

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

TOUCH (GoE) PLC

31 JANUARY 2001

Registered No. 2885607



TOUCH (GoE) PLC

DIRECTORS' REPORT AND FINANCIAL STATEMENTS 2001

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TOUCH (GoE) PLC

DIRECTORS' REPORT AND FINANCIAL STATEMENTS 2001

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

The directors of the company are listed below:

Vincent J Isaacs	Chairman
Paul M Ashley	Managing Director
Andrew D Stimpson ACA	Director
Kevin M Beerling ACA	Director

There have been no appointments or retirements since 31 January 2000.

SECRETARY

Peter D Katz FCA ATII

REGISTERED OFFICE

Cardinal Tower
12 Farringdon Road
London EC1M 3NN

BANKERS

Midland Bank plc
27-32 Poultry
London EC2P 2BX

SOLICITORS

Olswang
90 Long Acre
London WC2E 9TT

AUDITORS

Arthur Andersen
Chartered Accountants
20 Old Bailey
London
EC4M 7AN

TOUCH (GoE) PLC

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 January 2001.

RESULTS AND DIVIDENDS

The loss for the year after taxation amounted to £1,948,077 (2000 - £1,190,526) and has been deducted from reserves.

The directors do not recommend any dividend on the ordinary shares in respect of the year ended 31 January 2001 (2000 - £nil).

PRINCIPAL ACTIVITIES

The company's principal activity is the provision of business marketing services.

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

During the year under review Touch has invested in broadening its business marketing services offering to include the related areas of local information portals and internet services to a wide range of businesses. Touch has also continued to operate the only geographical multi-application smart card scheme that covers civic facilities, retail stores, transport and universities on the one card in the UK under contract from the Nottingham City Council. Turnover for this company has increased to £175,589 from a low base (year ended 31 January 2000: £110,721) and increased rapidly from a first half turnover of £29,000 that did not include any internet service revenue. The operating loss was £1,945,305 (year ended 31 January 2000 loss: £1,184,212) reflecting exceptional investment into the local portal and internet services business and operational losses on the card scheme.

The main revenue areas for Touch are selling internet services to a range of businesses. These services range from various products linked to the local portal for geographically-based businesses, to full portal offerings for larger companies and other organisations including clubs, societies and trade bodies. This has been achieved by securing a valuable and exclusive UK licence from a US software house that has been developing its high quality database-driven portal software for some years prior to its recent launch. This software not only provides our local portals with exceptional functionality and ease of use, but it also provides other competitive benefits to those institutions large and small to enable them to benefit from high quality portal software at affordable prices.

Over the last few months we have actively sold these portal and web services locally in Nottingham, Oxford and Southampton, predominantly to small businesses to judge the reaction of the market place. We are currently of the view that the range of products that we offer is highly competitive and capable of achieving significant penetration. Our goal therefore is to secure a long term regular income base of clients paying for these Application Service Provider type "ASP" services and to do so achieving a cost of customer acquisition that will produce near term profits. Our current sales mix of having mainly sales personnel in the field is likely to be augmented in the future with a tele-sales operation. Our recent experience shows that this can significantly reduce the cost of customer acquisition. Also as we always look to do, we have been actively reducing the costs of our operation to maximise use of capital. We consider this to be normal in early stage businesses.

In addition to the sales to smaller businesses we have also achieved early success in selling the portal software to larger companies. The impact of this product is likely to be more recognised in the forthcoming year and we are optimistic about the current relevance of this product in the market place. This area, as for other software businesses, is not capital intensive and is likely to be an increasing focus for Touch in the months ahead.

We consider the Touch internet services business model to be characterised by steady repeating business to business revenue acquired at a profitable cost. We are reviewing the relevance of the card scheme to the local portal business and continue to seek the partnerships that the business needs to be able to develop it effectively.

TOUCH (GoE) PLC

DIRECTORS' REPORT (CONTINUED)

ACQUISITION

On 12 October 2000, Ambient plc acquired 100% of the issued share capital of City Online Limited for a cash consideration of £11,000 and £70,000 to be satisfied by the allotment and issue of 30,973 Ambient plc ordinary shares on 12 October 2002. In addition, up to a further £90,000 of consideration is payable in the form of Ambient plc ordinary shares contingent on the satisfaction of a number of performance criteria. The trade and assets of City Online Limited were immediately transferred out of City Online Limited to the company for an equivalent cash consideration and this can now be accessed as touchsouthampton.com.

DIRECTORS AND THEIR INTERESTS

At 31 January 2001, none of the directors had any interest in the shares of the company.

On 1 March 2001, Paul Ashley was granted unapproved share options over 13,000,000 ordinary shares of the company at an exercise price of 1 pence per ordinary share. The options are exercisable from the earlier of the third anniversary of the date of grant and the second anniversary of the earliest to occur of the date of listing, sale or change of control.

Details of directors' interests in the shares of Ambient plc are given in that company's financial statements.

CLOSE COMPANY STATUS

In the opinion of the directors the company is a close company for taxation purposes.

CHANGES IN SHARE CAPITAL

Details of changes in the share capital of the company are disclosed in note 14 to the financial statements.

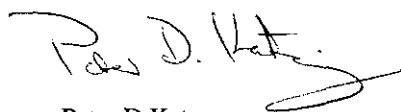
SUPPLIER PAYMENT POLICY

The company's policy is to settle terms of payment with suppliers when agreeing terms for each transaction, ensure that suppliers are made aware of the terms of payment and abide by the terms of payment. Trade creditors of the company at 31 January 2001 were equivalent to 28 days (2000: 28 days) purchases based on an average daily amount invoiced by suppliers during the period.

AUDITORS

The directors will place a resolution before the annual general meeting to re-appoint Arthur Andersen as auditors for the ensuing year.

Approved by order of the Board of Directors
and signed on behalf of the Board



Peter D Katz
Secretary

3 April 2001

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare accounts for each financial period which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those accounts, 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; and
- prepare the accounts on a going concern basis unless it is inappropriate to presume that the company 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 accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

TOUCH (GoE) PLC

AUDITORS' REPORT

To the Shareholders of Touch (GoE) plc:

We have audited the accounts on pages 7 to 15 which have been prepared under the historical cost convention and the accounting policies set out on page 10.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 5, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

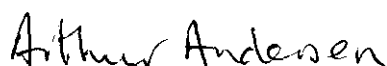
BASIS OF OPINION

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts and of whether the accounting policies are appropriate to the company'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 accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

OPINION

In our opinion the accounts give a true and fair view of the state of affairs of the company at 31 January 2001 and of the company's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Arthur Andersen
Chartered Accountants and Registered Auditors
20 Old Bailey
London
EC4M 7AN

3 April 2001

TOUCH (GoE) PLC**PROFIT AND LOSS ACCOUNT**

For the year ended 31 January 2001

		Year ended 31 January 2001	Year ended 31 January 2000
	Notes	£	£
TURNOVER	2	175,589	110,721
Cost of sales		(1,173,138)	(420,461)
Gross loss		<u>(997,549)</u>	<u>(309,740)</u>
Administrative expenses		(947,756)	(874,472)
OPERATING LOSS	3	<u>(1,945,305)</u>	<u>(1,184,212)</u>
Interest receivable		427	244
Interest payable	6	(3,199)	(6,558)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		<u>(1,948,077)</u>	<u>(1,190,526)</u>
Tax on loss on ordinary activities	7	-	-
RETAINED LOSS AFTER TAXATION FOR THE FINANCIAL YEAR		<u><u>(1,948,077)</u></u>	<u><u>(1,190,526)</u></u>

The accompanying notes are an integral part of this profit and loss account.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

There are no other gains or losses other than the loss for the year of £1,948,077 (2000 - £1,190,526).
All results derive from continuing operations.

TOUCH (GoE) PLC

BALANCE SHEET

As at 31 January 2001

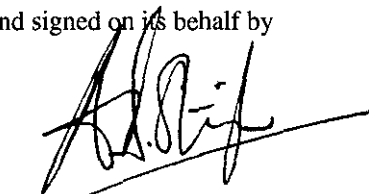
		31 January 2001	31 January 2000
	Notes	£	£
FIXED ASSETS			
Intangible assets			
- goodwill	8	101,982	-
- other	8	70,140	-
Tangible assets	9	509,690	237,160
Investments	10	20,052	20,052
		<u>701,864</u>	<u>257,212</u>
CURRENT ASSETS			
Debtors: amounts falling due within one year	11	334,568	121,400
Cash at bank and in hand		5,960	157
		<u>340,528</u>	<u>121,557</u>
CREDITORS: amounts falling due within one year	12	<u>(327,322)</u>	<u>(4,341,182)</u>
NET CURRENT ASSETS / (LIABILITIES)		<u>13,206</u>	<u>(4,219,625)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>715,070</u>	<u>(3,962,413)</u>
CREDITORS: amounts falling due after more than one year	13	<u>(6,649,755)</u>	<u>(24,195)</u>
NET LIABILITIES		<u><u>(5,934,685)</u></u>	<u><u>(3,986,608)</u></u>
CAPITAL AND RESERVES			
Called-up share capital	14	5,200,000	5,200,000
Share premium		1,071,088	1,071,088
Profit and loss account		<u>(12,205,773)</u>	<u>(10,257,696)</u>
SHAREHOLDERS' DEFICIT		<u><u>(5,934,685)</u></u>	<u><u>(3,986,608)</u></u>

The accompanying notes are an integral part of this balance sheet.

Approved by the board on 3 April 2001, and signed on its behalf by



Kevin M Beerling
Director



Andrew D Stimpson
Director

TOUCH (GoE) PLC

**COMBINED STATEMENT OF MOVEMENTS IN SHAREHOLDERS' DEFICIT AND
STATEMENT OF MOVEMENTS ON RESERVES**

For the year ended 31 January 2001

	Issued share capital £	Share premium £	Profit and loss account £	Year ended 31 January 2001 £	Year ended 31 January 2000 £
At beginning of year	5,200,000	1,071,088	(10,257,696)	(3,986,608)	(2,796,082)
Retained loss for the year	-	-	(1,948,077)	(1,948,077)	(1,190,526)
At end of year	<u>5,200,000</u>	<u>1,071,088</u>	<u>(12,205,773)</u>	<u>(5,934,685)</u>	<u>(3,986,608)</u>

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable accounting standards. The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

Basis of preparation

The financial statements have been prepared under the historical cost convention. The parent company, Ambient plc undertakes to support Touch (GoE) plc, in the event that it becomes necessary. The Directors consider that this will enable the company to continue in operational existence for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

The company has taken advantage of the exemption under the Financial Reporting Standard No.1 (revised) 'Cash flow Statements' not to present a cash flow statement as it is a wholly owned subsidiary of an EC parent company, which publishes a consolidated cash flow statement.

Intangible assets – goodwill

Goodwill, representing the excess of fair value of consideration given over the fair value of identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life, which is a maximum of 20 years.

Intangible assets – other

Licences are included at cost and amortised in equal annual amounts over the period of 3 years which is their estimated useful economic life. Provision is made for any impairment.

Depreciation

Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost less estimated residual value of each asset evenly over its expected useful life, as follows:

Leasehold improvements	- lease term
Office equipment	- 4 years
Motor vehicles	- 3 years
Fixtures and fittings	- 4 years
Computer equipment	- 3 years

Deferred taxation

Deferred taxation is provided on timing differences arising from the different treatment of items for accounting and taxation purposes to the extent that they are expected to reverse in the foreseeable future. The deferred tax is calculated at the rates at which it is expected that tax will arise.

Leasing and hire purchase commitments

Assets held under finance leases and hire purchase contracts are capitalised at the fair value of the asset with an equivalent liability categorised as appropriate under creditors within or after one year. The assets are depreciated over the shorter of the lease term or their useful lives. The interest element of rental obligations is apportioned over the term of the lease.

Rentals paid under operating leases are charged to the profit and loss account on a straight line basis over the term of the lease.

Operating lease rentals receivable

Rentals receivable from assets leased to customers under operating leases are credited to the profit and loss account when they become receivable.

TOUCH (GoE) PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 TURNOVER

Turnover represents the amounts derived from the provision of goods and services which fall within the company's ordinary activities, stated net of value added tax.

3 OPERATING LOSS

This is stated after charging/(crediting):	Year ended 31 January 2001 £	Year ended 31 January 2000 £
Auditors' remuneration - audit services	5,000	3,000
Amortisation of intangible assets	10,034	-
Depreciation of owned assets	179,442	86,151
Depreciation of assets held under finance leases and hire purchase contracts	13,774	12,626
Operating lease rentals paid - land and buildings	18,969	14,950
Rentals received under operating leases	<u>(18,525)</u>	<u>(18,299)</u>

4 DIRECTORS' REMUNERATION

	Year ended 31 January 2001 £	Year ended 31 January 2000 £
Directors' emoluments		
Other remuneration	<u>92,500</u>	<u>78,750</u>

Kevin M Beerling, Vincent J Isaacs and Andrew D Stimpson are remunerated for services to the group as a whole and their emoluments are disclosed in the financial statements of Ambient plc.

5 STAFF COSTS

	Year ended 31 January 2001 £	Year ended 31 January 2000 £
Staff costs during the period (including directors)		
Wages and salaries	775,001	382,241
Social security costs	<u>84,345</u>	<u>39,238</u>
	<u>859,346</u>	<u>421,479</u>
Average number of persons employed (including directors)	Number	Number
Total	<u>26</u>	<u>11</u>

6 INTEREST PAYABLE

	Year ended 31 January 2001 £	Year ended 31 January 2000 £
Bank overdrafts	32	1,094
Finance charges payable under finance leases and hire purchase contracts	<u>3,167</u>	<u>5,464</u>
	<u>3,199</u>	<u>6,558</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7 TAX ON LOSS ON ORDINARY ACTIVITIES

There is no UK tax charge for the year (2000- £nil) due to losses made in the year. The different treatment of items for accounts and taxation purposes gives rise to a deferred tax asset which, for prudence, has not been recognised.

8 INTANGIBLE FIXED ASSETS

	Goodwill £	Licences £
Cost		
At 1 February 2000	-	-
Additions	101,982	80,174
At 31 January 2001	<u>101,982</u>	<u>80,174</u>
Amortisation		
At 1 February 2000	-	-
Provided during the year	-	10,034
At 31 January 2001	<u>-</u>	<u>10,034</u>
Net book value		
At 31 January 2001	<u>101,982</u>	<u>70,140</u>
At 31 January 2000	<u>-</u>	<u>-</u>

9 TANGIBLE FIXED ASSETS

	Leasehold improvements £	Motor vehicles £	Plant and machinery £	Total £
Cost				
At 1 February 2000	-	41,321	620,491	661,812
Additions	13,662	-	452,384	466,046
At 31 January 2001	<u>13,662</u>	<u>41,321</u>	<u>1,072,875</u>	<u>1,127,858</u>
Depreciation				
At 1 February 2000	-	16,055	408,597	424,652
Provided during the year	228	13,774	179,214	193,216
At 31 January 2001	<u>228</u>	<u>29,829</u>	<u>588,111</u>	<u>618,168</u>
Net book value				
At 31 January 2001	<u>13,434</u>	<u>11,492</u>	<u>484,764</u>	<u>509,690</u>
At 31 January 2000	<u>-</u>	<u>25,266</u>	<u>211,894</u>	<u>237,160</u>

Included in motor vehicles above are the following amounts relating to leased assets and assets acquired under hire purchase contracts:

Net book value	
At 31 January 2001	<u>11,492</u>
At 31 January 2000	<u>25,266</u>

Assets acquired for the purpose of renting under operating leases have a cost of £55,000 (2000 - £55,000) with associated accumulated depreciation of £42,778 (2000 - £24,444).

TOUCH (GoE) PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10 INVESTMENTS

Parent company shares £

At 1 February 2000 and 31 January 2001 20,050

The investment in own shares arises because The Guild of Excellence Employee Benefit Trustees Limited holds shares in Ambient plc for distribution to employees of Touch (GoE) plc at the discretion of the Trustees.

None of the shares held by The Guild of Excellence Employee Benefit Trustees Limited at 31 January 2001 had been unconditionally offered to employees and so, in accordance with UITF Abstract 13, the assets and liabilities of the trust company relating to these shares have been included within the accounts of The Guild of Excellence Employee Benefit Trustees Limited.

The investment is held at historic cost.

Investment in subsidiary undertakings £

At 1 February 2000 and 31 January 2001 2

The subsidiaries of Touch (GoE) plc, which are all incorporated in Great Britain and registered in England and Wales are as follows:

Name of company	% holding	Nature of business
The Guild of Excellence Employee Benefit Trustees Limited	100%	Non-trading

11 DEBTORS: amounts falling due within one year

	31 January 2001 £	31 January 2000 £
Trade debtors	188,847	71,722
Amounts owed by group undertakings	-	111
VAT	28,531	11,695
Other debtors	106,577	8,523
Prepayments and accrued income	10,613	29,349
	<u>334,568</u>	<u>121,400</u>

12 CREDITORS: amounts falling due within one year

	31 January 2001 £	31 January 2000 £
Obligations under finance leases and hire purchase contracts	35,895	7,123
Bank loans and overdrafts	-	34,200
Trade creditors	63,121	76,966
Amounts owed to group undertakings	116	4,161,558
Taxes and social security	38,805	10,530
Accruals and deferred income	189,385	50,805
	<u>327,322</u>	<u>4,341,182</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13 CREDITORS: amounts falling due after more than one year

	31 January 2001 £	31 January 2000 £
Obligations under finance leases and hire purchase contracts		
- between two and five years	78,057	24,195
Amounts owed to group undertakings	6,571,698	-
	<u>6,649,755</u>	<u>24,195</u>

14 CALLED-UP SHARE CAPITAL

	31 January 2001 £	31 January 2000 £
<i>Authorised:</i>		
675,000,000 ordinary shares of 1p each		
(2000 - 13,500,000 ordinary shares of 50p each)	<u>6,750,000</u>	<u>6,750,000</u>
<i>Allotted, called up and fully paid</i>		
520,000,000 ordinary shares of 1p each		
(2000 - 10,400,000 ordinary shares of 50p each)	<u>5,200,000</u>	<u>5,200,000</u>

On 18 January 2001 the authorised and issued share capital of the company was sub-divided from 50p shares into 50 shares with a nominal value of 1p each.

15 OPERATING LEASE COMMITMENTS

At 31 January 2001 the company was committed to making the following payments during the next year in respect of operating leases:

	Land and buildings £
Leases which expire:	
Within one year	6,500
Within two to five years	<u>40,550</u>
	<u>47,050</u>

16 ACQUISITION

On 12 October 2000, the company acquired the trade and assets from City Online Limited for a cash consideration of £101,982. The fair value and book value of the net assets acquired was nil and hence the goodwill on acquisition was £101,982.

17 PENSION SCHEME

No contributions were made during the period to the Guild of Excellence plc Directors Pension Scheme. This is a money purchase scheme with one eligible member, being Vincent J Isaacs.

18 RELATED PARTY TRANSACTIONS

The group has taken advantage of the exemption in Financial Reporting Standard Number 8 from disclosure in respect of intragroup related party transactions.

TOUCH (GoE) PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19 ULTIMATE PARENT COMPANY

The company's ultimate parent and controlling company is Ambient plc which is incorporated in the United Kingdom. The accounts of the Ambient plc can be obtained from that company's registered office, which is Cardinal Tower, 12 Farringdon Road, London EC1M 3NN.