

Letter to all Shareholders

5th July 2013

Dear Shareholder,

Year-End Business Update – 12 months to 31st March 2013 (FY13)

The Board is pleased to provide the following update on Group performance for the 12-month period to 31st March 2013. 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 Thursday 5th September 2013 at 2.30p.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 15th July 2013.

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

Progress during FY13

The Group has had a curate's egg of a year – good in parts. As previously communicated, it is pleasing to report that the Group's UK-based operations have all performed in-line or ahead of expectation. However, a poor last quarter in our Off-shore units has taken the shine off what we had hoped would be a good year.

Overall Group turnover showed a modest increase of 8.3% to £17.6m compared to continuing operation results for FY12 ('12: £16.2m). Gross Profits remained flat at £8.65m.

As mentioned in the April pre-audit update, the Group's Jersey and Australia units have each had a disappointing last quarter having experienced a number of significant project delays and deferments. Consequently, together they will produce a loss for FY13 as a whole having contributed a healthy proportion of overall Group profits in previous years.

Due to this loss, adjusted Group operating profits (EBITDA) decreased during the year to £0.5m ('12: £1.5m). The Board has therefore decided to make an exceptional provision of £118k against these loss-making units to ensure that their respective resources are appropriately balanced to meet anticipated contracted commitments.

The Board has further reduced the carrying value of certain intangible assets. Total amortisation and impairment charges for the Group as a whole were £0.2m ('12: £0.8m).

Net results for the Group after accounting for exceptional costs, financial charges, depreciation, and amortisation but before tax dropped this year to a small profit of £0.2m ('12: £1.5m profit).

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 3.2p ('12: 9.3p).

The Group's liquid balance sheet remains strong with Net Cash Balances of £6.2m ('12: £6.7m).

Cash Distribution

Distributions - Dividends

In December '12, the Board declared an interim dividend of 2p per share ('12: 1.5p), this dividend consumed £227k of Group cash reserves ('12: £189k).

The Board has previously referenced that total ordinary dividends should be a proportion of distributable profits achieved in the year. Due to a poor second half performance, the Board does not feel that it is appropriate to distribute more than already committed in the Interim dividend. Accordingly, the Board will not be proposing a final dividend ('12: 3.5p) and the total Ordinary dividend for the year as whole will therefore be 2p ('12:5p).

Distributions - Capital

In July '12, the Board advanced £630k to the Trustees of the Touchstone Employee Share Trust (ESOT). Following this, the ESOT successfully acquired 1.2m shares being 10% of issued share capital at a price determined by willing sellers of 51.5p per share. These shares were acquired on behalf of Group employees.

The Board acknowledges that the Group continues to benefit from healthy cash reserves. Therefore, having allocated sufficient cash resources for on-going operational, dividend distribution and business development purposes, the Board now feels that a proportion of remaining cash is available for distribution to shareholders.

Accordingly, the Board is now developing proposals that should result in cash being distributed to shareholders by way of a Strike Price Tender Offer. Additionally, for those shares not being tendered, the proposals will also set out a special dividend alternative. The Board is currently consulting with the Panel in relation to the waiver needed to implement the Strike Price Tender Offer and will circulate the proposals once that process is complete.

Divisional Analysis

Touchstone FMS Ltd ('TFMS')

TFMS supplies sophisticated Financial Management Systems to mid-sized organisations and employs 61 staff. TFMS is principally based out of the Group's Central London offices.

TFMS was established over 31 years ago and is the Group's oldest subsidiary. In this time, TFMS has become one of the world's largest and most successful INFOR SunSystems specialists with clients in many sectors including Finance, Not for Profit, Professional Services, Energy and Hospitality. TFMS has pioneered many innovative Business Intelligence (BI), Procurement and Business Process Management (BPM) initiatives to these clients and has recently established three operating units: TouchstoneEnergy, TouchstoneProactis and TouchstoneBI.

During the year TFMS generated turnover of £9.9m ('12: £8.1m) and produced adjusted profit margins of 11% ('12: 7%).

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 44 staff based out of offices in Jersey (Channel Isles) and Sydney (Australia).

As previously mentioned, TCI encountered a number of project delays and deferments in the last period of trading. Consequently, TCI's total turnover dropped during the period to £4.6m ('12: £5.7m) and produced a loss for the year of £(500)k ('12: £250k profit).

Since the year-end, TCI's cost base has been reduced and it is pleasing to report that order books are now showing a healthy increase and that sales pipelines are strengthening.

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 27 staff and operates from the Group's Watford office.

TCRM enjoyed another good year of growth having won a number of prestigious new business projects against stiff competition. During the year, TCRM generated turnover of £3.1m and produced adjusted profit margins of 12%.

Central Functions

In addition to the 132 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.

During the year, most of these staff along with the Touchstone CRM team and the Group's central IT infrastructure were located at the Group's Watford office. Regrettably, in April 2013, a major fire took hold in the Watford office block resulting in the entire Watford team being re-housed in short-term accommodation within 48 hours of the incident.

Fortunately, neither the Group's staff nor any of the other tenants in the building were injured in the incident. It is also important to stress that the Group is fully insured and only suffered smoke damage to certain assets. Other tenants in the building were less fortunate.

The Board is incredibly grateful for the hard work applied by all staff during this incident but would like to single-out the efforts of the Group's IT team. Few organisations truly test their Disaster Recovery plans or the resilience of their IT infrastructure. This small team worked long hours with immense skill and dedication and ensured the Group suffered minimal down-time.

It is anticipated that the Group will return to the re-furnished Watford office during the Autumn.

Current Trading

Despite continuing tough market conditions, the Board is hopeful that all operational units will show good progress during the year ahead.

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 5th September 2013 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

Group Results Summary – Year Ended 31st March 2013

Turnover	▲ 8.3% to £17.6m ('12: £16.2m)
Gross Profits	↔ £8.65m ('12: £8.65m)
Gross Margins	▼ 49.2% ('12: 53.4%)
Adjusted EBITDA ¹	▼ 64% to £0.5m ('12: £1.47m)
Asset Impairment + Amortisation	▼ £0.2m ('12: £0.8m)
Net Profit before Tax	▼ £0.2m ('12: £1.5m)
Basic Earnings Per Share (EPS) ¹	▼ 3.2p ('12: 9.3p)
Net Cash Balances	▼ £6.2m ('12: £6.7m)
Operating Cash Flow	▼ £0.8m ('12: £1.3m)
Interim Dividend	▲ 2p per share ('12: 1.5p)
Final Dividend	▼ Nil per share ('12: 3.5p)
Total Dividend	▼ 2p per share ('12: 5p)
Year-end Headcount	▲ 11% to 142 ('12: 128)

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 and exceptional costs