

Letter to all Shareholders

27th June 2011

Dear Shareholder,

Year-End Business Update – 12 months to 31st March 2011 (FY11)

I write to announce that our next business update meeting is scheduled to coincide with the Group's Annual General Meeting which will take place on Wednesday 3rd August 2011 at 4 p.m. The meeting will be held at the Group's central London office which is located at No. 1 Triton Square, London, NW1 3DX.

Additionally, I can also confirm that the Group's audited Financial Statements will be available for download from the Investor section of the Group's corporate website on 1st July 2011 (http://www.touchstone.co.uk/about_us/investor_relations.aspx).

Ahead of this, the Board is pleased to provide the following brief update on overall Group performance. Further, a short summary of the year-end results is also attached as an appendix to this note.

Progress during FY11

With little improvement in the general economy, the Group recorded a 3% reduction in overall turnover. Fortunately, greater cost control coupled with solid trading efficiency has ensured a significant improvement in profitability with the Group recording nearly 30% growth in Adjusted EBITDA.

Aside from the Group's AX business unit, all other Group business units have performed well during the year. Unfortunately, the AX business unit had another poor year with turnover down to £3.6m ('10: £5.5m) generating an increased adjusted operating loss of £(212)k ('10: £(159)k). The AX unit was sold on 1st April 2011.

Due to the disposal of the AX unit, the Board has had to significantly adjust the carrying value of certain intangible assets. Consequently, an impairment charge of £1m ('10: £500k) has been recorded against the AX unit. Total amortisation and impairment charges for the Group as a whole were £1.7m ('10: £1m).

Net results for the Group after accounting for all exceptional costs, financial charges, depreciation and amortisation but before tax will this year result in a small profit of £94k ('10: £11k). Net results excluding impairment and amortisation adjustments have shown a strong improvement to £1.8m ('10: £1m).

The Group no longer has a formal requirement to provide shareholders with details of its earnings per share performance. However, to assist shareholders, the Board can confirm that Basic EPS¹ have increased to 14.5p ('10: 13.2p).

Another year of improving performance is reflected in a healthier and more liquid balance sheet. Net Current Assets have increased to £3.6m ('10: 1.8m) and Net Cash Reserves have increased to £4m ('10: £2.3m). Net Cash Generated by Operations has increased to £2.4m ('10: £1.3m).

Dividend

Earlier this year, the Board declared an interim dividend of 1.5p per share ('10: 1.5p). This interim dividend consumed £188k of Group cash reserves ('10: £189k).

Having regard to potential future commitments, the Board feels that a further £500k of Group cash reserves can be allocated towards dividends. To this end, the Board will be seeking shareholder approval for a final dividend of 1.5p per share ('10: nil) together with a special dividend of 2.5p per share ('10: 1.5p).

In total the interim, final and special dividend will be 5.5p per share ('10: 3p) and if approved will consume approximately £690k of Group reserves ('10: £380k).

The record and payment dates for both the final and special dividend will be 22nd July 2011 and 19th August 2011 respectively.

Post Balance Sheet Events

As previously mentioned and following a review of the AX business unit, the Board concluded that the unit may be better served by being part of a larger and more internationally focused AX organisation. To this end, the underlying business of the AX unit was disposed on 1st April 2011 to HSO, a Dutch-based Microsoft Dynamics AX specialist.

In addition to the sale of the AX unit, a number of agreements relating to the sale of the Group's Dynamics GP business unit were signed on 2nd June 2011 between the Group and Calyx Software Ltd ('Calyx'). Calyx are a fellow Microsoft Dynamics GP partner, who with financial assistance provided by its ultimate parent, Better Capital Ltd (LSE: BCAP), have merged four major UK Microsoft Dynamics GP partners to form a business that is now one of Microsoft's largest Dynamics GP organisations worldwide.

The core agreement saw the underlying assets of Touchstone's Microsoft Dynamics GP business unit being acquired by Calyx. This agreement specifically excludes all elements of Spend Control and MSCRM products and services that the Group has historically cross-sold in to its large GP base. A further agreement ensures Touchstone can actively promote and service Spend Control solutions to the enlarged GP client base. Additionally, Touchstone's specialist CRM division will continue to service all current GP customers who have active MSCRM projects.

The Financial Statements for the year to March 2011 will be presented to shareholders having specifically identified discontinued operations. In summary, the AX and GP units together contributed: Turnover of £7.3m ('10: £9.1m), Operating Loss (after depreciation, impairment, amortisation, and exceptional costs but before re-allocated central costs) of £(1.2)m ('10: £(1.1)m) and Headcount of 47 ('10: 66).

The Board can confirm that the disposal of the two units has resulted in cash consideration of over £3m.

The Board will continue to review all options to ensure the business can generate adequate returns to shareholders.

Current Trading

All remaining business units are in good health and have secured adequate levels of new business. The Group is now more efficiently structured and the Board looks forward to another year of further progress.

The Board would like to thank all management and staff for their sterling efforts throughout the year and to all the Group's customers for their business and on-going loyalty.

We look forward to welcoming all shareholders to the combined business update session and AGM on 3rd August 2011 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
Chief Executive

Results Summary – Year Ended 31st March 2011

Total Group

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|---|------------------------------|
| Turnover | ▼ 3% to £26m ('10: £26.9m) |
| Adjusted EBITDA ¹ | ▲ 30% to £2.2m ('10: £1.7m) |
| Basic Earnings Per Share (EPS) ¹ | ▲ 10% to 14.5p ('10: 13.3p) |
| Net Profit before Tax | ▲ £94k ('10: £11k) |
| Asset Impairment + Amortisation | ▲ £1.7m ('10: £1m) |
| Net Profit Before Impairment | ▲ 80% to £1.8m ('10: £1m) |
| Interim Dividend | ↔ 1.5p per share ('10: 1.5p) |
| Final Dividend | ▲ 1.5p per share ('10: nil) |
| Special Dividend | ▲ 2.5p per share ('10: 1.5p) |
| Total Dividend | ▲ 5.5p per share ('10: 3.0p) |
| Year-end Headcount | ▼ 7% to 175 ('10: 189) |
| Net Current Assets | ▲ £3.6m ('10: £1.8m) |
| Net Cash Reserves | ▲ £4m ('10: £2.3m) |
| Net Cash Generated from Operations | ▲ £2.4m ('10: £1.3m) |

Continuing Operations

| | |
|------------------------------|------------------------------|
| Turnover | ▲ 5% to £18.7m ('10: £17.7m) |
| Adjusted EBITDA ¹ | ▲ 8% to £1.9m ('10: £1.7m) |
| Year-end Headcount | ▲ 4% to 128 ('10: 123) |

¹ Adjusted EBITDA (upon which EPS is based upon) are Operating profits stated prior to bank interest and charges, depreciation, amortisation and impairment of intangible assets and exceptional costs.