Registered Number SC005543

Touchstar plc
Annual report and financial statements
for the year ended 31 December 2017

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Chairman's statement for the year ended 31 December 2017

It is pleasing to be able to report another positive set of trading figures for the Group which comprises Touchstar Technologies Limited and Touchstar ATC Limited. However, the results for the year ended 31 December 2017 in no way reflect the rapid pace of change and progress we are achieving in the Group as we transform it from its historic hardware roots to become a high-quality solutions provider and a business that enables critical business data to be captured, moved and accessed across various platforms.

The Group needed to change to have a vibrant future and, as we move to scale the business, we have arrived at the point where there is no turning back. Whilst this may seem a little scary it is very exciting.

The Touchstar of today acts and thinks differently compared to only 18 months ago. We have successfully designed complete end-to-end solutions for our markets, taking them from concept to client. We are now building users rapidly, albeit from a small base, and it feels like real momentum. As part of this focus on the future we have also decided to eliminate the legacy goodwill remaining on the balance sheet. This had originally arisen many years ago when the Group was quite a different animal.

Our objective was always to create a scalable business; every change we made had that in mind. Investment continues in solution development, building a front end capable of delivering a greater rate of growth and a structure that gives excellent customer experience.

We have learnt much over the past year, which builds our own confidence that we understand better what is needed to complete our transition. Having good customers, relevance and standing in our markets helps, having the right products now gives the real prospect we can turn these key assets into revenue growth.

Group Operating Results

Revenue for the year ending 31 December 2017 rose 3% to £7,868,000. (2016: £7,624,000) This comprised of a relatively weak first half to the year, combined with a stronger second half to 2017, one in which we recorded sales growth of 12% over the comparable period in 2016.

Margins fell slightly due to product mix and increased spending as we move towards a more growth-orientated phase. Trading profit for the year, ended 31 December 2017 fell by £91,000 to £380,000 (2016: £475k). Trading profit is defined as profit after tax prior exceptional items (note 14).

The Group's underlying cash generative characteristics resulted in only a very small rise in net debt to £336,000 at the yearend (2016: £329,000 net debt) even after the considerable investment made in development, and the cash outflow associated with the restructuring. The write off of goodwill of course has no cash impact.

Overall the Group's financial position remained robust, a position we take pride in.

The Group has decided to write down the full carrying value of goodwill due to the changing balance from its hardware routes towards a software solutions business. This one-off action ends the debate and is in line with our financially conservative philosophy.

Chairman's statement for the year ended 31 December 2017 (continued)

This impairment charge of £3,824,000 for the financial year 31 December 2017 when added to other exceptional costs of £141,000 results in the Group reporting a loss attributable to shareholders for the year of £3,585,000 compared to a profit of £475,000 in 2016.

Other exceptional costs above relate to redundancy costs and onerous leases as a result of the restructuring of the business in the year in order to streamline the operational structure (note 6).

The basic earnings per share for the year declined to (56.83)p (2016: 7.53p). This reflects the lower margin and exceptional costs of £3,965,000 (2016: NIL).

Adjusted earnings per share before exceptional items are down slightly to 6.02p per share (2016: 7.53p) (note 14).

Solution Development
During the last two years, in broad terms, the development of new products included mobile hardware devices, android applications for mobile devices and back office software control systems in both the Airline and Transport sectors.

The migration to devices running Android operating systems in the digital marketplace, and thus applications, has been rapid. Over the past two to three years, our customers have spoken of the need to manage and process data outside their generic ERP systems, and this has led to Touchstar developing sophisticated middleware systems. These generate solid recurring licence revenues for the business and the ability to support the customers' business data processing needs effectively.

The back-office Enterprise business control systems in the airline and transport sectors are hosted on the Microsoft Azure Cloud platform which provides rich mobile functionality and scalability as our customer base grows, which in turn give us the processing power required to deliver powerful business solutions. Cloud hosting has many advantages for both parties; facilitating faster deployment of solution, reduction of set up costs, removal of capital costs associated with hosting software on an inhouse server, eliminating server setup and support costs while improving reliability.

Touchstar has a number of customers now using the Transport back office solution, PODStar. This system has been supplied into the generic transport sector, a new and extensive opportunity for us, as well as two new customers adopting the package in the fuel logistics sector, where traditionally we are strong. We now have 7 customers (2016: nil) with over 200 vehicles (2016: nil) operating on the platform.

Chairman's statement for the year ended 31 December 2017 (continued)

Touchstar recently deployed an integrated back office and Mobile point of sale system for an international 'flag carrier' airline. The project from kick off to going live took around 3 months. Faster deployment afforded by the cloud-based system resulted in much reduced demand on resource when compared with an on-premise system and in turn putting both companies in a position to realise revenue earlier. We now have 3 airlines (2016: 1) using the 'NOVOStar' back office system.

We have launched several Android mobile devices to address the growing demand and early indications show that the products have been well received. The Application software development teams in all divisions of the group have undertaken a complete migration of all business applications to run on the latest Android operating systems.

As a business we believe we have a comprehensive offering. We can offer the fundamental elements of the software and data capturing capability, and a choice of up to date, robust hardware for the areas that we specialise in. It is important to recognise that we are no longer a hardware design and manufacturing business as our new and latest software solutions are developed in Android and thus can function with most hardware in the market place, thereby giving the customer's choice where they require it – we are a flexible true solutions provider.

Post Year Event

In the last quarter of 2017, the board completed a strategic review of how best to build value for shareholders. We concluded a more aggressive strategy to scale Touchstar would probably create the best outcome for all stakeholders. For this to happen we need to bring forward investment in recruitment, solution development and delivery capability. All of this will increase the cost base and negatively impact the financial results in the short term as we invest prior to the anticipated revenue generation.

To enable this strategy to be followed, whilst maintaining a solid balance sheet, the Group announced a capital fund raising on the 17 January 2018, which was successfully concluded on the 13 February 2018.

The Group raised £1,300,000 before expenses by issuing 2,166,327 new shares at 60p per share. This consisted of a firm placing of 630,840 new shares, conditional placing of 639,158 shares and a further 896,329 shares under an open offer. Of these new shares, Directors bought 407,999.

This completes the funding required under the current plan. Together with the natural underlying cash generation of the business, we can accelerate development in sales and marketing to drive top line growth, improve our ability to deliver solutions and bring forward investment to complete our solution upgrade cycle. Throughout the remainder of this year these building blocks will be put in place, the benefits however will take until 2019 to materialise.

Chairman's statement for the year ended 31 December 2017 (continued)

IFRS 15

For the new financial year, ending 31 December 2018 Touchstar will adopt IFRS 15, Revenue from Contracts with Customers. This standard (not Touchstar specific) affects the revenue recognition policies of the Group with the adoption mainly affecting the timing and deferral of revenue from software licences. It is expected that sales and profit of £99,000 and £91,000 respectively, currently recognised in 2017 only, will be restated as sales and profit in the financial statements for year ending 31 December 2018.

The Board has always maintained a conservative approach in the way it manages its financial statements, this will continue as we move into 2018 and adopt IFRS 15 from 1st January 2018. Touchstar is moving towards being a pure solutions provider which will result in a higher percentage of group revenues being generated from sales of software. Under IFRS 15 such revenue should be recognised over the licence period rather than when cash is received. This results in revenue generated by the sale of software licences to be recognised later than under the previous accounting policy; the move to IFRS 15 will have a material negative impact on the top and bottom line of the financial results for 2018 as we adopt this new policy, however thereafter it should have less overall impact as the recurring revenues grow. This has no effect on the underlying cash generation which has been historically strong.

Thank You

I would like to give my personal thanks to all involved at Touchstar - to our shareholders for believing in what the business could be and to everyone I work with in the business whose dedication and enthusiasm has created this opportunity.

2018 and Beyond

From the first day I spent at Touchstar I was struck by a very customer focussed business, it cared, and its customers trusted the company. What was missing then was energy, an excitement that comes from introducing modern solutions, seeing customers' positive reaction and forward momentum. That positivity is now taking hold within the business. The investment (and sweat) we have given gives Touchstar an opportunity which we must now take advantage of.

I ask (again) for shareholders to be patient in 2018 – we are working hard to scale the business, this requires time and investment. In the short term, there will be additional costs ahead of profit – 2018 will be somewhat of "an act of faith" period – harder evidence will only begin to emerge later.

Touchstar has what we believe to be a real opportunity. The success of the fund raising at the start of the year gives us the financial ability to execute our full plan. Whether we succeed or not is down to us, we have to be braver and more ambitious, the upside if we get this right could be considerable. We are focussed upon making this happen.

I Martin
Executive Chairman
10 April 2017

Touchstar plc

Strategic report for the year ended 31 December 2017

Business review and principal activities

The Group supplies, installs and maintains software applications and hardware solutions for mobile applications in the airline, transport, logistics and access control industries. Our strategy is to provide complete operational solutions as this provides a continuing long-term relationship with the customer and repeat revenues through software licenses and managed service support agreements.

During 2017, following some significant product developments in the previous year, the Group focussed on the launch of two major software solutions within their existing markets and also commenced the strengthening of marketing and sales departments of the business. Initial feedback on these latest products are excellent and we had by the year end several users of the systems.

The ability to offer a total solution optimises our offering and increases the success rate of our products to be adopted. The customer can purchase the total solution from their ERP interface through to the mobile workforce with Touchstar's sophisticated cloud based packages. All these Touchstar products are in house owned (IPR) and this reduces reliance on 3rd party suppliers.

Although a competitive industry, our extensive experience and knowledge of the markets allows us to operate successfully and we continue to secure large contracts with blue chip companies across Europe.

Although stabilising, pricing pressure continues to be evident in the area of hardware supply, however margins and prices for the supply of software and the necessary support services continues to remain buoyant. In all solutions, the Group continue to offer a fully managed support service contract to the client. This alleviates the need for the client to resource the management of the system as we offer real cost benefit due to the economies of scale enjoyed by supporting multiple systems across the user base.

The Group operates under the Touchstar brand providing consistent brand awareness of the operating companies which has been successful in promoting a cohesive and singular business and all can be accessed under one web site: www.touchstar.co.uk.

Business environment

The Group's operations remain focused on the industrial and retail environment: logistics, transport distribution, secure access control and mobile point of sale. Although servicing different customers, the nature of the products, services and channels to market are comparable and hence the directors regard the Group as operating in one primary segment, where the risks and returns are similar.

Air travel is a competitive market and as carriers, on a worldwide basis, are acutely aware that profit improvement is achievable through high margin inflight sales, the Group's offering of approved hardware with back office and application software allows sophisticated sales and marketing strategies to be used to maximise revenue and minimise waste.

In the Warehouse and Logistics market, the Group provides mobile computing solutions for warehouse operations for both truck-mounted and hand-held applications. These solutions communicate using wireless technology and provide real time data. This technology improves supply chain management and significantly reduces warehouse operating costs.

Strategic report for the year ended 31 December 2017 (continued)

Business environment (continued)

In the Transport and Logistics market, the Group supports a significant number of vehicle fleet operators on a worldwide basis with its sophisticated software and hardware designed to optimise the cost of delivery and improve the customer experience. This sector continues to grow both in the number of users and in the requirements for upgrade as newer and more capable technologies become available.

The Group designs and supplies Access Control Systems for industrial and retail environments. An active and competitive market, the Group solution comprises hardware such as CCTV, entry barriers and door controllers, all of which are interfaced to the data capture control software application to allow for control and monitoring of personnel within the operation.

Strategy

The Group's overriding strategy is to achieve attractive and sustainable rates of growth and returns through organic means. Whilst presently the Group is not actively looking for acquisitions, any opportunity that should arise will be assessed and considered on merit. During 2017 it was recognised that more resource was required to sell and deliver the new solutions in a timely and efficient manner. The latter part of 2017 Touchstar commenced with the recruitment of skilled and experienced individuals to enhance the strategic growth plan.

Organic growth

Whilst the Group has considerable strength in the markets it operates within, it is imperative to continue to develop and enhance the products we offer to the customer. We have taken advantage of latest development advancements in the IT world, for example 'cloud' based solutions and additional operating systems such as Android and iOS – incorporating these into our solutions has already taken place and the directors are confident this will continue to generate additional sales revenues and further secures our position in a competitive market.

Revenue growth will come in the form of capital sales but an increasing element of the sale will focus on recurring revenue extended into three and five year minimum terms. Pricing policies will allow for annual upfront payment as well as monthly licence payment for software usage (SAAS).

Product range

The Group product range include: elements in three distinct sets; Software applications, Mobile computer hardware and Managed services. The Group will continue to invest in these core areas and to reduce product costs where possible.

In-house designed hardware and application software gives the business the opportunity to create market specific solutions backed by a complete managed service. This provides an offering far better than the competition, who rely on elements of third party product to construct their solution and aftersales support programme.

Strategic report for the year ended 31 December 2017 (continued)

Environmental

The Group recognises the importance of managing consumption of the world's natural resources as well as providing a safe and healthy working environment for its employees. The Group consumes non-replaceable raw materials and energy and clearly the successful growth of the Group will lead to an increased consumption of raw materials on an absolute basis. We therefore seek to reduce the amount of resources consumed on a unit by unit basis to limit the size of our environmental footprint.

Principal risks and uncertainties

The directors recognise there are a number of risks within the business which may significantly impact the performance of the business. These risks are subjected to regular review and, where appropriate, processes are established to minimise the level of exposure. These are summarised below:

1. People

The principal asset of the Group is the commitment and skill of its people. The retention of these people is therefore key to the success of the business. The Group monitors closely the satisfaction of its employees and ensures that remuneration packages match both contribution and the wider employment market. In addition, the Group has in place schemes which are related to Group results and which allow key employees to participate in the success of the Group as a whole.

2. Technology changes

Changes in technology occur at an ever-increasing rate. Through its technical functions the business monitors emerging technologies and seeks to understand how these technologies will impact current business and how they may be incorporated in designs of future product offerings.

3. Competition

The Group recognises that it operates on a global basis and as such is subject to competitive global pricing as well as service and performance criteria in local markets. Margins are monitored on a contract by contract basis and commercial decisions are adjusted accordingly. The Group recognises that a global strategy will create issues of foreign exchange fluctuations but that the overall contribution from such markets more than compensates for the level of risk.

4. Key commercial relationships

The Group has a diverse range of customers and suppliers, and whilst these relationships are of significant importance to the Group's development, no single customer or supplier is of critical importance to the ongoing success of the Group.

5. Business partners

The Group operates through business partners in certain parts of the world. The retention of their loyalty to the Group's product offering is important. The business is in frequent contact with these companies and regular visits are made. The Group also encourages these partners to supply local services, and hence earn a revenue stream, for contracts that the Group may have secured on a worldwide basis.The financial risks faced by the Group are detailed in note 3 to the financial statements.

Strategic report for the year ended 31 December 2017 (continued)

Key performance indicators

The Directors monitor the business based on revenue and gross margin levels.

Turnover in 2017 was £7,868,000 compared to £7,624,000 in 2016. This increase in turnover is encouraging as Touchstar begin to see the positive acceptance rate of the new product offerings which are also more weighted towards software licences and services culminating in the generation higher and longer-term margins.

Gross margins decreased to 49.5% in 2017 (2016: 53.8%) due to a combination of product mix and the beginnings of increased spending on resource as we move towards a more growth-orientated phase.

Future outlook

Across all markets serviced by the Group there is a sustained drive to reduce costs and to improve customer service. This can only be achieved by investment in the most modern technologies providing instantaneous information between back office applications and field-based functions. The Group recognises that competition will continue to impose challenges on margins. With investment in product offering, however, a robust commercial approach to the marketplace and above all a strong desire to succeed, we are confident about our prospects.

On behalf of the board

M W Hardy
Chief Executive Officer
10 April 2018

Directors' report for the year ended 31 December 2017

The directors present their Directors' report and the audited financial statements of the Company and the Group for the year ended 31 December 2017.

Employees

The Group recognises that the contribution made by its skilled and committed workforce is the business's most valuable asset. The Group will continue to provide its people with a challenging environment and to provide rewards which recognise their achievements. The Group recognises that the needs of the business will continue to change. As such, training is and will continue to be offered such that employees are able to enhance their skill base to assist the business in meeting future challenges.

The Group has an established policy of encouraging the employment of disabled persons wherever this is practicable and endeavours to ensure that disabled employees benefit from training and career development programmes in common with all other employees. The Group's policy includes, where practicable, the continued employment of those who may become disabled during their employment.

Dividends

The directors do not recommend a final dividend (2016: Nil).

Financial instruments

The Group's operations expose it to a variety of financial risks that include the effects of changes in credit risk, liquidity risk and exchange rate risk. The policies set by the Board of Directors are implemented by the Group's finance department and are detailed in note 3 to the Group financial statements for the year ended 31 December 2017.

Directors

The directors who held office during the year and to the date of this report are given below:

M W Hardy - Chief Executive Officer
J L Christmas - Non-Executive Director
I P Martin - Chairman
J S Hall (appointed 24 April 2017) – Research & Development Director

Directors' report for the year ended 31 December 2017 (continued)

Purchase of own shares

The Company did not purchase any of its own shares in 2017.

At the Annual General Meeting held on 14 June 2017, members renewed the Company's authority under the Companies Act 2006 to make market purchases of up to 10% of the Company's shares in issue as at 31 December 2016. The price at which an ordinary share may be purchased shall not exceed 105% of the average middle market quotations for the ordinary share as derived from listings provided by the London Stock Exchange and shall not be less than 5p per ordinary share, in both cases exclusive of expenses.

The renewed authority given by members at the last Annual General Meeting for the Company to purchase its own shares will expire at the Annual General Meeting to be held on 12 June 2018. The directors believe that it is in the best interests of the Company for the authority to be renewed at that Annual General Meeting.

Post balance sheet events

On 13 February 2018 the Group completed its fundraising of approximately £1,300,000 by offering new ordinary 5 pence shares at an issue price of 60 pence each. Refer to note 30 for further details.

Research and development

The Group is continually developing its products and services to meet the increasing demands of the markets in which the Group operates. During the year, the Group incurred total research and development costs of £1,153,000 (2016: £1,026,000), of which £547,000 (2016: £539,000) has been capitalised.

Statutory records

The Company is registered in Scotland and its registered number is 5543.

Substantial shareholdings

As at 31 March 2018, the Company had been notified of the following interests representing 3% or more of the issued ordinary share capital:

	Ordinary shares	Percentage of ordinary share capital
I P Martin	668,250	7.88%
R D McDougall	368,500	4.35%
Barclays Stockbrokers Limited	331,500	3.91%
Chelverton Growth Trust plc	820,000	9.68%
Thomas William George Charlton	750,000	8.85%
Spreadex Ltd/Cleveland Capital	265,840	3.14%

Except for those disclosed above, the directors are not aware of any shareholding which represents 3% or more of the present issued ordinary share capital of the Company.

Directors' report for the year ended 31 December 2017 (continued)

Directors' indemnities

As permitted by the Articles of Association, the directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The Company also purchased and maintained throughout the financial year directors' and officers' liability insurance in respect of itself and its directors.

Disclosure of information to auditors

Each director at the date of approval of this report confirms that:

- so far as each director is aware, there is no relevant audit information (that is, information needed by the auditors in connection with preparing their report) of which the auditors are unaware; and

- each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the auditors are aware of that information.

This statement is given and should be interpreted in accordance with the provision of Section 418 of the Companies Act 2006.

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and a resolution that they be reappointed will be proposed at the Annual General Meeting.

By order of the Board

N M Rourke
Company Secretary
10 April 2018

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the Group financial statements and IFRSs as adopted by the European Union have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The directors are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors of the ultimate parent company are responsible for the maintenance and integrity of the ultimate parent company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and Company's performance, business model and strategy.

Statement of directors’ responsibilities in respect of the financial statements (continued)

Each of the directors, whose names and functions are listed in the Directors' Report confirm that, to the best of their knowledge:

- the Company financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and result of the Company;
- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

By order of the Board

N M Rourke
Company Secretary
10 April 2018

Independent auditors' report to the members of Touchstar plc

Report on the audit of the financial statements

Opinion

In our opinion, Touchstar Plc's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2017 and of the group's loss and the group's and the company's cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union and, as regards the company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the 'Annual Report'), which comprise: the Consolidated and Company Statement of Financial Position as at 31 December 2017; the Consolidated Income Statement, the Consolidated and Company Cash Flow Statement, and the Consolidated and Company Statements of Changes in Equity for the year then ended 31 December 2017; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

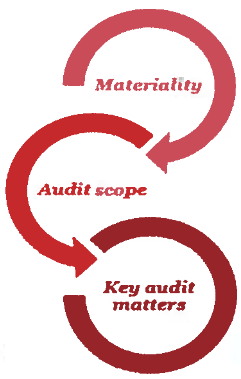
We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Overview



- Overall group materiality: £78,000 (2016: £76,000), based on 1% of Total Revenues.
- Overall company materiality: £70,000 (2016: £60,000), based on 1% of Total Assets.

- We conducted our audit work over three financially significant companies within the Group.

- Goodwill impairment assessment (Group).
- Recoverability of capitalised development costs (Group).
- Recoverability of investments (Parent).

Independent auditors' report to the members of Touchstar plc (continued)

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	***How our audit addressed the key audit matter***
Goodwill impairment assessment (Group) Refer to notes 6 and 15. The Group had goodwill of £3,824,000 with an indefinite life as at 31 December 2017, which is required to be tested for impairment on an annual basis. Management has performed a full impairment review to compare the carrying value of goodwill to its recoverable value. The directors have allocated goodwill to individual cash generating units ('CGUs'). There is judgement around the determination of the recoverable amount of the CGUs, being the higher of value-in-use and fair value less costs to dispose. We focused on this area because the determination of the recoverable amounts involves judgements and estimates based on the directors' assessment of the future results and prospects of the CGUs, the appropriate discount rates and other key assumptions, including profit and cash flow growth rates in the short and long term, to be applied and specific risk factors applied to each CGU. As a result of the impairment assessment performed, the balance of £3,824,000 was fully impaired.	We evaluated the assumptions used in the cash flow and profit forecasts included in the directors' value in use calculations. We compared forecast growth rates with historical performance as well as gaining an understanding of key factors and judgements applied in determining the future growth rates. We inspected detailed forecasts for each CGU which provided evidence of the key drivers for growth included within the profit and cash flow forecasts. We assessed the appropriateness of the directors' discount rate by comparing the rate used to our own independently determined range of what we would consider to be acceptable. The discount rate used was within our expected range. We challenged the directors on the appropriateness of their sensitivity calculations and also applied our own sensitivity analysis to the forecast cash flows and long term growth rates to ascertain the extent to which reasonable adverse changes would, either individually, or in aggregate, require the impairment of goodwill and other intangible assets. We agreed with management's conclusion that sufficient evidence exists to suggest that the goodwill balance of £3,824,000 should be impaired. An impairment charge has been appropriately disclosed within the financial statements in note 15.

Independent auditors' report to the members of Touchstar plc (continued)

Key audit matter	*How our audit addressed the key audit matter*
Recoverability of investments (Company) The company had investments in its subsidiaries to the value of £7,298,000 at 31 December 2017. Investment balances are not subject to amortisation and are tested annually for impairment. The recoverability of these investments are measured with reference to their recoverable amount, being the higher of an assets' fair value less costs to sell and value in use. As a result of the impairment assessment performed, the investment balance has been impaired by £3,824,000.	For the purposes of this assessment, the value in use assessment is calculated in a similar manner to that included in the assessment of goodwill included above, and was therefore subject to the same audit procedures. We agreed with management's conclusion that sufficient evidence exists to suggest that the investments balance should be impaired. An impairment charge has been appropriately disclosed within the financial statements in note 15. We have considered the recoverability of the remaining balance of £3,474,000, and are comfortable that this will be supported by managements growth's forecasts, as referenced in the section above.
Recoverability of capitalised development costs (Group) Refer to note 10. The Group has capitalised development costs of £1,136,000. This represents costs incurred on development projects that meet the criteria as set out in 'IAS 38: Intangible assets'. The decision whether to capitalise and how to determine the period of economic benefit requires some judgement, including an assessment of the commercial viability of the project, and the prospect of future sales.	Costs capitalised represent both internal staff costs (time) capitalised, as well as third party costs. These costs are allocated on a project basis. For internal staff costs capitalised, we have understood the employees' specific role and work, and the allocation between project and non-project activities. We have discussed these allocations with management. Third party costs capitalised have been agreed to invoice. The nature of these costs have been tested to confirm they are used in viable projects. In addition, we have understood the status of each project, and compared this to the requirements of IAS 38 to ensure that capitalisation is appropriate. We have challenged managements' assessment of the commercial viability of each active project, to ensure that capitalised costs are recoverable. This was done by reviewing the specific sales ambitions for each significant project, and challenging assumptions included in that analysis. We conclude with management's assessment that these costs meet the requirements of IAS 38.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

The Group comprises three financially significant companies: two principal trading companies and one holding company, all of which are based in the UK. We performed audits of the three financially significant companies in the Group, giving us the evidence we needed for our opinion on the Group financial statements. All work was performed by the Group engagement team.

Independent auditors' report to the members of Touchstar plc (continued)

Materiality
The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	*Company financial statements*
Overall materiality	£78,000 (2016: £76,000).	£70,000 (2016: £60,000).
How we determined it	1% of Total Revenues.	1% of Total Assets.
Rationale for benchmark applied	Based on the benchmarks used in the annual report, total revenues is a primary measure used by the shareholders in assessing the performance of the group, and is a generally accepted auditing benchmark.	Total assets is a primary measure used by the shareholders in assessing the performance of the entity, and is a generally accepted auditing benchmark. .

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £53,050 and £70,000. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £3,900 (Group audit) (2016: £3,800) and £3,500 (Company audit) (2016: £3,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern
We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's and company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and company's ability to continue as a going concern.

Reporting on other information
The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

Independent auditors' report to the members of Touchstar plc (continued)

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report
In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements
As explained more fully in the Statement of directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise

Independent auditors' report to the members of Touchstar plc (continued)

Auditors' responsibilities for the audit of the financial statements (continued)
from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report
This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

H. Macnamara

Hazel Macnamara (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester
10 April 2018

Touchstar plc

Consolidated income statement for the year ended 31 December 2017

Continuing operations	Note	2017 £'000	2016 £'000
Revenue	5	**7,868**	7,624
Cost of sales		**(3,977)**	(3,523)
Gross profit		**3,891**	4,101
Distribution costs		**(79)**	(72)
Administrative expenses		**(7,666)**	(3,806)
Operating profit before exceptional items		**111**	223
Exceptional costs included in administrative expenses	6	**(3,965)**	-
Operating (loss)/profit	7	**(3,854)**	223
Finance costs	12	**(11)**	(10)
(Loss)/profit before income tax		**(3,865)**	213
Income tax credit	13	**280**	262
(Loss)/profit for the year attributable to the owners of the parent		**(3,585)**	475

Earnings per ordinary share (pence) attributable to owners of the parent during the year (note 14):

	2017	2016
Basic	**(56.83)p**	7.53p
Adjusted	**6.02p**	7.53p

There is no other comprehensive income or expense in the current year or prior year and consequently no statement of other comprehensive income or expense has been presented.

The Company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the parent Company income statement. The profit for the Company is detailed in the Statement of financial position and the Company statement of changes in shareholders' equity.

Touchstar plc

Consolidated statement of changes in equity for the year ended 31 December 2017

	Share capital	Share premium account	Capital redemption reserve	(Accumulated losses) / retained earnings	Total equity
	£'000	£'000	£'000	£'000	£'000
At 1 January 2016	5,047	2,932	2,100	(4,761)	5,318
Capital Reduction	(4,732)	(2,932)	(2,100)	9,764	-
Costs of capital reduction	-	-	-	(37)	(37)
Profit for the year	-	-	-	475	475
At 31 December 2016	**315**	**-**	**-**	**5,441**	**5,756**
Loss for the year	-	-	-	**(3,585)**	**(3,585)**
At 31 December 2017	**315**	**-**	**-**	**1,856**	**2,171**

Company statement of changes in shareholders' equity for the year ended 31 December 2017

	Share capital	Share premium account	Capital redemption reserve	(Accumulated losses) / retained earnings	Total equity
	£'000	£'000	£'000	£'000	£'000
At 1 January 2016	5,047	2,932	2,100	(3,148)	6,931
Capital Reduction	(4,732)	(2,932)	(2,100)	9,764	-
Costs of capital reduction	-	-	-	(37)	(37)
Profit for the year	-	-	-	(2,096)	(2,096)
At 31 December 2016	**315**	**-**	**-**	**4,483**	**4,798**
Loss for the year	-	-	-	**(3,710)**	**(3,710)**
At 31 December 2017	**315**	**-**	**-**	**773**	**1,088**

Touchstar plc

Consolidated and Company statement of financial position as at 31 December 2017

		Group		Company	
		2017	2016	**2017**	2016
	Note	**£'000**	£'000	**£'000**	£'000
Non-current assets					
Goodwill	15	**-**	3,824	**-**	-
Development expenditure	15	**1,136**	989	**-**	-
Total intangible assets		**1,136**	4,813	**-**	-
Investments	16	**-**	-	**3,474**	7,298
Property, plant and equipment	17	**237**	236	**-**	-
Deferred tax assets	19	**168**	67	**7**	7
		1,541	5,116	**3,481**	7,305
Current assets					
Inventories	20	**1,387**	1,259	**-**	-
Trade and other receivables	21	**2,256**	2,026	**227**	224
Corporation tax receivable		**272**	203	**-**	-
Cash and cash equivalents	22	**2,159**	2,206	**-**	-
		6,074	5,694	**227**	224
Total assets		**7,615**	10,810	**3,708**	7,529
Current liabilities					
Trade and other payables	23	**2,619**	2,295	**125**	196
Borrowings	24	**2,495**	2,535	**2,495**	2,535
		5,114	4,830	**2,620**	2,731
Non-current liabilities					
Deferred tax liabilities	19	**179**	75	**-**	-
Trade and other payables	23	**151**	149	**-**	-
Total liabilities		**5,444**	5,054	**2,620**	2,731

Consolidated and Company statement of financial position as at 31 December 2017 (continued)

		Group		Company	
		2017	2016	**2017**	2016
	Note	**£'000**	£'000	**£'000**	£'000
Capital and reserves attributable to owners of the parent					
Retained earnings/ (accumulated losses) at 1 January 2017		**5,441**	(4,761)	**4,483**	(3,148)
(Loss)/profit for the year		**(3,585)**	475	**(3,710)**	(2,096)
Capital reduction		**-**	9,764	**-**	9,764
Cost of capital reduction		**-**	(37)	**-**	(37)
Retained earnings at 31 December 2017	25	**1,856**	5,441	**773**	4,483
Share capital	26	**315**	315	**315**	315
Total equity		**2,171**	5,756	**1,088**	4,798
Total equity and liabilities		**7,615**	10,810	**3,708**	7,529

The notes on pages 26 to 56 are an integral part of these Group financial statements.

The Group and Company financial statements on pages 21 to 56 were approved by the Board of Directors on 10 April 2018 and were signed on its behalf by:

M W Hardy
Director
Registered number Scotland: 5543

Touchstar plc

Consolidated and Company cash flow statement for the year ended 31 December 2017

		Group		Company	
	Note	**2017**	2016	**2017**	2016
		£'000	£'000	**£'000**	£'000
Cash flows from operating activities					
Operating (loss)/profit		**(3,854)**	223	**(3,710)**	513
Depreciation	17	**91**	100	**-**	-
Amortisation	15	**400**	370	**-**	-
Goodwill impairment	15	**3,824**	-	**-**	-
Investment impairment	16	**-**	-	**3,824**	
Movement in:					
Inventories	20	**(128)**	231	**-**	-
Trade and other receivables	21	**(248)**	341	**(3)**	3
Trade and other payables	23	**326**	(1,322)	**(71)**	(64)
Cash generated from/(used in) operations		**411**	(57)	**40**	452
Interest paid		**(11)**	(10)	**-**	(10)
Corporation tax received		**231**	234	**-**	-
Net cash generated from operating activities		**631**	167	**40**	442
Cash flows from investing activities					
Purchase of intangible assets	15	**(547)**	(539)	**-**	-
Purchase of property, plant and equipment	17	**(91)**	(154)	**-**	-
Net cash used in investing activities		**(638)**	(693)	**-**	-
Cash flows from financing activities					
Repayments of finance lease contracts		**-**	(8)	**-**	(8)
Costs of capital restructuring		**-**	(37)	**-**	(37)
Net cash used in financing activities		**-**	(45)	**-**	(45)
Net (decrease)/increase in cash and cash equivalents		**(7)**	(571)	**40**	397
Cash and cash equivalents at start of the year		**(329)**	242	**(2,535)**	(2,932)
Cash and cash equivalents at end of the year	22	**(336)**	(329)	**(2,495)**	(2,535)

Notes to the Group financial statements for the year ended 31 December 2017

1 General information

Touchstar plc ('the Parent Company' or 'Company') and its subsidiaries (together 'the Group') design and build rugged mobile computing devices and develop software solutions used in a wide variety of field-based delivery, logistics and service applications. The Company is a public company limited by share capital incorporated and domiciled in the United Kingdom. The Company has its listing on the Alternative Investment Market. The address of its registered office is 1 George Square, Glasgow, G2 1AL.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated and Company financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The annual report and financial statements of the Company and the Group have been prepared in accordance with IFRS as adopted by the European Union (IFRS), IFRS IC interpretations, the Companies Act 2006 applicable to companies reporting under IFRSs and the AIM rules for companies. The annual report and financial statements have been prepared under the historic cost convention.

The annual report and financial statements have been prepared on a going concern basis. The Company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the parent Company income statement. The profit for the Company is detailed in the Statement of changes in shareholders' equity.

The presentational currency of the Group and Company is pounds sterling. The Company's functional currency is pounds sterling. All amounts included in these financial statements are rounded to the nearest thousand pounds sterling, except where explicitly stated otherwise.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

Going concern

The directors have at the time of approving the financial statements, a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

Notes to the Group financial statements for the year ended 31 December 2017 (continued)

2 Summary of accounting policies (continued)

2.1 Basis of preparation (continued)

Changes in accounting policies and disclosures

(a) New standards, amendments to standards or interpretations adopted by the Group and Company

The accounting policies adopted are consistent with those of the previous financial year except for the following new and amended standards and interpretations during the year that are applicable to the Group or Company. Adoption of these revised standards and interpretations had no effect on the consolidated financial statements of the Group or the individual Company.

- IAS 7 Statement of cash flows (amendments) (effective 1 January 2017)
- IAS 12 Income taxes (amendments) (effective 1 January 2017)

(b) New standards, amendments to standards or interpretations not yet adopted by the Group and Company

The following new standards, amendments to standards or interpretations are mandatory for the first time no earlier than the financial year beginning 1 January 2018. No standards have been early adopted by the Group and Company.

Standards, amendments and interpretations that are not yet effective are as follows:

- IFRS 2 Share-based Payment (effective 1 January 2018)
- IFRS 9 Financial Instruments (effective 1 January 2018)
- IFRS 15 Revenue from Contracts with Customers (effective 1 January 2018)
- IFRS 16 Leases (effective 1 January 2019)

The directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the company in future periods, except as follows:

IFRS 15 – Following an assessment of the practical implications of the adoption of IFRS 15: Revenue from contracts with customers on the revenue recognition policies of the Group, the directors have determined that a material change in policy will be adopted to take into account the timing and deferral of revenue recognition arising from sales of hardware installations and software licenses. Once IFRS 15 is implemented it is expected that equity brought forward as at 1 January 2017 will be decreased by £99,000 with profit for the year ended 31 December 2017 decreased by £91,000.

IFRS 16 – Currently disclosed operating leases would be brought on to the balance sheet, and rather than a lease expense charge going through operating income, a depreciation charge and a finance charge would replace this, with the latter going through finance costs. This may result in the recognition of a material asset and corresponding liability. The current level of operating lease commitments is disclosed in note 27.

2 Summary of accounting policies (continued)

2.1 Basis of preparation (continued)

Changes in accounting policies and disclosures

There are no other standards that are not yet effective and that would be expected to have a significant impact on the company in the current or future reporting periods and on foreseeable future transactions.

2.2 Consolidation

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued, and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired, and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

The financial statements consolidate the accounts of Touchstar plc and all of its subsidiary undertakings. Intra-Group sales and profits are eliminated fully on consolidation.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.3 Segment reporting

In accordance with IFRS 8 operating segments are reported in a manner consistent with the internal reporting provided to the directors who are considered to be the chief operating decision makers (CODM). The directors are responsible for allocating resources and assessing performance of the operating segments, these have been identified as the Executive Board. The Executive Board considers that the Group comprises one segment, being the supply and maintenance of real time electronic data systems, and this is how results are reported to the Executive Board.

Notes to the Group financial statements for the year ended 31 December 2017 (continued)

2 Summary of accounting policies (continued)

2.4 Foreign currency translation

(a) Functional and presentation currency
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in sterling, which is the Company's functional and presentation currency.

(b) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

2.5 Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to reduce an asset's cost to its residual value over its estimated useful life, as follows:

Plant and machinery	over 2-5 years
Fixtures, fittings, tools and equipment	over 4-5 years

Residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Notes to the Group financial statements for the year ended 31 December 2017 (continued)

2 Summary of accounting policies (continued)

2.6 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition.

Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(b) Development expenditure

Development expenditure is stated at historic cost less accumulated amortisation. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

- it is technically feasible to complete the intangible asset so that it will be available for use;
- management intends to complete the intangible asset and use or sell it;
- there is an ability to use or sell the intangible asset;
- it can be demonstrated how the intangible asset will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditure that does not meet the criteria is recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development expenditure is recorded as an intangible asset and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding five years.

2.7 Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill and investments, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Non-financial assets other than goodwill that suffer an impairment are reviewed for possible reversal of the impairment at each reporting date.

2 Summary of accounting policies (continued)

2.8 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises actual costs incurred in bringing each product to its present location and condition as follows:

- Raw materials and consumables:	Purchase cost on a weighted average basis
- Work in progress and finished goods:	Cost of direct materials

The cost of work in progress and finished goods excludes direct labour and related production overheads as the directors consider that this element is not material.

Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Provision is made where necessary for obsolete, slow moving and defective inventory.

2.9 Trade and other receivables

Trade and other receivables do not carry interest and are initially recognised at fair value, and subsequently carried at amortised cost, less any provision for any amount estimated to be irrecoverable. They are included within current assets, except where the receivables are expected to be settled in more than 12 months in which case they are classified as non-current assets.

2.10 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts where applicable are shown within borrowings in current liabilities on the balance sheet and where appropriate the right of offset has been taken.

2.11 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2 Summary of accounting policies (continued)

2.12 Trade and other payables

Trade payables are obligations to pay for goods and services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less. If not they are presented as non-current liabilities.

Trade payables are recognised at fair value and subsequently held at amortised cost.

2.13 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.14 Current and deferred tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profits or losses. Deferred income tax is determined using tax rates (and laws) that have been substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

2 Summary of accounting policies (continued)

2.14 Current and deferred tax (continued)

Deferred income tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.15 Employee benefits

(a) Pension obligations

The Group operates various pension schemes. The schemes are generally funded through payments to insurance companies. The Group has only defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity.

The Group pays contributions to privately administered pension insurance plans on a contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payment is available.

(b) Profit-sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

Notes to the Group financial statements for the year ended 31 December 2017 (continued)

2 Summary of accounting policies (continued)

2.16 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below.

Income from the sale of goods is recognised on dispatch to the customer.

Income from the sale of advance maintenance and software and licence contracts (managed support services) is shown as deferred income in the balance sheet and released to revenue over the length of the contract in line with the substance of the relevant agreement.

2.17 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2.18 Dividend distribution

Any annual final dividend is not provided for until approved at the Annual General Meeting, whilst interim dividends are charged in the period they are paid.

2.19 Exceptional items

Items which are both material and non-recurring in nature are presented as exceptional items so as to provide a better indication of the Group's underlying business performance and are shown separately on the face of the income statement.

3 Risk management

3.1 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, principally with respect to the euro and the US dollar. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

Natural hedging occurs through the matching of foreign currency income, expenditure and commitments. When projected foreign currency balances are not anticipated to be covered through this natural matching process, the Group may choose to enter into forward foreign exchange contracts through its bankers and other financial institutions.

At 31 December 2017, no forward foreign exchange contracts were outstanding (2016: £nil).

(ii) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

(b) Credit risk

The Group has a customer credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

At 31 December 2017 there were no significant concentrations of credit risk (2016: £nil). The maximum exposure to credit risk is represented by the carrying amount of each financial asset included in the balance sheet. Management does not expect any losses from non-performance by these counterparties. Due to the nature of the Group's business, credit risk is assessed on a customer by customer basis prior to entering into contractual arrangements.

Notes to the Group financial statements for the year ended 31 December 2017 (continued)

3 Risk management (continued)

3.1 Financial risk management (continued)

(c) Liquidity risk

The Group maintains short-term cash deposits and unutilised banking facilities to mitigate any liquidity risk it may face. Management monitors rolling forecasts of the Group's liquidity reserves on the basis of forecast cash flow.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. Impact on discounting is not deemed material/relevant in respect of trade and other payables since this relates predominantly to deferred revenue for which the cash has already been received and the balance is being released to the income statement in line with the contract.

At 31 December 2017	Less than one year £'000	Between one and four years £'000
Bank overdraft	**2,495**	**-**
Trade and other payables	**2,619**	**151**
At 31 December 2016		
Bank overdraft	2,535	-
Trade and other payables	2,295	149

Notes to the Group financial statements for the year ended 31 December 2017 (continued)

3 Risk management (continued)

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Company also has an authority under the Companies Act 2006 to make market purchases of up to 10% of the Company's shares in issue at 30 June 2018.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt.

The gearing ratios at 31 December 2017 and 2016 were as follows:

	2017	2016
	£'000	£'000
Net debt	**336**	329
Total equity	**2,171**	5,756
Total capital	**2,507**	6,085
Gearing ratio	**13%**	5%

3.3 Fair value estimation

The carrying value, less impairment provision of trade receivables and payables are assumed to approximate to their fair value. The carrying values of borrowings approximate to their fair value due to their short-term maturity.

Notes to the Group financial statements for the year ended 31 December 2017 (continued)

4 Critical accounting estimates and judgements

The Group and Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Impairment of goodwill and investments

The Group and Company test annually whether goodwill and investments have suffered any impairment, in accordance with the accounting policy. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates, both in arriving at the expected future cash flows and in the application of a suitable discount rate in order to calculate the present value of these flows.

It is the opinion of the directors, due to the recent changes in the balance of the Groups product range, to fully write down goodwill to nil at 31 December 2017.

(b) Development expenditure

The Group recognises costs incurred on development projects as an intangible asset which satisfies the requirements of IAS 38. The calculation of the costs incurred includes the percentage of time spent by certain employees on the development project. The decision whether to capitalise and how to determine the period of economic benefit of a development project requires an assessment of the commercial viability of the project and the prospect of selling the project to new or existing customers.

Notes to the Group financial statements for the year ended 31 December 2017 (continued)

5 Segmental information

The Group has two trading subsidiaries, Touchstar ATC Limited and Touchstar Technologies Limited, however the Executive Board who are deemed to be the CODM's consider that both companies are engaged in the same market and therefore the Executive Board review the results of the Group as a whole.

Consequently, the Executive Board regard the Group as operating in one segment, being the supply and maintenance of real time electronic data systems. All of the Group's revenue, expenses, results, assets and liabilities are in respect of the supply and maintenance of real time electronic data systems and are presented on pages 21 to 25.

All revenue is generated within the UK. A geographical analysis of revenue delivered by destination is given below:

	2017	2016
	£'000	£'000
UK	**6,635**	6,127
Europe	**971**	1,321
Rest of World	**262**	176
	7,868	7,624

6 Exceptional costs

	2017	2016
	£'000	£'000
Restructuring expenses:		
Redundancy costs	**77**	-
Onerous lease costs	**64**	-
Goodwill impairment (note 15)	**3,824**	-
	3,965	-

Notes to the Group financial statements for the year ended 31 December 2017 (continued)

7 Operating (loss)/profit

	2017	2016
	£'000	£'000
Operating (loss)/profit is stated after charging/(crediting):		
Depreciation:		
Owned assets	91	100
Development expenditure amortisation (note 15)	400	370
Impairment of trade receivables	11	57
Exceptional costs (note 6)	3,965	-
Operating lease rentals:		
Plant and machinery	155	162
Land and buildings	160	124
Research and development expenditure	606	487
Cost of inventories recognised as an expense	3,405	3,052
Write down of inventory as an expense	71	68
Staff costs (note 9)	3,379	3,426
Loss/(gain) on foreign exchange	1	(10)

8 Auditors' remuneration

During the year the Group obtained the following services from the Company's auditors at costs as detailed below:

	2017	2016
	£'000	£'000
Audit services:		
Fees payable to the Company's auditors for the audit of the Parent Company and consolidated financial statements	8	8
Fees payable to the Company's auditors for other services:		
Audit of subsidiaries pursuant to legislation	35	35
	43	43

9 Employee benefit expense

The average monthly number of persons (including directors) employed by the Group and Company during the year was:

	Group		Company	
	2017	2016	**2017**	2016
	Number	Number	**Number**	Number
Administrative, management and sales	**61**	63	**4**	4
Manufacturing	**14**	16	**-**	-
	75	79	**4**	4

	2017	2016	**2017**	2016
	£'000	£'000	**£'000**	£'000
Staff costs for the above persons were:				
Wages and salaries	**2,887**	2,913	**265**	264
Social security costs	**327**	335	**33**	32
Other pension costs – defined contribution plans	**165**	178	**36**	39
	3,379	3,426	**334**	335

As at 31 December 2017 the Group and Company had accrued pension costs of £19,000 (2016: £15,000).

Notes to the Group financial statements for the year ended 31 December 2017 (continued)

10 Directors' emoluments

	2017	2016
	£'000	£'000
Aggregate emoluments	**351**	260
Pension costs – defined contribution plans	**38**	38
	389	298

Three of the four Directors are remunerated through the parent company. One Director is remunerated through its subsidiary Touchstar Technologies Limited.

The emoluments of the individual Directors were as follows:

	2017	2016
	£'000	£'000
Salaries, fees and bonuses:		
Executive directors		
I P Martin	**50**	50
M W Hardy	**177**	182
J S Hall (Appointed 24/04/2017)	**96**	-
Non-executive directors		
J L Christmas	**28**	28
	351	260

Salaries and fees are inclusive of car allowances for M W Hardy and J Hall of £16,000 and £8,000 (2016: £23,000 relating to M W Hardy only).

M W Hardy is also accruing benefits under a defined contribution pension scheme. The Company made contributions of £38,000 (2016: £38,000) into the scheme. No other directors receive contributions to any pension scheme.

Notes to the Group financial statements for the year ended 31 December 2017 (continued)

11 Key management compensation

Key management consists of the directors and four key departmental managers (2016: four).

	2017	2016
	£'000	£'000
Wages and salaries	**715**	679
Social security costs	**83**	76
Pension costs – defined contribution plans	**53**	66
	851	821

12 Finance costs

	2017	2016
	£'000	£'000
Bank interest	**11**	10

13 Income tax credit

	2017	2016
	£'000	£'000
Corporation tax		
Current tax	**(254)**	(201)
Deferred tax	**3**	-
Adjustments in respect of prior years	**(29)**	(61)
Total tax credit	**(280)**	(262)

Corporation tax is calculated at 19.25% (2016: 20%) of the estimated assessable profit for the year. This is the weighted average tax rate applicable for the year.

Notes to the Group financial statements for the year ended 31 December 2017 (continued)

13 Income tax credit (continued)

Factors affecting the tax credit for the year

The tax credit for the year is different (2016: different) from the standard rate of corporation tax in the UK of 19.25% (2016: 20%). The differences are explained below:

	2017 £'000	2016 £'000
(Loss)/profit before income tax	**(3,865)**	213
Multiplied by the standard rate of corporation tax in the UK of 19.25% (2016: 20%)	**(744)**	42
Effects of:		
Items not deductible for tax purposes	**738**	76
Enhanced research and development deduction	**(261)**	(359)
Adjustments in respect of prior years	**(29)**	(61)
Capitalised expense allowable for tax purposes	**-**	(13)
Losses surrendered through R&D tax credit	**95**	76
Recognition of unrelieved tax losses	**(131)**	-
Capital allowances claimed in year less than/(in excess of) depreciation	**56**	(23)
Adjustment to deferred tax arising from changes in tax rate	**(4)**	-
Tax credit for the year	**(280)**	(262)

Factors affecting the future tax charge

The standard rate of corporation tax in the UK changed from 20% to 19% with effect from 1 April 2017. Accordingly, the Group's profit chargeable to corporation tax for the prior accounting year was taxed at the effective rate of 19.25% and at 19% in the current accounting year.

The Chancellor's budget of March 2016 announced that corporation tax rates will ultimately fall to 17% on 1 April 2020. Consequently, deferred taxation has been calculated with reference to this ultimate tax rate of 17%. The Directors do not expect timing differences arising in the intervening period, when higher taxation rates apply, to have a significant effect on the Group's future tax charge.

Notes to the Group financial statements for the year ended 31 December 2017 (continued)

14 (Losses)/earnings per share

	2017	2016
Basic	**(56.83)p**	7.53p
Adjusted	**6.02p**	7.53p

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year. The calculation of adjusted earnings per share excludes exceptional costs of £3,965,000 (2016: £nil) (note 6).

Reconciliations of the earnings and weighted average number of shares used in the calculation are set out below:

	2017		2016	
	Earnings £'000	**Weighted average number of shares (in thousands)**	Earnings £'000	Weighted average number of shares (in thousands)
Basic EPS				
(Loss)/earnings attributable to owners of the parent	**(3,585)**	**6,308**	475	6,308
Exceptional costs (note 6)	**3,965**		-	
Adjusted EPS				
Earnings attributable to owners of the parent before exceptional items	**381**	**6,308**	475	6,308

The Group does not operate a share option scheme and as a result not diluted earnings per share are presented.

Non – GAAP financial measures

For the purposes of the annual report and financial statements, the Group uses alternative non-Generally Accepted Accounting Practice ('non-GAAP') financial measures which are not defined within IFRS. The Directors use the measures in order to assess the underlying operational performance of the Group and as such, these measures are important and should be considered alongside the IFRS measures.

The following non-GAAP measure referred to in the Chairman's statement relates to Trading profit.

'Trading profit' is separately disclosed, being defined as profit after tax adjusted to exclude goodwill impairment and restructuring costs. These exceptional costs relate to items which the management believe do not accurately reflect the underlying trading performance of the business in the period. The Directors believe that the trading profit is an important measure of the underlying performance of the Group.

Notes to the Group financial statements for the year ended 31 December 2017 (continued)

15 Intangible assets

	Group		
	Goodwill £'000	Development expenditure £'000	Total £'000
Cost			
At 1 January 2016	9,904	2,472	12,376
Additions	-	539	539
At 31 December 2016	9,904	3,011	12,915
Additions	-	547	547
At 31 December 2017	**9,904**	**3,558**	**13,462**
Accumulated amortisation			
At 1 January 2016	6,080	1,652	7,732
Amortisation charge	-	370	370
At 31 December 2016	6,080	2,022	8,102
Impairment	3,824	-	3,824
Amortisation charge	-	400	400
At 31 December 2017	**9,904**	**2,422**	**12,326**
Net book value			
At 1 January 2016	3,824	820	4,644
At 31 December 2016	3,824	989	4,813
At 31 December 2017	**-**	**1,136**	**1,136**

Amortisation of £400,000 (2016: £370,000) is included within administrative expenses in the income statement.

(a) Impairment tests for goodwill

Goodwill arose in relation to the Group's acquisition of Touchstar Technologies Limited and Touchstar ATC Limited who are considered to be the two cash generating units (CGU) of the Group. Following a review of goodwill valued in the Group the decision was taken to fully impair the carrying value to nil as a result of the change in the balance of the Groups product set.

This loss has been deemed an exceptional cost and included in administrative expenses in the income statement.

15 Intangible assets (continued)

(b) Development expenditure

The calculation of the costs incurred includes the percentage of time spent by certain employees on the development project. The decision whether to capitalise and how to determine the period of economic benefit of a development project requires an assessment of the commercial viability of the project and the prospect of selling the project to new or existing customers.

Management determined budgeted sales growth based on historic performance and its expectations of market development. The discount rates are pre-tax and reflect the specific risks relating to the business.

These calculations did not result in impairment. The following sensitivity analysis was performed:

- Increase the discount rate by 1.5%; and
- Reduce the growth rate by 1% beyond the first five years.

In each of these scenarios no impairment was identified.

Development expenditure has been capitalised on an ongoing basis and therefore has a remaining useful economic life ranging from 0 to 5 years.

16 Investments

	Shares in subsidiary undertakings £'000
Cost	
At 1 January 2017 and 31 December 2017	**19,798**
Accumulated amortisation and impairment	
At 1 January 2017	12,500
Impairment	3,824
At 31 December 2017	**16,324**
Net book value	
31 December 2017	**3,474**
31 December 2016	7,298

The carrying amount of the investment held in regard to Touchstar Technologies Limited has been impaired by £3,824,000 (2016: £2,500,000) to its recoverable amount.

The Parent Company has the following wholly owned trading subsidiary undertakings, incorporated and operating in Great Britain, which are registered in England and Wales:

Name of company and registered address	Nature of business	Description of shares held
Touchstar Technologies Limited 7 Commerce Way, Trafford Park, Manchester, M17 1HW	Real time electronic data systems	100,000 ordinary £1 shares
Touchstar ATC Limited Maple Barn, Beeches Farm Road, Uckfield, TN22 5QD	Real time electronic data systems	140,000 ordinary £1 shares

Notes to the Group financial statements for the year ended 31 December 2017 (continued)

17 Property, plant and equipment

	Group			Company
	Plant and machinery £'000	Fixtures, fittings, tools and equipment £'000	Total £'000	Fixtures, fittings, tools and equipment £'000
Cost				
At 1 January 2016	1,550	1,077	2,627	466
Additions	22	132	154	-
Disposals	(289)	(154)	(443)	-
At 31 December 2016	1,283	1,055	2,338	466
Additions	64	27	91	-
Disposals	(825)	(646)	(1,471)	(466)
At 31 December 2017	**522**	**436**	**958**	**-**
Accumulated depreciation				
At 1 January 2016	1,430	1,015	2,445	466
Charge for the year	79	21	100	-
Disposals	(289)	(154)	(443)	
At 31 December 2016	1,220	882	2,102	466
Charge for the year	45	46	91	-
Disposals	(825)	(647)	(1,472)	(466)
At 31 December 2017	**440**	**281**	**721**	**-**
Net book value				
At 1 January 2016	120	62	182	-
At 31 December 2016	63	173	236	-
At 31 December 2017	**82**	**155**	**237**	**-**

Depreciation expense of £91,000 (2016: £100,000) has been split between administrative expenses and cost of sales.

Notes to the Group financial statements for the year ended 31 December 2017 (continued)

18 (a) Financial instruments by category

The accounting policies for financial instruments have been applied to the line items below:

	Group		Company	
	2017	2016	**2017**	2016
	£'000	£'000	**£'000**	£'000
Financial assets				
Trade receivables	**2,002**	1,805	-	-
Cash and cash equivalents	**2,159**	2,206	-	-
Total	**4,161**	4,011	-	-

	Group		Company	
	2017	2016	**2017**	2016
	£'000	£'000	**£'000**	£'000
Financial liabilities				
Trade and other payables (excluding tax and social security payable)	**2,270**	2,066	**57**	137
Borrowings	**2,495**	2,535	**2,495**	2,535
Total	**4,765**	4,601	**2,552**	2,672

18 (b) Credit quality of financial assets

Credit risk is managed on a Group basis and arises from cash and cash equivalents and credit exposures to customers. For banks, only independently rated parties with a minimum rating of 'A' are acceptable. The Group has dealt with one (2016: one) bank during the year. For customers the directors consider that, based on the historical information about default rates and the current strength of customer relationships, a number of which are recurring long-term customers, the credit quality of financial assets that are neither past due nor impaired is good.

None of the financial assets that are fully performing have been renegotiated in the last twelve months.

Notes to the Group financial statements for the year ended 31 December 2017 (continued)

19 Deferred tax

19.1 Deferred tax asset

	Group		Company	
	2017	2016	**2017**	2016
	£'000	£'000	**£'000**	£'000
At 1 January	**67**	67	**7**	7
Credited to income statement	**101**	-	**-**	-
At 31 December	**168**	67	**7**	7

The deferred tax asset for the Group relates to unused tax losses of £802,000 (2016: £1,137,000). Due to the uncertainty of future profits, have been recognised within the calculation of deferred tax. £608,000 have been recognised in the prior year.

The directors expect to reverse £60,000 of deferred tax assets and liabilities during the year ended 31 December 2018.

The deferred tax asset for the Company relates to unused capital losses.

19.2 Deferred tax liability

There has been movement of £104,000 in deferred tax liability during the year.

	2017	2016
	£'000	£'000
At 1 January	**75**	75
Charged to income statement	**104**	-
At 31 December	**179**	75

Deferred tax (liability)/asset analysis:

	2017	2016
	£'000	£'000
Amount in respect of fixed assets	**(179)**	(75)
Amount in respect of losses	**168**	67

Notes to the Group financial statements for the year ended 31 December 2017 (continued)

20 Inventories

	2017	2016
	£'000	£'000
Raw materials and consumables	652	896
Finished goods and goods for resale	803	363
Provision	(68)	-
	1,387	1,259

The cost of inventories recognised as an expense amounted to £3,405,000 included within cost of sales (2016: £3,052,000). Provisions of £73,000 were recognised in the income statement within administrative expenditure (2016: £68,000). No finished goods are held at fair value less cost to sell (2016: £nil).

21 Trade and other receivables

	Group		Company	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Trade receivables	2,002	1,805	-	-
Amounts owed by subsidiary undertakings	-	-	217	217
Prepayments and accrued income	254	221	10	7
	2,256	2,026	227	224

The amounts owed by subsidiary undertakings are interest free, unsecured and repayable on demand.

The fair value of trade and other receivables is the same as the book value.

Total trade receivables are stated after provision for impairment of £11,000 (2016: £nil) relating to one customer.

Trade receivables that are less than three months past due are not considered impaired. As of 31 December 2017, trade receivables of £48,000 (2016: £57,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2017	2016
	£'000	£'000
Up to 3 months past due	42	28
Over 3 months past due	6	29

Notes to the Group financial statements for the year ended 31 December 2017 (continued)

21 Trade and other receivables (continued)

As of 31 December 2017, £11,000 trade receivables (2016: £nil) were impaired and provided for. Bad debt expenses of £11,000 have been recognised in the income statement.

The carrying amount of the trade and other receivables denominated in the following currencies is:

	Group		Company	
	2017	2016	**2017**	2016
	£'000	£'000	**£'000**	£'000
Sterling	**2,149**	1,908	**227**	224
Euros	**95**	118	**-**	-
Australian dollars	**12**	-	**-**	-
	2,256	2,026	**227**	224

The other classes within trade and other receivables do not contain impaired assets. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

22 Cash and cash equivalents

	Group		Company	
	2017	2016	**2017**	2016
	£'000	£'000	**£'000**	£'000
Cash at bank and in hand	**2,159**	2,206	**-**	-
Less : bank overdraft (included within borrowings note 24)	**(2,495)**	(2,535)	**(2,495)**	(2,535)
	(336)	(329)	**(2,495)**	(2,535)

Notes to the Group financial statements for the year ended 31 December 2017 (continued)

23 Trade and other payables

	Group		Company	
	2017	2016	**2017**	2016
	£'000	£'000	**£'000**	£'000
Trade payables	**751**	690	**25**	-
Other taxes and social security	**349**	229	**68**	59
Other payables	**56**	15	**-**	-
Amounts owed to subsidiary undertakings	**-**	-	**-**	99
Deferred income	**1,237**	1,166	**-**	-
Customer deposits	**26**	2	**-**	-
Accruals	**200**	193	**32**	38
	2,619	2,295	**125**	196

Deferred income relates to maintenance and software license fee income. A further £151,000 (2016: £149,000) is due in more than one year and is presented as such on the Statement of financial position.

Amounts owed to subsidiary undertakings are interest free, unsecured and repayable on demand.

24 Borrowings

	Group		Company	
	2017	2016	**2017**	2016
	£'000	£'000	**£'000**	£'000
Total borrowings	**2,495**	2,535	**2,495**	2,535

The carrying amounts of borrowings approximate to their fair value due to their short-term maturity, meaning that the impact of discounting is not significant. The carrying amounts of the Group's borrowings are denominated solely in sterling.

The Group bank overdraft facility is secured by a bond and floating charge over the entire assets of the Group. At 31 December 2017, the Group had total committed undrawn facilities of £1,020,000 (2016: 980,000).

Notes to the Group financial statements for the year ended 31 December 2017 (continued)

25 Reserves

The following describes the nature of each reserve within equity:

Reserve	Description and purpose
Share premium	Amount subscribed for share capital in excess of nominal value.
Capital redemption reserve	Amounts transferred from share capital on redemption of issued shares.
Retained earnings	All other net gains and losses and transactions with owners (e.g. dividends) not recognised elsewhere.

26 Share capital

	Group		Company	
	2017	2016	**2017**	2016
	£'000	£'000	**£'000**	£'000
Allotted, issued and fully paid 6,308,750 (2016: 6,308,750) ordinary shares of 5p each	**315**	315	**315**	315

27 Operating lease commitments – minimum lease payments

The Group's aggregate commitment under non-cancellable operating leases is as follows:

	2017		2016	
	Land and buildings	**Other**	Land and buildings	Other
	£'000	**£'000**	£'000	£'000
Leases expiring within one year	**139**	**74**	127	86
Leases expiring later than one year but no later than five years	**96**	**153**	252	72
Over five years	**126**	**-**	-	-
	361	**227**	379	158

The Group leases various offices under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewal rights.

28 Capital commitments

At the year end, the Group and Company had no capital commitments (2016: £nil).

29 Related party transactions

The only related party transaction during 2017, that requires disclosure, was that of £600,000 (2016: £1,000,000) management recharge from Touchstar plc to Touchstar Technologies Limited. Please refer to note 21 and 23 for disclosure of outstanding intercompany transactions as at 31 December 2017.

30 Events after the reporting date

On 17 January 2018 the Group announced the terms of a fundraising by WH Ireland Limited, acting as its Nominated Adviser and Broker, to raise a total of up to approximately £1,300,000 (before expenses) by way of a firm placing, a conditional placing and an open offer.

In each case of new ordinary shares of 5 pence each ("Ordinary Shares") were issued at a price of 60 pence per share.

The issue price of 60 pence per new Ordinary Share ("Issue Price") represented a discount of 24 per cent against the mid-market price of 79 pence per share at which the Ordinary Shares were quoted on AIM as at close of trading on 16 January 2018, the last trading day prior to announcement of the Fundraising.

The firm placing comprised of 630,840 new Ordinary Shares (the "Firm Placing Shares") at the Issue Price (the "Firm Placing"). A total of £378,504 (before expenses) has been raised by way of the Firm Placing utilising the existing share authorities granted at the 2017 AGM. The Firm Placing was conditional only upon compliance by the Company in all material respects with its obligations under the Placing Agreement and the admission of the Firm Placing Shares to trading on AIM.

The conditional placing comprised of 639,158 new Ordinary Shares (the "Conditional Placing Shares") at the Issue Price (the "Conditional Placing"). The Conditional Placing raised £383,495 (before expenses). The Conditional Placing was conditional, inter alia, upon Shareholders approving Resolution 1 at the General Meeting, compliance by the Company in all material respects of its obligations under the Placing Agreement and the occurrence of First Admission and Second Admission which took place on 13 February 2018.

The Open Offer comprised of 901,250 new Ordinary Shares to Qualifying Shareholders pursuant to the Open Offer at the Issue Price. The Open Offer was conditional, inter alia, upon Shareholders approving Resolution 2 at the General Meeting, compliance by the Company in all material respects of its obligations under the Placing Agreement and the occurrence of First Admission and Second Admission which took place on 13 February 2018.

Group Information

Registered Number in Scotland SC005543

Touchstar plc
7 Commerce Way
Trafford Park
Manchester
M17 1HW
T: +44 (0) 1274 741860
E: investor@touchstar.com
www.touchstar.com

Secretary and Registered Office
N M Rourke
1 George Square
Glasgow
G2 1AL

Independent Statutory Auditors
PricewaterhouseCoopers LLP
Chartered Accountants and
Statutory Auditors'
1 Hardman Square
Manchester
M3 3EB

Bankers
Barclays Corporate Bank
2nd Floor
1 Park Row
Leeds
LS1 5AB

Solicitors
Harrison Clark Rickerbys Limited
5 Deansway
Worcester
WR1 2JG

Stockbroker and Financial Advisors
WH Ireland Limited
3rd Floor
Royal House
28 Sovereign Street
Leeds
LS1 4BJ

Registrars
Nevilles Registrars Ltd
Neville House
18 Laurel Lane
Halesowen
B63 3DA

Notice of Annual General Meeting

Notice is hereby given that the one hundred and fourteenth annual general meeting of the Company will be held at the offices of Touchstar Technologies Ltd, 7 Commerce Way, Trafford Park, Manchester M17 1HW, on 12 June 2018 at 10.00 a.m. for the following purposes:

To consider and, if thought fit, pass the following resolutions of which resolutions 1, 2, 3 and 4 will be proposed as ordinary resolutions and resolutions 5 and 6 will be proposed as special resolutions:

Ordinary business

1. To receive, consider and adopt the annual financial statements for the year ended 31 December 2017 together with the last directors' report and the auditors' report on those financial statements.

2. To reappoint John Leslie Christmas as a director of the Company who retires by rotation in accordance with the articles of association of the Company.

3. To reappoint PricewaterhouseCoopers LLP as auditors of the Company to hold office from the conclusion of the meeting until the conclusion of the next general meeting at which the financial statements are laid before the Company and that their remuneration be fixed by the directors.

4. That the directors be generally and unconditionally authorised pursuant to section 551 of the Companies Act 2006 (**'Act'**) to allot Relevant Securities (as defined in the notes to this resolution) up to an aggregate nominal amount of £139,830 for a period expiring (unless previously renewed, varied or revoked by the Company in general meeting) on 30 June 2019, or, if earlier, the date of the next annual general meeting of the Company after the passing of this resolution, but the Company may make an offer or agreement which would or might require relevant securities to be allotted after expiry of this authority and the board may allot Relevant Securities in pursuance of that offer or agreement.

   This resolution revokes and replaces all unexercised authorities previously granted to the directors to allot Relevant Securities but without prejudice to any allotment of shares or grant of rights already made, offered or agreed to be made pursuant to such authorities.

Special business

5. That subject to the passing of resolution 4 the directors be generally empowered to allot equity securities (as defined by section 560 of the Act) for cash pursuant to the authority conferred by resolution 4 as if section 561 (1) of the Act did not apply to the allotment. This power shall be limited to:

   5.1 the allotment of equity securities in connection with an offer for securities open for acceptance for a period fixed by the directors by way of rights to

   5.1.1 holders of ordinary shares; and

   5.1.2 holders of such other equity securities as the directors may determine on the register on a fixed record date in proportion to their respective holdings of such securities or in accordance with the rights attaching to them (but subject to such exclusions or other arrangements necessary or expedient to deal with fractional entitlements that would otherwise arise or with legal or practical problems under the laws of any territory or the requirements of any recognised regulatory body or any stock exchange in any territory);

   5.2 the allotment of equity securities pursuant to the terms of any share scheme for directors and employees approved by the Company in general meeting;

   5.3 the allotment (otherwise than pursuant to sub paragraphs 5.1 and 5.2 above) of equity securities up to an aggregate nominal value of £42,375, provided that the power hereby conferred shall expire on 30th June 2019, or, if earlier, the date of the next annual general meeting of the Company after the passing of this resolution save that the directors may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such an offer or agreement as if the power conferred hereby had not expired.

This resolution revokes and replaces all unexercised powers previously granted to the directors to allot equity securities as if either section 89(1) of the Companies Act 1985 or section 561(1) of the 2006 Act did not apply but without prejudice to any allotment of equity securities already made or agreed to be made pursuant to such authorities.

6. That in accordance with article 43 of the articles of association of the Company and Part 18 of the Act, the Company be and is hereby generally and unconditionally authorised for the purposes of section 166 of the Act to make one or more market purchases (as defined by section 693(4) of the Act) of its ordinary shares of 5p each in the capital of the Company subject to the following conditions:

   6.1 the maximum aggregate number of ordinary shares which may be purchased is 630,875 being 10% of the Company's shares in issue as at 31 December 2017;

   6.2 the price at which an ordinary share may be purchased shall not exceed 105% of the average of the middle market quotations for the ordinary share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the date of purchase and shall not be less than 5p per ordinary share, in both cases exclusive of expenses; and

   6.3 unless previously renewed, varied or revoked, this authority hereby conferred will expire on 30th June 2019, or, if earlier, the conclusion of the Company's next annual general meeting, except that the Company may before such authority expires enter into a contract to purchase its own shares which may be completed wholly partly after the expiry of this authority and may make a purchase of its own shares in pursuance of any such contract.

By order of the board

Natasha M Rourke
Company Secretary
17 May 2018

Registered office
1 George Square
Glasgow
G2 1AL

Notes

1. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those members registered on the Company's register of members at 6 p.m. on 8 June 2018 or, if this Meeting is adjourned, at 6 p.m. on the day two days prior to the adjourned meeting, shall be entitled to attend and vote at the Meeting.
2. If you are a member of the Company at the time set out in note 1 above, you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at the Meeting and you should have received a proxy form with this notice of meeting. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form.
3. A proxy does not need to be a member of the Company but must attend the Meeting to represent you. Details of how to appoint the Chairman of the Meeting or another person as your proxy using the proxy form are set out in the notes to the proxy form.
4. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy, (an) additional proxy form(s) may be obtained by contacting Neville Registrars Limited, Neville House, 18 Laurel Lane, Halesowen, West Midlands B63 3DA. Tel No. 0121 585 1131 (calls are charged at your network provider's standard rate. Lines are open 9.00 a.m. to 5.00 p.m. from Monday to Friday) or you may photocopy the proxy form with this notice. Please indicate in the box provided the number of shares in relation to which they are authorised to act as your proxy. Please also indicate by ticking the box provided if the proxy instruction is one of the multiple instructions being given. All forms must be signed and should be returned together in the same envelope.
5. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Meeting.
6. The notes to the proxy form explain how to direct your proxy how to vote on each resolution or withhold their vote. To appoint a proxy using the proxy form, the form must be completed and signed, sent or delivered to Neville Registrars Limited, Neville House, 18 Laurel Lane, Halesowen, West Midlands B63 3DA and received by Neville Registrars Limited no later than 10.00 a.m. on 8 June 2018. In the case of a member which is a company, the proxy form must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the proxy form is signed (or a duly certified copy of such power or authority) must be included with the proxy form.
7. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the Meeting and any adjournment(s) thereof by utilising the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. Neville Registrars Limited ID is 7RA11.
8. Note to Resolution 5

8.1 Relevant Securities means:

8.1.1 Shares in the Company other than shares allotted pursuant to:

(a) an employee share scheme (as defined by section 1166 of the Act);

(b) a right to subscribe for shares in the Company where the grant of the right itself constituted a Relevant Security; or

(c) a right to convert securities into shares in the Company where the grant of the right itself constituted a Relevant Security.

8.1.2 Any right to subscribe for or to convert any security into shares in the Company other than rights to subscribe for or convert any security into shares allotted pursuant to an employee share scheme (as defined by section 1166 of the Act). References to allotment of Relevant Securities in the resolution include the grant of such rights.