

## Message to Investors

8<sup>th</sup> April 2011

Dear Investor,

### Business Update April 2011 - Business Unit Disposal - Group Board Change

The April 2009 decision to restructure operations into separate business units continues to have a positive impact on overall Group performance. FY11 has just finished and while it is too early to announce any final figures, the Group should report another good year with final profits and cash levels expected to be ahead of last year.

The new structure provides management with improved visibility over individual business unit performance. It is therefore pleasing to report that most have performed well despite poor market conditions and we hope this will continue. However, the Group's Microsoft Dynamics AX business unit has not fared quite so well and has struggled to break-even in recent years.

Over the years, the AX unit has developed powerful solutions for a number of niche markets and continues to win encouraging levels of new business. However, as AX projects are becoming increasingly international in nature, the unit's size and UK orientation was possibly holding it back. Following a review of various options, the Board concluded that the AX unit may be better served by being part of a larger and more internationally focused AX organisation.

To this end, the Board can confirm that the underlying business of the AX unit has now been acquired by HSO, a Dutch-based Microsoft Dynamics AX specialist.

HSO are headquartered in the Netherlands and also have operations in Germany, Italy, Malaysia, the UK and USA. The acquisition of Touchstone's AX unit will dramatically increase HSO's UK operation and will represent a major step towards their ambition of becoming Microsoft's largest and most successful AX partner. We are therefore delighted to have concluded matters with HSO, confident in the view that they represent an ideal home for an extremely talented AX team and a loyal customer base.

I can also confirm that Group Board Director, Adrian McNay has joined HSO as a senior director of their UK subsidiary and has therefore resigned from the Group Board. The Board wish to extend their thanks and appreciation to Adrian for his contribution and support over the years. We also wish him and the entire AX team the very best for the future.

The financial details of the transaction with HSO are not being disclosed at this stage but it can be confirmed that Group turnover will reduce by approximately £4m with headcount expected to drop by 30 staff.

A further business update will be issued once the FY11 audit is complete which is likely to be early July.

With kind regards,

**Touchstone Group Plc**

Keith Birch  
CEO