



universe
group plc

Annual Report and Accounts
for the year ended 31 December 2017
Stock Code: UNG

**BUILDING
INNOVATIVE
PARTNERSHIPS WITH
WORLD-LEADING
RETAILERS**

ABOUT UNIVERSE GROUP

Universe Group plc is incorporated in the UK and operates through HTEC Limited, a specialist in payment, loyalty and EPOS solutions.

Universe continued to move forward during 2017 with the production and roll out of our next generation EPOS solution and latest payment terminal, Gempay 3. As reported earlier in the year however, the Group's financial performance in 2017 was affected by delays in a small number of customer deployments. Our cost base was also intentionally increased as we invested in further technical development activity and sales personnel to assist with our new product launches.

We successfully completed EPOS implementations with major customers, including 70 installations for leading petrol forecourt operator, Rontec. Gempay 3 was launched on time in October 2017 and to date there have been over 1,500 implementations, cementing Gempay's position as the UK's leading forecourt payment terminal.

We have had a solid start to 2018 with a two-year contract extension with a large food retailer client as well as the prospect of new business from a major international forecourt operator with whom we have not traded before. Our pipeline remains solid and supports our budgeted turnover, with the exception of the significant uncertainty regarding our contract with Conviviality, which represents approximately £2 million of our pipeline revenue for the current financial year.

Opportunities continue to materialise with existing customers for our next generation EPOS, payment, and loyalty solutions reflecting the strong and loyal relationships we have, and the strength of our products. The take-up of next generation products and feedback from customers bodes well for the future.



HIGHLIGHTS

REVENUE

£19.6m

2013	£15.9m
2014	£20.7m
2015	£20.3m
2016	£19.7m
2017	£19.6m

ADJUSTED EBITDA

£2.77m

2013	£2.50m
2014	£3.47m
2015	£3.91m
2016	£3.77m
2017	£2.77m

OPERATING PROFIT

£0.88m

2013	£1.35m
2014	£1.73m
2015	£2.04m
2016	£2.04m
2017	£0.88m

DILUTED EARNINGS PER SHARE (P)

0.26p

2013	0.62p
2014	0.60p
2015	0.63p
2016	0.76p
2017	0.26p

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FINANCIAL HIGHLIGHTS

- Results in line with Trading Update given in November 2017
- Total revenues of £19.62 million (2016: £19.71 million)
- Gross margin steady at 47.6%
- Adjusted EBITDA £2.77 million before £0.4 million of exceptional costs (2016: £ 3.77 million)
- Operating profit of £0.88 million (2016: 2.04 million)
- Profit after tax £0.63 million (2016: £18.3 million)
- Statutory diluted earnings per share 0.26p (2016: 0.76p)

OPERATIONAL HIGHLIGHTS

- Production and roll out of our next generation EPOS solution
- Latest payment terminal, Gempay 3 launched on time with over 1,500 implementations cementing Gempay's position as the UK's leading forecourt payment terminal
- Investment made in development teams and enlarging sales teams ahead of major next generation product launches
- Revenues were affected by the delay of a small number of high value contracts

UNIVERSE AT A GLANCE

Universe Group plc is a profitable, British, financial technology company with an enviable reputation as one of the market leaders in its chosen vertical markets.

Our core proposition is a portfolio of market-leading software, hardware, and unrivalled industry insights. However, our ever-increasing value is in the development of that portfolio to deliver robust, reliable – and often real-time – business intelligence.

In addition to maximising the Group's current revenue streams, our long-term strategy focuses on achieving sustainable margin growth through the development of proprietary, innovative technology – and the pursuit of that proposition to enable decision-making with absolute confidence.

Against a backdrop of commercial uncertainties, the Universe Group plc offers stability and opportunities for growth to clients and investors alike.

Via our operating subsidiary, HTEC Ltd, and with a particular focus on the UK, we service the needs of fuel forecourts and the convenience store marketplace by providing electronic point of sale, payment, media, loyalty solutions and support.

WHAT MAKES US DIFFERENT?



- Our reputation gives clients the confidence to explore more innovative payment solutions.
- Our experience of retail lets us solve real-world problems for clients and their staff.
- We have close ties with market leaders – such as NCR, Toshiba and Ingenico – which means flexibility for retailers.
- Our strategy lets us seek out and embrace start-up culture, pursuing the popularity of mobile technology to secure value and differentiation for our product set.
- And we believe no other provider in our market has the same levels of insight and point of sale systems experience.

OUR UNIQUE SELLING POINTS

- We design, build, install and support electronic point of sale ('EPOS') systems that help millions of consumers pay for their goods at petrol stations and in convenience stores across the UK.
- Every year we process over 6 billion transactions, worth over £3bn.
- Our EPOS systems integrate seamlessly with indoor and outdoor payment points at each site. They also collect the data needed to deliver effective loyalty programmes, to manage stock efficiently, and to increase customer acquisition and retention rates in a highly competitive market.
- We improve purchase experiences by enabling smooth, rapid, reliable transactions.
- We represent efficiency and ease as a one-stop-shop for processing payments, managing stock, and increasing loyalty.
- We deliver added value by enabling data analytics and insights that can augment basket size, attract greater footfall, improve stock insights, and increase profitability.

UNIVERSE GROUP IN NUMBERS

98%

of Service Level Agreement targets are met

40_{yrs}

Almost 40 years of developing cutting-edge software

60%

of annual revenue is recurring

5,000

forecourt and convenience stores in the UK are supported by HTEC

6bn+

transactions per year processed by our data centres

OUR SOLUTIONS

EPOS

At the heart of any store, the EPOS is the tool which enables the retailer to manage and deliver sales. Linking to a head office, a back office and other software and hardware tools to make the transaction easier, faster and more efficient, HTEC is continuing to build on functionality and ease of use, ensuring that information on stock, revenues and profitability is produced in the most customer-friendly way. With a wealth of experience in the forecourt and convenience sectors, the HTEC EPOS offering is designed specifically to meet the need, both now and in the future.



PAYMENT

Through HTEC, Universe provides payment devices for both indoors and outdoors, as well as payment processing solutions. With the goal of becoming a one-stop-shop for all payment transactions, in 2018 the Group will be offering competitive transaction processing rates via NetPay's First Data merchant application. Retailers will gain access to further real-time payment related analytics allowing them to make more informed decisions and support the increasing consumer conversion from cash to card to contactless, profitably.



LOYALTY

Increasing technological developments are making it easier to implement loyalty solutions. The Group is leading the way in exploring how new loyalty solutions can integrate into the forecourt and convenience store transaction flow.



MEDIA

There's no doubting that retailers are keen to make the most of all opportunities to drive sales. HTEC's Media Management solution offers a management tool to enable retailers to customise promotional messaging to shopper missions or to relevant stores or even devices. With screens appearing throughout the forecourt and convenience store, the ability to react and change or to be consistent across the estate is key. Linking to the EPOS can provide a wealth of revenue and impact information, ensuring retailers drive sales and maximise profitability.



SUPPORT

Our Service Desk, installation teams and field engineers are set up to ensure the impact to trading is minimised and that systems are up and running as quickly as possible. With outstanding SLA levels, their mission is to provide excellent customer service and quick, efficient technical support to all customers. The HTEC service teams are fully focused on listening to customers and striving to improve performance by adapting processes and developing skills to ensure the best level of service possible.



OUR PRODUCTS AND SERVICES

Through our operating subsidiary [HTEC Ltd](#), we are committed to offering real-world solutions that create a faster, smoother and more efficient transaction experience, for both retailers and customers.

Our emphasis is on continuous improvement. This is why our solutions work seamlessly across three key areas to improve:

- efficiency on the forecourt;
- profitability in the store; and
- management and reporting.

EPOS



- Our EPOS is user-friendly and intuitive enabling cashiers to manage the flow of transactions and speedily deal with in-store transactions.



- Back Office software enables retailers to monitor and order stock, run promotions and report on financial performance.



- The Head Office or Multi-Site solution enables retailers to manage stock, pricing, profitability and promotions across multiple sites from one easy logon.



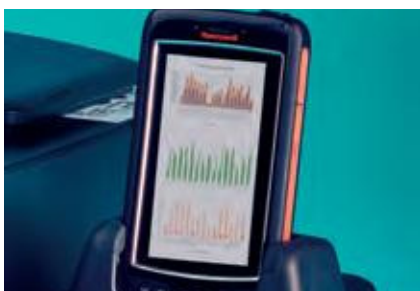
- The Automatic Number Plate Recognition solution minimises the occurrence of non-payment drive-offs through comparison against a national non-payment database.



- Linking the Tobacco Dispenser to the EPOS solution helps retailers meet plain packaging legislation and dispenses the right pack first time to stop queues forming.



- SMART Till revolutionises the way cash is managed within a retail environment, making it easier for retailers to manage their cash.



- The Handheld Terminal application is designed to be device-agnostic so it can be deployed on a mobile phone or barcode scanner.



- Self Service Checkouts are becoming increasingly popular, enabling customers to have a speedy throughput.

'The knowledge of both the shop and forecourt held by HTEC personnel has allowed agile and swift development of functionality crucial to our business. HTEC has been the ideal partner for MFG, providing the IT spine of the company.'

JEREMY CLARKE
Motor Fuel Group

PAYMENT



- Payment Terminals such as Gempay 3 enable retailers to take payment using contactless, debit, credit and fuel cards as well as Apple Pay and Google Pay.



- The Gemini Payment Service provides a fully integrated payment service enabling retailers to have one point of contact.



- Outdoor Payment Terminals allow retailers to serve fuel 24/7 and at unmanned sites. They can be integrated onto petrol pumps or used independently to manage payment at multiple pumps and are often used at marinas, truck stops and airfields as well as on the forecourt.

LOYALTY



- Loyalty applications specialise in real-time vouchers and rewards issued and enable retailers to collect and analyse customer data.

MEDIA



- HTEC's Media Management Solution enables retailers to manage and change promotional messaging across multiple screens or multiple sites with one easy logon.

SUPPORT



- HTEC operates a UK-based 24/7 Service Desk to help customers resolve issues and HTEC's team of Installation and Service Engineers cover the whole of the UK.

CHAIRMAN'S STATEMENT

for the year ended 31 December 2017

Universe continued to advance as a business during 2017, with the production and roll out of our next generation electronic point of sale ('EPOS') solution and payment terminal, Gempay 3.

INTRODUCTION

Universe continued to advance as a business during 2017, with the production and roll out of our next generation electronic point of sale ('EPOS') solution and payment terminal, Gempay 3. As reported earlier in the year however, the Group's financial performance was affected by delays in a small number of customer deployments. Our cost base was also intentionally increased as we invested in further technical development activity and sales personnel to assist with our new product launches.

In a busy year, the Group made several changes to the Board of Directors, with our Chief Financial Officer, Bob Smeeton, leaving the business in August 2017 and being replaced by Daryl Paton. Billy Tank, who had been on medical leave since January 2017, also left the business in November 2017. Daryl comes with a wealth of experience in both public markets and M&A, making him an ideal candidate to help drive further value for shareholders.

In September 2017, Robert Goddard stepped down from his position as Non-Executive Chairman and Director, a position he had held for six years, during which he was central to guiding the Group through a period of turnaround and transition. On the same day, I was appointed to this role and am enjoying the opportunities involved in taking the Company to the next level. We wish to thank Robert, Bob and Billy for their contributions and commitment to Universe.

During the year, we also made a number of management changes within our trading entity, HTEC Limited, creating an executive board with clear roles and responsibilities reporting to a newly appointed divisional Managing Director.

The deployment delays left revenues only marginally down year-on-year at £19.62m (2016: £19.71m). Profit before tax, excluding £0.40m of cost associated with the retirement and appointment of senior management, was £1.18m. Reported profit before tax was £0.78m (2016: £2.01m). During the year, the Group continued to increase its investment in technical research and development, with spend up £0.35m to £2.94m, representing 15% of revenues, as well as investment in the strengthening of the sales and product management teams. These were the major contributors to the increase in costs in the year, but will drive and support growth in the future.

Historically, gross margin has included the cost of research and development. However, as is customary with most other software companies, this has now been included in administrative expenses. Following the reclassification, gross profit margin is consistent with the prior year at 47.6% (2016: 48.0%). Statutory diluted earnings per share was 0.26p (2016: 0.76p).

Net cash remained strong, ending the year at £1.86m (31 December 2016: £2.11m).

OVERVIEW

The two priorities for 2017 continued to be product development and the deployment readiness of our next generation EPOS offering, together with the completion, launch and roll out of our next generation payment terminal, Gempay 3.

Whilst there is now significant uncertainty in the EPOS deployment to Conviviality, we successfully completed implementations with other customers, including 70 installations for leading petrol forecourt operator, Rontec.

Gempay 3 was launched on time in October 2017 and to date there have been over 1,500 implementations, cementing Gempay's position as the UK's leading forecourt payment terminal.

Under the trusted brand HTEC, the Group has supported customers for more than 30 years, with a combination of EPOS, payment and loyalty solutions. We continue to look for opportunities to broaden our product portfolio under a build, buy or collaborate strategy.

During the year, we installed our first self-checkout, featuring FingoPay, an innovative payment device allowing customers to pay by registering payment cards to finger vein records. In March 2018, a partnership agreement was signed with NetPay Merchant Services Limited which complements and broadens our existing payment services offering, allowing us to be the single payment counterparty for our retailers. Universe continues to look for value creating acquisition opportunities to expand and broaden the business.

STAFF

2017 was an extremely busy year for Universe and could not have been achieved without the creativity, determination and dedication of our people and for this we thank them.

SUMMARY AND OUTLOOK

Universe continued to move forward during 2017 with the production and roll out of our next generation EPOS solution and latest payment terminal, Gempay 3. As reported earlier in the year however, the Group's financial performance in 2017 was affected by delays in a small number of customer deployments. Our cost base was also intentionally increased as we invested in further technical development activity and sales personnel to assist with our new product launches.

We successfully completed EPOS implementations with major customers, including 70 installations for leading petrol forecourt operator, Rontec. Gempay 3 was launched on time in October 2017 and to date there have been over 1,500 implementations, cementing Gempay's position as the UK's leading forecourt payment terminal.

We have had a solid start to 2018 with a two-year contract extension with a large food retailer client as well as the prospect of new business from a major international forecourt operator with whom we have not traded before. Our pipeline remains solid and supports our budgeted turnover, with the exception of the significant uncertainty regarding our contract with Conviviality, which represents approximately £2 million of our pipeline revenue for the current financial year.

Opportunities continue to materialise with existing customers for our next generation EPOS, payment, and loyalty solutions reflecting the strong and loyal relationships we have, and the strength of our products. The take-up of next generation products and feed-back from customers bodes well for the future.

ANDREW BLAZEY

10 April 2018

STRATEGIC REPORT

for the year ended 31 December 2017

The Directors present their Strategic Report for the year ended 31 December 2017.

PRINCIPAL ACTIVITY

The Group designs, develops and supports point-of-sale, payment and loyalty solutions and systems for the UK petrol forecourt and convenience store markets. These can be provided as a comprehensive, fully-managed offering or as discrete products, according to customer needs.

The Group's activities generate four distinct revenue streams from:

- **Software licences and hardware:** this income stream comes from the sale of products, such as our point-of-sale and back office systems. The enlargement of our existing customer base brings new revenues but also typically adds additional, recurring revenues from support contracts. In addition to securing new customers, there are regular opportunities to refresh the products on existing customer estates.
- **Service and installations:** the sale of our software and hardware products typically leads to an additional, recurring revenue stream through the provision of support services, and customer installations. We provide industry-leading customer service levels, with 24-hour helpdesk support, a nationwide field service and a specialised repair and refurbishment team, all of which help to promote close, long-term customer relationships.
- **Data services:** our data centres, which accept, process, store and transmit credit card information are accredited at the highest level

of the Payment Card Industry ('PCI') standards. Our data centres also maintain and support hosted solutions for our cloud-based products covering management information, loyalty and as an agent for payment processing. They deliver high uptime and excellent transaction processing speeds to a growing customer base.

- **Consultancy and software maintenance:** two software development teams provide product development, consultancy services and product support to customers, with the teams focused respectively on products and hosted solutions.

Across each of these revenue streams, innovation and high levels of customer care are central to the Group's success.

ORGANISATIONAL OVERVIEW

The Group's business is directed by the Board and managed by the Executive Directors, led by Chief Executive, Jeremy Lewis. A Senior Management Team, comprising the Chief Executive, the Chief Financial Officer, the HTEC Limited Managing Director and Senior Executives, is responsible for sales, operations, human resources, development and data centres. There are two Non-Executive Directors.

The main operating entity is HTEC Limited.

STRATEGY AND BUSINESS PLAN

We intend to increase shareholder value by being the leading solutions partner to retailers in our chosen verticals, supplying customers with our market-leading, innovative systems for point-of-sale, payment and loyalty operations. These systems are real-time, mission-critical and data rich,

and our customers rely on us to keep them trading at all times. Accordingly, effective and efficient support, from our data centre teams, field force and helpdesk professionals, remains a core part of what we do.

Opportunities to acquire new businesses are reviewed on a regular basis, in particular where they may assist in extending our penetration within addressable markets, adding complementary technology or broadening our geographic reach. During 2017, the Board considered several significant opportunities in detail but chose not to further progress them since they did not meet our value delivery criteria.

BUSINESS AND PRODUCT DEVELOPMENT

2017 was a continuation of 2016 in terms of the preparation of our next generation products for deployment to fuel and convenience customers. Pilots continued to run throughout the year and significant roll-outs were completed, including the successful implementation of our next generation point of sale product Europa, back office product Callisto and head office product Jupiter, in 70 sites for the major fuel retailer, Rontec. Whilst we have successfully installed our next generation EPOS solution across many sites now, we experienced delays in one case. During the year, we also increased our sales, marketing and product management efforts so that we are well placed to increase penetration into our core sectors of petrol forecourts and convenience stores.

As well as the development of our next generation EPOS solution, we also completed and launched on time, our third-generation payment solution, Gempay 3, which was launched in the second half of 2017. We have now completed over 1,500 installations.

In addition to our core products and as part of our strategic ambition to be a one-stop-shop for fuel and convenience retailers, we continued to work on and market several add-on products, which will be used to enhance our core EPOS offering. These include:

- locaste, a cloud-hosted content management system that provides central control of store-based media screens and allows reactive advertising by the retailer;
- self-checkout solutions from the market leading suppliers. These are fully integrated with our point of sale systems and provide retailers with greater flexibility in the way they serve their customers; and
- tobacco dispensing units linked to our point of sale system. These will greatly facilitate the sale of tobacco following the new plain packaging legislation, that came into effect in 2017.

FINANCIAL REVIEW

PROFIT AND LOSS

Revenues for the year were marginally down to £19.62m (2016: £19.71m).

Revenues were impacted by implementation delays in a single large customer, resulting in revenues from software licences and hardware being down 20.6% to £3.70m (2016: £4.66m). This drop was mitigated by a robust performance in service and installations which were up 9.4% to £7.90m (2016: £7.22m) following the installation of over 1,500 Gempay 3 terminals in the second half of the year and revenues from consultancy and licence maintenance, which includes development and loyalty platform revenues, up 4.0% to £3.99m (2016: £3.84m). Data services revenues, which include revenues from our hosted EPOS and payment platforms, were flat at £4.04m (£4.00m).

Historically, our gross margin has included the cost of research and development. Research and development is not, however, dependent on revenues and therefore not a true cost of sale. As a result, and as is customary with most other software companies, this expense has now been included in administrative expenses. Following this reclassification, gross profit margin is consistent with the prior year at 47.6% (2016: 48.0%). Included in gross margin is £2.56m of third party EPOS specific hardware, representing 13.0% of revenues (2016: £2.78m representing 14.1% of revenues).

STRATEGIC REPORT

for the year ended 31 December 2017

Administrative expenses (which now include the expensed cost of research and development) were up £1.04m in the year to £8.46m (2016: £7.42m). £0.40m of the increase related to exceptional costs associated with senior management changes and £0.35m due to the increase in expensed research and development at £2.94m representing 15.0% of revenues (2016: £2.59m representing 13.1% of revenues). During the year, the Group also continued to invest in its sales, marketing and product management teams to capitalise on the investment in our new EPOS product suite.

Earnings before interest, taxes, share-based payments, depreciation and amortisation ('adjusted EBITDA') was £2.77m (2016: £3.77m), adjusting in particular for the exceptional charges of £0.40m relating to senior management changes. Operating profit reduced to £0.88m (2016: £2.04m).

Net finance expense was £0.10m (2016: £0.03m). This is up on the prior year, benefiting from a £0.08m credit arising from the release of an over-provision of contingent consideration payable as a result of the acquisition of Indigo Retail Holdings Limited in 2013.

The underlying tax charge for the period was £0.15m (2016: £0.18m) resulting from a £0.09m credit relating to a prior period being offset by a £0.24m charge linked to a movement in the deferred tax balance. No corporation tax is payable for the 2017 trading performance. Earnings per share for the year were 0.27p (2016: 0.79p).

CASH FLOW AND FINANCING

Adjusted EBITDA (see note 3) decreased to £2.77m (2016: £3.77m).

Working capital requirements reduced the net cash inflow from operations to £1.61m (2016: £2.36m), as sales were somewhat concentrated in the final two months of the year.

Investment in capitalised product development increased significantly in 2017 to £1.42m (2016: £0.99m). A large proportion of this was spent on our next generation EPOS solutions, including the point of sale, back office and head office products, as well as integration to self-checkouts, payment devices and payment and loyalty platforms and other third-party retail devices. We continued to develop the locaste content management system and this product is now in pilot with a number of customers.

The net cash inflow from operating activities helped to fund: product development; a £0.35m investment in fixed assets (2016: £0.40m); £0.06m covering the final balance of deferred and contingent consideration on the two recent acquisitions (2016: £0.35m); and £0.31m of finance lease capital repayments (2016: £0.59m).

Cash on the balance sheet at the year-end stood at £2.89m (2016: £3.41m) and after deducting debt of £1.03m (31 December 2016: £1.2m), net cash at the year-end was £1.86m (31 December 2016: £2.11m).

PRINCIPAL RISKS AND UNCERTAINTIES FACING THE GROUP

The Board believes that the principal risks facing the Group relate to:

RISK	COMMENTARY	MITIGATION ACTION/CONTROL
Concentration of customers	Three customers accounted for 50% of sales in 2017 (2016: 55%). Given this concentration, the loss of a major customer would result in a material reduction in turnover.	We act to mitigate this risk by securing long-term contracts with customers wherever possible. We also seek to provide high service levels and innovative new products. In addition, we are focused on business initiatives designed to broaden the customer base.
Technology	The market demands continual improvements in functionality, and competition from other suppliers exists.	To offset these risks, the Group continues to invest significantly in improving the quality and functionality of its products. The objective is to increase the value of the Group's offering to customers and to ensure that we continue to provide market-leading products and services.
Maintaining bank and other approvals to allow the Group to operate as a payment service provider	Attaining these approvals requires considerable committed resource and continuous product renewal.	The Group is committed to maintaining these approvals, which provide another barrier to entry for competitors.
We are heavily dependent on technology for the smooth running of our business. A cybersecurity incident could lead to a loss of commercially sensitive data, a loss of data integrity within our systems or loss of financial assets through fraud	A cyberattack or serious failure in our systems could result in us being unable to deliver service to our customers. As a result, we could suffer reputational loss, financial loss and penalties.	The Group operates robust and well-protected data centres with multiple data links to protect against the risk of failure. The Group also maintains near-live back-up data centres which are designed to be able to provide the necessary services in the event of a failure at the primary site. The use of antivirus and malware software, firewalls, email scanning and internet monitoring are also an integral part of our security.
Significant ownership changes within the Group's target markets of petrol forecourt and convenience stores	Major oil companies have withdrawn from retailing operations and both market sectors are seeing a degree of consolidation activity. This provides both an opportunity and a threat.	The Group's response is to continue to develop market-leading products and to ensure they can be integrated as widely as possible with the other technologies used in petrol retailing and the convenience store sectors.

STRATEGIC REPORT

for the year ended 31 December 2017

KEY PERFORMANCE INDICATORS (KPIs)

The main KPIs that management monitor within the Group are:

Financial KPIs		Non-Financial KPIs
Sales Order Inflow	Operating profit	Performance against contracted service level agreements ('SLAs')
Order book targets are set for each salesperson at the beginning of the year and discussed on a weekly basis by the Executive team. The order booking target for 2017 was £14m. For the reasons previously set out, this target was not achieved in 2017.	Each business area is monitored each month and management accounts are discussed at both Executive team meetings and Board meetings. The Group operating profit margin percentage was budgeted at 10.0% for 2017. The lumpiness in the delivery of revenues meant it is meaningless to look at a month in isolation, however for the year the Group achieved 5% (2016: 10%).	SLA performance is monitored on a weekly basis and discussed with customers at quarterly review meetings. An SLA performance of 98% was achieved in 2017 against SLA targets of 93%.

SUMMARY

We are always very aware that the systems we provide to our clients are mission critical and geared to helping them improve service and profitability. 2017 was a year of investment and new product releases which have been well received and we look to capitalise on this work in 2018.

APPROVAL

The Strategic Report was approved by the Board on 10 April 2018 and signed on its behalf by:

JEREMY LEWIS

Chief Executive Officer

BOARD OF DIRECTORS

ANDREW BLAZYE NON-EXECUTIVE CHAIRMAN

Andrew Blazye joined the Universe Group Board in May 2015 and has considerable experience in many of the Group's activities including loyalty, petrol retailing and payment systems. He is currently a member of the Global Executive team at FleetCor Technologies Inc, a NYSE-listed provider of specialised payment products and services to businesses. Prior to FleetCor he was a Director of Dunhumby Ltd (a Tesco subsidiary), Global General Manager of payments at Royal Dutch Shell and a Non-Executive Director of businesses in the loyalty and petrol forecourt service sectors. He is a Fellow of the Institute of Directors.

DARYL PATON FINANCE DIRECTOR EXECUTIVE DIRECTOR

Daryl Paton joined Universe Group plc in July 2017 as Group Finance Director. Daryl joins Universe from Access Intelligence plc where he has been Chief Financial Officer since February 2016. Prior to Access he was at CMO Global Limited and has held the position of CFO with a number of fast growing software and SaaS businesses in the Governance, Risk and Compliance, Media and Telecom sectors. These included public and privately held companies. In addition to his roles as Chief Financial Officer, he has held a range of operational positions and has a wealth of experience in M&A and other corporate finance activities.

JEREMY LEWIS CHIEF EXECUTIVE OFFICER EXECUTIVE DIRECTOR

Jeremy Lewis joined Universe in September 2013 as Chief Executive Officer. Jeremy has a BSc in engineering from Imperial College, London and from there joined KPMG where he qualified as a Chartered Accountant. He spent the next 11 years in investment banking with the focus on M&A and equity capital markets in both the US and Europe. Jeremy has extensive experience in technology-based companies active in areas such as mobile networks, digital media and software for such companies as Eidos, Terraplay Systems and Catalis.

MALCOLM COSTER NON-EXECUTIVE DIRECTOR

Malcolm Coster joined the Universe Group Board in August 2007 and is an experienced businessman who has held senior international positions in the management consultancy and information technology industries. Malcolm is an experienced chairman, board member and non-executive director of several well-known public companies.

DIRECTORS' REPORT

for the year ended 31 December 2017

The Directors present their report and the audited accounts for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES AND FUTURE DEVELOPMENTS

The principal activities of the Group and its likely future developments are covered in the Strategic Report on pages 8 to 12.

GOING CONCERN

UK company law requires the Directors to consider whether it is appropriate to prepare the financial statements on the basis that the Company and Group are going concerns. Throughout the financial statements there are various disclosures relating to going concern. This Directors' Report summarises the key themes and references those areas where greater disclosure is given.

The Group's main sources of finance are finance leases and institutional loans. The year-end amounts outstanding on each are discussed within note 18.

The Group has good visibility of recurring revenues, which make up a significant proportion of annual revenues. However, the Group does still have some exposure to current economic conditions which have the potential to impact annual revenues. The Directors have therefore prepared downside sensitised forecasts for the current and following years.

The downside sensitised forecasts have been reviewed by the Directors to ensure that the profit and cash generation derived from these forecasts are sufficient to ensure that the existing bank facilities are sufficient to meet the Group's requirements. This is discussed further within liquidity risk in note 21 and is the key factor in relation to going concern.

As a result of this review, the Directors are of the opinion that the Company and Group have adequate resources to continue in operational existence for the foreseeable future, and have continued to adopt the going concern basis in preparing the financial statements.

FINANCIAL INSTRUMENTS

Information about the use of financial instruments by the Company and its subsidiaries, and the Group's financial risk management policies, is given in note 21.

RESEARCH AND DEVELOPMENT

The Company has a continuing commitment to a high level of research and development. During the year expenditure on research and development of £2,939,000 (2016: £2,591,000) was charged to the Statement of Comprehensive Income. In addition, development costs of £1,417,000 (2016: £993,000) were capitalised. Research and development in the year concentrated on the continued development of new Back Office and Head Office systems, and a cloud-based content management platform.

DIVIDENDS

The Directors do not propose the payment of a dividend (2016: £Nil).

DIRECTORS' INDEMNITIES

The Company has made qualifying third-party indemnity provisions for the benefit of its Directors. These provisions remain in force at the date of this report.

ANNUAL GENERAL MEETING

The resolutions to be processed at the Annual General Meeting to be held on 26 June 2018, together with explanatory notes, appear in the separate Notice of Annual General Meeting sent to all shareholders.

SUBSTANTIAL SHAREHOLDINGS

As at 10 April 2018 the Company had been notified of the following substantial holdings in the ordinary share capital of the Company.

Shareholder	No. of ordinary shares	% of voting rights and issued share capital
Downing LLP	58,403,267	25.15
Ennismore Fund Management	24,870,751	10.71
Alto Investments	19,408,359	8.36
Amati Global Investors	11,956,199	5.15
B K Tank	11,804,257	5.08
City Asset Management	11,581,135	4.99
Gresham House Strategic PLC	11,219,207	4.83
River and Mercantile Asset Management	10,100,000	4.35

DIRECTORS

The Directors who served during the year and to the date of approval of the financial statements were as follows:

A R Blazye (Chairman)
 J M J Lewis
 D M Paton (Appointed 10 July 2017)
 M Coster
 R Goddard (Resigned 26 September 2017)
 R J Smeeton (Resigned 10 July 2017)
 B K Tank (Resigned 27 November 2017)

Those Directors serving at the end of the year, or at the date of this report, had an interest in the ordinary share capital of the Company at 31 December as follows:

	Ordinary shares of 1p each	
	2017 Number	2016 Number
J M J Lewis	267,224	-
M Coster	1,028,725	936,500
D M Paton	-	-
A R Blazye	100,000	100,000

The Directors had no other disclosable interests under the Companies Act 2006 in the shares of the Company or of any other Group company.

Details of the Directors' share options are provided in the Director's Remuneration Report on page 20.

DIRECTORS' REPORT

for the year ended 31 December 2017

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group 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 for that period. The Directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

In preparing these financial statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

WEBSITE PUBLICATION

The Directors are responsible for ensuring the Annual Report and the financial statements are made available on a website. Financial statements are published on the Group's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Group's website is the responsibility of the Directors. The Directors' responsibility also extends to the on-going integrity of the financial statements contained therein.

DISCLOSURE OF INFORMATION TO AUDITOR

At the date of making this report, each of the Company's Directors, as set out on page 13, confirm the following:

- so far as each Director is aware, there is no relevant information needed by the Company's Auditor in connection with preparing their report of which the Company's Auditor is unaware; and
- each Director has taken all steps that he ought to have taken as a Director in order to make himself aware of any relevant information needed by the Company's Auditor in connection with preparing their report and to establish that the Company's Auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

AUDITOR

BDO LLP served as Auditor during the year and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

APPROVAL

The Directors' Report was approved by the Board on 10 April 2018 and signed on its behalf by:

D M PATON

Director

CORPORATE GOVERNANCE REPORT

for the year ended 31 December 2017

The Board is accountable to the Company's shareholders for good governance. The following statement describes the key corporate governance policies that have been adopted by the Company. The Company is not required to follow, and does not claim compliance with, the UK Corporate Governance Code.

THE BOARD

As at the date of signing of these accounts, the Board has two Executive Directors and two Non-Executive Directors, including the Non-Executive Chairman.

ROLE OF THE BOARD

During the year, Board meetings were held each month except August and each Director serving at the time attended each Board meeting except for B Tank who missed the nine Board meetings following his illness until his resignation on 27 November 2018, B Smeeton who missed one Board meeting prior to his resignation on 11 August 2017 and A Blazye who missed one meeting during the year due to personal commitments.

At the monthly Board meetings, the CEO reports on the overall financial performance for the previous month, business development, technical, commercial, and health and safety matters. The CFO reports in detail on the financial performance and any secretarial matters. Other business is conducted after these regular reports. Minutes of Board committee meetings held since the previous formal Board meeting are received and decisions made by those committees are ratified.

Whilst the bulk of the formulation of budgets and strategy is undertaken by the Executive Directors, this is done against a framework set by the whole of the Board, challenged by the Board and finally approved by it.

There is a formal schedule of matters reserved for the Board. This includes the setting of high level targets, approval of budgets, capital expenditure and major contracts. Authority levels for expenditure are delegated to individual Executives or the Executive Management Committee according to a schedule agreed by the Board.

There are two Board committees. These are the Audit Committee and the combined Remuneration and Nomination Committee.

NON-EXECUTIVE DIRECTORS

The Company and its Board are not large enough to warrant a formal senior non-executive position. Instead, the other Non-Executives are actively consulted by the Chairman and they provide feedback to one another on the various matters initiated by them.

Service agreements for Non-Executive Directors are agreed by the Board. They are available for inspection at the Company's registered office and at the location of the AGM for a period before the meeting begins.

THE BOARD AS A WHOLE

Collectively and individually, the Directors monitor the performance of the Board and its members on a range of measures. These include attendance, familiarity with the Board packs, the quality of those Board packs, an understanding of the matters under discussion, the ability to contribute to Board discussion and the quality of the challenge made to executive proposals and performance and the thoroughness of reporting and recommendations made by the Board committees.

Because of its small size and the cost of the process, a formal evaluation of Board performance by an outside agency is not believed to be appropriate. The Remuneration and Nomination Committee has not recommended that such a process is implemented.

All Directors have access to independent professional advice at Company expense if it is felt by them in their own judgement that it is needed to enable them to discharge their duties and that the cost of such advice is reasonable in the circumstances.

MEMBERSHIP OF BOARD SUB-COMMITTEES

Malcolm Coster and Andrew Blazye are the members of both the Remuneration and Nomination Committee and the Audit Committee. Where matters before a committee concerns one or other of these members, the member in question withdraws and is replaced by the Executive Directors.

The main purposes and terms of reference of each Board committee are summarised on the next page.

CORPORATE GOVERNANCE REPORT

for the year ended 31 December 2017

REMUNERATION AND NOMINATION COMMITTEE

The Remuneration and Nomination Committee meets as required but at least once per year. The duties of the Remuneration and Nomination Committee are to:

1. Determine and agree with the Board the framework or broad policy for the remuneration of the Group's Chief Executive, Chairman, the Executive Directors, the Company Secretary and such other members of the executive management as it is designated to consider.
2. Approve the design of, and determine targets for, any performance related pay schemes operated by the Group and approve the total annual payments made under such schemes and determine the individual schemes and payments that apply to the Executive Directors.
3. Review the design of all share incentive plans for approval by the Board and shareholders. For any such plans, determine each year whether awards will be made, and if so, the overall amount of such awards, the individual awards to Executive Directors and other senior executives and the performance targets to be used.
4. Ensure that contractual terms on termination, and any payments made, are fair to the individual, and the Group, that failure is not rewarded and that the duty to mitigate loss is fully recognised.
5. Within the terms of the agreed policy and in consultation with the Executive Directors, as appropriate, determine the total individual remuneration package of each of the senior executives who report to the Executive Directors, including bonuses, incentive payments and share options, other share awards or other benefits.
6. Oversee any major changes in employee benefits structures throughout the Company or Group.
3. Review the Group's arrangements for its employees to raise concerns about possible wrongdoing, and ensure these arrangements allow proportionate and independent investigation; and to review the Group's procedures for detecting and preventing bribery and fraud.
4. Consider and make recommendations in relation to the appointment, reappointment and removal of the Group's external Auditor; oversee the relationship with the external Auditor; meet regularly with the external Auditor, including at least once a year without management being present; review and approve the annual audit plan; review the findings of the audit with the external Auditor; and review the effectiveness of the audit.
5. Review the operation of the Group's policies for Anti-bribery and Whistleblowing and recommend to the Board any changes to the policies or their operation.

AUDIT COMMITTEE

The Audit Committee meets formally twice each year with the Group's Auditor at appropriate times during the reporting and audit cycle, and otherwise as required. The duties of the Audit Committee are to:

1. Monitor the integrity of the financial statements, including the annual and interim reports; review the consistency of accounting policies; review whether the Group has followed appropriate accounting standards and made appropriate estimates and judgements; review the methods used to account for significant or unusual transactions; review the clarity of disclosure in the Group's financial reports; and review all material information presented with the financial statements.
2. Review the effectiveness of the Group's internal controls and risk management systems, and to review and approve the statements included in the Annual Report concerning these.

INTERNAL CONTROLS

The Directors are responsible for the Group's system of internal control. However, such a system is designed to manage, rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against misstatement or loss. The Directors have put in place an organisational structure and framework of controls that is periodically reviewed for its effectiveness. The key financial procedures within the Group's system of internal control are as follows:

- there is a comprehensive budgeting system with the annual budget being approved by the Board. Actual results and updated forecasts are prepared as needed and compared against budget;
- the annual capital investment budget is approved by the Board; together with significant individual items prior to commitment; and
- significant treasury items are reserved for the Board.

COMMUNICATION WITH SHAREHOLDERS

Presentations by the Chairman and Executive Directors of interim and full-year results are offered to all major shareholders. Other smaller shareholders are welcome to make contact with the Company and wherever possible their concerns or questions are responded to by a Director, in person.

Major shareholders are also canvassed for their views on the remuneration of Directors.

On behalf of the Board

ANDREW BLAZYE

Chairman

10 April 2018

DIRECTORS' REMUNERATION REPORT

for the year ended 31 December 2017

THE REMUNERATION COMMITTEE

The Remuneration Committee consists of Malcolm Coster and Andrew Blazye. The role of the Committee is to determine, on behalf of the Board, the Company's policy on Executive Directors' and other senior employees' remuneration, within set written terms of reference approved by the Board. The remuneration of the Non-Executive Directors is approved by the Board of Directors. As Chairman of the Committee, I have been asked by the Board to report to you on all remuneration matters on its behalf.

REMUNERATION POLICY

The remuneration policy of the Group is:

- to provide a suitable remuneration package to attract, motivate and retain Executive Directors who will run the Group successfully;
- to formulate a package that will include a significant proportion of performance related pay and to align the Directors' personal interests to those of the shareholders; and
- to ensure that all long-term incentive schemes for the Directors are approved by the shareholders.

Other than as disclosed at note 31 and as shareholders, none of the Committee has any personal financial interest, conflicts of interest arising from cross-directorships or day-to-day involvement in running the business. The Committee makes recommendations to the Board. No Director plays a part in any discussion about their own remuneration. The Remuneration Committee members are expected to draw on their experience to judge where to position the Group, relative to other companies and other group's rates of pay, when considering remuneration packages for executives. The Committee may use outside professional advice if they consider it necessary.

Benefits in kind include the provision of medical insurance premiums and a car or car allowance. All Executive Directors participate in the Group's pension plan. The pension contributions represent the Group's contribution to defined contribution pension plans. Bonuses and benefits in kind are not pensionable.

All of the Executive Directors have service contracts, which provide for notice periods of no more than one year. All the Non-Executive Directors have service contracts, which provide for notice periods of three months.

The Remuneration Committee recognises the importance of appropriate incentive arrangements in assisting with the recruitment and retention of senior executives. The Remuneration Committee believes that share-based incentives align the interests of employees with those of shareholders but recognises that options to acquire shares at their market value on the date of grant are not always the most appropriate way to achieve this.

All of the Executive Directors participate in EMI option schemes and one of the Executive Directors, together with one of the Non-Executive Directors participate in unapproved option schemes. These options will vest only upon the achievement of set market prices for the shares of Universe Group plc, and will lapse if a) the Directors leave employment for any reason other than a 'Good Reason' as defined within the scheme rules and b) at the end of the tenth anniversary of the date of grant. In addition, certain of the 2016 and 2017 share option awards (as indicated below) include conditions requiring the Executive Directors to invest mandated amounts in the Ordinary Shares of the Company as a qualifying condition of the awards.

DIRECTORS' DETAILED EMOLUMENTS

	Salary and fees £000	Benefits £000	Bonus £000	Pension £000	Compensation for loss of office £000	2017 £000	2016 £000
Executives							
J M J Lewis	198	12	-	20	-	230	199
D M Paton	62	2	-	5	-	69	-
R J Smeeton	80	7	-	9	190	286	140
B K Tank	95	11	-	7	72	185	142
Non-Executives							
A Blazye	30	-	-	-	-	30	30
M Coster	39	-	-	-	-	39	31
R Goddard	35	-	-	-	-	35	48
	539	32	-	41	262	874	590

DIRECTORS' SHARE OPTIONS

Details of share options held by Directors over the ordinary shares of the Company are set out below. The Remuneration Committee considers and recommends all new long-term incentive arrangements for the Executive Directors and other employees.

The market price of the Company's shares at the end of the financial year was 6.25p per 1p share (2016: 8.375p per 1p share) and the range of market prices during the year was between 6.25p and 11.375p.

		At 1 January 2017	Granted	Exercised	Cancelled	At 31 December 2017	Exercise price	Vesting price
J M J Lewis	EMI	3,440,000	-	-	-	3,440,000	4.5p	9.5p
J M J Lewis	Unapproved	560,000	-	-	-	560,000	4.5p	9.5p
J M J Lewis	Unapproved	1,644,500	-	-	-	1,644,500	5.5p	9.5p
J M J Lewis	Unapproved	1,300,000	-	-	-	1,300,000	9p	13.5p
J M J Lewis	Unapproved*	1,866,000	-	-	-	1,866,000	9p	21p
J M J Lewis	Unapproved*	1,866,000	-	-	-	1,866,000	9p	31p
D M Paton	EMI	-	500,000	-	-	500,000	9.75p	13.5p
D M Paton	EMI*	-	717,000	-	-	717,000	9.75p	21p
D M Paton	EMI*	-	717,000	-	-	717,000	9.75p	31p
M Coster	Unapproved	875,000	-	-	-	875,000	1p	5p
M Coster	Unapproved	100,000	-	-	-	100,000	5.5p	9.5p
R Goddard	Unapproved	1,500,000	-	-	-	1,500,000	1p	5p
R Goddard	Unapproved	1,750,000	-	-	-	1,750,000	4.25p	6p
R Goddard	Unapproved	250,000	-	-	-	250,000	5.5p	9.5p
R J Smeeton	EMI	1,500,000	-	-	-	1,500,000	1p	5p
R J Smeeton	EMI	1,750,000	-	-	-	1,750,000	4.25p	6p
R J Smeeton	EMI	1,178,500	-	-	-	1,178,500	5.5p	9.5p
R J Smeeton	Unapproved	500,000	-	-	-	500,000	9p	13.5p
R J Smeeton	Unapproved*	717,000	-	-	(717,000)	-	9p	21p
R J Smeeton	Unapproved*	717,000	-	-	(717,000)	-	9p	31p
B K Tank	EMI	500,000	-	-	-	500,000	9p	13.5p
B K Tank	EMI*	717,000	-	-	(717,000)	-	9p	21p
B K Tank	EMI*	717,000	-	-	(717,000)	-	9p	31p
		23,448,000	1,934,000	-	(2,868,000)	22,514,000		

* Options which include an investment requirement as a qualifying condition.

DIRECTORS' REMUNERATION REPORT

for the year ended 31 December 2017

Directors' share options are exercisable only upon the achievements of a target share price as set out above and in certain cases have a minimum vesting period. Details are set out below:

Director	Number of options	Exercise price	Vesting date	Date of grant
R Goddard	1,500,000	1p	18 December 2012	18 December 2012
R Goddard	1,750,000	4.25p	26 July 2016	26 July 2014
R Goddard	250,000	5.5p	28 October 2017	28 October 2015
J M J Lewis	3,440,000	4.5p	13 November 2016	13 November 2013
J M J Lewis	560,000	4.5p	13 November 2016	13 November 2013
J M J Lewis	1,644,500	5.5p	28 October 2017	28 October 2015
J M J Lewis	5,032,000	9p	* see below	18 January 2016
M Coster	500,000	1p	30 July 2013	30 July 2013
M Coster	125,000	1p	30 July 2013	18 December 2012
M Coster	250,000	1p	18 December 2012	18 December 2012
M Coster	100,000	5.5p	28 October 2017	28 October 2014
R J Smeeton	937,500	1p	30 July 2013	18 December 2012
R J Smeeton	312,500	1p	26 January 2015	18 December 2012
R J Smeeton	250,000	1p	18 December 2012	18 December 2012
R J Smeeton	1,750,000	4.25p	26 July 2016	26 July 2013
R J Smeeton	1,178,500	5.5p	28 October 2017	28 October 2014
R J Smeeton	1,934,000	9p	* see below	18 January 2016
B K Tank	1,934,000	9p	* see below	18 January 2016

* The options issued on 18 January 2016 and 25 August 2017 have a vesting period of four weeks and one day after the announcement of the Company's results for the year ended 31 December 2018, during which period the vesting price condition must be met.

INTERESTS IN SHARES

Interests in shares have been disclosed in the Directors' Report on page 15.

On behalf of the Board

MALCOLM COSTER

Chairman of the Remuneration Committee

10 April 2018

INDEPENDENT AUDITOR'S REPORT

to the members of Universe Group plc

OPINION

We have audited the financial statements of Universe Group plc (the 'parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2017 which comprise the consolidated statement of comprehensive income, the consolidated and Company statement of changes in equity, the consolidated and Company balance sheet, the consolidated and Company cash flow statement and the notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent Company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

USE OF OUR REPORT

This report is made solely to the parent Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the parent Company's members those matters we are required to state to them in an Auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the parent Company and the parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

CONCLUSIONS RELATING TO GOING CONCERN

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the financial statements are authorised for issue.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our 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) we identified, 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 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.

INDEPENDENT AUDITOR'S REPORT

to the members of Universe Group plc

Revenue recognition

As detailed in the accounting policies, the Group earns revenue from the sale of software licences and hardware, services and installations, transaction processing and consultancy. Management exercise judgement in their application of revenue recognition on contracts. This relates to the estimated stage of completion of service contracts and the unbundling of multi-element solution sales, both of which drive the recognition of revenue and profit and so present a revenue recognition risk.

How we addressed the key audit matter in the audit

We reviewed in detail the revenue recognition principles applied to a sample of transactions across the revenue streams during the year and ensured that the revenue recognition policies were in accordance with International Financial Reporting Standards as adopted by the European Union and industry standard. This included assessing whether revenues had been recognised in the appropriate accounting period through inspection of dispatch documentation and contracts.

Where such transactions related to solution sales, we assessed the appropriateness of unbundling revenue into separate components and corroborated the consideration attributed to each element through inspection of contracts and other documentation.

In order to address the judgement around profit recognition on consultancy, we agreed a sample of sales and related costs of sales to supporting contracts and other documentation, including user acceptance evidence and statements of works.

OUR APPLICATION OF MATERIALITY

Group materiality: £175,000 (2016: £195,000).

Parent Company materiality: £160,000 (2016: £176,000).

Our Group materiality has been set at a level that equates to 0.9% of revenue and 6% of EBITDA; in the prior year, materiality was set at 1% of revenue. We consider revenue and EBITDA to be two of the principal considerations for stakeholders in assessing the performance of the Group and have set our materiality with reference to both measures accordingly.

The audit of HTEC Limited was performed to a materiality calculated on the same basis as that of the Group but capped below Group materiality, while materiality for Universe Group plc, as the holding company, was net asset based but also capped below that of the Group.

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Performance materiality was set at 75% of the above materiality levels. In setting the level of performance materiality we considered a number of factors including the expected total value of known and likely misstatements based on past experience and other factors.

Where financial information from the two components was audited separately, component materiality levels were set for this purpose at a lower level, being £160,000.

We agreed with the Audit Committee that we would report to the Committee all individual audit differences identified during the course of our audit in excess of £7,000 (2016: £8,000). We also agreed to report differences below these thresholds that, in our view, warranted reporting on qualitative grounds.

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

The Group's operations are based solely in Southampton, United Kingdom.

The scope of our Group audit was established by obtaining an understanding of the Group, including its control environment, and assessing the risks of material misstatement.

Both components, Universe Group plc and HTEC Limited, are considered significant components and are subject to full-scope audits by BDO LLP.

OTHER INFORMATION

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our Auditor's Report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise

explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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 such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in 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 in this regard.

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

In the light of the knowledge and understanding of the Group and the parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the Directors' responsibilities statement set out on page 16, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors 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 parent 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 parent Company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S 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 Auditor's 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 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 Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditor's Report.

MALCOLM THIXTON

(Senior Statutory Auditor)

For and on behalf of BDO LLP,
Statutory Auditor
Southampton, United Kingdom
10 April 2018

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2017

	Note	Total 2017 £'000	Total 2016 £'000
Revenue	3,4	19,622	19,712
Cost of sales		(10,291)	(10,252)
Gross profit		9,331	9,460
Administrative expenses		(8,455)	(7,418)
Operating profit	2	876	2,042
Finance income	5	11	99
Finance expense	5	(108)	(131)
Profit before taxation	6	779	2,010
Taxation	7	(145)	(175)
Profit and total comprehensive income for the year		634	1,835
		Pence	Pence
Earnings per share			
Basic EPS	8	0.27	0.79
Diluted EPS	8	0.26	0.76

The notes on pages 31 to 56 form part of these financial statements.

CONSOLIDATED AND COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2017

	Share capital £'000	Capital redemption reserve £'000	Share premium £'000	Merger reserve on acquisition £'000	Translation reserve £'000	Profit and loss account £'000	Total equity £'000
Consolidated							
At 1 January 2016	2,313	4,588	13,062	2,269	(225)	(1,467)	20,540
Profit and total comprehensive income for the year	-	-	-	-	-	1,835	1,835
Issue of share capital	3	-	-	-	-	-	3
Share-based payments	-	-	-	-	-	116	116
At 31 December 2016	2,316	4,588	13,062	2,269	(225)	484	22,494
At 1 January 2017	2,316	4,588	13,062	2,269	(225)	484	22,494
Profit and total comprehensive income for the year	-	-	-	-	-	634	634
Issue of share capital	6	-	-	-	-	-	6
Share-based payments	-	-	-	-	-	27	27
At 31 December 2017	2,322	4,588	13,062	2,269	(225)	1,145	23,161

The notes on pages 31 to 56 form part of these financial statements.

CONSOLIDATED AND COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017 (continued)

Company	Share capital £'000	Capital redemption reserve £'000	Share premium £'000	Merger reserve on acquisition £'000	Profit and loss account deficit £'000	Total equity £'000
At 1 January 2016	2,313	4,588	13,062	145	(6,081)	14,027
Loss and total comprehensive expense for the year	-	-	-	-	(42)	(42)
Issue of share capital	3	-	-	-	-	3
Share-based payments	-	-	-	-	116	116
Transfer between reserves	-	-	-	(145)	145	-
At 31 December 2016	2,316	4,588	13,062	-	(5,862)	14,104
At 1 January 2017	2,316	4,588	13,062	-	(5,862)	14,104
Loss and total comprehensive expense for the year	-	-	-	-	(342)	(342)
Issue of share capital	6	-	-	-	-	6
Share-based payments	-	-	-	-	27	27
Transfer between reserves	-	-	-	-	-	-
At 31 December 2017	2,322	4,588	13,062	-	(6,177)	13,795

The share capital represents the Ordinary shares of the Company issued at par which carry a right to participate in the distribution of dividends. Movements in share capital are disclosed in note 23.

The capital redemption reserve arose during previous years from the repurchase of shares out of a fresh issue of shares. The repurchase was for a nominal amount. The aggregate amount of the proceeds was less than the aggregate nominal value of the shares purchased, and therefore the value of the difference was transferred to the capital redemption reserve.

The share premium account represents the difference between the issue price and the nominal value of shares issued.

The merger reserve relates to the acquisition of HTEC Limited in previous years.

The translation reserve is used to record exchange differences arising from the translation of the financial statements of overseas operations which are now dormant and immaterial to the operations of the Group.

The profit and loss account represents the accumulated net gains and losses recognised in the comprehensive statement of income.

The notes on pages 31 to 56 form part of these financial statements.

CONSOLIDATED AND COMPANY BALANCE SHEET

at 31 December 2017

		Consolidated		Company	
	Note	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Company number 02639726					
Non-current assets					
Goodwill and other intangibles	9	13,912	13,947	-	-
Development costs	10	3,447	2,745	213	248
Property, plant and equipment	11	2,074	2,384	-	-
Investments	12	-	-	17,995	17,995
		19,433	19,076	18,208	18,243
Current assets					
Inventories	13	1,409	1,084	-	-
Trade and other receivables	14	5,554	5,151	8	3
Cash and cash equivalents	15	2,885	3,408	3	4
		9,848	9,643	11	7
Total assets		29,281	28,719	18,219	18,250
Current liabilities					
Trade and other payables	16	(4,560)	(4,448)	(78)	(85)
Current tax liabilities	17	-	(136)	-	-
Borrowings	18	(652)	(686)	(80)	(80)
Contingent consideration	19	-	(55)	-	-
Amounts owed to subsidiary undertakings	20	-	-	(4,266)	(3,981)
		(5,212)	(5,325)	(4,424)	(4,146)
Non-current liabilities					
Borrowings	18	(377)	(608)	-	-
Deferred tax	22	(531)	(292)	-	-
		(908)	(900)	-	-
Total liabilities		(6,120)	(6,225)	(4,424)	(4,146)
Net assets		(23,161)	22,494	13,795	14,104
Equity					
Share capital	23	2,322	2,316	2,322	2,316
Capital redemption reserve		4,588	4,588	4,588	4,588
Share premium		13,062	13,062	13,062	13,062
Merger reserve		2,269	2,269	-	-
Translation reserve		(225)	(225)	-	-
Retained earnings		1,145	484	(6,177)	(5,862)
Total equity attributable to equity shareholders		23,161	22,494	13,795	14,104

The Company reported a loss for the financial year ended 31 December 2017 of £315,000 (2016: profit of £219,000).

The financial statements were approved by the Board of Directors and authorised for issue on 10 April 2018.

D M PATON

Director

The notes on pages 31 to 56 form part of these financial statements.

CONSOLIDATED AND COMPANY CASH FLOW STATEMENT

for the year ended 31 December 2017

	Consolidated		Company	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Net cash flows from operating activities				
Profit/(loss) before taxation	779	2,010	(342)	(42)
Depreciation and amortisation	1,463	1,613	35	51
Share option charge	27	116	27	116
Net finance expense/(income)	97	32	8	(36)
	2,366	3,771	(272)	89
Increase in inventories	(325)	(203)	-	-
Increase in receivables	(403)	(855)	(5)	-
Increase in payables	112	3	278	195
Interest paid	(97)	(102)	(8)	(7)
Tax paid	(42)	(259)	-	-
Net cash inflow from operating activities	1,611	2,355	(7)	277
Cash flows from investing activities:				
Deferred and contingent consideration arising on the acquisition of subsidiary undertakings	(55)	(345)	-	(281)
Purchase of property, plant and equipment	(352)	(400)	-	-
Expenditure on capitalised product development	(1,417)	(993)	-	-
Net cash outflow from investing activities	(1,824)	(1,738)	-	(281)
Cash flow from financing activities:				
Proceeds from issue of shares	6	3	6	3
Repayments of obligations under finance leases	(316)	(592)	-	-
Net cash (outflow)/inflow from financing activities	(310)	(589)	6	3
(Decrease)/increase in cash and cash equivalents	(523)	28	(1)	(1)
Cash and cash equivalents at beginning of year	3,408	3,380	4	5
Cash and cash equivalents at end of year	2,885	3,408	3	4

The notes on pages 31 to 56 form part of these financial statements.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 31 December 2017

1 SIGNIFICANT ACCOUNTING POLICIES

GENERAL INFORMATION

Universe Group plc is a company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is given on page 58. The nature of the Group's operations and its principal activities are set out on page 8.

BASIS OF PREPARATION

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the EU and as applied in accordance with the Companies Act 2006.

A summary of the more significant accounting policies, which have been applied consistently, is set out below.

As permitted by section 408 of the Companies Act 2006, the statement of comprehensive income of the parent Company has not been separately presented in the financial statements. The parent Company's result for the year is disclosed on the Company balance sheet on page 29.

New accounting standards that have become effective in the current year have not had a material impact on the classification or measurement of the Group's assets and liabilities, nor have they resulted in any additional disclosure.

NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. The listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company does not intend to adopt those standards until they become effective.

The Group has not yet adopted IFRS 9 'Financial Instruments' (issued July 2014), IFRS 15 'Revenue from Contracts with Customers' (issued May 2014), Clarifications to IFRS 15 'Revenue from Contracts with Customers' (issued April 2016) and IFRS 16 'Leases' (issued January 2016). The Directors are undertaking a preliminary assessment of the implementation of these standards, however a more thorough review of the impact of the standards will be performed ahead of the next financial reporting period. IFRS 9 and IFRS 15 are effective for accounting periods beginning on or after 1 January 2018. IFRS 16 is effective for accounting periods beginning on or after 1 January 2019.

IFRS 15 'Revenue from Contracts with Customers'

The majority of the Group's licence sales are on-premise perpetual licences attached to the hardware supplied, for which revenue is recognised at a point-in-time on customer acceptance and this is not anticipated to change under the new standard. The Group is reviewing the impact of instances where hosted solutions are provided to ensure licence revenues to be deferred are recognised over the licence term. Regarding work carried out to date in respect of bundled sales, there have been no instances identified whereby material adjustments have been required to recognise the different contractual elements in accordance with their standalone selling prices.

Should any material impact be identified on 2017, the method of transition applied will be either a restatement of the 2017 comparatives or a cumulative adjustment to retained earnings in 2018.

IFRS 9 'Financial Instruments'

Trade and other receivables are classified as financial assets held at amortised cost and no adjustments on transition to IFRS 9 are anticipated. The Group has assessed the impact of adopting IFRS 9 and the requirement to review historic, current and forward-looking information when assessing the level of credit losses that may be incurred. Provisions for credit losses are currently measured in accordance with an incurred loss model under IAS 39. The Group does not consider that this change in approach will have a significant impact on the carrying value of receivables given the experience of creditworthiness in respect of the Group's customer base.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 31 December 2017 (continued)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IFRS 16 'Leases'

Note 26 shows that future minimum lease payments committed as at 31 December 2017 are £2.0m and, under IFRS 16, it is anticipated that a lease liability and equivalent right to use asset would be recognised based on the present value of these future payments. Future rental payments will be replaced by depreciation and interest in the statement of comprehensive income.

BASIS OF CONSOLIDATION

Where the Company has control over an investee, it is classified as a subsidiary. The Company controls an investee if all three of the following elements are present: power over the investee; exposure to variable returns from the investee; and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

The consolidated financial statements present the results of the Company and its subsidiaries ("the Group") as if they formed a single entity. Intercompany transactions and balances between Group companies are therefore eliminated in full.

The consolidated financial statements incorporate the results of business combinations using the acquisition method. In the statement of financial position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained until the date that control ceases.

GOODWILL

For acquisitions since 1 January 2010, goodwill arising on acquisition of subsidiaries and businesses is capitalised as an asset and represents the excess of the fair value of the consideration transferred over the fair value of the identifiable net assets acquired. Identifiable net assets are those which are capable of being sold separately or which arise from legal rights regardless of whether those legal rights are separable. Contingent consideration is included in cost at its acquisition date fair value and remeasured subsequently through the income statement. Where material, payments that are contingent on the continued employment of a former shareholder of an acquired business are treated as a remuneration expense rather than being included in the cost of acquisition. Acquisition expenses are expensed through the statement of comprehensive income. Goodwill arising on acquisitions which took place before 1 January 2010 represents the excess of the fair value of the consideration given, plus associated costs, for a business, over the fair value of the identifiable net assets acquired. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

In respect of acquisitions prior to 1 January 2004, goodwill is included at the amount recorded previously under UK GAAP.

For the purpose of impairment testing, goodwill is allocated to the cash-generating units of the business. Goodwill is tested for impairment annually or more frequently if impairment indicators are found. If the recoverable amount is found to be less than the carrying value, impairment is allocated first to goodwill and then pro rata to other assets in the cash-generating unit. Impairment provisions made against goodwill balances are never reversed.

INVESTMENTS

Investments that are held by the Company are stated at the lower of cost and net realisable value.

IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS EXCLUDING GOODWILL

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

LEASING

Where assets are acquired under finance leases (including hire purchase contracts), which confer rights and obligations similar to those attached to owned assets, the amount representing the lower of the fair value of the leased property and the present value of the minimum lease payments over the term of the lease is included in property, plant and equipment. Depreciation is provided in accordance with the accounting policy below. The capital element of future finance lease payments is included in creditors and the interest element is charged to profit and loss over the period of the lease in proportion to the capital element outstanding.

Expenditure on operating leases is charged to profit and loss on a straight-line basis.

FOREIGN CURRENCIES

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purposes of the consolidated financial statements, the results and financial position of each Group company are expressed in pounds sterling, which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains and losses on translation are included in the statement of comprehensive income and expense.

PENSION COSTS

The Group operates a defined contribution scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The pension costs charged represent contributions payable by the Group to the fund together with the administration charge of the fund. In addition, the Group continues to contribute to personal pension plans for certain employees.

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Costs comprise direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value and have maturity dates within three months of issue.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 31 December 2017 (continued)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

TAXATION

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before taxation as reported in the statement of comprehensive income because it excludes items of income and expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient tax profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the statement of comprehensive income, except when it relates to items charged or credited directly to equity or comprehensive income, in which case the deferred tax is also dealt with in equity or comprehensive income as appropriate.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

PROPERTY, PLANT AND EQUIPMENT

The cost of property, plant and equipment is their purchase price, together with any incidental costs of acquisition.

Depreciation is charged so as to write off the cost of property, plant and equipment less residual value, on a straight-line basis over the expected useful lives of the assets concerned.

The principal annual rates used for this purpose are:

Plant and equipment	14% - 33%
Leasehold improvements	Over the lease term subject to a maximum of 20 years

Assets under finance leases are depreciated over useful economic life on the same basis as owned assets or, where shorter, over the term of the relevant lease.

REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services in the normal course of business, net of discounts, VAT and other sales related taxes. Revenue categories are analysed in note 3 to these financial statements and the components of each category are set out below, together with their associated recognition criteria:

Revenue Category	Components	Recognition Criteria
Software Licences and Hardware	1) Software Licences	1) Software License fees are recognised upon completion of the related hardware installation.
	2) Hardware	2) Hardware sales are recognised when goods are delivered and title has passed.
Services and Installations	1) Service contracts for products located at customer sites	1) Service contract revenues are recognised evenly over the contractual period.
	2) Installation fees	2) Installation fees are recognised upon completion of the installation.
Data Services	1) Service contracts for products hosted remotely from customer sites	1) Service contract revenues are recognised evenly over the contractual period.
Consulting and Software Licence Maintenance	1) Software consulting fees	1) Software consulting revenues are recognised on the percentage of completion method unless the outcome of the contract cannot be reliably determined, in which case contract revenue is only recognised to the extent of contract costs incurred that are recoverable. Foreseeable losses, if any, are provided for in full as and when it can be reasonably ascertained that the contract will result in a loss. The stage of completion is determined based on the proportion of contract costs incurred compared to total estimated contract cost.
	2) Licence maintenance fees	2) Licence maintenance fees are charged on an annual basis and recognised evenly over the year of cover.

Where sales of goods and services involve the provision of multiple elements such as licence fees, installation fees and maintenance fees the consideration allocated to each element is measured by reference to their fair value by reference to prevailing market prices for each element delivered.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 31 December 2017 (continued)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DEVELOPMENT EXPENDITURE

Development expenditure relating to specific projects intended to improve or extend the Group's product range is capitalised as an intangible fixed asset where the following conditions are met:

- it is technically feasible to complete the intangible asset so that it will be available for use or sale,
- it is the intention of the Company to complete the intangible asset and use or sell it,
- the Company has the ability to use or sell the intangible asset,
- the intangible asset will generate probable future economic benefits,
- the technical, financial and other resources needed to complete the development and to use or sell the intangible asset are available to the Company,
- the expenditure attributable to the intangible asset during its development can be measured reliably.

Such expenditure is amortised through administrative expenses (see note 6) on a straight-line basis over the period during which the benefits of the project are expected to arise, typically three to five years. The costs of on-going support of the product once deployed are expensed within cost of sales in the period in which they are incurred. Expenditure on research activities is recognised as an expense within cost of sales in the period in which it is incurred. Expenditure on development that is funded by customers is recognised as an expense within cost of sales in the period in which it is incurred.

OTHER INTANGIBLE ASSETS

Intangible assets separately purchased, such as software licenses, are capitalised at cost and amortised on a straight-line basis over their useful economic life. Intangible assets acquired through a business combination are measured at fair value and amortised over their useful economic lives.

The following periods are used when assessing useful economic lives for purposes of calculating amortisation charges:

Software licences	length of licence
Customer relationships	3-10 years
Customer contracts	the unexpired period of the agreement

TRADE PAYABLES

Trade payables are not interest-bearing and are stated at their nominal value.

BORROWINGS

Interest bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs and are measured at amortised cost. Finance charges, including direct issue costs, are accounted for on an accrual basis in the statement of comprehensive income, and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

EQUITY INSTRUMENTS

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

TRADE RECEIVABLES

Trade receivables are not interest bearing and are stated at their nominal value, less provision for impairment.

SHARE-BASED PAYMENT

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market-based vesting conditions.

For share options issued prior to 2017, fair value has been measured by use of the Black-Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. For share options issued in 2017, fair value has been measured by use of the binomial valuation model, to reflect the share price targets attached to those options.

CRITICAL ESTIMATES AND JUDGEMENTS

In the process of applying the Group's accounting policies, which are described above, management has made the following judgements and estimations about the future that have the most significant effect on the amounts recognised in the financial statements. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Impairment of goodwill and other related intangibles

The carrying value of goodwill and other related intangibles at the year-end is £13.9m (2016: £13.9m). An annual impairment review is performed involving judgement of the future cash flows for cash-generating units and the discount rates applied to future cash flows in order to calculate present value. Management prepare such cash flow forecasts derived from the most recent budgets approved by the Board. Sensitivity analysis is performed around these forecasts as disclosed in note 9.

Recoverability of capitalised development costs

The capitalisation of development expenditure is a requirement of IAS 38 'Intangible Assets'. All capitalised and on-going projects are reviewed regularly to ensure they meet the criteria for capitalisation. The key judgements required by management are around the potential impairment of the intangible assets once capitalised. These judgements surround the estimation of future cash flows to support the carrying values of assets. The carrying value of capitalised development costs at the year-end was £3,447 (2016: £2,745,000).

2 OPERATING PROFIT AND ADJUSTED EBITDA

	2017 £'000	2016 £'000
Operating profit	876	2,042
Add back:		
Depreciation	713	870
Amortisation	750	743
Share-based payments	27	116
Exceptional costs related to management changes	402	–
Adjusted EBITDA	2,768	3,771

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 31 December 2017 (continued)

3 TURNOVER ANALYSIS

	2017 £'000	2016 £'000
Software licences and hardware	3,696	4,657
Service and installations	7,896	7,218
Data services	4,039	3,998
Consultancy and software licence maintenance	3,991	3,839
	19,622	19,712

The geographical region analysis of income by origin is as follows:

	2017 £'000	2016 £'000
United Kingdom	15,596	16,064
Belgium	4,026	3,648
	19,622	19,712

Turnover from Belgium related primarily to a European-wide loyalty scheme provided by the Group to a Belgium-based customer.

4 OPERATING SEGMENTS

The Group has one business segment. All material operations and assets are in the UK. The trading segment is HTEC Solutions ('Solutions'). Solutions provide hardware, software and service solutions into the UK petrol and convenience store markets.

2017	Solutions £'000	Corporate £'000	Total £'000
Revenue – all external	19,622	-	19,622
Gross profit	9,331	-	9,331
Segment expenses	(8,120)	(335)	(8,455)
Segmental operating profit/(loss)	1,211	(335)	876
Net finance expense			(97)
Taxation			(145)
Profit for the year			634

2016	Solutions £'000	Corporate £'000	Total £'000
Revenue – all external	19,712	-	19,712
Gross profit	9,460	-	9,460
Segment expenses	(6,794)	(624)	(7,418)
Segmental operating profit/(loss)	2,666	(624)	2,042
Net finance expense			(32)
Taxation			(175)
Profit for the year			1,835

INFORMATION ABOUT MAJOR CUSTOMERS:

Included in revenues are revenues of approximately £4.0m (2016: £3.6m), £3.2m (2016: £3.4m) and £2.8m (2016: £3.8m) which arose from sales to the Group's three largest customers.

5 NET FINANCE EXPENSE

	2017 £'000	2016 £'000
Release of provision for contingent consideration	3	85
Interest receivable on bank deposits	8	14
Finance income	11	99
Interest payable on bank loans and overdrafts	(10)	(25)
Interest payable on finance leases	(80)	(92)
Other interest	(18)	(14)
Finance expense	(108)	(131)
Net finance expense	(97)	(32)

6 PROFIT BEFORE TAXATION

Profit before taxation is stated after charging:

	2017 £'000	2016 £'000
Cost of inventory recognised as expenses	2,563	2,778
Staff costs (note 24)	9,855	8,471
Foreign exchange losses/(gains)	14	(49)
Depreciation and amortisation		
– Intangible assets	35	128
– Development costs	715	615
– Tangible, owned	327	428
– Tangible, subject to finance lease	386	442
Research and development *	2,939	2,591
Auditor's remuneration (see below)	47	51
Operating lease charges – plant and machinery	538	421
Operating lease charges – property	458	464
Advisor fees arising on aborted corporate activity	-	66

* Reclassification of research and development expense as administrative expenses rather than cost of sales.

Historically, gross margin has included the cost of research and development. However, as is customary with most other software companies, this has now been included in administrative expenses. Consequently, the 2016 numbers have been restated to reclassify £2,591,000 of research and development, previously included in cost of sales as administrative expenses.

The analysis of the Auditor's remuneration is as follows:

	2017 £'000	2016 £'000
Fees payable to the Company's Auditor for the audit of the Company's annual accounts	9	10
The audit of the Company's subsidiaries	29	28
Total audit fees	38	38
Other fees:		
Tax compliance	9	13
Total non-audit fees	9	13
	47	51

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 31 December 2017 (continued)

7 TAXATION

	2017 £'000	2016 £'000
Current tax:		
Current year	-	206
Adjustments to tax charge in respect of previous periods	(94)	(59)
	(94)	147
Deferred tax (note 23):		
Current year	227	66
Adjustments to tax charge in respect of previous periods	12	(38)
	239	28
Total tax charge	145	175

RECONCILIATION OF TAX CHARGE

Corporation tax is calculated at 19.25% (2016: 20.00%) of the estimated assessable profit for the year.

	2017 £'000	2016 £'000
Profit before tax	779	2,010
Tax charge at the UK corporation tax rate of 19.25% (2016: 20.00%)	150	402
Tax effect:		
Amounts not deductible/taxable in determining taxable profit	47	42
Adjustments in respect of previous periods - current tax	(94)	(8)
Adjustments in respect of previous periods - deferred tax	12	-
Movement on tax losses not recognised	192	-
Amounts relating to change in tax rates	(30)	(89)
Enhanced R&D tax relief	(205)	(137)
Utilisation of previously unrecognised losses	-	(35)
Timing differences relating to share options	73	-
Tax charge for the period	145	175

CHANGES IN TAX RATES AND FACTORS AFFECTING THE FUTURE TAX CHARGE

As a result of the Finance Act 2015, the rate of corporation tax has been reduced from 20% to 19% for periods beginning after 1 April 2017. The future rate of corporation tax enacted in the Finance Act 2016 was 17% for periods beginning after 1 April 2020. Accordingly, deferred tax balances as at 31 December have been recognised at 17%.

8 EARNINGS PER SHARE

The calculation of the basic, diluted and operating earnings per share is based on the following data:

	2017 £'000	2016 £'000
Earnings:		
Profit after tax – used for basic and diluted earnings per share	634	1,835
Add back net finance charge	97	32
Add back taxation charge	145	175
Profit used for operating profit per share	876	2,042

	2017 No '000	2016 No '000
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and operating earnings per share	231,860	231,348
Weighted average number of ordinary shares for the purposes of diluted earnings per share	239,719	241,553

At the year end 8,791,000 (2016: 9,900,000) share options were in issue and could have potentially diluted earnings per share, but were not included in calculation of diluted earnings per share because they were not dilutive in the period.

	2017 pence	2016 pence
Basic earnings per share	0.27	0.79
Diluted earnings per share	0.26	0.76
Operating profit per share	0.38	0.88

9 GOODWILL AND OTHER INTANGIBLES

2017	Goodwill £'000	Customer contracts £'000	Customer relationships £'000	Total £'000
Cost				
At 1 January 2017	13,650	334	626	14,610
Acquisitions	-	-	-	-
At 31 December 2017	13,650	334	626	14,610
Amortisation				
At 1 January 2017	-	334	329	663
Charge for the year	-	-	35	35
At 31 December 2017	-	334	364	698
Net book amount				
31 December 2017	13,650	-	262	13,912

2016	Goodwill £'000	Customer contracts £'000	Customer relationships £'000	Total £'000
Cost				
At 1 January 2016	13,650	334	626	14,610
Acquisition	-	-	-	-
At 31 December 2016	13,650	334	626	14,610
Amortisation				
At 1 January 2016	-	241	294	535
Charge for the year	-	93	35	128
At 31 December 2016	-	334	329	663
Net book amount				
31 December 2016	13,650	-	297	13,947

The Group has only one cash-generating unit ('CGU'). The recoverable amount of the CGU is determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimate discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGU. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 31 December 2017 (continued)

9 GOODWILL AND OTHER INTANGIBLES (CONTINUED)

The Group tests for impairment by preparing cash flow forecasts derived from the most recent financial budgets approved by the Board in the 2018 budget. The future cash flows are as approved by the Board based on recurring contracts and the sales pipeline and cover the next five financial years. Beyond that period, operating cash flows are assumed to grow at 2% annually for the foreseeable future. Based on these assumptions, the headroom above carrying value of assets was £9.9m (2016: £16.1m).

In assessing the value in use of the CGU, management have considered the potential impact of possible changes in the main assumptions used, and have calculated that a 44% shortfall in projected growth of EBITDA would cause the carrying value of the CGU to exceed its recoverable amount.

The risk adjusted pre-tax rate used to discount each of the CGU cash flow forecasts is 16.0% (2016: 16.0%).

10 DEVELOPMENT COSTS

	Capitalised development £'000	Software licences £'000	Total £'000
2017			
Consolidated Cost			
At 1 January 2017	10,577	528	11,105
Additions	1,417	-	1,417
At 31 December 2017	11,994	528	12,522
Amortisation			
At 1 January 2017	8,168	192	8,360
Charge for the year	680	35	715
At 31 December 2017	8,848	227	9,075
Net book value			
At 31 December 2017	3,146	301	3,447
	Capitalised development £'000	Software licences £'000	Total £'000
2016			
Consolidated Cost			
At 1 January 2016	9,584	528	10,112
Additions	993	-	993
At 31 December 2016	10,577	528	11,105
Amortisation			
At 1 January 2016	7,604	141	7,745
Charge for the year	564	51	615
At 31 December 2016	8,168	192	8,360
Net book value			
At 31 December 2016	2,409	336	2,745

The significant capitalised development costs included above are:

	Remaining amortisation period Years	Net book amount £'000
Online loyalty platform	3	322
Outside Payment Terminal	1	34
Electronics Fund Transfer platform and licences	1-5	221
Head Office and Back Office Systems	5	1,922
Content Management System	5	454

	Software licences 2017 £'000	Software licences 2016 £'000
Company		
Cost		
At 1 January	404	404
Additions	-	-
At 31 December	404	404
Amortisation		
At 1 January	156	105
Charge for the year	35	51
At 31 December	191	156
Net book value		
At 31 December	213	248

11 PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements £'000	Plant and equipment £'000	Total £'000
2017			
Consolidated			
Cost			
At 1 January 2017	1,287	6,160	7,447
Additions	-	403	403
Disposals	-	-	-
At 31 December 2017	1,287	6,563	7,850
Depreciation			
At 1 January 2017	900	4,163	5,063
Charge for year	95	618	713
Released on disposal	-	-	-
At 31 December 2017	995	4,781	5,776
Net book value			
At 31 December 2017	292	1,782	2,074

	Leasehold improvements £'000	Plant and equipment £'000	Total £'000
2016			
Cost			
At 1 January 2016	1,253	5,523	6,776
Additions	34	1,016	1,050
Disposals	-	(379)	(379)
At 31 December 2016	1,287	6,160	7,447
Depreciation			
At 1 January 2016	805	3,754	4,559
Charge for year	95	775	870
Released on disposal	-	(366)	(366)
At 31 December 2016	900	4,163	5,063
Net book value			
At 31 December 2016	387	1,997	2,384

The net book value of plant and equipment includes £918,000 (2016: £1,042,000) in respect of assets held under finance leases. The depreciation charged on these assets during the year was £386,000 (2016: £442,000).

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 31 December 2017 (continued)

12 INVESTMENTS

	2017 £'000	2016 £'000
Company		
Investment in subsidiary undertakings		
At 1 January	17,995	17,995
Additions	-	-
At 31 December	17,995	17,995

For details of principal subsidiaries see note 30.

13 INVENTORIES

	2017 £'000	2016 £'000
Consolidated		
Component parts	1,223	1,053
Work in progress	186	31
	1,409	1,084

14 TRADE AND OTHER RECEIVABLES

	Consolidated		Company	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Trade receivables	4,287	4,314	-	-
Prepayments and accrued income	1,267	837	8	3
	5,554	5,151	8	3

The average credit period taken on sales of goods and services is 69 days (2016: 68 days). No interest is charged on the receivables. Before accepting any new customer, the Group uses an external credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Of the trade receivables balance at the end of the year, £522,000 (2016: £501,000) is due from the Group's largest customer.

Included in the Group's trade receivables balance are debtors with a carrying value amount of £1,258,000 (2016: £1,743,000) which are past due at the reporting date for which the Group has not made any provision as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold collateral over these balances. Ageing of past due but not impaired receivables is:

	2017 £'000	2016 £'000
30-60 days	749	1,128
60-90 days	184	214
Over 90 days	325	401
	1,258	1,743

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date the credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. A bad debt provision of £24,000 (2016: £40,000) has been recognised.

15 CASH AND CASH EQUIVALENTS

	Consolidated		Company	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Cash	2,885	3,408	3	4

16 TRADE AND OTHER PAYABLES

	Consolidated		Company	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Trade creditors	626	437	10	8
Other creditors	66	39	39	39
Accruals	963	823	38	38
Deferred income	1,920	2,070	-	-
Other taxation	985	1,079	(9)	-
	4,560	4,448	78	85

The average credit period taken for trade purchases is 11 days (2016: 14 days).

The Directors consider that the carrying amount of trade payables approximates to their fair value.

17 CURRENT TAX LIABILITIES

	Consolidated		Company	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Corporation tax	-	136	-	-

18 BORROWINGS

	Consolidated		Company	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Secured – at amortised cost				
Current				
Finance lease liabilities (i)	572	606	-	-
Other loans (ii)	80	80	80	80
Non-current				
Finance lease liabilities (i)	377	608	-	-
Other loans (ii)	-	-	-	-
	1,029	1,294	80	80
The borrowings are repayable as follows:				
On demand or within one year	652	686	80	80
In the second to fifth years inclusive	377	608	-	-
	1,029	1,294	80	80

- (i) Finance lease liabilities are secured by the assets leased. The average lease term is five years. For the year ended 31 December 2017, the average effective borrowing rate was 5.1% (2016: 4.2%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.
- (ii) The other loans consist of five term loan notes held by Downing LLP, a substantial shareholder. The loans are secured on the assets of the Group. The loans bear interest at 9.5% and are repayable in July 2017.

All borrowings are denominated in sterling.

The Directors consider that the carrying amount of the bank loans and finance lease obligations approximates to their fair value.

The Group's banking arrangements are secured by a debenture over the assets of the Group.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 31 December 2017 (continued)

19 CONTINGENT CONSIDERATION

	Consolidated		Company	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Payable in less than one year	-	55	-	-
	-	55	-	-

Contingent consideration was payable to the former owners of Spedinorcon Limited in two annual tranches (on 31 May 2016 and 2017) based on sales achieved in the two years following the acquisition. Consideration accrued at the rate of 20% of the first £600,000 of sales achieved and 12.5% thereafter.

20 AMOUNTS OWED TO SUBSIDIARY UNDERTAKING

	Consolidated		Company	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Amounts owed to subsidiary undertakings	-	-	4,266	3,981

21 FINANCIAL INSTRUMENTS

CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities within the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in notes 18 and 19, cash and cash equivalents, and equity attributable to shareholders of the parent, comprising issued share capital, reserves and retained earnings as disclosed on page 27.

GEARING RATIO

The Group regularly reviews the capital structure. As part of this review, it considers the cost of capital and the risks associated with each class of capital.

The gearing ratio at the year end is as follows:

	2017	2016
	£'000	£'000
Debt*	(1,029)	(1,294)
Cash and cash equivalents	2,885	3,408
Net cash/(debt)	1,856	2,114
Equity**	23,309	22,494
Net debt to equity ratio	N/A	N/A

* Debt is defined as medium and short-term borrowings, as detailed in notes 18 and 19.

** Equity includes all capital and reserves of the Group attributable to equity holders of the parent.

SIGNIFICANT ACCOUNTING POLICIES

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument, are disclosed in note 1 to the financial statements.

	Consolidated		Company	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Financial assets:				
At amortised cost:				
Cash	2,885	3,408	3	4
Trade receivables	4,287	4,314	-	-
	7,172	7,722	3	4

	Consolidated		Company	
	2,017	2,016	2,017	2,016
	£'000	£'000	£'000	£'000
Financial liabilities:				
At amortised cost:				
Trade payables	626	437	10	8
Other creditors	66	39	39	39
Accruals	963	823	38	38
Intercompany debt	-	-	4,266	3,981
Bank and other loans	80	80	80	80
Finance lease obligations	1,029	1,214	-	-
At fair value:				
Contingent consideration	-	55	-	-
	2,764	2,648	4,433	4,146

FINANCIAL RISK MANAGEMENT OBJECTIVES

The Group's operations expose it to a variety of risks including the effect of changes in Euro exchange rates, credit risk and liquidity risk.

FOREIGN EXCHANGE RISK

The activities of the Company and Group expose them to the financial risks of changes in exchange rates. The Group transacts business in Euros with approximately 20% (2016: 18%) of turnover denominated in that currency. In order to mitigate the risk of the exchange rate depreciating, the Group aims to enter into forward currency hedging contracts equivalent to 50% of expected revenues arising in the next six-month period, although no such contracts were in place at the year end or the prior year end. A 10% increase/decrease in the Euro exchange rate would have revalued the net assets at the balance sheet date by £52,000 (2016: £157,000) and impacted profit and loss by the same amount.

CREDIT RISK

Credit risk refers to the risk that a counterparty will default on its contractual obligations, resulting in financial loss to the Group. In 2017, 50% (2016: 55%) of the Group's turnover was with three counterparties leading to an inherent concentration of credit risk. The Group carefully monitors the creditworthiness of these three counterparties. For new accounts, the Group's policy is to only deal with creditworthy counterparties, carrying out background checks before any new accounts are opened so as to mitigate the risk of financial loss from defaults. Credit exposure is controlled by counterparty limits that are reviewed and approved by senior management as and when necessary, but at a minimum annually.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Group's maximum exposure to credit risk.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 31 December 2017 (continued)

21 FINANCIAL INSTRUMENTS (CONTINUED)

INTEREST RATE MANAGEMENT

The Company and the Group are not currently exposed to interest rate risk as all Group borrowings are at fixed rates.

LIQUIDITY RISK MANAGEMENT

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which reviews and manages the Group's short and medium-term funding and liquidity requirements on a regular basis. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by regularly monitoring forecast and actual cash flows whilst attempting to match the maturity profiles of financial assets and liabilities.

The following table details the Company's and the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted contractual maturities of the financial liabilities including interest that will accrue to those liabilities.

	Weighted average effective rate %	Less than 1 month £'000	1 to 6 months £'000	6 months to 1 year £'000	1 to 3 years £'000	More than 3 years £'000	Total £'000
Consolidated							
2017							
Non-interest bearing:							
Trade payables	0%	626	-	-	-	-	626
Contingent consideration	0%	-	-	-	-	-	-
Fixed interest rate:							
Finance leases liabilities	5.10%	63	308	272	400	-	1,043
Other loans	9.50%	81	-	-	-	-	81
		770	308	272	400	-	1,750
2016							
Non-interest bearing:							
Trade payables	0%	437	-	-	-	-	437
Contingent consideration	0%	-	-	55	-	-	55
Fixed interest rate:							
Finance leases liabilities	4.20%	56	325	296	701	-	1,378
Other loans	9.50%	-	3	83	-	-	86
		493	328	434	701	-	1,956

The above finance lease payments are the minimum lease payment totals and include £94,000 of interest (2016: £164,000).

	Weighted average effective rate %	Less than 1 month £'000	1 to 6 months £'000	6 months to 1 year £'000	1 to 3 years £'000	More than 3 years £'000	Total £'000
Company							
2017							
Non-interest bearing:							
Trade payables	0%	10	-	-	-	-	10
Intercompany debt	0%	4,266	-	-	-	-	4,266
Fixed interest rate:							
Other loans	9.5%	81	-	-	-	-	81
		4,357	-	-	-	-	4,357
2016							
Non-interest bearing:							
Trade payables	0%	8	-	-	-	-	8
Intercompany debt	0%	3,981	-	-	-	-	3,981
Fixed interest rate:							
Other loans	9.5%	-	3	83	-	-	86
		3,989	3	83	-	-	4,075

The fair value of the Group's financial assets and liabilities is not materially different from the carrying values in the balance sheet.

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

The reconciliation of the opening and closing fair values of level 3 financial instruments is provided below:

	Consolidated £'000	Company £'000
Contingent consideration		
At 1 January 2016	472	324
Recognised upon acquisition (see note 34)	(85)	(50)
Increase included in finance income	7	7
Payment of contingent consideration	(339)	(281)
At 31 December 2016	55	-
At 1 January 2017	55	-
Payment of contingent consideration	(55)	-
At 31 December 2017	-	-

CAPITAL STRUCTURE

Details of the authorised and issued share capital, together with details of the movements in the Company's issued share capital during the year are shown in note 23. The Company has one class of ordinary shares which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Company.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

Details of employee share schemes are set out in note 29 and no person has any special rights of control over the Company's share capital and all issued shares are fully paid.

22 DEFERRED TAX

The movement on the net provision for deferred taxation is as follows:

	2017 £'000	2016 £'000
Net liability at 1 January	(292)	(264)
Recognised in the statement of comprehensive income	(239)	(28)
Net liability at 31 December	(531)	(292)

The carrying value of deferred tax balances at the balance sheet date and the amounts recognised in the statement of total comprehensive income during the year were as follows:

	2017 Carrying value £'000	2016 Carrying value £'000	Recognised in the year £'000
Share options	65	138	(73)
Fixed asset timing differences	(596)	(430)	(166)
	(531)	(292)	(239)

Deferred tax asset balances have been recognised in the prior year as there was a reasonable probability the balance would be recovered.

At the balance sheet date, the Group has further unutilised tax losses of £2,431,000 (2016: £1,624,000) available for offset against future profits. A deferred tax asset has not been recognised in respect of these losses due to the uncertainty of its recoverability.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 31 December 2017 (continued)

23 CALLED UP SHARE CAPITAL

	2017 £'000	2016 £'000
Group and Company		
Authorised, allotted, called up and fully paid:		
232,223,935 Ordinary shares of 1p each (2016: 231,598,935 Ordinary shares of 1p each)	2,322	2,316

The Company has one class of Ordinary shares which carry no right to fixed income.

SHARE OPTIONS

Share option awards are disclosed in note 29. During the year, 625,000 (2016: 312,500) Ordinary shares were issued in respect of share option exercises.

24 EMPLOYEES AND DIRECTORS

	Consolidated		Company	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Wages and salaries	8,400	7,473	340	290
Social security costs	894	791	55	29
Pension costs	208	136	34	26
Other benefits	91	71	21	-
Compensation for loss of office	262	-	190	-
	9,855	8,471	640	345

The average number of people (including Executive Directors) employed during the year:

	Consolidated		Company	
	2017 No.	2016 No.	2017 No.	2016 No.
Production/services	136	128	-	-
Sales/marketing	22	22	-	-
Research and development	68	52	-	-
Administration	23	21	2	2
	249	223	2	2

Emoluments paid to the highest paid Director were as follows:

	2017 £'000	2016 £'000
Aggregate emoluments	210	182
Company pension contribution to money purchase pension scheme	20	17
	230	199

There were four Directors (2016: three) to whom retirement benefits accrued under money purchase schemes during the year.

Further details of the Directors' remuneration are included in the Directors' Remuneration Report on pages 20 to 22.

25 PENSION COMMITMENTS

The Group operates a defined contribution scheme. The assets of the scheme are held separately from those of the Group in funds under the control of investment managers. The pension costs charged represent contributions payable by the Group to the fund amounting to £208,000 (2016: £136,000), together with the administration charge of the fund. In addition, the Group continues to contribute to personal pension plans for certain of its employees. As at 31 December 2017, contributions of £43,000 (2016: £41,000) due in respect of the current reporting period had not been paid over to the scheme.

26 OPERATING LEASE COMMITMENTS

At 31 December 2017, the Group had lease agreements in respect of properties, vehicles, plant and equipment, for which payments extend over a number of years. At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	Property £'000	Plant and machinery £'000	Total £'000
2017			
Within one year	452	383	835
Between two and five years	791	414	1,205
After five years	-	-	-
Total	1,243	797	2,040

	Property £'000	Plant and machinery £'000	Total £'000
2016			
Within one year	452	276	728
Between two and five years	1,243	233	1,476
After five years	-	-	-
Total	1,695	509	2,204

27 CONTINGENT LIABILITIES

The Group has given a duty deferment guarantee to HMRC of £5,000 (2016: £5,000).

28 CAPITAL AND OTHER FINANCIAL COMMITMENTS

As at 31 December 2017, the Group had not entered into any contracts for future capital expenditure (2016: £Nil).

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 31 December 2017 (continued)

29 SHARE-BASED PAYMENTS

At 31 December 2017, the outstanding share options, which include the share options granted to Directors, are as shown below:

	Date of grant	Exercise price (p)	Number of shares	Date from which exercisable	Expiry date
Approved EMI scheme	30 July 2010	1	937,500	30 July 2013	30 July 2020
	5 November 2010	1	250,000	5 November 2013	5 November 2020
	26 January 2012	1	312,500	26 January 2015	26 January 2022
	18 December 2012	1	250,000	18 December 2012	18 December 2022
	26 July 2013	4.25	1,750,000	26 July 2016	26 July 2023
	13 November 2013	4.5	3,440,000	13 November 2016	13 November 2023
	28 October 2014	5.5	1,708,500	28 October 2017	28 October 2024
	18 January 2016	9	1,325,000	April 2019	18 January 2026
	25 August 2017	9.75	1,934,000	April 2019	25 August 2027
Unapproved scheme	30 July 2010	1	625,000	30 July 2013	30 July 2020
	18 December 2012	1	1,750,000	18 December 2012	18 December 2022
	26 July 2013	4.25	1,750,000	26 July 2016	26 July 2023
	13 November 2013	4.5	560,000	13 November 2016	13 November 2023
	28 October 2014	5.5	1,994,500	28 October 2017	28 October 2024
	18 January 2016	9	5,532,000	April 2019	18 January 2026
			24,119,000		

SUMMARY OF SHARE OPTION SCHEMES IN OPERATION DURING THE YEAR

The Directors' Remuneration Report on pages 20 to 22 describes the plans to which IFRS 2 applies. In summary, the Group operated the following plans during the period:

- Enterprise Management Incentive ('EMI') Plan
- Discretionary Unapproved Share Option Plan

The Group recognised a total expense of £27,000 in 2017 (2016: £116,000).

EQUITY-SETTLED SHARE OPTION SCHEMES

The options are subject to performance conditions as set out below:

- For awards made prior to 31 December 2012, the performance condition was for the share price to increase to 5 pence. This condition has been satisfied.
- For options issued on 26 July 2013, the performance condition was for the share price to increase to 6 pence. This condition has been satisfied.
- For options issued on and after 13 November 2013, the performance condition was for the share price to increase to 9.5 pence. This condition has been satisfied.
- For options issued on 18 January 2017 and 25 August 2017, performance conditions apply across three tranches of options as set out below:
 - 3,300,000 options require the share price to increase to 13.5 pence.
 - 3,300,000 options require the share price to increase to 21 pence.
 - 3,300,000 options require the share price to increase to 31 pence.

In all three tranches the share price increase must be achieved in the four weeks and one day period following the announcement of the Company's results for the year ended 31 December 2018.

Where options remain unexercised after a period of ten years from the date of grant the options expire. Moreover, the options will lapse in the case of termination of employment, subject to the good leaver provisions or the Remuneration Committee exercising its discretion to permit options to be exercised.

The total number of shares under option at 31 December 2017 is as follows:

	Number of share options	Weighted average exercise price (pence)
Unapproved share options		
Outstanding at beginning of period	14,145,500	6.11
Granted during the period	-	0.00
Lapsed during the period	(1,434,000)	9.00
Exercised during the period *	(500,000)	1.00
Outstanding at the end of the period	12,211,500	5.99
Exercisable at the end of the period	6,679,500	3.49

* The weighted average share price upon exercise of options exercised during the year was 9.700p (2016: 9.125p).

All acquisitions under the plan are equity-settled.

	Number of share options	Weighted average exercise price (pence)
EMI share options		
Outstanding at beginning of period	11,807,500	5.18
Granted during the period	1,934,000	9.75
Lapsed during the period	(1,709,000)	8.80
Exercised during the period *	(125,000)	1.00
Outstanding at the end of the period	11,907,500	5.45
Exercisable at the end of the period	8,648,500	3.94

The weighted average exercise price for all options outstanding at 31 December 2017 was 5.72 pence (2016: 5.69 pence) with a weighted average remaining contractual life of six years (2016: seven years).

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 31 December 2017 (continued)

29 SHARE-BASED PAYMENTS (CONTINUED)

The fair value per award granted and the assumptions used in the calculations are as follows:

Date of grant	Type of award	Number of shares	Exercise price (p)	Performance target price (p)	Share price at date of grant (p)	Fair value per option (p)	Award life (years)
30 July 2010	EMI	937,500	1	5	3	1	3
30 July 2010	Unapproved	625,000	1	5	3	1	3
5 November 2010	EMI	250,000	1	5	3	1	3
26 January 2012	EMI	312,500	1	5	3	1	3
18 December 2012	EMI	250,000	1	5	3	1	-
18 December 2012	Unapproved	1,750,000	1	5	3	1	-
26 July 2013	EMI	1,750,000	4.25	6	4.25	2	3
26 July 2013	Unapproved	1,750,000	4.25	6	4.25	2	3
13 November 2013	EMI	3,440,000	4.5	7.25	7.25	4	3
13 November 2013	Unapproved	560,000	4.5	7.25	7.25	4	3
28 October 2014	EMI	1,708,500	5.5	9.5	5.5	3.3	3
28 October 2014	Unapproved	1,994,500	5.5	9.5	5.5	3.3	3
18 January 2016	EMI	1,325,000	9	13.5	9	0.7	3
18 January 2016	Unapproved	1,800,000	9	13.5	9	0.7	3
18 January 2016	Unapproved	1,866,000	9	21	9	0.7	3
19 January 2016	Unapproved	1,866,000	9	31	9	0.7	3
25 August 2017	EMI	500,000	9.75	13.5	9.75	0.7	3
25 August 2017	EMI	717,000	9.75	21	9.75	0.7	3
25 August 2017	EMI	717,000	9.75	31	9.75	0.7	3
		24,119,000					

The key assumptions used in calculating the share-based payments charge are as follows:

- Fair value of each option was based on the share price at the date of grant and adjusted for the risk relating to satisfaction of the performance condition.
- Satisfaction of the performance condition has been assessed across a range of possible outcomes in order to determine the likelihood of the options vesting.
- The award life represents the minimum likely vesting period and consequently the highest per annum share-based payment charge.

30 RELATED UNDERTAKINGS

Name	Place and date of incorporation	Issued and full paid share	Percentage held	Business
HTEC Group Limited	England and Wales	Ordinary £1	100% held	Holding company
HTEC Limited*	England and Wales	Ordinary 1p	100% held	Holding company and manufacture and development of payment and information systems
WSF Services Limited	Scotland	Ordinary £1	100% held	Dormant
Prepaid Card Management Limited*	England and Wales	A/B share £0.01	51% held	Dormant
Indigo Retail Holdings Limited	England and Wales	Ordinary £1	100% held	Holding company
Indigo Retail Technology Limited*	England and Wales	A and B shares	100% held	Dormant
HTEC Retail Services Limited*	England and Wales	Ordinary £1	100% held	Dormant
Spedinorcon Limited*	England and Wales	Ordinary £1	100% held	Dormant
Master Change Limited	England and Wales	Ordinary £1	100% held	Dormant
Bellwood Limited*	England and Wales	Ordinary £1	100% held	Holding company
First Remit Limited	Ireland	Ordinary £1	100% held	Dormant
First Remit (UK) Limited	England and Wales	Ordinary £1	100% held	Dormant
Masternet Associates Limited	England and Wales	Ordinary £1	100% held	Dormant
Inter Galactic II Limited	England and Wales	Ordinary £1	100% held	Dormant
Bizpoints Limited*	England and Wales	Ordinary £1	100% held	Dormant
Universe Trustees (No.2) Limited	England and Wales	Ordinary £1	100% held	Dormant
Retail Markets (Europe) Limited	England and Wales	Ordinary £1	100% held	Dormant

* Investments held in a subsidiary company.

The registered address for all "related undertakings" is Southampton International Park, George Curl Way, Southampton, SO18 2RX.

All the above companies are included in the consolidated Group results.

31 RELATED PARTIES - COMPANY

	Debits to intercompany indebtedness	
	2017 No.	2016 No.
Balances with HTEC Limited		
Funding transactions	(391)	(936)
Management recharge	676	680

Amounts owed to subsidiaries are disclosed in note 20.

REMUNERATION OF KEY PERSONNEL

Details of the remuneration of the Directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 'Related Party Disclosures'. Further information regarding the Directors' individual remuneration package is provided in the Directors' Remuneration Report on pages 20 to 22.

	2017 £'000	2016 £'000
Short-term employee benefits and employees' NIC	571	606
Post employment benefits	41	38
Share-based payments	20	90
Compensation for loss of office	262	-
	894	734

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 31 December 2017 (continued)

31 RELATED PARTIES - COMPANY (CONTINUED)

LOAN NOTES ISSUED TO SIGNIFICANT SHAREHOLDERS

The Group owed the following balances on 9.5% interest loan notes to Downing LLP, a significant shareholder.

	2017 £'000	2016 £'000
Loan notes	80	80

The loan notes expired in 2017.

32 RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	1 January 2017	Cash flows	Acquisition	31 December 2017
Short-term borrowings	80	-	-	80
Finance lease liabilities	1,214	(316)	51	949
Total liabilities from financing activities	1,294	(316)	51	1,029

	1 January 2016	Cash flows	Acquisition	31 December 2016
Short-term borrowings	80	-	-	80
Finance lease liabilities	1,161	(592)	645	1,214
Total liabilities from financing activities	1,241	(592)	645	1,294

33 MATERIAL NON-CASH TRANSACTIONS

During the year, the Group entered into £381,000 (2016: £685,000) of finance leases for computer equipment.

These transactions are not reflected in the Group and Company cash flow statement.

FIVE-YEAR SUMMARY

	2013 £'m	2014 £'m	2015 £'m	2016 £'m	2017 £'m
Income and expenditure:					
Revenue	15.9	20.7	20.3	19.7	19.6
Gross profit	8.0	9.4	9.4	9.5	9.3
Gross margin %	50.3%	45.4%	46.3%	48.2%	47.4%
Operating profit	1.4	1.7	2.0	2.0	0.9
Net finance expense	(0.2)	(0.2)	(0.1)	(0.1)	(0.1)
Adjustment to estimates*	-	0.2	(0.2)	0.1	-
Profit before tax	1.2	1.7	1.7	2.0	0.8
Tax	0.1	(0.3)	(0.2)	(0.2)	(0.2)
Retained profit/(loss)	1.3	1.4	1.5	1.8	0.6
Cash flows:					
Cash inflow from operating activities	2.1	3.0	3.4	2.4	1.6
Cash outflow from investing activities	(1.8)	(1.5)	(1.6)	(1.8)	(1.8)
Cash outflow from financing activities	(0.4)	(0.4)	(0.5)	(0.6)	(0.3)
Increase in cash in the year	(0.1)	1.1	1.3	-	(0.5)
Assets employed:					
Non-current assets	18.5	19.0	18.7	19.1	19.4
Net current assets/(liabilities)	0.1	1.2	2.9	4.3	4.6
Non-current liabilities	(2.1)	(1.7)	(1.1)	(0.9)	(0.9)
	16.5	18.5	20.5	22.5	23.1
Financed by:					
Share capital and related reserves	19.1	19.6	20.0	20.0	20.0
Other reserves	2.0	2.0	2.0	2.0	2.0
Profit and loss account (deficit)/profit	(4.6)	(3.1)	(1.5)	0.5	1.1
	16.5	18.5	20.5	22.5	23.1
Earnings per share:					
	p	p	p	p	p
Basic earnings per share	0.66	0.65	0.66	0.79	0.27
Diluted earnings per share	0.62	0.60	0.63	0.76	0.26
Operating profit per share	0.67	0.80	0.89	0.88	0.38
	millions	millions	millions	millions	millions
Number of shares for basic EPS	201.5	216.9	228.0	231.3	231.9
Number of shares for diluted EPS	214.1	232.8	238.0	241.6	239.7

* Adjustments relate to contingent consideration estimates, recalculated annually.

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

A R Blazye (Chairman)
J M J Lewis
D M Paton
(Appointed 10 July 2017)
M Coster
R Goddard
(Resigned 26 September 2017)
R J Smeeton
(Resigned 10 July 2017)
B K Tank
(Resigned 27 November 2017)

SECRETARY

D M Paton

REGISTERED OFFICE

Southampton International Park
George Curl Way
Southampton, SO18 2RX

WEBSITE

<http://www.universeplc.com>

NOMINATED ADVISER

FinnCap
60 New Broad Street
London, EC2M 1JJ

SOLICITORS

Blake Morgan
New Kings Court
Tollgate
Chandlers Ford
Eastleigh, SO53 3LG

BANKERS

Bank of Scotland
144/148 High Street
Southampton, SO14 2JF

REGISTRARS

Link Asset Services
65 Gresham Street
London
EC2V 7NQ

REGISTERED NUMBER

02639726

AUDITOR

BDO LLP
Arcadia House
Maritime Walk
Ocean Village
Southampton, SO14 3TL



Universe Group plc
Southampton International Park
George Curl Way
Southampton
Hampshire
SO18 2RX
United Kingdom

www.universeplc.com

t: +44 (0)23 8068 9510

f: +44 (0)23 8068 9201

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