touchstone

annual report &
accounts 2003

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CHAIRMAN'S STATEMENT

I am pleased to report another set of creditable results for the Group, which have been achieved against a background of difficult trading conditions in the industry and in the economy generally.

EARNINGS AND DIVIDENDS

Profits for the year before amortisation of goodwill and tax were £1.89m compared to £2.13m last year. Profit before tax was £1.53m compared to £1.77m last year.

Basic earnings per share (before goodwill amortisation) were 12.8p compared to 14.9p last year and basic earnings per share (after goodwill amortisation) were 9.2p compared to 11.4p last year. The Board is recommending a final dividend of 2.0p to be paid on 12 August 2003 to shareholders registered at close of business on 18 July 2003. This makes a total dividend of 3.0p, an increase of 21% on last year (excluding the prior year special dividend), which will absorb £313k and is more than three times covered by earnings.

OPERATIONS

In spite of the difficult trading conditions the Group managed to achieve some modest overall growth in the year.

Recurring revenues associated with the provision of help desk maintenance and support, again showed their resilience with an increase of 8% over last year, and now represent nearly 40% of Group turnover.

Total software and fee-based revenues were marginally down on last year. However, good growth was achieved in more recently established areas with our CRM and Great Plains activities growing by 12% and 16% respectively.

The Group's policy of investing in growth led to the recent acquisition of the Microsoft Great Plains division of Tenon Group plc. This acquisition, which was completed after the year end, will strengthen the Group's presence in the growing Microsoft business application arena. The agreement also establishes an on-going trading association with Tenon Group plc, which should also complement Touchstone's existing SunSystems and growing CRM activities.

BALANCE SHEET

The Group continues to enjoy a strong liquid position with cash balances of £3.66m at the balance sheet date and a strong continuing positive cash flow. This will enable the Board to take advantage of organic and acquisition investment opportunities as they arise.

ORGANISATION

Since our public offering in 1998, the Group has made six acquisitions which have contributed new markets, products, skills and clients to the Group. As a result, the Group is now more than twice its original size and benefits considerably from a policy to pursue an integrated service orientation.

During the course of the year the company added products to its portfolio and invested in the people and skills to broaden the range of business solutions available to its customers. These include financial control, sales force productivity, management information, marketing effectiveness and spend control.

Many of the projects we now undertake with our customers involve more than one product and require an integrated solution. This growing trend has encouraged the Group to merge its' back and front office divisions in to one larger operational unit with a reshaped management team. The change will allow our Group message to be communicated more effectively. Importantly, it will also ensure that we derive greater efficiencies from existing and acquired operations.

CHAIRMAN'S STATEMENT (CONTINUED)

BOARD CHANGES

Having served beyond normal retirement age my non-executive colleague Mr David de Carle and I have decided to retire from the Board and will not therefore offer ourselves for re-election at the forthcoming AGM.

It has been a pleasure and a privilege to be associated with the Group through all its major stages of development. We would like to extend our very best wishes to the Group and all its employees in its future enterprise under the very able direction of David Thompson who will assume the chairmanship following my retirement. David has been a non-executive director since the public flotation of the Group in 1998. He has extensive experience in the IT industry and I am sure he will be an excellent successor as Chairman.

CURRENT TRADING

There is still a strong tendency for customers to delay placing orders for new systems. However, the Group has more recently gained some notable new contracts, and it also has the benefit of a large and loyal customer base for additional sales opportunities.

A slow start to the year will impact on trading for the first quarter, which will be behind the same period last year. However, order books are marginally ahead of last year and the sales pipeline is encouraging.

Therefore, whilst there has been a tentative start to the year, the Board looks forward to the year as a whole with cautious optimism.

The Board joins me in thanking the management and staff for their contribution to a good performance in difficult conditions.

Philip Birch 16 June 2003
Chairman

DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements for the year ended 31 March 2003.

PRINCIPAL ACTIVITIES

Touchstone Group plc is a holding company.

The principal activity of its trading subsidiaries during the financial year 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 2003 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 2003 there were 69 days purchases in Group trade creditors (2002: 56 days). The Company did not have any trade creditors at 31 March 2003 (2002:£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 Group having use 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 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	17,500	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.

There were no changes in Directors' interests in shares up to 13 June 2003, the latest practicable date prior to the issue of this report.

Details of the Directors' share options are given in the Remuneration Report on pages 8 to 11.

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 detailed in the Remuneration 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 13 June 2003, 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	29.2%
P Birch (including 30,000 ordinary shares held on behalf of his immediate family)	2,152,624	20.7%
DP Birch	1,728,257	16.6%
Chase Nominees Limited	375,000	4.0%
M Collier	518,038	5.0%

DIRECTORS' REPORT (CONTINUED)

POLITICAL AND CHARITABLE CONTRIBUTIONS

The Group made charitable contributions of £2,250 (2002: £3,000) during the year. No political donations were made in the current or prior year.

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 receives less favourable treatment on the grounds of age, sex, sexual orientation, disability, marital status, colour, religion, race or ethnic origins.

POST BALANCE SHEET EVENT

Subsequent to the year end Touchstone purchased the Microsoft Great Plains division of the professional services group Tenon. Initial consideration was £425,000 with additional consideration payable over a two year period under an earn out agreement. Total consideration is capped at £750,000. No tangible fixed assets were acquired.

AUDITORS

In accordance with Section 384 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

16 June 2003

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. Details of the Remuneration Committee are set out in the Remuneration Report on pages 8 to 11.

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, comprises Philip Birch, David de Carle and David Thompson. The Committee is responsible for the independent monitoring of the effectiveness of the system of internal control, compliance, accounting policies and published financial statements on behalf of the Board. This is achieved primarily through a review of the annual financial statements and a review of the nature and scope of the external audit. The audit committee meet with the external 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 whose appointment and removal is a decision of the Board as a whole. 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.

e) The terms of reference of the Remuneration Committee and Audit Committee are not formally documented. The Board has considered the need for formal documentation of the respective terms of reference, but has resolved that, due to the size of the Group, this is not necessary.

The Board is undertaking a review of its compliance with both the Higgs report on the role and effectiveness of non-executive directors and the Smith report on Audit Committee guidance.

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 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 is not necessary.

REMUNERATION REPORT

CONSIDERATION OF MATTERS RELATING TO DIRECTORS' REMUNERATION

The remuneration policy is set by the Remuneration Committee on behalf of the Board and is described below. Directors who were members of the Remuneration Committee during the year ending 31 March 2003 were Philip Birch (Chairman), David de Carle and David Thompson.

This is in accordance with relevant provisions of Section B of the Combined Code, save that terms of reference of the Remuneration Committee are not formally documented and its membership includes one Non-Executive Director who is not independent (Phillip Birch). The Remuneration Committee has given full consideration to Section B of the Combined Code Provisions in framing its remuneration policy.

REMUNERATION POLICY

The Remuneration Committee determines on behalf of the board, overall policy for executive remuneration and seeks to ensure that the remuneration policy is compatible with the objectives of the company and is in the interest of all shareholders. The Remuneration Committee has access to independent advice where it considers it appropriate. No such advice was sought during the year.

Employees throughout the Group, including Executive Directors, have performance reviews annually. The Remuneration Committee advises the Board on the remuneration and other terms of employment of Executive Directors.

The policy in respect of Directors' remuneration for the forthcoming years is performance related to the extent it is set by reference to individual performance, experience and market conditions with a view to providing a package that is appropriate for the responsibilities involved. Those aspects of remuneration that are performance related, comprising the annual bonus and award of any share options, are determined at the end of the financial year to which they relate. There is however no formal framework in place and remuneration levels are set completely at the discretion of the Remuneration Committee. These conditions apply equally to all Directors.

The Remuneration Committee consider this an appropriate method of determining the remuneration of the Executive Directors because of the size of the Group. Details of the annual bonuses for 2003 for each Director are set out below.

The remuneration of the Non-Executive Directors is a matter for the Board as a whole.

REMUNERATION PACKAGE

The remuneration package of each Executive Director consists of the following elements

BASE SALARY

Base salaries are reviewed annually. Amongst other factors the Remuneration Committee considers individual contribution towards improved performance of the Group, the scope of responsibilities of each Director and benchmark salaries in the market.

ANNUAL BONUS

The bonus schemes for 2003 and the current year provide for discretionary bonuses, as described above, although in any year the Remuneration Committee considers Group performance against the prior year and prior year bonus as a proportion of base salary when determining at what proportion of base salary to set the Directors' bonus.

The Remuneration Committee consider this an appropriate method of determining the bonus of the Executive Directors because of the size of the Group.

PENSIONS

The Company does not operate a pension scheme but makes contributions to the Executive Directors' personal pension schemes. Contributions are between 6%-10% of basic salary.

REMUNERATION REPORT (CONTINUED)

OTHER BENEFITS

Other benefits are reimbursement of private fuel and the provision of death in service insurance.

SHARE OPTIONS

Christian Butler is currently the only Executive Director who has been awarded share options under the Company approved and unapproved share schemes. Share options are granted dependent on Group performance at the discretion of the Remuneration Committee. The options are exercisable if growth in the Company's published Earnings Per Share (excluding exceptional items) measured over any period of three consecutive financial years, commencing not earlier than the financial year in which the option was granted, exceeds by not less than 2 per cent the percentage growth of the Retail Price Index over the same 3 year period.

The Remuneration Committee consider that the share option schemes are appropriate because of the size of the Group.

SERVICE CONTRACTS

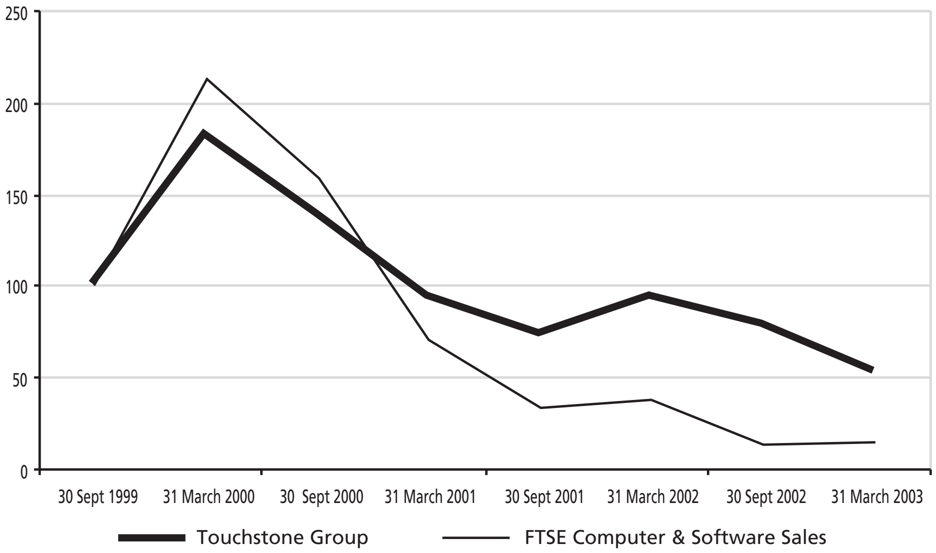
The Executive Directors have rolling service contracts which are subject to six months notice periods excepting Keith Birch and David Birch whose contracts are subject to twelve month notice periods.

None of the Executive Directors' service contracts provides for automatic payments in excess of one year or for liquidated damages. The Company's policy on early termination is to mitigate payments made where possible.

Non-Executive Directors are not automatically reappointed and have contracts which are subject to no notice period.

TOTAL SHAREHOLDER RETURN

The following graph charts the total shareholder return of the Company since 1999:



The index selected was the FTSE computer and software sales as it was considered to be most representative of the industry in which the group operates.

REMUNERATION REPORT (CONTINUED)

The auditors are required to report on the following sections of the remuneration report

DIRECTORS' REMUNERATION

Details of Directors' remuneration and benefits are given below:

Name	Salary £000	Benefits in kind £000	Bonus £000	**2003 £000**	2002 £000
KGJ Birch	140	4	15	**159**	138
DP Birch	86	4	9	**99**	102
C Butler	90	3	9	**102**	97
P Birch	10	–	–	**10**	10
DD de Carle	10	–	–	**10**	10
DRT Thompson	10	–	–	**10**	10
	346	11	33	**390**	367

No Directors received compensation for loss of office in either 2003 or 2002.

Aggregate emoluments in respect of qualifying services amounted to £390,000 (2002: £367,000). Emoluments of the highest paid Director (excluding pension contributions) were £159,000 (2002:£138,060). Amounts paid by the Group in respect of his pension contributions were £14,000 (2002: £13,000). He holds no share options or entitlement to share options.

Total pension contributions of £28,000 (2002: £ 27,000) were made to the Executive Directors' personal pension plans of which £14,000, £9,000 and £5,000 (2002 £13,000, £9,000 and £5,000) were made for Keith Birch, David Birch and Christian Butler respectively.

REMUNERATION REPORT (CONTINUED)

DIRECTORS' INTERESTS IN SHARES AND OPTIONS

Details of Directors' share options are given below:

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:

	At start of year	Number of options during the year: Granted	Exercised	Lapsed	At end of year	Exercise price (pence)	Date from which exercisable	Expiry date
C Butler								
Approved scheme	15,000	–	10,000	–	5,000	105p	July 2001	July 2008
Approved scheme	10,595	–	–	–	10,595	134.5p	September 2002	September 2009
Approved scheme	1,405	–	–	–	1,405	134.5p	September 2002	September 2009
Unapproved scheme	20,000	–	–	–	20,000	196.7p	August 2003	August 2010
Unapproved scheme	40,000	–	–	–	40,000	122p	December 2003	December 2010
Unapproved scheme	15,000	–	–	–	15,000	121p	December 2004	December 2011
Unapproved Scheme	–	20,000	–	–	20,000	127.5p	December 2005	December 2012

Details of the performance criteria of these options are given above under remuneration package.

Only one Director, Christian Butler has currently been awarded share options. He exercised 10,000 (2002: none) share options during the year when the share price was £1.30. Aggregate gains made by Directors on the exercise of share options amounted to £2,500 (2002 £nil).

The highest and lowest share prices during the year were 143.0p and 62.5p respectively and the price at 31 March 2003 was 74p.

There were no changes in Directors' interests in share options up to 13 June 2003, the latest practicable date prior to the issue of this report.

This report was approved by the board of Directors on 16 June and has been signed on its behalf by

KGJ Birch
Director

DIRECTORS' BIOGRAPHIES

Philip Birch

Non-executive Chairman, aged 70, 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 46, 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 48, 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 38, 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 76, 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 57, 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 a non-executive director of XKO Group plc and Chairman of 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF TOUCHSTONE GROUP PLC

We have audited the financial statements on pages 14 to 31. We have also audited the information in the directors' remuneration report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for preparing the Annual Report and the directors' remuneration report. As described on page 12 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 whether the financial statements and the part of the directors' remuneration report to be audited have been 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 regarding directors' remuneration and transactions with the group 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 Listing Rules, and we report if it does not. We are not required to consider whether the board's statements on internal control cover 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 the unaudited part of the directors' remuneration report, 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 AUDIT 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 and the part of the directors' remuneration report to be audited. 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 and the part of the directors' remuneration report to be audited 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 and the part of the directors' remuneration report to be audited.

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 2003 and of the profit of the group for the year then ended; and
- the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc 16 June 2003
Chartered Accountants,
Registered Auditor,
London

CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2003

	Note	**Year ended 31 March 2003 £000**	Year ended 31 March 2002 £000
Turnover	*1,2*	**14,249**	14,187
Cost of sales		**(6,021)**	(5,694)
Gross profit		**8,228**	8,493
Administrative expenses			
– Before goodwill amortisation		**(6,422)**	(6,442)
– Goodwill amortisation		**(366)**	(357)
Total administrative expenses		**(6,788)**	(6,799)
Operating profit		**1,440**	1,694
Interest receivable	*6*	**96**	93
Interest payable and similar charges	*7*	**(10)**	(17)
Profit on ordinary activities before taxation	*3*	**1,526**	1,770
Tax on profit on ordinary activities	*8*	**(600)**	(628)
Profit on ordinary activities after taxation		**926**	1,142
Dividends paid and proposed	*9*	**(313)**	(570)
Retained profit for the year	*20*	**613**	572
Earnings per share – basic	*10*	**9.2p**	11.4p
Earnings per share – diluted	*10*	**9.2p**	10.9p

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.

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 in both the current or preceding year.

CONSOLIDATED BALANCE SHEET
AT 31 MARCH 2003

	Note	**2003 £000**	**2003 £000**	2002 £000	2002 £000
Fixed assets					
Intangible assets	*11*		**3,293**		3,659
Tangible assets	*12*		**396**		418
Investments	*13*		**203**		106
			3,892		4,183
Current assets					
Stocks	*14*	**81**		3	
Debtors	*15*	**5,435**		5,074	
Cash at bank and in hand		**3,656**		3,262	
		9,172		8,339	
Creditors: amounts falling due within one year	*16*	**(2,353)**		(2,342)	
Net current assets			**6,819**		5,997
Total assets less current liabilities			**10,711**		10,180
Accruals and deferred income					
Deferred income	*18*	**(3,667)**		(3,367)	
Accruals	*18*	**(990)**		(1,310)	
			(4,657)		(4,677)
Net assets			**6,054**		5,503
Capital and reserves					
Called up share capital	*19*		**1,038**		1,013
Shares to be issued	*20*		**–**		452
Share premium account	*20*		**1,034**		1,006
Capital redemption reserve	*20*		**11**		–
Other reserves	*20*		**20**		(399)
Profit and loss account	*20*		**3,951**		3,431
Equity shareholders' funds			**6,054**		5,503

These financial statements were approved by the Board of Directors on 16 June 2003 and were signed on its behalf by:

KGJ Birch
Director

COMPANY BALANCE SHEET
AT 31 MARCH 2003

	Note	2003 £000	2003 £000	Restated 2002 £000	Restated 2002 £000
Fixed assets					
Investments	*13*		**3,670**		3,660
Current assets					
Debtors	*15*	**250**		1,763	
Cash at bank and in hand		**9**		18	
		259		1,781	
Creditors: amounts falling due within one year	*16*	**(761)**		(2,144)	
Net current liabilities			**(502)**		(363)
Total assets less current liabilities			**3,168**		3,297
Net assets			**3,168**		3,297
Capital and reserves					
Called up share capital	*19*		**1,038**		1,013
Shares to be issued	*20*		–		452
Share premium account	*20*		**1,034**		1,006
Capital redemption reserve	*20*		**11**		–
Other reserves	*20*		**843**		424
Profit and loss account	*20*		**242**		402
Equity shareholders' funds			**3,168**		3,297

These financial statements were approved by the Board of Directors on 16 June 2003 and were signed on its behalf by:

KGJ Birch
Director

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2003

CASH FLOW STATEMENT

	Note	2003 £000	2002 £000
Net cash inflow from operating activities	*22*	**2,023**	2,483
Returns on investments and servicing of finance	*23*	**86**	90
Taxation		**(683)**	(780)
Capital expenditure and financial investment	*23*	**(326)**	(123)
Acquisitions and disposals	*23*	**–**	(455)
Equity dividends paid		**(628)**	(133)
Cash inflow before management of liquid resources and financing		**472**	1,082
Management of liquid resources	*23*	**(200)**	(1,000)
Financing	*23*	**(78)**	63
Increase in cash in the year		**194**	145

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	Note	2003 £000	2002 £000
Increase in cash in the period		**194**	145
Cash outflow from decrease in debt and lease financing		**16**	8
Cash outflow from increase in liquid resources		**200**	1,000
Change in net funds resulting from cash flows		**410**	1,153
Loans and finance leases acquired with subsidiaries		**–**	(8)
Movement in net funds in the year	*24*	**410**	1,145
Net funds at the start of the year	*24*	**3,246**	2,101
Net funds at the end of the year	*24*	**3,656**	3,246

RECONCILIATIONS OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS
FOR THE YEAR ENDED 31 MARCH 2003

	Group		Company	
	2003	2002	**2003**	2002
	£000	£000	**£000**	£000
Profit for the financial year	**926**	1,142	**246**	900
Dividends	**(313)**	(570)	**(313)**	(570)
Retained profit / (loss) for the financial year/period	**613**	572	**(67)**	330
New share capital subscribed net of issue costs	**31**	977	**31**	977
Purchase of own shares	**(93)**	–	**(93)**	–
Net increase / (decrease) in shareholders' funds	**551**	1,549	**(129)**	1,307
Opening shareholders' funds	**5,503**	3,954	**3,297**	1,990
Closing equity shareholders' funds	**6,054**	5,503	**3,168**	3,297

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:

To provide a true and fair view in the accounts of Touchstone Group plc 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.

During the year ended 31 March 2002 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 Ltd, the carrying value of ICOS has been transferred to the investment in Touchstone 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

The Group accounts include the accounts of the company and its subsidiary undertakings made up to 31 March 2003.

In June 1998, as part of a group reconstruction, Touchstone Group Ltd (now Touchstone Group plc) became the holding company of Touchstone 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. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition up to and including the date of disposal. The profit for the financial year dealt within the financial statements of the holding company was £246,000 (2002:£900,000).

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

GOODWILL

Goodwill arising on 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 not exceeding 20 years.

INVESTMENTS

In the Company's financial statements, investments in subsidiary undertakings are stated at cost less any provision for impairment.

NOTES (CONTINUED)

1 ACCOUNTING POLICIES (CONTINUED)

INTERESTS IN OWN SHARES

Interests in own shares held by Employee Benefit Trusts are disclosed as a fixed asset investment at cost less permanent impairment in value in accordance with Urgent Issues Task Force Abstract No.13 (Accounting for ESOP Trusts).

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	–	33⅓% straight line
Motor vehicles	–	25% straight line

LEASES

Operating leases – Rentals under operating leases are charged on a straight line basis over the lease term.

Finance leases – Leases of fixed assets, where substantially all the risks and benefits associated with the ownership of the asset are transferred to the group, are classified as a finance lease. Finance leases are capitalised, recording an asset and a liability equal to the present value of the minimum lease payments, including any guaranteed residual value. Leased assets are amortised over their estimated useful lives. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

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 after making due allowance for obsolete and slow moving items.

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.

MAINTENANCE CONTRACTS

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)

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, and are included within the caption 'cash at bank and in hand' in the balance sheet.

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

	2003	2002
	£000	£000
Profit on ordinary activities before taxation is stated after charging:		
Auditors' remuneration:		
Group – audit	**35**	35
– fees paid to the auditors in respect of other services	**–**	2
Company – audit	**3**	3
Depreciation and other amounts written off tangible fixed assets:		
Owned	**256**	228
Leased	**–**	3
Amortisation of goodwill	**366**	357
Profit on disposal of fixed assets	**(5)**	(4)
Hire of land and buildings – operating leases	**236**	196
Hire of other assets – operating leases	**14**	–

4 REMUNERATION OF DIRECTORS

For details of Directors remuneration refer to the remuneration report on pages 8-11.

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	
	2003	2002
Management	**16**	17
Administrative	**21**	25
Sales, support and technical	**74**	77
	111	119

The aggregate payroll costs of these persons were as follows:

	2003	2002
	£000	£000
Wages and salaries	**4,903**	4,749
Social security costs	**593**	576
Other pension costs (see note 26)	**194**	135
	5,690	5,460

NOTES (CONTINUED)

6 INTEREST RECEIVABLE

	2003	2002
	£000	£000
Bank interest	**96**	93

7 INTEREST PAYABLE AND SIMILAR CHARGES

	2003	2002
	£000	£000
Bank charges	**9**	4
Finance charges payable in respect of finance leases	–	1
Other interest paid	**1**	12
	10	17

8 TAXATION

	2003	2002
	£000	£000
UK corporation tax at 30% (2002: 30 %)	**600**	628

Factors affecting the tax charge for the current period
The current tax charge for the period is higher (2002: higher) than the standard rate of corporation tax in the UK of 30%. The differences are explained below:

	2003	2002
	£000	£000
Current tax reconciliation		
Profit on ordinary activities before tax	**1,526**	1,770
Current tax at 30 %	**458**	531
Effects of:		
Expenses not deductible for tax purposes and other adjustments	**115**	76
Effect of depreciation in excess of capital allowances	**27**	24
Adjustments to tax charge in respect of previous periods	–	(3)
Total current tax charge (see above)	**600**	628

Factors that may affect future tax charges
None

9 DIVIDENDS

	2003	2002
	£000	£000
Equity shares:		
Interim dividend paid (2003: 1p per share, 2002: 0.47p per share)	**105**	47
Final dividend proposed (2003: 2p per share, 2002: 2p per share)	**208**	209
Total dividend excluding special dividend (2003: 3p per share, 2002: 2.47p per share)	**313**	256
Special dividend proposed (2003: nil p per share, 2002: 3p per share)	–	314
Total dividend (2003: 3p per share, 2002: 5.47p per share)	**313**	570

NOTES (CONTINUED)

10 EARNINGS PER SHARE

	2003 £000	2002 £000
Profit for the financial year attributable to shareholders	**926**	1,142
Amortisation of capitalised goodwill	**366**	357
Profit for the financial year before goodwill amortisation	**1,292**	1,499
Weighted average number of shares in issue	**10,117,335**	10,054,464
Dilution effect of option schemes:		
– approved employee option scheme (a)	–	57,932
– unapproved employee option scheme (a)	–	22,997
	10,117,335	10,135,393
Earnings per ordinary share before goodwill amortisation	**12.8p**	14.9p
Loss per ordinary share on goodwill amortisation	**(3.6)p**	(3.5)p
Basic earnings per ordinary share	**9.2p**	11.4p
Diluted earnings per ordinary share	**9.2p**	10.9p
Diluted earnings per ordinary share before goodwill amortisation	**12.8p**	14.4p

a) As at 31 March 2003, there were 417,593 share options in issue under an approved employee option scheme and 362,107 in an unapproved scheme. The options first became exercisable in 2001 dependant on the achievement of certain performance targets. Of these shares none are dilutive.

11 INTANGIBLE FIXED ASSETS

Cost	**£000**
At beginning and end of year	4,420
Amortisation	
At beginning of year	761
Charged in year	366
At end of year	1,127
Net book value	
At 31 March 2003	**3,293**
At 31 March 2002	3,659

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

12 TANGIBLE FIXED ASSETS

Group	Fixtures fittings and equipment £000	Motor vehicles £000	Total £000
Cost			
At beginning of year	1,309	47	1,356
Additions	243	–	243
Disposals	–	(47)	(47)
At end of year	1,552	–	1,552
Depreciation			
At beginning of year	900	38	938
Charge for the year	256	–	256
Disposals	–	(38)	(38)
At end of year	1,156	–	1,156
Net book value			
At 31 March 2003	**396**	**–**	**396**
At 31 March 2002	409	9	418

Included in the net book value of motor vehicles is £nil (2002: £9,000) in respect of assets held under finance leases.

13 FIXED ASSET INVESTMENTS

Group	Own Shares	Other Investments other than loans	Total
	£000	£000	£000
Cost			
At beginning of year	68	38	106
Additions	27	–	27
Acquisitions	–	70	70
At end of year	95	108	203
Provisions			
At beginning and end of year	–	–	–
Net book value			
At 31 March 2003	**95**	**108**	**203**
At 31 March 2002	68	38	106

Interests in own shares held represent the cost of shares in the Company held by the trustees of the Employee Benefit Trust and are disclosed as a fixed asset investment in accordance with the UITF Abstract 13: 'Accounting for ESOP Trusts'. As at 31 March 2003 the trust held 65,000 shares with a nominal value of £6,500 and a market value of £44,400. All of the above shares are held under option, none of the above shares have been conditionally gifted to employees of the Group.

Company	Shares in group undertaking £000
Cost	
At beginning of year	3,660
Additions	10
At end of year	3,670
Provisions	
At beginning and end of year	–
Net book value	
At 31 March 2003	**3,670**
At 31 March 2002	3,660

Principal subsidiary undertakings	Country of incorporation	Principal Activity	Class and Percentage of shares held Company
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.
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.

14 STOCKS

	Group		Company	
	2003	2002	**2003**	2002
	£000	£000	**£000**	£000
Goods held for resale	**81**	3	**–**	–

15 DEBTORS

	Group		Company	
	2003	**2002**	**2003**	**2002**
	£000	£000	**£000**	£000
Trade debtors	**3,172**	3,487	**–**	–
Amounts owed from group undertakings	**–**	–	**250**	1,763
Other debtors	**117**	84	**–**	–
Prepayments and accrued income	**2,146**	1,503	**–**	–
	5,435	5,074	**250**	1,763

Included within prepayments and accrued income are deferred maintenance costs of £1,954,000 of which £48,500 are deferred for more than one year (2002: £7,000).

16 CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2003	2002	**2003**	2002
	£000	£000	**£000**	£000
Obligations under finance leases	**–**	16	**–**	–
Trade creditors	**1,102**	785	**–**	–
Amounts owed to group undertakings	**–**	–	**553**	1,621
Corporation tax	**306**	389	**–**	–
Other creditors including tax and social security	**737**	629	**–**	–
Dividend proposed	**208**	523	**208**	523
	2,353	2,342	**761**	2,144

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

		2003	2002
		£000	£000
Group			
	Within one year	**–**	16
	In the second to fifth years	**–**	–
	Over five years	**–**	–
		–	16

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

17 PROVISIONS FOR LIABILITIES AND CHARGES

Following adoption of FRS 19 'Deferred Tax', there are no deferred tax balances as at 31 March 2003 (2002: £nil).

18 ACCRUALS AND DEFERRED INCOME

	Group		Company	
	2003	2002	**2003**	2002
	£000	£000	**£000**	£000
Deferred income:				
Amounts falling due within one year	**3,550**	3,360	**–**	–
Amounts falling due after more than one year	**117**	7	**–**	–
	3,667	3,367	**–**	–
Accruals:				
Amounts falling due within one year	**990**	1,310	**–**	–
	4,657	4,677	**–**	–

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

19 CALLED UP SHARE CAPITAL

	2003	2002
	£000	£000
Authorised		
14,210,000 ordinary shares of 10p each (2002:14,210,000)	**1,421**	1,421
Allotted, called up and fully paid		
10,380,045 ordinary shares of 10p each (2002: 10,125,627)	**1,038**	1,013

29,500 ordinary shares were issued during the period with a total nominal value of £2,950 for a total consideration of £31,000 arising from the exercise of options. The premium on issue has been credited to the share premium account.

334,918 shares were issued during the period representing final consideration of Chartland plc acquired in April 2001.

110,000 shares representing 1% of called up share capital were purchased and cancelled by the company at a cost of £93,000 during the year.

20 SHARE PREMIUM AND RESERVES

Group	Shares to be issued £000	Share Premium Account £000	Capital Redemption Reserve £000	Other Reserves £000	Profit and Loss Account £000
At beginning of year	452	1,006	–	(399)	3,431
Premium on issue of shares	–	28	–	–	–
Shares issued in year	(452)	–	–	419	–
Repurchase of share capital	–	–	11	–	(93)
Retained profit for the year	–	–	–	–	613
At end of year	**–**	**1,034**	**11**	**20**	**3,951**

Company	Shares to be issued £000	Share Premium Account £000	Capital Redemption Reserve £000	Other Reserves £000	Profit and Loss Account £000
At beginning of year	452	1,006	–	424	402
Premium on issue of shares	–	28	–	–	–
Shares issued in year	(452)	–	–	419	–
Repurchase of share capital	–	–	11	–	(93)
Retained loss for the year	–	–	–	–	(67)
At end of year	**–**	**1,034**	**11**	**843**	**242**

The Company's profit for the financial year before dividends payable was £246,000 (2002:£900,000).

The Group – 'other reserves' opening figure of £399,000 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 and the share premium of £9,000, together with the premium on shares issued as part of the initial consideration on acquisition on Chartland Associates plc of £424,000.

Shares to be issued represented contingent consideration in respect of the acquisition of Chartland Associates plc. The shares were issued in the year.

The movement in the other reserves represents the premium on shares issued for the final consideration on the acquisition on Chartland Associates plc.

The capital redemption reserve arose due to the repurchase of own shares by the company during the year. It represents an amount equivalent to the nominal share capital of the shares repurchased.

21 COMMITMENTS

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

	2003		2002	
	Land and buildings	**Other**	Land and buildings	Other
Group	**£000**	**£000**	£000	£000
Operating leases which expire:				
Within one year	**–**	**–**	–	–
In the second to fifth years inclusive	**135**	**14**	147	–
Over five years	**101**	**–**	49	–
	236	**14**	196	–

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

22 RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOWS

	2003	2002
	£000	£000
Continuing operations		
Operating profit	**1,440**	1,694
Goodwill amortisation	**366**	357
Profit on sale of fixed assets	**(5)**	(4)
Depreciation	**256**	231
Increase in stocks	**(78)**	(2)
(Increase) / decrease in debtors	**(361)**	23
Increase in creditors	**405**	184
Net cash inflow from operating activities	**2,023**	2,483

NOTES (CONTINUED)

23 ANALYSIS OF CASH FLOWS

	2003	2003	2002	2002
Returns on investments and servicing of finance				
Interest received	**96**		93	
Interest paid	**(10)**		(3)	
Net cash inflow for returns on investment and servicing of finance		**86**		90
Capital expenditure and financial investment				
Purchase of tangible fixed assets	**(243)**		(182)	
Sale of tangible fixed assets	**14**		59	
Purchase of fixed asset investment	**(97)**		–	
Net cash outflow for capital expenditure and financial investment		**(326)**		(123)
Acquisitions and disposals				
Additional cash consideration for prior year acquisitions	–		(246)	
Cash acquired with subsidiary	–		90	
Purchase of subsidiary undertaking	–		(299)	
Net cash outflow for acquisitions and disposals		–		(455)
Management of liquid resources				
Cash movement on short term bank deposits		**(200)**		(1,000)
Financing				
Issue of ordinary share capital	**31**		71	
Purchase of own shares	**(93)**		–	
Capital element of finance lease payments	**(16)**		(8)	
Net cash inflow / (outflow) from financing		**(78)**		63

24 ANALYSIS OF NET FUNDS

	At beginning of year £000	**Cash Flow** £000	**At end of year** £000
Cash	762	194	956
Short term bank deposits	2,500	200	2,700
Finance leases	(16)	16	–
Total	**3,246**	**410**	**3,656**

Short term bank deposits are included within the caption ‘cash at bank and in hand’ in the balance sheet.

NOTES (CONTINUED)

25 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 'Derivatives and Other Financial Instruments.

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 16.

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 2003 or 31 March 2002.

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 2003 or 31 March 2002.

Currency risk
No analysis of currency risk of financial assets and liabilities is presented as at both 31 March 2003 and 31 March 2002 as all were in sterling.

26 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 £194,000 (2002: £135,000).

27 POST BALANCE SHEET EVENT

Subsequent to the year end Touchstone purchased the Microsoft Great Plains division of the professional services group Tenon. Initial consideration was £425,000 with additional consideration payable over a two year period under an earn out agreement. Total consideration is capped at £750,000. No tangible fixed assets were acquired.

28 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 Thursday 7th August 2003 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 9,10 and 11 in the Notice of the Meeting at the end of the document, and relate to the following:

Resolution 9, 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 £345,164 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 6th November 2004 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 10, which will be proposed as a Special Resolution, will disapply the statutory pre-emption rights. It will disapply, until the next Annual General Meeting of the Company or on 6th November 2004 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 £51,775 which is equivalent to approximately 5% of the existing issued share capital of the Company.

Resolution 11, which will be proposed as a Special Resolution, will grant to the Company authority to make market purchases of up to 1,035,505 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 6th November 2004 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 Wessing, 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 Thursday 7th August 2003 at 11 a.m. for the following purposes:

ORDINARY BUSINESS

To consider, and if thought fit, to pass the following resolutions which will be proposed as ordinary resolutions:

1. To receive and adopt the accounts for the year ended 31 March 2003 together with the reports of the Directors and auditors thereon.
2. To receive, adopt and approve the remuneration report for the year ended 31 March 2003.
3. To declare a final dividend of 2.00 pence per share, making a total dividend of 3.00 pence per share for the year ending 31 March 2003.
4. To re-elect Keith Birch who, being eligible, offers himself for re-election.
5. To re-elect Christian Butler who, being eligible, offers himself for re-election.
6. To re-elect David Thompson who, being eligible, offers himself for re-election.
7. To re-elect David Birch who retires in accordance with article 18.4 of the Company's articles of association and, being eligible, offers himself for re-election.
8. 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 9 will be proposed as an ordinary resolution and Resolutions 10 and 11 as special resolutions:

9. 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 £345,164 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 2004 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.
10. 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 9 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;

    (b) 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 director may feel necessary or expedient to deal with fractional entitlements or the regulations or requirements of any recognised regulatory body in any territory;

NOTICE OF ANNUAL GENERAL MEETING (CONTINUED)

(c) the allotment otherwise than pursuant to sub paragraph (a) above of equity securities up to an aggregate nominal value of £51,775,

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 2004 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.

11. That the Company be and is hereby generally and unconditionally authorised to make market purchases (within the meaning of section 163 (3) 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 1,035,504;

(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 not more than 5% above the average of the middle market quotations for an Ordinary Share as derived from the London Stock Exchange Daily Official List 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:	**By order of the Board**
5/6 Beauchamp Court	
Victors Way	
High Barnet	David Birch
Hertfordshire	Director and Secretary
EN5 5TZ	16 June 2003

Copies of the Articles of Association of the Company, a statement of the Directors' interests and their service contracts will be available for inspection at the offices of Taylor Wessing, 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" 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 or 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 Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4BR.

   To be valid the form must arrive by 11 a.m. on 5th August 2003.

   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 Uncertificated Securities Regulations 2001, specifies that only those holders of ordinary shares registered in the Register of Members of the Company at 11a.m. on 5th August 2003 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 5th August 2003 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 Office: 25 Angel Gate, City Road London EC1V 2PT Tel: 020 7841 7300 Fax: 020 7713 1480 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 Wessing 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