Touchstar plc

Preliminary results for the year ended 31 December 2021

The Board of Touchstar plc ((AIM:TST) 'Touchstar', the 'Company' or 'the Group'), suppliers of mobile data computing solutions and managed services to a variety of industrial sectors, is pleased to announce its results for the year ended 31 December 2021.

Key financials

	2021	2020	% increase
Revenue	£6,104,000	£5,886,000	up 3.7%
EBITDA	£1,072,000	£854,000	up 25.5%
Post tax profit	£341,000	£87,000	up 292.0%
Net cash	£2,380,000	£1,771,000	up 34.4%
Earnings per share	4.02p	1.03p	up 290.3%
Recurring revenue	£2,322,000	£2,037,000	up 14.4%
Gross margin	59.5%	52.0%	up 14.0%

Financial highlights

- A strong set of results
- Revenue growth of 3.7% to £6,104,000 (2020: £5,886,000)
- EBITDA increased 25.5% to £1,072,000 (2020: £854,000)
- Profit after tax grew by 292.0% to £341,000 (2020: £87,000)
- Cash generation strong, boosting net cash to ££2,380,000 at year end, a 34.4% improvement (2020: £1,771,000)
- Earnings per share rose by 290.3% to 4.02p (2020: 1.03p)
- Recurring revenue increased 14.4% - three times the rate of growth of total revenue to £2,322,000 (2020: £2,037,000)
- Recurring revenues now represent 38.0% of total revenues
- Gross margins expanded 14.0% to 59.5% (2020: 52.0%)

Commenting today, Ian Martin, Chairman of Touchstar, said:

"Touchstar has already become a much more resilient focussed, coherent, high-quality business with true growth potential. The Board's strategy is clear and remains consistent. We must capitalise on the forward momentum gained, using internally generated cash to support our rate of organic growth, innovate our products, enhance our solutions, invest in our people, increase returns to shareholders and become a better business."

This announcement contains inside information for the purposes of Article 7 of the UK version of Regulation (EU) No 596/2014 which is part of UK law by virtue of the European Union (Withdrawal) Act 2018, as amended ("MAR"). Upon the publication of this announcement via a Regulatory Information Service, this inside information is now considered to be in the public domain.

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Information on Touchstar plc can be seen at: www.touchstarplc.com

CHAIRMANS STATEMENT

Introduction
I am pleased to report that Touchstar has delivered a strong set of results, above market expectations, for the year ended 31 December 2021 ("FY2021"), against what has been a challenging backdrop in the world's economy. Profit after tax is up 290% to £341,000 (2020: £87,000) and there has been EBITDA growth of £218,000 to £1,072,000 (2020: £854,000).

The Group has displayed its resilience in the face of the global COVID-19 pandemic and has seen a positive change in business strength with the new and more profitable revenue streams coming to the fore.

The Company reports a strong year-end cash balance, net of the Coronavirus Business Interruption Loan, of £2,380,000 and a year-end order book of £646,000 which means the Group is well placed to build on last year's performance, we look forward to delivering further strategic progress.

Financial review
Revenue for FY2021 increased 3.7% to £6,104,000 (2020: £5,886,000). Very pleasingly recurring revenue increased 14% to £2,322,000 (2020: £2,037,000) and represented 37.4% of total revenue (2020: 34.6%). The development of recurring revenue is a key to our strategy and future success. As of 8 April 2022, run rate recurring revenue had increased further to £2,550,000.

It was also pleasing to see the Group experience a healthy recovery in the areas that had been most impacted by the pandemic in 2020. Nevertheless unsurprisingly, the overall rate of growth was held back in the early part of the year by the suspension of awards of large projects in the petrochemical distribution sector due to the re-emergence of the pandemic. Major projects in this area tend to have lead times of 9-12 months, and it was only in the second half of 2021 that new major projects began being confirmed for 2022 and beyond, thus revenue in this sector reduced in 2021.

The order book at year end 2021 stood 36.0% higher at £646,000 compared to the prior year end level of £475,000.

Gross margins increased in 2021 to 59.5% (2020: 52.0%) driven by a higher level of software sales and operational efficiency.

Overhead costs increased by 8.9% as expected in 2021 to £3.5 million (2020: £3.1 million). This comparison excludes the benefits of the Coronavirus Job Retention Scheme which totalled £44,000 in 2021 (2020: £146,000).

Total spend on research and development during the year amounted to £935,000 (2020: £760,000), of which £460,000 (2020: £429,000) has been capitalised, as we invested in additional software modules in the proof of delivery product set.

The positive effects of both higher revenue and improved margins had a dramatic effect upon profitability with earnings before interest tax and amortisation and depreciation (EBITDA) increasing to £1,072,000 (2020: £854,000), operating profit before share based payments increasing to £233,000 (2020: £39,000) and profit before tax increasing to £207,000 (2020: £23,000).

Due to our R&D expenditure we again benefitted from a tax credit being £134,000 (2020: £64,000) such that our profit for the year increased 292% to £341,000 from £87,000. This translated into a similar rise in earnings per share to 4.02p (2020: 1.03p).

As of 31 December 2021, we remained debt free and our cash, net of overdraft and the £135,000 Coronavirus Business Interruption Loan, was a very healthy £2,380,000 a rise of approximately £609,000 from the prior year position of £1,771,000. This nevertheless understates the strength of the underlying cash generation from the business; in 2021 cash was applied to the normalisation of trade and other payables as we unwound deferred amounts due under the Government's support packages to business.

Operational review

Whilst the Group and general business environment continued to work within COVID-19 policies and restrictions, Touchstar saw a positive change in business strength with the new and more profitable revenue streams coming to the fore; including, increased software licence charges and software development for bespoke work as well as charging professional fees for services delivered. As a result, the business experienced a growth in revenue and profitability. Those areas of the business that had experienced the more dramatic slowdowns in 2020, saw strong and positive recovery during 2021, namely, product sales more associated with capital expenditure in Logistics and the ability to commence with onsite work in the Access Control marketplace, which otherwise had been restricted in 2020.

During the year, the Group continued to enhance the customer driven functionality of its software solutions. Our in-house developed software, utilising modern cloud-based services, has played a major part in customer gains and retention. In addition, the Group's specialist and robust hardware, where margins continue to be healthy, gives us a real competitive advantage in the proof of delivery market. The TS3200 Android rugged tablet has and is playing an important part in the continued success and adoption of our solutions.

Retention of customers, as well as securing new clients, is a key focus for the Group. The business is currently benefiting from many of its existing clients going through the process of an upgrade cycle with us – a testament to our ongoing service and support. This provides the opportunity to increase the recurring revenue as they adopt the latest licence-based solution. We now have around 8 major clients operating on the new platform and another 8 existing clients in the throes of either pilot or roll out phase over the coming 12 to18 months.

During 2021 there were challenges in the timely supply of product and components within the supply chain, but the Group successfully navigated its way through. We expect these challenges will continue in 2022 and therefore we will require the same continued focus to mitigate and reduce any impacts that may arise.

Alongside the software developments, we continue to enhance our product sets within the hardware element of our solution. All devices now designed and supplied utilise the Android operating system – the defacto choice worldwide.

The dynamics of the team within the business evolve and change too. The Group now has a central support team for all products, operating out of our Manchester office and we continue to build on our UK in-house software development and test team. These investments are now necessary given the solution set we now own and supply to the marketplace.

Strategy

The objective remains to execute our strategy effectively; delivering organic growth, margin improvement, building Software as a Service ("SaaS") revenues at an even faster rate, and achieving higher levels of profitability.

The Board believes Touchstar has the medium-term potential of sustaining annual double digit top line growth from our existing businesses driven by:

a. Existing customers upgrading to mobile cloud-based solutions
b. Capture of new customers
c. Introduction of enhanced products and solutions
d. Introduction of more professional services

In addition, we expect the growth rate of recurring revenue to continue to outpace total revenue growth, as SaaS revenues build. Professional services and licences are predominantly annual charges and thereby we envisage recurring revenue will continue to grow and strengthen within the Group. The target is for recurring revenue to account for 40% of total revenue by the end of 2022.

We expect the revenue stream will continue to strengthen in high margin areas such as licences, professional services, and software development - further enhancing the earnings and building the Group's strength in the medium and long term

Current trading and prospects

We intend to build upon the considerable progress made last year. Over the last two years the consistent message has been that in 2022 the underlying growth rate in all the Group's businesses should harmonise and return to normalised trading patterns.

2022 has started well, with a healthy opening order book followed by a strong first quarter of trading. Short-term prospects are being tempered somewhat by a level of inactivity which we believe is a momentary reaction to the present economic and global uncertainty, with some orders being held up, not lost. So far, we have been able to balance the pressures on costs by increasing prices in a targeted and appropriate manner, this will need to be constantly assessed and reviewed during the year.

Realistically the combination of the geo-political instability, inflationary pressures and higher interest rates will inevitability result in hesitancy in corporate decision making. The assumption made is that this year will see some subdued levels of macro-economic growth and investment. Currently there has been no material change to the business from the distressing and sad situation in Ukraine – our thoughts and hopes are with the innocent people caught up in that conflict.

Whilst we have tempered our enthusiasm in the short-term, the Board believes that the steps we have taken will see growth in revenue and EBITDA continue in 2022, driving further progress in our financial performance.

Distributable reserves

The directors would like to have the ability to consider returning value to shareholders either via share buybacks or the payment of dividends. However, to be able to do this company law requires the Company to have positive distributable reserves. At present the Company does not have positive distributable reserves due the deficit on its retained earning reserve which as at 31 December 2021 stood at £2,236,000. The Directors are consulting with the Company's advisers over how best to eliminate this deficit which they believe can be through a combination of dividend payments from the Company's underlying subsidiaries and a capital reduction**.**

Concluding thoughts

The Board's strategy is clear and remains consistent. We must capitalise on the forward momentum gained, using internally generated cash to support our rate of organic growth, innovate our products, enhance our solutions, invest in our people, increase returns to shareholders and become a better business.

The Company has made good progress over the last two years despite the impacts of COVID-19. Touchstar has already become a much more resilient focussed, coherent, high-quality business with true growth potential. This has only happened through the dedication, hard work and talent of the people within the Group. Thank you to all - it is greatly appreciated.

The Board is committed to creating and delivering value that reflects the prospects and embedded value within the business. With the Company's cash reserves, a strong balance sheet, growing revenues and especially recurring revenues that will allow us to increasingly position the Company as a software business, the Board is confident of the Company's prospects and of increasing shareholder value.

I Martin
Executive Chairman
25 April 2022

CEO STRATEGIC REVIEW

Profitability

Whilst the business and general environment continued to work within Covid policies and restrictions, which impacted the Group performance, 2021 has seen a strategic change in business strength with the new and more profitable revenue streams coming to the fore. Despite the reduction in face-to-face meetings, the business experienced a modest growth in sales turnover on the previous year of around 4%. Cash generation remained healthy with the Group year-end cash position in excess of £2.5 million, and the business made £341,000 profit after tax, close to 300% increase over 2020 profit of £87,000.

Total recurring revenue

During 2021, the decision to supply and support complete solutions has further strengthened the Group. Recurring revenue is now a valuable asset within the Groups business. 2020 saw total recurring revenue increase by 6% on 2019 and this trend continues. In 2021 recurring revenue increased 14% on 2020. This change in strategy is making a positive impact into the performance and underlying value of the business. In 2021, the Groups recurring revenue equated to 38% of turnover and the Board envisage this percentage will continue increasing.

Group recurring revenue

	2018	2019	2020	2021
Group recurring revenue by year	£1,840,000	£1,918,000	£2,037,000	£2,322,000
% Increase year on year		up 4.2%	up 6.2%	up 14.4%

As of 8 April 2022, run rate recurring revenue had increased further to £2,550,000.

The table below demonstrates the consistent strategic progression of building the business's recurring revenue over the previous years:

Recurring revenue as a percentage of total Group revenue

	2018	2019	2020	2021
Group revenue other	70%	71%	65%	62%
Group recurring revenue	30%	29%	35%	38%

Software Licence Recurring Revenue

Whilst the Group enjoyed an increase of 14% in total recurring revenue over previous years, the predominant impact in growth of this type of profitable revenue has come from software licence, a key strategic goal. Recurring revenue in software licences grew a marked 18% over 2020 performance. This key area of growth will continue to increase as the change in our business strategy takes effect. If growth in total revenue continues as expected, we anticipate software licence revenue to exceed hardware recurring revenue in 2022 and grow further still in 2023 and beyond.

Group recurring revenue

	2018	2019	2020	2021
Software licences	£659,000	£767,000	£863,000	£1,040,000
Increase year on year		*up 16.4%*	*up 12.5%*	*up 20.5%*
Hardware maintenance	£1,181,000	£1,151,000	£1,174,000	£1,282,000
Movement year on year		*down 2.5%*	*up 2.0%*	*up 9.2%*

As we have now become a more focussed software and solution orientated business, we have strengthened the technical and professional services team to provide the best support for our product delivery. Whilst we continue to grow sales in the solutions area, we still recognise the continuing value that the existing legacy product sets bring to the business, albeit we are managing down our business reliance on these.

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All the Touchstar software products we now offer, are in house owned (IPR) which eliminates our reliance on third party suppliers and provides maximum flexibility in growing the sales and profit line of the Group. This move has allowed us to increase the sales of software development as customers require tweaks and modifications to our standard products to suit their operation. The table below illustrates the past 4 years of software development sales, demonstrating an increase of over 200% in this time.

Customer requested software developments

	2018	2019	2020	2021
Customer requested software developments by year	£83,800	£128,600	£129,200	£257,900
Increase year on year		up 53.5%	up 0.5%	up 99.6%

We continue to secure large contracts with blue chip companies across the UK and Europe. The strategy to supply a SaaS (Software as a Service) model to the industry has become quite widely accepted. This now provides consistent recurring revenue greater than in previous years. Combining increases of recurring revenue and the above software development charges has now led to improved gross margin, of 59% of the group turnover in 2021 (52% in 2020). As of 8 April 2022, software development and support fees booked and to be invoiced in 2022 stood at £184,000.

The Group operates under the Touchstar brand providing consistent brand awareness of the operating companies which has been successful in promoting a cohesive and singular business and all can be accessed under one web site: www.touchstar.co.uk.

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Consolidated income statement for the year ended 31 December 2021

	2021	2020
	£'000	£'000
Revenue	**6,104**	5,886
Cost of sales	**(2,472)**	(2,827)
Gross profit	**3,632**	3,059
Distribution costs	**(49)**	(41)
Administrative expenses	**(3,400)**	(3,125)
Other operating income	**44**	146
Operating profit before share-based payment provision	**233**	39
Share-based payment provision included in administrative expenses	**(6)**	-
Operating profit	**227**	39
Finance costs	**(20)**	(16)
Profit before income tax	**207**	23
Income tax credit	**134**	64
Profit for the year attributable to the owners of the parent	**341**	87

Earnings per ordinary share (pence) attributable to owners of the parent during the year:

	2021	2020
Basic	**4.02p**	1.03p

There is no other comprehensive income or expense in the current year or prior year and consequently no statement of other comprehensive income or expense has been presented.
All activity in 2021 relating to continuing operations.

The Company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the parent Company income statement. The profit for the Company is detailed in the Statement of financial position and the Company statement of changes in shareholders' equity.

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Consolidated statement of changes in equity for the year ended 31 December 2021

	Share capital	Share premium account	Share based payment Reserves	Retained earnings	Total equity
	£'000	£'000	£'000	£'000	£'000
At 1 January 2020	424	1,119	-	348	1,891
Profit for the year	-	-	-	87	87
At 31 December 2020	424	1,119	-	435	1,978
Profit for the year	-	-	6	341	347
At 31 December 2021	**424**	**1,119**	**6**	**776**	**2,325**

Company statement of changes in equity for the year ended 31 December 2021

	Share capital	Share premium account	Share based payment reserve	Retained earnings	Total equity
	£'000	£'000	£'000	£'000	£'000
At 1 January 2020	424	1,119	-	(2,705)	(1,162)
Profit for the year	-	-	-	3	3
At 31 December 2020	424	1,119	-	(2,702)	(1,159)
Profit for the year	-	-	6	6	12
At 31 December 2021	**424**	**1,119**	**6**	**(2,696)**	**(1,147)**

Consolidated and Company statements of financial position as at 31 December 2021

	Group		Company	
	2021	2020	**2021**	2020
	£'000	£'000	**£'000**	£'000
Non-current assets				
Intangible assets	**1,198**	1,350	**-**	-
Investments	**-**	-	**5**	-
Property, plant and equipment	**94**	121	**-**	-
Right-of-use assets	**399**	479	**-**	-
Deferred tax assets	**81**	63	**3**	3
	1,772	2,013	**8**	3
Current assets				
Inventories	**865**	714	**-**	-
Trade and other receivables	**1,071**	1,010	**462**	474
Corporation tax receivable	**166**	110	**-**	-
Cash and cash equivalents	**3,903**	3,177	**-**	-
	6,005	5,011	**462**	474
Total assets	**7,777**	7,024	**470**	477
Current liabilities				
Trade and other payables	**1,333**	1,246	**94**	230
Contract liabilities	**1,762**	1,485	**-**	-
Borrowings	**1,418**	1,271	**1,418**	1,271
Lease liabilities	**169**	163	**-**	-
	4,682	4,165	**1,512**	1,501
Non-current liabilities				
Deferred tax liabilities	**251**	215	**-**	-
Contract liabilities	**172**	177	**-**	-
Borrowings	**105**	135	**105**	135
Lease liabilities	**242**	354	**-**	-
	770	881	**105**	135
Total liabilities	**5,452**	5,046	**1,617**	1,636

Consolidated and Company statement of financial position as at 31 December 2021 (continued)

	Group		Company	
	2021	2020	**2021**	2020
	£'000	£'000	**£'000**	£'000
Capital and reserves attributable to owners of the parent				
Retained earnings at beginning of year	**435**	348	**(2,702)**	(2,705)
Profit/(loss) for the year	**341**	87	**6**	3
Retained earnings at end of year	**776**	435	**(2,696)**	(2,702)
Share capital	**424**	424	**424**	424
Share based payment reserve	**6**	-	**6**	-
Share premium	**1,119**	1,119	**1,119**	1,119
Total equity	**2,325**	1,978	**(1,147)**	(1,159)
Total equity and liabilities	**7,777**	7,024	**470**	477

Consolidated and Company cash flow statement for the year ended 31 December 2021

	Group		Company	
	2021	2020	**2021**	2020
	£'000	£'000	**£'000**	£'000
Cash flows from operating activities				
Operating Profit	**226**	39	**1**	3
Depreciation	**233**	227	**-**	-
Amortisation	**612**	588	**-**	-
Share-based payment provision	**6**	-	**6**	-
Movement in:				
Inventories	**(151)**	177	**-**	-
Trade and other receivables	**(60)**	307	**(80)**	715
Trade and other payables and contract liabilities	**358**	(86)	**(36)**	172
Cash generated from/(used in) operations	**1,224**	1,252	**(109)**	890
Interest paid	**(20)**	(16)	**(3)**	(3)
Corporation tax received	**97**	326	**-**	-
Net cash generated from operating activities	**1,301**	1,562	**(112)**	887
Cash flows from investing activities				
Addition of intangible assets	**(460)**	(439)	**-**	-
Investment in subsidiaries	**-**	-	**(5)**	-
Purchase of property, plant and equipment	**(50)**	(20)	**-**	-
Net cash used in investing activities	**(510)**	(459)	**(5)**	-
Cash flows from financing activities				
Proceeds from issue of business loan	**(15)**	150	**(15)**	150
Principal elements of lease payments	**(182)**	(182)	**-**	-
Net cash generated from financing activities	**(197)**	(32)	**(15)**	150
Net increase/(decrease) in cash and cash equivalents	**594**	1,071	**(132)**	1,037
Cash and cash equivalents at start of the year	**1,921**	850	**(1,256)**	(2,293)
Cash and cash equivalents at end of the year	**2,515**	1,921	**(1,388)**	(1,256)

1 General information

Touchstar plc (the 'Company') and its subsidiaries (together 'the Group') design and build rugged mobile computing devices and develop software solutions used in a wide variety of field-based delivery, logistics and service applications. The Company is a public company limited by share capital incorporated and domiciled in the United Kingdom. The Company has its listing on the Alternative Investment Market. The address of its registered office is 1 George Square, Glasgow, G2 1AL.

2 Basis of preparation

The final results for the year ended 31 December 2021 have been prepared in accordance with the accounting policies set out in the annual report and the accounts for the year ended 31 December 2020.

The Group Financial Statements have been prepared in accordance with the International Financial Reporting Standards ('IFRS') as adopted by the European Union, IFRS IC interpretations and the Companies Act 2006 applicable to companies reporting under IFRSs and the AIM Rules for Companies. The Group Financial Statements have been prepared under the historical cost convention.

While the financial information included in this final announcement has been computed in accordance with IFRS, this announcement does not itself contain sufficient information to comply with IFRS. The accounting policies used in preparation of this final announcement have remained unchanged from those set out in the Group's 2020 statutory financial statements other than those described below. They are also consistent with those in the Group's statutory financial statements for the year ended 31 December 2021 which have yet to be published. The final results for the year ended 31 December 2021 were approved by the Board of Directors on 25 April 2022.

The financial information set out in this final announcement does not constitute the Group's statutory financial statements for the year ended 31 December 2021 but is derived from those financial statements which were approved by the Board of Directors on 25 April 2022. The Auditors have reported on the Group's statutory financial statements and their report was unqualified and (ii) did not contain a statement under section 498(2) or 498(3) Companies Act 2006. The statutory financial statements for the year ended 31 December 2021 have not yet been delivered to the Registrar of Companies and will be delivered following the Company's Annual General Meeting.

The comparative figures are derived from the Group's statutory financial statements for the year ended 31 December 2020 which carried an unqualified audit report, did not contain a statement under section 498(2) or 498(3) Companies Act 2006 and have been filed with the Registrar of Companies.

Going Concern

These financial statements have been prepared on a going concern basis, which assumes that the Group will be able to meet its liabilities when they fall due. As of 31 December 2021, the Group held cash of £2,515,000 (after considering overdraft balances as presented in note 21), with unencumbered net cash of £2,380,000 after taking into account the £135,000 Coronavirus Business Interruption Loan. The Group also had an undrawn £200,000 on demand overdraft facility as of 31 December 2021 (also £nil in April 2022).

The Touchstar management continues to demonstrate its ability to proactively respond to both internal and external challenges it has faced, non-more so than those encountered over the past two years.
The directors remain confident in the business, the skillset employed in its dedicated staff, solid product set and loyal customer base.

The C-19 pandemic continued to impact business during 2021, nonetheless, Group sales still increased on 2020 by a modest £218,000, margins grew from 52% in 2020 to 59.5% in 2021 driven by richer margin sales and operational efficiencies, along with tight control of costs, resulted in a profit after tax of £341,000.
The Group continues to benefit from a supportive bank who have provided the borrowing facility since 2005.

Over the past eighteen months the Group has reduced its reliance on the facility provided by the bank. In assessing the Company's ability to continue as a going concern, the Board has reviewed the Group's cash flow and profit forecasts removing completely reliance on any facilities. The impact of potential risks and related sensitivities to the forecasts were considered in assessing the likelihood of additional facilities being required in the future.

The directors have at the time of approving the financial statements, a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

3 Critical accounting estimates and judgements

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

(a) Development expenditure
The Group recognises costs incurred on development projects as an intangible asset which satisfies the requirements of IAS 38. The calculation of the costs incurred includes the percentage of time spent by certain employees on the development project. The decision whether to capitalise and how to determine the period of economic benefit of a development project requires an assessment of the commercial viability of the project and the prospect of selling the project to new or existing customers.

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

(c) Stock provisions
Judgement is required in relation to the appropriate provision to be made for the write down of slow moving or obsolete inventory. Such provisions are made based on the assessment of the Group's prospective sale of inventories and their net realisable value, which are subject to estimation uncertainty.

4 Analysis of Revenue

	2021	2020
	£'000	£'000
Recognised at a point in time	**3,782**	3,788
Recognised over time (recurring revenue)	**2,322**	2,098
	6,104	5,886

5 Share-based employee remuneration

The Touchstar plc EMI Share Option Plan (Plan) was approved by the shareholders at the Annual 2021 AGM on 23 June 2021. It is a share-based payment scheme for employee remuneration which will be settled in equity. The Plan is part of the remuneration package for Group employees as selected by the Group's Remuneration Committee. Options under this Plan will vest if certain performance conditions, as defined in the Plan are met.

Participants in this Plan must be employed until the end of the agreed vesting period unless deemed as 'good employees' by the Group's Remuneration Committee on leaving. Upon vesting, each option allows the holder to purchase each allocated share at the market price determined at the grant date.

The number of options granted during the year and outstanding at 31 December 2021 was 211,000 (2020: n/a). These shares had not vested as at 31 December 2021.

The assessed fair value at grant date of options granted during the year ended 31 December 2021 was £0.35 per option (2020: £n/a). The fair value at grant date is independently determined using the Black-Scholes model that takes into account the exercise price, the term of the option, the impact of dilution (where material), the share price at grant date and expected price volatility of the underlying share, the risk-free interest rate for the term of the option, and the annualised volatility of Touchstar plc's shares.

The model inputs for options granted during the year ended 31 December 2021 included:

Grant date	**18 Nov 2021**
Vesting period ends	Term A 30 Jun 2023
	Term B 30 Jun 2024
Share price at date of grant	£0.85
Volatility	50%
Risk-free investment rate	1%
Fair value per option at grant date	£0.41
Exercise price at date of grant	£0.85
Exercise period ends	Term A 30 Jun 2023/17 Nov 2031
	Term B 30 Jun 2024/17 Nov 2031
Weighted average remaining contractual life	6.06 years

The underlying expected price volatility was determined by reference to the historical data of Touchstar plc shares over the past 12 months. No special features inherent to the options granted were incorporated into measurements of fair value.

In total, £6,000 (2020: £n/a) of employee remuneration expense (all of which related to equity-settled share-based payment transactions) has been included in the income statement and credited to the Share-based payment reserve.

6.1 Income tax credit

	2021	2020
	£'000	£'000
Corporation tax		
Current tax	**(147)**	(92)
Adjustments in respect of prior years	**(5)**	-
Deferred tax	**18**	28
Total tax credit	**(134)**	(64)

Corporation tax is calculated at 19% (2020: 19%) of the estimated assessable profit for the year. This is the weighted average tax rate applicable for the year.

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6.2 Factors affecting the tax credit for the year

The tax credit for the year is same as (2020: same as) the standard rate of corporation tax in the UK of 19% (2020: 19%). The differences are explained below:

	2021	2020
	£'000	£'000
Profit before income tax	**207**	23
Multiplied by the standard rate of corporation tax in the UK of 19% (2020: 19%)	**39**	4
Effects of:		
Items not deductible for tax purposes	**2**	1
Enhanced research and development deduction	**(213)**	(167)
Adjustments in respect of prior years	**(5)**	-
Losses surrendered through R&D tax credit	**46**	29
Capital allowances claimed in year less than/(in excess of) depreciation	**20**	28
Previously unrecognised tax losses used to reduce current tax expense	**(71)**	-
Adjustment to deferred tax arising from changes in tax rate	**48**	41
Total tax credit for the year	**(134)**	(64)

Factors affecting the future tax charge

Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2021 (on 2 February 2022). This included the maintaining of the current corporation tax rate of 19%.

The budget also announced an increase in rate from 19% to 25% from April 2023. Therefore, deferred taxes at the balance sheet date have been measured at the enacted tax rate of 25%.

7 Earnings/(losses) per share

	2021	2020
Basic	**4.02p**	1.03p
Diluted	**N/A**	N/A

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year. The Group issued 211,000 options with an exercise price of 85p during the year. Given the exercise price of these options, they are considered anti-dilutive and therefore no diluted EPS is presented.

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

	2021		2020	
	Earnings £'000	**Weighted average number of shares (in thousands)**	Earnings £'000	Weighted average number of shares (in thousands)
Basic EPS				
Profit attributable to owners of the parent	**341**	**8,475**	**87**	**8,475**
Adjusted EPS				
Earnings attributable to owners of the parent before share-based payment provision	**347**	**8,475**	**87**	**8,475**

8 Intangible assets

	Group		
	Goodwill £'000	Development expenditure £'000	Total £'000
Cost			
At 1 January 2020	9,904	2,862	12,766
Additions	-	439	439
Disposal	(1,313)	-	(1,313)
At 31 December 2020	8,591	3,301	11,892
Additions	-	460	460
Disposal	-	(678)	(678)
At 31 December 2021	**8,591**	**3,083**	**11,674**
Accumulated amortisation			
At 1 January 2020	9,904	1,363	11,267
Amortisation charge	-	588	588
Disposal	(1,313)	-	(1,313)
At 31 December 2020	8,591	1,951	10,542
Amortisation charge	-	612	612
Disposal	-	(678)	(678)
At 31 December 2021	**8,591**	**1,885**	**10,476**
Net book value			
At 31 December 2021	**-**	**1,198**	**1,198**
At 1 January 2020	-	1,499	1,499
At 31 December 2020	-	1,350	1,350

Disposal of goodwill relates to the dissolution of the three dormant subsidiary undertakings during 2020.

Development expenditure

The calculation of the costs incurred includes third party developers along with the percentage of time spent by certain employees on hardware and software development for deployment in business operations. The decision whether to capitalise and how to determine the period of economic benefit of a development project requires an assessment of the commercial viability of the project and the prospect of selling the project to new or existing customers.

Management determined budgeted sales growth based on historic performance and its expectations of market development via each product set's underlying pipeline.

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

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

9 Property, plant and equipment

	Plant and machinery £'000	Fixtures, fittings, tools and equipment £'000	Total £'000
Cost			
At 1 January 2020	358	345	703
Additions	12	8	20
Disposals	(55)	(5)	(60)
At 31 December 2020	315	348	663
Additions	37	13	50
Disposals	(87)	(49)	(136)
At 31 December 2021	**265**	**312**	**577**
Accumulated depreciation			
At 1 January 2020	268	260	528
Charge for the year	34	40	74
Disposals	(48)	(12)	(60)
At 31 December 2020	254	288	542
Charge for the year	36	41	77
Disposals	(87)	(49)	(136)
At 31 December 2021	**203**	**280**	**483**
Net book value			
At 31 December 2021	**62**	**32**	**94**
At 1 January 2020	61	61	121
At 31 December 2020	90	85	175

10 IFRS 16 Right of use assets

	Premises £'000	Motor vehicles £'000	Total £'000
Cost			
At 1 January 2020	579	212	791
Additions	-	121	121
Disposal	-	(122)	(122)
At 31 December 2020	579	211	790
Additions	-	76	76
Disposal	-	-	-
At 31 December 2021	**579**	**287**	**866**
Accumulated depreciation			
At 1 January 2020	141	128	269
Charge for the year	82	71	153
Disposal	-	(111)	(111)
At 31 December 2020	223	88	311
Charge for the year	82	74	156
Disposal	-	-	-
At 31 December 2021	**305**	**162**	**467**
Net book value			
At 31 December 2021	**274**	**125**	**399**
At 1 January 2020	438	84	522
At 31 December 2020	356	123	479

11 Cash and cash equivalents

	Group		Company	
	2021	2020	**2021**	2020
	£'000	£'000	**£'000**	£'000
Cash at bank and in hand	**3,903**	3,177	**-**	-
Less: bank overdraft (included within borrowings note 12)	**(1,388)**	(1,256)	**(1,388)**	(1,256)
	2,515	1,921	**(1,388)**	(1,256)

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

12 Borrowings

	Group		Company	
	2021	2020	**2021**	2020
	£'000	£'000	**£'000**	£'000
Current borrowings:				
Bank overdraft	**1,388**	1,256	**1,388**	1,256
Other loans	**30**	15	**30**	15
	1,418	1,271	**1,418**	1,271

	Group		Company	
	2021	2020	**2021**	2020
	£'000	£'000	**£'000**	£'000
Non-current borrowings:				
Bank overdraft	**-**	-	**-**	-
Other loans	**105**	135	**105**	135
	105	135	**105**	135

The carrying amounts of borrowings approximate to their fair value due to their short-term maturity, meaning that the impact of discounting is not significant. The carrying amounts of the Group's borrowings are denominated solely in sterling.

The Group bank overdraft facility is secured by a bond and floating charge over the entire assets of the Group. At 31 December 2021, the Group had total committed undrawn facilities of £200,000 (2020: £350,000).

The Group now operates within a £200,000 net overdraft facility which takes into account both the gross cash position of each Group entity netted off against any borrowings. As at the 31 December 2021, this represents the net cash balance of £2,515,000 (2020: £1,921,000) in Note 11.

The Company and its subsidiaries have given a guarantee in relation to the overdraft facilities extended to The Group.
Other loans relate to the Coronavirus Business Interruption Loan repayable monthly over six years; first payment commenced on the 12-month anniversary of drawdown, July 2021.
The loan is guaranteed by the UK Government under the Coronavirus Business Interruption Loan Scheme with interest payable monthly on commencement of loan repayment. The rate of interest is 4.19% per annum above the Bank of England floating rate.

13 Leases

The note provides information for leases where the group is a lessee.

i) Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

	2021	2020
	£'000	£'000
Right-of-use assets		
Buildings	**274**	356
Vehicles	**125**	123
	399	479

	2021	2020
	£'000	£'000
Lease liabilities		
Current	**169**	163
Non-current	**242**	354
	411	517

Under IFRS 16 the assets are now presented in property, plant and equipment and the liabilities as part of the group's borrowings.

Contractual undiscounted cash flows are due as follows:

	2021	2020
	£'000	£'000
Lease liabilities (undiscounted)		
Not later than one year	**171**	171
Between one year and five years	**240**	267
	412	437

There is not considered to be any significant liquidity risk by the Group in respect of leases.

ii) Amounts recognised in the statement of profit or loss

	2021	2020
	£'000	£'000
Depreciation charge of right-of-use assets		
Buildings	**82**	82
Vehicles	**74**	71
	156	153