BUILDING INNOVATIVE PARTNERSHIPS WITH WORLD-LEADING RETAILERS

Annual Report and Accounts
for the year ended 31 December 2018
Stock Code: UNG

universe
group plc

ABOUT UNIVERSE GROUP

AN OVERVIEW

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 and Ireland, we service the needs of fuel forecourts and the convenience store marketplace by providing electronic point-of-sale, payment, media, loyalty solutions and support.

VISION

To innovate and lead the forecourt and convenience sector to empower retailers and realise a sustainable future.

MISSION

Our mission is to be the trusted partner for all integrated forecourt and convenience technology solutions.

WHAT MAKES US DIFFERENT?

Our reputation gives clients the confidence to explore more innovative solutions.

Our strategy lets us seek out and embrace start-up culture, pursuing the popularity of mobile technology to secure value and differentiation of our product set.

Our experience of retail lets us solve real-world problems for clients and their staff.

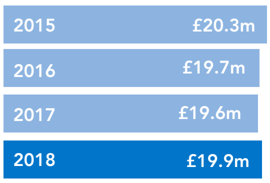
We have close ties with market leaders – such as NCR, Toshiba, and Ingenico – which means flexibility for retailers.

We believe no other provider in our market has the same levels of insight, point-of-sale systems and experience.

HIGHLIGHTS

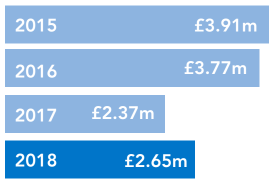
REVENUE

£19.9m



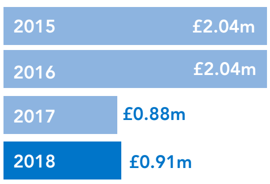
ADJUSTED EBITDA

£2.65m



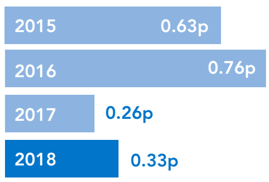
OPERATING PROFIT

£0.91m



DILUTED EARNINGS PER SHARE (P)

0.33p



UNIVERSE GROUP IN NUMBERS

98%
of Service Level agreement targets are met

40 years
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

CONTENTS

OUR PRODUCTS AND SERVICES

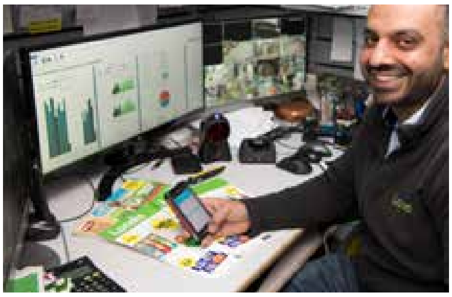
Through our operating subsidiary HTEC Ltd, we are committed to offering real-world solutions that create a faster, smoother and more efficent transaction experience, for both retailers and customers.

Our emphasis is on continuous improvement, which 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.

Celtech's RMS, 'ab-initio', ecompasses all of the core operational functions necessary to provide a single view of your business – in true real time – from master-data to full inventory management to POS and CRM.

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

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

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

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 service fuel 24/7 and at unmanned sites. They can be integrated onto petrol pumps or used independently to manage payment at multiple pumps.

LOYALTY

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

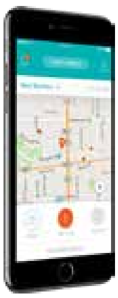
MEDIA

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

SUPPORT

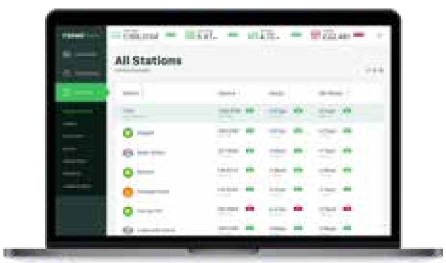
HTEC operates a UK-based 24/7 Service Desk to help customers resolve issues and HTEC's team of installation and Service Engineers cover the whole of the UK.

PARTNER PRODUCTS



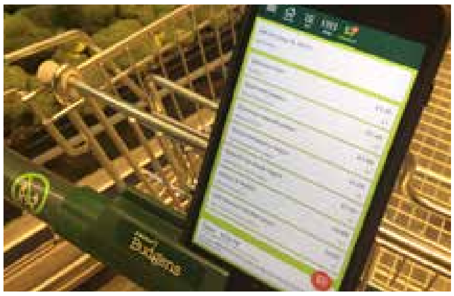
P97

HTEC partners with P97 to offer mobile payments at the pump or in store alongside providing targeted individual offers and promotions.



EDGEPETROL

HTEC have a UK partnership deal with EdgePetrol to offer HTEC customers live metric visbility to petrol retailers, enabling them to maximise returns of their assets.



UBAMARKET

HTEC has integrated the in-store scan-and-go app Ubamarket into its EPOS solutions to offer an end-to-end shopping experience which is now accessible for the convenience store market.

CHAIRMAN'S STATEMENT

We have had another profitable year, with continued successful implementation of our current product range. As an example, our new payment terminal, Gempay 3, now has an installed base of 2,930 terminals.

THE GROUP ACHIEVED REVENUES OF
£19.89m

GROSS MARGIN WAS MARGINALLY UP TO
48.2%

INTRODUCTION

I am pleased to announce our results for the year ended 31 December 2018.

We have had another profitable year, with continued successful implementation of our current product range. As an example, our new payment terminal, Gempay 3, now has an installed base of 2,930 terminals.

It was also a year of new customer acquisitions. For example, the success of the Gempay 3 payment terminal and our payment processing services in the UK resulted in Universe winning Euro Garages as a new customer. This roll out, involving over 370 forecourts in the UK, is near completion. In total this customer now has 540 Gempay 3 terminals installed and payment transaction volumes in excess of 3 million per month passing through our payment switch. Euro Garages has a well-deserved, global reputation for innovation and we are delighted to be making a contribution to their success.

Unfortunately, the Group was negatively impacted at the start of 2018 with the well known demise of our customer, Conviviality Plc and the loss of the planned £2m point of sale installation with them. We worked hard to absorb the negative effects of this unexpected event and are pleased with the modest growth in Group revenues in the year despite this.

The Group achieved revenues of £19.89m (2017: £19.62m) following stronger performances in both our service and installations division and our consultancy and licence division. Gross margin was marginally up to 48.2% (2017: 47.6%) and profit before tax was marginally up to £0.84m (2017: £0.78m). Statutory diluted earnings per share was up 26.9% to 0.33p (2017: 0.26p).

Net cash remained strong, ending the year at £1.92m (2017: £1.86m).

OVERVIEW

Universe has always worked with a 'build, buy or collaborate' strategy. During the year we were pleased to announce an important strategic partnership with P97 Networks Inc ('P97'), a leader in cloud-based mobile commerce, in-vehicle payments and digital marketing solutions, as an extension to our existing payment product range. Universe will now also offer P97's mobile commerce platform, helping consumers pay-at-pump on mobiles and retailers increase basket size and purchase frequency through targeted digital offers and secure mobile commerce.

In October 2018, Universe also launched its in-store scan-and-go app in partnership with Ubamarket. The Group has integrated this new functionality into its EPOS solutions, to offer an end-to-end shopping experience which is now accessible for the convenience store market.

During the year, we also strengthened our management team with the appointment of an experienced Chief Technology Officer as well as a new Sales and Marketing Director.

Following the year end and of particular note, on 3 April 2019, the Company acquired Camden Technology Investments Limited and its subsidiaries, each trading as Celtech, for a total consideration of £4.96m.

Celtech is a class-leading developer of cloud-based retail and wholesale management solutions ('RMS'). This acquisition will allow the Company to offer the very latest in RMS technologies to existing and new customers, and extends the Group's product offering into wholesaling and new geographies such as Ireland. Celtech develops and sells its RMS, called 'ab-initio', to wholesale and retail customers in the UK and Ireland with customers including Bestway, One Stop and various co-ops across the UK. The deal was funded out of the Group's existing cash resources and £5.00m of new banking facilities from HSBC.

In line with our market strategy we are constantly looking for ways to leapfrog competitive service offerings by making financially prudent acquisitions. Beyond Celtech, which will bring an industry-leading RMS capability, we would not preclude making further acquisitions, should these conform to our criteria and represent further opportunities to increase speed to value.

STAFF

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

SUMMARY AND OUTLOOK

Although at the start of 2018 we had planned for a stronger financial performance, we are pleased with robust results in the circumstances, with financial improvements against 2017, but importantly, also a significantly improved and positioned business as we go into the future.

During the year, we have secured important contract extensions from existing customers, won new customers and completed a number of strategic partnerships. The Group remains profitable and cash generative, with a high level of recurring revenues and strong cash reserves. We continue to invest in the business with key hires and significant product innovation, which will have clear benefits over the longer term.

Supported by the strategic acquisition of Celtech and our new partnerships, we are confident the Group is well positioned for significant growth in 2019 and beyond.

Andrew Blazye
Non-Executive Chairman

16 April 2019

SUPPORTED BY THE STRATEGIC ACQUISITION OF CELTECH AND OUR NEW PARTNERSHIPS, WE ARE CONFIDENT THE GROUP IS WELL POSITIONED FOR SIGNIFICANT GROWTH IN 2019 AND BEYOND.

STRATEGIC REPORT


Londis
croissants
Londis
Go green, shop lo

OPERATIONAL REVIEW

The Directors present their Strategic Report for the year ended 31 December 2018.

PRINCIPAL ACTIVITY

The Group designs, develops and supports point-of-sale, payment and loyalty systems for the UK and Ireland 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 the Chief Executive, Jeremy Lewis. A Senior Management Team, comprising the Chief Executive Officer, the Chief Financial Officer, the Chief Technology Officer, the HTEC Limited Managing Director and other 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 2018, 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

In accordance with our 'build, buy or collaborate' product strategy, 2018 was characterised by the continuation of development of our next generation products for deployment to fuel and convenience customers as well as a number of key partnerships formed and the acquisition of a retail management solution provider ('RMS') following the year end.

Our next generation EPOS solution has seen significant development in the year and the product is now ready for launch in the convenience sector following trials across several convenience stores in the UK. Gempay 3, which was launched in the second half of 2017, now operates successfully in 2,930 installations including over 540 with Euro Garages, a new customer for the Group won in the year.

Collaboration included partnerships with P97 Networks Inc., a leading cloud-based mobile commerce, in-vehicle payments and digital marketing solution provider which now complements our payment product range as well as a partnership with Ubamarket which operates an in-store scan-and-go app which the Group has integrated with our own EPOS solutions.

Following the year end, on 3 April 2019, the Group acquired Dublin-based Camden Technology Investments Limited and its subsidiaries, each trading as Celtech, for £4.96m.

Celtech develops and sells its retail management solution ('RMS'), called ab-initio, to wholesale and retail customers in the UK and Ireland. Approximately 14,000 users log into ab-initio everyday to manage their retail and wholesale businesses. Customers include Bestway, One Stop and various co-ops across the UK. For the year ended 31 December 2018, it had unaudited revenues of £1.92m and an unaudited loss after tax of £0.57m, principally as a result of it undertaking a large amount of internal product and systems development (rather than focusing on fee-earning work) that year. All development costs are written off as incurred. In 2017, the audited revenues were £3.33m and audited profit after tax was £0.47m. Unaudited net assets at 31 December 2018 were £0.75m (2017: audited net assets of £1.32m).

Celtech's ab-initio software product is a class-leading, cloud-based RMS offering that gives large, multi-site operators a uniquely powerful modular suite operating in real time and allowing them to control all aspects of their business with full reporting, insights and analytics. As such, it meets the needs of Universe's larger customers and broadens the Group's customer base in the UK and Ireland with additional high-profile retailers.

The initial consideration was €4.48m payable in cash and the issue of 22,842,785 new shares in Universe Group plc. The issued shares are subject to a 12-month lock-in period. In addition, the remaining 5% of the target company's share capital is subject to a put and call option exercisable after one year at a cost of €0.32m, to be satisfied in cash. The acquisition was funded out of existing cash resources and a new four-year, £3.50m term loan and a three-year, £1.50m revolving credit facility with HSBC.

In addition to pushing forward our build, buy or collaborate product strategy we also strengthened our management team with the appointment of an experienced Chief Technology Officer and a new Sales and Marketing Director.

SUMMARY

The year was another period of significant product development, new customer wins and key hires. This, combined with partnering with a number of complementary product providers and the acquisition of the Celtech business, leaves us with a strong product set for 2019 and beyond. We continue to focus on the petrol and convenience market and the Celtech acquisition and the cloud-based nature of its product allows us to look for further opportunities outside the UK and Ireland.

APPROVAL

The Strategic Report was approved by the Board on 16 April 2019 and signed on its behalf by:

Jeremy Lewis
Chief Executive Officer

16 April 2019

FINANCIAL REVIEW

Summary Consolidated Statement of Comprehensive Income	Note	2018 £'000	2017 £'000
Revenue	3,4	19,892	19,622
Cost of sales		(10,298)	(10,291)
Gross profit		9,594	9,331
Administrative expenses		(8,684)	(8,455)
Operating profit	2	910	876
Finance income	5	14	11
Finance expense	5	(88)	(108)
Profit before taxation	6	836	779
Taxation	7	(31)	(145)
Profit and total comprehensive income for the year		805	634
Gross profit margin		48.2%	47.6%
Adjusted EBITDA		2,653	2,768
		Pence	Pence
Earnings per share			
Basic EPS	8	0.35	0.27
Diluted EPS	8	0.35	0.26

Balance sheet extracts	2018 £'000	2017 £'000
Non-current assets	20,023	19,433
Current assets	10,380	9,848
Current liabilities	(5,483)	(5,212)
Non-current liabilities	(938)	(908)
Net assets	23,982	23,161

Net cash	Note	2018 £'000	2017 £'000
Cash and cash equivalents	15	2,717	2,885
Debt	18	(796)	(1,029)
		1,921	1,856

PROFIT AND LOSS

Revenues for the year were up 1.4% to £19.89m (2017: £19.62m). Revenues were impacted by the loss of £2.0m of budgeted revenues following the demise of one of our customers, Conviviality plc, in the early part of the year, however the Group was still able to grow revenues through new customer wins and a strong performance across other members of our customer base.

The loss of revenues with Conviviality was the main reason for software licences and hardware revenues being down 7.1% to £3.64m (2017: £3.92m). However, this drop was covered by small improvements across service and installations, up 3.5% to £8.18m (2017: £7.90m), data services up 2.0% to £4.12m (2017: £4.04m) and consultancy, licence and maintenance up 4.8% to £3.95m (2017: £3.77m).

The introduction of IFRS 15 'revenues from contracts with customers' for the year has had negligible impact on the Group's revenue recognition. However, the additional disclosure associated with IFRS 15 shows 18.3% (2017: 20.0%) of the Group's revenues came from the sale of hardware and software licences, 55.7% (2017: 53.5%) from contracted terms and the balance from assignments completed by both our service and consultancy teams.

Gross profit margin was marginally up on prior year at 48.2% (2016: 47.6%). Included in cost of sales is £2.60m of third-party specific hardware, representing 13.1% of revenues (2017: £2.56m representing 13.0% of revenues).

Administrative expenses were up £0.23m in the year to £8.68m (2017: £8.46m). £0.56m was due to the increase in expensed research and development at £3.49m representing 17.5% of revenues (2017: £2.94m representing 15.0% of revenues). The Company continued to invest heavily in the year, primarily on its next generation EPOS solution but managed to make savings across the rest of its administrative cost base.

Earnings before interest, taxes, share-based payments, depreciation and amortisation 'Adjusted EBITDA' (see note 2) is considered a key operational measure and was up 11.8% to £2.65m (2017: £2.37m). Profit before taxation ('PBT') was consistent with the prior year at £0.84m (2017: £0.78m) representing a PBT margin of 4.2% (2017: 4.0%).

The underlying tax charge for the period was £0.03m (2017: £0.15m) resulting from a £0.16m credit relating to a prior period being offset by a £0.19m charge linked to a movement in the deferred tax balance. No corporation tax is payable for the 2018 trading performance. Earnings per share for the year were up 29.6% to 0.35p (2017: 0.27p).

BALANCE SHEET

Non-current assets were up £0.59m to £20.02m (2017: £19.43m) largely due to capitalised development costs increasing £0.63m to £4.08m (2017: £3.45m) being the net of amounts capitalised in the year of £1.61m (2017: £1.42m) and amounts amortised in the year of £0.98m (2017: £0.72m).

Current assets were up £0.53m to £10.38m (2017: £9.85m) largely due to trade debtors increasing £0.73m to £5.02m (2017: £4.29m). Whilst debtor days were up from 69 days to 79 days the Group is comfortable it has provided adequately for any potential bad debt.

Current liabilities were up £0.27m to £5.48m (2017: £5.21m) largely due to a £0.12m increase in deferred revenue to £2.04m (2017: £1.92m) and a £0.19m increase in accruals to £1.15m (2017: £0.96m).

Non-current liabilities were £0.94m (2017: £0.91m) and include the non-current liability associated with finance leases on computer equipment of £0.22m (2017: £38m) and deferred tax of £0.72m (2017: £0.53m).

CASH FLOW AND FINANCING

The increase in EBITDA to £2.65m (2017: £2.37m), reduced by an increase in the working capital requirements of £0.27m (2017: £0.76m), resulted in cash inflows from operations increasing 47.8% to £2.38m (2017: £1.61m).

Investment in capitalised product development increased 13.4% to £1.61m (2017: £1.42m). As in previous years, a significant 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.

The cash inflows from operating activities helped to fund product development, a £0.07m investment in fixed assets (2017: £0.35m) and £0.80m of finance lease capital repayments (2017: £0.32m).

Cash on the balance sheet at the year end stood at £2.72m (2017: £2.89m) and after deducting debt of £0.80m (2017: £1.03m), net cash (cash and cash equivalents less borrowings) at the year end was £1.92m (2017: £1.86m).


htec
Specialist Retail Solutions
C Stores
Forecourt
EFT Payment
Loyalty

KEY PERFORMANCE INDICATORS

A SALES ORDER INFLOW

Definition
Order book targets are set for each sales person at the beginning of the year and discussed on a weekly basis by the Executive team.

2018 Performance
The order booking target for 2018 was £14.6m. For the reasons previously set out, primarily the lost business following the demise of Conviviality plc, this target was not achieved in 2018.

B OPERATING PROFIT

Definition
Each business area is monitored each month and management accounts are discussed at both Executive team meetings and Board meetings.

2018 Performance
The Group operating profit margin percentage was budgeted at 10.8% for 2018. 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 4.6% (2017: 4.5%). This is down on our budgeted target, primarily due to the loss of budgeted revenue and profit from the EPOS sale to Conviviality plc.

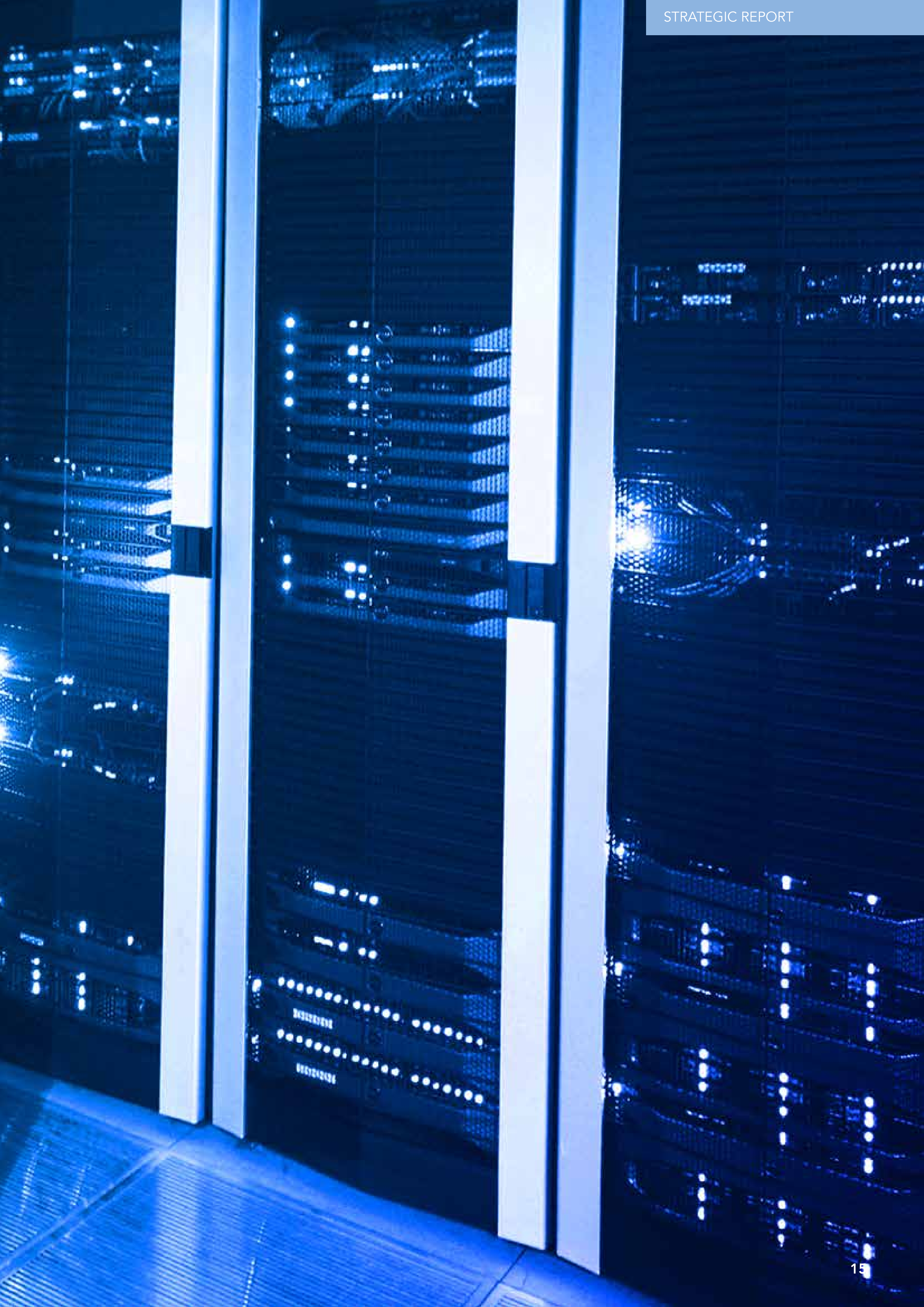
C PERFORMANCE AGAINST CONTRACTED SERVICE LEVEL AGREEMENTS ('SLAs')

Definition
SLA performance is monitored on a weekly basis and discussed with customers at quarterly review meetings.

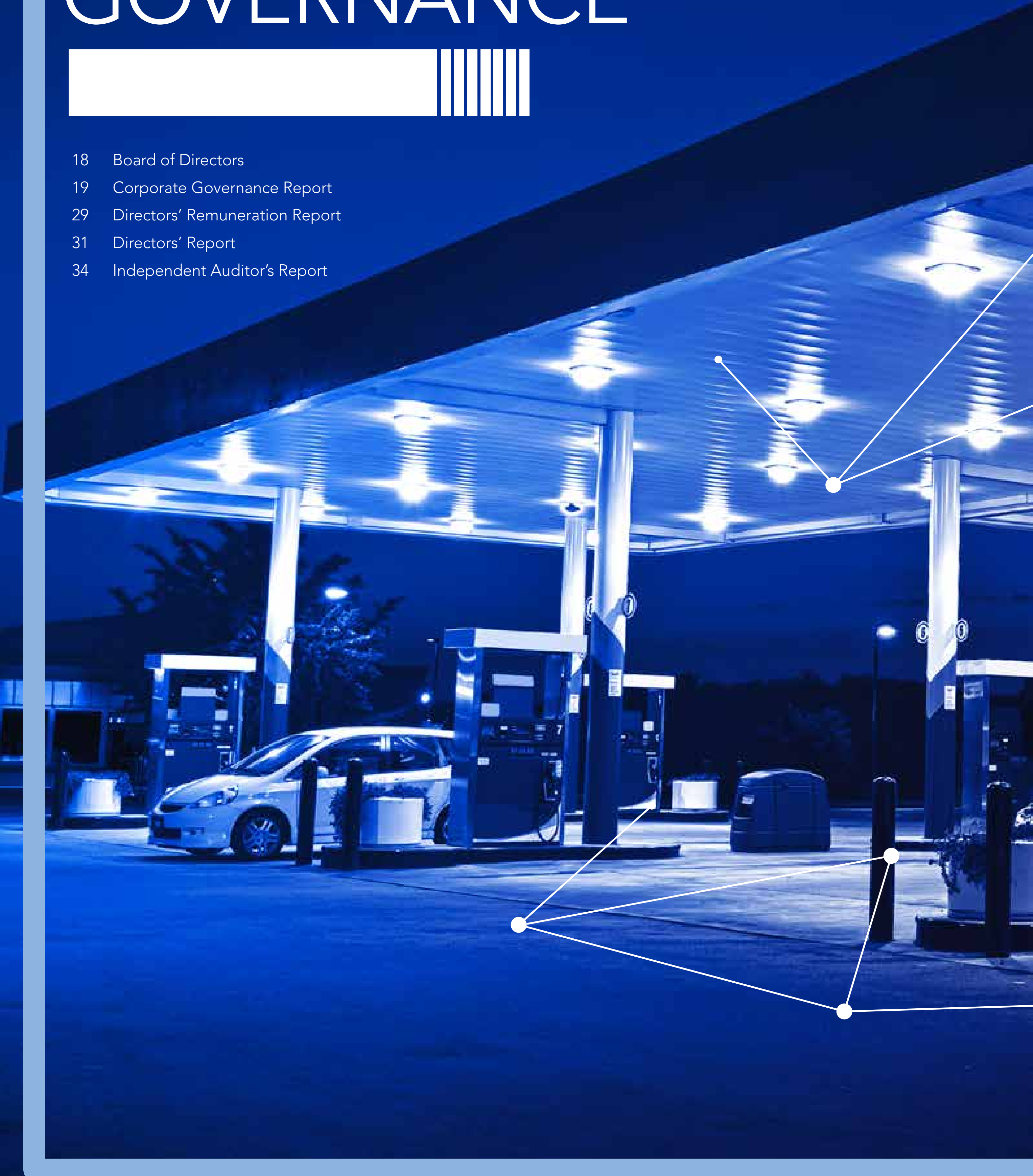
2018 Performance
An SLA performance of 95% (2017: 98%) was achieved in 2018 against SLA targets of 93%.

RISK AND UNCERTAINTIES

RISK AND POSSIBLE IMPACT	RISK MITIGATION ACTIVITIES
1 CONCENTRATION OF CUSTOMERS	
Three customers accounted for 55% of sales in 2018 (2017: 51%). Given this concentration, the loss of a major customer would result in a material reduction in turnover.	We act to mitigate the risk by securing long-term contracts with customers wherever possible. We also seek to provide high service levels and innovate new products. In addition, we are focused on business 'initiates' designed to broaden the customer base.
2 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.
3 MAINTAINING THE 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.
4 DEPENDENCE ON TECHNOLOGY	
We are heavily dependent on technology for the smooth running of our business. A cybersecurity incident could lead to a loss of data integrity within our systems or loss of financial assets through fraud. A cyber attack 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 plan.
5 SIGNIFICANT OWNERSHIP CHANGES	
Significant ownership changes could occur 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 within the other technologies used in petrol retailing and the convenience store sectors.



OUR GOVERNANCE

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BOARD OF DIRECTORS

ANDREW BLAZYE
NON-EXECUTIVE CHAIRMAN (60)

Appointment date:
September 2017.

Experience:
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.

Committees:
Chair of the Audit Committee, member of the Remuneration Committee.

External appointments:
President of International Corporate Development at FleetCor Technologies, Inc. since 2012.

Skills brought to the Board:
Loyalty marketing, petrol retailing and payment systems.

Number of Board meetings attended in 2018:
6 out of 6.

Sector experience:
Loyalty, petrol, retail and payment.

DARYL PATON ACA
CHIEF FINANCIAL OFFICER (54)

Appointment date:
July 2017.

Experience:
Chief Financial Officer of Access Intelligence plc and of CMO Global Limited.

Committees:
Company Secretary.

External appointments:
None.

Skills brought to the Board:
M&A expertise, finance and operational experience.

Number of Board meetings attended in 2018:
6 out of 6.

Sector experience:
Software.

JEREMY LEWIS ACA
CHIEF EXECUTIVE OFFICER (56)

Appointment date:
September 2013.

Experience:
Chief Executive Officer of Catalis SE, Director of M&A at Flemings Investment Bank. Chief Executive Officer (to February 2005) and Chairman of the Advisory Board, Terraplay Systems AB. Chief Financial Officer of Eidos.

External appointments:
None.

Skills brought to the Board:
Innovation, M&A expertise, finance, technology and digital media.

Number of Board meetings attended in 2018:
6 out of 6.

Sector experience:
Software.

MALCOLM COSTER
NON-EXECUTIVE DIRECTOR (74)

Appointment date:
August 2007.

Experience:
President of Europe, Middle East and Africa for UNISYS Corporation. Executive member of the Board and Managing Partner of Management Consulting at Coopers & Lybrand.

Committees:
Chair of the Remuneration Committee. Member of the Audit Committee.

External appointments:
None.

Skills brought to the Board:
30 years' experience as Chairman/ Director of public and private technology services.

Number of Board meetings attended in 2018:
6 out of 6.

Sector experience:
Software.

CORPORATE GOVERNANCE REPORT

The Board believes strongly in the value and importance of good corporate governance and in our accountability to all of Universe Group's stakeholders, including shareholders, staff, clients and suppliers. In the statement below, we explain our approach to governance, and how the Board and its committees operate.

Changes to AIM rules on 30 March 2018 required AIM companies to apply a recognised corporate governance code by 28 September 2018.

The corporate governance framework which the Group operates, including Board leadership and effectiveness, Board remuneration, and internal control is based upon practices which the Board believes are proportional to the size, risks, complexity and operations of the business and is reflective of the Group's values. Of the two widely recognised formal codes, we have therefore decided to adhere to the Quoted Companies Alliance's ('QCA') Corporate Governance Code for small and mid-size quoted companies (revised in April 2018 to meet the new requirements of AIM Rule 26).

The QCA Code is constructed around ten broad principles and a set of disclosures. The QCA has stated what it considers to be appropriate arrangements for growing companies and asks companies to provide an explanation about how they are meeting the principles through the prescribed disclosures. We have considered how we apply each principle to the extent that the Board judges these to be appropriate in the circumstances, and below we provide an explanation of the approach taken in relation to each. The Board considers that it does not depart from any of the principles of the QCA Code.

BOARD COMPOSITION AND COMPLIANCE

The QCA Code requires that the boards of AIM companies have an appropriate balance between executive and non-executive directors, of which at least two should be independent. The Universe Group plc Board consists of two Executive Directors and two Non-Executive Directors, including Andrew Blazye as Non-Executive Chairman. Malcolm Coster, as well as Non-Executive Director, assumes the role of Chair of the Remuneration Committee and is a member of the Audit Committee.

BOARD EVALUATION

We have supported the QCA Code's principle to review regularly the effectiveness of the Board's performance as a unit, as well as that of its committees and individual Directors. We will be considering the use of external facilitators in future Board evaluations.

SHAREHOLDER ENGAGEMENT

We have made significant efforts to ensure effective engagement with both institutional and private shareholders, in addition to the usual roadshows following the release of full year and interim results, each of which was expanded to include a greater number of existing and potential new investors.

The Board has ultimate responsibility for reviewing and approving the Annual Report and Accounts and it has considered and endorsed the arrangements for their preparation, under the guidance of its Audit Committee. The Directors confirm that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

The following paragraphs set out Universe Group's compliance with the ten principles of the QCA Code.

PRINCIPLE 1

Establish a strategy and business model which promotes long-term value for shareholders

OUR PURPOSE AND OBJECTIVE

The purpose of the Group is encapsulated in the expression of its mission, which is to be an innovative and profitable British fintech developer of point-of-sale, payment and loyalty systems.

The objective of the Group is to maximise revenue and profit growth by cementing its position as a market leader in its chosen verticals in the UK ahead of geographical and other vertical expansions.

OUR PROPOSITION

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. 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. 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.

PRINCIPLE 2

Seek to understand and meet shareholder needs and expectations

Responsibility for investor relations rests with the CEO, supported by the CFO. During the period under review, the following activities were pursued to develop a good understanding of the needs and expectations of all constituents of the Group's shareholder base:

Date	Description	Participants
Apr 18	Full year results roadshow to institutional shareholders	JMJL, DP
Jun 18	AGM	JMJL, DP, AB, MC
Sept 18	Preliminary results roadshow	JMJL, DP
Apr 19	Full year results roadshow to institutional shareholders	JMJL, DP

Key:

JMJL: Jeremy Lewis;

DP: Daryl Paton;

AB: Andrew Blazye;

MC: Malcolm Coster

The Group is committed to communicating openly with its shareholders to ensure that its strategy and performance are clearly understood. We communicate with shareholders through the Annual Report and Accounts, full-year and half-year announcements, trading updates and the annual general meetings ('AGM'), and we encourage shareholders' participation in face-to-face meetings. A range of corporate information (including all Universe Group announcements) is also available to shareholders, investors and the public on our website.

PRIVATE SHAREHOLDERS:

The AGM is the principal forum for dialogue with private shareholders, and we encourage all shareholders to attend and participate. The Notice of Meeting is sent to shareholders at least 21 days before the meeting. The chairs of the Board and all committees, together with all other Directors whenever possible, attend the AGM and are available to answer questions raised by shareholders. Shareholders vote on each resolution, by way of a poll. For each resolution we announce the number of votes received for, against and withheld and subsequently publish them on our website.

INSTITUTIONAL SHAREHOLDERS:

The Directors actively seek to build a mutual understanding of objectives with institutional shareholders. Our CEO and CFO make presentations to institutional shareholders and analysts immediately following the release of the full-year and half-year results. We communicate with institutional investors frequently through a combination of formal meetings, participation at investor conferences, roadshows and informal briefings with management. The majority of meetings with shareholders and potential investors are arranged by the broking team within the Group's nominated advisor. Following meetings, the broker provides anonymised feedback to the Board from all fund managers met, from which sentiments, expectations and intentions may be gleaned.

In addition, we review analysts' notes to achieve a wide understanding of investors' views. This information is considered by the Board and has contributed to the preparation of the Group's investor relations strategy.

PRINCIPLE 3

Take into account wider stakeholder and social responsibilities and their implications for long-term success

Stakeholder	Reason for engagement	How we engage
STAFF – our ability to fulfil and exceed a client's expectations and develop and enhance our products and services on which they depend relies on having talented and motivated staff.	Good two-way communication with staff is a key requirement for high levels of engagement, fostering a culture of innovation.	Regular all staff briefings and daily and weekly team meetings. Invitation to staff to ask questions of management that are answered in these briefings. Open invitation to all staff to have one-on-one meetings with any of the senior management team and Executive Directors. Annual employee reviews. These have all provided insights that have led to enhancement of management practices and staff incentives.
CLIENTS – our success and competitive advantage is dependent upon fulfilling client requirements, particularly in relation to the quality of our product and our speed and ability to respond to installation and service desk requests.	Understanding current and emerging requirements of clients enables us to develop new and enhanced product and services, together with building a team of engineers and client support personnel capable of delivering, installing and servicing our clients.	Seek feedback on product and services through our account management and product management teams. Measure and manage performance against contracted service level agreements ('SLAs'). SLA performance is monitored on a weekly basis and discussed with customers at quarterly review meetings. Working closely with our clients, understanding their needs and measuring our delivery and service performance has led to the Group establishing relationships with large household brands and maintaining these relationships in many cases for significant periods of time.

PRINCIPLE 3 (CONTINUED)

Take into account wider stakeholder and social responsibilities and their implications for long-term success

Stakeholder	Reason for engagement	How we engage
SUPPLIERS – as a software and service provider to the fuel and convenience sectors, the Group relies on many suppliers to allow it to deliver its end-to-end service including a number of collaboration partners and hardware manufacturers.	We are one of many customers for our suppliers who also trade with our competitors so it's important we maintain a strong relationship with them through regular communication and trade on terms that allow us to become a valuable customer to them.	We have close relationships with our key suppliers, talking to them regularly, sharing our plans where relevant and involving them early in negotiations of key and significant opportunities with our clients to avoid late surprises and unrealistic expectations. We operate systems to ensure that supplier invoices are processed and paid promptly. These have led to a large network of long-term suppliers happy to do business with us and support us through busy times and tight deadlines.
SHAREHOLDERS – as a public company we must provide transparent, easy-to-understand and balanced information to ensure support and confidence.	Meeting regulatory requirements and understanding shareholder sentiments on the business, its prospects and performance of management.	Regulatory news releases. Keeping the investor relations section of the website up-to-date. Participation at investor events. Publish interviews with investor publishers and broadcasters. Annual and half-year reports and presentations. AGM. Capital markets events. We believe we successfully engage with our shareholders.
COMMUNITIES – what we do impacts communities in the places where we operate and elsewhere.	It is important to be perceived as a reputable business that makes a positive contribution to local economies and is attractive as an employer and partner.	Multiple activities to support fundraising for local charities and good causes. Participation in apprenticeship and other schemes to support and provide opportunities to young people. These have led to an improved profile for the Group in the local areas of its major operations.

PRINCIPLE 4

Embed effective risk management, considering both opportunities and threats, throughout the organisation

The Group holds a risk register for the Group that identifies key risks in the areas of corporate strategy, financial, clients, staff, environmental and the investment community. The register is reviewed periodically and is updated as and when necessary.

Within the scope of the annual audit, specific financial risks are evaluated in detail, including in relation to foreign currency, interest rates, liquidity and credit. In addition to this, in the Strategic Report, the Group also reports on principal risks and uncertainties facing the Group.

On joining the Company, staff are instructed to, anonymously or otherwise, report any security risks or threat they perceive in the operations of the business. On receipt of any such notification, a security incident team is assembled to assess and take remedial action as appropriate in the circumstances. Staff are periodically reminded thereafter through a course of regular online training.

PRINCIPLE 5

Maintain the Board as a well-functioning, balanced team led by the chair

The members of the Board have a collective responsibility and legal obligation to promote the interests of the Group, and are collectively responsible for defining corporate governance arrangements. Ultimate responsibility for the quality of, and approach to, corporate governance lies with the chair of the Board.

The Board consists of four Directors, of which two are Executive and two are independent Non-Executives. The Board is supported by two committees: Audit and Remuneration. The Board does not consider that it is of a size at present to require a separate nominations committee, and all members of the Board are involved in the appointment of new Directors. The Board intends to appoint additional Non-Executive Directors as its business expands.

Non-Executive Directors are required to attend five Board and Board committee meetings per year (in Southampton and London) and to be available at other times as required for face-to-face and telephone meetings with the Executive team and investors.

Meetings held during the year and the attendance of Directors is summarised below:

	Board meetings (inc. those held by conference call)		Audit Committee		Remuneration Committee	
	Possible	Attended	Possible	Attended	Possible	Attended
Executive Directors						
Jeremy Lewis	7	7	2*	2*	–	–
Daryl Paton	7	7	2*	2*	–	–
Non-Executive Directors						
Andrew Blazye	7	7	2	2	2	2
Malcolm Coster	7	7	2	2	2	2

*Jeremy Lewis and Daryl Paton are not members of the Audit Committee but attend by invitation.

The Board has a schedule of regular business, financial and operational matters, and each Board committee has compiled a schedule of work to ensure that all areas for which the Board has responsibility are addressed and reviewed during the course of the year. The Chairman is responsible for ensuring that, to inform decision-making, Directors receive accurate, sufficient and timely information. The Company Secretary compiles the Board and committee papers which are circulated to Directors prior to meetings. The Company Secretary provides minutes of each meeting and every Director is aware of the right to have any concerns minuted and to seek independent advice at the Group's expense where appropriate.

PRINCIPLE 6

Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities

All four members of the Board bring relevant sector experience in finance, technology and payments, all have at least nine years of public markets experience and three members are Chartered Accountants. All Directors are male. The Board believes that its blend of relevant experience, skills and personal qualities and capabilities is sufficient to enable it to successfully execute its strategy. Directors attend seminars and other regulatory and trade events to ensure that their knowledge remains current.

ANDREW BLAZYE, NON-EXECUTIVE CHAIRMAN

Term of office: Appointed as Chairman on 26 September 2017; Chair of the Audit Committee and a member of the Remuneration Committee.

Andrew joined the Universe Group Board in May 2015 as a Non-Executive Director, replacing Robert Goddard as Chairman in September 2017. Andrew 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.

Time commitment: one to two days per month.

MALCOLM COSTER, NON-EXECUTIVE DIRECTOR

Term of office: Joined as Non-Executive Director on 15 August 2007; Chair of the Remuneration Committee and a member of the Audit Committee.

Malcolm Coster has over 30 years' experience at board-level positions in technology services and manufacturing companies. Prior to these roles he was President of Europe, Middle East and Africa for UNISYS Corporation from 1994 to 1997, and an executive member of the Board and Managing Partner of Management Consulting at Coopers & Lybrand from 1986 to 1994. His earlier career was in senior international IT positions with the BP Group. Malcolm has a Special Honours degree in Mathematics from Kings College, London and is a qualified Chartered Engineer. Malcolm is an experienced chairman, board member and non-executive director of several well-known public companies.

Time commitment: one to two days per month.

JEREMY LEWIS, CHIEF EXECUTIVE OFFICER

Term of office: Appointed as CEO on 23 September 2013.

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.

Time commitment: full time.

DARYL PATON, CHIEF FINANCIAL OFFICER

Term of office: Appointed as CFO and Company Secretary on 11 July 2017.

Daryl joined 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.

Time commitment: full time.

PRINCIPLE 7

Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement

A Board evaluation process led by the Chairman took place in August 2017. All then current Directors began by completing questionnaires about the effectiveness of the Board and a self-assessment of their own contributions which were returned to the Chairman. The Chairman then reviewed this information and used it as the basis for an individual discussion with each Director, followed by a collective discussion with the Board.

The review considers effectiveness in a number of areas including general supervision and oversight, business risks and trends, succession and related matters, communications, ethics and compliance, corporate governance and individual contribution.

A number of refinements in working practices were identified as a result of this exercise and have since been adopted.

We will be considering the use of external facilitators in future Board evaluations.

As the business expands, the Executive Directors will be challenged to identify potential internal candidates who could potentially occupy Board positions, and set out development plans for these individuals.

PRINCIPLE 8

Promote a corporate culture that is based on ethical values and behaviours

The Board believes success will be achieved by treating all our stakeholders fairly and with respect. Accordingly, in dealing with each of the Company's principal stakeholders, we encourage our staff to operate in an honest and respectful manner. Compliance with this is considered an important part of the annual assessment of staff. Principles include:

Customers first – putting ourselves in their shoes to understand their needs and striving to exceed their expectations.

Positivity – the Group encourages self-motivation, adaptability, agility and feeling empowered to make a difference by speaking out with ideas to make things better.

Team players – we operate and depend on each other as a team and not as a collection of individuals. We are passionate about communicating and learning from colleagues, customers and other stakeholders.

Be innovative – producing and delivering solutions designed to deliver on and exceed our clients' expectations whilst working smarter to reduce costs, increase efficiency and make lives easier.

Respect – be respectful, courteous, honest and straightforward in all our dealings. We honour diversity, individuality and personal differences. We are committed to conducting our business with the highest personal, professional and ethical standards.

The culture of the Group is characterised by these values which are communicated to staff through internal communications. A staff recognition programme operates where employees can nominate any of their colleagues for a contribution that is in keeping with the five core values. Nominees are recognised and rewarded at regular Company-wide staff briefings.

PRINCIPLE 9

Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board

The **Board** provides strategic leadership for the Group and operates within the scope of a robust corporate governance framework. Its purpose is to ensure the delivery of long-term shareholder value, which involves setting the culture, values and practices that operate throughout the business, and defining the strategic goals that the Group implements in its business plans. The Board defines a series of matters reserved for its decision and has approved terms of reference for its Audit and Remuneration Committees to which certain responsibilities are delegated. The chair of each committee reports to the Board on the activities of that committee.

The **Audit Committee** monitors the integrity of financial statements, oversees risk management and control, monitors the effectiveness of the internal audit function and reviews external Auditor independence.

The **Remuneration Committee** sets and reviews the compensation of Executive Directors including the setting of targets and performance frameworks for cash- and share-based awards.

The **Executive Board**, consisting of the Executive Directors, operates as a management committee, chaired by the CEO, which reviews operational matters and performance of the business, and is responsible for significant management decisions while delegating other operational matters to individual managers within the business.

The **Chairman** has overall responsibility for corporate governance and in promoting high standards throughout the Group. He leads and chairs the Board, ensuring that committees are properly structured and operate with appropriate terms of reference, ensures that performance of individual Directors, the Board and its committees are reviewed on a regular basis, leads in the development of strategy and setting objectives, and oversees communication between the Group and its shareholders.

The **Chief Executive Officer** provides coherent leadership and management of the Group, leads the development of objectives, strategies and performance standards as agreed by the Board, monitors, reviews and manages key risks and strategies with the Board, ensures that the assets of the Group are maintained and safeguarded, leads on investor relations activities to ensure communications and the Group's standing with shareholders and financial institutions is maintained, and ensures that the Board is aware of the views and opinions of employees on relevant matters.

The **Executive Directors** are responsible for implementing and delivering the strategy and operational decisions agreed by the Board, making operational and financial decisions required in the day-to-day operation of the Group, providing Executive leadership to managers, championing the Group's core values and promoting talent management.

The **Independent Non-Executive Directors** contribute independent thinking and judgement through the application of their external experience and knowledge, scrutinise the performance of management, provide constructive challenge to the Executive Directors and ensure that the Group is operating within the governance and risk framework approved by the Board.

The **Company Secretary** is responsible for providing clear and timely information flow to the Board and its committees and supports the Board on matters of corporate governance and risk.

The matters reserved for the Board are:

- Setting long-term objectives and commercial strategy.
- Approving annual operating and capital expenditure budgets.
- Changing the share capital or corporate structure of the Group.
- Approving half-year and full-year results and reports.
- Approving dividend policy and the declaration of dividends.
- Approving major investments, disposals, capital projects or contracts.
- Approving resolutions to be put to general meetings of shareholders and the associated documents or circulars.

APPROVING CHANGES TO THE BOARD STRUCTURE

The Board has approved the adoption of the QCA Code as its governance framework against which this statement has been prepared and will monitor the suitability of this code on an annual basis and revise its governance framework as appropriate as the Group evolves.

PRINCIPLE 10

Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders

In addition to the investor relations activities described above, the following Audit and Remuneration Committee reports are provided.

AUDIT COMMITTEE REPORT

During the period, the Audit Committee has continued to focus on the effectiveness of the controls throughout the Group. The Audit Committee consists of Andrew Blazye, Chair and Malcolm Coster. The Committee met twice in the period, and the external Auditor and Chief Financial Officer were invited to attend these meetings. Consideration was given to the Auditor's pre- and post-audit reports and these provide opportunities to review the accounting policies, internal control and the financial information contained in both the annual and interim reports. The Committee also met with the Auditor with no Executives present.

The terms of reference for the Audit Committee can be found on page 34.

REMUNERATION COMMITTEE REPORT

The remit of the Remuneration Committee is to determine the framework, policy and level of remuneration, and to make recommendations to the Board on the remuneration of Executive Directors. In addition, the Committee oversees the creation and implementation of all-employee share plans. The Remuneration Committee consists of Malcolm Coster, Chair, and Andrew Blazye. The Committee met two times.

In setting remuneration packages, the Committee ensured that individual compensation levels, and total Board compensation, were comparable with those of other AIM-listed companies.

The terms of reference for the Remuneration Committee can be found on page 29.

DIRECTORS' SHARE DEALINGS IN THE PERIOD

None.

On behalf of the Board

Andrew Blazye
Chairman

16 April 2019

DIRECTORS' REMUNERATION REPORT

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 in note 30, 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 rates of pay at other companies and other groups, when considering remuneration packages for Executives. The Committee may use outside professional advice if they consider it necessary, and such advice was sought in this respect in 2015 from the remuneration consultancy H2glenfern Limited, who carried out a comparative study of Executive remuneration in companies similar to Universe Group plc.

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, participates 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	2018 £000	2017 £000
Executives						
J M J Lewis	226	12	–	23	261	230
D M Paton	174	7	–	16	197	69
R J Smeeton	–	–	–	–	–	286
B K Tank	–	–	–	–	–	185
Non-Executives						
A Blazye	75	–	–	9	84	30
M Coster	30	–	–	–	30	39
R Goddard	–	–	–	–	–	35
	505	19	–	48	572	874

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 3.40p per 1p share (2017: 6.25p per 1p share) and the range of market prices during the year was between 3.40p and 6.75p.

	Scheme	At 1 January 2018	Granted	Exercised	Cancelled	At 31 December 2018	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
		13,585,500	–	–	–	13,585,500		

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

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
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
D M Paton	1,934,000	9.75p	* see below	25 August 2017
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

*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 31.

On behalf of the Board

Malcolm Coster
Chairman of the Remuneration Committee

16 April 2019

DIRECTORS' REPORT

The Directors present their report and the audited accounts for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES AND FUTURE DEVELOPMENTS

The principal activities of the Group and its likely future developments are covered in the Strategic Report on pages 6 to 14.

GOING CONCERN

UK company law requires Directors to consider whether it is appropriate to prepare the financial statements on the basis 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 20 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.

ASSESSMENT OF LIKELY IMPACT OF THE UNITED KINGDOM'S PROPOSED WITHDRAWAL FROM THE EUROPEAN UNION ('BREXIT') ON THE GROUP

All sectors and industries have had to take a more cautious approach to decision-making, including investment in point-of-sale, payment and loyalty solutions, hence any ongoing uncertainty may have an impact on the length of sales cycles.

We do not believe the outcome of Brexit will diminish the demand for fuel and/or convenience which are the markets our customers operate in. We believe our customers will always be looking for point-of-sale, payment and loyalty solutions that improve the effectiveness of how they operate, drive footfall and improve gross margins. We believe we will continue to have access to the UK, European and Rest of the World markets either through our UK-based operations or our recently acquired Ireland-based business, 'Celtech'.

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 20.

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 £3,494,000 (2017: £2,939,000) was charged to the Consolidated Statement of Comprehensive Income. This included £1,274,000 (2017: £1,099,000) of expense associated with customer-funded development work, £802,000 (2017: £537,000) of capitalised development work amortisation and £53,000 (2017: £61,000) of depreciation of equipment. In addition, development costs of £1,609,000 (2017: £1,417,000) were capitalised. Research and development in the year concentrated on the continued development of our new Back Office and Head Office systems.

POST BALANCE SHEET EVENTS

After the year end the Group acquired Camden Technologies Limited. More detail can be found in the Strategic Report and note 33 to the accounts.

DIVIDENDS

The Directors do not propose the payment of a dividend (2017: £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 25 June 2019, together with explanatory notes, appear in the separate Notice of Annual General Meeting sent to all shareholders.

SUBSTANTIAL SHAREHOLDINGS

As at 16 April 2019, 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	57,475,959	22.52%
Ennismore Fund Management	23,960,751	9.39%
Gresham House Strategic PLC	23,719,207	9.29%
Astralflair Limited	22,842,785	8.95%
Alto Investments	17,770,810	6.96%
Amati Global Investors	11,956,199	4.69%
B K Tank	10,639,771	4.17%
City Asset Management	10,112,482	3.96%
River and Mercantile Asset Management	10,100,000	3.96%

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

M Coster

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	
	2018 Number	2017 Number
J M J Lewis	267,224	267,224
M Coster	1,028,725	1,028,725
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 Directors' Remuneration report on page 30.

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;
- 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 ongoing 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 18, 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,
- 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 16 April 2019 and signed on its behalf by:

D M Paton
Director

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 2018 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statement of Changes in Equity, the Consolidated and Company Statement of Financial Position, the Consolidated and Company Cash Flow Statement and 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 financial statements is applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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 2018 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 IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; 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 and the parent company 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.

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 judgment, 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.

REVENUE RECOGNITION

As detailed in the accounting policies in note 1 of the financial statements, the Group earns revenue from the sale of software licences and hardware, services and installations, transaction processing and consultancy. Management exercises judgement in their application of revenue recognition criteria on contracts. This judgement relates to the estimated stage of completion of service and consultancy contracts and the cut-off on hardware installations around the year end, both of which drive the recognition of revenue and therefore profit and so are considered a Key Audit Matter. The procedures on revenue recognition represented a significant part of our audit strategy in terms of the level of direction and supervision and allocation of resources.

HOW WE ADDRESSED THE KEY AUDIT MATTER IN THE AUDIT

We considered 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 IFRS 15 and industry practice. This included assessing whether revenues had been recognised in the appropriate accounting period through inspection of dispatch and installation documentation for hardware and licence sales and, for service revenues obtaining time records, recalculating the revenue to be recognised with reference to the contractual terms.

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. We reviewed management's assessment of stage of completeness at the year end with reference to recorded hours to date in comparison to total actual or budgeted total hours.

During the course of our work, we identified a particular contract to supply hardware that was concluded, and revenue recognised, in December 2018. We considered the contract to be unusual in that it did not contain an obligation to instal the product and the supply of the hardware was considered by management to be a distinct performance obligation under IFRS 15. In order to address the risk in respect of this particular contract, we obtained a third party confirmation of the terms and conditions from the customer and assessed the accounting treatment in accordance with IFRS 15.

OUR APPLICATION OF MATERIALITY

Group materiality: £90,000 (2017: £175,000).

Parent company materiality: £80,000 (2017: £160,000).

Our Group materiality is based on professional judgement and was calculated with reference to revenue, EBITDA and profit before tax, all of which are considered to be principal considerations for the members of the Company in assessing the financial performance of the Group. The Group materiality translates to 0.5% of revenue, 3.7% of EBITDA and 11.5% of profit before tax respectively. The performance measures considered when determining materiality remain unchanged year-on-year.

The audit of HTEC Limited was a significant component, 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 parent company, was net asset-based, at 2% in both the current and prior years, but also restricted below the materiality 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% (2017: 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 the lower level of £80,000 (2017: £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 £4,000 (2017: £7,000). 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.

We obtained an understanding of the entity-level controls of the Group as a whole which assisted us in identifying and assessing risks of material misstatement due to fraud or error, as well as assisting us in determining the most appropriate audit strategy

Both components, Universe Group plc and HTEC Limited, are considered significant components and were 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 by the parent company, 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 33, 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.

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.

Malcolm Thixton

(Senior Statutory Auditor)

For and on behalf of BDO LLP,
Statutory Auditor

Southampton, United Kingdom

16 April 2019

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

OUR FINANCIALS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	Total 2018 £'000	Total 2017 £'000
Revenue	3,4	19,892	19,622
Cost of sales		(10,298)	(10,291)
Gross profit		9,594	9,331
Administrative expenses		(8,684)	(8,455)
Operating profit	2	910	876
Finance income	5	14	11
Finance expense	5	(88)	(108)
Profit before taxation	6	836	779
Taxation	7	(31)	(145)
Profit and total comprehensive income for the year		805	634
		Pence	Pence
Earnings per share			
Basic EPS	8	0.35	0.27
Diluted EPS	8	0.33	0.26

The notes on pages 44 to 71 form part of these financial statements.

Consolidated	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
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
At 1 January 2018	2,322	4,588	13,062	2,269	(225)	1,145	23,161
Profit and total comprehensive income for the year	–	–	–	–	–	805	805
Issue of share capital	1	–	–	–	–	–	1
Share-based payments	–	–	–	–	–	15	15
At 31 December 2018	2,323	4,588	13,062	2,269	(225)	1,965	23,982

The notes on pages 44 to 71 form part of these financial statements.

Company	Share capital £'000	Capital redemption reserve £'000	Share premium £'000	Profit and loss account deficit £'000	Total equity £'000
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
At 31 December 2017	2,322	4,588	13,062	(6,177)	13,795
At 1 January 2018	2,322	4,588	13,062	(6,177)	13,795
Loss and total comprehensive expense for the year	–	–	–	(246)	(246)
Issue of share capital	1	–	–	–	1
Share-based payments	–	–	–	15	15
At 31 December 2018	2,323	4,588	13,062	(6,408)	13,565

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 22.

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 44 to 71 form part of these financial statements.

CONSOLIDATED AND COMPANY STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2018

Company number 02639726	Note	Consolidated 2018 £'000	Consolidated 2017 £'000	Company 2018 £'000	Company 2017 £'000
Non-current assets					
Goodwill and other intangibles	9	13,877	13,912	–	–
Development costs	10	4,079	3,447	227	213
Property, plant and equipment	11	2,067	2,074	–	–
Investments	12	–	–	17,995	17,995
		20,023	19,433	18,222	18,208
Current assets					
Inventories	13	1,210	1,409	–	–
Trade and other receivables	14	6,294	5,554	7	8
Current tax asset	17	159	–	–	–
Cash and cash equivalents	15	2,717	2,885	18	3
		10,380	9,848	25	11
Total assets		30,403	29,281	18,247	18,219
Current liabilities					
Trade and other payables	16	4,904	(4,560)	(86)	(78)
Borrowings	18	(579)	(652)	–	(80)
Amounts owed to subsidiary undertakings	19	–	–	(4,596)	(4,266)
		(5,483)	(5,212)	(4,682)	(4,424)
Non-current liabilities					
Borrowings	18	(217)	(377)	–	–
Deferred tax	21	(721)	(531)	–	–
		(938)	(908)	–	–
Total liabilities		(6,421)	(6,120)	(4,682)	(4,424)
Net assets		23,982	23,161	13,565	13,795
Equity					
Share capital	22	2,323	2,322	2,323	2,322
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		1,965	1,145	(6,408)	(6,177)
Total equity attributable to equity shareholders		23,982	23,161	13,565	13,795

The Company reported a loss for the financial year ended 31 December 2018 of £246,000 (2017: profit of £342,000).

The financial statements were approved by the Board of Directors and authorised for issue on 16 April 2019.

D M Paton
Director

16 April 2019

The notes on pages 44 to 71 form part of these financial statements.

	Consolidated		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Net cash flows from operating activities				
Profit/(loss) before taxation	836	779	(246)	(342)
Depreciation and amortisation	1,728	1,463	42	35
Share option charge	15	27	15	27
Finance income	(14)	(11)	–	–
Finance expense	88	108	2	8
	2,653	2,366	(187)	(272)
Decrease/(increase) in inventories	199	(325)	–	–
Increase in receivables	(740)	(403)	1	(5)
Increase in payables	344	112	338	278
Interest paid	(74)	(97)	(2)	(8)
Tax received/(paid)	–	(42)	–	–
Net cash inflow from operating activities	2,382	1,611	150	(7)
Cash flows from investing activities:				
Deferred and contingent consideration arising on the acquisition of subsidiary undertakings	–	(55)	–	–
Purchase of property, plant and equipment	(66)	(352)	(56)	–
Expenditure on capitalised product development	(1,609)	(1,417)	–	–
Net cash outflow from investing activities	(1,675)	(1,824)	(56)	–
Cash flow from financing activities:				
Proceeds from issue of shares	1	6	1	6
Repayments of obligations under finance leases	(796)	(316)	–	–
Repayment of loans	(80)	–	(80)	–
Net cash (outflow)/inflow from financing activities	(875)	(310)	(79)	6
(Decrease)/increase in cash and cash equivalents	(168)	(523)	15	(1)
Cash and cash equivalents at beginning of year	2,885	3,408	3	4
Cash and cash equivalents at end of year	2,717	2,885	18	3

The notes on pages 44 to 71 form part of these financial statements.

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 73. 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 Statement of Financial Position on page 42.

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.

NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS ISSUED

The following new standards, amendments and interpretations have been adopted by the Company for the first time for the financial year beginning on 1 January 2018:

IFRS 15 'Revenue from Contracts with Customers'
IFRS 15 Revenue from Contracts with Customers was adopted from January 2018 replacing IAS 18 'Revenue', IAS 11 'Construction Contracts' and related interpretations. The new standard introduces a principles-based 'five-step' model to revenue recognition.

The Group has transitioned to the new standard through means of the cumulative effect method as at 1 January 2018 (the date of initial application). It has performed an impact assessment, taking advantage of the practical expedient not to apply IFRS 15 to any contracts that were completed contracts at that date. There has been no impact on revenues reported nor assets and liabilities as a result of adopting the standard.

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. This has not changed under the new standard as the customer can benefit from the product on installation without other goods or services and as such the performance obligation is considered to be satisfied at a point in time.

The Group reviewed the impact of instances where hosted solutions are provided, and as such there are ongoing obligations to ensure licence revenues to be deferred are recognised over the licence term as the obligation is satisfied. This was found to be the case.

Regarding work carried out to date in respect of multi-element 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.

Service revenues continue to be recognised on a percentage of completion basis as the customer simultaneously receives and consumes the benefit from the Group's service delivery and that the Group has an enforceable right to payment.

Revenues for transaction processing, included in data services, are recognised as the transactions are processed and thus obligations are fulfilled.

There is no material impact of variable consideration across any of the Group's revenue streams.

IFRS 9 'Financial Instruments'
IFRS 9 impacts the Group through the introduction of an expected credit loss model to apply when considering the impairment of financial assets.

The standard was applied on 1 January 2018, considering the cumulative impact at this date in assessing whether an adjustment to opening reserves is required. However, the application of the standard had no impact on the current or previous reporting periods.

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 were historically measured in accordance with an incurred loss model under IAS 39. The change in approach did not have a significant impact on the carrying value of receivables given the experience of creditworthiness in respect of the Group's customer base.

The adoption of both these standards, amendments and interpretations has had no impact on the financial statements of the Company.

NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS ISSUED BUT NOT 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.

IFRS 16 'Leases' (issued January 2016)
IFRS 16 is effective for accounting periods beginning on or after 1 January 2019.

The Group expects to transition to the new standard through means of the cumulative effect method as at 1 January 2019 (the date of initial application) by way of an adjustment to retained earnings or other component of equity as appropriate.

Note 25 shows that future minimum lease payments committed as at 31 December 2018 are £3.1m 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 of which £0.8m is committed for 2019, 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.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 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.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REVENUE RECOGNITION

Revenue is recognised for goods and services provided in the normal course of business and is measured as the consideration allocated to each performance obligation when, and to the extent that, the associated performance obligations have been fulfilled. 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 licence fees are recognised at a point in time upon completion of the related hardware installation on the basis that the licences are on-premise perpetual licences and so represent a right to use the software as it exists at the point of installation.
	2) Hardware	2) Hardware sales are recognised when goods are delivered, title has passed and there is customer acceptance.
Services and installations	1) Service contracts for products located at customer sites	1) Service contract revenues are recognised evenly over the contractual period as the customer simultaneously receives and consumes the benefit from the Group's service delivery and that the Group has an enforceable right to payment.
	2) Installation fees	2) Installation fees relating to software purchases and hardware are recognised over time and to the extent of the completion of the installation.
Data services	1) Service contracts for products hosted remotely from customer sites	1) Service contract revenues are recognised over the contractual period and as the transactions are processed.
Consulting and software licence maintenance	1) Software consulting fees	1) Software consulting revenues are recognised over time on the percentage of completion method based on hours worked as the customer simultaneously receives and consumes the benefit from the Group's service delivery and that the Group has an enforceable right to payment.
	2) Licence maintenance fees	2) Licence maintenance fees are charged on an annual basis and recognised evenly over the year of cover in accordance with the satisfaction of the performance obligation to provide support.

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 its standalone selling price.

SIGNIFICANT PAYMENT TERMS

Of the above revenue streams, service contracts, data services and licence maintenance fees are typically substantially invoiced annually in advance, creating deferred income balances reflected as contract liabilities in note 3. Other goods and services are typically invoiced at agreed intervals, which can create either contract assets or liabilities depending on how this compares to the extent that the associated performance obligations have been delivered.

RESEARCH AND DEVELOPMENT EXPENDITURE

Research and 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 ongoing 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 licences, 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

FINANCIAL LIABILITIES

The Group classifies its financial liabilities as financial liabilities held at amortised cost. Trade payables are initially recognised at fair value and subsequently carried at amortised cost using the effective interest rate method.

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.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL ASSETS

The Group classifies its financial assets as financial assets held at amortised cost.

These assets arise principally from the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of financial assets where the objective is to hold these assets in order to collect contractual cash flows and the contractual cash flows are solely payments of principal and interest. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment using the simplified expected credit loss approach under IFRS 9 and as discussed further in note 14.

The Group's financial assets measured at amortised cost comprise trade and other receivables, accrued income and cash and cash equivalents in the consolidated statement of financial position. Other financial assets comprise short-term deposits not meeting the IAS 7 definition of a cash equivalent. Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

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 ongoing 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.

ESTIMATES

Impairment of goodwill and other related intangibles

The carrying value of goodwill and other related intangibles at the year end is £13.9m (2017: £13.9m). An annual impairment review is performed involving estimation 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 prepares 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 ••.

JUDGEMENT

Recognition of capitalised development costs

The capitalisation of development expenditure is a requirement of IAS 38 'Intangible Assets'. All capitalised and ongoing projects are reviewed regularly to ensure they meet the criteria for capitalisation. The key judgements required by management are around whether the costs meet the criteria for capitalisation under IAS 38, including their being supported by projected future cash flows. The carrying value of capitalised development costs at the year end was £4,079,000 (2017: £3,447,000).

2 OPERATING PROFIT AND ADJUSTED EBITDA

	2018 £'000	2017 £'000
Operating profit	910	876
Add back:		
Depreciation	716	713
Amortisation	1,012	750
Share-based payments	15	27
Adjusted EBITDA	2,653	2,366

3 REVENUE FROM CONTRACTS WITH CUSTOMERS

DISAGGREGATION OF REVENUE

The Group has disaggregated revenue into various categories in the following table which is intended to depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic date.

The Group operates and is managed as a single business through its trading company, HTEC Limited. HTEC Limited provides some of the world's leading retailers with EPOS, payment and loyalty solutions.

Year to 31 December 2018	Software licences and hardware £'000	Service and installations £'000	Data services £'000	Consultancy and software licence maintenance £'000	Total £'000
Primary geographic markets					
United Kingdom	3,644	8,184	2,612	1,095	15,535
Belgium	–	–	1,505	2,852	4,357
	3,644	8,184	4,117	3,947	19,892

Year to 31 December 2018	Software licences and hardware £'000	Service and installations £'000	Data services £'000	Consultancy and software licence maintenance £'000	Total £'000
Timing of transfer of goods and services					
On completion of installation and acceptance and when title has passed	3,644	–	–	–	3,644
Over the period of service completion	–	2,019	–	–	2,019
As transactions are processed	–	7	124	–	131
Evenly over the contracted period	–	6,158	3,993	932	11,083
Consultancy on percentage completion	–	–	–	3,015	3,015
	3,644	8,184	4,117	3,947	19,892

Year to 31 December 2017	Software licences and hardware £'000	Service and installations £'000	Data services £'000	Consultancy and software licence maintenance £'000	Total £'000
Primary geographic markets					
United Kingdom	3,920	7,896	2,559	1,221	15,596
Belgium	–	–	1,480	2,546	4,026
	3,920	7,896	4,039	3,767	19,622

3 REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED)

Year to 31 December 2017	Software licences and hardware £'000	Service and installations £'000	Data services £'000	Consultancy and software licence maintenance £'000	Total £'000
Timing of transfer of goods and services					
On completion of installation and acceptance and when title has passed	3,920	–	–	–	3,920
Over the period of service completion	–	2,305	–	–	2,305
As transactions are processed	–	4	57	–	61
Evenly over the contracted period	–	5,587	3,982	937	10,506
Consultancy on percentage completion	–	–	–	2,830	2,830
	3,920	7,896	4,039	3,767	19,622

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

Contract balances	Contract assets 2018 £'000	Contract assets 2017 £'000	Contract liabilities 2018 £'000	Contract liabilities 2017 £'000
At 1 January	429	254	(1,920)	(2,071)
Transfers in the period from contract assets to trade receivables	(429)	(254)	–	–
Amounts included in contract liabilities that was recognised as revenue during the period	–	–	1,920	2,071
Excess of revenue recognised over cash (or rights to cash) being recognised during the period	443	429	–	–
Cash received in advance of performance and not recognised as revenue during the period	–	–	(1,638)	(1,920)
At 31 December	443	429	(1,638)	(1,920)

Contract assets and contract liabilities are included within 'trade and other receivables' and 'trade and other payables' respectively on the face of the balance sheet. They arise when the Group enters into contracts that are delivered over a period of time and cumulative payments received from customers at each balance sheet date do not necessarily equal the amount of revenue recognised on the contracts.

REMAINING PERFORMANCE OBLIGATIONS

The Group's contracts are for the delivery of goods and services within the next 12 months for which the practical expedient in paragraph 121(a) of IFRS 15 applies and so the balances are not discounted.

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.

2018	Solutions £'000	Corporate £'000	Total £'000
Revenue – all external	19,892	–	19,892
Gross profit	9,594	–	9,594
Segment expenses	(8,440)	(244)	(8,684)
Segmental operating profit/(loss)	1,154	(244)	910
Net finance expense			(74)
Taxation			(31)
Profit for the year			805
Adjusted EBITDA			2,653

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
Adjusted EBITDA			2,768

Information about major customers:

Included in revenues are revenues of approximately £4.4m (2017: £4.0m), £3.8m (2017: £2.8m) and £3.0m (2017: £3.2m) which arose from sales to the Group's three largest customers.

5 NET FINANCE EXPENSE

	2018 £'000	2017 £'000
Release of provision for contingent consideration	–	3
Interest receivable on bank deposits	14	8
Finance income	14	11
Interest payable on bank loans and overdrafts	(10)	(10)
Interest payable on finance leases	(65)	(80)
Other interest	(13)	(18)
Finance expense	(88)	(108)
Net finance expense	(74)	(97)

6 PROFIT BEFORE TAXATION

Profit before taxation is stated after charging:

	2018 £'000	2017 £'000
Cost of inventory recognised as expenses	2,597	2,563
Staff costs (note 23)	9,905	9,855
Foreign exchange losses/(gains)	28	14
Depreciation and amortisation		
– Intangible assets	35	35
– Development costs	977	715
– Tangible, owned	330	327
– Tangible, subject to finance lease	386	386
Research and development	3,494	2,939
Auditor's remuneration (see below)	50	47
Operating lease charges – plant and machinery	528	538
Operating lease charges – property	440	458

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

	2018 £'000	2017 £'000
Fees payable to the Company's Auditor for the audit of the Company's annual accounts	11	9
The audit of the Company's subsidiaries	30	29
Total audit fees	41	38
Other fees:		
Tax compliance	9	9
Total non-audit fees	9	9
	50	47

7 TAXATION

	2018 £'000	2017 £'000
Current tax:		
Current year (credit)/charge	–	–
Adjustments to tax charge in respect of previous periods (credit)/charge	(158)	(94)
	(158)	(94)
Deferred tax (note 21):		
Current year (credit)/charge	218	227
Adjustments to tax charge in respect of previous periods charge	(29)	12
	189	239
Total tax (credit)/charge	31	145

RECONCILIATION OF TAX CHARGE

Corporation tax is calculated at 19.00% (2017: 19.25%) of the estimated assessable profit for the year.

	2018 £'000	2017 £'000
Profit before tax	836	779
Tax charge at the UK corporation tax rate of 19.00% (2017: 19.25%)	159	150
Tax effect:		
Amounts not deductible/taxable in determining taxable profit	37	47
Adjustments in respect of previous periods – current tax	(158)	(94)
Adjustments in respect of previous periods – deferred tax	(29)	12
Movement on tax losses not recognised	185	192
Amounts relating to change in tax rates	(26)	(30)
Enhanced R&D tax relief	(221)	(205)
Timing differences relating to share options for which deferred tax is not recognised	84	73
Tax charge for the period	31	145

The adjustment in respect of previous periods relates to taking a cash repayment in respect of the R&D tax credit in respect of 2017 and a loss carry back claim in respect of 2016.

CHANGES IN TAX RATES AND FACTORS AFFECTING THE FUTURE TAX CHARGE

As a result of the Finance Act 2016, the rate of corporation tax has been reduced from 20% to 17% for periods beginning after 1 April 2018. The future rate of corporation tax enacted in the Finance Act 2016 was 17%. 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:

	2018 £'000	2017 £'000
Earnings:		
Profit after tax – used for basic and diluted earnings per share	805	634
Add back net finance charge	74	97
Add back taxation charge	31	145
Profit used for operating profit per share	910	876

	2018 No. '000	2017 No. '000
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and operating earnings per share	232,314	231,860
Weighted average number of ordinary shares for the purposes of diluted earnings per share	240,915	239,719

At the year end, 8,691,000 (2017: 8,791,000) 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.

	2018 pence	2017 pence
Basic earnings per share	0.35	0.27
Diluted earnings per share	0.33	0.26
Operating profit per share	0.39	0.38

9 GOODWILL AND OTHER INTANGIBLES

2018	Goodwill £'000	Customer relationships £'000	Total £'000
Cost			
At 1 January 2018	13,650	626	14,276
Acquisitions	–	–	–
At 31 December 2018	13,650	626	14,276
Amortisation			
At 1 January 2018	–	364	364
Charge for the year	–	35	35
At 31 December 2018	–	399	399
Net book amount			
At 31 December 2018	13,650	227	13,877

2017	Goodwill £'000	Customer relationships £'000	Total £'000
Cost			
At 1 January 2017	13,650	626	14,276
Acquisition	–	–	–
At 31 December 2017	13,650	626	14,276
Amortisation			
At 1 January 2017	–	329	329
Charge for the year	–	35	35
At 31 December 2017	–	364	364
Net book amount			
At 31 December 2017	13,650	262	13,912

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 estimates 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.

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 £12.3m (2017: £9.9m).

In assessing the value in use of the CGU, management has considered the potential impact of possible changes in the main assumptions used, and has calculated that a 44% shortfall in projected growth of EBITDA over the next five years 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 14.0% (2017: 16.0%).

10 DEVELOPMENT COSTS

2018	Capitalised development £'000	Software licences £'000	Total £'000
Consolidated			
Cost			
At 1 January 2018	11,994	528	12,522
Additions	1,609	–	1,609
At 31 December 2018	13,603	528	14,131
Amortisation			
At 1 January 2018	8,848	227	9,075
Charge for the year	935	42	977
At 31 December 2018	9,783	269	10,052
Net book value			
At 31 December 2018	3,820	259	4,079

2017	Capitalised development £'000	Software licences £'000	Total £'000
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

The significant capitalised development costs included above are:

	Remaining amortisation period Years	Net book amount £'000
On Line Loyalty platform	2	214
Outside Payment Terminal	5	122
Electronics Fund Transfer platform and licences	1–5	116
Head Office and Back Office Systems	2–5	2,859
Content Management System	4	371

10 DEVELOPMENT COSTS (CONTINUED)

	Software licences 2018 £'000	Software licences 2017 £'000
Company		
Cost		
At 1 January	404	404
Additions	56	–
At 31 December	460	404
Amortisation		
At 1 January	191	156
Charge for the year	42	35
At 31 December	233	191
Net book value		
At 31 December	227	213

11 PROPERTY, PLANT AND EQUIPMENT

2018	Leasehold improvements £'000	Plant and equipment £'000	Assets under construction £'000	Total £'000
Consolidated				
Cost				
At 1 January 2018	1,287	6,320	243	7,850
Additions	–	509	200	709
Disposals	–	–	–	–
At 31 December 2018	1,287	6,829	443	8,559
Depreciation				
At 1 January 2018	995	4,781	–	5,776
Charge for the year	95	621	–	716
Released on disposal	–	–	–	–
At 31 January 2018	1,090	5,402		6,492
Net book value				
At 31 December 2018	197	1,427	443	2,067

2017	Leasehold improvements £'000	Plant and equipment £'000	Assets under construction £'000	Total £'000
Cost				
At 1 January 2017	1,287	5,978	182	7,447
Additions	–	342	61	403
Disposals	–	–	–	–
At 31 December 2017	1,287	6,320	243	7,850
Depreciation				
At 1 January 2017	900	4,163	–	5,063
Charge for the year	95	618	–	713
Released on disposal	–	–	–	–
At 31 January 2017	995	4,781	–	5,776
Net book value				
At 1 January 2017	292	1,539	243	2,074

The net book value of plant and equipment includes £713,000 (2017: £905,000) in respect of assets held under finance leases. The depreciation charged on these assets during the year was £343,000 (2017: £386,000).

12 INVESTMENTS

	2018 £'000	2017 £'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 29.

13 INVENTORIES

	2018 £'000	2017 £'000
Consolidated		
Component parts	901	1,223
Work in progress	309	186
	1,210	1,409

14 TRADE AND OTHER RECEIVABLES

	Consolidated		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Trade receivables	5,020	4,287	–	–
Prepayments and accrued income	1,274	1,267	7	8
	6,294	5,554	7	8

The Group applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables and accrued income. To measure expected credit losses on a collective basis, trade receivables and accrued income are grouped based on similar credit risk and ageing.

The provision in place relates to receivables that are considered to be credit-impaired at the balance sheet date. Due to the immaterial expected credit loss provision recognised, it is not considered material to present a provision matrix.

The expected loss rates are assessed based on the Group's historical credit losses. The historical loss rates are then, where appropriate and material to do so, adjusted for current and forward-looking information on macroeconomic factors affecting the Group's customers.

As described in the accounting policies, due to the nature of the Group's customers and debtors, there is no material impact of this assessment and, consequently, no material provision in place.

The average credit period taken on sales of goods and services is 79 days (2017: 69 days). No interest is charged on the receivables. Before accepting any new customer, the Group uses an external credit scoring system to access the potential customer's credit quality and defines credit limits by customer. Of the trade receivables balance at the end of the year, £562,000 (2017: £522,000) is due from the Group's largest customer.

Included in the Group's trade receivables balance are debtors with a carrying value amount of £1,649,000 (2017: £1,258,000) 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:

	2018 £'000	2017 £'000
30–60 days	822	749
60–90 days	191	184
Over 90 days	636	325
	1,649	1,258

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 £123,000 (2017: £24,000) has been recognised.

15 CASH AND CASH EQUIVALENTS

	Consolidated		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Cash	2,717	2,885	18	3

16 TRADE AND OTHER PAYABLES

	Consolidated		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Trade creditors	549	626	15	10
Other creditors	94	66	39	39
Accruals	1,149	963	41	38
Deferred income	2,039	1,920	–	–
Other taxation	1,073	985	(9)	(9)
	4,904	4,560	86	78

The average credit period taken for trade purchases is 11 days (2017: 11 days).

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

17 CURRENT TAX ASSET

	Consolidated		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Corporation tax	159	–	–	–

18 BORROWINGS

	Consolidated		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Secured – at amortised cost				
Current				
Finance lease liabilities (i)	579	572	–	–
Other loans (ii)	–	80	–	80
Non-current				
Finance lease liabilities (i)	217	377	–	–
	796	1,029	–	80
The borrowings are repayable as follows:				
On demand or within one year	579	652	–	80
In the second to fifth years inclusive	217	377	–	–
	796	1,029	–	80

1. Finance lease liabilities are secured by the assets leased. The average lease term is five years. For the year ended 31 December 2018, the average effective borrowing rate was 5.2% (2017: 5.1%). 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.
2. 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 were repaid on 25 April 2018.

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.

19 AMOUNTS OWED TO SUBSIDIARY UNDERTAKINGS

	Consolidated		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Amounts owed to subsidiary undertakings	–	–	4,596	4,266

20 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 41.

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:

	2018 £'000	2017 £'000
Debt*	(796)	(1,029)
Cash and cash equivalents	2,717	2,885
Net cash/(debt)	1,921	1,856
Equity†	23,982	23,309
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.

	Consolidated		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Financial assets:				
At amortised cost:				
Cash	2,717	2,885	18	3
Trade receivables	5,020	4,287	–	–
Accrued income	443	455	–	–
	8,180	7,627	18	3

20 FINANCIAL INSTRUMENTS (CONTINUED)

	Consolidated		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Financial liabilities:				
At amortised cost:				
Trade payables	549	626	15	10
Other creditors	94	66	39	39
Accruals	1,149	963	41	38
Intercompany debt	–	–	4,596	4,266
Bank and other loans	–	80	–	80
Finance lease obligations	796	949	–	–
	2,588	2,684	4,691	4,433

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 22% (2017: 20%) of revenue 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 £46,000 (2017: £52,000) 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 2018, 55% (2017: 51%) of the Group's revenue 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.

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.

Consolidated	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
2018							
Non-interest bearing:							
Trade payables	0%	549	–	–	–	–	549
Contingent consideration	0%	–	–	–	–	–	–
Fixed interest rate:							
Finance lease liabilities	5.21%	69	358	195	228	–	850
Other loans	9.50%	–	–	–	–	–	–
		618	358	195	228	–	1,399
2017							
Non-interest bearing:							
Trade payables	0%	626	–	–	–	–	626
Contingent consideration	0%	–	–	–	–	–	–
Fixed interest rate:							
Finance lease liabilities	5.10%	63	308	272	400	–	1,043
Other loans	9.50%	81	–	–	–	–	81
		770	308	272	400	–	1,750

The above finance lease payments are the minimum lease payment totals and include £55,000 of interest (2017: £94,000).

Company	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
2018							
Non-interest bearing:							
Trade payables	0%	15	–	–	–	–	15
Intercompany debt	0%	4,596	–	–	–	–	4,596
Fixed interest rate:							
Other loans	9.5%	–	–	–	–	–	–
		4,611	–	–	–	–	4,611
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

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

20 FINANCIAL INSTRUMENTS (CONTINUED)

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

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

Contingent consideration	Consolidated £'000	Company £'000
At 1 January 2017	55	55
Recognised upon acquisition	(55)	(55)
At 31 December 2017 and 31 December 2018	–	–

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 22. 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 28 and no person has any special rights of control over the Company's share capital and all issued shares are fully paid.

21 DEFERRED TAX

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

	2018 £'000	2017 £'000
Net liability at 1 January	(531)	(292)
Recognised in the statement of comprehensive income	(190)	(239)
Net liability at 31 December	(721)	(531)

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:

	2018 Carrying value £'000	2017 Carrying value £'000	Recognised in the year £'000
Share options	(9)	65	(74)
Fixed asset timing differences	(712)	(596)	(116)
	(721)	(531)	(190)

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 £2,346,000 (2017: £2,431,000) 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.

22 CALLED UP SHARE CAPITAL

	2018 £'000	2017 £'000
Group and Company		
Authorised, allotted, called up and fully paid:		
232,223,935 Ordinary shares of 1p each (2017: 232,223,935 ordinary shares of 1p each)	2,323	2,322

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

SHARE OPTIONS

Share option awards are disclosed at note 28. During the year, 125,000 (2017: 625,000) ordinary shares were issued in respect of share option exercises.

23 EMPLOYEES AND DIRECTORS

	Consolidated		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Wages and salaries	8,609	8,400	506	340
Social security costs	944	894	51	55
Pension costs	270	208	48	34
Other benefits	73	91	19	21
Compensation for loss of office	–	262	–	190
	9,905	9,855	624	640

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

	Consolidated		Company	
	2018 No.	2017 No.	2018 No.	2017 No.
Production/services	137	136	–	–
Sales/marketing	14	22	–	–
Research and development	75	68	–	–
Administration	20	23	1	2
	246	249	1	2

Emoluments paid to the highest paid Director were as follows:

	2018 £'000	2017 £'000
Aggregate emoluments	238	210
Company pension contribution to money purchase pension scheme	23	20
	261	230

There were two Directors (2017: four) 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 29 to 30.

24 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 £270,000 (2017: £208,000), together with the administration charge of the fund. In addition, the Group continues to contribute to personal pension plans for certain of its employees. At 31 December 2018, contributions of £68,000 (2017: £43,000) due in respect of the current reporting period had not been paid over to the scheme.

25 OPERATING LEASE COMMITMENTS

At 31 December 2018, the Group has 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:

2018	Property £'000	Plant and machinery £'000	Total £'000
Within one year	452	330	782
Between two and five years	1,863	182	2,045
After five years	267	–	267
Total	2,582	512	3,094

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

26 CONTINGENT LIABILITIES

The Group has given a duty deferment guarantee to HMRC of £5,000 (2017: £5,000).

27 CAPITAL AND OTHER FINANCIAL COMMITMENTS

At 31 December 2018, the Group had entered into £76,000 worth of contracts for future capital expenditure (2017: £Nil).

28 SHARE-BASED PAYMENTS

At 31 December 2018, 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-Jul-10	1	937,500	30-Jul-13	30-Jul-20
	5-Nov-10	1	125,000	5-Nov-13	5-Nov-20
	26-Jan-12	1	312,500	26-Jan-15	26-Jan-22
	18-Dec-12	1	250,000	18-Dec-12	18-Dec-22
	26-Jul-13	4.25	1,750,000	26-Jul-16	26-Jul-23
	13-Nov-13	4.5	3,440,000	13-Nov-16	13-Nov-23
	28-Oct-14	5.5	1,708,500	28-Oct-17	28-Oct-24
	18-Jan-16	9	1,225,000	April 2019	18-Jan-26
	25-Aug-17	9.75	1,934,000	April 2019	25-Aug-27
Unapproved scheme	30-Jul-10	1	625,000	30-Jul-13	30-Jul-20
	18-Dec-12	1	1,750,000	18-Dec-12	18-Dec-22
	26-Jul-13	4.25	1,750,000	26-Jul-16	26-Jul-23
	13-Nov-13	4.5	560,000	13-Nov-16	13-Nov-23
	28-Oct-14	5.5	1,994,500	28-Oct-17	28-Oct-24
	18-Jan-16	9	5,532,000	April 2019	18-Jan-26
			23,894,000		

SUMMARY OF SHARE OPTION SCHEMES IN OPERATION DURING THE YEAR

The Directors' Remuneration Report on pages 29 to 30 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 £15,000 in 2018 (2017: £27,000).

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.

28 SHARE-BASED PAYMENTS (CONTINUED)

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 2018 is as follows:

Unapproved share options	Number of share options	Weighted average exercise price (pence)
Outstanding at beginning of period	12,211,500	5.99
Granted during the period	–	0.00
Lapsed during the period	–	9.00
Exercised during the period*	–	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

All acquisitions under the plan are equity-settled.

EMI share options	Number of share options	Weighted average exercise price (pence)
Outstanding at beginning of period	11,907,500	5.45
Granted during the period	–	9.75
Lapsed during the period	(100,000)	9.00
Exercised during the period*	(125,000)	1.00
Outstanding at the end of the period	11,682,500	5.46
Exercisable at the end of the period	8,523,500	3.98

The weighted average exercise price for all options outstanding at 31 December 2018 was 5.71 pence (2017: 5.72 pence) with a weighted average remaining contractual life of five years (2017: six years).

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	125,000	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	1,225,000	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
		23,894,000					

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

a. 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.

b. Satisfaction of the performance condition has been assessed across a range of possible outcomes in order to determine the likelihood of the options vesting.

c. The award life represents the minimum likely vesting period and consequently the highest per annum share-based payment charge.

29 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 A and B shares	100% held	Holding company
Indigo Retail Technology Limited*	England and Wales	Ordinary £1	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	Holding company
Bellwood Limited*	England and Wales	Ordinary £1	100% held	Dormant
First Remit Limited	Ireland	Ordinary £1	100% held	Holding company
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.

30 RELATED PARTIES – COMPANY

	Debits to intercompany indebtedness	
Balances with HTEC Limited	2018 No.	2017 No.
Funding transactions	(323)	(391)
Management recharge	653	676

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 29 to 30.

	2018 £’000	2017 £’000
Short-term employee benefits and employees’ NIC	524	571
Post-employment benefits	48	41
Share-based payments	23	20
Compensation for loss of office	–	262
	595	894

LOAN NOTES ISSUED TO SIGNIFICANT SHAREHOLDERS

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

	2018 £'000	2017 £'000
Loan notes	–	80

The loan notes were repaid on 25 April 2018.

31 RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	1 January 2018	Cash flows	New leases	31 December 2018
Short-term borrowings	80	(80)	–	–
Finance lease liabilities	949	(796)	643	796
Total liabilities from financing activities	1,029	(876)	643	796

	1 January 2017	Cash flows	New leases	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

Of the above only the short-term borrowings are relevant to the Company.

32 MATERIAL NON-CASH TRANSACTIONS

During the year, the Group entered into £643,000 (2017: £51,000) of finance leases for computer equipment.

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

33 POST BALANCE SHEET DATE EVENT

On 3 April 2019 the Group acquired 95% of the issued share capital of Camden Technology Investments Limited ('Camden Technology') and its subsidiaries, each trading as Celtech ('Celtech'), for an initial cash consideration of €4.48m (£3.83m) and the issue (out of existing AGM authorities) of 22,842,785 new shares in Universe representing 8.95% of the issued share capital of the Company as enlarged by the issue of these shares.

The total initial consideration due, at the Company's closing share price on 2 April 2019, £0.048 and assuming a EUR/GBP exchange rate of 1.17, is £4.96m. In addition, the remaining 5% of the shares in Camden Technology are subject to a put and call option exercisable after one year at a cost of €0.32m (£0.27m), payable in cash.

Celtech is a developer of retail and wholesale management solutions ('RMS') based in Dublin with a customer base in the UK and Ireland.

For the year ended 31 December 2018, Celtech had unaudited revenues of £1.92m (2017: audited revenues of £3.33m) and an unaudited loss after tax of £0.57m (2017: audited profit after tax of £0.47m) following a year of significant investment in product and systems development (rather than focusing on fee-earning work) that year. All development costs are written off as incurred. Unaudited net assets at 31 December 2018 were £0.75m (2017: audited net assets of £1.32m.

The acquisition is being funded out of existing cash resources and a new four-year, £3.50m term loan and a new three-year, £1.50m revolving credit facility with HSBC.

Due to the proximity of the acquisition to the date the financial statements were authorised for issue by the Board, it has not been possible to provide all of the information required for disclosure in accordance with IFRS 3 'Business Combinations'. The main areas of non-disclosure include a qualitive description of the factors which make up goodwill and a fair value of the amounts recognised as of the acquisiton date for each major class of asset acquired and liabilities assumed. Further disclosure of the items required under IFRS 3 will be included in the June 2019 interim results.

FIVE YEAR SUMMARY

	2014 £'m	2015 £'m	2016 £'m	2017 £'m	2018 £'m
Income and expenditure:					
Revenue	20.7	20.3	19.7	19.6	19.9
Gross profit	9.4	9.4	9.5	9.3	9.6
Gross margin %	45.4%	46.3%	48.2%	47.4%	48.2%
Operating profit	1.7	2.0	2.0	0.9	0.9
Net finance expense	(0.2)	(0.1)	(0.1)	–	(0.1)
Adjustment to estimates*	0.2	(0.2)	0.1	–	–
Profit before tax	1.7	1.7	2.0	0.9	0.8
Tax	(0.3)	(0.2)	(0.2)	(0.1)	–
Retained profit/(loss)	1.4	1.5	1.8	0.8	0.8
Cash flows:					
Cash inflow from operating activities	3.0	3.4	2.4	1.6	2.4
Cash outflow from investing activities	(1.5)	(1.6)	(1.8)	(1.8)	(1.7)
Cash outflow from financing activities	(0.4)	(0.5)	(0.6)	(0.3)	(0.9)
Increase in cash in the year	1.1	1.3	–	(0.5)	(0.2)
Assets employed:					
Non-current assets	19.0	18.7	19.1	19.4	20.0
Net current assets/(liabilities)	1.2	2.9	4.3	4.6	4.9
Non-current liabilities	(1.7)	(1.1)	(0.9)	–	–
	18.5	20.5	22.5	24.0	24.9
Financed by:					
Share capital and related reserves	19.6	20.0	20.0	20.0	20.0
Other reserves	2.0	2.0	2.0	2.0	2.0
Profit and loss account (deficit)/profit	(3.1)	(1.5)	0.5	1.1	2.0
	18.5	20.5	22.5	23.1	24.0

Earnings per share:	p	p	p	p	p
Basic earnings per share	0.65	0.66	0.79	0.27	0.35
Diluted earnings per share	0.60	0.63	0.76	0.26	0.33
Operating profit per share	0.80	0.89	0.88	0.38	0.39

	millions	millions	millions	millions	millions
Number of shares for basic EPS	216.9	228.0	231.3	231.9	232.3
Number of shares for diluted EPS	232.8	238.0	241.6	239.7	240.9

*Adjustments relate to contingent consideration estimates, recalculated annually.

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