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Touchstar plc
Annual report and financial statements
for the year ended 31 December 2018

Touchstar plc

Annual report and financial statements for the year ended 31 December 2018

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Chairman's statement for the year ended 31 December 2018

The year ended 31 December 2018 was a very important one for Touchstar. The year began with a successful fund raising of £1.3 million the purpose of which was to enabled Touchstar to accelerate, complete and launch the next generation of Touchstar products and solutions. This fundraising put Touchstar in a fortunate position and we are very mindful that this is due to the support and understanding of shareholders, who were willing to invest in the business and to give the Group time to complete its transformation.

I am pleased to report that, while not everything has gone according to plan, during the year we have taken to market a new generation of products and solutions in each of our business units, and our user base is growing.

Our business now needs to be larger and while it would be fair to observe we are yet to give evidence the business can be scaled, we are heading in the right direction and remain broadly on track. The Group is positioned in a growth market of data capture, mobile devices and expanding customer desire to use digital information. Our products are now developed, we are customer focused, proud of what we do and we know what is required. We are ready to go and it is down to us.

My objective in this statement is to report how the year played out, how our intentions have altered in light of our experience and our current thoughts on the outlook for 2019. As ever I intend to be open, balanced and clear about where I believe the business to be. My report is ordered in the following manner:

1. What we said we would do, and what we did.
2. What were the financial results.
3. Lessons learnt and how we are reshaping the business for the future.
4. How did the Operational Review announced in February conclude, and
5. What is the outlook for 2019.

What we said we would do and what we did

In January 2018 we raised £1.3million before expenses by issuing 2,166,327 new ordinary shares at 60p per share. This consisted of a firm placing of 630,840 shares, a conditional placing of 639,158 shares and a further 896,329 shares pursuant to an open offer. The Directors' participation in the fundraising amounted to 407,999 new ordinary shares.

The proceeds of the placing, together with the natural underlying positive cash flow of the business, have enabled the Group to accelerate development, boost underlying pipeline on new products and marketing activity, invest in customer support and complete the solution upgrade cycle. In 2018, we invested £1.5m in development, successfully launching new products and solutions into each of the markets we operated in. We now have modern, relevant products in each. This is exactly what we set out to achieve.

In 2018 we moved a suite of products from development, through beta testing, client pilot schemes to actual sales to customers. In addition, to allow us to support applications in different market sectors we built on an android operating system, developed on generic technology using similar architecture, and made use of the Azure cloud to move the data, from the device to wherever a customer needs it.

Chairman’s statement for the year ended 31 December 2018 (continued)

What we said we would do and what we did (continued)

To capitalise on these products we have implemented a “hybrid” operating model whereby the customer contact is direct with the Group, but elements of our support and development are delivered through an outsourcing partner – this has given us the ability to “scale up or scale down” our capacity and deliver projects effectively.

What were the financial results

The Group results for the year ended 31 December 2018 are shown below. It should be noted that the historical analysis is not strictly comparing like with like, as this year’s results now incorporate the impact of IFRS 15 (Revenue from Contracts with Customers); the prior year comparable figures do not. The deferring of some contracted revenues required under IFRS15 had a negative impact on both the top and bottom line in 2018 but cash generation is unaltered. The impact of IFRS 15 should lessen as the Group’s recurring revenue builds.

2018 revenues fell 12% to £6.9m (2017: £7.9m), which was below what we hoped to achieve. The short fall was due mainly to a weak first half performance from Access Control and sales not materialising to the extent we had hoped for in our On-Board business. Margins rose to 51.1% (2017: 49.45%) due to a better product mix which reflects moving the business towards software and solution sales. Costs were higher than in the previous year as we invested as planned in people, increased our support structure ahead of product launches, and invested aggressively in development. Overall the Group recorded an after-tax trading loss of £582,000 (2017: trading profit £381,000), somewhat better than we expected at the beginning of the year.

Adjusted earnings per share was negative 6.95p compared to a positive 6.02p in the year ended 31 December 2017.

Even after the increased spending on solutions development, the Group maintained a reasonably robust financial position, helped by the fund raising and the underlying cash generation within the trading business. The group ended the year with Net Cash in the bank of £296,000 (2017: Net Debt £336,000).

With these results in mind we have again taken a hard look at each business to ensure assumptions remain valid, now we have real experience.

Lessons learnt and how we are reshaping the business for the future

We have developed a complete management suite of software in the transportation and proof of delivery market (PODStar). PODstar was originally aimed at the small to medium fleet operators (10 -100 vehicles). From a standing start we now have an installed base of 14 customers. The financial model is for the customer to pay an installation set up fee, then a monthly charge per vehicle per month.

We originally targeted smaller fleet operators, as it was the quickest way to market and to establish an installed user base. However, our solution is very scalable and we are now starting to see enquiries from much larger fleet owners. This is encouraging, although we recognise that decision timelines of these organisations tend to be much longer.

Chairman's statement for the year ended 31 December 2018 (continued)

Lessons learnt and how we are reshaping the business for the future (continued)

PODStar has now been further enhanced to cater for the fuel delivery sector, a market in which Touchstar has major clients over a long period of time. In recent years, however, there has been some erosion of our market share, but we are now fighting back. Our early adoption of Android based technology – both in software and with new rugged hardware devices – has been well timed as we appear to be at the beginning of an upgrade cycle, both from our existing user base and from some former major customers that are returning. We expect this trend to accelerate as Microsoft, who have had the dominant operating system in this market to date, has recently announced it will not be supporting its mobile products beyond 2020. This could be very beneficial for Touchstar.

The performance of Access Control highlights why investment in the next generation product is so important. Its first half result was poor, as our customers waited for the launch of our new product – Evolution. Since its launch, the performance of Access Control has returned to plan and, although some orders slipped into 2019, the second half was strong enough to bring that business close to breakeven for the year as a whole.

The logistics and warehouse businesses were steady, although the traditionally strong trading in November and December did not materialise. This is a very transactional bias business and is probably being affected by Brexit uncertainty.

In our trading update of the 12 February 2019 we informed shareholders that a further operational review was being undertaken. Although our goal is to build top line growth, it is nevertheless important we are realistic, focused, apply resources in areas where we have the ability to compete, and where we can generate satisfactory returns on investment in the medium term.

The conclusion of this review was to rethink On Board. On Board sells to airlines and it has developed NOVOStar, a software suite that facilitates the sales of in-flight duty–free, catering and ancillary products. It has had a difficult 2018. We underestimated the bespoke nature of the required solutions, were over optimistic in the speed of adoption of our solution and the slow growth in the market has brought focus upon our existing operation.

We have therefore taken corrective action. The cost base has been significantly reduced, customer support improved; clients will now being serviced out of our main office in Manchester and the Kenilworth office closed. Additional support when needed will be made available from our resource partner in India. The decision has also been taken to impair the carrying value of the development in 2018 which has been identified as an exceptional cost on the Consolidated income statement. As a result of these changes and based purely on existing revenue we expect this business to be close to breakeven in 2019, before taxation and any exceptional items.

Outlook and Expectations for 2019

Our focus now is simple – we need to scale the business. With our solutions in the market, we are better placed than a year ago. It is now down to management to grow the top line. If this is achieved, we should see substantially improved performance this year.

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Chairman's statement for the year ended 31 December 2018 (continued)

Outlook and Expectations for 2019 (continued)

The open question is will this growth come through? Investment cycles have undoubtedly become longer, which has impacted the business over the last few years. However, Touchstar's fuel sector customers are at last entering an upgrade cycle, PODStar is established and growing its recurring revenues, and Access Control is back on plan. These are all positive factors and with On Board's significantly reduced costs we have the basis of a reasonable year. Trading in Q1, typically our weakest quarter, has been ahead of the equivalent period with revenues approximately 14% ahead and trading losses some £175k lower. We expect to accelerate this improvement in the remainder of the year.

With Brexit uncertainty continuing, there will be political and economic factors at play. As a business we are aware of them, and focused on things we can influence, fighting for market share, and getting your Group to scale.

The growth of Touchstar's top line over the next few years will determine what level of success we achieve. I remain hopeful that the journey we have begun will reach the right destination, and reward the patience of shareholders and the many people whom work so hard every day to try to make this happen.

I Martin
Executive Chairman
8 May 2019

Touchstar plc

Strategic report for the year ended 31 December 2018

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.

Despite the lower revenue, 2018 saw a positive uptake on the sale of our new software platforms that were developed in preceding years. The Group focussed on the promotion of two major software solutions within their existing markets and also commenced the strengthening of the Sales Department and Project Management Team within the business. Although our turnover was reduced as older generation products were retired, the growth in sales of the new systems demonstrates we made the correct decision to re-invent ourselves with new software products, complimenting the specialist hardware we design and build.

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 with our new products, and we continue to secure large contracts with blue chip companies across Europe and beyond. Customers secured with the new solutions at this stage are predominantly based in the UK, however our success in the export market includes; Australia, Denmark and Belgium. Product acceptance has been good.

In addition to traditional pricing models where hardware and software is a capital sale and paid upfront, the market place is moving to a SaaS (Software as a Service) environment, whereby the software is licenced on a subscription basis. In some sectors we can continue to secure payments in advance, whilst the newer market areas we are penetrating are based on monthly direct debit invoicing and payment. As a business having the existing payments still evident, this allows us to maintain the strength to move to the new monthly payment systems – so assisting cash flow greatly and allowing us to push the monthly model without penalising our cash in the medium term.

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 logistics, transport distribution and secure access control markets. 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.

Business environment (continued)

The new product set within the Transport marketplace has seen a great deal of interest with over a dozen companies adopting the Transport Management and Proof of Delivery system. Developed and deployed utilising modern cloud-based services has increased user acceptance and faster deployment.

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. During 2018 we invested in the product set, by introducing new designs running on the Android operating system. A timely development and launch as Microsoft publicly announced in 2018 their complete withdrawal from the Mobile device marketplace beyond 2020.

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. Recent enhancements and improvements on the software set has generated some real interest within the existing customer base and we are starting to see some solid projects for 2019.

Air travel market, where we supply an onboard retail system has been a tough environment for a number of years. Touchstar also lost a couple of key accounts as a result of the airlines going out of business. Our offering in this market is comprehensive, however the forecast for new business is not healthy as many of the upgrade cycles are 2 years away. We have taken the decision to reduce the running costs of the business by closing the regional office and support from the Head Office. We will watch the market and remain active in the area so that we are able to re-assess any upturn and interest in our product set.

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 2018 after securing financial backing from the shareholders, we significantly increased speed of product development along with recruiting a number of skilled and experienced individuals to enhance the strategic growth plan for the new product suit in Transport, Warehouse and Logistics and Access Control.

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 the 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.

Organic growth (continued)

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.

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 our current business and how they may be incorporated in designs of future product offerings.

Strategic report for the year ended 31 December 2018 (continued)

Principal risks and uncertainties (continued)

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 the Directors report on page 17.

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Strategic report for the year ended 31 December 2018 (continued)

Key performance indicators

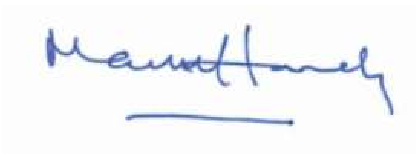
The Group have adopted both financial and non-financial measures to achieve a balanced view of performance.

Sales and order pipeline	To justify continued development expenditure the forecast order pipeline for our various products is actively monitored. During the year turnover fell by £970,000 from £7,868,000 in 2017 to £6,898,000 in 2018. The shortfall in the first half of the year was indicative of the investment required in the development of Evolution, an Access Control product, which brought the pipeline for that product back on plan for the second half of the year and beyond. In contrast, the Onboard pipeline for NOVOStar was very light compared to our remaining product pipeline therefore the decision was taken by the Board to significantly reduce costs with support for our existing clients being moved to our main offices in Manchester.
Gross margin	Gross margins increased slightly to 51.1% (2017: 49.45%) as the business moves towards a more software and end to end solution-based provider.
Cash	Cash generation continues to be of prime importance to the business, after having raised £1.3m, before expenses earlier in the year. This enables effective use of our working capital, continued development and minimises the reliance on external facilities. The year ended with the Group being in a positive cash position of £296,000 compared to £336,000 overdrawn at the end of 2017.
Customer retention	Retention of customers nearing the end of their contract is of significant importance for the Group. The business is benefiting from many of its existing clients going through the process of an upgrade cycle with us. We also have a number of returning customers upgrading to our new solution, which is testament to our ongoing quality service and support offering and thus enhancing the future pipeline for the Group.
Recurring revenue	An important aspect of the business is to generate new types of recurring revenue, namely charging for ongoing licencing, use of our new suite of software solutions along with the traditional hardware support/maintenance contracts. It is our intention to increase recurring revenue to become a more significant portion of our future turnover.

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 continued 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 8 May 2019

Touchstar plc

Directors' report for the year ended 31 December 2018

The directors present their Directors' report and the audited financial statements of the Group and the Group for the year ended 31 December 2018.

Quoted Companies Alliance Code

As an AIM listed Group, the Group is required to adopt a recognised corporate governance code and disclose any deviations from the chosen code. The Group has decided to adopt the Quoted Companies Alliance ("QCA") code. High standards of Corporate Governance are a key priority of the Board and details of how the Group addresses key governance issues are set out in the Corporate Governance section of its website by reference to the 10 principles of Corporate Governance developed by the QCA.
http://www.touchstarplc.com/about/governance

Business model and strategy

The Group's vision, together with its partners, is to create innovative data capture solutions that enhance business intelligence for our client base. Touchstar's mission is to deliver innovative products and solutions on a 'turnkey' basis, underpinned by an unparalleled attention to detail and customer-centred philosophy.

To achieve this, the Group will focus on five key business strategies;

- Further penetrating existing markets by forging stronger customer and partner relationships, including alliances with independent software vendors and third-party hardware manufacturers
- Expanding into new markets, where the Group will offer compelling solutions set to meet specific sector / geographical customer requirements
- Inspiring Touchstar personnel and clients by building on the Group's track record of high-performance teamwork and collaboration
- Intensifying R&D innovation throughout the organisation and delivering unsurpassed quality and performance in the Group's products and solutions
- Maximising operational effectiveness with lean, world-class operations underpinned by an investment in personnel, appropriate technologies and business tools to improve functional performance across the Group

This strategy is intended to deliver long-term growth in shareholder value.

Effective risk management

The Board has an established Audit, Remuneration, and Executive Committees.

The Group receives regular feedback from its external auditors on the state of its risk management and internal controls. The Board does not consider it to be appropriate to have its own internal audit function at the present time, given the Group's size and nature of its business.

The annual budget setting process examines all areas of the Group's operations both operationally and financially.

Directors’ report for the year ended 31 December 2018 (continued)

The Group has clear, documented procedures in place to assess and progress opportunities arising, whether for process improvement, product enhancement, new business or any other matter.

Board of directors

The Board is comprised of a non-executive Chairman, two executive directors, and an independent non-executive director. The Board considers that of its two non-executive directors, only one is independent however they are considered independent in terms of character and judgement in how they conduct their roles, giving a balance between executive and non-executive directors.

The Chairman is responsible for leading the Board, facilitating the effective contribution of all members and ensuring that it operates effectively in the interests of the shareholders. The Chief Executive Officer is responsible for the leadership of the business and implementation of the strategy. The Group Secretary is responsible, on behalf of the Chairman, for ensuring that all Board and Committee meetings are conducted properly, that the Directors receive the appropriate information prior to the meeting, for ensuring that governance requirements are considered and implemented and for accurately recording each meeting. The Directors may have access to independent professional advice, where needed, at the Group’s expense.

The Board has an established Audit, Remuneration, and Executive Committee further details of which are contained in the Corporate Governance section.

A description of the roles of the Directors is included on the website. The directors are aware of, and committed to, the time requirements needed to fulfil their roles.

Frequency of meetings

The Board meets at least four times a year with relevant information distributed to the Directors in advance of each meeting.
All members attended each meeting held during the year.
The Board makes decisions on all material matters including long term and commercial strategy, annual operating and capital budgets along with capital and financial structure.

Board Performance

The Board judges its own performance by reference to the Group’s progress against the targets set out in the Group’s strategic plan.

Directors' report for the year ended 31 December 2018 (continued)

The Group undertakes regular monitoring of personal and corporate performance using agreed key performance indicators and detailed financial reports. Responsibility for assessing and monitoring the performance of the executive directors lies with the Chairman and the independent non-executive director.

The Board and the Remuneration Committee evaluate the Board performance, including but not limited to Board balance, Board skills and remuneration, to ensure that the Board is fit for purpose and is appropriate for the Group's ongoing development and growth.

Corporate culture

The Board is committed to embodying and promoting a sound corporate culture and has endorsed various policies which require ethical behaviour of staff and relevant counterparties.

The Board and management conduct themselves ethically at all times and promote a culture in line with the standards set out on the website.

Communication with shareholders and other relevant stakeholders

The Board attaches great importance to providing shareholders with clear and transparent information on the Group's activities, strategies and financial position, in addition to having regard to its obligations as a quoted public Group and the AIM Rules.

The Group holds meetings with significant shareholders on a regular basis and regards the Annual General Meeting as a good opportunity to communicate directly with shareholders via an open question and answer session.

The Group lists contact details on its website should shareholders wish to communicate with the Board. All announcements and results, including those released via RNS and RNS Reach, are available on the Group's website.

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.

Directors' report for the year ended 31 December 2018 (continued)

Dividends

The directors do not recommend a final dividend (2017: £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 2018.

Board of directors

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

I P Martin - Chairman

Ian has worked in the Insurance and Media industries for over 30 years. More recently, as Chairman and CEO of Avesco (2002 to 2012) the quoted provider to the event and broadcast industry, Ian led the transformation of the company from a faltering company to a vibrant business, with revenues rising from around £50 million to £140 million and a profit that grew at a compound profit of 20% per annum.
Prior to this period, Ian has held board positions at Ascot Underwriting and Brockbank Group plc, where he was CEO and he helped form Admiral Insurance the FT 100 Company. Ian also holds a number of executive and non-executive directorships, including as a non-executive Director of Chelverton Growth.

M W Hardy - Chief Executive Officer

Mark joined the company in 1992 and has been involved in the mobile communications market since graduating from University with a BA Honours degree in Business Studies in 1986. Prior to joining the company, Mark worked for American based companies and was instrumental in driving sales of high-tech products into developing markets.
With overall responsibility for the commercial running of Touchstar since 1997, Mark remains extremely active in the sales and key account management aspects of the business.

J L Christmas - Non-Executive Director

John is a chartered accountant with over 20 years' experience as finance director of UK listed businesses, most recently at Avesco Group plc, whom he joined in 2004.
He was Group Finance Director at Boosey & Hawkes plc and previously held positions as Group Finance Director at MediaKey plc and Video Arts Ltd.

J S Hall – Chief Operating Officer

Jon's career spans 45 years, working within the electronics and software industries. Jon joined the company as Director of Sales in 1996 and then subsequently moved to Chief Operating Officer in 2002, responsible for the research and development, embracing cutting edge technologies to develop innovative solutions for all the divisional companies across the group.
Prior to joining the company, Jon gained wide technical and commercial experience in manufacturing and development within technology companies in the UK, Europe and America.

Directors' report for the year ended 31 December 2018 (continued)

Purchase of own shares

The Group did not purchase any of its own shares in 2018.

Shares issued during the year

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 26 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 £1,519,000 (2017: £1,153,000), of which £900,000 (2017: £547,000) has been capitalised.

Statutory records

The Company is registered in Scotland and its registered number is SC005543.

Substantial shareholdings

As at 18 April 2019, 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	735,250	8.68%
Chelverton Growth Trust plc	850,000	10.03%
Thomas William George Charlton	850,000	10.03%
Interactive Investor Trading Ltd	378,028	4.46%
R D McDougall	368,500	4.35%
Killik & Co	368,000	4.34%
Spreadex Ltd/Cleveland Capital	333,333	3.93%
Hargreaves Lansdown	315,034	3.72%
Charles Stanley & Co	293,928	3.47%
Unicorn Asset Management	290,000	3.42%

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.

Touchstar plc

Directors' report for the year ended 31 December 2018 (continued)

Matters covered in the Strategic report

Statutory disclosures required under Company law within the Directors' report are included where relevant in the Strategic report.

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.

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.

(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 2018 there were no significant concentrations of credit risk (2017: £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 and on an expected credit loss basis inline with IFRS9. See note 2.1 for impact assessment.

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 2018	Less than one year £'000	Between one and four years £'000
Bank overdraft	**1,816**	**-**
Trade and other payables	**1,444**	**-**
Contract liabilities	**1,365**	**188**
At 31 December 2017		
Bank overdraft	2,495	-
Trade and other payables	1,382	-
Contract liabilities	1,237	151

Contract liabilities have been separately presented as a result of the Group's implementation of IFRS 15. Note 23 provides specific detail on adjustments made to comparative financial information.

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 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.

Touchstar plc

Directors’ report for the year ended 31 December 2018 (continued)

Capital risk management (continued)

The gearing ratios at 31 December 2018 and 2017 were as follows:

	2018	2017
	£’000	£’000
Net debt	**-**	336
Total equity	**2,392**	2,171
Total capital	**2,392**	2,507
Gearing ratio	**-%**	13%

As at 31 December 2018, borrowings (which constitute bank overdrafts) were entirely offset by positive cash balances, meaning the Group had no net debt, and therefore no gearing ratio, at the reporting date.

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.

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

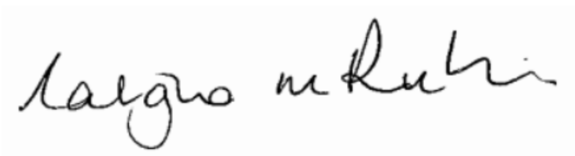
- each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the auditors are aware of that information.

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
8 May 2019

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 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 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.

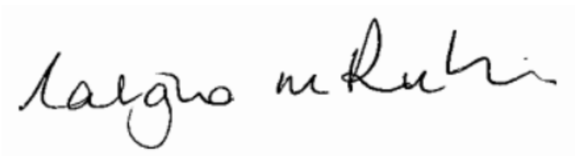
The directors of the ultimate parent company are responsible for the maintenance and integrity of the ultimate parent company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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
8 May 2019

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 2018 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 International Financial Reporting Standards (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 Statements of Financial Position as at 31 December 2018; the Consolidated Income Statement, the Consolidated and Company Cash Flow Statements, and the Consolidated and Company Statements of Changes in Equity for the year then ended; 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.

Material uncertainty related to going concern – Group and company

In forming our opinion on the group and company financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 2 to the financial statements concerning the group's and company's ability to continue as a going concern. The group's forecast for the 12 months from approval of these financial statements contains assumptions over the growth of the existing business and the achievements of cost saving measures. Each of these items is subject to a level of uncertainty. If the group's forecast is not achieved, there is a risk that the group will require further funding and if this situation materialised, the bank could choose to withdraw the on demand overdraft facilities. Without these facilities, and without alternative finance being obtained, the group and company will be unable to meet their liabilities as they fall due. These conditions, along with the other matters explained in note 2 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the group's and company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the group and company were unable to continue as a going concern.

Explanation of the material uncertainty

Note 2 to the financial statements details the Directors' disclosure of the material uncertainty relating to going concern in respect of the on demand overdraft facility. In forming their conclusions regarding going concern of the group and company, and as described in Note 2, the Directors have considered various matters including, but not limited to, a range of scenarios modelling the key assumptions within the forecast including:

- growth of the sales pipeline in 2019 and 2020; and
- mitigation of the potential impact of not achieving the growth by implementing costs savings.

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

Given the timing and execution risks associated with achieving the forecast and therefore remaining within the on demand overdraft facility, the Directors have drawn attention to this as a material uncertainty relating to going concern in the basis of preparation.

What audit procedures we performed

In concluding there is a material uncertainty, our audit procedures included:

• obtaining the Directors' financial forecast for the next 20 months and future periods, challenging the assumptions used in building the forecasts by considering the latest information available and latest market trends;

• verifying the relationship between management's cash flow model and the financial forecasts through analytical procedures and agreeing forecast cash flows back to supporting information, where possible;

• in the event of under-performance against the forecast, considering the potential mitigating actions available to manage remaining within the on-demand facility.

Having performed the above procedures, we concluded there is a reasonably possible scenario where the facility would be insufficient for the Group's and company's needs. On this basis, we agree with management's assessment that a material uncertainty exists on the group's and company's ability to continue as a going concern.

Our audit approach

Overview

- Overall group materiality: £67,000 (2017: £78,000), based on 1% of Total Revenues.
- Overall company materiality: £16,200 (2017: £70,000), based on 1% of Net Liabilities.

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

- Recoverability of capitalised development costs (Group).
- Going concern (see above).

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. In addition to going concern, described in the Material uncertainty related to going concern section above, we determined the matter described below to be the key audit matters to be communicated in our report. This is not a complete list of all risks identified by our audit.

Key audit matter	***How our audit addressed the key audit matter***
Recoverability of capitalised development costs (Group)	
The Group has capitalised development costs of £1,352,000. This represents costs incurred on development projects that meets 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 roles 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 specific sales ambitions for each significant project, and challenging assumptions included in that analysis. We concur with management's assessment that these costs meet the requirements of IAS 38.

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

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.

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	£67,000 (2017: £78,000).	£16,200 (2017: £70,000).
How we determined it	1% of Total Revenues.	1% of Net Liabilities.
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.	We believe that net liabilities is a primary measure used by the shareholders in assessing the performance of the entity given the lack of assets in the company. Net liabilities 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 £16,200 and £67,000. 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 £3,300 (Group audit) (2017: £3,900) and £800 (Company audit) (2017: £3,500) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

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)

Reporting on other information (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 2018 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.

Hazel Macnamara (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester
8 May 2019

Touchstar plc

Consolidated income statement for the year ended 31 December 2018

Continuing operations	Note	**2018** **£'000**	2017 £'000
Revenue	4	**6,898**	7,868
Cost of sales		**(3,370)**	(3,977)
Gross profit		**3,528**	3,891
Distribution costs		**(66)**	(79)
Administrative expenses		**(4,778)**	(7,666)
Operating (loss)/profit before exceptional items		**(982)**	111
Exceptional costs included in administrative expenses	5	**(334)**	(3,965)
Operating loss	6	**(1,316)**	(3,854)
Finance costs	11	**(4)**	(11)
Loss before income tax		**(1,320)**	(3,865)
Income tax credit	12	**404**	280
Loss for the year attributable to the owners of the parent		**(916)**	(3,585)

(Loss)/earnings per ordinary share (pence) attributable to owners of the parent during the year (note 13):

	2018	2017
Basic	**(10.94)p**	(56.83)p
Adjusted	**(6.95)p**	6.02p

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 loss 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 2018

	Share capital	Share premium account	Retained earnings	Total equity
	£'000	£'000	£'000	£'000
At 1 January 2017	315	-	5,441	5,756
Loss for the year	-	-	(3,585)	(3,585)
At 31 December 2017	315	-	1,856	2,171
Effect of revenue recognised under IAS 18 adjusted for IFRS 15 (note 2.1)	-	-	(91)	(91)
Restated balance 1 January 2018	315	-	1,765	2,080
Share Issue	109	1,191	-	1,300
Cost of share issue	-	(72)	-	(72)
Loss for the year	-	-	(916)	(916)
At 31 December 2018	424	1,119	849	2,392

Company statement of changes in equity for the year ended 31 December 2018

	Share capital	Share premium account	Retained earnings	Total equity
	£'000	£'000	£'000	£'000
At 1 January 2017	315	-	4,483	4,798
Loss for the year	-	-	(3,710)	(3,710)
At 31 December 2017	315	-	773	1,088
Share Issue	109	1,191	-	1,300
Cost of share issue		(72)	-	(72)
Loss for the year	-	-	(3,476)	(3,476)
At 31 December 2018	424	1,119	(2,703)	(1,160)

Touchstar plc

Consolidated and Company statements of financial position as at 31 December 2018

		Group		Company	
		2018	2017	**2018**	2017
	Note	**£'000**	£'000	**£'000**	£'000
Non-current assets					
Intangible assets	14	**1,352**	1,136	**-**	-
Investments	15	**-**	-	**-**	3,474
Property, plant and equipment	16	**228**	237	**-**	-
Deferred tax assets	18	**157**	168	**-**	7
		1,737	1,541	**-**	3,481
Current assets					
Inventories	19	**1,210**	1,387	**-**	-
Trade and other receivables	20	**1,928**	2,256	**706**	227
Corporation tax receivable		**487**	272	**-**	-
Cash and cash equivalents	21	**2,112**	2,159	**-**	-
		5,737	6,074	**706**	227
Total assets		**7,474**	7,615	**706**	3,708
Current liabilities					
Trade and other payables	22	**1,444**	1,382	**50**	125
Contract liabilities	23	**1,365**	1,237	**-**	-
Borrowings	24	**1,816**	2,495	**1,816**	2,495
		4,625	5,114	**1,866**	2,620
Non-current liabilities					
Deferred tax liabilities	18	**269**	179	**-**	-
Contract liabilities	23	**188**	151	**-**	-
Total liabilities		**5,082**	5,444	**1,866**	2,620

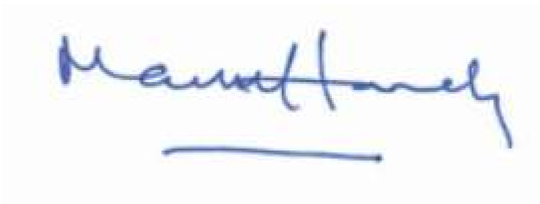
Consolidated and Company statement of financial position as at 31 December 2018 (continued)

		Group		Company	
		2018	2017	**2018**	2017
	Note	**£'000**	£'000	**£'000**	£'000
Capital and reserves attributable to owners of the parent					
Retained earnings at 31 December 2017/2016		**1,856**	5,441	**773**	4,483
Effect of IFRS 15 adjustment*		**(91)**	-	**-**	-
Loss for the year		**(916)**	(3,585)	**(3,476)**	(3,710)
Retained earnings at 31 December 2018/2017	25	**849**	1,856	**(2,703)**	773
Share capital	26	**424**	315	**424**	315
Share premium	26	**1,119**	-	**1,119**	-
Total equity		**2,392**	2,171	**(1,160)**	1,088
Total equity and liabilities		**7,474**	7,615	**706**	3,708

The notes on pages 33 to 61 are an integral part of these Group financial statements.

The Company reported a loss for the financial year of £3,476,000 (2017: £3,710,000)

The Group and Company financial statements on pages 28 to 61 were approved by the Board of Directors on 8 May 2019 and were signed on its behalf by:



M W Hardy
Director
Registered number Scotland: SC005543

* See note 2.1 for details regarding restatements arising from changes in accounting policies.

Touchstar plc

Consolidated and Company cash flow statement for the year ended 31 December 2018

		Group		Company	
	Note	**2018**	2017	**2018**	2017
		£'000	£'000	**£'000**	£'000
Cash flows from operating activities					
Operating loss		**(1,316)**	(3,854)	**(3,465)**	(3,710)
Depreciation	16	**70**	91	**-**	-
Amortisation	14	**379**	400	**-**	-
Development expenditure impairment	14	**334**	-		
Goodwill impairment	14	**-**	3,824	**-**	-
Investment impairment	15	**-**	-	**3,474**	3,824
Movement in:					
Inventories	19	**177**	(128)	**-**	-
Trade and other receivables	20	**328**	(248)	**(479)**	(3)
Trade and other payables and contract liabilities	22,23	**136**	326	**(75)**	(71)
Cash generated from/(used in) operations		**108**	411	**(545)**	40
Interest paid		**(4)**	(11)	**(4)**	-
Corporation tax received/(paid)		**290**	231	**-**	-
Net cash generated from/(used in) operating activities		**394**	631	**(549)**	40
Cash flows from investing activities					
Purchase of intangible assets	14	**(929)**	(547)	**-**	-
Purchase of property, plant and equipment	16	**(61)**	(91)	**-**	-
Net cash used in investing activities		**(990)**	(638)	**-**	-
Cash flows from financing activities					
Proceeds from issue of shares		**1,300**	-	**1,300**	-
Costs of issue of shares		**(72)**	-	**(72)**	-
Net cash generated from financing activities		**1,228**	-	**1,228**	-
Net increase/(decrease) in cash and cash equivalents		**632**	(7)	**679**	40
Cash and cash equivalents at start of the year		**(336)**	(329)	**(2,495)**	(2,535)
Cash and cash equivalents at end of the year	21	**296**	(336)	**(1,816)**	(2,495)

Notes to the Group financial statements for the year ended 31 December 2018

1 General information

Touchstar plc (the '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 loss 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 3.

Going concern

These financial statements have been prepared on a going concern basis, which assumes that the Group will be able to meet its liabilities when they fall due. As at 31 December 2018, a total of £nil was drawn down from the £1 million on demand overdraft facility (£104,000 in April 2019).

Towards the end of 2017 Touchstar embarked on a change of strategy, moving from a hardware-based business model to a software based one. This envisaged 2018 being a year of declining growth and negative cash flow as the company focused on completing its software projects, with growth to come thereafter. Consequently, the company embarked on a capital raising exercise in early 2018, raising £1.2m net of expenses.

Notes to the Group financial statements for the year ended 31 December 2018 (continued)

2 Summary of accounting policies (continued)

2.1 Basis of preparation (continued)

Going concern (continued)

The company met its profit target in 2018, achieved through lower sales than expected (due mainly to delays in project completion) combined with lower costs. The loss was as a result of significant investment in resource for development, sales & marketing and project management to implement the software solutions enabling the Group to grow. These have now been completed and are expected to drive the company's growth in 2019. During 2018, the Group performed comfortably within its £1m overdraft facility, although 2019 is expected to see a greater reliance on the overdraft facility in place.

The Group benefits from a supportive bank who have provided the borrowing facility since 2005. In assessing the Group's ability to continue as a going concern, the Board has reviewed the Group's cash flow and profit forecasts against this facility. The impact of potential risks and related sensitivities to the forecasts were considered in assessing the likelihood of additional facilities being required, whilst identifying what mitigating actions are available to the Group to avoid additional facilities and the potential withdrawal of the facility by the bank. Specifically, a range of assumptions underpin the profit and cash flow forecasts for the period to 31 December 2020, including:

- growth of the sales pipeline in 2019 and 2020 deriving mainly from the completed software projects; and
- mitigation of the potential impact of not achieving the growth by implementing costs savings.

Failure to achieve one or more of the above would result in lower EBITDA with a consequent negative impact on cash generation. If the Group's forecast is not achieved, there is a risk that the Group will require additional facilities that it has not secured or the bank withdraws the existing facility. Without the support of the bank, the Group and Parent Company would be unable to meet their liabilities as they fall due.

Given the timing and execution risks associated with achieving the forecast and therefore remaining within the facility, the directors have concluded that it is necessary to draw attention to this as a material uncertainty which may cast significant doubt about the Group's and the Parent Company's ability to continue as a going concern in the basis of preparation to the financial statements. The directors have confirmed that, after due consideration, they have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Notes to the Group financial statements for the year ended 31 December 2018 (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, effective for the first time for periods beginning on (or after) 1 January 2018. New standards impacting the Group that have been adopted in the annual financial statements for the year ended 31 December 2018, and which have given rise to changes in the Group's accounting policies are:

- IFRS 15 Revenue from Contracts with Customers (effective 1 January 2018)
- IFRS 9 Financial Instruments (effective 1 January 2018)

Impact of IFRS 15 Revenue from Contracts with Customers

Previously, income arising from the sale of hardware and software was recognised in accordance with IAS 18 at the point of delivery to the customer. Under IFRS 15 this revenue is shown within contract liabilities in the statement of financial position and released to revenue over the length of the contract in line with the substance of the relevant agreement, as the Group meets its performance obligations.

The Group has elected to adopt the modified retrospective approach in the adoption of IFRS 15.

The cumulative effect of the changes made to the consolidated 1 January 2018 statement of financial position for the adoption of *IFRS 15 Revenue – Revenue from Contracts with Customers* were as follows:

	Balance at 31 December 2017	**Adjustments due to IFRS 15**	**Balance at 1 January 2018**
	£'000	**£'000**	**£'000**
<u>Consolidated statement of financial position</u>			
Current liabilities			
Contract liabilities	1,237	91	**1,328**
Equity			
Retained earnings	1,856	(91)	**1,765**

No adjustment has been made to the parent Company retained earnings position.

In implementing IFRS 15, these financial statements separately present contract liabilities associated with performance obligations yet to be met by the Group. This includes changes to comparative financial information, where such amounts were previously included within deferred income. Note 23 provides more detail in relation to specific presentational adjustments.

2 Summary of accounting policies (continued)

2.1 Basis of preparation (continued)

Impact of IFRS 9 Financial Instruments (continued)

As at 1 January 2018, the Group assessed the requirements of IFRS 9. The standard includes requirements for impairment, hedge accounting and classification and measurement.

IFRS 9 introduces an 'expected loss' model for recognising impairment of financial assets held at amortised cost. This is different from IAS 39, which had an incurred loss model where provisions were recognised only when there was objective evidence of impairment. This change of approach requires the Group to consider forward-looking information to calculate expected credit losses regardless of whether there has been an impairment trigger. Given the general quality and short-term nature of trade receivables within the group, there is no expected change to the level of impairment recognised and as such no adjustment has been made to the opening balance of retained earnings as at 1 January 2018.

The application of IFRS 9 has also not resulted in a significant increase in impairment of financial assets measured at amortised cost in the current year as compared to impairment recognised under previous accounting policies.

In accordance with the transition provisions of IFRS 9 for hedge accounting, the group has applied the IFRS 9 hedge accounting requirements prospectively from the date of initial application on 1 January 2018 with all hedging relationships continuing to be effective under the effectiveness assessment requirements of IFRS 9.

The Group has considered the changes to classification and measurement of financial assets and liabilities and has concluded that these changes do not impact the Group.

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

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

IFRS 16 Leases

This standard is mandatory for financial years commencing on or after 1 January 2019. It will result in almost all leases being recognised on the Balance Sheet as, from a lessee perspective, the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.

Notes to the Group financial statements for the year ended 31 December 2018 (continued)

2 Summary of accounting policies (continued)

2.1 Basis of preparation (continued)

IFRS 16 Leases (continued)

The Group currently leases both properties and vehicles under a series of operating lease contracts which will be impacted by the new standard. These types of leases can no longer re recognised as operating leases and will need to be brought onto the Group's Balance Sheet from the date of adoption of the new standard. The Group has elected to apply the following practical expedients:

- In determining whether existing contracts meet the definition of a lease, the Group will not reassess these contracts previously identified as leases and will not apply the standard to those contracts not previously identified as leases.

- Short-term leases (leases of less than 12 months remaining) as at the date of adoption of the new standard will not be within the scope of IFRS 16.

- Leases for which the asset is of low value, for example IT equipment, will not be within the scope of IFRS 16.

The Group has elected to apply the modified retrospective approach with the cumulative effect of initially applying this standard as an adjustment to the opening balance of retained earnings as at 1 January 2019. As a consequence of this, there is likely to be a material impact on the Balance Sheet with a lease liability and a corresponding right of use asset to be recognised on the Balance Sheet. There is anticipated to be a limited impact on the net assets of the Group at the date of adoption. Based on the current definition of adjusted operating profit, there is likely to be an increase in the group's adjusted operating profit as operating lease costs are replaced by a lower depreciation charge. There will also be an additional interest charge, however, there will be no material effect on the overall income statement. The changes will not impact the overall cash flow of the group.

As at the reporting date, the Group has non-cancellable operating lease commitments of £896,000, see note 27. Of these commitments, approximately £29,000 relate to short-term leases which will be recognised on a straight-line basis over the remaining life of the lease as an expense in profit or loss.

For the remaining lease commitments, the group estimates that the right-of-use assets of approximately £716,000 will be recognised on 1 January 2019 and lease liabilities of approximately £722,000 (after adjustments for prepayments and accrued lease payments recognised as at 31 December 2018).

The following standards have been published but are not yet effective, and in the opinion of the Directors will not have a material impact on the Group's financial statements:

- IAS 1 Presentation of Financial Statements (effective 1 January 2020)
- IAS 12 Income Taxes (effective 1 January 2020)
- IAS 19 Employee Benefits (effective 1 January 2019)
- IAS 23 Borrowing Costs (effective 1 January 2019)
- IAS 28 Investments in Associates and Joint Ventures (effective 1 January 2019)

Notes to the Group financial statements for the year ended 31 December 2018 (continued)

2 Summary of accounting policies (continued)

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.

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 CODM's, who are deemed to be the executive board i.e. 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.

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 Summary of accounting policies (continued)

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.

2.6 Intangible assets

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 Summary of accounting policies (continued)

2.7 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.

2.8 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Under IFRS 9, effective from 1 January 2018, the Group elected to use the simplified approach to measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables and contract assets that result from transactions that are within the scope of IFRS 15, irrespective of whether they contain a significant financing component or not.

Under the new accounting standard, the Group continues to establish a provision for impairment of trade receivables when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the counterparty, probability that the counterparty will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. In addition, IFRS 9 requires the group to consider forward looking information and the probability of default when calculating expected credit losses. The measurement of expected credit losses reflects an unbiased and probability-weighted amount that is determined by evaluating the range of possible outcomes as well as incorporating the time value of money. The Group considers reasonable and supportable customer-specific and market information about past events, current conditions and forecasts of future economic conditions when measuring expected credit losses.

The amount of the provision is the difference between the carrying amount and the present value of estimated future cashflows of the asset, discounted, where material, at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the Income Statement within 'administrative costs'. When a trade receivable is uncollectable, it is written off against the allowance account for the trade receivables. Subsequent recoveries of amounts previously written off are credited against 'administrative costs' in the Income Statement.

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 Summary of accounting policies (continued)

2.9 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.

2.10 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.

2.11 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.

2.12 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 Summary of accounting policies (continued)

2.13 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.

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.

2.14 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.

2 Summary of accounting policies (continued)

2.15 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. All Group revenue is derived from contracts with customers.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the relevant entity and the Group has satisfied its performance obligations as laid out in contracts with its customers. Any revenue received from customers in advance of the Group satisfying its performance obligations is classified as a contract liability and carried in the Statement of Financial Position until it is appropriate to recognise the corresponding revenue.

Revenue recognised over time relates to fixed term maintenance and software contracts and is recognised on a straight-line basis over the life on an agreement. All other revenue relates to Group activities that are recognised at a point in time, with consideration falling due as performance obligations are satisfied within pre-existing credit terms.

Transaction prices are determined with references to contracted consideration. No element of financing is deemed present as sales are typically made with 30-90-day credit terms, which is consistent with market practice. Where longer term arrangements do arise, the impact of the time value of money on contract liabilities is considered immaterial and therefore no adjustment is made to reflect this.

2.16 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.

2.17 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.

2.18 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.

Notes to the Group financial statements for the year ended 31 December 2018 (continued)

3 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) 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.

(b) Impairment of intangibles
Judgement is required in the impairment of assets, notably intangible software development costs. Recoverable amounts are based on a calculation of expected future cash flows, which require assumptions and estimates of future performance to be made. Cash flows are discounted to their present value using pre-tax discount rates based on the Directors market assessment of risks specific to the asset.

4 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 CODMs 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 28 to 32.

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

	2018	2017
	£'000	£'000
UK	**6,027**	6,635
Europe	**689**	971
Rest of World	**182**	262
	6,898	7,868

Notes to the Group financial statements for the year ended 31 December 2018 (continued)

5 Exceptional costs

	2018	2017
	£'000	£'000
Restructuring expenses:		
Redundancy costs	**-**	77
Onerous lease costs	**-**	64
Goodwill impairment (note 14)	**-**	3,824
Development expenditure impairment (note 14)	**334**	-
	334	3,965

6 Operating loss

	2018	2017
	£'000	£'000
Operating loss is stated after charging:		
Depreciation:		
Owned assets (note 16)	**70**	91
Development expenditure amortisation (note 14)	**379**	400
Impairment of trade receivables	**-**	11
Exceptional costs (note 5)	**334**	3,965
Operating lease rentals:		
Plant and machinery	**156**	155
Land and buildings	**151**	160
Research and development expenditure	**619**	606
Cost of inventories recognised as an expense	**2,372**	2,687
Write down of inventory as an expense	**186**	86
Staff costs (note 8)	**3,306**	3,024
Loss on foreign exchange	**9**	1

Notes to the Group financial statements for the year ended 31 December 2018 (continued)

7 Auditors' remuneration

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

	2018	2017
	£'000	£'000
Audit services:		
Fees payable to the Company's auditors for the audit of the Parent Company and consolidated financial statements	**9**	8
Fees payable to the Company's auditors for other services:		
Audit of subsidiaries pursuant to legislation	**36**	35
	45	43

No non-audit services were provided by the auditors during the period.

8 Employee benefit expense

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

	Group	
	2018	2017
	Number	Number
Administrative, management and sales	**64**	61
Manufacturing	**14**	14
	78	75

	2018	2017
	£'000	£'000
Staff costs for the above persons were:		
Wages and salaries	**3,216**	2,887
Social security costs	**373**	327
Other pension costs – defined contribution plans	**140**	165
	3,729	3,379

As at 31 December 2018 the Group and Company had accrued pension costs of £19,000 (2017: £19,000). Staff costs are inclusive of capitalised salaries amounting to £423,000 (2017: £403,000).

Notes to the Group financial statements for the year ended 31 December 2018 (continued)

9 Directors' emoluments

	2018	2017
	£'000	£'000
Aggregate emoluments	**425**	351
Pension costs – defined contribution plans	**10**	38
	435	389

Three of the four Directors are remunerated through the parent company. One Director is remunerated through its subsidiary Touchstar Technologies Limited. 2017 figures included Jon Hall for the period of his directorship in plc only (appointed director 28 April 2018) hence the apparent increase from 2017 to 2018. There have been no pay rises attributed to the directors in either periods.

The emoluments of the individual Directors were as follows:

	2018	2017
	£'000	£'000
Salaries, fees and bonuses:		
Executive directors		
I P Martin	**50**	50
M W Hardy	**205**	177
J S Hall	**142**	96
Non-executive directors		
J L Christmas	**28**	28
	425	351

Salaries and fees are inclusive of car allowances for M W Hardy and J S Hall of £18,000 and £9,000 (2017: £16,000 and £8,000).

M W Hardy is also accruing benefits under a defined contribution pension scheme. During the year the amount paid into the pension scheme reduced from £38,000 in 2017 to £10,000 in 2018 with the remainder of his salary sacrifice of £28,000 being payrolled. No other directors receive contributions to any pension scheme.

Notes to the Group financial statements for the year ended 31 December 2018 (continued)

10 Key management compensation

Key management consists of the directors and three key departmental managers (2017: four).

	2018	2017
	£'000	£'000
Wages and salaries	**678**	715
Social security costs	**81**	83
Pension costs – defined contribution plans	**21**	53
	780	851

11 Finance costs

	2018	2017
	£'000	£'000
Bank interest	**4**	11

12 Income tax credit

	2018	2017
	£'000	£'000
Corporation tax		
Current tax	**(468)**	(254)
Adjustments in respect of prior years	**(37)**	(29)
Deferred tax	**101**	3
Total tax credit	**(404)**	(280)

Corporation tax is calculated at 19% (2017: 19.25%) 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 2018 (continued)

12 Income tax credit (continued)

Factors affecting the tax credit for the year

The tax credit for the year is different (2017: different) from the standard rate of corporation tax in the UK of 19% (2017: 19.25%). The differences are explained below:

	2018	2017
	£'000	£'000
Loss before income tax	**(1,320)**	(3,865)
Multiplied by the standard rate of corporation tax in the UK of 19% (2017: 19.25%)	**(251)**	(744)
Effects of:		
Items not deductible for tax purposes	**68**	738
Enhanced research and development deduction	**(368)**	(261)
Adjustments in respect of prior years	**(37)**	(29)
Losses surrendered through R&D tax credit	**150**	95
Recognition of unrelieved tax losses	**-**	(131)
Capital allowances claimed in year less than/(in excess of) depreciation	**20**	56
Adjustment to deferred tax arising from changes in tax rate	**14**	(4)
Total tax credit for the year	**(404)**	(280)

Factors affecting the future tax charge

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 2018 (continued)

13 (Losses)/earnings per share

	2018	2017
Basic	**(10.94)p**	(56.83)p
Adjusted	**(6.95)p**	6.02p

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 £334,000 (2017: £3,965,000) (note 5).

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

	2018		2017	
	Earnings £'000	**Weighted average number of shares (in thousands)**	Earnings £'000	Weighted average number of shares (in thousands)
Basic EPS				
Loss attributable to owners of the parent	**(916)**	**8,374**	(3,585)	6,308
Exceptional costs (note 5)	**334**		3,965	
Adjusted EPS				
(Loss)/earnings attributable to owners of the parent before exceptional items	**(582)**	**8,374**	380	6,308

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

'Trading loss or profit' is separately disclosed, being defined as loss or profit after tax adjusted to exclude exceptional costs such as development expenditure impairment, 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 loss or profit is an important measure of the underlying performance of the Group.

Notes to the Group financial statements for the year ended 31 December 2018 (continued)

14 Intangible assets

	Group		
	Goodwill	**Development expenditure**	**Total**
	£'000	**£'000**	**£'000**
Cost			
At 1 January 2017	9,904	3,011	12,915
Additions	-	547	547
At 31 December 2017	9,904	3,558	13,462
Additions	-	929	929
Disposals	-	(352)	(352)
At 31 December 2018	**9,904**	**4,135**	**14,039**
Accumulated amortisation			
At 1 January 2017	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
Amortisation charge	-	379	379
Impairment	-	334	334
Eliminated on disposal	-	(352)	(352)
At 31 December 2018	**9,904**	**2,783**	**12,687**
Net book value			
At 1 January 2017	3,824	989	4,813
At 31 December 2017	-	1,136	1,136
At 31 December 2018	**-**	**1,352**	**1,352**

Amortisation of £379,000 (2017: £400,000) is included within administrative expenses in the income statement.

14 Intangible assets (continued)

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 via each product set's underlying pipeline

In reviewing these pipelines management found that the sales pipeline for Onboard did not support the level of carrying value for the NOVOStar development therefore management made the decision to fully impair this product set.

A review of each of the remaining product sets did not result in any further impairment.

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

Notes to the Group financial statements for the year ended 31 December 2018 (continued)

15 Investments

	Shares in subsidiary undertakings £'000
Cost	
At 1 January 2018 and 31 December 2018	**19,798**
Accumulated amortisation and impairment	
At 1 January 2018	16,324
Impairment	3,474
At 31 December 2018	**19,798**
Net book value	
31 December 2018	**-**
31 December 2017	3,474

Following a review by management the remaining carrying amount of the investments held in regard to Touchstar Technologies Limited and Touchstar ATC Limited have been fully impaired by £3,474,000 (2017: £3,824,000) to their recoverable amount of nil as the investment related to legacy hardware business solutions.

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
NOVO IVC Limited 7 Commerce Way, Trafford Park, Manchester, M17 1HW	Dormant	600,000 ordinary £1 shares
Belgravium Limited 7 Commerce Way, Trafford Park, Manchester, M17 1HW	Dormant	6,000,000 ordinary £1 shares
Access Fire and Security Limited 7 Commerce Way, Trafford Park, Manchester, M17 1HW	Dormant	4 ordinary £1 shares

Notes to the Group financial statements for the year ended 31 December 2018 (continued)

16 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 2017	1,283	1,055	2,338	466
Additions	64	27	91	
Disposals	(825)	(646)	(1,471)	(466)
At 31 December 2017	522	436	958	-
Additions	40	21	61	-
Disposals	(217)	(73)	(290)	-
At 31 December 2018	**345**	**384**	**729**	**-**
Accumulated depreciation				
At 1 January 2017	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	-
Charge for the year	14	56	70	-
Disposals	(217)	(73)	(290)	-
At 31 December 2018	**237**	**264**	**501**	**-**
Net book value				
At 1 January 2017	63	173	236	-
At 31 December 2017	82	155	237	-
At 31 December 2018	**108**	**120**	**228**	**-**

Depreciation expenditure of £70,000 (2017: £91,000) has been split between administrative expenses and cost of sales.

Notes to the Group financial statements for the year ended 31 December 2018 (continued)

17 (a) Financial instruments by category

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

		Group		Company	
		2018	2017	**2018**	2017
	note	**£'000**	£'000	**£'000**	£'000
Financial assets					
Trade and other receivables	20	**1,696**	2,002	**706**	-
Cash and cash equivalents	21	**2,112**	2,159	**-**	-
Total		**3,808**	4,161	**706**	-

		Group		Company	
		2018	2017	**2018**	2017
		£'000	£'000	**£'000**	£'000
Financial liabilities					
Trade and other payables (excluding tax and social security payable)	22	**1,028**	1,033	**50**	57
Contract liabilities	23	**1,553**	1,388	**-**	-
Borrowings	24	**1,816**	2,495	**1,816**	2,495
Total		**4,397**	4,916	**1,866**	2,552

Contract liabilities have been separately presented as a result of the Group's implementation of IFRS 15. Note 23 provides specific detail on the adjustments made to comparative financial information.

17 (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 (2017: 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 2018 (continued)

18 Deferred tax

18.1 Deferred tax asset

	Group		Company	
	2018	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000
At 1 January	**168**	67	**7**	7
(Charged)/credited to income	**(11)**	101	**(7)**	-
At 31 December	**157**	168	**-**	7

The deferred tax asset for the Group relates to unused tax losses of £804,000 (2017: £802,000).

18.2 Deferred tax liability

There has been movement of £90,000 in deferred tax liability during the year.

	2018	2017
	£'000	£'000
At 1 January	**179**	75
Charged to income statement	**90**	104
At 31 December	**269**	179

Deferred tax (liability)/asset analysis:

	2018	2017
	£'000	£'000
Amount in respect of fixed assets	**(269)**	(179)
Amount in respect of losses	**157**	168

Notes to the Group financial statements for the year ended 31 December 2018 (continued)

19 Inventories

	2018	2017
	£'000	£'000
Raw materials and consumables	**934**	652
Finished goods and goods for resale	**456**	803
Provision	**(180)**	(68)
	1,210	1,387

The cost of inventories recognised as an expense amounted to £2,372,000 included within cost of sales (2017: £2,687,000). Provisions of £131,000 were recognised in the income statement within cost of sales (2017: £86,000). No finished goods are held at fair value less cost to sell (2017: £nil).

20 Trade and other receivables

	Group		**Company**	
	2018	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000
Trade receivables	**1,694**	2,002	**-**	-
Amounts owed by subsidiary undertakings	**-**	-	**693**	217
Prepayments and accrued income	**232**	254	**11**	10
Other debtors	**2**	-	**2**	-
	1,928	2,256	**706**	227

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 £nil (2017: £11,000) relating to one customer.

Trade receivables that are less than three months past due are not considered impaired. As of 31 December 2018, trade receivables of £95,000 (2017: £48,000) 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:

	2018	2017
	£'000	£'000
Up to 3 months past due	**22**	42
Over 3 months past due	**73**	6

Notes to the Group financial statements for the year ended 31 December 2018 (continued)

20 Trade and other receivables (continued)

As of 31 December 2018, no trade receivables (2017: £11,000) were impaired and provided for. No bad debt expenses (2017: £11,000) has been recognised in the income statement.

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

	Group		Company	
	2018	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000
Sterling	**1,868**	2,149	**706**	227
Euros	**36**	95	**-**	-
Australian dollars	**24**	12	**-**	-
	1,928	2,256	**706**	227

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.

21 Cash and cash equivalents

	Group		Company	
	2018	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000
Cash at bank and in hand	**2,112**	2,159	**-**	-
Less : bank overdraft (included within borrowings note 24)	**(1,816)**	(2,495)	**(1,816)**	(2,495)
	296	(336)	**(1,816)**	(2,495)

The above balances are not offset in the Consolidated Statement of Financial Position and are included for illustrative purposes only.

Notes to the Group financial statements for the year ended 31 December 2018 (continued)

22 Trade and other payables

	Group		Company	
	2018	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000
Trade payables	**802**	751	**13**	25
Other taxes and social security	**416**	349	**-**	68
Other payables	**28**	56	**-**	-
Customer deposits	**25**	26	**-**	-
Accruals	**173**	200	**37**	32
	1,444	1,382	**50**	125

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

23 Contract liabilities

The group has recognised the following liabilities related to contracts with customers:

	31 December 2018	31 December 2017	1 January 2018*
	£'000	£'000	£'000
Current liabilities:			
Contract liabilities	**1,365**	1,237	1,328
Non-current contract liabilities:			
Contract liabilities	**188**	151	151
Total contract liabilities	**1,553**	1,388	1,479

*reclassified and remeasured amounts see note 2 2.1(a)

Contract liabilities relate to unsatisfied performance obligations from maintenance and software licensing contracts. Contract liabilities that existed at 31 December 2017 were previously presented within accruals and deferred income.

Notes to the Group financial statements for the year ended 31 December 2018 (continued)

24 Borrowings

	Group		Company	
	2018	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000
Total borrowings	**1,816**	2,495	**1,816**	2,495

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 2018, the Group had total committed undrawn facilities of £980,000 (2017: £980,000).

The Group operates within a £1,000,000 net overdraft facility which takes into account both the gross cash position of each Group entity netted off against any borrowings. As at the 31 December 2018, this represents the net cash balance of £296,000 (2017: net debt of £336,000) in Note 21.

The Company and its subsidiaries have given a guarantee in relation to the overdraft facilities extended to The Group. The net overdraft of the Group at 31 December 2018 amounted to £nil (2017: £336,000).

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.
Retained earnings	All other net gains and losses and transactions with owners (e.g. dividends) not recognised elsewhere.

26 Share capital and share premium

Group and company	**Number of shares (thousands)**	**Ordinary shares £'000**	**Share premium £'000**	**Total £'000**
At 1 January 2018	6,309	315	-	315
Share issue	2,166	109	1,191	1,300
Cost of share issue	-	-	(72)	(72)
At 31 December 2018	**8,475**	**424**	**1,119**	**1,543**

Notes to the Group financial statements for the year ended 31 December 2018 (continued)

26 Share capital and share premium (continued)

On 17 January 2018 630,840 new Ordinary Shares of 5 pence each were issued at a price of 60 pence per share.

On 13 February 2018 1,535,487 new Ordinary Shares were issued at a price of 60 pence per share.

27 Operating lease commitments – minimum lease payments

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

	2018		2017	
	Land and buildings	**Other**	Land and buildings	Other
	£'000	**£'000**	£'000	£'000
Leases expiring within one year	**18**	**11**	139	74
Leases expiring later than one year but no later than five years	**89**	**173**	96	153
Over five years	**605**	**-**	126	-
	712	**184**	361	227

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 (2017: £nil).

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