Letter to all Shareholders

13th July 2010

Dear Shareholder,

Year-End Business Update – 12 months to 31st March 2010 (FY10)

Following Touchstone's de-listing from AIM in October 2009, the Group is no longer required to issue Interim and Preliminary results to shareholders. However, in our de-list particulars we did commit to provide bi-annual business updates where we would meet with shareholders, present on-going corporate progress and answer any related questions.

Our first business update meeting covering the interim results for FY10 took place in January 2010 and for convenience it was felt that the next update should coincide with the Group's Annual General Meeting.

This year's AGM will be taking place on Wednesday 22nd September 2010 at 4 p.m. and will be held at the Group's central London offices which are located at No. 1 Triton Square, London, NW1 3DX.

Progress during FY10

The audit of the Group's financial statements for the 12 months to 31st March 2010 is now complete. In advance of the next AGM, this letter provides a brief analysis of the year's performance. Further, a short summary of year-end figures is attached as an appendix to this note.

You will note that whilst Turnover has declined by 6%, Raw Gross Margins[1] have improved to 62% (2009: 60.7%). Adjusted Gross Margins (having added back a proportion of salary costs associated with fee-earning activities) have shown a marked improvement to 46.4% (2009: 40.6%).

Raw Operating Overheads[2] are 13% lower than last year principally due to reduced headcount and lower establishment costs.

Adjusted Operating Profits[3] have significantly increased during the year to £1.7m ('09: £1m). Net of all adjustments and after financial charges and receipts but before tax, the Group made a small profit of £11k ('09: £364k loss).

The Board have decided to make provision for a number of significant items during the year. As previously confirmed, a major client was placed into Administration in March 2010 owing the Group over £450k. The Board have not yet heard from the Administrator but have prudently decided to make full provision for the outstanding debt.

Consequently, total exceptional costs this year are £452k ('09: £538k). Operating profits after exceptional costs (Raw EBITDA[4]) have risen sharply by over 170% to £1.25m ('09: £465k).

As part of the regular review of Group intangible assets, the Board has also decided to significantly adjust the carrying value of certain software assets. Consequently, total amortisation and impairment charges applicable to intangible assets have this year risen to £1.03m ('09: £580k). Depreciation applicable to tangible assets was £198k ('09: £215k).

Due to being de-listed from AIM, the Group no longer has a requirement to provide shareholders with details of its earnings per share performance. However, to assist shareholders, the Board can confirm that Basic and Diluted adjusted Earnings per share[3] have increased to 13.3p ('09: 7.9p).

It is pleasing to report that a number of business units have performed either in-line or ahead of expectations for the year. Further, a key indicator of improving success is the sales of software across the Group which have increased by 31% to £4.6m ('09: £3.5m).

Excluding the Group's AX business unit, all other units have made a positive contribution to central overheads despite a tough year. Unfortunately, the AX unit's large project orientation and lack of success in certain depressed market sectors resulted in a heavy loss for the year. However, it is pleasing to report that the AX unit has won sizeable business contracts in recent weeks. On this basis the AX unit is expected to be back to positive contribution in FY11.

The Group's improving performance is also reflected in a healthier and more liquid balance sheet. Net Current Assets have increased to £1.8m ('09: 1.4m) with Net Cash Reserves increasing to £2.3m ('09: £1.7m). The Group had zero debt at the balance sheet date having paid off all bank loans during the year.

Shareholder Value

The Circular sent to shareholders in August '09 acknowledged that once de-listed from AIM, the Directors intend to operate the underlying business with a view to returning value to shareholders. In this regard the Board will continue to investigate suitable expansion or divestment opportunities as they arise. Additionally, the Board anticipates that on-going business improvements should also help deliver an appropriate dividend return to shareholders.

The Group's new operating structure is helping to improve trading performance and earlier this year the Board was pleased to re-establish an interim dividend of 1.5p. The exceptional bad debt incurred in the final days of the trading year took the shine off what would have been a solid second half performance. On this basis, the Board have decided not to recommend a final dividend (2009: Nil per share).

However, having regard to anticipated commitments and current cash reserves, the Board has decided to pay a special dividend of 1.5p per share. The special dividend together with the earlier interim dividend will result in an overall dividend payment to shareholders of 3p per share which, together, will consume an estimated £380k of Group cash reserves. The record and payment dates for the special dividend will be 30th July 2010 and 27th August 2010 respectively.

Current Trading

There are obvious concerns that wider economic issues could impact upon certain markets especially those focused on providing solutions and services to the public sector. Fortunately, less than 10% of the Group's turnover is derived from public sector organisations.

All business units have started the year in good order and have secured healthy levels of business. Greater operational focus and overhead control helped provide an improved FY10 and the Board is hopeful of continued good progress in FY11.

The Group's financial statements for the period to 31st March 2010 will be available for download from the investor section of the Group's corporate website in early August.

Shareholders can obtain access to his area by simply going on-line to http://www.touchstone.co.uk/about_us/investor_registration.aspx and filling-in the on-line registration form. Once verified, shareholders will then have access to all financial reports and news updates.

We look forward to welcoming all shareholders to the combined business update session and AGM on 22nd September and will endeavour to answer all relevant questions at the meeting. In advance, and to ensure ample space and refreshments are available we would be grateful for some idea of numbers attending. To this end, a quick call to 020 7121 4700 or an e-mail to investors@touchstone.co.uk would suffice.

With kind regards,
Touchstone Group Plc

Keith Birch
CEO

Results Summary – Year Ended 30th March 2010

Turnover	▼ 6% to £26.9m ('09: £28.5m)
Raw Gross Margin[1]	▲ to 62% ('09: 60.7%)
Adjusted Gross Margin	▲ to 46.4% ('09: 40.6%)
Raw Overheads[2]	▼ Reduction by £2.3m to £14.8m ('09: £17.1m)
Adjusted Operating Profits[3]	▲ 61% to £1.7m ('09: £1m)
Adjusted EPS[3]	▲ 68% to 13.3p ('09: 7.9p)
Raw EBITDA[4]	▲ 170% to £1.25m ('09: £465k)
Total Dividend	▲ 3.0p per share ('09: Nil per share)
Year-end Headcount	▼ 18% to 172 ('09: 209)
Average Headcount	▼ 15% to 189 ('09: 223)
Net Current Assets	▲ £1.8m ('09: £1.4m)
Net Cash Reserves	▲ £2.3m ('09: £1.7m)
Operating Cash Flow	▲ £1.2m ('09: £450k)

[1] Raw Gross Margin from Management Accounts (but before cost of sale adjustments for employees involved in fee-based activities)
[2] Raw Overheads from Management Accounts (excludes depreciation, share-based payments and exceptional items but includes all commissions, incentives and cost of sale adjustments for employees involved in fee-based work)
[3] Adjusted Operating Profits and earnings per share are before: depreciation, amortisation and impairment of goodwill and intangibles and also exclude all exceptional costs associated with re-organisation, termination of contracts and one-off professional advice.
[4] Raw EBITDA - Operating profits before interest, tax, depreciation and amortisation (but without any adjustments for exceptional costs)