Company Registration No. 03537238 (England and Wales)

TOUCHSTONE GROUP PLC

REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 MARCH 2018

Contents

Company information

Directors	DRT Thompson	– Non–Executive Chairman
	KGJ Birch	– Chief Executive
	DP Birch	– Commercial Director
	C Butler	– Finance Director
Registered office	46 Worship Street London EC2A 2EA	
Secretary	DP Birch	
Auditor	RSM UK Audit LLP 3rd Floor One London Square Cross Lanes Guildford, Surrey GU1 1UN	
Bankers	National Westminster Bank Plc North London Business Centre PO Box 6333 2/3 Upper Street London N1 0QE	

Group Strategic Report

Business Review

The following business review has been provided by the directors in accordance with the Companies Act 2006.

The Group achieved some revenue growth in the financial year, but has suffered a small decline in trading margins largely due to the investment in staff to deliver the Business plans in the coming financial periods.

Overall Group turnover improved 2.8% on last year to £22.64m (2017: £22.02m).

At an adjusted level, EBITDA decreased by 37% (2017: up over 36%) to £ 1.59m (2017: £2.53m). The Group's net results before tax but after financial charges, depreciation and amortisation decreased by 50% (2017: increased 41%) to £1.05m (2017: £2.12m).

The Group no longer has a requirement to provide details of its earnings per share performance having de-listed from AIM in 2009. However, to assist, the Board can confirm that Basic adjusted** Earnings per share for the period has decreased to 17.1p (2017: 25.9p).

The Group's liquidity position remains strong although cash balances have dropped to £4.2m (2017: £6.7m). This drop was in the main due to the investment in the freehold of a new London office at a total cost of £3.7m including refurbishment. This was partly funded by a ten year bank loan of £1.9m.

The Board uses a range of performance indicators to monitor and manage the business and ensure focus is maintained on the key priorities of the Group.

The Key Performance Indicators ("KPIs"), which are set at board level, have been devised to allow the Board and shareholders to monitor the Group as a whole.

The performance indicators which the Board currently considers to be the most important are as follows:

	31 March 2018	**31 March 2017**
1. Revenue	**£22.64m**	**£22.02m**
2. Trading Gross Profit (GP Margin %)	**£16.4m (72%)**	**£15.8m (72%)**
3. Adjusted EBITDA*	**£1.59m**	**£2.53m**
4. Cash and cash equivalents	**£4.2m**	**£6.7m**
5. Working capital (net current assets)	**£2.40m**	**£4.69m**
6. Average salaried Staff headcount during year	**162**	**139**
7. Total staff including Contractors @ year end	**164 Staff**	**150 Staff**

**Trading GP is Turnover less direct Costs of sales relating to Software, support and external freelance contractor costs.*
***Adjusted EBITDA is Operating profit stated prior to bank interest, tax and charges, depreciation, amortisation and impairment of intangible fixed assets.*

Actual performance in respect of these KPIs is provided in the Consolidated Statement of Comprehensive Income on page 9 and the Consolidated Balance Sheet on page 10.

Principal Risks and uncertainties:

The principal risks and uncertainties facing the group are broadly grouped as competitive, author and staff related:

Competitive risks

The Group has contracts with a number of major customers that are subject to periodic reviews, often resulting in competitive tender. However, the Board believe that the group's diversity of both customers and products substantially mitigate any uncertainties that caused the renewal of these contracts. Additionally, it is vitally important that the Group maintains service margins, particularly in the increasingly competitive market place that it currently faces. Project managers rigorously monitor project plans, budgets and milestones to ensure this risk factor is kept closely under review.

Group Strategic report (continued)

Author risk:

Historically, as a software reseller, the Group has been dependent on a small number of software authors to provide the software products it resells. If some of these authors were to develop financial instability this could have an adverse impact on the Group's business, results and financial position. Additionally these authors could exert influence on pricing which could adversely affect the Group's profits. The Group mitigates this risk by monitoring financial performance of its authors and having strong, lasting relationships with them. The Group's strategy has also been to diversify its product and services portfolio, which now includes "blue chip" global software providers such as Microsoft and INFOR. Services now make up 84% of the Group's revenue.

Staff risk:

The Group's success is dependent on its ability to retain and recruit suitably qualified, high calibre staff. The Board actively monitors retention rates, internal and external staff surveys and reward packages to manage and reduce this risk.

Approved by the Board of directors and signed on its behalf by:

KGJ Birch

Director

11th July 2018

Directors' report

The Directors present their annual report and the audited financial statements for the year ended 31 March 2018.

Directors:

The Directors who have held office since 1 April 2017 are as follows:

DRT Thompson
KGJ Birch
DP Birch
C Butler

Principal activities

Touchstone Group plc is a holding company.

The principal activity of its trading subsidiaries during the financial year was the provision of integrated business software and associated consulting and support services.

Touchstone Group plc is incorporated and domiciled in the United Kingdom.

A review of the business's performance is presented in the Strategic report.

Cash Distribution

Distributions - Dividends

In December 2017, the Board declared an interim dividend of 4p per share (2016: 3.5p), and with the final dividend and special dividend for last year declared in July 2017 these dividends consumed £1,275k of Group cash reserves (vs total dividends paid in 2016: £825k).

Due to a reasonable second half performance, the Board will be proposing a final dividend of 7.5p per share (2017: 7.5p) and a special dividend of nil (2017: 2.5p). The total Ordinary dividend for the year as whole will therefore be 11.5p (2017: 11p) and a total special dividend of nil (2017: 5.0p) for the year as a whole.

Current Trading

With improving, but still at times testing market conditions, the Board is hopeful that all operational units will show good progress during the year ahead.

The Board would like to thank all management and staff for their sterling efforts throughout the year and to all the Group's customers for their business and on-going loyalty.

Policy and practice on payment of creditors

The Group's policy is to pay suppliers in accordance with terms and conditions agreed when orders are placed. Although the Group does not follow any code or standard on payment policy, where payment terms have not been specifically agreed, invoices dated in one calendar month are paid close to the end of the following month.

Treasury and funding activities

The Group's financial instruments comprise cash, short term deposits and various items such as trade receivables and trade payables that arise directly from its operations.

The Group finances its operations primarily through retained profits.

As such, it has no significant interest rate risk or liquidity risk.

Directors’ report (continued)

Environmental policy

Recognising that the Group’s operations are themselves of minimal environmental impact, the Group’s environmental policy is to:

- Meet the statutory requirements placed on us.
- Apply good environmental practice both in our business operations and in the development of systems and products for our customers, recognising, however, that we are contractually obliged to conform with our customers’ requirements.

Disclosure of information to auditor

The Directors who held office at the date of approval of this Directors’ Report confirm that, so far as they are each aware, there is no relevant audit information of which the auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

Employment policies

The Group places great emphasis on providing equality of opportunity for all employees and in particular ensures that fair selection and development procedures apply. The aim of the policy is to ensure that no job applicant or employee receives less favourable treatment on the grounds of age, sex, sexual orientation, disability, marital status, colour, religion or ethnic origin.

Research and development expenditure

The Group undertakes software product development activities in the normal course of its business, none of these costs have been capitalised during the year.

Future developments of the Group

The directors continue to invest in growth of all of the Group business units. In the coming year, the Group will specifically target investment in the Microsoft D365 space along with expansion into new markets for the Wealth management software.

Auditor

The auditor, RSM UK Audit LLP, Chartered Accountants, has indicated its willingness to continue in office.

By order of the Board

46 Worship Street
London
EC2A 2EA

KGJ Birch

Director

11th July 2018

Statement of Directors' responsibilities in respect of the Annual Report and the Financial Statements

The directors are responsible for preparing the Strategic Report, Directors' Report and financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and company financial statements for each financial year. Under that law the directors have elected to prepare the company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

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 company and of the profit or loss of the group for that period.

In preparing the company financial statements, the directors are required to:

a. select suitable accounting policies and then apply them consistently;

b. make judgements and accounting estimates that are reasonable and prudent;

c. 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 company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report to the members of Touchstone Group plc

Opinion

We have audited the financial statements of Touchstone Group plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 March 2018 which comprise Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity, Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2018 and of the group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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

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

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report has been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified material misstatements in the strategic report and the directors' report.

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

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

Responsibilities of directors
As explained more fully in the directors' responsibilities statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Use of our report
This report is made solely to the 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.

COLIN ROBERTS FCA (Senior Statutory Auditor)
For and on behalf of RSM UK AUDIT LLP, Statutory Auditor
Chartered Accountants
3rd Floor
One London Square
Cross Lanes
Guildford
Surrey GU1 1UN

12th July 2018

Consolidated Statement of Comprehensive Income

for the year ended 31 March 2018

	Note	2018 £'000	Restated 2017 £'000
Turnover	*2*	**22,644**	22,020
Operating expenses before specific expenses		**(21,052)**	(19,491)
Depreciation	*3,11*	**(217)**	(124)
Amortisation and impairment of intangible fixed assets	*3,10*	**(300)**	(299)
Total operating costs	*3,5*	**(21,569)**	(19,914)
Operating profit before specific expenses below:		**1,592**	2,529
Depreciation	*3,11*	**(217)**	(124)
Amortisation and impairment of intangible fixed assets	*3,10*	**(300)**	(299)
Operating profit		**1,075**	2,106
Finance income	*6*	**7**	12
Interest payable	*7*	**(33)**	-
Profit before taxation	*3*	**1,049**	2,118
Taxation	*8*	**(18)**	(144)
Profit for the financial year		**1,031**	1,974
Total comprehensive income for the year		**1,031**	1,974

Turnover and operating profit for the year relates to the Company's continuing operations.

Consolidated Balance Sheet

at 31 March 2018 ***(Company Registration Number: 03537238)***

	Note	2018 £'000	2017 £'000
ASSETS			
Fixed assets			
Goodwill	*10*	**2,088**	2,387
Other intangible assets	*10*	**3**	-
Property, plant and equipment	*11*	**4,466**	455
Financial asset investments	*12*	**47**	58
		6,604	2,900
Current assets			
Debtors	*13*	**7,767**	7,603
Cash at bank and in hand	*18*	**4,213**	6,724
		11,980	14,327
Creditors: amounts falling due within one year	*14*	**(9,576)**	(9,635)
Net current assets		**2,404**	4,692
Total assets less current liabilities		**9,008**	7,592
Creditors: amounts falling due in more than one year	*15*	**(1,632)**	-
Net assets		**7,376**	7,592
Capital and reserves			
Called up share capital	*16*	**977**	977
Share premium reserve		**3,829**	3,829
Capital redemption reserve		**280**	280
Profit and loss account		**2,290**	2,506
		7,376	7,592
Non-controlling interest		-	-
Total equity		**7,376**	7,592

These financial statements on pages 9 to 31 were approved by the Board of Directors and authorised for issue On 11th July 2018 and were signed on its behalf by:

KGJ Birch
Director

Parent Company Balance Sheet

at 31 March 2018 ***(Company Registration Number: 03537238)***

	Note	2018 £'000	2017 £'000
Fixed assets			
Freehold property	*11*	**3,657**	-
Investments	*12*	**8,107**	8,107
		11,764	8,107
Current assets			
Debtors	*13*	**4,357**	3,608
Cash at bank and in hand		**16**	35
		4,373	3,643
Creditors: amounts falling due within one year	*14*	**(7,171)**	(4,141)
Net current liabilities		**(2,798)**	(498)
Total assets less current liabilities		**8,966**	7,609
Creditors: amounts falling due after more than one year	*15*	**(1,632)**	-
Net assets		**7,334**	7,609
Capital and reserves			
Called up share capital	*16*	**977**	977
Share premium reserve		**3,829**	3,829
Capital redemption reserve		**329**	329
Other reserve		**843**	843
Profit and loss account		**1,356**	1,631
Total equity		**7,334**	7,609

The Company's total comprehensive income for the year was £972,000 (2017: £1,473,000).

These financial statements on pages 9 to 31 were approved by the Board of Directors on 11th July 2018 and were authorised for issue and signed on its behalf by:

KGJ Birch
Director

Consolidated Statement of Changes in Equity
for the year ended 31 March 2018

	Share capital £'000	Share premium reserve £'000	Capital redemption reserve £'000	Retained earnings £'000	Total attributable to equity holders of parent £'000	Non-controlling interest £'000	TOTAL EQUITY £'000
Balance at 31 March 2016 and Brought Forward At 1 March 2016	977	3,829	280	1,792	6,878	37	6,915
Changes in equity for the year ended 31 March 2017:							
Total comprehensive income for the year	-	-	-	1,974	1,974	-	1,974
Subsidiary purchase on non-controlling interest	-	-	-	(91)	(91)	(37)	(128)
Transactions with owners:							
Dividends	-	-	-	(1,195)	(1,195)	-	(1,195)
Share based payment	-	-	-	26	26	-	26
Balance Carried Forward At 31 March 2017	977	3,829	280	2,506	7,592	-	7,592
Changes in equity for the year ended 31 March 2018:							
Total comprehensive income for the year	-	-	-	1,031	1,031	-	1,031
Transactions with owners:							
Dividends	-	-	-	(1,275)	(1,275)	-	(1,275)
Share based payment	-	-	-	28	28	-	28
Balance Carried Forward At 31 March 2018	977	3,829	280	2,290	7,376	-	7,376

Share capital
Represents the nominal value of shares in issue.

Share premium reserve
Represents amounts subscribed for share capital in excess of nominal value, net of directly attributable issue costs.

Capital redemption reserve
The capital redemption reserve arose due to the repurchase of its own shares by the Company during prior years. It represents an amount equivalent to the nominal share capital of the shares purchased.

Retained earnings
Represent the cumulative profit and loss net of distribution to owners.

Parent Company Statement of Changes in Equity

for the year ended 31 March 2018

	Share capital £'000	Share premium reserve £'000	Capital redemption reserve £'000	Other reserves £'000	Profit and loss account £'000	TOTAL EQUITY £'000
Balance at 31 March 2016 and Brought Forward At 1 March 2016	977	3,829	329	843	1,327	7,305
Changes in equity for the year ended 31 March 2017:						
Total comprehensive income for the year	-	-	-	-	1,473	1,473
Transactions with owners:						
Dividends	-	-	-	-	(1,195)	(1,195)
Share based payments	-	-	-	-	26	26
Balance Carried Forward At 31 March 2017	977	3,829	329	843	1,631	7,609
Changes in equity for the year ended 31 March 2018:						
Total comprehensive income for the year	-	-	-	-	972	972
Transactions with owners:						
Dividends	-	-	-	-	(1,275)	(1,275)
Share based payments	-	-	-	-	28	28
Balance Carried Forward At 31 March 2018	977	3,829	329	843	1,356	7,334

Share capital
Represents the nominal value of shares in issue.

Share premium reserve
Represents amounts subscribed for share capital in excess of nominal value, net of directly attributable issue costs.

Capital redemption reserve
The capital redemption reserve arose due to the repurchase of its own shares by the Company during prior years. It represents an amount equivalent to the nominal share capital of the shares purchased.

Other reserves
The Company's 'other reserves' figure of £843,000 represents the difference arising between the nominal value of the shares issued by Touchstone Group plc of £833,000 and the nominal value of the Touchstone Computers Ltd shares received in exchange of £1,000 and the share premium of £9,000, together with the premium on shares issued for the total consideration on acquisition of Chartland Associates plc.

Retained earnings
Represent the cumulative profit and loss net of distribution to owners.

Consolidated Statement of Cash flows

for the year ended 31 March 2018

	Note	2018 £'000	2017 £'000
Cash flows from operating activities	*21*	**1,149**	2,896
Income taxes paid		**(50)**	(197)
Interest paid		**(33)**	-
Net cash generated from operating activities		**1,066**	2,699
Cash flows from investing activities			
Proceeds from bank loan finance	*15*	**1,950**	-
Repayment of bank loan	*15*	**(123)**	-
Proceeds from sale of investments	*12*	**91**	-
Purchase of intangible fixed assets	*10*	**(4)**	-
Purchase of property, plant and equipment	*11*	**(4,223)**	(429)
Purchase of additional shares in subsidiaries		**-**	(47)
Interest received		**7**	12
Net cash used in investing activities		**(2,302)**	(464)
Cash flows from financing activities			
Dividends paid	*9*	**(1,275)**	(1,195)
Net cash used from financing activities		**(1,275)**	(1,195)
Net (increase)/decrease in cash and cash equivalents	*18*	**(2,511)**	1,040
Cash and cash equivalents at the beginning of the year	*18*	**6,724**	5,684
Cash and cash equivalents at the end of the year	*18*	**4,213**	6,724

Notes (forming part of the financial statements)

1 Accounting policies

Company information

Touchstone Group Plc is a company limited by shares incorporated in England and Wales. The registered office and principal place of business is 46 Worship Street, London, EC2A 2EA.

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group") all prepared in Sterling. The parent company financial statements present information about the Company as a separate entity and not about its Group.

Accounting Convention

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £'000.

The financial statements have been prepared under the historical cost convention. The principal accounting policies adopted are set out below.

Reduced disclosures
In accordance with FRS 102, the Company has taken advantage of the exemptions from the following disclosure requirements;

- Section 4 'Statement of Financial Position' – Reconciliation of the opening and closing number of shares
- Section 7 'Statement of Cash Flows' – Presentation of a Statement of Cash Flow and related notes and disclosures
- Section 11 'Basic Financial Instruments' & Section 12 'Other Financial Instrument Issues' – Carrying amounts, interest income/expense and net gains/losses for each category of financial instrument; basis of determining fair values; details of collateral, loan defaults or breaches; details of hedges, hedging fair value changes recognised in profit or loss and in other comprehensive income
- Section 33 'Related Party Disclosures' – Compensation for key management personnel

Going concern

The Directors have reviewed the projections for the forthcoming 12 month period from the date of signing of these financial statements and based on the level of existing cash, projected income and expenditure, the Directors are satisfied that the Company and the Group have adequate resources to continue for a period of at least 12 months from the date of signing of these financial statements, as a result the Directors consider it appropriate for the financial statements to be prepared on a going concern basis.

Company statement of comprehensive income

As permitted by s408 Companies Act 2006, the Company has not presented its own statement of comprehensive income. The Company's profit for the financial year was £972,000 (2017: £1,476,000).

Basis of consolidation

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at fair value at the acquisition date irrespective of the extent of any minority interest.

Subsidiaries are entities controlled by the Group. Control is achieved when the Group has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the Group.

All intra-Group transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated on consolidation.

Non-controlling interests are measured at the proportional share of the net assets of the relevant subsidiaries.

Notes *(continued)*

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment losses.

Depreciation is charged so as to write-off the cost of assets to their estimated residual values over their estimated useful lives on the following bases:

Freehold buildings	over 50 years
Leasehold Improvements	20% straight line
Fixtures and fittings	20% reducing balance or 20% - $33^1/_3$% straight line
Computer equipment	over 3 years straight line

Depreciation expense is included in administration expenses in the Statement of Comprehensive Income.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

GOODWILL

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary at the date of acquisition.

Intangible assets acquired separately from a business are recognised at cost and are subsequently measured at cost less accumulated amortisation and accumulated impairment losses. Intangible assets acquired on business combinations are recognised separately from goodwill at the acquisition date if the fair value can be measured reliably.

Amortisation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives on the following bases:

Goodwill	10 years

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Negative goodwill arising on an acquisition is recognised immediately in the Consolidated Statement of Comprehensive Income.

At the date of transition, management performed a review of the goodwill. It has been determined that the remaining estimated useful life at this date is 10 years. Therefore the goodwill is being amortised on a straight line basis from the date of transition.

OTHER INTANGIBLE ASSETS

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the Group's software product development is recognised only if all of the following conditions are met:

- an asset is created that can be identified;
- it is probable that the asset created will generate future economic benefits;
- the development cost of the asset can be measured reliably;
- the product or process is technically and commercially feasible; and
- sufficient resources are available to complete the development and to either sell or use the asset.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Software and development

Intangible assets such as software and its development are measured initially at the directly attributable time costs incurred and amortised on a straight line basis over their estimated useful lives. This is currently estimated as five years.

Intellectual property rights

Intangible assets such as Intellectual Property Rights are measured initially at their purchase cost and amortised on a straight line basis over their estimated useful lives. This is currently estimated as five years.

Notes *(continued)*

OTHER INTANGIBLE ASSETS *(continued)*

Customer relationships

Intangible assets such as Customer relationships are measured initially at their purchase cost and amortised on a straight line basis over their estimated useful lives. This is currently estimated as ten years.

IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS EXCLUDING GOODWILL

Intangible assets acquired as part of an acquisition are capitalised at their fair value where this can be reliably measured.

At each reporting 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 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 (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but 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 (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

FINANCIAL INSTRUMENTS

The company has elected to apply the provisions of Section 11 ‘Basic Financial Instruments’ and Section 12 ‘Other Financial Instruments Issues’ of FRS 102 to all of its financial instruments. Financial instruments are recognised when the company becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset, with the net amounts presented in the financial statements, when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Basic financial instruments

Basic financial assets, which include trade and other receivables and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the financial asset is measured at the present value of the future receipts discounted at a market rate of interest.

Other financial assets

Other financial assets, including trade investments, are initially measured at fair value, which is normally the transaction price. Such assets are subsequently carried at fair value and the changes in fair value are recognised in profit or loss, except that investments in equity instruments that are not publically traded and whose fair values cannot be measured reliably are measured at cost less impairment.

FINANCIAL INSTRUMENTS *(continued)*

Impairment of financial assets

Financial assets, other than those held at fair value through profit and loss, are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been, had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

Derecognition of financial assets

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire or are settled, or when the company transfers the financial asset and substantially all the risks and rewards of ownership to another entity, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party.

Classification of financial liabilities

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 company after deducting all of its liabilities.

Basic financial liabilities

Basic financial liabilities, including trade and other payables, bank loans, loans from fellow group companies and preference shares that are classified as debt, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Other financial liabilities

Derivatives, including interest rate swaps and forward foreign exchange contracts, are not basic financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or finance income as appropriate, unless hedge accounting is applied and the hedge is a cash flow hedge.

Derecognition of financial liabilities

Financial liabilities are derecognised when, and only when, the company's contractual obligations are discharged, cancelled, or they expire.

Equity instruments

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the company.

LEASING

Rentals payable under operating leases are charged to income on a straight line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight line basis over the lease term.

REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, Value Added Tax and other sales related taxes. Sales of goods are recognised when goods are delivered and title has passed.

The Group's main revenue categories are as follows:

Software sales

Revenue from direct software sales to end-users is recognised once a non-cancellable purchase order or contract has been received, and the product has been delivered to the customer.

Maintenance revenues

Maintenance revenues are recognised over the period of the contract on a pro-rata basis.

Professional services

Revenue from professional services is recognised following provision of those services on an hours completed basis and on a project percentage complete basis.

Cost of sales

Cost of sales consists of supplier costs, payroll and direct costs associated with the provision of IT services to the customers.

SHARE-BASED PAYMENTS

The Company grants share options ("equity-settled share-based payments") to certain employees.

Equity-settled share-based payments are measured at fair value at the date of grant by reference to the fair value of the equity instruments granted using the Black-Scholes model. The fair value determined at the grant date is expensed on a straight-line basis over the vesting period, based on the estimate of shares that will eventually vest. A corresponding adjustment is made to equity.

Modifications and cancellations

When the terms and conditions of equity-settled share-based payments at the time they were granted are subsequently modified, the fair value of the share-based payment under the original terms and conditions (the "original fair value") and under the modified terms and conditions (the "modified fair value") are both determined at the date of the modification. Any excess of the modified fair value over the original fair value is recognised over the remaining vesting period in addition to the grant date fair value of the original share-based payment. The share-based payment expense is not adjusted if the modified fair value is less than the original fair value.

Cancellations or settlements (including those resulting from employee redundancies) are treated as an acceleration of vesting and the amount that would have been recognised over the remaining vesting period is recognised immediately.

Where the Group is liable for National Insurance Contributions (NICs) on the share payment, provision is made for NICs on outstanding share options that are expected to be exercised, based upon the latest enacted NIC rates at the reporting date.

INTEREST IN OWN SHARES

The Group has an Employee Share Ownership Trust (ESOT) to assist with amongst other matters the obligations under share options. The ESOT is consolidated as if it were a subsidiary undertaking. Shares in the Group held by the (ESOT) are stated at cost and are disclosed as a deduction from equity.

RETIREMENT BENEFIT COSTS

The company operates neither a defined contribution nor a defined benefit pension scheme but makes contributions to employees personal pension schemes. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution plans where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit plan.

Notes *(continued)*

TAXATION

The tax expense represents the sum of the current tax and the deferred tax elements.

The current tax is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or 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 current tax is calculated by using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount 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 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 from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction which affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in jointly controlled entities, 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.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Deferred tax is charged or credited in the Statement of Comprehensive Income, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax is recognised on temporary differences between the tax rate on profits earned in foreign subsidiaries and the tax rates charged on remittance of those profits to the United Kingdom.

FOREIGN CURRENCIES

Transactions in currencies other than sterling, the presentational and functional currency of the Group, are recorded at the rates of exchange prevailing on the dates of the transactions.

Items included in the financial statements of each of the Group's entities are measured using the functional currency of that entity. At the reporting date, the monetary assets and liabilities denominated in foreign currencies are translated at the rates prevailing on the reporting date.

Gains and losses arising on translation are included in the Statement of Comprehensive Income for the period.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

- Revenue of £9.6m (2017: £9.0m) relates to income received from maintenance contacts. The income is spread over the contractual period which involves some degree of estimation. Revenue received in advance is accounted for as deferred income and released as appropriate.
- Goodwill has a carrying value of £2.1m (2017: £2.4m). Significant judgement is involved in determining the amortisation period of goodwill.

Notes *(continued)*

2 Turnover

The Group's turnover and profit before tax principally arise from its activities in the UK. Turnover and profits before tax arising in Ireland are not material. The Group has one principal class of business, the provision of integrated business software and consulting services, however revenue can be split into the following categories:

	2018	2017
	£000	£000
Software	**3,381**	3,892
Consultancy	**9,469**	8,859
Maintenance and support	**9,589**	9,044
Other (e.g. rechargeable costs)	**205**	225
Total turnover	**22,644**	22,020

3 Operating profit before taxation

	2018	2017
	£000	£000
Profit before taxation has been arrived at after charging/(crediting):		
Services provided by the company's auditors and its associates		
Audit of parent Company and consolidated accounts	**10**	25
Audit of the subsidiaries	**35**	20
Depreciation and other amounts written off property, plant and equipment	**217**	124
Amortisation of intangible assets	**300**	299
Foreign exchange gains	**(35)**	49
Hire of land and buildings – operating leases	**367**	351
Profit on disposal of investments	**79**	-

4 Directors' remuneration

Aggregate emoluments in respect of qualifying services amounted to £668,432 (2017: £680,368). Social security contributions were £84,532 (2017: £86,236).

Emoluments of the highest paid Director (excluding pension contributions) were £285,930 (2017: £292,019). Amounts paid by the Group in respect of his pension contributions were £24,873 (2017: £24,385). He currently holds no share options or entitlement to share options.

Total pension contributions of £47,769 (2017: £46,427) were made to the Executive Directors' personal pension plans. There are three executive Directors who all are accruing pension benefits (2017: three). The Directors are also considered to be key management. There are no employees of the company, other than director's who are remunerated through other group entities.

5 Employees

The average monthly number of persons employed by the Group (including Directors) during the year, analysed by category, was as follows:

	Number of employees	
	2018	2017
	No	No
Management	**10**	9
Administration	**17**	16
Sales, support and technical	**135**	114
	162	139

Notes *(continued)*

5 Employees *(continued)*

The aggregate payroll costs of these persons were as follows:

	2018 £000	2017 £000
Wages and salaries	**8,983**	7,672
Social security costs	**905**	857
Other pension costs (see note 22)	**693**	629
	10,581	9,158

6 Interest receivable and similar income

	2018 £000	2017 £000
Bank interest	**7**	12

7 Interest payable

	2018 £000	2017 £000
Bank loan	**33**	-

8 Taxation

	2018 £000	2017 £000
Current tax		
UK Corporation tax	**18**	144
Total tax charge	**18**	144

8 Taxation (continued)

Factors affecting the tax charge for the current period

The current tax charge for the period is lower (2017: lower) than the standard rate of corporation tax in the UK of 19% (2017: 20%). The differences are explained below:

	2018	2017
	£000	£000
Current tax reconciliation		
Profit on ordinary activities before tax	**1,049**	**2,062**
Current tax at 19% (2017: 20%)	**199**	**412**
Effects of:		
Effect of depreciation in excess of capital allowances	**(48)**	**(25)**
Profits not chargeable to UK corporation tax	**(211)**	**(312)**
Non-deductible expenditure	**78**	**69**
Total tax charge (see above)	**18**	**144**

Finance Act 2016 enacted a reduction in the UK corporation tax rate from 18% to 17% with effect from 1 April 2020. This change in rates impacted the closing deferred tax position for 2017.

9 Dividends

	2018	2017
	£000	£000
Equity shares:		
4.0p Interim dividend paid in respect of current year (2017: 3.5p per share) and nil Interim Special dividend in respect of current year (2017: 2.5p)	**374**	553
7.5p Final dividend paid in respect of prior year and 2.5p Final Special dividend (2017:Nil), so both not recognised as liabilities in that year (2017: 7p per share)	**901**	642

The Directors have proposed a final ordinary dividend in respect of the current financial year 7.5p per share (2017: 7.5p per share), and a Final special dividend of nil (2017: 2.5p).

There was an interim dividend of 4.0p per share declared during the year (2017: 3.5p per share), and a special dividend of nil declared during the year (2017: 2.5p)

The Employee Share Ownership Trust waived the dividend of £58,777 due from the Company on its shares (2017: £69,185).

10 Goodwill and other intangible assets

	Customer Relation-ships	Intellectual Property	Software Development	Total Other Intangible Assets	Goodwill	Total Intangible Assets
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Cost						
Balance as at 1 April 2017	818	1,540	976	3,334	4,642	7,976
Additions	-	4	-	4	-	4
Disposals	-	(10)	-	(10)	-	(10)
Balance as at 31 March 2018	818	1,534	976	3,328	4,642	7,970
Amortisation and impairment						
Balance as at 1 April 2017	818	1,540	976	3,334	2,255	5,589
Additions	-	1	-	1	299	300
Disposals	-	(10)	-	(10)	-	(10)
Balance at 31 March 2018	818	1,531	976	3,325	2,554	5,879
Net Book Value						
At 31 March 2018	**-**	**3**	**-**	**3**	**2,088**	**2,091**
At 31 March 2017	-	-	-	-	2,387	2,387

Notes *(continued)*

11. Tangible fixed assets

Group

	Freehold property	Fixtures, fittings, computer equipment and leasehold improvements	Total Fixed assets
Cost	**£000**	**£000**	**£000**
Balance at 1 April 2017	-	926	926
Additions	3,657	576	4,233
Disposals	-	(34)	(34)
Balance at 31 March 2018	3,657	1,468	5,125
Depreciation			
Balance at 1 April 2017	-	471	471
Depreciation charge for the year	-	217	217
Disposals	-	(29)	(29)
Balance at 31 March 2018	-	659	659
Net Book Value			
At 31 March 2018	**3,657**	**809**	**4,466**
At 31 March 2017	-	455	455

Company

	Freehold property
Cost	**£'000**
Balance at 1 April 2017	-
Additions	3,657
Balance at 31 March 2018	3,657
Depreciation	
Balance at 1 April 2017	-
Depreciation charge for the year	-
Balance at 31 March 2018	-
Net Book Value	
At 31 March 2018	**3,657**
At 31 March 2017	-

Depreciation expense is included in administration expenses in the Statement of Comprehensive Income.

Notes *(continued)*

12 Financial asset investments

Group

	£000
Cost	
At 1 April 2017	150
Disposal	(11)
At 31 March 2018	**139**
Impairment Provision	
Balance from 1 April 2017 and 31 March 2018	(92)
Net book value	
At 31 March 2018	**47**
At 31 March 2017	58

Touchstone FMS Ltd holds 43,000 (2017: 93,000) shares in Proactis Plc representing a 0.38% shareholding and 25,000 (2017: 25,000) shares in Management Consulting plc representing a 0.01% shareholding. The listed investments had a market value of £99,100 as at 31 March 2018 (2017: £191,080).

Company

Company	**Shares in group undertaking £000**
Cost	
At 1 April 2017 and at 31 March 2018	9,289
Provisions	
At 1 April 2017 and at 31 March 2018	(1,182)
Net book value	
At 31 March 2017 and at 31 March 2018	8,107

Notes *(continued)*

12 Financial asset investments *(continued)*

The fixed asset investments of the company comprise the following companies:

	Country of incorporation	Principal Activity	Class and percentage of shares held Company Ordinary shares	Registered address
Direct subsidiary undertakings				
Touchstone FMS Limited	England and Wales	Supply and support of business software	100%	46 Worship Street, London, EC2A 2EA
Touchstone (CI) Limited	Jersey	Supply and support of business software	100%	Ground Floor, Sir Walter Raleigh House, Esplanade 48/50, St. Helier, Jersey, JE2 3QB
Touchstone CRM Limited	England and Wales	Supply and support of business software	100%	46 Worship Street, London, EC2A 2EA
Touchstone ES Limited	England and Wales	Dormant	100%	46 Worship Street, London, EC2A 2EA
Indirect subsidiary undertakings				
FMS BI Limited	England and Wales	Supply and support of business software	100%	46 Worship Street, London, EC2A 2EA

The shares in subsidiary undertakings carry full voting rights.

13 Debtors

	Group		Company	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
Inventories	**3**	-	-	-
Trade debtors	**3,739**	3,829	-	-
Amounts owed by group undertakings	**-**	-	4,029	3,028
Other debtors	**491**	481	328	580
Prepayments and accrued income	**3,534**	3,293	-	-
	7,767	7,603	4,357	3,608

Included in other debtors is an amount £246k of which is expected to be recovered after more than one year.

14 Creditors: amounts falling due within one year

	Group		Company	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
Bank loan	**195**	-	195	-
Trade creditors	**1,132**	1,092	-	-
Amounts owed to group undertakings	**-**	-	6,947	4,120
Corporation tax	**122**	116	-	-
Other creditors including tax and social security	**1,082**	1,177	29	21
Accruals and deferred income	**7,045**	7,250	-	-
	9,576	9,635	7,171	4,141

Notes *(continued)*

15 Creditors: amounts falling due after more than one year

	Group		Company	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
Bank loan	**1,632**	-	1,632	-

An analysis of maturity of loans is given below:

	2018	2017
	Bank loan	Bank loan
	£000	£000
Group and company		
Amounts due:		
Within 1 year	**195**	-
Between 2 and 5 years	**780**	-
Over 5 years	**852**	-
	1,827	-

The bank loan is repayable monthly over 10 years with interest being charged at a fixed rate of 2.97% per annum.

16 Share capital

	2018	2017
	£000	£000
Allotted, called up and fully paid		
9,772,237 ordinary shares of 10p each (2017: 9,772,237)	**977**	977

	2018	2017
Authorised		
Ordinary shares of 10p each	**14,210,000**	14,210,000

The company's ordinary shares, which carry no right to fixed income, each carry the right to one vote at general meetings of the company.

17 Commitments

Future aggregate minimum lease payments under non-cancellable operating lease rentals are in aggregate as follows:

	2018	2017
	Land and	Land and
	Buildings	buildings
	£000	£000
Group		
Amounts due:		
Within 1 year	**300**	367
Between 2 and 5 years	**1,127**	551
Over 5 years	**500**	429
	1,927	1,347

The above commitments relate to four (2017: three) offices lease rentals that are of varying fixed terms over the next 9 years

Notes *(continued)*

18 Analysis of net funds

2018:	At beginning of year £000	Cash flow £000	**At end of year £000**
Cash and short term deposits	6,724	(2,511)	**4,213**

2017:	At beginning of year £000	Cash flow £000	**At end of year £000**
Cash and short term deposits	5,684	1,040	**6,724**

Short term bank deposits are included within the caption 'cash and cash equivalents' in the Statement of Financial Position.

19 Financial instruments

	2018 £000	2017 £000
Financial assets:		
Debt instruments measured at amortised cost	7,215	4,315
Instruments measured at fair value through profit	47	58
Financial liabilities:		
Measured at amortised cost	3,227	3,257

20 Share based payments

At the reporting date, the Group operated an EMI share option schemes. Qualifying directors and certain employees of the Group are eligible to participate scheme.

Consistent with the rules of the schemes the vesting of options is generally contingent on continued employment for a period of at least three years, and the employee then has a ten year period within which to exercise, subject to the Group meeting certain performance criteria in the period preceding exercise.

The number and weighted average exercise prices of share options are as follows:

	2018 Weighted average exercise price	**2018 Number of options**	2017 Weighted average exercise price	2017 Number of options
Outstanding at the beginning of the period	52p	403,000	-	NIL
Issued during the period	-	-	52p	403,000
Exercised during the period	52p	38,000	52p	-
Outstanding at the end of the period	52p	365,000	52p	403,000
Exercisable at the end of the period	52p	NIL	52p	NIL

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on a Black-Scholes model, assumptions for which are based on the following:

- The contractual life of the options is in accordance with the scheme rules, which vest after three years, the maximum exercise period is ten years,
- The expected volatility is wholly based on historic volatility, adjusted for any expected changes to future volatility due to publicly available information,
- The expected dividend yield is wholly based on historic yield,
- The risk free rate is based on national government bonds.

An expense of £28,000 (2017: £26,000), has been recognised for the period arising from share based payments.

Notes *(continued)*

21 Reconciliation of profit after tax to net cash generated from/(used in) operations

	Note	**2018 £'000**	2017 £'000
Profit for the year after tax		**1,031**	1,974
Amortisation and impairment of intangible assets	*10*	**300**	299
Depreciation	*11*	**217**	124
Finance income	*6*	**(7)**	(12)
Interest expense	7	**33**	-
Share based payment expense	*20*	**28**	(26)
Non cash-expense		**-**	(74)
Loss on disposal of fixed assets	*11*	**(5)**	-
Profit on sale of investments		**(80)**	-
Taxation	*8*	**18**	144
Operating cash flows before movements in working capital		**1,535**	2,429
Increase in trade and other receivables		**(126)**	(844)
(Increase)/decrease in trade and other payables		**(260)**	1,311
Movement in working capital		**(386)**	467
Cash flows from operating activities		**1,149**	2,896

22 Pension scheme

The Group does not operate an occupational pension scheme but makes a percentage contribution of qualifying salary to certain employees' personal pension schemes. The amount charged to the profit and loss account in respect of such contributions was £693,000 (2017: £629,000).

23 Related party transactions

The company has taken advantage of the exemptions provided by Section 33 of FRS 102 'Related Party Disclosures' and has not disclosed transactions entered into between two or more members of a group, provided that any subsidiary undertaking which is party to the transaction is wholly owned by a member of that group.

Dividends to Directors:
During the year dividends were paid to directors as follows:

	Shareholding No.	**Dividend per share**	**Total dividend £**
KGT Birch (Final 2017)	2,642,705	10.0p	264,271
KGT Birch (Interim 2018)	2,642,705	4.0p	105,708
DP Birch (Final 2017)	1,674,507	10.0p	167,451
DP Birch (Interim 2018)	1,674,507	4.0p	66,980
C Butler (Final 2017)	102,620	10.0p	10,262
C Butler (Interim 2018)	102,620	4.0p	4,105
DRT Thompson (Final 2017)	10,750	10.0p	1,075
DRT Thompson (Interim 2018)	10,750	4.0p	430

At the year end, the Group owed £Nil (2017: £2,816) to Apposite Technology Partners Plc, a related party by virtue of common directors. There were purchases of £7,188 (2017: £nil) from Apposite Technology Partners Plc in the year.

Included in other debtors is a balance of £297k. This balance arose through payments made to HMRC following Advance Payment Notices issued in respect of additional tax due for a directors' Employer Financed Retirement Benefit scheme covering three of the group's directors. The final settlement is yet to be agreed with HMRC, but once agreed the group expects to recover the agreed amount from the directors concerned, the terms of recovery are yet to be formalised.

24 Contingent liabilities

From time to time the group receives claims in the normal course of business and in respect of corporate transactions. The outcome of such claims are uncertain and the directors have included provisions which they believe are adequate for any on-going claims.

25 Prior year adjustment

In recent years it has been increasingly difficult to identify Consultancy time directly associated with costs of sales. This is due to the increasing amount of ongoing software development undertaken by the consultants. As a result, the Directors in 2018 decided to amend the disclosure to include all operating costs in one line within the profit and loss account. The comparatives have been amended to reflect this change. In the prior year, there were cost of sales of £9,474k and administrative expenses before specific expenses of £10,017k but these have been combined in the current year to £19,491k. There is no change to reported operating profit or profit before tax as a result.