

Touchstone Group plc

Annual report and financial
statements

Registered number 3537238

31 March 2011

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Company information

Directors	DRT Thompson KGJ Birch DP Birch C Butler	– Non-Executive Chairman – Chief Executive – Commercial Director – Finance Director
Registered office	3 rd Floor No 1 Triton Square London NW1 3DX	
Secretary	DP Birch	
Auditors	Baker Tilly UK Audit LLP The Clock House 140 London Road Guildford, Surrey GU1 1UW	
Bankers	National Westminster Bank Plc North London Business Centre PO Box 6333 2/3 Upper Street London N1 0QE	

Directors' report

The Directors present their annual report and the audited financial statements for the year ended 31 March 2011.

Principal activities

Touchstone Group plc is a holding company.

The principal activity of its trading subsidiaries during the financial year was the provision of integrated business software and associated consulting and support services.

Business Review

The following business review has been provided by the directors in accordance with the Companies Act.

Against the backdrop of little improvement in the general economy, it was good to see that, although there was a small decline in revenues in the year, there has been a significant improvement in profitability, with the Group recording 29.7% growth in Operating profits before exceptional items (Adjusted EBITDA*). This has largely been due to better control of the cost base, and a reduction in the staff and establishment costs.

Following a review of the AX business the Board concluded that the business unit may be better served by being part of a larger and more internationally focused AX organisation. To this end, the underlying business of the AX unit was disposed on 1st April 2011 to HSO, a Dutch-based Microsoft Dynamics AX specialist. More details are disclosed in Note 8 to these statements on page 19.

Additionally, a number of agreements were signed between the Group and Calyx Software Ltd ('Calyx') on 2nd June 2011. Calyx are a fellow Microsoft Dynamics GP partner, who with financial assistance provided by its ultimate parent, Better Capital Ltd (LSE: BCAP), have merged four major UK Microsoft Dynamics GP partners to form a business that is now one of Microsoft's largest worldwide Dynamics GP organisations.

The core agreement saw the underlying assets of Touchstone's Microsoft Dynamics GP business unit being acquired by Calyx. This agreement specifically excludes all elements of Spend Control and MSCRM products and services that the Group has historically cross-sold in to its large GP base. A further agreement ensures Touchstone can actively promote and service Spend Control solutions to the enlarged GP client base. Additionally, Touchstone's specialist CRM division will continue to service all current GP customers who have active MSCRM projects. More details are disclosed in Note 8 to these statements on page 19.

All remaining business units are in good order and have secured healthy levels of new business.

The Board uses a range of performance indicators to monitor and manage the business and ensure focus is maintained on the key priorities of the Group.

The Key Performance Indicators ("KPIs"), which are set at board level, have been devised to allow the Board and shareholders to monitor the Group as a whole.

The performance indicators which the Board currently considers to be the most important are as follows:

	31 March 2011	31 March 2010
1. Revenue	£26.0m	£26.9m
2. Gross Profit Margin	£12.0m (46.3%)	£12.5m (46.4%)
3. Adjusted EBITDA*	£2.2m	£1.7m
4. Cash and cash equivalents	£4.0m	£2.3m
5. Working capital (net current assets)	£3.6m	£1.8m
6. Final Staff headcount at year end	175 FTEs	188 FTEs
7. Average Staff headcount during year	180 FTEs	189 FTEs
8. Final Staff headcount at year end on a continued operations basis	128 FTEs	123 FTEs

*Adjusted EBITDA is Operating profit stated prior to bank interest and charges, depreciation, amortisation and impairment of intangible fixed assets and exceptional costs.

Actual performance in respect of these KPIs is provided in the Consolidated Statement of Comprehensive Income on page 7 and the Consolidated Statement of Financial Position on page 8.

Future Developments

The Group's current operating structure has helped re-shape Group performance and deliver a return to healthier trading levels. Whilst the Board will continue to investigate expansion opportunities as they arise, it is hoped that continued business improvements will help the Board deliver a progressive dividend policy.

Directors' report (continued)

Risk management and internal controls

Disclosures can be found in the Statement of Directors' responsibilities on page 5, and note 23, Financial Instruments, on page 26.

Senior management are aware of their responsibility for managing risks within the business. Risk is regularly reviewed at board level to ensure that risk management is being implemented and monitored effectively. The board policy is to ensure that the business is run effectively and appropriately, bearing in mind the requirements for timely decision making and commercial reality.

Insurance policies are regularly reviewed to ensure these are adequate and appropriate, in line with the nature, size and complexity of the business.

Through management reports, risks are highlighted and monitored to identify potential business risk areas and to quantify and address the risk wherever possible.

Key risks impacting the Group include:

Recruitment and retention of quality staff

The Group's success is dependent on its ability to continue to retain and recruit suitably qualified, high calibre staff. The board actively monitors retention rates, internal and external staff surveys and reward packages to manage and reduce this risk.

Maintaining service margins

It is vitally important that the Group maintains service margins, particularly in the increasingly competitive market place that it currently faces. Project managers rigorously monitor project plans, budgets and milestones to ensure this risk factor is kept closely under review.

Integration of acquisitions

Historically, the Group has been acquisitive and has a good track record for integrating the acquisitions it has made. Careful planning of acquisitions and integration strategies is undertaken at the earliest possible stage in the acquisition to mitigate this risk.

Intellectual property rights

A proportion of the Group's business relies on the use of its own intellectual property. Whilst the Group relies on trademark, copyright and other intellectual property laws to establish and protect its rights there can be no guarantee that its proprietary rights will not be challenged, invalidated or infringed in some way. Risks are mitigated through due diligence on acquisition, trademark registration and protection.

Dependence on authors

Historically, as a software reseller, the Group has been dependent on a small number of software authors to provide the software products it resells. If some of these authors were to develop financial instability this could have an adverse impact on the Group's business, results and financial position. Additionally these authors could exert influence on pricing which could adversely affect the Group's profits. The Group mitigates this risk by monitoring financial performance of its authors and having strong, lasting relationships with them. The Group's strategy has also been to diversify its product and services portfolio, which now includes "blue chip" global software providers such as Microsoft and INFOR, to reduce the concentration of its reliance. Services now make up 84% of the Group's revenue.

Proposed Dividend

The Directors have proposed a final ordinary dividend of 1.5p per share in respect of the current financial year (2010: Nil per share). In addition to this a special dividend of 2.5p per share is also proposed, making a total dividend for the year of 5.5p per share (2010: 3p per share).

The interim dividend of 1.5p (2010: 1.5p per share) declared during the year resulted in a sum of £188,000 being paid to shareholders in respect of the year ended 31 March 2011 (2010: £189,000). No final dividend was declared or proposed during the year ended 31 March 2010. However, £187,000 was paid to shareholders during the year ended 31 March 2011 in respect to the 1.5p per special final dividend proposed for the year ended 31 March 2010.

Directors' report (*continued*)

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 2011 there were 44 days' purchases in Group trade payables (2010:40 days). The Company did not have any trade payables at 31 March 2011 (2010: £nil).

Treasury and funding activities

The Group's financial instruments comprise cash and short term deposits, bank borrowing facilities and various items such as trade receivables and trade payables 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. Bank borrowing facilities only comprise of an overdraft facility. The overdraft facility has 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:

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

DRT Thompson
KGJ Birch
DP Birch
C Butler
A McNay

(resigned 6 April 2011)

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.

Disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the auditors are unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

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, or ethnic origin.

Research and development expenditure

During the year the group expended £505,000 (2010: £595,000) on software product development activities, none of which was capitalised (2010: £21,000).

Auditor

The auditor, Baker Tilly UK Audit LLP, Chartered Accountants, has indicated its willingness to continue in office.

By order of the Board

KGJ Birch
Director

3rd Floor
No 1 Triton Square
London
NW1 3DX

24th June 2011

Statement of Directors' responsibilities in respect of the Annual Report and the Financial Statements

The Directors are responsible for preparing the Directors' Report and the group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare group and parent company financial statements for each financial year. The directors have elected under company law to prepare group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and have elected under company law to prepare the company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

The Group financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and the performance of the group; the Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group for that period.

In preparing each of the group and parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the group and the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law, the Directors are also responsible for preparing a Directors' Report that complies with that law.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditor's report to the members of Touchstone Group plc

We have audited the Group and parent company financial statements ("the financial statements") on pages 7 to 33. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As more fully explained in the Directors' Responsibilities Statement set out on page 5, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at <http://www.frc.org.uk/apb/scope/private.cfm>.

Opinion on the financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 March 2011 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

COLIN ROBERTS ACA (Senior Statutory Auditor)
For and on behalf of BAKER TILLY UK AUDIT LLP, Statutory Auditor
Chartered Accountants
140 London Road
Guildford
Surrey GU1 1UW

30th June 2011

Consolidated Statement of Comprehensive Income for the year ended 31 March 2011

	Note	Continued operations £000	2011 Discontinued operations £000	Total £000	Continued operations £000	2010 Discontinued operations £000	Total £000
Revenue	2	18,727	7,270	25,997	17,751	9,108	26,859
Cost of sales		(9,837)	(4,136)	(13,973)	(8,899)	(5,498)	(14,397)
Gross profit		<u>8,890</u>	<u>3,134</u>	<u>12,024</u>	<u>8,852</u>	<u>3,610</u>	<u>12,462</u>
Administration expenses before specific expenses below:		6,997	2,825	9,822	7,106	3,659	10,765
Depreciation	3,12	111	75	186	186	11	197
Amortisation and impairment of intangible fixed assets	3,11	505	1,214	1,719	461	565	1,026
Exceptional costs	3	-	212	212	-	452	452
Total administrative expenses		<u>7,613</u>	<u>4,326</u>	<u>11,939</u>	<u>7,753</u>	<u>4,687</u>	<u>12,440</u>
Operating profit before specific expenses below:		1,893	309	2,202	1,746	(49)	1,697
Depreciation	3,12	111	75	186	186	11	197
Amortisation and impairment of intangible fixed assets	3,11	505	1,214	1,719	461	565	1,026
Exceptional costs	3	-	212	212	-	452	452
Operating profit		<u>1,277</u>	<u>(1,192)</u>	<u>85</u>	<u>1,099</u>	<u>(1,077)</u>	<u>22</u>
Finance income	6			13			5
Finance expenses	7			(4)			(16)
Profit before taxation				<u>94</u>			<u>11</u>
Income tax charge	9			(372)			(34)
Total comprehensive income for the year				<u>(278)</u>			<u>(23)</u>
Total comprehensive income for the year attributable to:							
Owners of the parent				(334)			(23)
Non-controlling interests				56			-
Total comprehensive income for the year				<u>(278)</u>			<u>(23)</u>

Consolidated Statement of Financial Position

at 31 March 2011

(Company Registration Number: 3537238)

	<i>Note</i>	31 March 2011 £000	31 March 2010 £000
ASSETS			
Non – current assets			
Goodwill	11	4,641	6,036
Other intangible assets	11	759	1,904
Property, plant and equipment	12	213	359
Investments	13	53	53
		<hr/>	<hr/>
		5,666	8,352
Current assets			
Inventories	14	-	33
Trade and other receivables	15	7,673	8,705
Cash and cash equivalents		4,013	2,309
Assets held for resale	16	2,830	-
		<hr/>	<hr/>
		14,516	11,047
Total assets		<hr/> 20,182 <hr/>	<hr/> 19,399 <hr/>
EQUITY AND LIABILITIES			
Equity attributable to the equity holders of the parent			
Share Capital	20	(1,260)	(1,260)
Share premium reserve		(3,829)	(3,829)
Capital redemption reserve		(46)	(46)
Retained earnings		(3,873)	(4,582)
		<hr/>	<hr/>
		(9,008)	(9,717)
Attributable to non-controlling interest		(34)	-
Total equity		<hr/> (8,974) <hr/>	<hr/> (9,717) <hr/>
Non- current liability			
Deferred tax liabilities	19	(184)	(217)
Trade and other payables	18	(150)	(214)
		<hr/>	<hr/>
		(334)	(431)
Current liabilities			
Trade and other payables	17	(9,427)	(9,175)
Current tax liabilities	17	(173)	(76)
Liabilities linked to current assets held for resale	16	(1,274)	-
		<hr/>	<hr/>
		(10,874)	(9,251)
Total equity and liabilities		<hr/> (20,182) <hr/>	<hr/> (19,399) <hr/>

These financial statements on pages 7 to 33 were approved by the Board of Directors and authorised for issue on 24th June 2011 and were signed on its behalf by:

KGJ Birch - Director

Consolidated Statement of Changes in Equity
for the year ended 31 March 2011

Attributable to the Equity Holders of the parent

	Share capital £'000	Share premium reserve £'000	Capital redemption reserve £'000	Retained earnings £'000	Controlling interests £'000	Non- controlling interests £'000	TOTAL EQUITY £'000
Balance at 1st April 2009							
Brought forward	1,287	3,829	19	4,855	9,990	-	9,990
Changes in equity for the year ended 31st March 2010:							
(Loss)/Profit for the year	-	-	-	(23)	(23)	-	(23)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	-	-	-	(23)	(23)	-	(23)
Transactions with owners in their capacity as owners:							
Dividends	-	-	-	(189)	(189)	-	(189)
Purchase of own shares	(27)	-	27	(61)	(61)	-	(61)
Balance Carried Forward At 31st March and 1st April 2010	1,260	3,829	46	4,582	9,717	-	9,717
Changes in equity for the year ended 31st March 2011:							
Non controlling interest on acquisition	-	-	-	-	-	(90)	(90)
(Loss)/Profit for the year	-	-	-	(334)	(334)	56	(278)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	1,260	3,829	46	4,248	9,383	(34)	9,349
Transactions with owners in their capacity as owners:							
Dividends	-	-	-	(375)	(375)	-	(375)
Balance Carried Forward At 31st March 2011	1,260	3,829	46	3,873	9,008	(34)	8,974

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

Consolidated Statement of Cash flows for the year ended 31 March 2011

	<i>Note</i>	Year Ended 31 March 2011 £000	Year Ended 31 March 2010 £000
Continuing operations			
Profit/(loss) for the year before tax		1,288	1,090
Amortisation of intangible assets		505	461
Impairment of intangibles		-	-
Depreciation		111	186
Net finance (income)/costs		(11)	9
Operating cash flows before movements in working capital		1,893	1,746
Discontinued operations			
Profit/(loss) for the year before tax		(1,194)	(1,079)
Amortisation of intangible assets		236	110
Impairment of intangibles		978	455
Depreciation		75	11
Net finance costs		2	2
Operating cash flows before movements in working capital		97	(501)
Decrease/(increase) in inventory		33	(1)
(Increase)/decrease in trade and other receivables		(513)	896
Increase/(decrease) in trade and other payables		1,225	(632)
Movement in working capital		745	263
Cash flow from operating activities			
Cash generated from operations		2,735	1,508
Interest paid		(4)	(16)
Income taxes paid		(308)	(173)
Net cash generated from operating activities		2,423	1,319
Cash flows from investing activities			
Acquisitions of subsidiaries (net of cash acquired)		(3)	-
Net purchase of property, plant and equipment	12	(156)	(270)
Interest received		13	5
Purchase of software development acquisition		(19)	-
Capitalised software development		-	(21)
Cash transferred to assets held for sale		(179)	-
Net cash used in investing activities		(344)	(286)
Cashflows from financing activities			
(Repayments) of borrowings		-	(217)
Dividends paid	10	(375)	(189)
Cash paid for purchase of own shares		-	(61)
Net cash used from financing activities		(375)	(467)
Net increase in cash and cash equivalents	22	1,704	566
Cash and cash equivalents at the beginning of the year	22	2,309	1,743
Cash and cash equivalents at the end of the year	22	4,013	2,309

Notes (forming part of the financial statements)

1 Accounting policies

BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

Touchstone Group Plc (the “Company”) is a company incorporated and domiciled in the UK.

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the “Group”) all prepared in Sterling. The parent company financial statements present information about the Company as a separate entity and not about its group.

The Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU (“Adopted IFRSs”). The Company has elected to prepare its parent company financial statements in accordance with UK GAAP; these are presented on pages 29-33.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these group financial statements.

Going concern

The Directors have reviewed the projections for the forth coming 12 month period from the date of signing of these financial statements and based on the level of existing cash, projected income and expenditure, the Directors are satisfied that the Company and Group have adequate resources to continue for the foreseeable future, as a result the Directors consider it appropriate for the financial statements to be prepared on a going concern basis.

Basis of consolidation

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at fair value at the acquisition date irrespective of the extent of any minority interest.

Subsidiaries are entities controlled by the Group. Control is achieved when the Group has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the group.

All intra-Group transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated on consolidation.

Non-controlling interests are measured at the proportional share of the net assets of the relevant subsidiaries.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment losses.

Depreciation is charged so as to write-off the cost of assets to their estimated residual values over their estimated useful lives on the following bases:

Leasehold Improvements	20% straight line
Fixtures and fittings	20% reducing balance
Computer equipment	over 3 years straight line

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

Notes (continued)

GOODWILL

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary at the date of acquisition.

Goodwill on acquisition of subsidiaries is separately disclosed from other intangible assets.

Goodwill is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed. Goodwill is allocated to cash generating units for the purpose of impairment testing.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the amount previously calculated under UK GAAP subject to being tested for impairment at that date. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

Negative goodwill arising on an acquisition is recognised immediately in the Consolidated Statement of Comprehensive Income.

OTHER INTANGIBLE ASSETS

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the Group's software product development is recognised only if all of the following conditions are met:

- an asset is created that can be identified;
- it is probable that the asset created will generate future economic benefits;
- the development cost of the asset can be measured reliably;
- the product or process is technically and commercially feasible; and
- sufficient resources are available to complete the development and to either sell or use the asset.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Software and development

Intangible assets such as software and its development are measured initially at the time costs incurred and amortised on a straight line basis over their estimated useful lives. This is currently estimated as five years.

Intellectual property rights

Intangible assets such as Intellectual Property Rights are measured initially at their purchase cost and amortised on a straight line basis over their estimated useful lives. This is currently estimated as ten years.

Customer relationships

Intangible assets such as Customer relationships are measured initially at their purchase cost and amortised on a straight line basis over their estimated useful lives. This is currently estimated as ten years.

IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS EXCLUDING GOODWILL

Intangible assets acquired as part of an acquisition are capitalised at their fair value where this can be reliably measured.

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

Notes (continued)

IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS EXCLUDING GOODWILL (Continued)

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated on a first-in first-out basis. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR RESALE

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell and presented separately in the Statement of Financial Position from other assets and liabilities.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable, the asset or disposal group is available for immediate sale in its present condition, management are committed to the sale and expect the asset or disposal group to qualify for recognition as a completed sale within one year from the date of classification.

Assets and liabilities of subsidiaries that the company has a committed plan to sell, which will result in loss of control, are classified as held for sale even if the company retains a non-controlling interest.

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group has become a party to the contractual provisions of the instrument.

Investments

Investments are recognised and derecognised on a trade date where a purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at cost, including transaction costs.

Investments are classified as available-for-sale, and are measured at subsequent reporting dates at their fair value. Gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit or loss for the period.

Trade receivables

Trade receivables are classified as loans and receivables and initially recognised at fair value and then carried at amortised cost. Amounts may then be reduced by appropriate allowances for estimated irrecoverable amounts as necessary and any reduction is recognised in the profit or loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, and other short-term bank deposits held by the Group. Bank overdrafts are presented within current liabilities.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Notes (continued)

Interest bearing borrowings

Bank borrowings are initially recognised at fair value and then subsequently measured at amortised cost using the effective interest rate method. Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption, are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade and other payables

Trade payables are initially recognised at fair value and then carried at amortised cost.

Equity instruments

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs.

LEASING

Rentals payable under operating leases are charged to income on a straight line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight line basis over the lease term.

REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, Value Added Tax and other sales related taxes. Sales of goods are recognised when goods are delivered and title has passed.

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 revenues are recognised over the period of the contract on a pro-rata basis.

Professional services

Revenue from professional services is recognised following provision of those services on an hours completed basis and on a project percentage complete basis.

Cost of sales

Cost of sales consists of supplier costs, payroll and direct costs associated with the provision of IT services to the customers.

SHARE-BASED PAYMENTS

The Group has applied the requirements of IFRS 2: Share-based Payments. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 April 2006.

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of equity-settled share-based payments is expensed on a straight line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

Fair value is measured by use of an option pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effect of non-transferability, exercise restrictions, and behavioural considerations.

INTEREST IN OWN SHARES

The Group has an Employee Benefit Trust (EBT) to assist with the obligations under share option. The EBT is consolidated as if it were a subsidiary undertaking. Shares in the Group held by the EBT are stated at cost and are disclosed as a deduction from equity.

Notes (continued)

RETIREMENT BENEFIT COSTS

The company operates neither a defined contribution nor a defined benefit pension scheme but makes contributions to employees personal pension schemes. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution plans where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit plan.

EMPLOYER FINANCED RETIREMENT BENEFIT SCHEMES (EFRBS)

During the year the Company's subsidiary (Touchstone Limited) established an employer financed retirement benefit scheme for the benefit of its officers, employees and their wider families, The Touchstone Limited Employer Financed Retirement Benefit Scheme ("the Scheme").

In accordance with the guidance UITF 32 "Employee Benefit Trust and other intermediate payment arrangements" the Company does not include the assets and liabilities of the Scheme on its balance sheet to the extent that it considers that it will not retain any future economic benefit from the assets of the Scheme and will not have the control of the rights or other access to those future economic benefits.

TAXATION

The tax expense represents the sum of the current tax and the deferred tax elements.

The current tax is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated by using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction which affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in jointly controlled entities, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax is recognised on temporary differences between the tax rate on profits earned in foreign subsidiaries and the tax rates charged on remittance of those profits to the United Kingdom.

FOREIGN CURRENCIES

Transactions in currencies other than sterling, the presentational and functional currency of the Group, are recorded at the rates of exchange prevailing on the dates of the transactions.

Items included in the financial statements of each of the Group's entities are measured using the functional currency of that entity. At the balance sheet date, the monetary assets and liabilities denominated in foreign currencies are translated at the rates prevailing on the balance sheet date.

Gains and losses arising on translation are included in the income statement for the period.

Notes (continued)

ADOPTED IFRS NOT YET APPLIED

At the date of authorisation of the consolidated financial statements the following standards and interpretations, which have not been applied in these consolidated financial statements, were in issue but not yet effective:

IFRS 3	– Business Combinations
IFRS 7	– Financial Instruments: Disclosures
IFRS 11	– Joint Arrangements
IFRS 12	– Disclosure of Interests in Other Entities
IFRS 13	– Fair Value Measurement
IAS 1	– Presentation of Financial Statements
IAS 12	– Income Taxes
IAS 24	– Related Party Transactions

The Directors anticipate the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the Group when the relevant standards and interpretations come into effect.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting judgements will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

- Goodwill has been tested for impairment by comparing the amount of goodwill against a multiple of forecast profit and/or revenue expected to be generated in the future by the appropriate asset, cash-generating unit, or business segment.
- The fair value of share-based payments is measured using an option pricing model which inherently makes use of significant estimates and assumptions concerning the future applied by the directors.
- Deferred tax liabilities are assessed on the basis of assumptions regarding the future, the likelihood that assets will be realised and liabilities will be settled, and estimates as to the timing of those future events and as to the future tax rates that will be applicable.
- Held for sale assets and liabilities have been tested for impairment by comprising the net asset figure to the proceeds received post year end of the cash generating unit.

2 Segmental information

The Group's turnover and losses before tax principally arise from its activities in the UK and Ireland. Turnover and profits before tax arising in Ireland are not material. The Group has one principal class of business, the provision of integrated business software and consulting services associated with these solutions, however revenue can be split into the following categories:

	2011			2010		
	Continuing £000	Discontinued £000	Total £000	Continuing £000	Discontinued £000	Total £000
Software	3,000	860	3,860	3,878	714	4,592
Consultancy	8,729	2,801	11,530	7,312	4,818	12,130
Maintenance and support	6,641	3,541	10,182	6,458	3,309	9,767
Other (e.g. Hardware and rechargeable costs)	357	68	425	103	267	370
	-----	-----	-----	-----	-----	-----
Total Revenue	18,727	7,270	25,997	17,751	9,108	26,859
	=====	=====	=====	=====	=====	=====

Notes (continued)

3 Profit before taxation

	2011	2010
	£000	£000
<i>Profit before taxation has been arrived at after charging/(crediting):</i>		
Services provided by the company's auditors and its associates:		
Audit of parent Company and consolidated accounts:		
Audit	25	25
Subsidiaries:		
Audit	30	13
Depreciation and other amounts written off Property, plant and equipment:		
Owned	186	197
Amortisation of intangible assets	741	572
Impairment of goodwill and intangible assets	978	455
Foreign exchange gains	(2)	6
Hire of land and buildings – operating leases	453	428
Exceptional costs*	212	452
Employer Financed Retirement Benefit Scheme Contribution	315	-
	315	-

*In 2011, these costs relate to reduction in Group's staff numbers and in 2010 this relates to the termination of a significant contract.

4 Remuneration of Directors

Aggregate emoluments in respect of qualifying services amounted to £515,302 (2010: £626,133).

In addition a further £315,200 has been paid to The Touchstone Limited Employer Financed Retirement Benefit Scheme.

Emoluments of the highest paid Director (excluding pension contributions) were £156,921 (2010: £211,996). Amounts paid by the Group in respect of his pension contributions were £19,656 (2010: £19,656). In addition a further £150,010, by way of a salary sacrifice arrangement, has been paid to The Touchstone Limited Employer Financed Retirement Benefit Scheme in respect of the highest paid director. He currently holds no share options or entitlement to share options.

Total pension contributions of £46,752 (2010: £45,396) were made to the Executive Directors' personal pension plans. There are four executive Directors who all are accruing pension benefits (2010- four).

The Directors are also considered to be key management.

Notes *(continued)*

5 Staff numbers and costs

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

	Number of employees	
	2011	2010
Management	11	12
Administration	22	20
Sales, support and technical	147	157
	<hr/>	<hr/>
	180	189
	<hr/> <hr/>	<hr/> <hr/>

The aggregate payroll costs of these persons were as follows:

	2011	2010
	£000	£000
Wages and salaries	9,520	10,114
Social security costs	1,055	1,025
Other pension costs (see note 25)	333	447
	<hr/>	<hr/>
	10,908	11,586
	<hr/> <hr/>	<hr/> <hr/>

6 Finance Income

	2011	2010
	£000	£000
Bank interest	13	5
	<hr/>	<hr/>

7 Finance expenses

	2011	2010
	£000	£000
Bank interest	4	16
	<hr/>	<hr/>

Notes (continued)

8 Discontinued operations

	2011 £000	2010 £000
Operating loss - Touchstone AX	(1,733)	(1,187)
Operating profit - Touchstone GP	541	110
	<hr/>	<hr/>
Total profit for the year from discontinued activities	(1,192)	(1,077)
	<hr/> <hr/>	<hr/> <hr/>

Touchstone AX

On 1 April 2011 the Group disposed of its trade and assets in Touchstone AX ("TAX"), a cash generating unit for consideration of £508,000.

The carrying amounts of the assets and liabilities of Touchstone AX at the year end are disclosed in note 16.

Touchstone GP

On 2 June 2011 the Group disposed of its trade and assets in Touchstone GP ("TGP"), a cash generating unit for a consideration of £2.5m.

The carrying amounts of the assets and liabilities of Touchstone GP at the year end are disclosed in note 16.

The results of the cash generating units classified as discontinued operations were as follows:

During the year the discontinued operations generated a cash inflow of £97,000 (2010: £501,000 outflow).

	TAX £000	2011 TGP £000	Total £000	TAX £000	2010 TGP £000	Total £000
Revenue	3,576	3,694	7,270	5,511	3,597	9,108
Cost of sales	(2,144)	(1,992)	(4,136)	(3,287)	(2,211)	(5,498)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Gross profit	1,432	1,702	3,134	2,224	1,386	3,610
Administrative expenses	(1,717)	(1,108)	(2,825)	(2,383)	(1,276)	(3,659)
Depreciation	(22)	(53)	(75)	(11)	-	(11)
Amortisation and impairment	(1,214)	-	(1,214)	(565)	-	(565)
Exceptional costs	(212)	-	(212)	(452)	-	(452)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Operating profit/(loss)	(1,733)	541	(1,192)	(1,187)	110	(1,077)
Finance costs	(2)	-	(2)	(2)	-	(2)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Profit/(loss) before tax	(1,735)	541	(1,194)	(1,189)	110	(1,079)
Income tax expense	-	(43)	(43)	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Profit on ordinary activities after tax	(1,735)	498	(1,237)	(1,189)	110	(1,079)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

9 Taxation

	2011	2010
	£000	£000
<i>Recognised in the income statement</i>		
- current year charge on continuing operations	362	158
- on discontinued operations	43	-
- adjustments to tax charges in respect of previous period	-	34
Current tax charge	405	192
Deferred Tax movement	(33)	(158)
Total tax charge	372	34

Factors affecting the tax charge for the current period

The current tax charge for the period is higher (2010: higher) than the standard rate of corporation tax in the UK of 28% (2010: 28%). The differences are explained below:

	2011	2010
	£000	£000
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	94	11
Current tax at 28% (2010: 28%)	26	3
<i>Effects of:</i>		
Expenses not deductible for tax purposes and other adjustments	63	94
Effect of depreciation in excess of capital allowances	(3)	8
Amortisation and impairment of goodwill	224	125
Profits not chargeable to UK corporation tax	(14)	(57)
Utilisation of brought forward tax losses	66	(15)
Adjustments to tax charge in respect of previous periods	(18)	34
Deferred tax movement	(33)	(158)
(origination and reversal of temporary tax differences)		
Research and development	61	-
Total tax charge (see above)	372	34

10 Dividends

	2011	2010
	£000	£000
<i>Equity shares:</i>		
Interim dividend paid in respect of current year (2011: 1.5p per share, 2010: 1.5 per share)	188	189
Final dividend paid in respect of prior year but not recognised as liabilities in that year (2010: 1.5 per share)	187	-

The company waived the dividend due on the shares held by the Employee Share Ownership Trust and those held in treasury.

The Directors have proposed a final ordinary dividend of 1.5p per share in respect of the current financial year (2010: Nil per share). In addition to this a special dividend of 2.5p per share is also proposed, making a total dividend for the year of 5.5p per share (2010: 3p per share).

Notes (continued)

11 Goodwill and other intangible assets

	Customer Relation- ships	Intellectual Property	Software Development	Total Other Intangible Assets	Goodwill	Total Intangible Assets
	£000	£000	£000	£000	£000	£000
Cost						
Balance as at 1 st April 2009	975	1,640	1,603	4,218	6,161	10,379
Disposals	-	-	-	-	-	-
Additions	-	-	21	21	143	164
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 1 st April 2010	975	1,640	1,624	4,239	6,304	10,543
Disposals	-	-	-	-	-	-
Additions	-	-	19	19	150	169
Transferred to held-for-sale asset	(393)	(100)	(667)	(1,160)	(983)	(2,143)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance as at 31 st March 2011	582	1,540	976	3,098	5,471	8,569
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Amortisation and impairment						
Balance as at 1 st April 2009	227	832	518	1,577	-	1,577
Amortisation for the year	98	175	298	571	-	571
Impairment for the year	-	-	187	187	268	455
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 1 st April 2010	325	1,007	1,003	2,335	268	2,603
Amortisation for the year	98	327	316	741	-	741
Impairment in the year	203	74	139	416	562	978
Transferred to held-for-sale asset	(390)	(74)	(689)	(1,153)	-	(1,153)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 st March 2011	236	1,334	769	2,339	830	3,169
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net Book Value						
At 31st March 2011	346	206	207	759	4,641	5,400
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 st March 2010	650	633	621	1,904	6,036	7,940
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 st March 2009	748	808	1,085	2,641	6,161	8,802
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The impairment in the period relates to the write down of certain Touchstone AX Limited's intangible assets and goodwill on transfer to assets held for sale, as the trade and assets were disposed of on 1 April 2011.

Notes (continued)

11 Goodwill and other intangible assets (Continued)

The additions in the year relate to goodwill and software development on the acquisition of Cenium UK Limited by Touchstone NAV Limited and no software development expenditure met the capitalisation criteria as outlined in the accounting policies during 2011 (2010: £21,000 was capitalised).

Goodwill acquired in a business combination is allocated to a single cash generating unit (CGU) as the business operates as a single segment. The recoverable amounts of this cash generating unit has been determined based on a value in use calculation. Senior management have based these calculations on current approved budgeted cash flows. The growth rates are based on management estimates of the industry growth rates for the activities being undertaken by the CGU. The discount rate applied to cash flow projections is a pre-tax rate of 5% (2010: 5%). Management estimates the discount rate reflecting current market assessment of the time value of money and risks specific to the business.

12 Property, Plant and Equipment

	Fixtures, fittings, equipment and leasehold improvements
<i>Cost</i>	£000
Balance as at 1st April 2009	2,807
Additions	270
Disposals	(4)
	3,073
Balance at 1st April 2010	3,073
Additions	156
Disposals	(60)
Transfer to held-for-sale asset	(366)
	2,803
Balance at 31st March 2011	2,803
<i>Depreciation</i>	
Balance as at 1st April 2009	2,520
Depreciation charge for the year	197
Disposals	(3)
	2,714
Balance at 1st April 2010	2,714
Depreciation charge for the year	186
Disposals	(60)
Transfer to held-for-sale asset	(250)
	2,590
Balance at 31st March 2011	2,590
<i>Net book value</i>	
At 31st March 2011	213
	213
At 31st March 2010	359
	359
At 31st March 2009	287
	287

Included within depreciation for the year is depreciation relating to continuing operations of £111,000 and discontinuing operations of £75,000, totalling £186,000.

Notes (continued)

13 Investments

Group

	£000
<i>Cost</i>	
Balance as at 1 April 2009 to 31 March 2011	145
	<hr/>
<i>Impairment Provision</i>	
Balance as at 1 April 2009 to 31 March 2011	(92)
	<hr/>
<i>Net book value</i>	
At 31 March 2011	53
	<hr/> <hr/>
At 31 March 2010	53
	<hr/> <hr/>
At 31 March 2009	53
	<hr/> <hr/>

Touchstone Group Plc holds 116,000 shares in Proactis Plc, a listed investment, representing a 0.38% shareholding.

14 Inventories

	2011 £000	2010 £000
Goods held for resale	-	33
	<hr/>	<hr/>

These inventories relate to software licences. The costs of software goods sold by the Group during the year amounted to £3,861,000 (2010: £4,592,000)

15 Trade and other receivables

	2011 £000	2010 £000
Trade receivables	3,868	4,933
Other debtors	230	106
Prepayments and accrued income	3,575	3,666
	<hr/>	<hr/>
	7,673	8,705
	<hr/> <hr/>	<hr/> <hr/>

Included within prepayments and accrued income are deferred maintenance costs of £2,456,000 (2010: £2,090,000) of which £Nil are deferred for more than one year (2010: £124,000). The Group defers maintenance revenue and the associated maintenance costs and recognises them over the period the service is provided.

Notes (continued)

16 Assets and liabilities classified as held for sale

On 1 April 2011 the Group disposed of its trade and assets in Touchstone AX, a cash-generating unit.

On 2 June the Group also disposed of its trade in Touchstone GP, a cash-generating unit. As a result, the above companies have been classified as held-for-sale. The major classes of assets and liabilities of this disposal group classified as held for sale are as follows:

	Touchstone AX	Touchstone GP	Total
	£000	£000	£000
Goodwill	-	983	983
Other intangible assets	7	-	7
Property, plant and equipment	51	65	116
Trade and other receivables	1,545	-	1,545
Cash and cash equivalents	179	-	179
Total assets held for sale	1,782	1,048	2,830
Trade and other payables	(1,274)	-	(1,274)
Total liabilities held for sale	(1,274)	-	(1,274)
Net assets of disposal group	508	1,048	1,556

17 Current liabilities

	2011	2010
	£000	£000
<i>Trade and other payables:</i>		
Trade payables	1,523	1,323
Other creditors including tax and social security	1,943	1,689
Accruals and deferred income	5,961	6,163
Total assets held for sale	9,427	9,175
<i>Current tax liability:</i>		
Income	173	76
	9,600	9,251

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

18 Non-current liabilities

	2011	2010
	£000	£000
<i>Trade and other payables</i>		
Deferred income	150	214

Notes (continued)

19 Deferred tax assets and Liabilities

Recognised Deferred tax liabilities

	Liabilities	
	2011	2010
	£000	£000
Intangible assets	(184)	(217)
	<hr/> <hr/>	<hr/> <hr/>

Movement in Deferred tax

	At 1st April 2009 £000	Recognised income £000	At 31 st March and 1st April 2010 £000	Recognised income £000	At 31 st March 2011 £000
Intangible assets	(277)	60	(277)	33	(184)
Profits earned in overseas subsidiaries	(98)	98	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	(375)	158	(277)	33	(184)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

20 Called up share capital

	2011	2010
	£000	£000
<i>Allotted, called up and fully paid</i>		
12,605,570 ordinary shares of 10p each (2010: 12,605,570)	1,260	1,260
	<hr/> <hr/>	<hr/> <hr/>

21 Commitments

Minimum lease payments under non-cancellable operating leases are as follows:

	2011	2010
	Land and buildings £000	Land and buildings £000
Group		
Operating leases which expire:		
Within one year	176	-
In the second to fifth years inclusive	249	623
Over five years	803	909
	<hr/>	<hr/>
	1,228	1,532
	<hr/> <hr/>	<hr/> <hr/>

The above commitments relate to five (2010: five) offices lease rentals that are of varying fixed terms over the next 8 years.

22 Analysis of net funds

	At beginning of year £000	Cash flow £000	At end of year £000
Cash and short term deposits	2,309	1,704	4,013
Fixed term and loan Finance	-	-	-
	<hr/>	<hr/>	<hr/>
	2,309	1,704	4,013
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Short term bank deposits are included within the caption 'cash and cash equivalents' in the balance sheet, and the loan is separately disclosed under current liabilities.

Notes (continued)

23 Financial instruments

An outline of the Group's approach to financial instruments is given in the Directors' report. The Group holds the following financial assets and liabilities: Investments available for sale, Trade and other receivables, Cash, Trade and other payables and interest bearing loans, all of which are stated at their fair value which is materially the same as their carrying amounts. In addition the group have allocated assets and liabilities as held for sale which are carried at the lower of cost and their fair value.

The group has exposure to several forms of risk through its use of financial instruments. Details of these risks and the Group's policies for managing these risks are included below:

Credit Risk

The Group's financial assets for disclosure purposes comprise investments available for sale, trade and other receivables, and 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.

The Group's credit risk is primarily attributable to its trade receivable. The amounts presented in the balance sheet represent the maximum credit risk to the group.

The Group's policy is to only provide financial guarantees to wholly-owned subsidiaries.

At 31 March 2011 £1,079,000 (2010- £678,000) of the Group's trade receivables were exposed to risk in countries other than the United Kingdom.

The ageing of trade receivables at the reporting date was:

	2011			2010		
	Gross £000	Provided £000	Total £000	Gross £000	Provided £000	Total £000
Outstanding less than 90 days	3,472	(20)	3,452	4,314	(176)	4,138
Outstanding more than 90 days	518	(102)	416	1,263	(468)	795
	<u>3,990</u>	<u>(122)</u>	<u>3,868</u>	<u>5,577</u>	<u>(644)</u>	<u>4,933</u>

Provision against trade receivables are made in accordance with Group policy based on an ageing analysis of overdue receivables and any other indication which suggest an impairment

Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its financial obligations as they fall due. The Group has in place a bank overdraft facility of £500,000 which is renewed annually, with the next renewal due in February 2012 and since the year- end steps have been taken to close this facility. No amount had been drawn down in respect of this at either 31 March 2011 or 31 March 2010.

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 2011 or 31 March 2010.

Currency risk

No analysis of currency risk resulting from financial assets and liabilities is presented at 31 March 2011 and 31 March 2010 as all balances were in sterling. Overseas customers associated with the Group's Jersey operation generally contract in sterling, although during the year there were some customers who were invoiced in foreign currencies. There were no significant foreign currency balances outstanding at 31 March 2011.

Share capital

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the meetings of the company. For further details of share capital see note 20.

Sensitivity analysis

Management have considered the impact of changes in interest rates and have concluded that such changes would not have a material impact on the Group's profit before tax.

Notes (continued)

24 Share based payments

At the balance sheet date, the Group operated two share option schemes, an Inland Revenue approved scheme and an unapproved scheme. Qualifying directors and certain employees of the Group are eligible to participate in the approved and unapproved schemes.

Certain employees, on invitation, are entitled to participate in an Inland Revenue approved scheme up to a value of £30,000 and thereafter an unapproved scheme. Consistent with the rules of the schemes the vesting of options is generally contingent on continued employment for a period of at least three years, and the employee then has a ten year period within which to exercise. The options can only be exercised if, during the period of three consecutive financial years immediately preceding the date of exercise, the adjusted EPS of the Group exceeds the percentage growth in the retail price index over that same period by at least 2%. Exercise price is determined at market rate being the average of the previous 3 days closing price.

The number and weighted average exercise prices of share options are as follows:

	2011 Weighted average exercise price	2011 Number of options	2010 Weighted average exercise price	2010 Number of options
Outstanding at the beginning of the period	161p	422,379	131p	449,879
Lapsed during the period	-	(159,879)	-	(27,500)
Outstanding at the end of the period	161p	262,500	161p	422,379
Exercisable at the end of the period	131p	244,857	131p	404,736

During the period as there were no options exercised, the weighted average share price at the date of exercise was not applicable (2010: Nil).

The options outstanding at the year end have an exercise price in the range of 93p to 197p and a weighted average contractual life of 4 years.

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on a Black-Scholes model, assumptions for which are based on the following:

- The contractual life of the options is in accordance with the scheme rules, which vest after three years, the maximum vesting period is ten years,
- The expected volatility is wholly based on historic volatility, adjusted for any expected changes to future volatility due to publicly available information,
- The expected dividend yield is wholly based on historic yield,
- The risk free rate is based on national government bonds.

No expense has been recognised for the period arising from share based payments (2010: Nil).

25 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 £333,000 (2010: £447,000).

Employer Financed Retirement Benefit Scheme

During the year the Company's subsidiary (Touchstone Limited), in order to motivate and incentivise its officers and employees, established an employer financed retirement benefit scheme for the benefit of the Company's officers, employees and their wider families, The Touchstone Limited Employer Financed Retirement Benefit Scheme ("the Scheme"). Scheme contributions made by way of a salary sacrifice arrangement during the year amounted to £315,030.

26 Acquisition of subsidiary

The Group acquired an effective 60% interest in Cenium UK Limited a company which provides integrated business software, associated consulting and support services for a consideration of £16,000.

The transaction has been associated for using acquisition method of accounting.

The following table summarises the consideration paid for the 60% interest in Cenium UK Limited and the amounts of the assets acquired and liabilities recognised at the acquisition date, as well as the fair value at the acquisition date of the non-controlling interest.

	Fair value £000
Net assets acquired:	
Intangible assets	19
Tangible assets	23
Trade and other receivables	8
Cash and cash equivalents	13
Trade and other payables	(287)
Total identifiable net assets	(224)
Non-controlling interest	90
Goodwill	150
Consideration	16

Parent Company UK GAAP Accounts and Notes

Parent Company balance sheet at 31 March 2011

(Company Registration Number: 3537238)

	Note	2011		2010	
		£000	£000	£000	£000
Fixed assets					
Investments	28		8,786		11,108
Current assets					
Debtors	29	1,797		890	
Cash at bank and in hand		19		2	
		<u>1,816</u>		<u>892</u>	
Creditors: amounts falling due within one year	30	(3,826)		(4,844)	
Net current liabilities			(2,010)		(3,952)
Total assets less current liabilities			6,776		7,156
Net assets			6,776		7,156
Capital and reserves					
Called up share capital	20		1,260		1,260
Share premium account	31		3,829		3,829
Capital redemption reserve	31		46		46
Other reserves	31		843		843
Profit and loss account	31		798		1,178
Shareholders' funds			6,776		7,156

These financial statements were approved by the Board of Directors on 24th June 2011 and were authorised for issue and signed on its behalf by:

KGJ Birch
Director

Reconciliations of movements in equity shareholders' funds
for the year ended 31 March 2011

	Company	
	2011 £000	2010 £000
(Loss)/profit for the financial year	(5)	43
Purchase of own shares	-	(61)
Dividends	(375)	(189)
	<hr/>	<hr/>
Net decrease in equity shareholders' funds	(380)	(207)
Opening shareholders' funds	7,156	7,363
	<hr/>	<hr/>
Closing shareholders' funds	<u>6,776</u>	<u>7,156</u>

Notes to the parent company financial statements (forming part of the financial statements)

27 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company'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. Under section 408 of the Companies Act 2006 the company is exempt from the requirement to present its own profit and loss account. Under Financial Reporting Standard 1 the Company is exempt from the requirements to prepare a cash flow statement on the grounds that it is included within the consolidated accounts.

Share-based payments

The share option programme allows employees to acquire shares of the Company. The fair value of options granted after November 2002 and those not yet vested as at 1 April 2006 is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where variations are due only to share prices not achieving the threshold for vesting.

Where the Company grants options over its own shares to the employees of its subsidiaries, it recognises an increase in the cost of investment in its subsidiaries equivalent to the equity settled share based payment charge recognised in its subsidiary's financial statements, with the corresponding credit being recognised directly in equity.

Interest in own shares

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 2011 and 2010 the trust held 95,000 shares with a nominal value of £9,500 (2010: £9,500). As at 31 March 2011 none of the above shares have been conditionally gifted to employees of the Group.

Investments

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

Notes (continued)

28 Investments

Company	Shares in group undertaking £000
<i>Cost</i>	
At beginning and end of the year	11,108
Transfer to subsidiary undertakings	(1,140)
	9,968
<i>Provisions</i>	
At beginning of the year	-
During the year	(1,182)
	(1,182)
At the end of the year	(1,182)
<i>Net book value</i>	
At 31 March 2011	8,786
	8,786
At 31 March 2010	11,108

The Fixed asset investments of the Group company comprise of the following companies:

	Country of incorporation	Principal Activity	Class and percentage of shares held Company
<i>Direct subsidiary undertakings</i>			
Touchstone Limited	England and Wales	Supply and support of business software	Ordinary shares 100%
Touchstone AX Limited - (formerly Touchstone Vorsprung Limited)	England and Wales	Supply and support of business software	100%
Touchstone CRM Limited - (formerly ETC Global Business Solutions Limited)	England and Wales	Supply and support of business software	100%
Touchstone GP Limited	England and Wales	Supply and support of business software	100%
Touchstone Channel Islands (TCI) Limited	Jersey	Supply and support of business software	100%
Touchstone ES Limited (previously Global Business Solutions Limited)	England and Wales	Dormant	100%
Touchstone Vorsprung (Isle of Man Project) Limited	England and Wales	Dormant	100%
<i>Indirect subsidiary undertakings</i>			
Touchstone NAV Limited	England and Wales	Supply and support of business software	60%
Cenium UK Limited	England and Wales	Supply and support of business software	60%

Notes (continued)

29 Debtors

	2011 £000	2010 £000
Amounts owed by Group undertakings	1,797	890

30 Creditors falling due within one year

	2011 £000	2010 £000
Amounts owed to Group undertakings	3,811	4,799
Accruals and other creditors	15	45
	3,826	4,844

31 Share premium and reserves:

Company	Share premium account £000	Capital Redemption Reserve £000	Other Reserves £000	Profit and loss account £000	Total £000
At beginning of year	3,829	46	843	1,178	5,896
Retained loss for the year	-	-	-	(5)	(5)
Dividends	-	-	-	(375)	(375)
At end of year	3,829	46	843	798	5,516

The Company's loss for the financial year was £5,000 (2010: profit £43,000).

The Company's 'other reserves' figure of £843,000 represents the difference arising 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 this and prior years. It represents an amount equivalent to the nominal share capital of the shares repurchased.

TOUCHSTONE GROUP PLC

(Incorporated and registered in England and Wales under number 03537238)

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 2011 annual general meeting of Touchstone Group plc (the “**Company**”) will be held at 3rd Floor, 1 Triton Square, London NW1 3DX on Wednesday 3rd August 2011 at 4 p.m. to consider, and if thought fit, to pass the following resolutions which, in the case of resolutions 1, 2, 3, 4 and 5 will be proposed as ordinary resolutions and, in the case of resolution 6, will be proposed as a special resolution:

ORDINARY RESOLUTIONS

1. **TO** receive and adopt the Company’s annual accounts for the financial year ended 31 March 2011 together with the reports of the directors and auditors thereon.
2. **TO** re-elect Chris Butler who retires from office in accordance with article 18.4 of the Company’s articles of association.
3. **TO** re-appoint Baker Tilly UK Audit LLP as the auditors to the Company to hold office from the conclusion of this meeting until the conclusion of the next meeting at which accounts are laid before the Company and to authorise the directors to determine their remuneration.
4. **TO** declare a final dividend of 1.5 pence per ordinary share.
5. **THAT** in substitution for any existing authorities, in accordance with section 551 of the Companies Act 2006 the directors be and are hereby generally and unconditionally authorised to allot shares in the Company or grant rights to subscribe for or to convert any security into shares in the Company (“**Rights**”) up to an aggregate nominal amount of £420,186 provided that this authority shall, unless renewed, varied or revoked by the Company, 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 shares to be allotted or Rights to be granted and the directors may allot shares or grant Rights in pursuance of such offer or agreement notwithstanding that the authority conferred by this resolution has expired.

SPECIAL RESOLUTION

6. **THAT** subject to the passing of resolution 5 (above), in substitution for any existing authorities the directors be and are generally empowered in accordance with section 570 of the Companies Act 2006 (the “**Act**”) to allot equity securities (as defined in section 560 of the Act) pursuant to the authority conferred by resolution 5 (above) as if section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to:
 - (a) the grant of options to subscribe for shares in the Company, and the allotment of shares pursuant to the exercise of options granted, under the terms of any share option scheme adopted or granted by the Company;
 - (b) the allotment of equity securities in connection with or pursuant to an offer to the holders of ordinary shares in the Company and other persons entitled to participate therein, in the proportion (as nearly as may be practicable) 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 in relation to treasury shares, fractional entitlements, record dates or any legal or practical problems under the laws of any territory or the regulations or requirements of any regulatory body or stock exchange; and
 - (c) the allotment otherwise than pursuant to sub paragraphs (a) and (b) above of equity securities up to an aggregate nominal amount of £126,056,

and shall (unless previously renewed, varied or revoked by the Company) 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 allotted 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.

Registered Office:

3rd Floor
1 Triton Square
London
NW1 3DX

By order of the Board

David Birch
Director and Secretary

6th July 2011

Notes:

1. As a member of the Company, you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at the meeting and you should have received a proxy form with this notice of meeting. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form.
2. A proxy does not need to be a member of the Company but must attend the meeting to represent you. Details of how to appoint the Chairman of the meeting or another person as your proxy using the proxy form are set out in the notes to the proxy form. If you wish your proxy to speak on your behalf at the meeting you will need to appoint your own choice of proxy (not the Chairman) and give your instructions directly to them.
3. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy you will need a separate proxy form in relation to each appointment. Please state clearly on each proxy form the number of shares in relation to which the proxy is appointed. If you do not have a proxy form and believe that you should have one, or if you require additional forms, please contact Capita Registrars at the address in note 5 below.
4. If you do not give your proxy an indication of how to vote on any resolution, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the meeting.
5. The notes to the proxy form explain how to direct your proxy how to vote on each resolution or withhold their vote. To appoint a proxy using the proxy form, the form must be:
 - completed and signed;
 - sent or delivered to Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU; and
 - received by Capita Registrars no later than 4 p.m. on 1st August 2011.
6. In the case of a member which is a company, the proxy form must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the proxy form is signed (or a duly certified copy of such power or authority) must be included with the proxy form.
7. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).

ANNUAL GENERAL MEETING EXPLANATORY NOTES

The Annual General Meeting (the “AGM”) will be held at 3rd Floor, 1 Triton Square, London NW1 3DX on Wednesday 3rd August 2011 commencing at 4 p.m.

There are six resolutions (the “Resolutions”) proposed at the AGM, of which Resolutions 1 to 5 will be proposed as ordinary resolutions and Resolution 6 will be proposed as a special resolution. The Resolutions relate to the following:-

Resolution 1 – Annual Reports and Accounts

The Directors are required to lay before shareholders at the AGM the Annual Report and Accounts for the year ended 31 March 2011.

Resolutions 2 – Re-election of Director

Chris Butler is retiring by rotation under the Articles of Association of the Company and will be standing for re-election.

Resolution 3 – the Auditor

The shareholders are asked every year to approve the appointment of the auditors, Baker Tilly UK Audit LLP and agree that the Directors may approve their remuneration.

Resolution 4 – Final Dividend

The board of directors recommends that the AGM declares a final dividend of 1.5 pence per ordinary share.

Resolution 5 – Authority to Allot

This resolution will, if passed, authorise the directors to allot shares or grant rights to subscribe for or convert securities into shares up to a maximum nominal amount of £420,186 which represents 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 or on 3rd November 2012, whichever is earlier.

Resolution 6 – Disapplication of Pre-emption Rights

This resolution will, if passed, authorise the directors to allot equity securities free from statutory pre-emption rights 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 £126,056 which represents approximately 10% of the current issued share capital of the Company. This authority will expire on the date of the next annual general meeting or on 3rd November 2012, whichever is earlier.