touchstone

annual report &
accounts 2002

CONTENTS

CHAIRMAN'S STATEMENT

I am pleased to report another good set of results for the Group, which have been achieved against a background of difficult trading conditions in the industry. With the contribution from the acquisition of Chartland Associates during the year turnover has increased to £14.2m compared with £11.8m last year.

EARNINGS AND DIVIDEND

Profits for the year before amortisation of goodwill, exceptional items and tax have increased by 13% to £2.13m compared with £1.88m last year. Profit before tax has increased by 20% to £1.77m compared to £1.48m last year.

Basic earnings per share (before goodwill amortisation) have risen by 17% to 14.9p compared to 12.7p last year. In my interim statement, I stated that the Board is committed to maximising returns for shareholders. Accordingly, the Board is recommending a final dividend of 2p to be paid on 15th August 2002 to shareholders registered at close of business on 19th July 2002. This makes a total ordinary dividend for the year of 2.47p an increase of 96% on last year.

In addition to the final dividend the Board is recommending the payment of a special dividend to shareholders of 3p per share, to be paid on 15th August 2002 to shareholders registered at close of business on 19th July 2002. The Board considers that shareholders should benefit from the positive cash flow enjoyed by the Group that has given rise to cash balances of £3.3m at the year-end.

The proposed total ordinary dividend and special dividend absorb £256k and £314k respectively and together represent 17% of the Group's cash balances. In recommending this special dividend the Board would advise shareholders that new investment opportunities remain a prime policy objective of the Board and will continue to be a priority call on future cash flow as and when opportunities arise.

OPERATIONS

The Group has enjoyed good turnover growth in most of its operating areas having achieved 7% organic growth in the period, the acquisition of Chartland Associates in April 2001 increased growth to 20% overall.

The Group's strategy of developing greater emphasis on fee-based revenues is reflected in growth of over 36% in the supply of professional services. These higher-margin services are an important aspect of the Group's overall business proposition, underpinning our client relationships and enhancing our ability to win new business.

The Group has a large and loyal base of contracted customers who receive from the Group a range of support services. The Group's contracted revenue stream has grown in the period by nearly 30% and now accounts for over £5m of total turnover compared with £4m last year. The Group has 1,400 customers, substantially all of whom have annual agreements for support services, the revenue of which is recognised over the period of each agreement.

In total, fee-based and support revenues have grown by over 30% in the period and now contribute over 68% of total Group turnover amounting to £9.6m compared with 63% and £7.4m respectively for last year. The sales of the underlying software systems, which account for 30% of total turnover, have held up well in difficult market conditions. Further, our success with both Microsoft Great Plains and SunSystems financial software has resulted in Touchstone being recognised by both software authors respectively as their most successful European partners.

The CRM Division has shown substantial growth with an increase of software sales of 50% over last year. Over recent years the Group has built a very professional and specialised front-office CRM division. This now accounts for over 20% of total Group revenue, 50% of which is through the provision of fee-based consultancy. The acquisition of Chartland Associates strengthens the Group's CRM proposition and enhances the Group's ability to provide a broader, more integrated service.

CHAIRMAN'S STATEMENT (CONTINUED)

BALANCE SHEET

The Group continues to enjoy a strong liquid position with ongoing positive cash flow, enabling the Board to take advantage of organic and acquisition investment opportunities as they arise.

Chartland Associates, which was acquired on 30th April 2001, has now completed its period qualifying for deferred earn out consideration which will be met by the issue of 334,918 ordinary shares. These shares will be issued prior to the dividend record date.

ORGANISATION

Over the last 4 years the Group has made 5 acquisitions and has developed skills with new technology solutions in exciting new markets. As a result, a number of organisational changes have been made to ensure that management can better focus on the increased opportunities that now exist.

Chartland has successfully been merged with the Group's existing CRM division to form a consolidated team providing a comprehensive range of products to this growing market. Mike Collier, previously MD of Chartland Associates will head up the Group's merged front-office CRM division.

Similarly, the Group's back-office financial solutions units have also been merged. The Group recently appointed Paul White, previously Managing Director of Pegasus Software, to head-up this merged unit.

These new appointments combined with a re-shaped operation will ensure that a broader base of services and products can be delivered to Touchstone clients. Further, a strengthened operational structure will give greater weight to the Board's objective for organic and acquisitive led growth.

CURRENT TRADING

The current year, which will be our 21st year of operations, has started well with the Group enjoying improved trading compared with the same period last year. This, together with good order books and a comprehensive portfolio of products , leads the Board to look forward to the year as a whole, with confidence.

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

Philip Birch 13 June 2002
Chairman

DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements for the year ended 31 March 2002.

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 2002 is set out in the Chairman's Statement.

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 2002 there were 56 days purchases in Group trade creditors (2001: 57 days). The Company did not have any trade creditors at 31 March 2002 (2001:£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 period due to the Group throughout those periods having use of surplus cash balances.

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

DIRECTORS AND DIRECTORS' INTERESTS

The Directors who held office during the period were as follows:

P Birch - Chairman

DD de Carle

DRT Thompson

KGJ Birch

DP Birch

C Butler

DIRECTORS' REPORT (CONTINUED)

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 Group companies according to the register of Directors' interests:

	Company	Class of share	Interest at end of year	Interest at beginning of year
P Birch *	Touchstone Group plc	Ordinary	2,152,624	2,152,624
DD de Carle	Touchstone Group plc	Ordinary	23,500	23,500
DRT Thompson	Touchstone Group plc	Ordinary	9,500	9,500
KGJ Birch **	Touchstone Group plc	Ordinary	3,030,547	3,030,547
DP Birch	Touchstone Group plc	Ordinary	1,728,257	1,728,257
C Butler	Touchstone Group plc	Ordinary	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	At start of year	Granted	Exercised	At end of year	Exercise price (pence)	Date from which exercisable	Expiry date
C Butler	15,000	–	–	15,000	105p	July 2001	July 2008
C Butler	12,000	–	–	12,000	134.5p	September 2002	September 2009
C Butler	20,000	–	–	20,000	196.7p	August 2003	August 2010
C Butler	40,000	–	–	40,000	122p	December 2003	December 2010
C Butler	–	15,000	–	15,000	121p	December 2004	December 2011

The highest and lowest share prices during the year were 190p and 98.5p respectively and the market price at 31 March 2002 was 130.0p.

There were no changes in Directors' interests in shares or share options up to 31 May 2002, the latest practicable date prior to the issue of this report.

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 31 May 2002, 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	29.9%
P Birch (including 30,000 ordinary shares held on behalf of his immediate family)	2,152,624	21.2%
DP Birch	1,728,257	17.1%
Chase Nominees Limited	370,000	3.7%

DIRECTORS' REPORT (CONTINUED)

POLITICAL AND CHARITABLE CONTRIBUTIONS

The Group made charitable contributions of £3,000 (2001: £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 auditor 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

13 June 2002

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 forty-eight hours before the meetings.

d) All 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. The remuneration of the non-executive Directors is a matter for the Board as a whole. 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 twenty 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. 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, which is considered appropriate given the size and structure of the Group. All Directors have access to the Company Secretary. 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 appointment 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 practical given the size and constitution of the Board.

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.

CORPORATE GOVERNANCE (CONTINUED)

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.

In the case of Chartland Associates plc, acquired in April 2001, the internal controls in place have been reviewed against the Group's existing controls. There was a period post acquisition where the internal controls were incomplete, however the Directors have addressed this and are currently integrating the Group's controls into Chartland Associates plc.

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 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 officers 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 with is appropriate for the responsibilities involved.

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

c) Each 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 twelve month service contracts.

Details of Directors' remuneration and benefits are given below:

Name	Salary, fees and benefits in kind	Bonus	Pension	2002	2001
	£000	£000	£000	£000	£000
KGJ Birch	122	16	13	151	141
DP Birch	92	10	9	111	102
C Butler	87	10	5	102	85
P Birch	10	–	–	10	10
DD de Carle	10	–	–	10	10
DRT Thompson	10	–	–	10	10
	331	36	27	394	358

The performance related elements of remuneration also include share options.

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

Directors' bonuses have been calculated by the Remuneration Committee based on the Group's performance for the year.

The Remuneration Committee is constituted in accordance with 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 69, 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 45, 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.

David Birch

Commercial Director and Company Secretary, aged 47, 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.

Christian Butler ACA

Finance Director, aged 37, 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 de Carle

Non-executive Director, aged 75, 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 56, 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. He is also non-executive director of Motherwell Information Systems Group UK Limited, XKO Group plc and Newcastle Rugby Football Club Limited.

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

KPMG Audit Plc
PO Box 695
8 Salisbury Square
London EC4Y 8BB
United Kingdom

INDEPENDANT AUDITOR'S REPORT 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 1985. 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 2002 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 13 June 2002
Chartered Accountants
Registered Auditor

CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2002

	Note	Year ended 31 March 2002 £000	Year ended 31 March 2001 £000
Turnover			
Continuing operations		**12,630**	11,807
Acquisitions	26	**1,557**	–
Total turnover	1,2	**14,187**	11,807
Cost of sales		**(5,694)**	(4,979)
Gross profit		**8,493**	6,828
Administrative expenses			
– Before exceptional items and goodwill amortisation		**(6,442)**	(5,013)
– Exceptional items	6	**–**	(142)
– Goodwill amortisation		**(357)**	(262)
Total administrative expenses		**(6,799)**	(5,417)
Operating profit			
Continuing operations		**1,542**	1,411
Acquisitions		**152**	–
		1,694	1,411
Interest receivable	7	**93**	77
Interest payable and similar charges	8	**(17)**	(7)
Profit on ordinary activities before taxation	3	**1,770**	1,481
Tax on profit on ordinary activities	9	**(628)**	(508)
Profit on ordinary activities after taxation		**1,142**	973
Dividends paid and proposed	10	**(570)**	(123)
Retained profit for the year	21	**572**	850
Adjusted earnings per share – basic (before goodwill amortisation)	11	**14.9p**	12.7p
Adjusted earnings per share – diluted (before goodwill amortisation)	11	**14.4p**	12.5p
Earnings per share – basic (after goodwill amortisation)	11	**11.4p**	10.0p
Earnings per share – diluted (after goodwill amortisation)	11	**10.9p**	9.8p
Earnings per share – basic including Chartland shares to be issued (before goodwill amortisation)	11	**14.5p**	–

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 Chartland Associates plc (see note 26).

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 2002

	Note	2002 £000	2002 £000	2001 £000	2001 £000
Fixed assets					
Intangible assets	*12*		**3,659**		2,959
Tangible assets	*13*		**418**		414
Investments	*14*		**106**		159
			4,183		3,532
Current assets					
Stocks	*15*	**3**		1	
Debtors	*16*	**5,074**		4,534	
Cash at bank and in hand		**3,262**		2,117	
		8,339		6,652	
Creditors: amounts falling due within one year	17	**(2,342)**		(1,945)	
Net current assets			**5,997**		4,707
Total assets less current liabilities			**10,180**		8,239
Provisions for liabilities and charges	*18*		**–**		(246)
Accruals and deferred income					
Deferred income	*19*	**(3,367)**		(3,015)	
Accruals	*19*	**(1,310)**		(1,024)	
			(4,677)		(4,039)
Net assets			**5,503**		3,954
Capital and reserves					
Called up share capital	*20*		**1,013**		976
Shares to be issued	*21*		**452**		–
Share premium account	*21*		**1,006**		942
Other reserves	*21*		**(399)**		(823)
Profit and loss account	*21*		**3,431**		2,859
Equity shareholders' funds			**5,503**		3,954

These financial statements were approved by the Board of Directors on 13 June 2002 and were signed on its behalf by:

KGJ Birch
Director

BALANCE SHEET
AT 31 MARCH 2002

	Note	2002 £000	2002 £000	Restated 2001 £000	Restated 2001 £000
Fixed assets					
Investments	*14*		**3,660**		2,458
Current assets					
Debtors	*16*	**1,763**		1,242	
Cash at bank and in hand		**18**		2	
		1,781		1,244	
Creditors: amounts falling due within one year	*17*	**(2,144)**		(1,712)	
Net current liabilities			**(363)**		(468)
Total assets less current liabilities			**3,297**		1,990
Net assets			**3,297**		1,990
Capital and reserves					
Called up share capital	*20*		**1,013**		976
Shares to be issued	*21*		**452**		–
Share premium account	*21*		**1,006**		942
Other reserves	*21*		**424**		–
Profit and loss account	*21*		**402**		72
Equity shareholders' funds			**3,297**		1,990

These financial statements were approved by the Board of Directors on 13 June 2002 and were signed on its behalf by:

KGJ Birch
Director

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2002

	Note	2002 £000	2001 £000
CASH FLOW STATEMENT			
Cash flow from operating activities	*23*	**2,483**	1,740
Returns on investments and servicing of finance	*24*	**90**	70
Taxation		**(780)**	(230)
Capital expenditure and financial investment	*24*	**(123)**	(269)
Acquisitions and disposals	*24*	**(455)**	(1,555)
Equity dividends paid		**(133)**	(110)
Cash inflow/(outflow) before management of liquid resources and financing		**1,082**	(354)
Management of liquid resources	*24*	**(1,000)**	(200)
Financing	*24*	**63**	(40)
Increase/(decrease) in cash in the period		**145**	(594)

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

		2002 £000	2001 £000
Increase/(decrease) in cash in the period		**145**	(594)
Cash outflow from decrease in debt and lease financing		**8**	40
Cash outflow from increase in liquid resources		**1,000**	200
Change in net funds resulting from cash flows		**1,153**	(354)
Loans and finance leases acquired with subsidiaries		**(8)**	–
Movement in net funds in the period		**1,145**	(354)
Net funds at the start of the period		**2,101**	2,455
Net funds at the end of the period	*25*	**3,246**	2,101

RECONCILIATIONS OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS
FOR THE YEAR ENDED 31 MARCH 2002

	Group		Company	
	2002	2001	**2002**	2001
	£000	£000	**£000**	£000
Profit for the financial year	**1,142**	973	**900**	150
Dividends	**(570)**	(123)	**(570)**	(123)
Retained profit for the financial year	**572**	850	**330**	27
New share capital subscribed net of issue costs	**977**	–	**977**	–
Net addition to equity shareholders' funds	**1,549**	850	**1,307**	27
Opening shareholders' funds	**3,954**	3,104	**1,990**	1,963
Closing equity shareholders' funds	**5,503**	3,954	**3,297**	1,990

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.

The Company has adopted, FRS 18 'Accounting policies' and FRS 19 'Deferred tax' in these financial statements. No material changes were required. FRS 17 'Retirement Benefits' has no material impact on 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:

To provide a true and fair view in the own books of Touchstone Group plc a departure is required from the requirements of the Companies Act 1985.

On the 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.

During the year ICOS was dissolved. The Companies Act 1985 would normally require Touchstone Group plc's investment in ICOS to be written down. This would have led to a charge of £1,628,000 to the profit and loss account of Touchstone Group plc in the year ended 31 March 2001.

As the goodwill and assets associated with this subsidiary have not left the Group but have enhanced the value of Touchstone Group plc's investment in Touchstone Computers Ltd, the carrying value of ICOS has been transferred to the investment in Touchstone Computers Ltd in the balance sheet of Touchstone Group plc.

In the opinion of the Directors, the transfer of the trade and assets and liabilities has not impaired the associated goodwill.

This departure has no impact on the consolidated position of the Group.

BASIS OF CONSOLIDATION

On 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 the acquisition is capitalised on the balance sheet and amortised through the profit and loss account in equal annual instalments over its estimated useful economic life. Chartland Associates plc was acquired by the Group on 30 April 2001.

The profit for the financial year dealt within the financial statements of the holding company was £900,000 *(2001:£150,000)*.

Under section 230(4) of the Companies Act 1985 the Company is exempt from the requirement to present its own profit and loss account.

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.

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 Company 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

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

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 year and preceding period comprise short term bank deposits.

2 SEGMENTAL INFORMATION

The Group's turnover and profits before tax principally arise from its activities in the UK and Eire. Turnover and profits before tax arising in Eire are not material. The Group has one principal class of business.

3 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

		2002 £000	2001 £000
Profit on ordinary activities before taxation is stated after charging:			
Auditors' remuneration:			
Group	– audit	**35**	30
	– fees paid to the auditors in respect of other services	**2**	41
Company	– audit	**3**	3
Depreciation and other amounts written off tangible fixed assets:			
Owned		**228**	178
Leased		**3**	9
Amortisation of goodwill		**357**	262
(Profit)/loss on disposal of fixed assets		**(4)**	27
Hire of land and buildings – operating leases		**196**	211

Fees paid to auditors in respect of other services amounting to £20,000 were capitalised in the year and not written off directly to the profit and loss account.

NOTES (CONTINUED)

4 REMUNERATION OF DIRECTORS

	2002	2001
	£000	£000
Emoluments for services as Directors	**367**	337
Pension contributions	**27**	21
	394	358

Emoluments of the highest paid director (excluding pension contributions) were £138,060 *(2001:£131,665)*. Amounts paid by the Group in respect of his pension contributions were £13,000 *(2001: £9,600)*.

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	
	2002	2001
Management	**17**	11
Administrative	**25**	18
Sales, support and technical	**77**	58
	119	87

The aggregate payroll costs of these persons were as follows:

	2002	2001
	£000	£000
Wages and salaries	**4,749**	3,679
Social security costs	**576**	465
Other pension costs (see note 28)	**135**	111
	5,460	4,255

6 EXCEPTIONAL ITEMS

	2002	2001
	£000	£000
Integration costs following acquisitions of subsidiaries	–	112
Professional fees incurred in transferring listing to the London Stock Exchange	–	30
	–	142

7 INTEREST RECEIVABLE

	2002	2001
	£000	£000
Bank interest	**93**	77

8 INTEREST PAYABLE AND SIMILAR CHARGES

	2002	2001
	£000	£000
Bank charges	**4**	5
Finance charges payable in respect of finance leases	**1**	2
Other interest paid	**12**	–
	17	7

NOTES (CONTINUED)

9 TAXATION

	2002	2001
	£000	£000
UK corporation tax at 30% *(2000: 30%)*	**628**	508

FACTORS AFFECTING THE TAX CHARGE FOR THE CURRENT PERIOD

The current tax charge for the period is higher than the standard rate of corporation tax in the UK of 30%. The differences are explained below:

	£000	£000
Current tax reconciliation		
Profit on ordinary activities before tax	**1,770**	1,481
Current tax at 30 %	**531**	444
Effects of:		
Expenses not deductible for tax purposes and other adjustments	**76**	68
Effect of depreciation in excess of capital allowances	**24**	(4)
Adjustments to tax charge in respect of previous periods	**(3)**	–
Total current tax charge (see above)	**628**	508

10 DIVIDENDS

	2002	2001
	£000	£000
Equity shares:		
Interim dividend paid (2002: 0.47p per share, 2001: 0.38p per share)	**47**	37
Final dividend proposed (2002: 2p per share, 2001: 0.88p per share)	**209**	86
Special dividend proposed (2002: 3p per share, 2001: nil)	**314**	–
Total dividend (2002: 5.47p per share, 2001: 1.26p per share)	**570**	123

11 EARNINGS PER SHARE

	2002	2001
	£000	£000
Profit for the financial year attributable to shareholders	**1,142**	973
Amortisation of capitalised goodwill	**357**	262
Profit for the financial year before goodwill amortisation	**1,499**	1,235

Weighted average number of shares in issue	**10,054,464**	9,759,040
Dilution effect of option schemes:		
– approved employee option scheme (a)	**57,932**	105,885
– unapproved employee option scheme (a)	**22,997**	23,606
– sharesave scheme (b)	**–**	42,411
	10,135,393	9,930,942

NOTES (CONTINUED)

11 EARNINGS PER SHARE (CONTINUED)

	2002	2001
	£000	£000
Earnings per ordinary share before goodwill amortisation	**14.9p**	12.7p
Loss per ordinary share on goodwill amortisation	**(3.5)p**	(2.7)p
Basic earnings per ordinary share	**11.4p**	10.0p
Diluted earnings per ordinary share after goodwill amortisation(c)	**10.9p**	9.8p
Diluted earnings per ordinary share before goodwill amortisation(c)	**14.4p**	12.5p
Basic earnings per share including shares to be issued and before goodwill amortisation (d)	**14.5p**	–

a) As at 31 March 2002, there were 450,583 share options in issue under an approved employee option scheme and 335,617 in an unapproved scheme. The options first became exercisable in 2001 dependant on the achievement of certain performance targets. Of these shares 80,929 were dilutive.

b) As at 31 March 2001, 75,628 options were held through a sharesave scheme with the Yorkshire Building Society. These options were exercised during the year. None of these shares were dilutive.

c) Diluted earning per ordinary share includes 334,918 shares to be issued in respect of the acquisition of Chartland Associates plc. They have been deemed as issued at the purchase date.

d) The calculation includes shares to be issued in respect of the acquisition of Chartland Associates plc. The basis of the calculation assumes that they were issued upon acquisition in April 2001.

12 INTANGIBLE FIXED ASSETS

	Goodwill
Cost	**£000**
At beginning of year	3,363
Additions (see note 26)	1,057
At end of year	4,420
Amortisation	
At beginning of year	404
Charged in year	357
At end of year	761
Net book value	
At 31 March 2002	**3,659**
At 31 March 2001	2,959

NOTES (CONTINUED)

13 TANGIBLE FIXED ASSETS

Group	Fixtures, fittings, and equipment £000	Motor vehicles £000	Total £000
Cost			
At beginning of year	1,082	75	1,157
Additions	182	–	182
Acquisitions	54	–	54
Disposals	(9)	(28)	(37)
At end of year	1,309	47	1,356
Depreciation			
At beginning of year	690	53	743
Charge for the year	219	12	231
Disposals	(9)	(27)	(36)
At end of year	900	38	938
Net book value			
At 31 March 2002	**409**	**9**	**418**
At 31 March 2001	392	22	414

Included in the net book value of motor vehicles is £9,000 *(2001:£13,000)* in respect of assets held under finance leases. Depreciation for the year on these assets was £3,000 *(2001:£9,000)*.

NOTES (CONTINUED)

14 FIXED ASSET INVESTMENTS

Group	Own shares £000	Other investments other than loans £000	Total £000
Cost			
At beginning of year	68	91	159
Additions	–	–	–
Acquisitions	–	1	1
Disposals	–	(54)	(54)
At end of year	68	38	106
Provisions			
At beginning and end of year	–	–	–
Net book value			
At 31 March 2002	**68**	**38**	**106**
At 31 March 2001	68	91	159

The own shares figure reflects 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 £000
Cost	
At beginning of year	2,458
Additions	1,202
At end of year	3,660
Provisions	
At beginning and end of year	–
Net book value	
At 31 March 2002	**3,660**
At 31 March 2001	2,458

14 FIXED ASSET INVESTMENTS (CONTINUED)

	Country of incorporation	Principal Activity	Group	Class and percentage of shares held Company
Principal subsidiary undertakings				
Touchstone Computers Ltd	England and Wales	Supply and support of business software	–	100%
Chartland Associates plc	England and Wales	Business solutions providers	–	100%

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 own 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.

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

Full details of all subsidiary undertakings will be attached to the Company's Annual Return, to be filed with the Registrar of Companies.

NOTES (CONTINUED)

15 STOCKS

	Group		Company	
	2002	2001	**2002**	2001
	£000	£000	**£000**	£000
Work in progress	**3**	1	**–**	–

16 DEBTORS

	Group		Company	
	2002	2001	**2002**	2001
	£000	£000	**£000**	£000
Trade debtors	**3,487**	3,562	**–**	–
Amounts owed by group undertakings	**–**	–	**1,763**	1,242
Other debtors	**84**	35	**–**	–
Prepayments and accrued income	**1,503**	937	**–**	–
	5,074	4,534	**1,763**	1,242

Included within prepayments and accrued income are deferred maintenance costs of £7,000 which are deferred for more than one year *(2001: £38,000)*.

17 CREDITORS

	Group		Company	
Amounts falling due within one year	**2002**	2001	**2002**	2001
	£000	£000	**£000**	£000
Obligations under finance leases	**16**	16	**–**	–
Trade creditors	**785**	914	**–**	–
Amounts owed to group undertakings	**–**	–	**1,621**	1,626
Corporation tax	**389**	541	**–**	–
Other creditors including tax and social security	**205**	134	**–**	–
Value Added Tax	**424**	254	**–**	–
Dividend proposed	**523**	86	**523**	86
	2,342	1,945	**2,144**	1,712

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

	2002	2001
	£000	£000
Group		
Within one year	**16**	16
In the second to fifth years	**–**	–
Over five years	**–**	–
	16	16
Less future finance charges	**(1)**	(2)
	15	14

The Company does not hold any assets under finance leases or hire purchase contracts.

NOTES (CONTINUED)

18 PROVISIONS FOR LIABILITIES AND CHARGES

	Contingent consideration Group £000
At beginning of year	246
Utilised during the year	(246)
At end of year	–

Contingent consideration of £246,000 was held in the balance sheet of Touchstone Group plc. This has been fully settled during the year.

Following adoption of FRS 19 'Deferred Tax', there are no material deferred tax balances as at 31 March 2002.

19 ACCRUALS AND DEFERRED INCOME

	Group		Company	
	2002 £000	2001 £000	**2002 £000**	2001 £000
Deferred income:				
Amounts falling due within one year	**3,360**	2,911	**–**	–
Amounts falling due after more than one year	**7**	104	**–**	–
	3,367	3,015	**–**	–
Accruals:				
Amounts falling due within one year	**1,310**	1,024	**–**	–
	4,677	4,039	**–**	–

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

NOTES (CONTINUED)

20 CALLED UP SHARE CAPITAL

	2002	2001
	£000	£000
Authorised		
14,210,000 ordinary shares of 10p each *(2001:14,210,000)*	**1,421**	1,421
Allotted, called up and fully paid		
10,125,627 ordinary shares of 10p each *(2001: 9,759,274)*	**1,013**	976

82,021 ordinary shares were issued during the period with a total nominal value of £8,202 for a total consideration of £71,313, arising from the exercise of options. The premium on issue has been credited to the share premium account.

284,332 shares were issued during the period with a nominal value of £28,433 as part of the initial consideration for the acquisition of Chartland Associates plc. The market value of these shares was £451,000 and the premium on issue has been credited to “Other reserves”.

There is also a deferred consideration provision of 334,918 shares, nominal value £33,492 in respect of this acquisition. The market value of the 334,918 shares is £452,140 which has been reflected within “Shares to be issued” on the balance sheet.

21 SHARE PREMIUM AND RESERVES

	Group			
	Shares to be issued	**Share premium account**	**Other reserves**	**Profit and loss account**
	£000	**£000**	**£000**	**£000**
At beginning of year	–	942	(823)	2,859
Premium on issue of shares	–	64	424	–
Shares to be issued arising in year	452	–	–	–
Retained profit for the year	–	–	–	572
At end of year	**452**	**1,006**	**(399)**	**3,431**

	Company			
	Shares to be issued	**Share premium account**	**Other reserves**	**Profit and loss account**
	£000	**£000**	**£000**	**£000**
At beginning of year	–	942	–	72
Premium on issue of shares	–	64	424	–
Shares to be issued arising in year	452	–	–	–
Retained profit for the year	–	–	–	330
At end of year	**452**	**1,006**	**424**	**402**

NOTES (CONTINUED)

21 SHARE PREMIUM AND RESERVES (CONTINUED)

The Company's profit for the financial year before dividends payable was £900,000 *(2001:£150,000)*.

The 'Group - Other reserves' opening 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.

The movement in the Other reserves represents the premium on shares issued as part of the initial consideration on acquisition on Chartland Associates plc.

Shares to be issued represents contingent consideration in respect of the acquisition of Chartland Associates plc. Once these shares are issued it will result in Mr M R Collier holding 6.1% of Touchstone Group plc shares.

22 COMMITMENTS

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

	2002		2001	
	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	**147**	**–**	83	–
Over five years	**49**	**–**	85	–
	196	**–**	184	–

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

23 RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOWS

	2002	2001
	£000	£000
Continuing operations		
Operating profit	**1,694**	1,411
Goodwill amortisation	**357**	262
(Profit)/loss on sale of fixed assets	**(4)**	27
Depreciation	**231**	187
(Increase) / decrease in stocks	**(2)**	2
Decrease / (Increase) in debtors	**23**	(714)
Increase in creditors	**184**	565
Net cash inflow from operating activities	**2,483**	1,740

NOTES (CONTINUED)

24 ANALYSIS OF CASH FLOWS

	2002 £000	2002 £000	2001 £000	2001 £000
Returns on investments and servicing of finance				
Interest received	**93**		77	
Interest paid	**(3)**		(5)	
Interest element of finance lease rental payments	**–**		(2)	
Net cash inflow for returns on investment and servicing of finance		**90**		70
Capital expenditure and financial investment				
Purchase of tangible fixed assets	**(182)**		(196)	
Sale of tangible fixed assets	**59**		86	
Purchase of fixed asset investment	**–**		(159)	
Net cash outflow for capital expenditure and financial investment		**(123)**		(269)
Acquisitions and disposals				
Additional cash consideration for prior year acquisitions	**(246)**		(765)	
Cash acquired with subsidiary	**90**		–	
Purchase of subsidiary undertaking (note 26)	**(299)**		–	
Purchase of business contracts	**–**		(790)	
		(455)		**(1,555)**
Management of liquid resources				
Cash movement on short term bank deposits		**(1,000)**		(200)
Financing				
Issue of ordinary share capital	**71**		–	
Capital element of finance lease payments	**(8)**		(40)	
		63		(40)

NOTES (CONTINUED)

25 ANALYSIS OF NET FUNDS

	At beginning of period £000	Cash flow £000	Acquisition £000	At end of period £000
Cash at bank and in hand	617	55	90	762
Finance leases	(16)	8	(8)	(16)
Short-term bank deposits	1,500	1,000	–	2,500
Total	**2,101**	**1,063**	**82**	**3,246**

26 PURCHASE OF BUSINESS CONTRACTS

The Group acquired Chartland Associates plc during the year, financed from Group cash reserves and share capital. The acquisition contributed a total turnover of £1,557,000 in the year, an operating profit of £152,000 (including an amortisation charge of £78,000) and generated cash flow from operating activities of £317,000. The acquisition has been accounted for using acquisition accounting principles.

The turnover and operating profit of Chartland Associates plc between 1 March 2001 and 29 April 2001 was £310,000 and £6,000 respectively. The net assets and the operating profit of Chartland Associates plc in the year ended 28 February 2001 were £142,476 and £187,259 respectively.

The acquisition of Chartland Associates plc was completed on 30 April 2001 for an initial consideration of £749,443. An additional payment of £452,140 became payable as a result of Chartland Associates plc achieving a profit of £230,428 (before amortisation of goodwill) in the earn out period.

Goodwill of £1,057,000 arose on acquisition, which has been capitalised in full. Goodwill is being amortised over 12 years, its useful economic life. This life has been determined based on the nature of the business acquired and the maturity of the customer base acquired with the business.

The following table demonstrates how goodwill was calculated and how the consideration was satisfied

(i) Chartland Associates plc

Net assets acquired	Fair value £000
Tangible fixed assets	54
Debtors and prepayments	563
Cash at bank and in hand	90
Creditors	(301)
Loans and finance leases	(8)
Deferred income	(253)
	–
	145
Goodwill	1,057
	–
	1,202
Satisfied by:	
Cash	299
Shares	451
Shares to be issued	452
	1,202

NOTES (CONTINUED)

26 PURCHASE OF BUSINESS CONTRACTS (CONTINUED)

Cash paid includes £83,000 of professional and legal fees. The Directors consider that there is no material difference between the fair value and book value of assets and liabilities acquired.

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 renewed annually. No amount had been drawn down in respect of this at either 31 March 2002 or 31 March 2001.

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 2002 or 31 March 2001.

Currency risk

No analysis of currency risk of financial assets and liabilities is presented as at both 31 March 2002 and 31 March 2001 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 £135,000 *(2001: £111,000)*.

29 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 the offices of Teather & Greenwood Ltd, Beaufort House, 15 St. Botolph Street, London EC3A 7QR on Tuesday 13th August 2002 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 11, 12 and 13 in the Notice of the Meeting at the end of the document, and relate to the following:

Resolution 11, 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 £337,520 being equivalent to approximately one-third of the current issued share capital of the Company. This authority will expire on the date of the next Annual General Meeting of the Company or on 12th November 2003 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 12, 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 12th November 2003 whichever is earlier, the statutory pre-emption rights for any allotment of shares in connection to 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 £50,628 which is equivalent to approximately 5% of the existing issued share capital of the Company.

Resolution 13, which will be proposed as a Special Resolution, will grant to the Company authority to make market purchases of up to 1,012,500 ordinary shares (representing approximately 10% of its present issued share capital) at a minimum price of 10 pence per share and a maximum price of not more than 5% above the average of the market values of those shares as derived from the London Stock Exchange Daily Official List for the 5 business days before the purchase is made, such authority to expire on the earlier of 12th November 2003 or the date of the next Annual General Meeting of the Company.

This proposal should not be taken as an indication that the Company will purchase shares at any particular price or indeed at all, and the Directors will only consider making purchases if they believe that to do so would result in an increase in earnings per share and that such purchases would be in the best interests of shareholders generally.

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 EC4Y ODX 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 (the "Company") will be held at the offices of Teather & Greenwood Ltd, Beaufort House, 15 St. Botolph Street, London EC3A 7QR on Tuesday 13th August 2002 at 11 a.m. for the following purposes:

ORDINARY BUSINESS

1. To receive and adopt the accounts for the year ended 31 March 2002 together with the reports of the Directors and auditors thereon.
2. To declare a final dividend of 2.00 pence per share.
3. To declare a special dividend of 3.00 pence per share.
4. To re-elect David Birch who retires in accordance with the Company's Corporate Governance policies and, being eligible, offers himself for re-election.
5. To re-elect Christian Butler who retires in accordance with the Company's Corporate Governance policies and, being eligible, offers himself for re-election.
6. To re-elect David de Carle who retires in accordance with the Company's Corporate Governance policies and, being eligible, offers himself for re-election.
7. To re-elect David Thompson who retires in accordance with the Company's Corporate Governance policies and, being eligible, offers himself for re-election.
8. To re-elect Philip Birch who retires in accordance with article 18.4 of the Company's articles of association and, being eligible, offers himself for re-election.
9. To re-elect Keith Birch who retires in accordance with article 18.4 of the Company's articles of association and, being eligible, offers himself for re-election
10. 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 11 will be proposed as an ordinary resolution and Resolutions 12 and 13 as special resolutions:

11. 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 £337,520 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 2003 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.
12. That the directors shall be and are hereby empowered pursuant to section 95 of the Act to allot equity securities (within the meaning of section 94(2) of the Act) for cash pursuant to the authority conferred by Resolution 11 above as if section 89(1) 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;

NOTICE OF ANNUAL GENERAL MEETING (CONTINUED)

(b) to the allotment of equity securities in connection with or pursuant to an offer 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 directors may feel necessary or expedient to deal with fractional entitlements or the regulations or requirements of any recognised regulatory body in any territory;

(c) to the allotment otherwise then pursuant to sub paragraph (a) above of equity securities up to an aggregate nominal value of £50,628, 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 2003 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.

13. That the Company be and is hereby generally and unconditionally authorised to make market purchases (within the meaning of section 163 of the Act) of ordinary shares of 10 pence each in the capital of the Company ("Ordinary Shares") provided that:

(a) the maximum number of Ordinary Shares hereby authorised to be purchased is 1,012,500;

(b) the minimum price which may be paid for each Ordinary Share is 10 pence;

(c) the maximum price which may be paid for each Ordinary Share is an amount equal to 5% above the average of the middle market quotations for an Ordinary Share as derived from the Daily Official List of the UK Listing Authority for the five business days immediately preceding the day on which the Ordinary Share is purchased; and

(d) the authority hereby conferred shall expire 15 months after the date of the passing of this resolution or at the conclusion of the next annual general meeting of the Company, whichever is earlier (except in relation to the purchase of Ordinary Shares the contract for which was concluded before such date and which would or might be executed wholly or partly after such date), unless such authority is renewed prior to such time.

Registered Office:
5/6 Beauchamp Court
Victors Way
High Barnet
Hertfordshire
EN5 5TZ

By order of the Board

David Birch
Director and Secretary
13 June 2002

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 EC4Y 0DX 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 Capita IRG plc, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU.

   To be valid the form must arrive by 11 a.m. on 11th August 2002.

   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 41 of the Uncertified Securities Regulations 2001, specifies that only those holders of ordinary shares registered in the Register of Members of the Company at 11a.m. on 11th August 2002 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 11th August 2002 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* Christian 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
Registered number	3537238
Secretary	David Birch
Broker	Teather and Greenwood Limited Beaufort House 15 St Botolph Street 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	Capita IRG plc Bourne House 34 Beckenham Road Beckenham Kent BR3 4TU

www.touchstone.co.uk

TOUCHSTONE GROUP PLC
5/6 Beauchamp Court, Victors Way, High Barnet, Hertfordshire EN5 5TZ
Telephone: 020 8275 3400   Facsimile: 020 8441 5442

TAR0602

PROXY FORM

I,/We,

of ....

being a member/members of Touchstone Group plc

hereby appoint the Chairman/ ....

as my/our proxy to attend for me/us at the annual general meeting of the company to be held on Thursday 13th August 2002 and at any adjournment of such meeting and to vote on my/our behalf on the resolutions set out in the notice of meeting as follows:

NO.	ORDINARY RESOLUTIONS	FOR	AGAINST
1	Adoption of directors report and accounts		
2	Declaration of final dividend of 2.00 pence per share		
3	Declaration of a special dividend of 3.00 pence per share		
4	Re-elect David Birch as a director		
5	Re-elect Christian Butler as a director		
6	Re-elect David de Carle as a director		
7	Re-elect David Thompson as a director		
8	Re-elect Philip Birch as a director		
9	Re-elect Keith Birch as a director		
10	Re-appoint KPMG Audit plc as auditors		
11	Authority of directors to allot shares		
	SPECIAL RESOLUTIONS		
12	Disapplication of statutory pre-emption rights on share issues for cash		
13	Authority for Company to make market purchases		

DATED:

Signature: ....

Notes:

The member should mark "FOR" or "AGAINST" as desired and if no indication is made the proxy will vote as he thinks fit or abstain from voting.

A proxy need not be a member of the company.

A member may appoint the Chairman of the meeting as his or her proxy.

To be valid, forms of proxy must be lodged with *Capita IRG plc, Bourne House, 34 Beckenham Road, Beckenham, Kent. BR3 4TU* no fewer than 48 hours before the time fixed for the meeting (i.e. by 11 a.m. on 11th August 2002).

BUSINESS REPLY SERVICE
LICENCE No. MB122

1

Capita IRG Plc (Proxies)
PO Box 25
Beckenham
Kent
BR3 4BR