Touchstar plc

(formerly Belgravium Technologies plc)

Preliminary results for the year ended 31 December 2016

The Board of Touchstar plc (formerly Belgravium Technologies 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 final results for the year ended 31 December 2016.

Key Financials:

	31 December 2016	31 December 2015
• Revenues	£7,624,000	£8,676,000
• Operating profit/(loss)	£223,000	£(6,530,000)
• Profit/(loss) after tax	£475,000	£(6,339,000)
• Basic earnings per share	7.53p	(6.28)p

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

"Even though revenue in 2016 was lower than in the prior year, the greatly improved margins ensured that profitability was substantially enhanced.
I remain enthusiastic and believe we could be building something special within the business. Life is not easy, we have to work hard to retain our customers and fight hard to win new clients – that is not going to change – we are however on our way and have a real confidence in what we are trying to achieve."

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

CHAIRMAN'S STATEMENT 2016

I have thought long and hard about the opening line of this year's results statement. I always intend to write in an honest and clear manner to ensure shareholders get a fair account and perception of the Group, its prospects and potential. I must balance my positive view on how far we have travelled to rebuild and reposition the Group, with the reality that although the financial performance was very favorable in comparison with the prior year, ultimately it didn't quite meet the expectations we had of ourselves.

I had indicated that as we went through a period of radical and substantive change there could be "bumps in the road" and indeed two key factors had a negative impact upon last year's results. One issue was due to a customer entering administration owing us £57,000. The second was the slippage of expected orders into 2017, even though customer budget approval had been in 2016. Although the short term financial performance was not helped by these two issues the Group increased its profitability over the previous year and there were many positive developments that occurred last year which are shaping the Touchstar of the future.

We have made a considerable investment in research and development, (after a period of underinvestment), and this is starting to come to fruition, with the new products moving from concept to customers.

In the final quarter of 2016 we supplied our first complete cloud based Back Office and Point of Sale System into the airline sector – a major product development that enables us as a business to own, supply and support the complete retail sales system. This provides us with a powerful sales proposition to the market as well as increasing our sales and recurring revenue line.

We also completed the development of a cloud based software package for the Transport and Distribution market during the year, so as to further build on our own strengths and reduce reliance on 3rd party suppliers. Again, this product offers a complete solution for the planning of vehicles, drivers and product delivery to our clients' customers. It has been well received, with an increased acceptance partly attributable to the pricing model being SaaS (software as a service), with a minimal set up charge followed by monthly payment on a per vehicle basis.

Corporately, in July 2016, we announced the completion of the capital reorganisation and consolidation of the Group giving a more coherent financial structure (see note 8 for details). The Group also moved to one accounting and one operating platform which is giving us better, more timely information, and enabling us to operate more efficiently. I believe it will also be an enabler of future growth.

2016 also saw us reposition the Touchstar marketing proposition where all divisions adopted a consistent brand theme now trading under the Touchstar name. We now not only have a new name but also a new energy and purpose.

Financial Results

Even though revenue in 2016 was lower than in the prior year, the greatly improved margins ensured that profitability was substantially enhanced.

Revenue for the year ended 31 December 2016 was £7,624,000 (2015: £8,676,000) a decline of 12% as we phased out older product. Gross margins rose to 53.7% (2015: 47.6%) driven by support contracts and recurring revenues making up a larger percentage of our total revenue than in prior years.

Operating profit before exceptional items and goodwill impairment almost doubled to £223,000 (2015: £107,000). More pleasingly after-tax profits rose to £475,000 (2015: loss £6,339,000). Taxation continued to be a positive as a result of our continued investment into research and development activities.

The substantial investment we made in research and development, which increased to £1,026,000 (2015: £749,200), meant that the Company had a small level of net borrowing at the year-end of £329,000 (2015: cash balance of £242,000). With a continued tight focus on cash management and cash generation within the business, this should move closer to a surplus position by the end of 2017. As reported last year we have an overdraft facility with Barclays Bank plc of £1m.

Basic earnings per share increased substantially to 7.53p (2015: (6.28)p post capital reorganisation).

Strategy

We are following a simple strategy, to use the disruption and confusion in what is a fast-changing world for mobile technology to our advantage. We work closely with our customers to produce software, services and hardware that are relevant to them. I have always been impressed with the quality of our client base and the level of faith and high regard our product and services have – a key element of our strategy is to build on this trust as we introduce new and additional product and services. I believe that Touchstar has the opportunity to grow organically by building upon the foundation we now have in place, continually striving to improve our users' experience and using this reputation to add new customers.

Outlook for 2017

After the usual slow start to the year, the last few weeks have seen some exciting forward steps being taken. Touchstar On Board has seen their new cloud based back office system being ordered by two airlines. The package incorporates, stock and pricing management for the customer and is fully integrated to the mobile devices on the aircraft, together with the Chip and Pin technology necessary for payment. Touchstar Access Control has also secured a significant contract for two Access Control Systems within UK government departments, and another system sale within the defense arena.

Later during 2017, we will see the launch of a rugged tablet device for the in vehicle and logistics market, operating with a faster processor than is currently available and using the latest Android operating system. We will continue to spend and invest in development and will enhance our portfolio of the logistics products ready for more launches in 2018.

I cannot guarantee that there will be no more "bumps in the road", precise prediction in such a fast-moving environment is extremely difficult. However, at the very least we have demonstrated the resilience of the business to absorb the odd shock. I am comfortable with the current market expectations on the Group.

People

Although I have spoken at length about the financial performance, products and services, it is the people I work with at Touchstar that make the difference – it is their dedication, talent and incredible emphasis on the customer that make this business work. This will define whether we are successful in the future – their commitment to build a Group we are all proud of is something one cannot purchase.

Conclusion

I remain enthusiastic and believe we could be building something special within the business. Life is not easy, we have to work hard to retain our customers and fight hard to win new clients – that is not going to change – we are however on our way and have a real confidence in what we are trying to achieve.

I Martin
Executive Chairman
11 April 2017

Consolidated income statement for the year ended 31 December 2016

	2016	2015
Continuing operations	**£'000**	£'000
Revenue	**7,624**	8,676
Cost of sales	**(3,523)**	(4,544)
Gross profit	**4,101**	4,132
Distribution costs	**(72)**	(88)
Administration expenses	**(3,806)**	(10,574)
Operating profit before exceptional items	**223**	107
Exceptional costs included in administration expenses	**-**	(637)
Goodwill impairment	**-**	(6,000)
Operating profit/(loss)	**223**	(6,530)
Finance costs	**(10)**	(1)
Profit/(loss) before income tax	**213**	(6,531)
Income tax credit	**262**	192
Profit/(loss) for the year attributable to the owners of the parent	**475**	(6,339)

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

	2016	2015
Basic	**7.53p**	(6.28)p

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.

Consolidated statement of changes in equity for the year ended 31 December 2016

	Share capital	Share premium account	Capital redemption reserve	Retained earnings/ (accumulated losses)	Total equity
	£'000	£'000	£'000	£'000	£'000
At 1 January 2015	5,047	2,932	2,100	1,578	11,657
Loss for the year	-	-	-	(6,339)	(6,339)
At 31 December 2015	**5,047**	**2,932**	**2,100**	**(4,761)**	**5,318**
Capital reduction	(4,732)	(2,932)	(2,100)	**9,764**	**-**
Costs of capital reduction	-	-	-	**(37)**	**(37)**
Profit for the year	-	-	-	**475**	**475**
At 31 December 2016	**315**	**-**	**-**	**5,441**	**5,756**

Statement of financial position as at 31 December 2016

	2016	2015
		Restated *
	£'000	£'000
Non-current assets		
Goodwill	**3,824**	3,824
Development expenditure	**989**	820
Total intangible assets	**4,813**	4,644
Property, plant and equipment	**236**	182
Deferred tax assets	**67**	67
	5,116	4,893
Current assets		
Inventories	**1,259**	1,490
Trade and other receivables	**2,026**	2,367
Current tax recoverable	**203**	175
Cash and cash equivalents	**2,206**	3,174
	5,694	7,206
Total assets	**10,810**	12,099
Current liabilities		
Trade and other payables	**2,295**	3,514
Borrowings	**2,535**	2,940
	4,830	6,454
Non-current liabilities		
Deferred tax liabilities	**75**	75
Deferred income	**149**	252
Total liabilities	**5,054**	6,781
Capital and reserves attributable to owners of the parent		
Share capital	**315**	5,047
Share premium account	**-**	2,932
Capital redemption reserve	-	2,100
Profit and loss account	**5,441**	(4,761)
Total equity	**5,756**	5,318
Total equity and liabilities	**10,810**	12,099

* Please see note 2

Consolidated cash flow statement for the year ended 31 December 2016

	2016	2015
	£'000	£'000
Cash flows from operating activities		
Operating profit/(loss)	**223**	(6,530)
Depreciation	**100**	117
Amortisation	**370**	320
Goodwill impairment	**-**	6,000
Movement in:		
Inventories	**231**	(55)
Trade and other receivables	**341**	810
Trade and other payables	**(1,322)**	(741)
Cash (used in)/generated from operations	**(57)**	(79)
Interest paid	**(10)**	(1)
Corporation tax received	**234**	120
Net cash generated from operating activities	**167**	40
Cash flows from investing activities		
Purchase of intangible assets	**(539)**	(424)
Purchase of property, plant and equipment	**(154)**	(82)
Net cash used in investing activities	**(693)**	(506)
Cash flows from financing activities		
Repayments of finance lease contracts	**(8)**	(23)
Cost of capital restructure	**(37)**	-
Net cash used in financing activities	**(45)**	(23)
Net decrease in cash and cash equivalents	**(571)**	(489)
Cash and cash equivalents at start of the year	**242**	731
Cash and cash equivalents at end of the year	**(329)**	242

1. General information

Touchstar plc (formerly Belgravium Technologies plc) is a public company limited by share capital incorporated and domiciled in the United Kingdom. The Company has its listing on AIM. The address of its registered office is 1 George Square, Glasgow, G2 1AL.

2. Basis of preparation

The preliminary results for the year ended 31 December 2016 have been prepared in accordance with the accounting policies set out in the annual report and the accounts for the year ended 31 December 2015.

There have been no changes in accounting policies in the year.

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 preliminary 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 preliminary announcement have remained unchanged from those set out in the Group's 2015 statutory financial statements. They are also consistent with those in the Group's statutory financial statements for the year ended 31 December 2016 which have yet to be published. The preliminary results for the year ended 31 December 2016 were approved by the Board of Directors on 5 April 2017.

The financial information set out in this preliminary announcement does not constitute the Group's statutory financial statements for the year ended 31 December 2016 but is derived from those financial statements which were approved by the Board of Directors on 5 April 2017. The Auditors have reported on the Group's statutory financial statements and the report was unqualified and 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 2016 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 2015 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.

Restatement

The Group operates a composite banking arrangement, under which the Group and its bankers have a legal right to offset certain balances which may be in a cash or overdraft position. Previously, the Group offset these cash and overdraft balances in determining cash and short-term deposits as presented on the Group Balance Sheet.

In March 2016, the IFRS Interpretations Committee (IFRS IC) issued an agenda decision regarding the treatment of offsetting and cash-pooling arrangements in accordance with IAS 32: 'Financial instruments: Presentation'. This provided additional guidance on when bank overdrafts in cash-pooling arrangements would meet the requirements for offsetting in accordance with IAS 32. Following this additional guidance, the Group has reviewed its cash-pooling arrangements and has revised its presentation of bank overdrafts resulting in £2,535,000 of bank overdrafts being reported in borrowings, with a corresponding increase in cash and short-term deposits. Comparatives at 31 December 2015 have also been restated with an additional £2,932,000 of bank overdrafts being reported in borrowings with a corresponding increase in cash and short-term deposits.

The Group has considered the requirements of IAS 8 in respect of changes in accounting policies and the requirement to present a balance sheet as at the start date of the comparative period. As the change in accounting policy has no impact on the Group's reported profit, or the net assets of the Group, the Group does not consider the adjustment to be material to require the presentation of an additional balance sheet. The impact on the opening comparative period, being as at 1 January 2015, would have been to increase both cash and short-term deposits and borrowings by £2,977,000.

3. Critical accounting estimates and assumptions

The Group 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) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates, both in arriving at the expected future cash flows and the application of a suitable discount rate in order to calculate the present value of these flows.

It is the opinion of the Directors, whilst taking a more conservative view of future growth rates, no impairment of goodwill has taken place.

(b) Development expenditure

The Group recognises costs incurred on development projects as an intangible asset which satisfy 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.

4. Income tax credit

	2016	2015
	£'000	£'000
Corporation tax:		
Current tax	**(201)**	(175)
Adjustments in respect of prior years	**(61)**	(17)
Income tax credit	**(262)**	(192)

Corporation tax is calculated at 20% (2015: 20.25%) of the estimated assessable profit for the year. This is the weighted average tax rate applicable for the year.

5. Factors affecting the tax charge for the year

The tax charge for the year is different from the standard rate of corporation tax in the UK of 20% (2015: 20.25%). The differences are explained below:

	2016	2015
	£'000	£'000
Profit/(Loss) before income tax	**213**	(6,531)
Multiplied by the standard rate of corporation tax in the UK of 20.25% (2014: 21.50%)	**42**	(1,322)
Effects of:		
Items not deductible for tax purposes	**76**	1,261
Enhanced research and development deduction	**(359)**	(284)
Adjustments in respect of prior years	**(61)**	(17)
Capitalised expense allowable for tax purposes	**(13)**	-
Losses surrendered through R&D tax credit	**76**	123
Utilisation of tax losses	**-**	(16)
Capital allowances in excess of depreciation	**(23)**	(8)
Tax losses carried forward	**-**	71
Tax credit for the year	**(262)**	(192)

Factors affecting the future tax charge

The standard rate of corporation tax in the UK changed from 21% to 20% with effect from 1 April 2015. Accordingly, the Group's profit chargeable to corporation tax for the prior accounting year was taxed at the effective rate of 20.25% and at 20% in the current accounting year.

The change in the corporation tax rate from 20% to 19% (effective from 1 April 2017) was enacted in the Finance Act 2015 and, as a result, UK deferred tax balances in 2016 were measured at the enacted rates of 20% and 19%.

The effective tax charge in future years is expected to be lower than the main corporation tax rate due to the availability of enhanced research and development tax credits.

A change to the UK corporation tax rate was announced in the Chancellor's Budget on 16 March 2016. The change announced is to reduce the main rate to 17% from 1 April 2020. This change became substantively enacted on 15 September 2016. Changes to reduce the UK corporation tax rate to 19% from 1 April 2017 and to 18% from 1 April 2020 had already been substantively enacted on 26 October 2015.

6. Earnings/(losses) per share

	2016	2015
Basic	**7.53p**	(6.28)p
Adjusted	**7.53p**	0.30p

Basic earnings/(loss) per share is calculated by dividing the earnings/(loss) attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year. The calculation of adjusted earnings per share excludes exceptional costs of £nil (2015: £637,000) and goodwill impairment of £nil (2015: £6,000,000).

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

	2016		2015	
	Earnings £'000	**Weighted average number of shares (in thousands)**	Loss £'000	Weighted average number of shares (in thousands)
Basic EPS				
Earnings/(loss) earnings attributable to owners of the parent	**475**	**6,308**	(6,339)	100,937

	2016 £'000	2015 £'000
Exceptional items comprising the following:		
Restructuring costs	**-**	637
Goodwill impairment	**-**	6,000
Deal costs	**-**	-
	-	6,637

The above exceptional items in 2015 consist of goodwill impairment, restructuring costs and compensation for loss of office along with other non-recurring costs.

7. Intangible assets

	Goodwill £'000	Development expenditure £'000	Total £'000
Cost			
At 1 January 2015	9,904	2,048	11,952
Additions	-	424	424
At 31 December 2015	9,904	2,472	12,376
Additions	-	539	539
At 31 December 2016	**9,904**	**3,011**	12,915
Accumulated amortisation and impairment			
At 1 January 2015	80	1,332	1,412
Impairment	6,000	-	6,000
Amortisation charge	-	320	320
At 31 December 2015	6,080	1,652	7,732
Amortisation charge	-	370	370
At 31 December 2016	**6,080**	**2,022**	**8,102**
Net book value			
At 1 January 2015	9,824	716	10,540
At 31 December 2015	3,824	820	4,644
At 31 December 2016	**3,824**	**989**	**4,813**

Amortisation of £370,000 (2015: £320,000) is included within administration expenses in the income statement.

(a) Impairment tests for goodwill

Goodwill arose in relation to the Group's acquisition of Touchstar Technologies Limited, Access Fire & Security Limited and Touchstar ATC Limited (formerly Feedback Data Limited). An impairment test has been performed on the carrying value of goodwill based on value-in-use calculations.

The carrying amount of the goodwill held in regard to Touchstar Technologies Limited was impaired in 2015 by £6,000,000 to its recoverable amount. This loss was included in 'administration expenses' in the income statement in 2015. The impairment charge arose following a review and introduction of a more reasonable view of future growth rates.

The value-in-use calculations have used pre-tax cash flow projections based on the financial budgets approved by management covering a five-year period. Revenue growth for 2017 is benchmarked against 2016 actuals, with growth up to 2021 forecast. Cash flows beyond the five-year period are extrapolated using a growth rate of 2% (2015: 3%), which does not exceed the long-term average growth rate for the business. The other key assumptions used in the value in use calculations are the discount rate, which has been determined at 10% (2015: 11%), and an annualised sales growth of 2% (2015: 3%), over the five-year period.

If the budgeted gross margin used in the value-in-use calculation for Touchstar Technologies Limited had been 2% lower than management's estimates at 31 December 2016 (for example, 66% instead of 68%), the Group would have experienced an impairment of goodwill of £344,000.

If the estimated cost of capital used in determining the pre-tax discount rate for Touchstar Technologies Limited had been 1% higher than management's estimates (for example, 11% instead of 10%), there would be no further impairment required.

For Access Fire & Security Limited and Touchstar ATC Limited (formerly Feedback Data Limited), no reasonably possible changes in any assumptions would be expected to give rise to an impairment of the goodwill at 31 December 2016.

(b) Development expenditure

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.

Management determined budgeted sales growth based on historic performance and its expectations of market development. The discount rates are pre-tax and reflect the specific risks relating to the business.

These calculations did not result in impairment. The following sensitivity analysis was performed:

- Increase the discount rate by 1.5%; and
- Reduce the growth rate by 1% beyond the first five years.

In each of these scenarios no impairment was identified.

8. Capital reorganisation and reduction

On 24 May 2016, the company issued 3,453 ordinary shares at £0.05 each to bring the total number of shares in issue to 100,940,000; at which time the company consolidated every 4,000 existing ordinary shares of £0.05 each into one new consolidated ordinary share of £200.00 each. A subdivision of each new consolidated ordinary share was undertaken; the resultant split being 3,750 deferred shares of £0.05 each and 250 ordinary shares of £0.05 each. The rights to the new ordinary shares are identical in all respects to those of the original ordinary shares. These transactions did not have any impact on retained earnings.

On 8 July 2016 under a Capital Reduction Scheme, the company, by Special Resolution, reduced both its share premium account and capital redemption reserve along with a cancellation of the deferred shares. This resulted in an increase in retained earnings amounting to £9,764,000. This element of the retained earnings balance is not available for distribution by way of dividend to shareholders until 31 December 2018.

This process was confirmed by an Order of the Court of Session Scotland on 8 July 2016 and certified on 12 July 2016 by The Registrar of Companies for Scotland.