Universe Group plc

Report and Financial Statements

Year Ended

31 December 2014

Company Number 02639726

Universe Group plc

Report and financial statements
for the year ended 31 December 2014

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J M J Lewis
M Coster
R J Smeeton

SECRETARY
R J Smeeton

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Introduction

Results for the year show the very encouraging progress we are making as we continue to develop the Group by strengthening and extending its product offering and broadening its customer base. Sales have increased by 31% to £20.75m and operating profit rose by 28% to £1.73m. These pleasing results reflect both the benefits of the two acquisitions we made in 2013 and strong organic growth of 16% in the core business.

The Group continues to generate high levels of recurring income, from hosted data services and maintenance contracts, as well as strong cash flows. The balance sheet remains robust, with cash at the year-end of £2.06m

Looking ahead we expect to see continuing progress and remain focused on product development. We will also be aiming at further penetration of the convenience store market, as well as the continuing expansion of our products into adjacent retail markets.

Overview

As expected, the second half of the year was significantly stronger than the first as we fulfilled a number of major orders, which had been won in the first half from both new and existing customers. Second half sales of £11.97m were up by 36% over the first half and by 29% on the same period in 2013.

Key installations included the roll-out of our point of sale system, back office solutions and card payments processing service ("GPS") across 228 sites that had been newly acquired by Motor Fuel Group ("MFG"), an existing customer. MFG is the UK's second largest independent petrol retailer and this large scale roll-out was part of a major contract expansion. We delivered the latest versions of our products, including the enhanced GPS service, which processes in real time all payments received from customers whether by debit, credit or fuel cards. MFG is now the second major customer for GPS.

In the second half, we also completed the roll-out of our fuel card acceptance platform for Valero. Valero trades in the UK under the Texaco brand with over 650 sites and is the largest branded dealer network in the UK. The solution is based on our GemPAY terminal and is supported by our terminal management system, which provides remote diagnostics and terminal configurations, so enabling maximum 'up-time' for terminals.

To support its price match and points card, 'Match & More', we developed a bespoke loyalty platform for Morrisons, the UK supermarket chain. This new platform was rolled out across all Morrison's outlets under a new contract and reflects Universe's long standing relationship with them as a trusted technology supplier.

We secured a major new customer win with MRH (GB) Limited, the largest independent petrol retailer in the UK with nearly 400 filling stations representing some 5% of the UK market. Our contract is for the supply of our GemPAY card acceptance platform across all MRH's petrol forecourts in the UK, supported by our terminal management system. We are also providing full maintenance and support.

In addition to these installations, we completed significant software developments for a number of our major customers during the year. These encompassed the full range of our core competences, covering loyalty, payments and management information systems. Our successful delivery has been well received by our customers.

The integration of the two acquisitions in 2013, Indigo Retail Holdings Ltd ("Indigo") and Retail Service Team Limited ("RST"), was successfully completed in the year. Indigo has extended our presence in the fast growing convenience store and general retail markets, while RST complements our installation and maintenance services. More recently, post period end, we were pleased to announce the purchase of retail software supplier, Spedinorcon Limited ("Spedi"). This business will complement our activities in the convenience store market.

We will continue to invest in our product offering in 2015, as the focus moves to completion of refreshed point of sale and back office solutions and the migration of our loyalty platform onto an updated and enhanced technology base. We also plan to expand our product range to include related new products, designed in conjunction with customers, to help them process payments more effectively and securely.

Staff

We concluded a number of large projects over a short period in Autumn 2014 and our staff responded with commitment and enthusiasm, thereby helping to enhance the Group's reputation with customers as we enter 2015. For this and many other successes over the year, we would like to thank everyone for their hard work, effort and creativity.

Summary and outlook

The Group has continued to make significant investments in products and services over the year and at the same time has delivered a large number of complex roll-outs; especially in the second half.

With the acquisitions of 2013 now fully integrated and the new and refreshed product ranges coming to market, we expect to see another year of growth and further strengthening of the business.

Significant flux remains in the petrol and convenience store markets. This creates opportunities for us which we intend to take advantage of. Our work in 2014 combined with our broad customer base, market leading products and focussed management team, will help to ensure that we are well placed to continue the Group's development in the year ahead.

Robert Goddard
Chairman
10 April 2015

Strategic report
for the year ended 31 December 2014

The Directors present their Strategic Report for the year ended 31 December 2014.

Principal activity

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

Universe's solutions are delivered via the Cloud into high volume, real-time, mission critical transaction processing environments. We consider that product innovation and the highest levels of customer care are critical.

Strategy and business plan

We will continue to invest in our products and services to ensure that they meet the current and future needs of our customers. They are designed to meet the exacting standards of the international payment markets as well as our customers' own high expectations. In addition, we are continuing with our various development projects in the areas of data analytics, media screens, mobile loyalty and payments.

As retailers, our customers rely on us to keep them trading and to move swiftly should there ever be systems issues. Accordingly, our data centre teams, field force and helpdesk professionals remain crucial to what we do.

Our approach has driven growth in 2014 and we expect it to continue to underpin further performance this year and beyond. Upselling new and refreshed products into our expanding customer base will form a key part of our continuing growth. While we are targeting growth in the petrol forecourt and convenience store market, we have further market verticals under review.

During the year we reviewed a number of further acquisition opportunities but chose not to pursue them. However, we were pleased to complete the recent acquisition of Spedi which fulfilled our acquisition criteria and we will consider additional complementary opportunities.

Business and Product Development

The need for business and product development is constant and 2014 was a particularly busy year in this regard. It is pleasing that that all our major product developments over the last two years have been well-received by our customers, and we will continue to develop our products through 2015 and beyond.

Examples of new products sold in 2014 include our new outdoor payment terminal, a major new loyalty scheme for Morrisons and GPS, our payment service. We expect further sales of our enhanced product set in 2015 and 2016, as well as new products such as media screens.

Financial review

Sales for the year to 31 December 2014 increased by 31% to £20.75m (2013: £15.87m). This reflected like-for-like sales growth of 16% in the core HTEC business to £16.41m (2013: £14.08m) as well as the first full year's contribution from the two 2013 acquisitions.

Growth in sales comes as a direct result of the product development programme that we have been investing in over the last three years. 2014 saw the continued expansion of the installed base of the GemPAY payment terminal estate and the first large scale roll-out of the new outdoor payment terminal. Together, these successes not only boosted trading revenues but will also help maintain high recurring revenue.

Changes in the mix of business moved gross margin down to 31% (2013: 35%). In particular, there was the large scale roll-out of outdoor payment terminals, which are inherently lower margin than other hardware based products. There was also the effect of some low margin contracts taken on as part of the RST acquisition. We have terminated these and fully integrated RST into HTEC. As a result, we expect to see better margins from sales of services in the coming year.

The integration of RST was completed in summer and contributed to the recovery of our margin to 33% in the second half of the year, from a first half figure of 29%.

Operating profit for the year increased by 28% to £1.73m from £1.35m in 2013. Net finance income of £0.03m was recorded (2013: cost of £0.15m). This comprises £0.19m of finance costs and £0.22m of finance income, being a release of over-provided contingent consideration arising on the Indigo acquisition.

Profit after tax rose by 6% to £1.41m (2013: £1.33m). Profitable trading in recent years meant that the last of the tax losses brought forward were utilised with a resulting tax charge of £0.35m in 2014 compared with a credit in 2013 of £0.13m.

Underlying earnings per share, calculated before the release of contingent consideration and any taxation charge or credit, grew by 18% to 0.71 pence (2013: 0.60 pence). Basic earnings per share decreased to 0.65 pence from 0.66 pence in 2013, reflecting the increased tax charge.

Cashflow and financing

Adjusted EBITDA rose by 39% to £3.47m (2013: £2.50m). This supported a 43% increase in net cash inflow from operating activities to £2.96m (2013: £2.07m).

Continued investment in our products in 2014 saw £1.15m spent on further development of the product portfolio. These included the migration of our loyalty platform to new operating systems and completion of our new point-to-point encryption technology; something that will be a valuable feature of our payment services offering.

Cash inflow for the year was £1.09m, substantially increasing cash at 31 December 2014 to £2.06m (2013: £0.98m).

Principal risks and uncertainties facing the Group

The principal risks facing the Group relate to:

- concentration of customers such that three customers accounted for 59% of turnover in 2014 (2013: 63%). Such a level of concentration clearly provides the Group with risks associated with loss of business and consequently the Group strives to secure long term contracts wherever possible and to provide high service levels and innovative product development. We also invest in business development initiatives in order to broaden the customer base. Whilst customer concentration has increased in percentage terms it is pleasing to note that revenue derived outside of the top 3 customers grew by 27% to £7.45m (2013: £5.88m), indicative of success in broadening the customer base;

- technological risks inherent in the Group's product set which are vulnerable to continual demands for improvements to functionality and competition from other suppliers. The Group continues to invest heavily in Research and Development in order to improve its product set and increase the value of them to its customers;

- the costs associated with maintaining bank and other approvals which allow the Group to operate as a payment system provider. These regimes are onerous and do require continuous product refresh, which the Group is committed to undertaking. The approvals regime however does provide a barrier to entry into the market place, providing a stable platform to be a value-added supplier;

- changes within the UK target markets of petrol forecourt and convenience stores which is the source of much of the Group’s revenue. As major oil companies have withdrawn from retailing operations we are seeing significant ownership changes across the market. 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 to the other technologies used in petrol retailing and convenience.

Key performance indicators (KPI's)

The main KPI's that management monitor within the Group are:

- Sales order inflow to ensure that annual sales budgets are on schedule. Order booking targets are set for each sales person at the beginning of the year and discussed on a weekly basis by the Executive team. The order booking target for 2014 was £7.9 million, and this target was achieved in July 2014.

- Operating profit from management accounts which are prepared each month in order to monitor that forecast profitability is achieved. Management accounts are discussed at the Executive team meetings, and monthly Board meetings. The Group operating profit margin percentage was budgeted at 9% for 2014. The Group achieved this measure in 6 out of 12 months.

- Performance against contracted service level agreements (‘SLA's'). SLAs are monitored on a weekly basis and discussed with customers at quarterly review meetings. SLA performance of 98% was achieved in 2014 against SLA targets of 93%.

Summary

The past two years have seen very robust growth in the Group’s revenues and profits. This was powered by focussed product innovation and careful attention to customer service. We have now successfully expanded from our historically strong presence in petrol forecourts into the larger market of convenience stores. Further market verticals are now also under review and we are considering opportunities for geographic expansion. With new products gaining acceptance from our expanded customer base, we are confident that the pleasing progress that has been made so far can be continued.

Signed on behalf of the Board of Directors

Jeremy Lewis
Chief Executive Officer
10 April 2015

Director's report
for the year ended 31 December 2014

The directors present their report and the audited accounts for the year ended 31 December 2014.

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 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 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 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 22 and is the key factor in relation to going concern.

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

Financial instruments

Information about the use of financial instruments by the company and its subsidiaries, and the Group's financial risk management policies is given in note 22.

Environment

The Group's policy with regard to the environment is to ensure that the Group's operational subsidiaries understand and effectively manage the actual and potential environmental impact of their activities. Operations are conducted such that they comply with all the legal requirements relating to the environments in which they operate. During the period covered by this report no Group company has incurred any fines or penalties or been investigated for any breach of environmental regulations.

It is Group policy to continually carry out research and development on new products and processes to minimise the impact of its operations on the environment.

Employees

The quality and commitment of the Group's employees has played a major role in the success of HTEC over the years. This has been demonstrated in many ways, including improvements in customer satisfaction, the development of new product lines and the flexibility employees have shown in adapting to changing business requirements and new ways of working. Employee turnover remains below the 15% target set by the Executive Directors.

Research and development

The company has a continuing commitment to a high level of research and development. During the year expenditure on research and development of £2,855,000 (2013 - £2,490,000) was charged to the Statement of Comprehensive Income. In addition, development costs of £1,146,000 (2013 - £731,000) were capitalised. Research and development in the year concentrated on the continuing development of an enhanced loyalty platform and a Point to Point Encryption module for the Electronic Funds Transfer platform.

Dividends

The directors do not propose the payment of a dividend (2013 - £Nil).

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 24. 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 30 and no person has any special rights of control over the company's share capital and all issued shares are fully paid.

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 23 June 2015, together with explanatory notes, appear in the separate Notice of Annual General Meeting sent to all shareholders.

Substantial shareholdings

As at 27 March 2015 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	42,661,591	18.98
Amati Global Investors	25,897,056	11.52
Ennismore Fund Management	24,870,751	11.29
B K Tank	13,324,434	5.93
Barclays Wealth	10,137,804	4.51

Directors

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

R Goddard (Chairman)
J M J Lewis
M Coster
R J Smeeton

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

	Ordinary shares of 5p each	
	2014 Number	2013 Number
R Goddard	**1,184,000**	1,184,000
J M J Lewis	**-**	-
M Coster	**936,500**	936,500
R J Smeeton	**386,250**	386,240

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 director's share options are provided in the Director's remuneration report on page 16.

Statement of directors' responsibilities for the financial statements

The directors are responsible for preparing the strategic report, 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.

Post balance sheet date event

On 2 April 2015 the Group acquired the entire issued share capital of Spedinorcon Limited, as detailed in note 34.

Disclosure of information to auditors

At the date of making this report each of the company's directors, as set out on page 1, confirm the following:

- so far as each director is aware, there is no relevant information needed by the company's auditors in connection with preparing their report of which the company's auditors are 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 auditors in connection with preparing their report and to establish that the company's auditors are aware of that information.

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

Auditors

BDO LLP served as auditors during the year and a resolution to reappoint them will be proposed at the forthcoming annual general meeting.

Approval

The report of the directors was approved by the Board on 10 April 2015 and signed on its behalf by:

R J Smeeton
Director

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

The Board

As at the date of signing of these accounts, the Board has two executive directors and two non-executive directors; including the chairman.

Role of the board

During the year, Board meetings were held each month except August and each director serving at the time attended each Board meeting.

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

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

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

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

Non-executive directors

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

Service agreements for non-executive directors are agreed by the board. They are available for inspection at the company's registered office and at the location of the AGM for a period before the meeting begins.

The Board as a whole

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

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

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

Membership of Board sub-committees

Malcolm Coster and Robert Goddard are the members of both the board committees. Where matters before a committee concerns one or other of these members, the member in question withdraws and is replaced by the two executive directors.

The main purposes and terms of reference of each board committee are summarized below.

Remuneration and Nomination Committee

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

1. Determine and agree with the Board the framework or broad policy for the remuneration of the Group's chief executive, chairman, the executive directors, the Company secretary and such other members of the executive management as it is designated to consider.

2. Approve the design of, and determine targets for, any performance related pay schemes operated by the Group and approve the total annual payments made under such schemes and determine the individual schemes and payments that apply to the executive directors.

3. Review the design of all share incentive plans for approval by the Board and shareholders. For any such plans, determine each year whether awards will be made, and if so, the overall amount of such awards, the individual awards to executive directors and other senior executives and the performance targets to be used.

4. Ensure that contractual terms on termination, and any payments made, are fair to the individual, and the Group, that failure is not rewarded and that the duty to mitigate loss is fully recognised.

5. Within the terms of the agreed policy and in consultation with the chief executive and finance director, as appropriate, determine the total individual remuneration package of each of the senior executives who report to the chief executive and finance director, including bonuses, incentive payments and share options, other share awards or other benefits.

6. Oversee any major changes in employee benefits structures throughout the Company or Group.

Audit Committee

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

1. Monitor the integrity of the financial statements, including the annual and interim reports; review the consistency of accounting policies; review whether the Group has followed appropriate accounting standards and made appropriate estimates and judgments; review the methods used to account for significant or unusual transactions; review the clarity of disclosure in the Group's financial reports; and review all material information presented with the financial statements.

2. Review the effectiveness of the Group's internal controls and risk management systems, and to review and approve the statements included in the annual report concerning these.

3. Review the Group's arrangements for its employees to raise concerns about possible wrongdoing, and ensure these arrangements allow proportionate and independent investigation; and to review the Group's procedures for detecting and preventing bribery and fraud.

4. Consider and make recommendations in relation to the appointment, re-appointment and removal of the Group's external auditor; oversee the relationship with the external auditor; meet regularly with the external auditor, including at least once a year without management being present; review and approve the annual audit plan; review the findings of the audit with the external auditor; and review the effectiveness of the audit.

5. Review the operation of the Group's policies for Anti-bribery and Whistleblowing and recommend to the Board any changes to the policies or their operation.

Internal Controls

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

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

Communication with shareholders

Presentations by the chairman and executive directors of interim and full-year results are offered to all major shareholders. Other smaller shareholders are welcome to make contact with the company and wherever possible their concerns or questions are responded to by a director, in person.

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

On behalf of the board

Robert Goddard
Chairman
10 April 2015

The Remuneration Committee

The Remuneration Committee consists of the non-executive directors of the Company. 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;
- to ensure that all long term incentive schemes for the directors are approved by the shareholders.

Other than as disclosed at note 32 and as shareholders, none of the Committee has any personal financial interest, conflicts of interest arising from cross-directorships or day to day involvement in running the business. The Committee makes recommendations to the Board. No director plays a part in any discussion about their own remuneration. The Remuneration Committee members are expected to draw on their experience to judge where to position the Group, relative to other companies and other group's rates of pay, when considering remuneration packages for executives. The committee may use outside professional advice if they consider it necessary. No such advice has been sought during the year or the preceding year although published Remuneration surveys from leading Remuneration consultancies were reviewed to help guide policy, and understand remuneration trends and shareholder views.

Benefits in kind include the provision of medical insurance premiums and a car or car allowance. Both executive directors participates 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.

Both of the executive directors participate in EMI option schemes and one of the executive directors, together with the non-executive directors participate in unapproved option schemes. These options will vest only upon the achievement of a 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.

Director's Detailed Emoluments

	Salary and fees £000	Benefits £000	Bonus £000	Pension £000	2014 £000	2013 £000
Executives						
J M J Lewis	150	6	150	14	320	74
R J Smeeton	110	6	110	10	236	217
S McLeod (resigned 30 September 2013)	-	-	-	-	-	173
Non-executives						
R Goddard	48	-	-	-	48	33
M Coster	31	-	-	-	31	25
	339	12	260	24	635	522

Directors' Share Options

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

The market price of the company's shares at the end of the financial year was 6.75p per 1p share (2013 – 7.38p per 1p share) and the range of market prices during the year was between 3.5p and 8.0p

	Scheme	At 1 January 2014	Granted	Exercised	Cancelled	At 31 December 2013	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
R Goddard	Unapproved	1,500,000	-	-	-	1,500,000	1p	5p
R Goddard	Unapproved	1,750,000	-	-	-	1,750,000	4.25p	6p
R Goddard	Unapproved	-	250,000	-	-	250,000	5.5p	9.5p
M Coster	Unapproved	875,000	-	-	-	875,000	1p	5p
M Coster	Unapproved	-	100,000	-	-	100,000	5.5p	9.5p
R J Smeeton	EMI	1,500,000	-	-	-	1,500,000	1p	5p
R J Smeeton	EMI	1,750,000	-	-	-	1,750,000	4.25p	6p
R J Smeeton	EMI	-	1,178,500	-	-	1,178,500	5.5p	9.5p
		11,375,000	3,173,000	-	-	14,548,000		

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

Director	Number of options	Exercise price	Vesting date	Date of grant
R Goddard	1,500,000	1p	18 December 2012	18 December 2012
R Goddard	1,750,000	4.25p	26 July 2016	26 July 2013
R Goddard	250,000	5.5p	28 October 2017	28 October 2014
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 2014
M Coster	500,000	1p	30 July 2013	30 July 2013
M Coster	125,000	1p	30 July 2013	18 December 2012
M Coster	250,000	1p	18 December 2012	18 December 2012
M Coster	100,000	5.5p	28 October 2017	28 October 2014
R J Smeeton	937,500	1p	30 July 2013	18 December 2012
R J Smeeton	312,500	1p	26 January 2015	18 December 2012
R J Smeeton	250,000	1p	18 December 2012	18 December 2012
R J Smeeton	1,750,000	4.25p	26 July 2016	26 July 2013
R J Smeeton	1,178,500	5.5p	28 October 2017	28 October 2014

Interests in Shares

Interests in shares have been disclosed in the Directors' Report on page 9.

On behalf of the Board

Malcolm Coster
Chairman of the Remuneration Committee
10 April 2015

Independent auditor's report
to the members of Universe Group Plc

We have audited the financial statements of Universe Group Plc for the year ended 31 December 2014 which comprise the consolidated statement of comprehensive income, the consolidated and company statement of changes in equity, the consolidated and company balance sheets, the consolidated and company cash flow statements, and the related notes. The financial reporting framework that has been applied in their preparation 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.

This report is made solely to the 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 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 company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2014 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.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion 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.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where 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.

Paul Anthony (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
Southampton
United Kingdom

10 April 2015

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

Universe Group plc

Consolidated statement of comprehensive income
for the year ended 31 December 2014

	Note	Total 2014 £'000	Total 2013 £'000
Revenue	2,3,4	**20,749**	15,874
Cost of sales		**(14,261)**	(10,391)
Gross profit		**6,488**	5,483
Administrative expenses		**(4,760)**	(4,137)
Operating profit	2	**1,728**	1,346
Finance income	5	**220**	9
Finance expense	5	**(195)**	(155)
Profit before taxation		**1,753**	1,200
Taxation	7	**(345)**	131
Profit and total comprehensive income for the year		**1,408**	1,331
		Pence	**Pence**
Earnings per share			
Basic EPS	8	**0.65**	0.66
Diluted EPS	8	**0.60**	0.62

The notes on pages 25 to 61 form part of these financial statements.

Universe Group plc

Consolidated and company statement of changes in equity
For the year ended 31 December 2014

Consolidated	**Share capital £'000**	**Capital redemption reserve £'000**	**Share premium £'000**	**Merger reserve on acquisition £'000**	**Translation reserve £'000**	**Profit and loss account deficit £'000**	**Total equity £'000**
At 1 January 2013	1,875	4,588	11,551	2,269	(225)	(5,980)	14,078
Profit and total comprehensive income for the year	-	-	-	-	-	1,331	1,331
Issue of share capital	240	-	840	-	-	-	1,080
Expenses of share issue	-	-	(10)	-	-	-	(10)
Share based payments	-	-	-	-	-	45	45
At 31 December 2013	2,115	4,588	12,381	2,269	(225)	(4,604)	16,524
At 1 January 2014	**2,115**	**4,588**	**12,381**	**2,269**	**(225)**	**(4,604)**	**16,524**
Profit and total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**1,408**	**1,408**
Issue of share capital	**88**	**-**	**335**	**-**	**-**	**-**	**423**
Share based payments	**-**	**-**	**-**	**-**	**-**	**107**	**107**
At 31 December 2014	**2,203**	**4,588**	**12,716**	**2,269**	**(225)**	**(3,089)**	**18,462**

The notes on pages 25 to 61 form part of these financial statements.

Universe Group plc

Consolidated and company statement of changes in equity
For the year ended 31 December 2014 *(continued)*

Company

	Share capital £'000	Capital redemption reserve £'000	Share premium £'000	Merger reserve on acquisition £'000	Profit and loss account deficit £'000	Total equity £'000
At 1 January 2013	1,875	4,588	11,551	476	(6,341)	12,149
Loss and total comprehensive expense for the year	-	-	-	-	(214)	(214)
Issue of share capital	240	-	840	-	-	1,080
Expenses of share issue	-	-	(10)	-	-	(10)
Share based payments	-	-	-	-	45	45
At 31 December 2013	2,115	4,588	12,381	476	(6,510)	13,050
At 1 January 2014	**2,115**	**4,588**	**12,381**	**476**	**(6,510)**	**13,050**
Profit and total comprehensive expense for the year	**-**	**-**	**-**	**-**	**202**	**202**
Issue of share capital	**88**	**-**	**335**	**-**	**-**	**423**
Transfer between reserves	**-**	**-**	**-**	**(331)**	**331**	**-**
Share based payments	**-**	**-**	**-**	**-**	**107**	**107**
At 31 December 2014	**2,203**	**4,588**	**12,716**	**145**	**(5,870)**	**13,782**

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 at note 24.

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 transfer of merger reserve relates to the Company's investment in Master Change Limited, which was disposed of in a previous period.

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 deficit represents the accumulated net gains and losses recognised in the Comprehensive Statement of Income.

The notes on pages 25 to 61 form part of these financial statements.

Universe Group plc

Consolidated and company balance sheet
at 31 December 2014

Company number 02639726	Note	Consolidated 2014 £'000	Consolidated 2013 £'000	Company 2014 £'000	Company 2013 £'000
Non-current assets					
Goodwill and other intangibles	9	**14,121**	14,219	**-**	-
Development costs	10	**2,382**	1,837	**278**	313
Property, plant and equipment	11	**2,466**	2,348	**-**	-
Deferred tax	23	**-**	83	**-**	-
Investments	12	**-**	-	**17,995**	17,995
		18,969	18,487	**18,273**	18,308
Current assets					
Inventories	13	**1,406**	1,125	**-**	-
Trade and other receivables	14	**4,221**	4,223	**3**	3
Cash and cash equivalents	15	**2,064**	978	**6**	19
		7,691	6,326	**9**	22
Total assets		**26,660**	24,813	**18,282**	18,330
Current liabilities					
Trade and other payables	16	**(5,138)**	(5,115)	**(137)**	(204)
Current tax liabilities	17	**(188)**	(182)	**-**	-
Borrowings	18	**(477)**	(397)	**-**	-
Deferred consideration	19	**(597)**	(414)	**(597)**	(414)
Contingent consideration	20	**(103)**	(66)	**(103)**	(66)
Amounts owed to subsidiary undertakings	21	**-**	-	**(3,376)**	(3,477)
		(6,503)	(6,174)	**(4,213)**	(4,161)
Non-current liabilities					
Borrowings	18	**(1,350)**	(1,196)	**(200)**	(200)
Deferred consideration	19	**-**	(603)	**-**	(603)
Contingent consideration	20	**(87)**	(316)	**(87)**	(316)
Deferred tax	23	**(258)**	-	**-**	-
		(1,695)	(2,115)	**(287)**	(1,119)
Total liabilities		**(8,198)**	(8,289)	**(4,500)**	(5,280)
Net assets		**18,462**	16,524	**13,782**	13,050
Equity					
Share capital	24	**2,203**	2,115	**2,203**	2,115
Capital redemption reserve		**4,588**	4,588	**4,588**	4,588
Share premium		**12,716**	12,381	**12,716**	12,381
Merger reserve		**2,269**	2,269	**145**	476
Translation reserve		**(225)**	(225)	**-**	-
Profit and loss account deficit		**(3,089)**	(4,604)	**(5,870)**	(6,510)
Total equity attributable to equity shareholders		**18,462**	16,524	**13,782**	13,050

The financial statements were approved by the Board of Directors and authorised for issue on 10 April 2015.

R J Smeeton
Director
The notes on pages 25 to 61 form part of these financial statements.

Universe Group plc

Consolidated and company cash flow statement
for the year ended 31 December 2014

	Consolidated		Company	
	2014	2013	2014	2013
	£'000	£'000	£'000	£'000
Net cash flows from operating activities				
Profit before taxation	**1,753**	1,200	**202**	(205)
Depreciation and amortisation	**1,630**	1,110	**35**	35
Share option charge	**107**	45	**107**	45
Net finance (income)/costs	**(25)**	146	**(137)**	67
	3,465	2,501	**207**	(58)
Increase in inventories	**(281)**	(514)	**-**	-
Decrease/(increase) in receivables	**2**	(1,244)	**-**	36
(Decrease)/increase in payables	**(96)**	1,720	**(168)**	67
Interest paid	**(124)**	(100)	**(18)**	(16)
Tax paid	**(4)**	(293)	**-**	(19)
Net cash inflow from operating activities	**2,962**	2,070	**21**	10
Cash flows from investing activities:				
Acquisition of subsidiary undertakings	**(57)**	(694)	**(57)**	(450)
Purchase of property, plant and equipment	**(243)**	(399)	**-**	-
Expenditure on product development	**(1,146)**	(731)	**-**	(65)
Net cash outflow from investing activities	**(1,446)**	(1,824)	**(57)**	(515)
Cash flow from financing activities:				
Proceeds from issue of shares	**23**	-	**23**	-
Repayments of obligations under finance leases	**(453)**	(402)	**-**	-
Net cash outflow from financing activities	**(430)**	(402)	**23**	-
Increase/(decrease) in cash and cash equivalents	**1,086**	(156)	**(13)**	(505)
Cash and cash equivalents at beginning of year	**978**	1,134	**19**	524
Cash and cash equivalents at end of year	**2,064**	978	**6**	19

The notes on pages 25 to 61 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. The address of the registered office is given on page 1. The nature of the Group's operations and its principal activities are set out on page 4.

The following new accounting standards have been adopted and are effective for the current year.

- IFRS 7 (revised) - Enhancing disclosures about offsetting of financial assets and financial liabilities
- IFRS 10 - Consolidated Financial Statements
- IFRS 10 (revised) - Transitional guidance
- IFRS 11 - Joint Arrangements
- IFRS 11 (revised) - Transitional guidance
- IFRS 12 - Disclosure of Interests in Other Entities
- IFRS 12 (revised) - Transitional guidance
- IAS 1 (revised) - Revised the method other comprehensive income is presented
- IAS 32 (revised) - Offsetting financial assets and financial liabilities
- IAS 36 - Recoverable amount disclosure for non-financial assets

The adoption of these pronouncements has not impacted the classification or measurement of the Group's assets and liabilities, nor has it resulted in any additional disclosure.

New standards and interpretations not applied
IASB and IFRIC have issued the following relevant standards and interpretations with an effective date after the date of these financial statements:

Standard or interpretation	Title	Effective from
IFRS 2	Amendments for Annual Improvements to IFRSs 2010-2012 Cycle (definition of vesting condition)	1 July 2014
IFRS 3	Amendments for Annual Improvements to IFRSs 2010-2012 Cycle (contingent consideration)	1 July 2014
IFRS 3	Amendments for Annual Improvements to IFRSs 2011-2013 Cycle (scope exception for joint ventures)	1 July 2014
IFRS 9	Deferral of mandatory effective date of IFRS 9 and amendments to transition disclosures	1 January 2015
IFRS 9	Financial Instruments (Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39) issues, implementing additional disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9	Applies when IFRS 9 is applied
IFRS 13	Amendments for Annual Improvements to IFRSs 2011-2013 Cycle (scope of portfolio exception in paragraph 52)	1 July 2014

1 Significant accounting policies (continued)

Standard or interpretation	Title	Effective from
IFRS 14	IFRS 14 Regulatory Deferral Accounts issued	1 January 2016
IFRS 15	Revenue from contracts with customers	1 January 2017
IAS 16	Amendments for Annual Improvements to IFRSs 2010-2012 Cycle (proportionate restatement of accumulated depreciation under the revaluation method)	1 July 2014
IAS 24	Amendments for Annual Improvements to IFRSs 2010-2012 Cycle (entities providing key management personnel services)	1 July 2014
IAS 27	Equity method in separate financial statements	1 January 2016
IAS 34	Disclosure of information ”elsewhere in the interim report”	1 January 2016
IAS 38	Amendments for Annual Improvements to IFRSs 2010-2012 Cycle (proportionate restatement of accumulated depreciation under the revaluation method)	1 July 2014
IAS 40	Amendments for Annual Improvements to IFRSs 2011-20134 Cycle (interrelationship between IFRS 3 and IAS 40)	1 July 2014

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group.

Basis of accounting

The financial statements have been prepared in accordance with applicable 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 in the company statement of changes in equity on page 22.

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. They are deconsolidated from the date on which control ceases.

1 Significant accounting policies (continued)

Going concern

The Directors have undertaken a detailed review of the financial position and financial forecasts of the Group as explained in the Directors Report on page 7 and on the basis of this review have continued to adopt the going concern basis in preparing the financial statements.

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 re-measured subsequently through the income statement. Acquisition expenses are expensed through the Statement of Comprehensive Income. Goodwill arising on acquisitions which took place before 1 January 2010 represents the excess of the fair value of the consideration given, plus associated costs, for a business, over the fair value of the identifiable net assets acquired. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

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

For the purpose of impairment testing goodwill is allocated to the cash generating units of the business. Goodwill is tested for impairment annually or more frequently if impairment indicators are found. If the recoverable amount is found to be less than the carrying value, impairment is allocated first to goodwill and then pro rata to other assets in the cash-generating unit.

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.

1 Significant accounting policies *(continued)*

Operating profit

Operating profit is stated after charging restructuring and other exceptional costs but before investment income and finance costs.

Exceptional items

Costs are treated as exceptional costs when they are of a non-recurring nature and/or are of an exceptional magnitude. Management monitor the performance of the business excluding these items.

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 the statement of comprehensive income and expense over the period of the lease in proportion to the capital element outstanding.

Expenditure on operating leases is charged to the statement of comprehensive income and expense 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 Group 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.

The assets and liabilities of overseas subsidiary undertakings are translated at the closing exchange rates. Profit and loss accounts of such undertakings are consolidated at the average rates of exchange during the year. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised in other comprehensive income and accumulated in the foreign exchange reserve.

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.

1 Significant accounting policies *(continued)*

Taxation

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

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

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investment in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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 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 measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services in the normal course of business, net of discounts, VAT and other sales related taxes. The following criteria must be met before revenue is recognised:

- Sales of goods are recognised when goods are delivered and title has passed.
- Revenues from service contracts are recognised evenly over the contractual period.
- Software consultancy fees are recognised based on an assessment of project completion at the reporting date.
- Licence fees are recognised upon completion of the related installation.
- Licence maintenance fees are charged on an annual basis and are recognised evenly over the year of cover.
- Installation fees are recognised upon completion of the installation.

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

Development expenditure

Development expenditure relating to specific projects intended for commercial exploitation 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 cost of sales on a straight line basis over the period during which the benefits of the project are expected to arise, typically three to five years. Expenditure on research activities is recognised as an expense within administration expenses in the period in which it is incurred.

Other intangible assets

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

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

Software licences	length of licence
Customer relationships	3-5 years
Customer contracts	the unexpired period of the agreement

1 Significant accounting policies *(continued)*

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 3 months of issue.

Trade payables

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

Borrowings

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

Equity instruments

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

Trade receivables

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

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

1 Significant accounting policies *(continued)*

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.

Fair value is 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.

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.

Impairment of goodwill and other related intangibles

The carrying value of goodwill and other related intangibles at the year end is £14.1 million (2013 - £14.2 million). An annual impairment review is required under IAS 36 "Impairments of Assets" involving judgement of the future cash flows for cash-generating units and the discount rates applied to future cash flows in order to calculate present value. Management prepare such cash flow forecasts derived from the most recent budgets approved by the Board. Sensitivity analysis is performed around these forecasts as disclosed in note 9.

Recoverability of capitalised development costs

The capitalisation of development expenditure is a requirement of IAS 38 'Intangible Assets'. All capitalised and ongoing projects are reviewed regularly to ensure they meet the criteria for capitalisation. The key judgements required by management are around the potential impairment of the intangible assets once capitalised. These judgements surround the estimation of future cash flows to support the carrying values of assets. The carrying value of capitalised development costs at the year end was £2,382,000 (2013 - £1,837,000).

Valuation of contingent consideration

Contingent consideration payable as a result of the acquisition of Indigo Retail Holdings Limited in 2013 is calculated as the net present value of consideration that may become payable. The key judgements required by management are around the achievement of turnover in excess of base line targets against which contingent consideration becomes payable. The carrying value of contingent consideration at the year end was £190,000 (2013 - £382,000).

2 Operating profit and adjusted EBITDA

	2014 £'000	2013 £'000
Revenue	**20,749**	15,874
Cost of sales	**(14,261)**	(10,391)
Gross profit	**6,488**	5,483
Administrative expenses	**(4,760)**	(4,137)
Operating profit	**1,728**	1,346
Add back:		
Depreciation	**812**	590
Amortisation	**818**	520
Share based payments	**107**	45
Adjusted EBITDA	**3,465**	2,501

3 Revenue analysis

	Total 2014 £'000	Total 2013 £'000
Hardware	**4,703**	3,692
Services	**16,046**	12,182
	20,749	15,874

Sales of goods are disclosed as Hardware sales. Sales of all other types including service contracts, software consultancy, license fees, license maintenance fees and installation fees are disclosed as Services sales.

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

	Total 2014 £'000	Total 2013 £'000
United Kingdom	**16,882**	12,234
Europe	**3,867**	3,640
	20,749	15,874

4 Operating and geographical 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 retail markets.

	Solutions 2014 £'000	Corporate 2014 £'000	Total 2014 £'000
Revenue – all external	**20,749**	**-**	**20,749**
Gross profit	**6,488**	**-**	**6,488**
Segment expenses	**(4,138)**	**(622)**	**(4,760)**
Segmental operating profit	**2,350**	**(622)**	**1,728**
Finance income			**25**
Taxation			**(345)**
Profit for the year			**1,408**

	Solutions 2013 £'000	Corporate 2013 £'000	Total 2013 £'000
Revenue – all external	15,874	-	15,874
Gross profit	5,483	-	5,483
Segment expenses	(3,571)	(566)	(4,137)
Segmental operating profit	1,912	(566)	1,346
Finance costs			(146)
Taxation			131
Profit for the year			1,331

Information about major customers:

Included in revenues are revenues of approximately £4.5 million (2013 - £3.6 million), £4.0 million (2013 - £3.5 million) and £3.8 million (2013 - £2.8 million) which arose from sales to the Groups three largest customers.

5 Finance income/(costs)

	Total 2014 £'000	Total 2013 £'000
Release of provision for contingent consideration	**216**	-
Interest receivable on bank deposits	**4**	9
	220	9
Interest payable on bank loans and overdrafts	**(45)**	(35)
Interest payable on finance leases	**(81)**	(58)
Other interest	**(69)**	(62)
	(195)	(155)
Net finance income/(costs)	**25**	(146)

6 Profit for the year

	Total 2014 £'000	Total 2013 £'000
Cost of inventory recognised as expenses	**2,973**	2,496
Staff costs (note 25)	**8,130**	6,569
Foreign exchange	**33**	(33)
Depreciation and amortisation		
- Intangible assets	**217**	101
- Development costs	**601**	419
- Tangible, owned	**386**	333
- Tangible, subject to finance lease	**426**	257
Research expenditure	**2,855**	2,490
Auditors' remuneration (see below)	**60**	75
Operating lease charges – plant and machinery	**614**	377
Operating lease charges – property	**421**	401

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

	2014 £'000	2013 £'000
Fees payable to the Company's auditors for the audit of the Company's annual accounts	**10**	11
The audit of the Company's subsidiaries	**38**	26
Total audit fees	**48**	37
Other fees:		
Audit – related assurance services	**-**	1
Tax compliance	**12**	6
Tax advisory	**-**	31
Total non-audit fees	**12**	38
	60	75

7 Taxation

	2014 £'000	2013 £'000
Continuing operations		
Current tax:		
Current year	**-**	-
Adjustments to tax charge in respect of previous periods	**-**	29
	-	29
Deferred tax (note 23):		
Current year	**247**	(172)
Adjustments to tax charge in respect of previous periods	**94**	-
	341	(143)
Stamp duty	**-**	9
Overseas tax	**4**	3
Total tax charge/(credit)	**345**	(131)

Recalculation of tax charge

Corporation tax is calculated at 21.5% (2013 – 23.25%) of the estimated assessable profit for the year.

	2014 £'000	2013 £'000
Profit before tax	**1,753**	1,200
Tax charge at the UK corporation tax rate of 21.5% (2013 – 23.25%)	**377**	279
Tax effect:		
Amounts not deductible/taxable in determining taxable profit	**(7)**	(17)
Enhanced R & D tax relief	**(210)**	(253)
Utilisation of previously unrecognised losses	**-**	(10)
Adjustments to tax charge in respect of previous periods	**94**	29
Effect of rate change on closing asset	**-**	13
Recognition of previously unrecognised deferred tax	**-**	(184)
Other tax charges	**4**	12
Losses not utilised	**87**	-
Tax charge/(credit) for the period	**345**	(131)

8 Earnings per share

	2014 £'000	2013 £'000
The calculation of the basic, diluted and underlying earnings per share is based on the following data:		
Earnings:		
Profit after tax – used for basic and diluted earnings per share	**1,408**	1,331
Deduct release of provision for contingent consideration	**(216)**	-
Add back/(deduct) taxation charge/(credit)	**345**	(131)
Profit used for underlying earnings per share	**1,537**	1,200

	2014 No '000	2013 No '000
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and underlying earnings per share	**216,914**	201,536
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**232,814**	214,084

7,903,000 (2013 – 4,000,000) share options are in issue and could potentially dilute earnings per share in the future, but were not included in the calculation of diluted earnings per share because they are not dilutive in the periods presented.

	2014 pence	2013 pence
Basic earnings per share	**0.65**	0.66
Diluted earnings per share	**0.60**	0.62
Underlying earnings per share	**0.71**	0.60

9 Goodwill and other intangibles

	Goodwill £'000	Customer Contracts £'000	Customer Relationships £'000	2014 Total £'000
Cost				
At 1 January 2014	**13,256**	**334**	**730**	**14,320**
Acquisitions	**-**	**-**	**-**	**-**
Adjustments to estimates	**223**	**-**	**(104)**	**119**
At 31 December 2014	**13,479**	**334**	**626**	**14,439**
Amortisation				
At 1 January 2014	**-**	**55**	**46**	**101**
Charge for the year	**-**	**93**	**124**	**217**
At 31 December 2014	**-**	**148**	**170**	**318**
Net book amount				
31 December 2014	**13,479**	**186**	**456**	**14,121**

	Goodwill £'000	Customer Contracts £'000	Customer Relationships £'000	2013 Total £'000
Cost				
At 1 January 2013	10,916	-	-	10,916
Acquisitions	2,340	334	730	3,404
At 31 December 2013	13,256	334	730	14,320
Amortisation				
At 1 January 2013	-	-	-	-
Charge for the year	-	55	46	101
At 31 December 2013	-	55	46	101
Net book amount				
31 December 2013	13,256	279	684	14,219

9 Goodwill and other intangibles (continued)

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 2015 budget. The future cash flows are as approved by the Board based on recurring contracts and the sales pipeline and cover the next 5 financial years. Beyond that period operating cash flows are assumed to grow at 2% annually for the foreseeable future.

In assessing the value in use of the CGU, management have considered the potential impact of possible changes in the main assumptions used, and have calculated that a 22% shortfall in projected growth of EBITDA would cause the carrying value of the CGU to exceed its recoverable amount.

The risk adjusted pre-tax rate used to discount each of the CGU cash flow forecasts is 16.0% (2013 – 16.0%).

10 Development costs

	Capitalised development £'000	Software licences £'000	2014 Total £'000	Capitalised development £'000	Software licences £'000	2013 Total £'000
Consolidated						
Cost						
At 1 January	**7,921**	**433**	**8,354**	7,024	283	7,307
Additions	**1,107**	**39**	**1,146**	581	150	731
Acquisition	**-**	**-**	**-**	316	-	316
At 31 December	**9,028**	**472**	**9,500**	7,921	433	8,354
Amortisation						
At 1 January	**6,482**	**35**	**6,517**	6,098	-	6,098
Charge for the year	**548**	**53**	**601**	384	35	419
At 31 December	**7,030**	**88**	**7,118**	6,482	35	6,517
Net book value						
At 31 December	**1,998**	**384**	**2,382**	1,439	398	1,837

The significant capitalised development costs included above are:

	Remaining amortisation period	Net book amount £'000
Indigo point of sale and related systems	3	189
Next generation on-line loyalty platform	5	675
New payment and loyalty terminal	1	88
New Outside Payment Terminal	4	336
New Electronics Fund Transfer platform and licenses	3-8	481

10 Development costs (continued)

Company – software licences	**2014**	**2013**
	£'000	**£'000**
Cost		
At 1 January	**348**	283
Additions	**-**	65
At 31 December	**348**	348
Amortisation		
At 31 January	**35**	-
Charge for the year	**35**	35
At 31 December	**70**	35
Net book value		
At 31 December	**278**	313

11 Property, Plant and Equipment

Consolidated	Leasehold Improvements £'000	Plant and equipment £'000	Total £'000
Year ended 31 December 2014			
Cost			
At 1 January 2014	**1,130**	**4,805**	**5,935**
Additions	**-**	**930**	**930**
At 31 December 2014	**1,130**	**5,735**	**6,865**
Depreciation			
At 1 January 2014	**680**	**2,907**	**3,587**
Charge for year	**61**	**751**	**812**
At 31 December 2014	**741**	**3,658**	**4,399**
Net book value			
At 31 December 2014	**389**	**2,077**	**2,466**
Cost			
At 1 January 2013	1,130	3,672	4,802
Additions	-	1,133	1,133
At 31 December 2013	1,130	4,805	5,935
Depreciation			
At 1 January 2013	618	2,379	2,997
Charge for year	62	528	590
At 31 December 2013	680	2,907	3,587
Net book value			
At 31 December 2013	450	1,898	2,348

The net book value of plant and equipment includes £1,332,000 (2013 - £1,220,000) in respect of assets held under finance leases. The depreciation charged on these assets during the year was £426,000 (2013 - £257,000).

12 Investments

	2014 £'000	2013 £'000
Company		
Investment in subsidiary undertaking		
At 1 January	**17,995**	15,117
Additions	**-**	2,878
At 31 December	**17,995**	17,995

For details of principal subsidiaries see note 31.

13 Inventories

	2014 £'000	2013 £'000
Consolidated		
Raw materials	**1,128**	890
Work in progress	**278**	235
	1,406	1,125

14 Trade and other receivables

	2014 £'000	2013 £'000
Consolidated		
Trade receivables	**3,177**	3,330
Prepayments and accrued income	**1,044**	893
	4,221	4,223
Company		
Prepayments and accrued income	**3**	3
	3	3

The average credit period taken on sales of goods and services is 48 days (2013 – 57 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, £761,000 (2013 - £940,000) is due from the Group's largest customer.

Included in the Group's trade receivable balance are debtors with a carrying value amount of £1,023,000 (2013 - £1,710,000) 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:

	2014 £'000	2013 £'000
30-60 days	**471**	1,138
60-90 days	**231**	212
Over 90 days	**321**	360
	1,023	1,710

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 £97,000 (2013 - £Nil) has been recognised.

15 Cash and cash equivalents

	Consolidated		Company	
	2014	**2013**	**2014**	**2013**
	£'000	**£'000**	**£'000**	**£'000**
Cash and cash equivalents	**2,064**	978	**6**	19

16 Trade and other payables

	Consolidated		Company	
	2014	**2013**	**2014**	**2013**
	£'000	**£'000**	**£'000**	**£'000**
Trade creditors	**310**	560	**-**	7
Other creditors	**39**	39	**39**	39
Accruals	**1,951**	1,962	**88**	158
Deferred income	**1,963**	1,741	**-**	-
Other taxation	**875**	813	**10**	-
	5,138	5,115	**137**	204

The average credit period taken for trade purchases is 13 days (2013 – 25 days).

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

17 Current tax liabilities

	Consolidated		Company	
	2014	**2013**	**2014**	**2013**
	£'000	**£'000**	**£'000**	**£'000**
Corporation tax	**188**	182	**-**	-

18 Borrowings

	Consolidated		Company	
	2014	**2013**	**2014**	**2013**
	£'000	**£'000**	**£'000**	**£'000**
Secured – at amortised cost				
Current				
Finance lease liabilities (i)	**477**	397	**-**	-
Non-current				
Finance lease liabilities (i)	**1,150**	996	**-**	-
Other loans (ii)	**200**	200	**200**	200
	1,827	1,593	**200**	200
The borrowings are repayable as follows:				
On demand or within one year	**477**	397	**-**	-
In the second to fifth years inclusive	**1,350**	1,196	**200**	200
	1,827	1,593	**200**	200

(i) Finance lease liabilities are secured by the assets leased. The average lease term is five years. For the year ended 31 December 2014, the average effective borrowing rate was 8.0% (2013 – 8.1%). 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.

(ii) The other loans consist of five term loan notes held by Downing LLP. The loans are secured on the assets of the Group. The loans bear interest at 9.5% and are repayable in November 2017.

All borrowings are denominated in sterling.

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

At 31 December 2014, the Group had available £600,000 (2013 - £1,000,000) undrawn borrowing facilities in respect of which all conditions precedent had been met.

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

19 Deferred consideration

	Consolidated 2014 £'000	Consolidated 2013 £'000	Company 2014 £'000	Company 2013 £'000
Payable in less than one year	**597**	414	**597**	414
Payable in more than one year	**-**	603	**-**	603
	597	1,017	**597**	1,017

The deferred consideration is payable on 31 May 2015 to the former owners of Indigo Retail Holdings Limited.

£400,000 of the deferred consideration may be settled by the issue by the Group of its own 1p ordinary shares at the share price then prevailing.

20 Contingent consideration

	Consolidated 2014 £'000	Consolidated 2013 £'000	Company 2014 £'000	Company 2013 £'000
Payable in less than one year	**103**	66	**103**	66
Payable in more than one year	**87**	316	**87**	316
	190	382	**190**	382

The contingent consideration is payable to the former owners of Indigo Retail Holdings Limited in two (2013: three) annual tranches contingent upon the achievement of certain base levels of revenue, with consideration accruing at the rate of 11.5% of turnover above these base levels.

21 Amounts owed to subsidiary undertaking

	Consolidated 2014 £'000	Consolidated 2013 £'000	Company 2014 £'000	Company 2013 £'000
Amounts owed to subsidiary undertakings	**-**	-	**3,376**	3,477

22 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 Note 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 21.

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:

	2014 £'000	**2013 £'000**
Debt*	**2,424**	2,610
Cash and cash equivalents	**(2,064)**	(978)
Net debt	**360**	1,632
Equity**	**18,462**	16,524
Net debt to equity ratio	**2.0%**	9.9%

* 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.

22 Financial instruments *(continued)*

Significant accounting policies

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

	Consolidated		Company	
	2014	**2013**	**2014**	**2013**
	£'000	**£'000**	**£'000**	**£'000**
Financial assets:				
At amortised cost:				
Cash	**2,064**	978	**6**	19
Trade receivables	**3,177**	3,330	**-**	-
	5,241	4,308	**6**	19

	Consolidated		Company	
	2014	**2013**	**2014**	**2013**
	£'000	**£'000**	**£'000**	**£'000**
Financial liabilities:				
At amortised cost:				
Trade payables	**310**	560	**-**	7
Other creditors	**39**	39	**39**	39
Accruals	**1,951**	1,962	**88**	158
Intercompany debt	**-**	-	**3,376**	3,477
Bank and other loans	**200**	200	**200**	200
Deferred consideration	**597**	1,017	**597**	1,017
Contingent consideration	**190**	382	**190**	382
Finance lease obligations	**1,627**	1,393	**-**	-
	4,914	5,553	**4,490**	5,280

22 Financial instruments *(continued)*

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.

Market 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 19% (2013: 22%) of turnover denominated in that currency. In order to mitigate the risk of the exchange rate depreciating the Group aims to enter into forward currency hedging contracts equivalent to 50% of expected revenues arising in the next 6 month period.

Credit risk
Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the Group. In 2014 59% (2013 – 63%) of the Group's turnover was with three counterparties leading to an inherent concentration of credit risk. The Group carefully monitors the creditworthiness of these three counterparties. For new accounts the Group's policy is to only deal with creditworthy counterparties, carrying out background checks before any new accounts are opened so as to mitigate the risk of financial loss from defaults. Credit exposure is controlled by counterparty limits that are reviewed and approved by senior management as and when necessary, but at a minimum annually.

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

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

The Company and the Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

Interest rate sensitivity
The sensitivity analysis below has been determined based on the exposure to interest on the financial instrument balances at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period.

At the reporting date, if interest rates had been 1% higher/lower throughout the period and all other variables were held constant, the Group and Company's net profit and equity reserves for the year ended 31 December 2014 would decrease by £nil (2013 - £Nil). This is mainly attributable to the Group and Company's limited exposure to variable interest rates at the beginning of the previous financial year. A 1% movement in basis points has been used as this provides a benchmark against which to measure any future interest rate movements.

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 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.

22 Financial instruments *(continued)*

Group	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
2014							
Non-interest bearing:							
Trade payables	-	310	-	-	-	-	310
Deferred consideration*	-	-	600	-	-	-	600
Contingent consideration	-	-	-	110	110	-	220
Fixed interest rate:							
Finance leases	8.0	39	247	284	1,018	358	1,946
Other loans	9.5	-	9	10	57	219	295
		349	856	404	1,185	577	3,371

Group	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
2013							
Non-interest bearing:							
Trade payables	-	560	-	-	-	-	560
Deferred*	-	-	404	-	600	-	1,004
Contingent	-	-	-	78	457		535
Fixed interest rate:							
Finance leases	8.1	47	206	213	809	380	1,655
Other loans	9.5	-	9	10	57	219	295
		607	619	301	1,923	599	4,049

* At the Groups option £400,000 (2013: £800,000) of the deferred consideration may be equity settled.

22 Financial instruments *(continued)*

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
2014							
Non-interest bearing:							
Trade payables	-	-	-	-	-	-	-
Intercompany debt	-	-	-	-	-	3,376	3,376
Deferred consideration*	-	-	600	-	-	-	600
Contingent consideration	-	-	-	110	110	-	220
Fixed interest rate:							
Other loans	9.5	-	9	10	57	219	295
		-	609	120	167	3,595	4,491

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
2013							
Non-interest bearing:							
Trade payables	-	7	-	-	-	-	7
Intercompany debt	-	-	-	-	-	3,477	3,477
Deferred consideration*	-	-	404	-	600	-	1,004
Contingent consideration	-	-	-	78	457	-	535
Fixed interest rate:							
Other loans	9.5	-	9	10	57	219	295
		7	413	88	1,114	3,696	5,318

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

* At the Groups option £400,000 (2013: £800,000) of the deferred consideration may be equity settled.

23 Deferred tax (liability)/asset

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

	2014 £'000	2013 £'000
Net asset at 1 January	**83**	-
Arising from acquisition	**-**	(89)
Recognised in the statement of comprehensive income	**(341)**	172
Net (provision)/asset at 31 December	**(258)**	83

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:

	2014 Carrying Value £'000	2013 Carrying value £'000	Recognised in the year £'000
Tax losses	**11**	153	**(142)**
Share options	**130**	163	**(33)**
Fixed asset timing differences	**(399)**	(233)	**(166)**
	(258)	83	**(341)**

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 £1,590,000 (2013 - £1,446,000) 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.

24 Called up share capital

	2014 £'000	2013 £'000
Group and Company		
Authorised, allotted, called up and fully paid:		
220,281,758 Ordinary shares of 1p each (2013 – 211,530,626 ordinary shares of 1p each)	**2,203**	2,115

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

Capital issue

On 31 May 2014 6,438,632 ordinary shares were issued in respect of the satisfaction of deferred consideration arising upon the acquisition of Indigo Retail Holdings Limited in 2013.

Share options

Share options awards are disclosed at note 30. During the year 2,312,500 ordinary shares were issued in respect of share option exercises.

25 Employee and directors

	Consolidated		Company	
	2014	**2013**	**2014**	**2013**
	£'000	**£'000**	**£'000**	**£'000**
Group				
Wages and salaries	**7,204**	5,841	**260**	131
Social security costs	**734**	574	**26**	-
Pension costs	**192**	154	**24**	-
	8,130	6,569	**310**	131

The average number of people (including executive directors) employed during the year:

	2014	**2013**	**2014**	**2013**
	No's	**No's**	**No's**	**No's**
Production/services	**113**	87	**-**	-
Sales/marketing	**13**	18	**-**	-
Research and development	**46**	48	**-**	-
Administration	**26**	21	**2**	1
	198	174	**2**	1

Emoluments paid to the highest paid director were as follows:

	2014	**2013**
	No's	**No's**
Aggregate emoluments	**306**	209
Company pension contribution to money purchase pension scheme	**14**	8
	320	217

There are 2 directors (2013 – 1) to whom retirement benefits accrued under money purchase schemes during the year.

Further details of the director's remuneration are included in the Directors' Remuneration Report on pages 15 to 17.

26 Pension commitments

The Group operates a defined contribution scheme. The assets of the scheme are held separately from these 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 £192,000 (2013 - £154,000), together with the administration charge of the fund. In addition the Group continues to contribute to personal pension plans for certain of its employees. As at 31 December 2014 contributions of £76,000 (2013 - £38,000) due in respect of the current reporting period had not been paid over to the scheme.

27 Operating lease commitments

At 31 December 2014 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:

		2014			2013	
	Property £'000	Plant and Machinery £'000	Total £'000	Property £'000	Plant and Machinery £'000	Total £'000
Within 1 year	**393**	**261**	**654**	457	190	647
Between 2 and 5 years	**1,636**	**288**	**1,924**	1,636	136	1,772
After 5 years	**323**	**-**	**323**	716	-	716
Total	**2,352**	**549**	**2,901**	2,809	326	3,135

28 Contingent liabilities

The Group has given a duty deferment guarantee to HMRC of £5,000 (2013 - £5,000).

29 Capital and other financial commitments

As at 31 December 2014 the Group had not entered into any contracts for future capital expenditure (2013 - £Nil).

30 Share-based payments

At 31 December 2014 the outstanding share options, which include the share options granted to Directors, are as shown below:

	Date of Grant	Exercise price (p)	Number of shares	Date from which exercisable	Expiry date
Approved EMI scheme	30 July 2010	1	1,375,000	30 July 2013	30 July 2020
	5 November 2010	1	375,000	5 November 2013	5 November 2020
	26 January 2012	1	625,000	26 January 2015	26 January 2022
	18 December 2012	1	250,000	18 December 2012	18 December 2022
	26 July 2013	4.25	1,750,000	26 July 2016	26 July 2023
	13 November 2013	4.5	3,440,000	13 November 2016	13 November 2023
	28 October 2014	5.5	1,808,500	28 October 2017	28 October 2024
	31 December 2014	6.75	100,000	31 December 2017	31 December 2024
Unapproved scheme	30 July 2010	1	625,000	30 July 2013	30 July 2020
	5 November 2010	1	500,000	5 November 2013	5 November 2020
	26 January 2012	1	4,825,000	26 January 2015	26 January 2022
	18 December 2012	1	2,050,000	18 December 2012	18 December 2022
	26 July 2013	4.25	1,750,000	26 July 2016	26 July 2023
	13 November 2013	4.5	560,000	13 November 2016	13 November 2023
	28 October 2014	5.5	1,994,500	28 October 2017	28 October 2024

Summary of share option schemes in operation during the year
The Directors' Remuneration Report on pages 15 to 17 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 £107,000 in 2014 (2013: £45,000).

Equity-settled share option schemes

The options are subject to performance conditions. For awards made prior to 31 December 2013 the performance condition was for the share price to increase to 5 pence. This condition has been satisfied for those options. For options issued on 26 July 2014 the performance condition was for the share price to increase to 6 pence. This condition has been satisfied for those options. For options issued on and after 13 November 2014 the performance condition was for the share price to increase to 9.5 pence. This condition has not yet been satisfied. Where options remain unexercised after a period of 10 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.

30 Share-based payments (continued)

The total number of shares under option is as follows:

Unapproved share options	**2014 Number of share options No's**	**2014 Weighted average exercise price pence**
Outstanding at beginning of period	10,935,000	**1.7**
Granted during the period	1,994,500	**5.5**
Exercised during the period	(1,250,000)	**1.0**
Transferred from EMI share options	625,000	**1.0**
Outstanding at the end of the period	12,304,500	**2.35**
Exercisable at the end of the period	7,375,000	**1.0**

All acquisitions under the plan are equity-settled.

EMI share options	**2013 Number of share options No's**	**2013 Weighted average exercise price pence**
Outstanding at beginning of period	9,502,500	1.7
Granted during the period	1,908,500	5.5
Exercised during the period	(1,062,500)	1.0
Transferred to Unapproved share options	(625,000)	1.0
Outstanding at the end of the period	9,723,500	3.7
Exercisable at the end of the period	2,000,000	1.0

The options outstanding at 31 December 2014 had a weighted average exercise price of 3.0 pence (2013 – 2.2 pence) and a weighted average remaining contractual life of 8 years (2013 – 8.5 years).

30 Share-based payments (continued)

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

Date of Grant	Type of award	Number of shares	Exercise price (p)	Share price at date of grant (p)	Fair value per option (p)	Award life (years)
30 July 2010	EMI	1,375,000	1	3	1	3
30 July 2010	Unapproved	625,000	1	3	1	3
5 November 2010	EMI	375,000	1	3	1	3
5 November 2010	Unapproved	500,000	1	3	1	3
26 January 2012	EMI	625,000	1	3	1	3
26 January 2012	Unapproved	4,825,000	1	3	1	1
18 December 2012	EMI	250,000	1	3	1	-
18 December 2012	Unapproved	2,050,000	1	3	1	-
26 July 2013	EMI	1,750,000	4.25	4.25	2	3
26 July 2013	Unapproved	1,750,000	4.25	4.25	2	3
13 November 2013	EMI	3,440,000	4.5	7.25	4	3
13 November 2013	Unapproved	560,000	4.5	7.25	4	3
28 October 2014	EMI	1,808,500	5.5	5.5	3.3	3
28 October 2014	Unapproved	1,994,500	5.5	5.5	3.3	3
31 December 2014	EMI	100,000	6.75	6.75	3.3	3
		22,028,000				

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 and 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.

31 Principal subsidiaries

Name	Place and date of incorporation	Issued and full paid share capital	Percentage held	Business
HTEC Group Ltd	England and Wales	Ordinary £1	100% held	Holding Company
HTEC Ltd*	England and Wales	Ordinary 1p	100% held	Manufacture and development of payment and information systems
High Technology Electronic Clearance SL*	Spain	Ordinary 6 Euro	100% held	Dormant
HTEC Ltd*	Portugal	Branch, no share capital	100% held	Dormant
WSF Services Ltd	Scotland	Ordinary £1	100% held	Dormant
Prepaid Card Management Ltd*	England and Wales	A/B share £0.01	51% held	Dormant
Indigo Retail Holdings Ltd	England and Wales	Ordinary £1 A and B shares	100% held	Holding Company
Indigo Retail Technology Ltd*	England and Wales	Ordinary £1	100% held	Dormant
HTEC Retail Services Limited*	England and Wales	Ordinary £1	100% held	Dormant

* Investments held in a subsidiary company

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

32 Related parties - company

	Debits to intercompany indebtedness	
	2014	**2013**
	No's	**No's**
Balances with HTEC Limited		
Funding transactions	**(561)**	(526)
Management recharge	**662**	403

Amounts owed to subsidiaries are disclosed in note 21.

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 16 to 17.

	2014	**2013**
	£'000	**£'000**
Short term employee benefits	**662**	552
Post employment benefits	**23**	8
Share based payments	**98**	25
	783	585

33 Material non-cash transactions

During the year the Group entered into £687,000 (2013 - £842,000) of finance leases for computer equipment.

During the year the Group settled £400,000 of deferred consideration arising in the acquisition of Indigo Retail Holdings Limited in 2013 by issuing ordinary shares in the Company.

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

34 Post balance sheet date event

On 2 April 2015 the Group acquired the entire issued share capital of Spedinorcon Limited, a provider of point of sale and back office systems. Consideration of £30,000 has been paid with further consideration of £10,000 due on the first anniversary of the acquisition. In addition contingent consideration expected to range from £150,000 to £250,000 but capped at £500,000, is payable depending upon the achievement of certain revenue targets. Spedinorcon had negligible tangible assets and liabilities upon acquisition and it is likely that all consideration will be attributed to intangible fixed assets including customer relationships, capitalised software development and goodwill.

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 qualitative description of the factors which make up goodwill and a fair value of the amounts recognised as of the acquisition date for each major class of assets acquired and liabilities assumed. Further disclosure of the items required under IFRS 3 will be included in the June 2015 half year report.