

Letter to all Shareholders

2nd August 2012

Dear Shareholder,

Year-End Business Update – 12 months to 31st March 2012 (FY12)

The Board is pleased to provide the following brief update on Group performance for the 12-month period to 31st March 2012. Further, a short summary of the year-end results is also attached as an appendix to this note.

I also 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 29th August 2012 at 4p.m. The meeting will be held at the Group's central London office which is located at No. 1 Triton Square, London, NW1 3DX.

Further, the Group's audited Financial Statements are expected to be available for download from the Investor section of the Group's corporate website on 6th August 2012.

http://www.touchstone.co.uk/about_us/investor_relations.aspx.

Progress during FY12

The Group has disposed of three major business units over the last 16-months. This has had a significant impact on overall Group turnover for FY12 which has now fallen by 27% to £18.9m ('11: £26m). Turnover associated with continuing operations has shown modest growth of 2% to £16.2m ('11: £15.9m).

Overall Gross Profits have also shown a decline to £9.3m ('11: £12m). However, on a continuing operations basis, Gross profits have produced modest growth of 3% to £8.7m ('11: £8.4m). Despite experiencing increased supplier costs, overall trading margins including disposed operations improved slightly to 49.2% ('11: 46.3%). Trading margins for continuing operations improved fractionally to 53.4% ('11: 53.1%).

On a Group-wide basis, adjusted operating profits (EBITDA) decreased by 34% during the year to £1.45m ('11: £2.2m). As previously mentioned in our Interim update, the sale of 3 significant divisions will require that the Group's rationalised central staff and premises costs will need to be absorbed by a reduced number of operational units. As a consequence, operating profits for continuing operations were down by 18% to £1.47m ('11: £1.8m).

The Board has decided to apply a further prudent adjustment to the carrying value of certain intangible assets. Consequently, total amortisation and impairment charges for the Group as a whole were £1.35m ('11: £1.72m). An exceptional profit of £1.52m was also recorded during the year relating to the disposal of various operational business units.

Net results for the Group after accounting for financial charges, depreciation, amortisation and profits on business unit disposal but before tax will this year result in a profit of £1.5m ('11: £94k).

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 adjusted Earnings per share¹ for the period have decreased to 9.3p ('11: 14.5p).

The Group's liquid balance sheet continues to improve with Net Cash Balances increasing to £6.7m ('11: £4.01m).

Dividends & Cash Distribution

Earlier this year, the Board declared an interim dividend of 1.5p per share ('11: 1.5p). This interim dividend consumed £188k of Group cash reserves ('10: £189k).

The Board can also confirm that £630k of cash was recently advanced to the Trustees of the Touchstone Employee Share Trust (ESOT) in order to purchase shares on behalf of Group employees. This provided an exit opportunity for willing sellers and importantly will allow the prospect of wider share participation amongst staff in the future. Following a shareholder-lead value assessment exercise, the ESOT share purchase was concluded at a price of 51.5p per share resulting in the ESOT acquiring approx. 1.23m of shares from over 100 shareholders representing approx. 10% of Issued Share Capital.

In addition to the cash allocated to the Interim dividend and the ESOT share purchase process, the Board will also be seeking shareholder approval for a final ordinary dividend of 3.5p per share ('11: 1.5p). No special dividend is being proposed this year ('11:2.5p) and as a result the total dividend for the year would be 5.0p ('11:5.5p). If agreed, this final dividend would consume approx. £400k of additional cash.

In total, the cash allocated to the interim dividend; the recent ESOT share purchase process and the proposed final dividend will consume a combined cash sum of £1.22m ('11: £690k).

Subject to shareholder approval, the record and payment dates for the Final Dividend will be 31st August 2012 and 21st September 2012 respectively.

Continuing Operations - Divisional Analysis

Touchstone FMS Ltd ('TFMS')

This unit has recently changed its name from Touchstone Ltd. TFMS supplies sophisticated Financial Management Systems to mid-sized organisations and employs 53 staff. TFMS is based out of the Group's Central London and Watford offices.

TFMS was established over 30 years ago and is the Group's oldest subsidiary. TFMS has 3 effective operating divisions: TouchstoneFinancial, TouchstoneEnergy and TouchstoneProactis. During the year TFMS generated turnover of £8.1m and produced adjusted profit margins of 8.5%.

TFMS acquired the assets of local competitor eCocoon Ltd in December 2011 for an undisclosed sum. eCocoon's clients and prospects generated negligible revenue in the 3-months following acquisition but are expected to provide a positive contribution to TFMS' results in future periods.

Touchstone (C.I.) Ltd ('TCI')

This unit supplies business solutions principally to the off-shore Trust & Company and Funds Administration sector. These solutions have Microsoft Dynamics NAV technologies at their core with significant additional functionality added by TCI to address the specific requirements of its niche market. TCI employs 39 staff based out of offices in Jersey (Channel Isles) and Sydney (Australia).

During the period TCI generated turnover of £5.1m and produced adjusted operating margins of 13%.

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. This unit employs 26 staff and operates from the Group's Watford office.

During the period TCRM generated turnover of £3.1m and produced adjusted profit margins of 13%.

Central Functions

In addition to the 118 staff engaged in continuing operations, the Group employs a further 10 staff across a number of central functions including: IT, Accounting, Admin and Group Executive.

Current Trading

The Group's revised structure is having a positive impact on operational efficiency. All business units are better focused and in good health and have secured encouraging levels of new business. Despite tough economic conditions, the Group achieved modest turnover growth in FY12 and the Board is hopeful for another year of 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 29th August 2012 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 with either a quick call to 020 7121 4700 or an e-mail to investors@touchstone.co.uk.

With kind regards,

Touchstone Group Plc

Keith Birch
Chief Executive

Results Summary – Year Ended 31st March 2012

Group Results

Turnover	▼ 27% to £18.9m ('11: £26m)
Gross Profits	▼ 23% to £9.3m ('11: £12m)
Gross Margins	▲ 49.2 % ('11: 46.3%)
Adjusted EBITDA ¹	▼ 34% to £1.45m ('11: £2.2m)
Asset Impairment + Amortisation	▼ £1.35m ('11: £1.72m)
Profit on Disposal of Business	▲ £1.5m ('11: Nil)
Net Profit before Tax	▲ £1.51m ('11: £94k)
Basic Earnings Per Share (EPS) ¹	▼ 9.3p ('11: 14.5p)
Net Cash Balances	▲ £6.7m ('11: £4.0m)
Operating Cash Flow	▼ £1.3m ('11: £2.4m)
Interim Dividend	↔ 1.5p per share ('11: 1.5p)
Final Dividend	▲ 3.5p per share ('11: 1.5p)
Special Dividend	▼ Nil per share ('11: 2.5p)
Total Dividend	▼ 5p per share ('11: 5.5p)
Year-end Headcount	▼ 27% to 128 ('11:175)

Continuing Operations

Turnover	▲ 2% to £16.2m ('11: £15.9m)
Gross Profits	▲ 3% to £8.7m ('11: £8.4m)
Gross Margins	▲ 53.4% ('11: 53.1%)
Adjusted EBITDA ¹	▼ 18% to £1.47m ('11: £1.8m)
Year-end Headcount	▲ 5% to 128 ('11:122)

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