible fixed assets:			
Owned		**178**	165
Leased		**9**	11
Amortisation of goodwill		**262**	142
Loss/(profit) on disposal of tangible fixed assets		**27**	(2)
Hire of land and buildings – operating leases		**211**	214

NOTES (CONTINUED)

4 REMUNERATION OF DIRECTORS

	2001	2000
	£000	£000
Emoluments for services as directors	**337**	313
Pension contributions	**21**	9
	358	322

Emoluments of the highest paid director were £131,665 *(2000:£119,637)*. Amounts paid by the Group in respect of his pension contributions were £9,600 *(2000: £3,134)*.

5 STAFF NUMBERS AND COSTS

The average number of persons employed by the Group (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	2001	2000
Management	**11**	11
Administrative	**18**	16
Sales, support and technical	**58**	70
	87	97

The aggregate payroll costs of these persons were as follows:

	2001	2000
	£000	£000
Wages and salaries	**3,679**	3,888
Social security costs	**465**	398
Other pension costs (see note 28)	**111**	94
	4,255	4,380

6 EXCEPTIONAL ITEMS

	2001	2000
	£000	£000
Integration costs following acquisitions of subsidiaries	**112**	180
Professional fees incurred in transferring listing to the London Stock Exchange	**30**	–
	142	180

7 INTEREST RECEIVABLE

	2001	2000
	£000	£000
Bank interest	**77**	98

8 INTEREST PAYABLE AND SIMILAR CHARGES

	2001	2000
	£000	£000
Bank charges	**5**	4
Finance charges payable in respect of finance leases	**2**	6
	7	10

9 TAXATION

	2001 £000	2000 £000
UK corporation tax at 30% *(2000: 30%)*	**508**	256

10 DIVIDENDS

	2001 £000	2000 £000
Equity shares:		
Interim dividend paid (2001: 0.38p per share, 2000: 0.35p per share)	**37**	34
Final dividend proposed (2001: 0.88p per share, 2000: 0.75p per share)	**86**	73
Total dividend (2001: 1.26p per share, 2000: 1.10p per share)	**123**	107

11 EARNINGS PER SHARE

	2001 £000	2000 £000
Profit for the financial year attributable to shareholders	**973**	940
Amortisation of capitalised goodwill	**262**	142
Profit for the financial year before goodwill amortisation	**1,235**	1,082
Weighted average number of shares in issue	**9,759,040**	9,758,572
Dilution effect of option schemes:		
– approved employee option scheme (a)	**105,885**	88,569
– unapproved employee option scheme (a)	**23,606**	–
– sharesave scheme (b)	**42,411**	42,779
	9,930,942	9,889,920
Earnings per ordinary share before goodwill amortisation	**12.7p**	11.1p
Loss per ordinary share on goodwill amortisation	**(2.7)p**	(1.5)p
Basic earnings per ordinary share	**10.0p**	9.6p
Diluted earnings per ordinary share	**9.8p**	9.5p

a) As at 31 March 2001, there were 450,013 share options in issue under an approved employee option scheme and 258,187 in an unapproved scheme. The options first become exercisable in 2001 dependant on the achievement of certain performance targets. The various allocation of options have an overall average exercise price of £1.14 with certain options having a dilutative effect.

b) As at 31 March 2001, 75,628 options were held through a sharesave scheme with the Yorkshire Building Society. The exercise price of the sharesave options is £0.84 from July 2001, causing a dilutative effect.

12 INTANGIBLE FIXED ASSETS

	Goodwill
Cost	**£000**
At beginning of year	2,743
Additions (see note 26)	790
Adjustments	(170)
At end of year	3,363
Amortisation	
At beginning of year	142
Charged in year	262
At end of year	404
Net book value	
At 31 March 2001	**2,959**
At 31 March 2000	2,601

Goodwill is being amortised over 12 years being its estimated useful economic life.

The adjustment to goodwill of £170,000 relates to a reduction in the contingent consideration payable on the acquisition of Resource Systems Ltd, an indirectly held subsidiary, on 21 July 1999. The contingent consideration was subject to certain earn out criteria and the final amount paid was lower than originally anticipated.

NOTES (CONTINUED)

13 TANGIBLE FIXED ASSETS

Group	**Fixtures, fittings, and equipment**	**Motor vehicles**	**Total**
	£000	£000	£000
Cost			
At beginning of year	1,020	157	1,177
Additions	196	–	196
Disposals	(134)	(82)	(216)
At end of year	1,082	75	1,157
Depreciation			
At beginning of year	578	81	659
Charge for the year	169	18	187
Disposals	(57)	(46)	(103)
At end of year	690	53	743
Net book value			
At 31 March 2001	**392**	**22**	**414**
At 31 March 2000	442	76	518

Included in the net book value of motor vehicles is £13,000 *(2000:£60,000)* in respect of assets held under finance leases. Depreciation for the year on these assets was £9,000 *(2000:£11,000)*.

14 FIXED ASSET INVESTMENTS

Group	Own shares	Other investments other than loans	Total
	£000	£000	£000
Cost			
At beginning of year	–	–	–
Additions	68	91	159
At end of year	68	91	159
Provisions			
At beginning and end of year	–	–	–
Net book value			
At 31 March 2001	**68**	**91**	**159**
At 31 March 2000	–	–	–

The investment in the Company's own shares figure comprises a loan to an Employee Trust that has been created to hold shares vesting under certain employee share option schemes.

Company	Shares in group undertaking Restated £000
Cost	
At beginning of year	2,458
Additions	–
At end of year	2,458
Provisions	
At beginning and end of year	–
Net book value	
At 31 March 2001	**2,458**
At 31 March 2000	2,458

The brought forward cost has been increased by £425,000 to reflect the level of anticipated contingent consideration arising on the acquisition of Independent Computer Solutions Limited in the previous period.

This was previously reflected in the consolidated balance sheet but not as an investment in the Company's own balance sheet. The brought forward provision for liabilities and charges in the Company's own balance sheet has been similarly adjusted.

NOTES (CONTINUED)

14 FIXED ASSET INVESTMENTS (CONTINUED)

	Country of incorporation	Principal Activity	Class and percentage of shares held Group	Company
Subsidiary undertakings				
Touchstone Computers Ltd	England and Wales	Supply and support of business software	–	100%
Independent Computer Solutions Ltd	England and Wales	Dormant	–	100%
Resource Systems Ltd	England and Wales	Dormant	100%	–
Resource Systems (International) Ltd	Eire	Dormant	100%	–
Support Centre Ltd	England and Wales	Dormant	100%	–
Cedar T.P. Support Ltd	England and Wales	Dormant	100%	–
Independent Computer Solutions (Services) Ltd	England and Wales	Dormant	100%	–
Independent Computer (Software) Ltd	England and Wales	Dormant	100%	–

The trade and assets and liabilities of Independent Computer Solutions Ltd and Resource Systems Ltd were transferred to Touchstone Computers Ltd on 1 April 2000. Subsequent to the year end Independent Computer Solutions Ltd has been dissolved and Resource Systems Ltd is in the process of being dissolved having both been dormant since the transfer.

The combination of Touchstone Group plc and Touchstone Computers Ltd has been accounted for by the merger method of accounting in accordance with Financial Reporting Standard 6: Mergers and Acquisitions and Schedule 4 (A) of the Companies Act 1985, on the basis that it meets the criteria set out in paragraph 13 of that Standard with respect to group reconstructions.

The investment in Touchstone Computers Ltd has been recorded at the nominal value of the shares issued by Touchstone Group plc (formerly Law 949 Ltd) in accordance with the provisions of Section 131 and Section 133 of the Companies Act 1985.

Independent Computer Solutions Ltd is a subsidiary of Touchstone Group plc; Resource Systems Ltd and Resource Systems (International) Ltd are subsidiaries of Touchstone Computers Ltd. These companies have been accounted for under acquisition accounting principles.

Unless otherwise stated, all companies operate in their country of incorporation.

NOTES (CONTINUED)

15 STOCKS

	Group		Company	
	2001	2000	**2001**	2000
	£000	£000	**£000**	£000
Work in progress	**1**	3	**–**	–

16 DEBTORS

	Group		Company	
	2001	2000	**2001**	2000
	£000	£000	**£000**	£000
Trade debtors	**3,562**	3,043	**–**	–
Amounts owed by group undertakings	**–**	–	**1,242**	1,136
Other debtors	**35**	135	**–**	–
Prepayments and accrued income	**937**	642	**–**	–
	4,534	3,820	**1,242**	1,136

Included within prepayments and accrued income are deferred maintenance costs of £38,000 which are deferred for more than one year *(2000: £51,000)*.

17 CREDITORS

	Group		Company	
Amounts falling due within one year	**2001**	2000	**2001**	2000
	£000	£000	**£000**	£000
Obligations under finance leases	**16**	13	**–**	–
Trade creditors	**914**	845	**–**	–
Amounts owed to group undertakings	**–**	–	**1,626**	1,200
Corporation tax	**541**	263	**–**	–
Other creditors including tax and social security	**134**	146	**–**	–
Value Added Tax	**254**	258	**–**	–
Dividend proposed	**86**	73	**86**	73
	1,945	1,598	**1,712**	1,273

	Group		Company	
Amounts falling due after more than one year	**2001**	2000	**2001**	2000
	£000	£000	**£000**	£000
Obligations under finance leases	**–**	43	**–**	–

The maturity of obligations under finance leases and hire purchase contracts is as follows:

	2001	2000
	£000	£000
Group		
Within one year	**16**	30
In the second to fifth years	**–**	26
Over five years	**–**	–
	16	56
Less future finance charges	**(2)**	(15)
	14	41

The Company does not hold any assets under finance leases.

18 PROVISIONS FOR LIABILITIES AND CHARGES

	Contingent consideration Group £000	**Restated Contingent consideration Company £000**
At beginning of year	1,181	425
Utilised during the year	(765)	(425)
Amounts released unused (see note 12)	(170)	–
At end of year	246	–

The contingent consideration of £246,000 relates to acquisitions made during the previous year.

The amounts provided for deferred taxation and the amounts not provided are set out below:

	2001		2000	
Group	**Provided £000**	**Unprovided £000**	Provided £000	Unprovided £000
Accelerated capital allowances and other timing differences	**–**	**(54)**	–	(67)

19 ACCRUALS AND DEFERRED INCOME

	Group		**Company**	
	2001 £000	2000 £000	**2001 £000**	2000 £000
Deferred income:				
Amounts falling due within one year	**2,911**	2,384	**–**	–
Amounts falling due after more than one year	**104**	134	**–**	–
	3,015	2,518	**–**	–
Accruals:				
Amounts falling due within one year	**1,024**	1,009	**–**	–
	4,039	3,527	**–**	–

Deferred income represents that portion of contracted maintenance revenue relating to periods after the year end.

NOTES (CONTINUED)

20 CALLED UP SHARE CAPITAL

	2001 £000	2000 £000
Authorised		
14,210,000 ordinary shares of 10p each *(2000:14,210,000)*	**1,421**	1,421
Allotted, called up and fully paid		
9,759,274 ordinary shares of 10p each *(2000: 9,758,572)*	**976**	976

702 ordinary shares were issued during the period with a total nominal value of £70 for a total consideration of £590, arising from the exercise of options.

21 SHARE PREMIUM AND RESERVES

	Group		
	Share premium account £000	**Other reserves £000**	**Profit and loss account £000**
At beginning of year	942	(823)	2,009
Retained profit for the year	–	–	850
At end of year	**942**	**(823)**	**2,859**

	Company		
	Share premium account £000	**Other reserves £000**	**Profit and loss account £000**
At beginning of year	942	–	45
Retained profit for the year	–	–	27
At end of year	**942**	**–**	**72**

21 SHARE PREMIUM AND RESERVES (CONTINUED)

The Company's profit for the financial year before dividends was £150,000 *(2000:£150,000)*.

The 'Group – Other reserves' figure of £823,000 represents the difference arising on consolidation, under merger accounting rules, between the nominal value of the shares issued by Touchstone Group plc of £833,000 and the nominal value of the Touchstone Computers Ltd shares received in exchange of £1,000 together with the share premium of £9,000.

22 COMMITMENTS

Annual commitments under non-cancellable operating leases are as follows:

	2001		2000	
	Land and buildings	**Other**	Land and buildings	Other
Group	**£000**	**£000**	£000	£000
Operating leases which expire:				
Within one year	**16**	**–**	–	–
In the second to fifth years inclusive	**83**	**–**	100	–
Over five years	**85**	**–**	136	–
	184	**–**	236	–

The Company has no commitments under non-cancellable operating leases.

23 RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOWS

	2001	2000
	£000	£000
Continuing operations		
Operating profit	**1,411**	1,108
Goodwill amortisation	**262**	142
Loss/(profit) on sale of tangible fixed assets	**27**	(2)
Depreciation	**187**	176
Decrease in stocks	**2**	61
(Increase) in debtors	**(714)**	(125)
Increase/(decrease) in creditors	**565**	(708)
Net cash inflow from operating activities	**1,740**	652

24 ANALYSIS OF CASH FLOWS

	2001	**2001**	2000	2000
	£000	**£000**	£000	£000
Returns on investments and servicing of finance				
Interest received	**77**		82	
Interest paid	**(5)**		(4)	
Interest element of finance lease rental payments	**(2)**		(6)	
Net cash inflow for returns on investment and servicing of finance		**70**		72
Capital expenditure and financial investment				
Purchase of tangible fixed assets	**(196)**		(176)	
Sale of tangible fixed assets	**86**		2	
Purchase of fixed asset investment	**(159)**		–	
Net cash outflow for capital expenditure and financial investment		**(269)**		(174)
Acquisitions and disposals				
Additional cash consideration for prior year acquisitions	**(765)**		–	
Purchase of subsidiary undertakings	**–**		(1,867)	
Purchase of business contracts (see note 26)	**(790)**		–	
Cash acquired with subsidiaries	**–**		1,194	
		(1,555)		**(673)**
Management of liquid resources				
Cash movement on short term bank deposits		**(200)**		800
Financing				
Capital element of finance lease payments		**(40)**		(7)

NOTES (CONTINUED)

25 ANALYSIS OF NET FUNDS

	At beginning of period	Cash flow	At end of period
	£000	£000	£000
Cash at bank and in hand	1,211	(594)	617
Finance leases	(56)	40	(16)
Short-term bank deposits	1,300	200	1,500
Total	**2,455**	**(354)**	**2,101**

26 PURCHASE OF BUSINESS CONTRACTS

During the year, Touchstone Computers Ltd, a subsidiary of Touchstone Group plc, acquired certain contracts and staff from Kewill Systems plc and Tenuteq International Limited for cash consideration of £715,000 and £75,000 respectively which was fully paid in the year.

This has generated goodwill of £790,000 in the books of Touchstone Computers Ltd which will be amortised over 12 years.

As these contracts have been integrated into the existing business of the Group, it has not been possible to separately identify the impact on operating profit for the Group. Turnover since acquisition on these contracts amounted to £665,315.

27 FINANCIAL INSTRUMENTS

An outline of the Group's approach to financial instruments is given in the Directors' Report. For the purpose of the disclosures given below, short term debtors and creditors which arise directly from the Group's operations have been excluded as permitted under Financial Reporting Standard 13.

Financial assets

The Group's financial assets for disclosure purposes comprises cash at bank and short-term bank deposits. The cash at bank and short-term bank deposits are ordinarily placed with the Group's bankers with the interest income obtained being based on variable market rates.

Financial liabilities

The Group's financial liabilities for disclosure purposes comprises obligations under finance leases. Details of the maturity of obligations under finance leases is given in note 17.

Borrowing facilities

The Group has a bank overdraft facility of £200,000 which is reviewed annually. This facility was unused throughout the year.

NOTES (CONTINUED)

27 FINANCIAL INSTRUMENTS (CONTINUED)

Fair values of financial assets and liabilities

The Directors consider that there is no material difference between the book value and fair value of the Group's financial assets and liabilities at either 31 March 2001 or 31 March 2000.

Currency risk

No analysis of currency risk of financial assets and liabilities is presented as at both 31 March 2001 and 31 March 2000 as all were in sterling.

28 PENSION SCHEME

The Group does not operate an occupational pension scheme but makes a percentage contribution of qualifying salary to certain employees' personal pension schemes. The amount charged to the profit and loss account in respect of such contributions was £111,000 *(2000: £94,000)*.

29 POST BALANCE SHEET EVENTS

On 30 April 2001 Touchstone Group plc acquired the whole of the share capital of Chartland Associates plc. Chartland Associates plc specialises in the supply of CRM solutions.

The Directors expect the total consideration payable to be approximately £2.1m. This is subject to certain earn out provisions. The maximum consideration possible is £4.1m if Chartland achieves exceptional profit targets. Initial consideration of £666,818 comprises £216,052 in cash and the issue 284,332 new Touchstone shares at a price of £1.58535 per share.

In the financial year ended 28 February 2001, Chartland reported pre-tax profits of £188,417 on turnover of £1.8m. The net assets at that date were £142,475.

30 ULTIMATE CONTROLLING PARTY

The ultimate controlling party is the Birch family, whose shareholdings are as disclosed in the Directors' Report.

ANNUAL GENERAL MEETING

The Annual General Meeting will be held at Teather & Greenwood Ltd, Beaufort House, 15 St. Botolph Street, London EC3A 7QR on Thursday 2nd August 2001 commencing at 11.00 a.m.

There are three items of special business to be dealt with at the Annual General Meeting. These are set out in Resolutions 6, 7 and 8 in the Notice of the Meeting at the end of the document, and relate to the following:

Resolution 6, which will be proposed as an Ordinary Resolution, will grant to the Directors' authority to allot relevant securities up to an aggregate nominal amount of £334,800 being equivalent to approximately one-third of the current issued share capital. This authority will expire on the date of the next Annual General Meeting of the Company or on 2nd November 2002, whichever is earlier. The Directors have no intention at present of making any issue of shares other than on the exercise of employee share options.

Resolution 7, which will be proposed as a Special Resolution, will disapply of the statutory pre-emption rights. It will disapply, until the next Annual General Meeting of the Company or on 2nd November 2002, whichever is earlier, to disapply the statutory pre-emption rights for any allotment of shares in connection grants of employee options and pro rata issues of new shares to existing shareholders and otherwise in respect of allotments of shares for cash up to an aggregate nominal amount of £50,250, which is equivalent to approximately 5% of the existing issued share capital of the Company.

Resolution 8 effects a minor change to article 7.4 of the Articles of Association of the Company to comply with the Listing Rules applicable to companies whose shares are quoted on the London Stock Exchange. The proposed amendment limits the Board's discretion to refuse to register a transfer of partly paid shares to circumstances where such refusal is not such as to prevent dealings on the London Stock Exchange from taking place on an open and proper basis.

Your Directors consider that the proposed amendment to the Articles is in the interests of the Company and its shareholders as a whole and, accordingly, recommend shareholders to vote in favour of the Special Resolution numbered 8 in the notice of the AGM which is set out at the end of this document as they intend to do in respect of the ordinary shares beneficially held by them respectively.

Copies of the Articles of Association of the Company, as they are proposed to be amended at the AGM, a statement of Directors' interests and their service contracts will be available for inspection at the offices of Taylor Joynson Garrett, Carmelite, 50 Victoria Embankment, Blackfriars, London EC4A 1BD up to the close of the AGM, and at the place of the AGM for at least 15 minutes prior to and during the meeting.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the annual general meeting of Touchstone Group plc will be held at Teather & Greenwood Ltd, Beaufort House, 15 St. Botolph Street, London EC3A 7QR on Thursday 2nd August 2001 at 11 a.m. for the following purposes:

ORDINARY BUSINESS

1. To receive and adopt the accounts for the year ended 31 March 2001 together with the reports of the Directors and auditors thereon.
2. To declare a final dividend of 0.88 pence per share.
3. To re-elect David Birch who retires in accordance with article 18.2 of the Company's articles of association and being eligible, offers himself for re-election.
4. To re-elect Christian Butler who retires in accordance with article 18.2 of the Company's articles of association and being eligible, offers himself for re-election.
5. To re-appoint KPMG Audit Plc as the auditors to the Company and to authorise the Directors to determine their remuneration.

SPECIAL BUSINESS

To consider, and if thought fit, to pass the following resolutions of which Resolution 6 will be proposed as an ordinary resolution and Resolutions 7 and 8 as special resolutions:

6. That in substitution of all existing authorities the directors be and generally and unconditionally are authorised pursuant to section 80 of the Companies Act 1985 (the "Act") to exercise all the powers of the Company to allot relevant securities (within the meaning of that section) up to an aggregate nominal amount of £334,800 for a period expiring (unless previously renewed, varied or revoked by the Company in general meeting) 15 months after the date of the passing of this resolution or at the conclusion of the annual general meeting of the Company to be held in 2002 whichever first occurs, but so that the Company may make an offer or agreement which would or might require relevant securities to be allotted after expiry of such an authority and the directors may allot relevant securities in pursuance of that offer or agreement.
7. That the Directors be empowered pursuant to section 95 of the Act to allot equity securities (within the meaning of section 94 of the Act) for cash as if sub-paragraph (1) pursuant to the authority conferred by Resolution 6 above of section 89 of the Act did not apply to such allotment provided that this power should be limited to:
   (a) the allotment and issue of shares which are subject to options granted pursuant to the Approved Share Option Plan, the Unapproved Share Option Plan, the Saving Related Scheme and the Employee Share Ownership Trust operated by the Company;
   (b) to the allotment of equity securities in connection with or pursuant to an offer by way of rights to the holders of shares in the Company and other persons entitled to participate therein, in the proportion (as nearly as may be) to such holders’ holdings of such shares (or, as appropriate, to the number of shares which such other persons are for these purposes deemed to hold) subject only to such exclusions or other arrangements as the director may feel necessary or expedient to deal with fractional entitlements or the regulations or requirements of any recognised regulatory body in any territory; and
   (c) to the allotment otherwise then pursuant to sub paragraph (a) above of equity securities up to an aggregate nominal value of £50,250,and shall expire 15 months after the date of passing of this resolution or at the conclusion of the next annual general meeting of the Company to be held in 2002 whichever first occurs, save that the company may before such expiry make an offer or agreement which would or might require equity securities to be allocated after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if the power confirmed thereby had not expired.

NOTICE OF ANNUAL GENERAL MEETING (CONTINUED)

8. That article 7.4 of the Company's Articles of Association be amended by the addition of the words "provided that such refusal is not such as to prevent dealings in the Company's shares on the London Stock Exchange from taking place on an open and proper basis" at the end of such article.

Registered Office:	**By order of the Board**
5/6 Beauchamp Court	
Victors Way	
High Barnet	David Birch
Hertfordshire	Director and Secretary
EN5 5TZ	12 June 2001

Copies of the Articles of Association of the Company, as they are proposed to be amended at the AGM, a statement of the Directors' interests and their service contracts will be available for inspection at the offices of Taylor Joynson Garrett, Carmelite, 50 Victoria Embankment, Blackfriars, London EC4A 1BD up to the close of the AGM, and at the place of the AGM for at least 15 minutes prior to and during the meeting.

IF YOU WISH TO APPOINT A PROXY PLEASE READ THE NOTES BELOW:

To exercise your voting rights, you may yourself attend and vote at the annual general meeting or you may appoint a "proxy" to vote on your behalf. If you wish to appoint a proxy, please read the notes below and complete the card enclosed in this pack.

1. You may appoint anyone to be your proxy and that person need not be a shareholder.
   If you wish to appoint the Chairman, you need not change this part of the form.
   If you are an ordinary shareholder and you wish to appoint someone else as your proxy you should:
   (a) delete the words "the Chairman of the meeting or" on the form; and
   (b) write the name and address of the person you wish to appoint as your proxy in the space provided.

   A person appointed as a proxy will be asked to disclose on arrival that he or she is acting for you.

2. The resolutions to be voted on at the meeting are listed on the form of proxy.
   You may instruct your proxy how to vote on each of the resolutions by ticking the appropriate box opposite the resolution:
   (a) if your proxy is to vote for a resolution, please tick the "For" box;
   (b) if your proxy is to vote against a resolution, please tick the "Against" box;
   (c) if you give no specific instruction, your proxy will have discretion to vote on your behalf. Additionally the proxy will also have discretion to vote on any further or amended resolutions put to the meeting and can also vote at any adjournment of the meeting.

   If you indicate how you wish your proxy to vote by ticking some or all of the boxes, this discretion will be removed with respect to any further or amended resolutions at the annual general meeting and at any adjournment of the meeting.

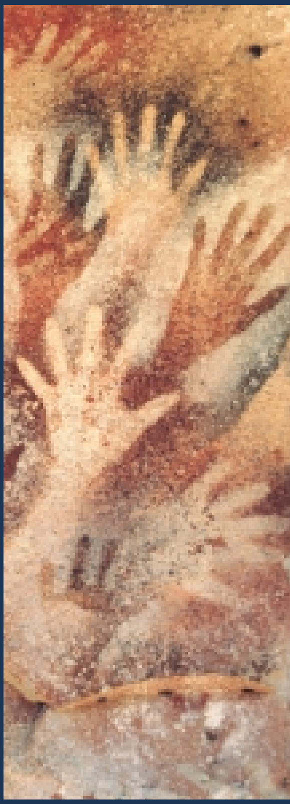
3. The form must be signed. In the case of the joint holders, any one of them may sign.
   If necessary, someone else may sign the form on your behalf. In that case, a copy of the authority under which the form is signed must be sent with the form. If a proxy is being appointed by an attorney, the power of attorney must be sent with the form, unless it has been previously lodged with the Company.
   If a corporation is appointing the proxy, the form must be either under seal of under the hand of an attorney or duly authorised officer of the corporation and the appropriate power of attorney or other authority lodged with the form.

4. After completion, the form must be lodged with IRG plc, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU.
   To be valid the form must arrive by 11 a.m. on Tuesday 31 July 2001.
   If you are unable to attend the annual general meeting and do not return the form of proxy correctly completed, your votes will not be cast at the meeting.

5. The Company pursuant to Regulation 34 of the Uncertified Securities Regulations 1995, specifies that only those holders of ordinary shares registered in the Register of Members of the Company at 11a.m. on Tuesday 31 July 2001 shall be entitled to attend and vote at the Annual General Meeting in respect of such number of shares as are registered in their name at that time. Changes to entries in the Register of Members after 11 a.m. on 31 July 2001 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

COMPANY INFORMATION

Offices:	Head Office: 5/6 Beauchamp Court Victors Way, High Barnet Hertfordshire EN5 5TZ Tel: 020 8275 3400 Fax: 020 8441 5442 City Offices: 25 Angel Gate, City Road London EC1V 2PT Tel: 020 7841 7300 Fax: 020 7713 1480 Suite 260, Salisbury House London Wall London EC2M 5QQ Tel: 020 7841 7300 Fax: 020 7628 4472 Sevenoaks Office (Chartland Associates plc): The Old Harpsichord Factory 2a Bradbourne Road Sevenoaks Kent TN13 3PY Tel: 01732 464455 Fax: 01732 465567
Directors	Philip Birch – *Non-executive Chairman* Keith Birch – *Managing Director* David Birch – *Commercial Director* Chris Butler – *Finance Director* David de Carle – *Non-executive Director* David Thompson – *Non-executive Director*
Registered office	5/6 Beauchamp Court Victors Way High Barnet Herts EN5 5TZ
Secretary	David Birch
Broker	Teather and Greenwood Limited Beaufort House 15 St Botolphs London EC3A 7QR
Solicitors	Taylor Joynson Garrett Carmelite 50 Victoria Embankment Blackfriars London EC4Y 0DX
Auditors	KPMG Audit Plc 8 Salisbury Square London EC4Y 8BB
Bankers	National Westminster Bank plc North London Business Centre PO Box 6333 2/3 Upper Street London N1 0QE
Registrars	IRG plc Bourne House 34 Beckenham Road Beckenham Kent BR3 4TU



TOUCHSTONE GROUP PLC

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www.touchstone.co.uk