

## **Letter to All Shareholders**

11<sup>th</sup> February 2011

Dear Shareholder,

### **Interim Results – 6 months to 30<sup>th</sup> September 2010 (FY11)**

This letter provides shareholders a brief unaudited update of the Group's performance for the 6-month period to 30<sup>th</sup> September 2010 together with a commentary on current trading (to 31<sup>st</sup> January 2010). Additionally, a short summary of interim and current trading figures is attached as an appendix to this note.

Overall Group turnover levels have been impacted by continued tough economic conditions and show a small decline to £12.8m ('09: £13.8m). Fortunately, greater trading efficiency has positively impacted Raw Gross Margins<sup>1</sup> which have improved to 63.8% ('09: 57.1%). Additionally, the combination of improved trading efficiency and good overhead control has resulted in a significant increase in Adjusted Operating Profits<sup>2</sup> to £1.065m ('09: £642k).

Shareholders may be aware that 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 share<sup>2</sup> for the period have increased to 6.5p ('09: 4.99p).

The Group's improving performance is also reflected in a healthy and more liquid balance sheet with Net Cash Balances increasing to £3.4m ('09: £1.19m).

### **Interim Dividend**

Despite a slight decline in turnover, the Group's improving margins and strengthening cash reserves allow the Board to repeat last year's interim dividend of 1.5p. This dividend represents 23% of adjusted distributable profits which is in-line with the dividend distribution commitment made when delisting from AIM. The record and payment dates for the interim dividend will be 25<sup>th</sup> February 2011 and 18<sup>th</sup> March 2011 respectively.

### **Current Trading**

The Group has a broad solution portfolio and a large client-base which together provide useful insulation when economic conditions are tough. However, we are not totally immune as deal slippage continues to be a frustrating element of current market conditions. Fortunately, sales pipelines and order books are robust and provide a degree of confidence for future trading periods.

As previously mentioned, diligent cost control and effective service delivery are having a positive impact on net margins. As a result, adjusted operating profits are currently tracking ahead of last year with little to suggest that this will change by the year-end.

A further business update covering the 12 month period to 31<sup>st</sup> March 2011 is expected to be issued to shareholders in mid-July once the annual audit is complete.

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 his area by simply going on-line to [http://www.touchstone.co.uk/about\\_us/investor\\_relations.aspx](http://www.touchstone.co.uk/about_us/investor_relations.aspx).

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](mailto:investors@touchstone.co.uk) and we will endeavour to respond ASAP.

With kind regards,  
**Touchstone Group Plc**

Keith Birch  
CEO

### **Interim Results - 30<sup>th</sup> September 2010**

Turnover	▼ 7.5% to £12.8m ('09: £13.8m)
Raw Gross Margin <sup>1</sup>	▲ to 63.8% ('09: 57.1%)
Operating Profits <sup>2</sup>	▲ 65.8% to £1.065m ('09: £642k)
Adjusted Basic EPS <sup>2</sup>	▲ 6.5p ('09: 4.99p)
Headcount	▼ 3% to 175 ('09: 180)
Net Cash Balances	▲ £3.4m ('09: £1.19m)
Operating Cash Flow	▲ £1.1m ('09: £634k)
Proposed Dividend	↔ 1.5p ('09: 1.5p)

### **Current Trading YTD - 31<sup>st</sup> January 2011**

YTD Turnover	▼ 7.3% to £21.1m ('10: £22.8m)
YTD Raw Gross Margin <sup>1</sup>	▲ to 67.1% ('10: 61.3%)
Headcount	▼ 10% to 175 ('10: 195)
Net Cash Balances	▲ £3.7m ('10: £2.1m)

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

<sup>2</sup> Before depreciation, amortisation, share-based payments and exceptional items