

Letter to all Shareholders

14th December 2011

Dear Shareholder,

Interim Results – 6 months to 30th September 2011 (H1FY12)

This letter provides shareholders with a brief unaudited update of Touchstone Group plc's performance for the 6-month period to 30th September 2011. A short summary of interim trading figures is also attached as an appendix to this note.

The Group has undergone a significant transformation having disposed of its Microsoft Dynamics AX and GP units earlier this year. As a consequence, overall Group Turnover for the period has reduced to £10.32m ('10: £12.75m), adjusted Operating Profits reduced to £907k ('10: £1.06m) and headcount reduced to 130 ('10: 175).

By contrast, and despite tough economic conditions, turnover from continuing operations has increased slightly to £9.12m ('10: £9.01m) and total headcount has increased to 130 ('10: 126). However, increasing trade costs have impacted Raw Gross Margins¹ which have reduced slightly to 64.7% ('10: 65.8%).

As central and premises costs now need to be absorbed by a reduced number of operational units, total overheads attaching to continuing operations (including all central and premises costs) have increased to £5.45m ('10: £5.37m). As a result, adjusted Operating Profits have reduced during the period to £606k ('10: £678k).

The Group no longer has a requirement to provide details of its earnings per share performance having de-listed from AIM. However, to assist, the Board can confirm that Basic and Diluted adjusted Earnings per share² for the period have decreased to 4.3p ('10: 6.5p).

The Group's liquid balance sheet continues to improve with Net Cash Balances increasing to £5.9m ('10: £3.4m).

Divisional Analysis

At the last business update briefing, a number of shareholders requested more information on underlying operations. The Board is now able to confirm the following:

Touchstone Ltd ('TLtd')

This unit is the Group's oldest and largest unit. Including certain allocated central staff, TLtd effectively employs 49 staff and is based out of the Groups' Central London and Watford offices. TLtd supplies sophisticated business solutions to mid-sized operations using core technologies from a range of suppliers including: Infor, Proactis, and Professional Advantage.

TLtd generated turnover of £4m and produced adjusted profit margins of 12.1%. TLtd is enjoying strong support from a large and loyal client base and is also experiencing good demand from a number of new business sectors, especially Energy and Financial Services.

The Board acknowledges the improvements achieved by TLtd in recent years and has been keen to leverage the talent of the team and the opportunity for greater scale within its market. To this end, we are delighted to confirm the acquisition of certain assets of fellow Watford-based Infor partner, e-Cocoon Ltd.

The e-Cocoon transaction was completed on 30th November 2011 and will add a further 65 Infor SunSystems clients and 7 staff to the TLtd operation. The e-Cocoon staff will be relocated to the Group's existing Watford premises in due course. Total consideration is not being disclosed but we can confirm that this cash-only transaction has been structured over a 3-year period, measured against gross margins generated from existing customers and known prospects.

Touchstone (CI) Ltd ('TCI')

This unit supplies tailored business solutions principally to the off-shore Trust & Company and Funds Administration sector. These solutions have Microsoft Dynamics NAV technologies at their core but with significant additional functionality added by TCI to address the specific requirements of its niche market. TCI employs 40 staff based out of offices in Jersey (Channel Isles) and Sydney (Australia).

During the period TCI generated turnover of £2.27m and produced adjusted operating margins of 9%. TCI has encouraging new business pipelines in a market where a number of competing solutions seem to be nearing their end-of-life. By comparison, TCI's solution is based upon the very latest Microsoft technology, has excellent customer references, unrivalled staff retention and an increasingly dominant market position.

Management believe that there is significant potential for its products and services in Australia. Accordingly, a regional office in Sydney was established and a project to introduce Australian specific functionality commenced.

TCI's Australian office now employs 5-staff and whilst it may still be in effective start-up mode, the product modification project is now mostly complete. Further, a number of customers are live with the product and are providing solid references to a number of new business opportunities.

Excluding the Australian elements, TCI's Jersey-based operation achieved turnover growth of 13% and produced the Group's highest adjusted operating margin of 17.6%.

Touchstone CRM Ltd ('TCRM')

This unit supplies sophisticated Customer Relationship Management (CRM) solutions to a range of different size organisations using core technology from Microsoft Dynamics CRM. Including certain allocated central staff, this unit employs 21 staff and is principally based out of the Groups' Watford office.

TCRM is enjoying strong demand from a number of new business sectors and also from cross-selling CRM solutions to the clients of other Group operating units. During the period TCRM grew turnover by over 16% to £1.48m and produced adjusted profit margins of 13%.

Touchstone NAV Ltd ('TNAV')

This unit is an effective Joint Venture between Touchstone Group and TNAV's senior management and operates out of dedicated offices in Newbury, Berkshire.

TNAV supplies Microsoft Dynamics NAV business solutions to mid-size UK organisations and employs 22 staff. During the period, TNAV generated turnover of £1.39m.

The Board can confirm that contracts have recently been signed resulting in the Group's remaining 51% shareholding being purchased by TNAV's management. Total consideration is not being disclosed at this stage. However, it can be confirmed that consideration will be a mixture of up-front cash and secured loan note. The loan note will be payable over a 2-year period.

Central Functions

The Group has experienced some dramatic changes in recent years. Overall Group headcount has reduced from a peak of 260 in 2009 down to 108 today. In parallel with this reduction, all centrally managed resources including: IT, Marketing, Accounting, Admin and Group Exec functions, have also been re-balanced where possible.

The Board believe that current centrally managed resource levels are appropriate to the operational effectiveness of all remaining business units and their growth potential.

Divisional Potential

Despite tight economic conditions, continuing operations have each shown a commendable ability to attract new talent, win new business and efficiently service existing customers. Whilst supplier cost increases may have slightly impacted Raw Gross Margins, modest organic Turnover growth and sound overhead controls have help strengthen adjusted profit margins.

The Board is therefore delighted by progress and believes this is a reflection of an extremely talented workforce and a management team with the ability and ambition to grow their respective operations.

It is acknowledged that organic growth may be laboured in the short-term due to current economic factors. As a result, a number of bolt-on acquisitions are being considered with one recently completed. The Board believe that such transactions will provide existing units with greater scale and should enhance overall Group margins.

Current Trading

The time taken to convert sales opportunities in to firm orders does seem to be more pronounced in the current climate. Despite this, all current operational units are trading positively. Order books and sales pipelines are in good health with Group cash levels consistent with the period end.

Shareholder Returns

Since the Group's delist from AIM in 2009, improving performance coupled with recent business unit disposals has significantly strengthened Group cash reserves.

The Board acknowledges that if free-cash resources are not required to bolster strategic business development plans, then it is incumbent on the Board to consider shareholder distribution options.

As previously mentioned the Board has completed one small acquisition and will be considering a number of additional expansion projects. It is anticipated that these projects will consume a proportion of the Group's free-cash reserves.

Once a thorough assessment has been made, the Board should then be in a better position to determine both the quantum and appropriate mechanisms for prospective distributions. At this point the Board will then outline their proposals to shareholders.

Interim Dividend

Notwithstanding the above and despite a slight fall in distributable profits, the Board has decided to repeat last year's interim of 1.5p. The record and payment dates for the interim dividend will be 23rd December 2011 and 20th January 2012 respectively.

Matched Bargain Facility

It has been over 2 years since the Group stepped down from its AIM listing. Following the de-list, the Board felt shareholders would benefit from an alternative share-dealing facility and contracted with JP Jenkins (<http://www.jpjenkins.ltd.uk/>) to establish a matched-bargain service on behalf of all shareholders.

In the intervening period we can report that very few transactions have actually been traded through this facility.

To this end, the Board will continue to monitor trading activity over the remaining period of the current arrangement with JP Jenkins (to 31st March 2012) at which point it will then conclude whether the continuation of this facility remains in the best interests of shareholders.

Business Update Sessions

The next business update report covering the 12-month period to 31st March 2012 is expected to be issued to shareholders in late June or early July 2012 once the annual audit is complete. The next business update briefing session will be held on the same day as the Annual General Meeting. The AGM is likely to be held during August 2012.

Other Matters

Copies of all updates and financial statements are also available for download from the investor section of the Group's corporate website. Registered shareholders can obtain access to this area by simply going on-line to <http://www.touchstone.co.uk/investors>.

If you have any difficulty accessing the investor section of the website or have any queries whatsoever please do e-mail investors@touchstone.co.uk and we will endeavour to respond ASAP.

With kind regards,

Touchstone Group Plc

Keith Birch
Chief Executive

Touchstone Group Plc

Interim Results - 30th September 2011

Group Results

Turnover	▼ 19% to £10.32m ('10: £12.75m)
Raw Gross Margin ¹	▼ to 63.3% ('10: 63.8%)
Operating Profits ²	▼ 15% to £907k ('10: £1.065m)
Adjusted Basic EPS ²	▼ 4.3p ('10: 6.5p)
Headcount	▼ 26% to 130 ('10: 175)
Net Cash Balances	▲ £5.9m ('10: £3.4m)
Operating Cash Flow	▼ £0.9m ('10: £1.1m)
Proposed Dividend	↔ 1.5p ('10: 1.5p)

Continuing Operations (including TNAV)

Turnover	▲ 1% to £9.12m ('10: £9.01m)
Raw Gross Margin ¹	▼ to 64.7% ('10: 65.8%)
Operating Profits ²	▼ 10.7% to £606k ('10: £678k)
Headcount	▲ 3% to 130 ('10: 126)

Continuing Operations (excluding TNAV)

Turnover	▲ 3% to £7.73m ('10: £7.53m)
Raw Gross Margin ¹	▼ to 63.7% ('10: 65.1%)
Operating Profits ²	▲ 4% to £594k ('10: £573k)
Headcount	▲ 2% to 108 ('10: 106)

¹ From Management Accounts (i.e. before cost of sale adjustments for employees involved in fee-based work)

² Before depreciation, amortisation, share-based payments and exceptional items