touchstone

annual report &
accounts 2004

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# CHAIRMAN'S STATEMENT

## RESULTS

Against a tough IT market, profits for the year before amortisation of goodwill, exceptional item and tax were £1.4m compared to £1.9m last year. Profit before tax was £0.6m compared to £1.5m last year. Turnover for the year including acquired operations grew by 5% and in the second half by over 8%. Basic earnings per share before goodwill amortisation were 8.6p compared to 12.8p last year. Basic earnings per share after goodwill amortisation were 1.5p compared to 9.2p.

## CASH AND DIVIDENDS

Cash generation continues to be a healthy ingredient of Touchstone's profile with cash balances at £3m (2003: £3.7m) after funding dividends and acquisitions of £1.5m (2003: £0.6m). The Board is recommending a final dividend of 2.5p per share (2003: 2p) to be paid on 17th August 2004 to shareholders registered at close of business on 16th July 2004. This makes a total dividend of 3.6p which will absorb £374k and is adequately covered by earnings adjusted for the deduction of amortisation of goodwill.

## REVIEW OF OPERATIONS

The Group offers integrated business solutions to help its clients address a range of business issues. During the year the Group won a number of significant projects including: Company Barclaycard, Malmaison, Barclays Global Investors, East Midlands Development Agency and Edinburgh & Lothian Tourist Board.

Total professional fees and help desk revenues have grown as a proportion of our business and now account for over 73% of total turnover (2003: 70%). To reflect a more appropriate treatment of salary costs associated with providing these services, an extra £430k of salary costs were re-classified from Administrative Expenses to Cost of Sales with the consequential impact on gross margins. No adjustment has been made to the comparative figures.

Margins were also impacted by a significant increase in costs from one of the Group's suppliers which resulted in additional software maintenance costs of £250k being absorbed during the year. The impact of this increase coupled with the re-allocation of service costs has resulted in a reduction in overall gross margins to 50% compared with 58% last year.

As part of a continuing review of operational costs, the Board decided to marginally reduce headcount during the year, the exceptional costs of which are reflected in the attached statements.

As larger scale projects are now a growing aspect of Group trading, the Group has decided to consolidate its London based premises. This will provide a more stimulating working environment and also a stable base for the delivery of larger scale projects. It is therefore pleasing to report that, following the expiry of leases for the Group's main London offices, many of the Group's London-based staff are now located at our new central London headquarters. The costs of these new facilities are broadly in line with previous establishment costs subject to the successful assignment of sundry residual property leases.

## STRATEGY AND ACQUISITIONS

The Group is one of the UK's leading IT service organisations, supplying business solutions to mid-market companies. Over recent years and despite difficult market conditions, the Group has continued to invest in the range of skills and solutions it supplies. Today, the Group is ideally placed to respond to improving market conditions and to win an increasing number of large project assignments.

During the year Touchstone reinforced its position in the UK as Microsoft Business Solutions' leading Channel Partner through the acquisition of the Microsoft Axapta unit from Multi Group Plc together with the Microsoft Great Plains practice from Tenon Group plc.

## STRATEGY AND ACQUISITIONS (CONTINUED)

Microsoft Business Solution software together with related products and services now contribute over 27% of total turnover (2003: 22%).

Microsoft Axapta is a web-centric sophisticated Enterprise Report Planning (ERP) solution aimed specifically at the needs of larger organisations. As such it is seen as an important element of the Group's larger project strategy. Importantly, as part of the Multi Group transaction, the Group has also acquired the Intellectual Property Rights (IPR) to Enterprise Hire – a suite of software modules which, when combined with Microsoft Axapta, provides large businesses in the Hire Industry with improved all-round functionality. Enterprise Hire is acknowledged by Microsoft as being a 'robust and impressive system'.

The Group's Axapta and Enterprise Hire operation will trade separately as Touchstone Global Business Solutions Ltd. As previously stated, we do not anticipate this subsidiary achieving group level returns in the short term as we view the cost of acquisition and the initial development expenditure as our cost of entry into a vibrant new market area. However, we are excited by the opportunities that it is currently engaged in and have high hopes for its future success.

The Group's growing systems integration approach and niche market orientation should also ensure that IPR is an increasingly important element of future acquisitions.

The Group's more mature SunSystems division is a significant and important part of Group activities. At IPO in 1998, this division represented almost 93% of total turnover. Whilst the division has grown in the intervening period, the Group's diversification strategy in to CRM and other business areas has reduced this proportion to almost 40%. It is pleasing to note that Systems Union, the authors of SunSystems, have recently added an exciting range of Business Intelligence software to their product portfolio. Business Intelligence is a growing area for the Group, and will extend cross-sell opportunities across the Group's large and loyal client base.

## GOODWILL

As mentioned at our Interim statement, the remaining useful life for the write-down of goodwill remaining at 31st March 2003 has been adjusted to 5 years from 1st April 2003 as the Board believes that a more prudent treatment of goodwill better matches current economic conditions and reflects a shift in the Group's operations towards a greater emphasis on professional services. This change has resulted in a significant increase in goodwill charge for the year of £736k (2003: £366k).

## INVESTOR RELATIONS & BOARD CHANGES

During the year, the Group moved to the Alternative Investment Market (AIM) from the Official List of the London Stock Exchange.

This year has also seen a number of changes at Group Board level. At the last AGM, my colleagues Philip Birch and David de Carle both retired from the Board and I was invited to be Chairman. My thanks to Philip and David for their support and service over the years.

Since the year end I can also confirm that Paul White has been appointed to the Group Board as Chief Operating Officer. Paul joined the Group in April 2002 and has been a pivotal member of the operations team. He is a clear-sighted and proficient executive and will be a welcome addition to the Board.

## CURRENT TRADING

Touchstone's financial strength, during a period of transition, is enabling the Group to expand its integrated solutions business into new market segments.

The results for this year were impacted by the slow start to the year. Whilst current trading conditions are still sluggish, we have seen an improvement in sales activity. A number of large projects have recently been secured which, combined with a strengthening sales pipeline and an improving order book, provide the Board with more confidence for the year ahead.

David RT Thompson
Chairman 22 June 2004

# DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements for the year ended 31 March 2004.

## 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 2004 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 2004 there were 57 days purchases in Group trade creditors (2003: 69 days). The Company did not have any trade creditors at 31 March 2004 (2003: £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 | (resigned 7 August 2003) |
| DD de Carle | (resigned 7 August 2003) |
| DRT Thompson | (appointed Chairman 7 August 2003) |
| KGJ Birch | |
| DP Birch | |
| C Butler | |
| P White | (appointed 13 May 2004) |

# 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 |
|---|---|---|---|---|
| DRT Thompson | Touchstone Group plc | Ordinary | 10,500 | 9,500 |
| KGJ Birch * | Touchstone Group plc | Ordinary | 2,930,547 | 3,030,547 |
| DP Birch | Touchstone Group plc | Ordinary | 1,628,257 | 1,728,257 |
| C Butler | Touchstone Group plc | Ordinary | 17,500 | 17,500 |

* The interests of Keith Birch include 182,000 ordinary shares held as a trustee of the TCL Settlement Trust 1998. During the year, the Birch family sold 300,000 shares to meet the demand of an institutional investor.

There were no changes in Directors' interests in shares up to 22 June 2004, 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 10.

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 2004, the latest practicable date prior to the issue of this report.

| Name | Number of shares | Percentage |
|---|---|---|
| KGJ Birch (including 182,000 ordinary shares held as a trustee of the TCL Settlement Trust 1998) | 2,930,547 | 28.3% |
| P Birch (including 30,000 ordinary shares held on behalf of his immediate family) | 2,052,624 | 19.8% |
| DP Birch | 1,628,257 | 15.7% |
| Chase Nominees Limited | 1,070,000 | 10.3% |
| KAS Nominees Limited | 350,000 | 3.4% |

# DIRECTORS' REPORT (CONTINUED)

## POLITICAL AND CHARITABLE CONTRIBUTIONS

The Group made charitable contributions of £1,500 (2003: £2,250) 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 entered into a new lease for its London offices. This is for a short term to June 2006, at an annual rental commitment of £242,000.

## 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

3rd Floor
1 Triton Square
London
NW1 3DX

22 June 2004

# CORPORATE GOVERNANCE

Although the Company is not required to comply with the provisions of the Combined Code, the Directors have decided to provide the following voluntary corporate governance disclosures. The Board of Directors recognises the importance of, and is committed to, ensuring that effective corporate governance procedures relevant to smaller listed companies are in place.

This statement is not a statement of compliance but considers how the relevant principles of the Combined Code on Corporate Governance ("the Code") have been applied by the Company during the year to 31 March 2004. The Board have also considered the Revised Combined Code ("the Revised Combined Code") which is effective for accounting periods beginning on or after 1 November 2003.

## THE BOARD AND COMMITTEES

At 1 April 2003 the Board comprised three executive Directors; Keith Birch, David Birch and Christian Butler and three non-executive Directors Philip Birch (Chairman), David De Carle and David Thompson. Philip Birch and David De Carle resigned on 7th August 2003 and as yet have not been replaced. David Thompson succeeded Philip Birch as Chairman on that same date.

At 31 March 2004 the Board therefore comprised of three executives and one non-executive Director.

The Board, which meets on average eight times a year, is responsible for the overall strategy and financial performance of the Group and has a formal schedule of matters reserved for its approval. Each Board meeting is preceded by a clear agenda and any relevant information is provided to Directors in advance of the meeting.

The Remuneration Committee consisted of Philip Birch, David De Carle and David Thompson until August 2003. The Committee currently comprises David Thompson alone. The report on Directors' remuneration on pages 8 to 10 contains a detailed description of remuneration and applicable policies.

Given the small size of the Board, the Board has not appointed a Nominations Committee. The Board as a whole considers the appointment of all Directors and senior managers.

At 1 April 2003 the Audit Committee comprised Philip Birch, David De Carle and David Thompson. Following the Board changes noted above, from August 2003 the Audit Committee comprised of David Thompson (Chairman). David Thompson is considered by the Board to have relevant experience. The Committee operates under written terms of reference and is scheduled to meet at least twice a year with the Company's auditors, and the executive Directors present by invitation only. The Committee meets with the external auditors without the executive Directors present as it considers appropriate. 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. Any significant findings or identified risks are examined so that appropriate action may be taken. The Committee is also responsible for keeping under review the independence and objectivity of the external auditors, including a review of non-audit services provided to the Group, consideration of any relationships with the Company that could affect independence and seeking written confirmation from the auditors that, in their professional judgement, they are independent.

## RELATIONS WITH SHAREHOLDERS

The Company encourages the participation of both institutional and private investors. Communication with private individuals is maintained through the Annual General Meeting (AGM), and annual and interim reports. In addition further details on the strategy and performance of the Company can be found at its website (www.touchstone.co.uk) which includes copies of the Company's press releases.

# CORPORATE GOVERNANCE (CONTINUED)

## INTERNAL CONTROL

The Group has an established organisational structure with clearly defined lines of authority, responsibility and accountability, which is reviewed regularly. Group management are responsible for the identification and evaluation of key risks applicable to their areas of business.

The external auditors are engaged to express an opinion on the accounts. They review and test the systems of internal financial controls and data contained in the accounts, and discuss with management the reporting of operational results and the financial condition of the group, to the extent necessary to express their audit opinion.

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.

## GOING CONCERN

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

# 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 2004 were Philip Birch (Chairman), David de Carle and David Thompson. Both Philip Birch and David De Carle resigned on 7th August 2003. David Thompson is now the sole Remuneration Committee member.

## 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 2004 for each Director are set out below. Share options were granted in 2004 (see page 10).

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 2004 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.

### 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)

## REMUNERATION PACKAGE (CONTINUED)

### OTHER BENEFITS

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

### SHARE OPTIONS

Paul White and Christian Butler are currently the only Executive Directors who have 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.

### 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.

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

## DIRECTORS' REMUNERATION

Details of Directors' remuneration and benefits (excluding pensions) are given below:

| Name | Salary | Benefits in kind | Bonus | **2004 Total** | 2003 Total |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | **£000** | £000 |
| KGJ Birch | 144 | 4 | 11 | **159** | 159 |
| DP Birch | 93 | 4 | 7 | **104** | 99 |
| C Butler | 93 | 4 | 7 | **104** | 102 |
| P Birch | 4 | – | – | **4** | 10 |
| DD de Carle | 4 | – | – | **4** | 10 |
| DRT Thompson | 10 | – | – | **10** | 10 |
| | 348 | 12 | 25 | **385** | 390 |

No Directors received compensation for loss of office in either 2004 or 2003.

Aggregate emoluments in respect of qualifying services amounted to £385,000 (2003: £390,000). Emoluments of the highest paid Director (excluding pension contributions) were £159,000 (2003: £159,000). Amounts paid by the Group in respect of his pension contributions were £15,000 (2003: £14,000). He holds no share options or entitlement to share options.

Total pension contributions of £29,000 (2003: £28,000) were made to the Executive Directors personal pension plans of which £15,000, £9,000 and £5,000 (2003: £14,000, £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 as at 31 March 2004 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:

| | No. of options at start of year | Granted | No. of options at end of year | Exercise price (pence) | Date from which exercisable | Expiry date |
|---|---|---|---|---|---|---|
| **C Butler** | | | | | | |
| Approved scheme | 5,000 | – | 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 | – | 15,000 | 15,000 | 95.5p | July 2006 | July 2013 |

Details of the performance criteria of these options are given above under remuneration package. Christian Butler did not exercise any options in the period (2003: 10,000).

The highest and lowest share prices during the year were 115p and 62.5p respectively and the price at 31 March 2004 was 112.5p.

There were no changes in Directors' interests in share options up to 22 June 2004, the latest practicable date prior to the issue of this report.

This report was approved by the Board of Directors on 22 June 2004 and has been signed on its behalf by

**KGJ Birch**
Director

# DIRECTORS' BIOGRAPHIES

**David Thompson**

Non-executive Chairman, aged 58, 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.

**Keith Birch**

Managing Director, aged 47, 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 49, 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 39, 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.

**Paul White**

Chief Operating Officer, aged 37, joined in January 2002 as Managing Director of Touchstone Limited, the Group's main operating subsidiary. Paul was previously MD of Pegasus Software Limited and has also held a variety of senior roles at Systems Union Limited. Paul has overall responsibility for the Group's sales, marketing and service operations and is a pivotal member of the senior management team.

# 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 Remuneration Report that is described therein 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 the 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 Accounts. 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 by statute, the Auditing Practices Board 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 regarding directors' remuneration and transactions with the Group is not disclosed.

We read the other information contained in the Annual Report and Accounts, including the Corporate Governance 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 mis-statements 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. 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 mis-statement, 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 2004 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** 22 June 2004

*Chartered Accountants,*
*Registered Auditor,*
*London*

# CONSOLIDATED PROFIT AND LOSS ACCOUNT
## FOR THE YEAR ENDED 31 MARCH 2004

| | Note | **Year ended 31 March 2004 £000** | Year ended 31 March 2003 £000 |
|---|---|---|---|
| **Turnover** | | | |
| Continuing operations | *1,2* | **14,256** | 14,249 |
| Acquisitions | | **645** | – |
| Total turnover | | **14,901** | 14,249 |
| Cost of sales | | **(7,454)** | (6,021) |
| **Gross profit** | | **7,447** | 8,228 |
| Administrative expenses | | | |
| – Before goodwill amortisation | | **(6,130)** | (6,422) |
| – Goodwill amortisation | | **(736)** | (366) |
| – Exceptional items | *6* | **(127)** | – |
| Total administrative expenses | | **(6,993)** | (6,788) |
| **Operating profit** | | **454** | 1,440 |
| Interest receivable | *7* | **107** | 96 |
| Interest payable and similar charges | *8* | **(6)** | (10) |
| **Profit on ordinary activities before taxation** | *3* | **555** | 1,526 |
| Tax on profit on ordinary activities | *9* | **(400)** | (600) |
| **Profit on ordinary activities after taxation** | | **155** | 926 |
| Dividends paid and proposed | *10* | **(373)** | (313) |
| **Retained (loss) / profit for the year** | *21* | **(218)** | 613 |
| Earnings per share – basic | *11* | **1.5p** | 9.2p |
| Earnings per share – diluted | *11* | **1.5p** | 9.2p |

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 2004

| | Note | 2004 £000 | 2004 £000 | 2003 £000 | 2003 £000 |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Intangible assets | *12* | | **3,562** | | 3,293 |
| Tangible assets | *13* | | **389** | | 396 |
| Investments | *14* | | **244** | | 203 |
| | | | **4,195** | | 3,892 |
| **Current assets** | | | | | |
| Stocks | *15* | **1** | | 81 | |
| Debtors | *16* | **6,406** | | 5,435 | |
| Cash at bank and in hand | | **2,966** | | 3,656 | |
| | | **9,373** | | 9,172 | |
| **Creditors:** amounts falling due within one year | *17* | **(2,556)** | | (2,353) | |
| **Net current assets** | | | **6,817** | | 6,819 |
| **Total assets less current liabilities** | | | **11,012** | | 10,711 |
| **Accruals and deferred income** | | | | | |
| Deferred income | *19* | **(4,750)** | | (3,667) | |
| Accruals | *19* | **(444)** | | (990) | |
| | | | **(5,194)** | | (4,657) |
| **Net assets** | | | **5,818** | | 6,054 |
| **Capital and reserves** | | | | | |
| Called up share capital | *20* | | **1,036** | | 1,038 |
| Share premium account | *21* | | **1,034** | | 1,034 |
| Capital redemption reserve | *21* | | **13** | | 11 |
| Other reserves | *21* | | **20** | | 20 |
| Profit and loss account | *21* | | **3,715** | | 3,951 |
| **Equity shareholders' funds** | | | **5,818** | | 6,054 |

These financial statements were approved by the Board of Directors on 22 June 2004 and were signed on its behalf by:

KGJ Birch
*Director*

# COMPANY BALANCE SHEET
## AT 31 MARCH 2004

| | *Note* | **2004 £000** | **2004 £000** | 2003 £000 | 2003 £000 |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Investments | *14* | | **3,670** | | 3,670 |
| **Current assets** | | | | | |
| Debtors | *16* | **731** | | 250 | |
| Cash at bank and in hand | | **2** | | 9 | |
| | | **733** | | 259 | |
| **Creditors:** amounts falling due within one year | *17* | **(1,126)** | | (761) | |
| **Net current liabilities** | | | **(393)** | | (502) |
| **Total assets less current liabilities** | | | **3,277** | | 3,168 |
| **Net assets** | | | **3,277** | | 3,168 |
| **Capital and reserves** | | | | | |
| Called up share capital | *20* | | **1,036** | | 1,038 |
| Share premium account | *21* | | **1,034** | | 1,034 |
| Capital redemption reserve | *21* | | **13** | | 11 |
| Other reserves | *21* | | **843** | | 843 |
| Profit and loss account | *21* | | **351** | | 242 |
| **Equity shareholders' funds** | | | **3,277** | | 3,168 |

These financial statements were approved by the Board of Directors on 22 June 2004 and were signed on its behalf by:

KGJ Birch
*Director*

# CONSOLIDATED CASH FLOW STATEMENT
## FOR THE YEAR ENDED 31 MARCH 2004

| | Note | 2004 £000 | 2003 £000 |
|---|---|---|---|
| **CASH FLOW STATEMENT** | | | |
| **Net cash inflow from operating activities** | *23* | **1,416** | 2,023 |
| **Returns on investments and servicing of finance** | *24* | **101** | 86 |
| **Taxation** | | **(545)** | (683) |
| **Capital expenditure and financial investment** | *24* | **(138)** | (326) |
| **Acquisitions** | *24* | **(1,184)** | – |
| **Equity dividends paid** | | **(322)** | (628) |
| **Cash (outflow) / inflow before management of liquid resources and financing** | | **(672)** | 472 |
| **Management of liquid resources** | *24* | **900** | (200) |
| **Financing** | *24* | **(18)** | (78) |
| **Increase in cash in the year** | | **210** | 194 |

## RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

| | | 2004 £000 | 2003 £000 |
|---|---|---|---|
| **Increase in cash in the period** | | **210** | 194 |
| Cash outflow from decrease in debt and lease financing | | – | 16 |
| Cash (inflow) / outflow from increase in liquid resources | | **(900)** | 200 |
| Change in net funds resulting from cash flows | | **(690)** | 410 |
| Loans and finance leases acquired with subsidiaries | | **(22)** | – |
| **Movement in net funds in the year** | *25* | **(712)** | 410 |
| **Net funds at the start of the year** | *25* | **3,656** | 3,246 |
| **Net funds at the end of the year** | *25* | **2,944** | 3,656 |

# RECONCILIATIONS OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

## FOR THE YEAR ENDED 31 MARCH 2004

| | Group | | Company | |
|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 |
| | **£000** | £000 | **£000** | £000 |
| **Profit for the financial year** | **155** | 926 | **500** | 246 |
| Dividends | **(373)** | (313) | **(373)** | (313) |
| **Retained (loss) / profit for the financial year** | **(218)** | 613 | **127** | (67) |
| New share capital subscribed net of issue costs | – | 31 | – | 31 |
| Purchase of own shares | **(18)** | (93) | **(18)** | (93) |
| **Net (decrease) / increase in equity shareholders' funds** | **(236)** | 551 | **109** | (129) |
| Opening equity shareholders' funds | **6,054** | 5,503 | **3,168** | 3,297 |
| **Closing equity shareholders' funds** | **5,818** | 6,054 | **3,277** | 3,168 |

# 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 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 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 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.

Given the increasing significance of the Group's professional services business, the directors believe it is now appropriate to recognise the salary costs associated with providing these services as part of cost of sales. Previously all salary costs were included in administrative expenses. As a result £430,000 of salary costs were classified as cost of sales in the year ended 31 March 2004 with the consequential impact on gross margins. No adjustment has been made to the comparative figures.

#### BASIS OF CONSOLIDATION

The Group accounts include the accounts of the company and its subsidiary undertakings made up to 31 March 2004.

In June 1998, as part of a group reconstruction, Touchstone Group Ltd (now Touchstone Group plc) became the holding company of Touchstone Computers Ltd (now 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 £500,000 (2003:£246,000).

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 of 5 years (see note 12).

# NOTES (CONTINUED)

## 1 ACCOUNTING POLICIES (CONTINUED)

### INTANGIBLE ASSETS AND AMORTISATION

Intangible assets comprise the Intellectual Property Rights to software code acquired.

The value is determined by allocating the purchase consideration of acquired assets between the underlying fair values of the tangible amounts, goodwill and licences acquired.

These assets are amortised through the profit and loss account in equal instalments over their useful economic life of 5 years (see note 12).

### INVESTMENTS

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

### 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.

# NOTES (CONTINUED)

## 1 ACCOUNTING POLICIES (CONTINUED)

### TURNOVER

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

The Group's main revenue categories are as follows:

***Software sales***
Revenue from direct software sales to end-users is recognised once a non-cancellable purchase order or contract has been received, the product has been delivered and the customer has been invoiced.

***Maintenance revenues***
Maintenance revenue is recognised over the period of the contract on a pro-rata basis.

***Professional services***
Revenue from professional services is recognised following the provision of those services, on an hours completed basis.

### 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. The Group has one principal class of business.

## 3 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

| | **2004**<br>**£000** | 2003<br>£000 |
|---|---|---|
| Profit on ordinary activities before taxation is stated after charging: | | |
| Auditors' remuneration: | | |
| Group: | | |
| – audit (including the company) | **37** | 35 |
| – fees paid to the auditors in respect of other services | **–** | – |
| Company: | | |
| – audit | **5** | 3 |
| Depreciation and other amounts written off tangible fixed assets: | | |
| – Owned | **230** | 256 |
| – Leased | **2** | – |
| Amortisation of intangible assets | **736** | 366 |
| Loss / (Profit) on disposal of fixed assets | **1** | (5) |
| Hire of land and buildings – operating leases | **269** | 236 |
| Hire of other assets – operating leases | **12** | 14 |

## 4 REMUNERATION OF DIRECTORS

For details of Directors' remuneration refer to the remuneration report on pages 8–10.

# NOTES (CONTINUED)

## 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 | |
|---|---|---|
| | **2004** | 2003 |
| Management | **13** | 16 |
| Administrative | **16** | 21 |
| Sales, support and technical | **83** | 74 |
| | **112** | 111 |

The aggregate payroll costs of these persons were as follows:

| | **2004** | 2003 |
|---|---|---|
| | **£000** | £000 |
| Wages and salaries | **5,042** | 4,903 |
| Social security costs | **650** | 593 |
| Other pension costs (see note 28) | **184** | 194 |
| | **5,876** | 5,690 |

## 6 EXCEPTIONAL ITEMS

| | **2004** | **2003** |
|---|---|---|
| | **£000** | £000 |
| Redundancy costs | **127** | – |

## 7 INTEREST RECEIVABLE

| | **2004** | **2003** |
|---|---|---|
| | **£000** | £000 |
| Bank interest | **107** | 96 |

## 8 INTEREST PAYABLE AND SIMILAR CHARGES

| | **2004** | **2003** |
|---|---|---|
| | **£000** | £000 |
| Bank charges | **6** | 9 |
| Other interest paid | **–** | 1 |
| | **6** | 10 |

# NOTES (CONTINUED)

## 9 TAXATION

| | 2004 £000 | 2003 £000 |
|---|---|---|
| UK corporation tax at 30% (2003: 30%) | | |
| – current year | **412** | 600 |
| – prior year | **(12)** | – |
| | **400** | 600 |

***Factors affecting the tax charge for the current period***
The current tax charge for the period is higher (2003: higher) than the standard rate of corporation tax in the UK of 30%. The differences are explained below:

| | 2004 £000 | 2003 £000 |
|---|---|---|
| Current tax reconciliation | | |
| Profit on ordinary activities before tax | **555** | 1,526 |
| Current tax at 30% | **167** | 458 |
| Effects of: | | |
| Expenses not deductible for tax purposes and other adjustments | **220** | 115 |
| Effect of depreciation in excess of capital allowances | **25** | 27 |
| Adjustments to tax charge in respect of previous periods | **(12)** | – |
| Total current tax charge (see above) | **400** | 600 |

## 10 DIVIDENDS

| | 2004 £000 | 2003 £000 |
|---|---|---|
| Equity shares: | | |
| Interim dividend paid (2004: 1.1p per share, 2003: 1p per share) | **114** | 105 |
| Final dividend proposed (2004: 2.5p per share, 2003: 2p per share) | **259** | 208 |
| **Total dividend (2004: 3.6p per share, 2003: 3p per share)** | **373** | 313 |

## 11 EARNINGS PER SHARE

| | 2004 £000 | 2003 £000 |
|---|---|---|
| Profit for the financial year attributable to shareholders | **155** | 926 |
| Amortisation of intangible assets | **736** | 366 |
| Profit for the financial year before amortisation of intangible assets | **891** | 1,292 |
| Weighted average number of shares in issue | **10,355,045** | 10,117,335 |
| Earnings per ordinary share before amortisation of intangible assets | **8.6p** | 12.8p |
| Loss per ordinary share on amortisation of intangible assets | **(7.1)p** | (3.6)p |
| Basic earnings per ordinary share | **1.5p** | 9.2p |
| Diluted earnings per ordinary share | **1.5p** | 9.2p |
| Diluted earnings per ordinary share before amortisation of intangible assets | **8.6p** | 12.8p |

As at 31 March 2004, there were 427,771 (2003: 417,593) share options in issue under an approved employee option scheme and 372,429 (2003: 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.

# NOTES (CONTINUED)

## 12 INTANGIBLE FIXED ASSETS

| | Intellectual Property £000 | Goodwill £000 | Total Intangibles £000 |
|---|---|---|---|
| **Cost** | | | |
| At beginning of year | – | 4,420 | 4,420 |
| Additions (Tenon and Global Acquisition) | 562 | 443 | 1,005 |
| At end of year | 562 | 4,863 | 5,425 |
| **Amortisation** | | | |
| At beginning of year | – | 1,127 | 1,127 |
| Charged in year | – | 736 | 736 |
| At end of year | – | 1,863 | 1,863 |
| **Net book value** | | | |
| **At 31 March 2004** | **562** | **3,000** | **3,562** |
| At 31 March 2003 | – | 3,293 | 3,293 |

During the year the remaining useful economic life for the write-down of Goodwill remaining at 31 March 2003 has been adjusted to 5 years from 1 April 2003 as the Directors believe that a more prudent goodwill amortisation policy better matches current economic conditions and reflects a shift in the Group's operations towards a greater emphasis on professional services. This change has resulted in an increased Goodwill charge for the period of £736k (2003: £366k). Intellectual Property is software code acquired from Multi Global Business Solutions Plc on 20 February 2004. The Directors consider that, given the proximity of the acquisition, it is currently unclear as to what the useful economic life of this asset is. However in preparing these financial statements, they have adopted a policy of amortising over a life of 5 years, consistent with that applied to goodwill as noted above. The Directors intend to keep this under review. No amortisation has been reflected in the 2004 results as any such charge would be immaterial.

## 13 TANGIBLE FIXED ASSETS

| Group | Fixtures fittings and equipment £000 | Motor vehicles £000 | Total £000 |
|---|---|---|---|
| **Cost** | | | |
| At beginning of year | 1,552 | – | 1,552 |
| Additions | 98 | – | 98 |
| Acquisitions | 81 | 46 | 127 |
| Disposals | (3) | – | (3) |
| At end of year | 1,728 | 46 | 1,774 |
| **Depreciation** | | | |
| At beginning of year | 1,156 | – | 1,156 |
| Charge for the year | 230 | 2 | 232 |
| Disposals | (3) | – | (3) |
| At end of year | 1,383 | 2 | 1,385 |
| **Net book value** | | | |
| **At 31 March 2004** | **345** | **44** | **389** |
| At 31 March 2003 | 396 | – | 396 |

Included in the net book value of motor vehicles is £44,000 (2003: £nil) in respect of assets held under finance leases.

## 14 FIXED ASSET INVESTMENTS

| Group | Own Shares £000 | Other Investments other than loans £000 | Total £000 |
|---|---|---|---|
| **Cost** | | | |
| At beginning of year | 95 | 108 | 203 |
| Additions | 31 | 10 | 41 |
| At end of year | 126 | 118 | 244 |
| **Provisions** | | | |
| At beginning and end of year | – | – | – |
| **Net book value** | | | |
| **At 31 March 2004** | **126** | **118** | **244** |
| At 31 March 2003 | 95 | 108 | 203 |

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 2004 the trust held 126,000 shares with a nominal value of £12,600 and a market value of £142,000. 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 and end of year | 3,670 |
| **Provisions** | |
| At beginning and end of year | – |
| **Net book value** | |
| **At 31 March 2004** | **3,670** |
| At 31 March 2003 | 3,670 |

| | Country of incorporation | Principal Activity | Class and Percentage of shares held Company |
|---|---|---|---|
| **Principal subsidiary undertakings** | | | |
| Touchstone Ltd | England and Wales | Supply and support of business software | 100% |
| Chartland Associates plc | England and Wales | Business solutions providers | 100% |
| Touchstone Global Business Solutions Ltd | England and Wales | Supply and support of business software | 100% |

The combination of Touchstone Group plc and Touchstone 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 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.
On 20th February 2004 Touchstone set up a new company to acquire certain assets of Multi Global Business Solutions plc. This was given the name 'Touchstone Global Business Solutions Limited'- see note 26.
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 | |
|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 |
| | **£000** | £000 | **£000** | £000 |
| Goods held for resale | **1** | 81 | **–** | – |

## 16 DEBTORS

| | Group | | Company | |
|---|---|---|---|---|
| | **2004** | **2003** | **2004** | **2003** |
| | **£000** | £000 | **£000** | £000 |
| Trade debtors | **4,141** | 3,172 | **–** | – |
| Amounts owed from group undertakings | **–** | – | **731** | 250 |
| Other debtors | **212** | 117 | **–** | – |
| Prepayments and accrued income | **2,053** | 2,146 | **–** | – |
| | **6,406** | 5,435 | **731** | 250 |

Included within prepayments and accrued income are deferred maintenance costs of £1,869,000 (2003: £1,954,000) of which £96,500 are deferred for more than one year (2003: £48,500).

## 17 CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

| | Group | | Company | |
|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 |
| | **£000** | £000 | **£000** | £000 |
| Obligations under finance leases | **22** | – | **–** | – |
| Trade creditors | **1,332** | 1,102 | **–** | – |
| Amounts owed to group undertakings | **–** | – | **867** | 553 |
| Corporation tax | **161** | 306 | **–** | – |
| Other creditors including tax and social security | **782** | 737 | **–** | – |
| Dividend proposed | **259** | 208 | **259** | 208 |
| | **2,556** | 2,353 | **1,126** | 761 |

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

| | | **2004** | 2003 |
|---|---|---|---|
| | | **£000** | £000 |
| **Group** | | | |
| | Within one year | **22** | – |
| | In the second to fifth years | **–** | – |
| | Over five years | **–** | – |
| | | **22** | – |

## 18 PROVISIONS FOR LIABILITIES AND CHARGES

There are no material deferred tax balances as at 31 March 2004 (2003: £nil).

## 19 ACCRUALS AND DEFERRED INCOME

| | Group | | Company | |
|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 |
| | **£000** | £000 | **£000** | £000 |
| **Deferred income:** | | | | |
| Amounts falling due within one year | **4,516** | 3,550 | **–** | – |
| Amounts falling due after more than one year | **234** | 117 | **–** | – |
| | **4,750** | 3,667 | **–** | – |
| **Accruals:** | | | | |
| Amounts falling due within one year | **444** | 990 | **–** | – |
| | **5,194** | 4,657 | **–** | – |

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

## 20 CALLED UP SHARE CAPITAL

| | **2004** | 2003 |
|---|---|---|
| | **£000** | £000 |
| ***Authorised*** | | |
| 14,210,000 ordinary shares of 10p each (2003:14,210,000) | **1,421** | 1,421 |
| ***Allotted, called up and fully paid*** | | |
| 10,355,045 ordinary shares of 10p each (2003: 10,380,045) | **1,036** | 1,038 |

On 4th April 2003, 25,000 shares representing 0.2% of called up share capital were purchased and cancelled by the company at a cost of £17,500 during the year.

## 21 SHARE PREMIUM AND RESERVES

| Group | Share Premium Account £000 | Capital Redemption Reserve £000 | Other Reserves £000 | Profit and Loss Account £000 |
|---|---|---|---|---|
| At beginning of year | 1,034 | 11 | 20 | 3,951 |
| Repurchase of share capital | – | 2 | – | (18) |
| Retained loss for the year | – | – | – | (218) |
| **At end of year** | **1,034** | **13** | **20** | **3,715** |

| Company | Share Premium Account £000 | Capital Redemption Reserve £000 | Other Reserves £000 | Profit and Loss Account £000 |
|---|---|---|---|---|
| At beginning of year | 1,034 | 11 | 843 | 242 |
| Repurchase of share capital | – | 2 | – | (18) |
| Retained profit for the year | – | – | – | 127 |
| **At end of year** | **1,034** | **13** | **843** | **351** |

The Company's profit for the financial year before dividends payable was £500,000 (2003:£246,000).

The Group – 'other reserves' opening figure of £20,000 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 Ltd shares received in exchange of £1,000 and the share premium of £9,000, together with the premium on shares issued for the total consideration on acquisition of Chartland Associates plc of £843,000.

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

## 22 COMMITMENTS

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

| | **2004** | | 2003 | |
|---|---|---|---|---|
| | **Land and buildings** | **Other** | Land and buildings | Other |
| **Group** | **£000** | **£000** | £000 | £000 |
| Operating leases which expire: | | | | |
| Within one year | **38** | **17** | – | – |
| In the second to fifth years inclusive | **242** | **5** | 135 | 14 |
| Over five years | **101** | **–** | 101 | – |
| | **381** | **22** | 236 | 14 |

# NOTES (CONTINUED)

## 23 RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOWS

| | 2004 £000 | 2003 £000 |
|---|---|---|
| ***Continuing operations*** | | |
| Operating profit | **454** | 1,440 |
| Amortisation of intangible assets | **736** | 366 |
| Profit on sale of fixed assets | **(1)** | (5) |
| Depreciation | **232** | 256 |
| Decrease / (increase) in stocks | **80** | (78) |
| Increase in debtors | **(343)** | (361) |
| Increase in creditors | **258** | 405 |
| **Net cash inflow from operating activities** | **1,416** | 2,023 |

## 24 ANALYSIS OF CASH FLOWS

| | 2004 | 2004 | 2003 | 2003 |
|---|---|---|---|---|
| **Returns on investments and servicing of finance** | | | | |
| Interest received | **107** | | 96 | |
| Interest paid | **(6)** | | (10) | |
| **Net cash inflow for returns on investment and servicing of finance** | | **101** | | 86 |
| **Capital expenditure and financial investment** | | | | |
| Purchase of tangible fixed assets | **(98)** | | (243) | |
| Sale of tangible fixed assets | **1** | | 14 | |
| Purchase of fixed asset investment | **(41)** | | (97) | |
| **Net cash outflow for capital expenditure and financial investment** | | **(138)** | | (326) |
| **Acquisitions** | | | | |
| Purchase of assets and business contracts | **(1,184)** | | | |
| **Net cash outflow for acquisitions** – | | **(1,184)** | | |
| **Management of liquid resources** | | | | |
| Cash movement on short term bank deposits | | **900** | | (200) |
| **Financing** | | | | |
| Issue of ordinary share capital | – | | 31 | |
| Purchase of own shares | **(18)** | | (93) | |
| Capital element of finance lease payments | – | | (16) | |
| Net cash outflow from financing | | (18) | | (78) |

## 25 ANALYSIS OF NET FUNDS

| | At beginning of year £000 | Cash Flow £000 | Acquisitions £000 | At end of year £000 |
|---|---|---|---|---|
| Cash | 956 | 210 | – | 1,166 |
| Short term bank deposits | 2,700 | (900) | – | 1,800 |
| Finance leases | – | – | (22) | (22) |
| **Total** | **3,656** | **(690)** | **(22)** | **2,944** |

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

## 26 ACQUISITIONS

(a) Tenon Group: On 8th May 2003 the Group acquired certain Microsoft Great Plains contracts and staff from Tenon Group Plc for a cash consideration of £425,000 (£443,000 inclusive of associated professional fees). There was also potentially up to a further £325,000 of deferred consideration that would have been paid in June 2004 had certain performance criteria been matched. However, criteria have not been achieved and so it is the Directors opinion that there is no further consideration to pay.

No assets were acquired so the full cost of investment has been transferred to Goodwill on consolidation.
As the contracts and staff have been integrated into the existing business of the group, it has not been possible to separately identify the impact on the operating profit for the period.

(b) Global Business Solutions: On 20th February 2004 the Group acquired Intellectual Property (IP), certain Axapta contracts, working capital, fixed assets and staff from Multi Group Plc for the sum of £725,000 (£741,000 including associated professional fees). There was no fair value adjustments made, but the debtors acquired were discounted prior to acquisition by 40%. The IP surrounds the Enterprise rental software developed by Multi Global Business Solutions Plc to complement with an Axapta ERP system.

There was no goodwill arising on acquisition, as the price paid was the fair market value of the assets acquired.
The following table demonstrates how the IPR was calculated and how the consideration was satisfied:

| | Fair Value £000 |
|---|---|
| Net assets acquired | 127 |
| Tangible assets | 562 |
| Intangibles – IP | 356 |
| Trade debtors | 107 |
| Other debtors | (427) |
| Creditors | – |
| **Net assets acquired** | **725** |

This was satisfied by cash of £725,000.
As the acquisition took place close to year end the impact on profits for the year has not been separately identified as it is not material.

# NOTES (CONTINUED)

## 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 '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 2004 or 31 March 2003.

***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 2004 or 31 March 2003.

***Currency risk***
No analysis of currency risk of financial assets and liabilities is presented as at both 31 March 2004 and 31 March 2003 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 £184,000 (2003: £194,000).

## 29 POST BALANCE SHEET EVENT

Subsequent to the year end the Group signed a new property lease to relocate London staff to a single premises in Central London. The new lease is for a short term period to 27 June 2006. The space covers 10,000 sq ft at an annual rental commitment of £242,000. The plan is that London staff will have moved to the premises by the end of June 2004. The address is 3rd Floor, No. 1 Triton Square, London NW1 3DX.

## 30 ULTIMATE CONTROLLING PARTY

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

# ANNUAL GENERAL MEETING

The Annual General Meeting will be held at Touchstone Group Plc, 3rd Floor, 1 Triton Square, London NW1 3DX on Thursday 12th August 2004 commencing at 11.00 a.m.

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

Resolution 6, which will be proposed as an Ordinary Resolution, will grant to the Directors' authority to allot relevant securities up to an aggregate nominal amount of £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 11th November 2005 whichever is earlier. The Directors have no intention at present of making any issue of shares other than on the exercise of employee share options.

Resolution 7, which will be proposed as a Special Resolution, will disapply the statutory pre-emption rights. It will disapply, until the next Annual General Meeting of the Company or on 11th November 2005 whichever is earlier, the statutory pre-emption rights for any allotment of shares in connection with grants of employee options, 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 8, 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's Daily Official List for the five business days before the purchase is made, such authority to expire on the earlier of 11th November 2005 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.

Copies of the Company's Articles of Association, a statement of Directors' interests and their service contracts will be available for inspection at the place of the Annual General Meeting 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 Touchstone Group plc, 3rd Floor, 1 Triton Square, London NW1 3DX on Thursday 12th August 2004 at 11.00 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 2004 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 2004.
3. To declare a final dividend of 2.5 pence per share, making a total dividend of 3.6 pence per share for the year ending 31 March 2004.
4. To re-elect David Thompson who retires in accordance with article 18.4 of the Company's articles of association and, being eligible, offers himself for re-election.
5. To re-appoint KPMG Audit Plc as the auditors to the Company and to authorise the directors to determine their remuneration.

## SPECIAL BUSINESS

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

6. That in substitution of all existing authorities the Directors be and generally and unconditionally are authorised pursuant to section 80 of the Companies Act 1985 (the "Act") to exercise all the powers of the Company to allot relevant securities (within the meaning of that section) up to an aggregate nominal amount of £345,164 for a period expiring (unless previously renewed, varied or revoked by the Company in a general meeting) 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 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 as if the power conferred hereby had not expired.
7. 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 and including a sale of shares held in treasury as referred to in section 94(3A) of the Act) for cash pursuant to the authority conferred by Resolution 6 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 Directors 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 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 conferred hereby had not expired.

8. That the Company be and is hereby generally and unconditionally authorised for the purposes of section 166(1) of the Act 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"), and Ordinary Shares so purchased shall be treated as provided in either section 160(4) or section 162A(1) of the Act (as appropriate) provided that:

   (a) the maximum number of Ordinary Shares hereby authorised to be purchased is 1,035,505;

   (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** |
| 3rd Floor | |
| 1 Triton Square | David Birch |
| London | Director and Secretary |
| NW1 3DX | 6 July 2004 |

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 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 4TU.

   To be valid the form must arrive by 11.00 a.m. on Tuesday 10 August 2004.

   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 11.00 a.m. on Tuesday 10 August 2004 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 11.00 a.m. on 10 August 2004 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

# COMPANY INFORMATION

| | |
|---|---|
| **Directors** | David Thompson – *Non-executive Director*<br>Keith Birch – *Chief Executive Officer*<br>David Birch – *Commercial Director*<br>Christian Butler – *Finance Director*<br>Paul White – *Chief Operating Officer (App. 13.05.04)* |
| **Registered Office:** | 3rd Floor<br>1 Triton Square<br>London<br>NW1 3DX |
| **Registered number** | 3537238 |
| **Secretary** | David Birch |
| **Broker** | Teather and Greenwood Limited<br>Beaufort House<br>15 St Botolph Street<br>London EC3A 7QR |
| **Solicitors** | Taylor Wessing<br>Carmelite<br>50 Victoria Embankment<br>Blackfriars<br>London EC4Y 0DX |
| **Auditors** | KPMG Audit Plc<br>8 Salisbury Square<br>London EC4Y 8BB |
| **Bankers** | National Westminster Bank plc<br>North London Business Centre<br>PO Box 6333<br>2/3 Upper Street<br>London N1 0QE |
| **Registrars** | Capita IRG plc<br>Bourne House<br>34 Beckenham Road<br>Beckenham<br>Kent BR3 4TU |

touchstone

annual report & accounts 2004