touchstone

annual report &
accounts 2005

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CHAIRMAN'S STATEMENT

RESULTS

The Company has achieved results in line with market expectations. Turnover for the year, including acquired operations, grew by 16% overall and in the second half by nearly 25%. Profits for the year before amortisation of goodwill, exceptional items and tax were £1.18m compared to £1.4m last year. Loss before tax was £0.08m compared to a profit of £0.56m last year. Basic earnings per share before goodwill amortisation were 6.3p compared to 8.6p last year. Basic loss per share after goodwill amortisation was (3.2)p (2004 earnings: 1.5p).

Service revenues, including professional fees and help desk revenues, continue to represent an increasing proportion of our total business. Together they now account for 75% of total turnover (2004: 73%) with professional fees alone representing over 34% of total turnover (2004: 31%).

CASH AND DIVIDENDS

Cash continues to represent a healthy proportion of total assets with cash balances at £2.5m (2004: £2.9m). The Board is recommending a final dividend of 2.5p per share (2004: 2.5p) to be paid on 17th August 2005 to shareholders registered at close of business on 15th July 2005. This makes a total dividend of 3.6p which will absorb £394k and is adequately covered by earnings adjusted for the deduction of amortisation of goodwill.

CURRENT TRADING

There has been a general reluctance by UK companies in recent years to invest in new IT systems. This has had an influence on overall Group fortunes as prospective clients prefer to 'patch-up' existing systems rather than invest in new.

This constrained overall Group growth in previous years, with acquisitions and the Group's diversification strategy providing much of the recent advances. There are now encouraging signs of an improving climate and some indications that the Group's strategic approach is helping to win business in competitive situations.

The Group is trading ahead of last year and has successfully signed a number of important contracts since the year end. The Group has a healthy sales pipeline and order books are at record levels. The Board views the year ahead with confidence.

David R T Thompson
Chairman 21 June 2005

CHIEF EXECUTIVE REVIEW OF OPERATIONS

The Group is one of Microsoft's leading Business Solution Partners with over 345 clients using either: Microsoft Axapta, Microsoft Great Plains or Microsoft CRM. The Group has the largest base of such Microsoft clients in the UK and they currently contribute over 34% of total Group revenue (2004: 27%). Adjusting for newly acquired operations and also for the increasing run-rate from recent large Axapta contract wins should see a significant increase in Microsoft related sales activity in the coming year.

The Group also has a significant installed base of SunSystems financial accounting clients. This represents a valuable asset for the Group's extended service approach. Over recent years the revenue from this base of clients has been relatively static but following the introduction of new management and a more focused approach, order-flow for the division has increased during the year by over 12%. This will translate to increased run-rate in future periods.

The Group's CRM division accounted for 20% of total revenue and continues to be an extremely important and strategic element of the Group's sales proposition. A number of new clients were successfully introduced during the year including Fidelity International Limited, Sport England, the Royal National Institute of the Blind and Trustmarque Solutions. Interestingly, Sport England has recently purchased a 250-user Microsoft CRM system and will be linking this to an ERP and procurement solution previously supplied by the Group.

From a relatively small base, the Group's Procurement Solutions division has produced over 200% turnover growth during the year. This is a pleasing endorsement of the Group's early investment in this area and also reflects the growing importance of sophisticated spend control systems for mid-sized organisations.

The Group has also created a new integration service during the year. This combined with the Group's Business Intelligence focus will help clients 'join' and report on some of their disparate business functions. This unit has grown well during the year and provides significant confidence for much greater growth in the future. Like procurement, we anticipate Integration and Business Intelligence services will become an increasingly important element in client engagements; providing the Group with another clear differentiator in the marketplace.

EXCEPTIONAL ITEMS

As part of a continuing review of operational costs and to ensure improved utilisations, the Board decided to reduce headcount marginally during the year. The costs associated with this exercise are treated as exceptional in the attached statements.

Further, the Group relocated all London-based staff to new central London offices during the period. All remaining and significant residual property leases have now been successfully assigned or surrendered; the property costs associated with this exercise have also been treated as exceptional and are reflected in the attached statements.

STRATEGY

The Group has transformed itself in to a multi-disciplinary IT services supplier capable of delivering a wide array of sophisticated and integrated business solutions.

Developing such an approach has been a bold but necessary strategy for the Group; especially during the slack markets of recent years. As few of our competitors offer a comparable approach it is now seen as an important differentiator in poor markets and provides a vital pre-requisite for when markets improve. It is pleasing to confirm that many new clients reference the Group's joined-up approach as being a critical factor in their selection decision.

ACQUISITIONS

The acquisition of Multi Group Plc's software division in March 2004 brought large project Microsoft Axapta skills and Hire domain expertise to the Group. During the period this division has performed at the lower end of expectations, contributing £1.3m of total turnover and generating a loss of £331k. Despite disappointing first year financial results, we are delighted with the improving business landscape for Axapta in general and particularly with the strength of our Axapta division's order book. Since the year-end the Group has won a number of large projects including a contract from Speedy Hire plc for £4.5m. These, together with a buoyant sales pipeline should ensure a significant improvement in this division's run-rate.

The acquisition of the 300-client Tate Bramald business in November 2004 bolstered both the Group's Microsoft Great Plains and SunSystem's units. Importantly, the combination of Tate Bramald's 200 charity clients has now doubled the size of the Group's dedicated Not-for-Profit division which now trades as Touchstone Tate Bramald. The Group's enhanced charity sector focus and integrated solution approach was cited as being a principal influence in the winning of the recent order from the Royal National Institute for Deaf People (RNID). This contract will provide the RNID with a 350-user Microsoft-based financial accounting, budgeting and procurement solution. Further, the new Not-for-Profit division has provided almost 20% of total Group turnover and with acquired businesses and the run-rate from recent contract wins should see this proportion increase in the coming year.

The general business solution market has seen a number of corporate acquisitions over recent years. Management believes that 8 transactions involving Microsoft Business Solution partners were concluded in the last 18 months. This reflects the consolidating nature of the market and particularly the strategic importance of the Microsoft brand. It also gave rise to a degree of price competition as potential suitors vied with each other. Touchstone is an active and mature consolidator of such businesses and was involved in a number of these negotiations but few of the target companies had the associated benefits and synergies that could merit the premium prices required. However, the Group's acquisition of Tate Bramald Ltd during the year has shown that the Group continues to successfully identify and integrate such operations to the benefit of customers and shareholders alike.

The Group is reviewing a number of additional acquisitions with one currently at an advanced stage of negotiation. The Group has achieved a significant share of the UK market for both SunSystems and Microsoft Great Plains in recent years. There is also considerable potential for further Microsoft Axapta, Navision and general CRM opportunities and these will help extend Group coverage outside of London and the Home Counties.

THE FUTURE

In recent years UK mid-sized businesses have grown to demand ever increasing sophistication from their systems and also on their business solution partners. This trend is likely to continue and will place increasing pressure on those smaller partners in their attempt to keep pace with rapid change. Recent accelerated consolidation in the Microsoft Business Solution community may reflect these pressures as small business partners find difficulty in scaling to the challenge.

The Group recognised at an early stage that a change was needed and fortunately had the financial strength and skill to execute a transformation project. Recent acquisitions, new corporate head-quarters and a broadening portfolio reflect this. Today, the Group is one of the largest mid-market business solution partners in the UK and is well placed for further growth.

Consequently, the Group now enjoys greater influence with its clients. As a result, staff and management now have the confidence that few smaller competitors can offer a comparable approach. We are therefore grateful to staff and shareholders alike for their support in recent years and look forward to reporting on continued success in the future.

Keith G J Birch
Chief Executive Officer 21 June 2005

DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements for the year ended 31 March 2005.

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 2005 is set out in the Chairman's Statement and Chief Executive's review on pages 1 to 3.

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 2005 there were 54 days purchases in Group trade creditors (2004: 57 days). The Company did not have any trade creditors at 31 March 2005 £nil (2004: £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:

DRT Thompson

KGJ Birch

DP Birch

C Butler

P White (resigned 4 April 2005)

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	10,500
KGJ Birch **	Touchstone Group plc	Ordinary	2,930,547	2,930,547
DP Birch	Touchstone Group plc	Ordinary	1,628,257	1,628,257
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.

There were no changes in Directors' interests in shares up to 21 June 2005, 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 9 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 21 June 2005, 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	26.5%
DP Birch	1,628,257	14.7%
P Birch (including 33,000 ordinary shares held on behalf of his immediate family)	1,130,624	10.2%
Chase Nominees Limited	1,075,000	9.7%
Opus 102 Limited	772,200	7.0%
BNY SG Nominees Limited	673,505	6.1%
KAS Nominees Limited	430,000	3.9%

DIRECTORS' REPORT (CONTINUED)

POLITICAL AND CHARITABLE CONTRIBUTIONS

The Group made charitable contributions of £500 (2004: £1,500) 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.

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

21 June 2005

CORPORATE GOVERNANCE

Although, as an AIM listed company, the Company is not required to comply with the provisions of the Combined Code ("the Code") and this is not a statement of compliance as required by the Code, 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.

THE BOARD AND COMMITTEES

At 31 March 2005 and 2004 the Board comprised of three executives Directors Keith Birch, David Birch and Christian Butler and one non-executive Director David Thompson who is Chairman.

The Board, which meets on average seven 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 consists of David Thompson alone. The report on Directors' remuneration on pages 9 to 11 contains a detailed description of remuneration and applicable policies.

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

At 31 March 2005 and 2004 the Audit Committee comprised of David Thompson (Chairman). David Thompson is considered by the Board to have relevant financial 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.touchstonegroupplc.com) which includes copies of the Company's press releases.

CORPORATE GOVERNANCE (CONTINUED)

INTERNAL CONTROL

The Board has overall responsibility for the group's systems of internal control and for monitoring their effectiveness. Although no system of internal control can provide absolute assurance against material misstatements or loss, the group's systems are designed to provide the directors with reasonable assurance that issues are identified on a timely basis and dealt with appropriately.

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. The Remuneration Committee during the year ending 31 March 2005 consisted of David Thompson as the sole Committee member.

The terms of reference of the Remuneration Committee are not formally documented and its membership includes only one Non-Executive Director who is independent (David Thompson).

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.

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 Director's 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

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. 75,000 share options were granted in 2005.

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.

DIRECTORS' REMUNERATION

A summary of Directors' remuneration and benefits excluding pension contributions are given below:

Category	Salary	Benefits in kind	Bonus	**2005 Total**	2004 Total
	£000	£000	£000	**£000**	£000
Executives 2005: 4 (2004: 3)	469	14	26	**509**	375
Non-executive	10	–	–	**10**	10
	479	14	26	**519**	385

The company is not required to detail directors' remuneration individually.

No Directors received compensation for loss of office in either 2005 or 2004.

Aggregate emoluments in respect of qualifying services amounted to £519,000 (2004: £385,000). Emoluments of the highest paid Director (excluding pension contributions) were £175,000 (2004: £159,000). Amounts paid by the Group in respect of his pension contributions were £15,000 (2004: £15,000). He holds no share options or entitlement to share options.

Total pension contributions of £36,000 (2004: £29,000) were made to the Executive Directors' personal pension plans.

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:

	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	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	127.6p	July 2005	July 2012
Unapproved scheme	15,000	–	15,000	95.5p	July 2006	July 2013
Unapproved scheme	–	25,000	25,000	93p	December 2007	July 2014
P White (resigned 4 April 2005)						
Approved scheme	23,510	–	23,510	127.6p	July 2005	July 2012
Unapproved scheme	26,490	–	26,490	127.6p	July 2005	July 2012
Unapproved scheme	15,000	–	15,000	95.5p	July 2006	August 2013
Unapproved scheme	–	50,000	50,000	93p	December 2007	July 2014

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

No options lapsed during the period. Paul White's options ceased to be exercisable upon resignation.

The highest and lowest share prices during the year were 115p and 93p respectively and the price at 31 March 2005 was 114p.

There were no changes in Directors' interests in share options up to 21 June 2005, the latest practicable date prior to the issue of this report.

This report was approved by the board of Directors on 21 June 2005 and has been signed on its behalf by

KGJ Birch
Director

DIRECTORS' BIOGRAPHIES

David Thompson

Non-executive Chairman, aged 59, 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 48, 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 50, 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 40, 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 38, 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 member of the senior management team. Paul left Touchstone to Join Microsoft as a director of their Business Solutions product group.

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.

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF TOUCHSTONE GROUP PLC

We have audited the financial statements on pages 15 to 32.

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 13 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 2005 and of the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc 21 June 2005

Chartered Accountants,
Registered Auditor,
London

CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2005

	Note	Continuing operations £000	Acquired operations* £000	Total Year ended 31 March 2005 £000	Year ended 31 March 2004 £000
Turnover	*1,2,25*	**14,441**	**2,828**	**17,269**	14,901
Cost of sales		**(7,835)**	**(1,346)**	**(9,181)**	(7,454)
Gross profit		**6,606**	**1,482**	**8,088**	7,447
Administrative expenses					
– Before intangible amortisation and exceptional items		**(5,505)**	**(1,507)**	**(7,012)**	(6,130)
– intangible amortisation	*3*	**(742)**	**(250)**	**(992)**	(736)
– Exceptional items	*6*	**(232)**	**(36)**	**(268)**	(127)
Total administrative expenses		**(6,479)**	**(1,793)**	**(8,272)**	(6,993)
Operating (loss) / profit		**127**	**(311)**	**(184)**	454
Interest receivable	*7*	**120**	**3**	**123**	107
Interest payable and similar charges	*7*	**(7)**	**(14)**	**(21)**	(6)
(Loss) / profit on ordinary activities before taxation	*3*	**240**	**(322)**	**(82)**	555
Tax on profit on ordinary activities	*8*			**(222)**	(400)
(Loss) / profit on ordinary activities after taxation				**(304)**	155
Minority interests				**(28)**	–
(Loss) / profit for the year				**(332)**	155
Dividends paid and proposed	*9*			**(394)**	(373)
Retained loss for the year	*20*			**(726)**	(218)
(Loss) / earnings per share – basic	*10*			**(3.2)p**	1.5p
(Loss) / earnings per share – diluted	*10*			**(3.2)p**	1.5p

The results disclosed in the consolidated profit and loss account are on a 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 either the current or preceding year.

*Acquisitions include the results of Touchstone Global Business Solutions Limited, acquired in February 2004. These disclosures are provided voluntarily (see note 25).

CONSOLIDATED BALANCE SHEET
AT 31 MARCH 2005

	Note	2005 £000	2005 £000	2004 £000	2004 £000
				(As restated see note 1)	
Fixed assets					
Intangible assets	*11*		**4,372**		3,562
Tangible assets	*12*		**338**		389
Investments	*13*		**118**		118
			4,828		4,069
Current assets					
Stocks	*14*	–		1	
Debtors	*15*	**8,326**		6,406	
Cash at bank and in hand		**2,581**		2,966	
		10,907		9,373	
Creditors: amounts falling due within one year	*16*	**(3,826)**		(2,556)	
Net current assets			**7,081**		6,817
Total assets less current liabilities			**11,909**		10,886
Accruals and deferred income					
Deferred income	*18*	**(4,903)**		(4,750)	
Accruals	*18*	**(1,311)**		(444)	
			(6,214)		(5,194)
Net assets			**5,695**		5,692
Capital and reserves					
Called up share capital	*19*		**1,107**		1,036
Share premium account	*20*		**1,713**		1,034
Capital redemption reserve	*20*		**19**		13
Other reserves	*20*		**20**		20
Profit and loss account	*20*		**2,808**		3,589
Equity shareholders' funds			**5,667**		5,692
Minority Interests			**28**		–
Total			**5,695**		5,692

These financial statements were approved by the Board of Directors on 21 June 2005 and were signed on its behalf by:

KGJ Birch
Director

COMPANY BALANCE SHEET
AT 31 MARCH 2005

	Note	2005 £000	2005 £000	2004 £000	2004 £000
				(As restated see note 1)	
Fixed assets					
Investments	*13*		**4,860**		3,670
Current assets					
Debtors	*15*	**731**		731	
Cash at bank and in hand		**7**		2	
		738		733	
Creditors: amounts falling due within one year	*16*	**(760)**		(1,126)	
Net current liabilities			**(22)**		(393)
Total assets less current liabilities			**4,838**		3,277
Net assets			**4,838**		3,277
Capital and reserves					
Called up share capital	*19*		**1,107**		1,036
Share premium account	*20*		**1,713**		1,034
Capital redemption reserve	*20*		**19**		13
Other reserves	*20*		**843**		843
Profit and loss account	*20*		**1,156**		351
Equity shareholders' funds			**4,838**		3,277

These financial statements were approved by the Board of Directors on 21 June 2005 and were signed on its behalf by:

KGJ Birch
Director

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2005

	Note	2005 £000	2004 £000 *(As restated see note 1)*
CASH FLOW STATEMENT			
Net cash inflow from operating activities	*22*	**489**	1,416
Returns on investments and servicing of finance	*23*	**102**	101
Taxation		**(337)**	(545)
Capital expenditure and financial investment	*23*	**(210)**	(107)
Acquisitions and disposals	*23*	**24**	(1,184)
Equity dividends paid		**(379)**	(322)
Cash outflow before management of liquid resources and financing		**(311)**	(641)
Management of liquid resources	*23*	**–**	900
Financing	*23*	**(74)**	(49)
(Decrease) / increase in cash in the year		**(385)**	210

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

		2005 £000	2004 £000
(Decrease) / increase in cash in the period		**(385)**	210
Cash outflow from decrease in debt and lease financing		**19**	–
Cash inflow from increase in liquid resources		**–**	(900)
Change in net funds resulting from cash flows		**(366)**	(690)
Loans and finance leases acquired with subsidiaries		**–**	(22)
Movement in net funds in the year	*24*	**(366)**	(712)
Net funds at the start of the year	*24*	**2,944**	3,656
Net funds at the end of the year	*24*	**2,578**	2,944

RECONCILIATIONS OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS
FOR THE YEAR ENDED 31 MARCH 2005

	Group		Company	
	2005	2004	**2005**	2004
	£000	£000	**£000**	£000
(Loss) / profit for the financial year	**(332)**	155	**1,254**	500
Dividends	**(394)**	(373)	**(394)**	(373)
Retained (loss) / profit for the financial year	**(726)**	(218)	**860**	127
New share capital subscribed net of issue costs	**756**	–	**756**	–
Purchase of own shares	**(55)**	(18)	**(55)**	(18)
Purchase of shares in an ESOP trust	–	(31)	–	–
Net (decrease) / increase in equity shareholders' funds	**(25)**	(267)	**1,561**	109
Opening shareholders' funds (originally £5,818 (2004: £6,054), restated for prior year adjustment of £126,000 (2004: £95,000) see note 1)	**5,692**	5,959	**3,277**	3,168
Closing equity shareholders' funds	**5,667**	5,692	**4,838**	3,277

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, except as noted below. The company has adopted UITF 38 "Accounting for ESOP Trusts". The comparative figures have been restated accordingly.

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.

Interest in own shares
Adoption of UITF abstract 38 'Accounting for ESOP trusts' requires the assets and liabilities of the Group's ESOP trust to be recognised in the financial statements where there is a de facto control of those assets and liabilities. The company's own shares held in the ESOP trust should be deducted from shareholders funds until they vest unconditionally with employees. Prior to the adoption of UITF 38, the company's own shares held by the ESOP trust were recognised as an asset on the balance sheet at the lower of cost and net realiseable value. This standard has been adopted in these financial statements and all primary statements and notes relating to the accounts have been restated accordingly.

Compliance with UITF 38 has reduced the investments and shareholders' funds as previously stated at 31 March 2004 by £126,000 (31 March 2003: £95,000). There is no impact on the current or preceding year's profit or cashflow.

Basis of consolidation
The Group accounts include the accounts of the company and its subsidiary undertakings made up to 31 March 2005.

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

The subsidiaries acquired subsequent to the Group reconstruction have been consolidated using the principles of acquisition accounting. 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.

NOTES (CONTINUED)

1 ACCOUNTING POLICIES (CONTINUED)

The profit for the financial year dealt within the financial statements of the holding company was £1,254,000 (2004: 500,000). 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. The economic life of goodwill is typically estimated as five years (see note 11).

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 estimated useful economic life of five years.

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

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

Fixtures and fittings	–	20% reducing balance
Computer equipment	–	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 and Eire. Turnover and profits before tax arising in Eire are not material. The Group has one principal class of business.

3 (LOSS) / PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2005 **£000**	2004 £000
(Loss) / profit on ordinary activities before taxation is stated after charging:		
Auditors' remuneration:		
Group:		
– audit (including the company)	**42**	37
Company:		
– audit	**5**	5
Depreciation and other amounts written off tangible fixed assets:		
– Owned	**261**	230
– Leased	**23**	2
Amortisation of intangible assets	**992**	736
Profit on disposal of fixed assets	**–**	1
Hire of land and buildings – operating leases	**329**	269
Hire of other assets – operating leases	**12**	12

The auditors did not receive any fees for non audit services during the year (2004: – £nil).

NOTES (CONTINUED)

4 REMUNERATION OF DIRECTORS

Aggregate emoluments in respect of qualifying services amounted to £519,000 (2004: £385,000). Emoluments of the highest paid Director (excluding pension contributions) were £175,000 (2004: £159,000). Amounts paid by the Group in respect of his pension contributions were £15,000 (2004: £15,000). He holds no share options or entitlement to share options.

Total pension contributions of £36,000 (2004: £29,000) were made to the Executive Directors personal pension plans.

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	
	2005	2004
Management	**14**	13
Administrative	**19**	16
Sales, support and technical	**97**	83
	130	112

The aggregate payroll costs of these persons were as follows:

	2005	2004
	£000	£000
Wages and salaries	**6,102**	5,042
Social security costs	**777**	650
Other pension costs (see note 27)	**228**	184
	7,107	5,876

6 EXCEPTIONAL ITEMS

	2005	2004
	£000	£000
Relocation redundancy and other reorganisation costs	**268**	127

7 INTEREST RECEIVABLE

	2005	2004
	£000	£000
Bank interest	**123**	107

INTEREST PAYABLE AND SIMILAR CHARGES

	2005	2004
	£000	£000
Bank charges	**7**	6
Other interest paid	**14**	–
	21	6

NOTES (CONTINUED)

8 TAXATION

	2005 £000	2004 £000
UK corporation tax at 30% (2004: 30%)		
– current year	**233**	412
– prior year	**(11)**	(12)
	222	400

Factors affecting the tax charge for the current period

The current tax charge for the period is higher (2004: higher) than the standard rate of corporation tax in the UK of 30%. The differences are explained below:

	2005 £000	2004 £000
Current tax reconciliation		
(Loss) / profit on ordinary activities before tax	**(82)**	555
Current tax at 30%	**(25)**	167
Effects of:		
Expenses not deductible for tax purposes and other adjustments	**307**	220
Effect of depreciation in excess of capital allowances	**29**	25
Utilisation of tax losses	**(45)**	–
Other timing differences	**(33)**	–
Adjustments to tax charge in respect of previous periods	**(11)**	(12)
Total current tax charge (see above)	**222**	400

9 DIVIDENDS

	2005 £000	2004 £000
Equity shares:		
Interim dividend paid (2005:1.1p per share, 2004: 1.1p per share)	**120**	114
Final dividend proposed (2005: 2.5p per share, 2004: 2.5p per share)	**274**	259
Total dividend	**394**	373

10 EARNINGS PER SHARE

	2005 £000	2004 £000
(Loss) / profit for the financial year attributable to shareholders	**(332)**	155
Amortisation of intangible assets	**992**	736
Profit for the financial year before amortisation of intangible assets	**660**	891
Weighted average number of shares in issue	**10,482,333**	10,355,045
Earnings per ordinary share before amortisation of intangible assets	**6.3p**	8.6p
Loss per ordinary share on amortisation of intangible assets	**(9.5)p**	(7.1)p
Basic (loss) / earnings per ordinary share	**(3.2)p**	1.5p
Diluted (loss) / earnings per ordinary share	**(3.2)p**	1.5p
Basic earnings per ordinary share before amortisation of intangible assets	**6.3p**	8.6p

10 EARNINGS PER SHARE (CONTINUED)

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding those held in employee benefit trusts which are treated as cancelled.

As at 31 March 2005, there were 502,180 share options in issue under an approved employee option scheme and 506,020 in an unapproved scheme. The options first became exercisable in 2001 dependant on the achievement of certain performance targets.

Since the conversion of potential ordinary shares to ordinary shares would decrease net basic loss per share, they are not diluted (2004: – none of the shares are dilutive).

11 INTANGIBLE FIXED ASSETS

	Intellectual Property £000	Goodwill £000	Total Intangibles £000
Cost			
At beginning of year	562	4,863	5,425
Additions (Tate Bramald)	–	1,802	1,802
At end of year	562	6,665	7,227
Amortisation			
At beginning of year	–	1,863	1,863
Charged in year	132	860	992
At end of year	132	2,723	2,855
Net book value			
At 31 March 2005	**430**	**3,942**	**4,372**
At 31 March 2004	562	3,000	3,562

Intellectual Property is software code acquired from Multi Global Business Solutions Plc on 20 February 2004. The value placed on this at the time was £562k, which the Directors have decided to amortise over five years representing their estimation of its useful economic life.

Additions relate to the acquisition of Tate Bramald Limited on 11 November 2004 (see note 25). The directors have decided to amortise over five years representing their estimation of its useful economic life.

12 TANGIBLE FIXED ASSETS

Group	Fixtures fittings and equipment £000	Motor vehicles £000	Total £000
Cost			
At beginning of year	1,728	46	1,774
Additions	214	–	214
Acquisitions	23	–	23
Disposals	–	(14)	(14)
At end of year	1,965	32	1,997
Depreciation			
At beginning of year	1,383	2	1,385
Charge for the year	261	23	284
Disposals	–	(10)	(10)
At end of year	1,644	15	1,659
Net book value			
At 31 March 2005	**321**	**17**	**338**
At 31 March 2004	345	44	389

NOTES (CONTINUED)

12 TANGIBLE FIXED ASSETS (CONTINUED)

Included in the net book value of motor vehicles is £17,000 (2004: £44,000) in respect of assets held under finance leases, depreciation charged during the year was £23,000 (2004: £2,000).

13 FIXED ASSET INVESTMENTS

Group	(As restated see Note 1) Other investments other than loans £000	Total £000
Cost		
At beginning of year	118	118
Additions	–	–
Acquisitions	–	–
At end of year	118	118
Provisions		
At beginning and end of year	–	–
Net book value		
At 31 March 2005	**118**	**118**
At 31 March 2004	118	118

Company	Shares in group undertaking £000
Cost	
At beginning of year	3,670
Additions	1,190
At end of year	4,860
Provisions	
At beginning and end of year	–
Net book value	
At 31 March 2005	**4,860**
At 31 March 2004	3,670

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%
Touchstone Global Business Solutions Ltd	England and Wales	Supply and support of business software	100%
Tate Bramald Limited	England and Wales	Supply and support of business software	100%
Touchstone Vorsprung (Isle of Man Project) Limited	England and Wales	Supply and support of business software	75% Ordinary

13 FIXED ASSET INVESTMENTS (CONTINUED)

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.

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 25.

On 11th November 2004 Touchstone acquired the whole of the share capital of Tate Bramald limited.

On 15th October 2004 Touchstone created a venture with Vorsprung Business Solutions Limited to service a contract with the Isle of Man Government.

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	
	2005	2004	**2005**	2004
	£000	£000	**£000**	£000
Goods held for resale	**–**	1	**–**	–

15 DEBTORS

	Group		Company	
	2005	2004	**2005**	2004
	£000	£000	**£000**	£000
Trade debtors	**5,473**	4,141	**–**	–
Amounts owed from group undertakings	**–**	–	**731**	731
Other debtors	**253**	212	**–**	–
Prepayments and accrued income	**2,600**	2,053	**–**	–
	8,326	6,406	**731**	731

Included within prepayments and accrued income are deferred maintenance costs of £2,145,000 (2004: £1,869,000) of which £250,000 are deferred for more than one year (2004: £96,500).

16 CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2005	2004	**2005**	2004
	£000	£000	**£000**	£000
Obligations under finance leases	**3**	22	**–**	–
Trade creditors	**1,856**	1,332	**–**	–
Amounts owed to group undertakings	**–**	–	**486**	867
Corporation tax	**46**	161	**–**	–
Other creditors including tax and social security	**1,647**	782	**–**	–
Dividend proposed	**274**	259	**274**	259
	3,826	2,556	**760**	1,126

NOTES (CONTINUED)

16 CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR (CONTINUED)

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

	2005 £000	2004 £000
Group		
Within one year	**3**	22
In the second to fifth years	–	–
Over five years	–	–
	3	22

17 PROVISIONS FOR LIABILITIES AND CHARGES

There are no material deferred tax balances as at 31 March 2005 (2004: £nil).

18 ACCRUALS AND DEFERRED INCOME

	Group		Company	
	2005 £000	2004 £000	2005 £000	2004 £000
Deferred income:				
Amounts falling due within one year	**4,661**	4,516	–	–
Amounts falling due after more than one year	**242**	234	–	–
	4,903	4,750	–	–
Accruals:				
Amounts falling due within one year	**1,311**	444	–	–
	6,214	5,194	–	–

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

19 CALLED UP SHARE CAPITAL

	2005 £000	2004 £000
Authorised		
14,210,000 ordinary shares of 10p each (2003: 14,210,000)	**1,421**	1,421
Allotted, called up and fully paid		
11,069,245 ordinary shares of 10p each (2004: 10,355,045)	**1,107**	1,036

58,000 shares representing 0.2% of called up share capital were purchased and cancelled by the company at a cost of £55,000 during the year.

There were 772,200 of new shares issued in consideration of the purchase of subsidiary undertakings.

20 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 as previously stated	1,034	13	20	3,715
Prior year adjustment on adoption of UITF 38 (see note 1)	–	–	–	(126)
At beginning of year as restated	1,034	13	20	3,589
Premium on issue of shares	–	–	–	–
Shares issued in year	679	–	–	–
Repurchase of share capital	–	6	–	(55)
Retained loss for the year	–	–	–	(726)
At end of year	**1,713**	**19**	**20**	**2,808**

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 deduction from shareholders funds in accordance with the UITF Abstract 38: 'Accounting for ESOP Trusts'. As at 31 March 2005 the trust held 126,000 shares with a nominal value of £12,600 and a market value of £144,000. All of the above shares are held under option, none of the above shares have been conditionally gifted to employees of the Group.

Company	Share Premium Account £000	Capital Redemption Reserve £000	Other Reserves £000	Profit and Loss Account £000
At beginning of year	1,034	13	843	351
Premium on issue of shares	–	–	–	–
Shares issued in year	679	–	–	–
Repurchase of share capital	–	6	–	(55)
Retained profit for the year	–	–	–	860
At end of year	**1,713**	**19**	**843**	**1,156**

The Company's profit for the financial year before dividends payable was £1,254,000 (2004: £500,000).

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 Computers 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.

21 COMMITMENTS

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

	2005		2004	
	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	**–**	**5**	242	5
Over five years	**351**	**–**	101	–
	351	**5**	381	22

NOTES (CONTINUED)

22 RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOWS

	2005 £000	2004 £000
Continuing operations		
Operating (loss) / profit	**(184)**	454
Amortisation of intangible assets	**992**	736
Loss on sale of fixed assets	**–**	(1)
Depreciation	**284**	232
Decrease in stock	**1**	80
Increase in debtors	**(1,204)**	(343)
Increase in creditors	**600**	258
Net cash inflow from operating activities	**489**	1,416

23 ANALYSIS OF CASH FLOWS

	2005 £000	2005 £000	2004 £000	2004 £000
Returns on investments and servicing of finance				
Interest received	**123**		107	
Interest paid	**(21)**		(6)	
Net cash inflow for returns on investment and servicing of finance		**102**		101
Capital expenditure and financial investment				
Purchase of tangible fixed assets	**(214)**		(98)	
Sale of tangible fixed assets	**4**		1	
Purchase of fixed asset investment	**–**		(10)	
Net cash outflow for capital expenditure and financial investment		**(210)**		(107)
Acquisitions and disposals				
Acquisition of subsidiary	**(434)**		–	
Cash acquired with subsidiary	**458**		–	
Purchase of assets and business contracts	**–**		(1,184)	
Net cash inflow / (outflow) for acquisitions and disposals		**24**		(1,184)
Management of liquid resources				
Cash movement on short term bank deposits		**–**		900
Financing				
Purchase of own shares	**(55)**		(18)	
Purchase of shares in ESOP fund	**–**		(31)	
Capital element of finance lease payments	**(19)**		–	
Net cash outflow from financing		**(74)**		(49)

24 ANALYSIS OF NET FUNDS

	At beginning of year £000	Cash Flow £000	At end of year £000
Cash	1,166	(385)	781
Short term bank deposits	1,800	–	1,800
Finance leases	(22)	19	(3)
Total	**2,944**	**(366)**	**2,578**

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

25 ACQUISITIONS

(a) Tate Bramald Limited:

On 11th Nov 2004 the Group acquired Tate Bramald from Opus Trust Limited for an initial consideration of £1,190,000. This was satisfied by the issue of 772,200 shares and cash of £400,000. There is also potentially up to a further £600,000 of deferred consideration payable in cash that maybe due in November 2005 if certain performance criteria are achieved. The criteria is based on the successful renewal of annual support contracts in excess of £840,000 by 10th November 2006. The maximum is paid on achievement of £1.2m of contract revenues in this period.

Purchase of subsidiary undertaking:

	Book and fair value of assets acquired £000
Net assets acquired	
Tangible fixed assets	**23**
Debtors	**716**
Cash at bank and in hand	**458**
Creditors	**(1,809)**
Net assets / (liabilities)	(612)
Goodwill	1,802
Consideration	1,190
Satisfied by	
Shares allotted	756
Cash	400
Costs of acquisition	34
	1,190

In its last accounting reference period for the 12 months to 30 September 2004, Tate Bramald Limited made a loss after tax of £111,128. For the period since that date to the date of acquisition on 11 November 2004, Tate Bramald Limited's management accounts showed a loss for the period of £131,540.

	£000
Turnover	376
Operating loss	(124)
Loss before Tax	(132)
Total recognised loss for the period	(132)

25 ACQUISITIONS (CONTINUED)

b) Touchstone Global Business Solutions:

During February 2004 the Group set up Touchstone Global Business Solutions Limited ("Global") with assets, staff and clients acquired from Multi Group plc. Given the proximity of the acquisition to the previous year end, the results of Global were not separately identified as they were not considered material. However, in this first full year of trading, the directors have voluntarily provided disclosure of the results of this operation.

c) Touchstone Vorpsrung (Isle of Man Project):

On 15 October 2004 Touchstone created a joint venture with Vorsprung Business Solutions Limited to service a contract with the Isle of Man government. This was as such a new business, and the company's share of the profits (75%) have been consolidated in these accounts. There was no cost of investment, and so as such there was no goodwill arising on consolidation.

d) Summary of Acquired operations trading performance in the period:

	Tate Bramald Ltd £000	Touchstone Global £000	Touchstone Vorsprung (IOM) £000	Totals £000
Turnover	1,139	1,328	361	2,828
Profit/(loss) before tax before goodwill	148	(331)	111	(72)
Goodwill amortisation	(118)	(132)	–	(250)
Group profit/ (loss) before tax	**30**	**(463)**	**111**	**(322)**

26 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 2005 or 31 March 2004.

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 2005 and 31 March 2004 as all were in sterling.

27 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 £228,000 (2004: £184,000).

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 Touchstone Group Plc, 3rd Floor, 1 Triton Square, London NW1 3DX on Monday 8th August 2005 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 £368,974 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 7th November 2006 whichever is earlier.

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 7th November 2006 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 £55,346 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 1,106,924 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 7th November 2006 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 Monday 8th August 2005 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 2005 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 2005.
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 2005.
4. To re-elect Christian Butler 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 £368,974 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 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) and (b) above of equity securities up to an aggregate nominal value of £55,346.

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 1,106,924;

   (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	13 July 2005

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 annual general meeting 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 not later than 48 before 11:00 a.m. Monday 8th August 2005.

   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 48 hours before 11:00 a.m. Monday 8th August 2005 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 received less than 48 before 11:00 a.m. Monday 8th August 2005 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

COMPANY INFORMATION

Directors	David Thompson – *Non-executive Chairman* Keith Birch – *Managing Director* David Birch – *Commercial Director* Christian Butler – *Finance Director* Paul White – *Chief Operating Officer* *(Resigned 4 April 2005)*
Registered Office:	3rd Floor 1 Triton Square London NW1 3DX
Registered number	3537238
Secretary	David Birch
Broker	Teather and Greenwood Limited Beaufort House 15 St Botolph Street London EC3A 7QR
Solicitors	Taylor Wessing (London) Carmelite 50 Victoria Embankment Blackfriars London EC4Y 0DX Hill Dickinson (Manchester) 50 Fountain Street Manchester M2 2AS
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

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