

Registered Number SC005543



Annual report and financial statements
for the year ended 31 December 2022

Annual report and financial statements for the year ended 31 December 2022

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Chairman's statement for the year ended 31 December 2022

Overview

It was a good year for Touchstar, and another strong performance was delivered in FY22. It is testament to our focus on the fundamentals of great customer service, expert delivery, forward thinking product development and proactive management that we not only achieved a positive financial outcome but built upon our forward momentum.

The order book at year end stood at £1.7m which gives us a solid starting position to 2023. In our largest market of petrochemical distribution there continues to be favourable market conditions and robust demand which is encouraging. In Q4 of 2022 alone we took in £2.4m of new orders across our businesses.

We continue to invest in our products and technology capabilities to enable us to serve our customers as best we can – it is our reputation for service, market expertise and our deep relationship with our customers that is the foundation of the business to date, it is these assets that now offer an opportunity for growth into international markets. To succeed we must continue to have a willingness to innovate, continually evolve, and have the ambition to create a sustainable larger business.

Business review

FY22 was a year of solid underlying performance in many ways, but in particular the growth in both turnover and profit is as a result of the investments made in the product set over the last few years. Our product portfolio is developing and moving ahead with rich functionality, allowing us to secure new business whilst maintaining our existing client base effectively.

We successfully launched and deployed the latest robust android based mobile tablet for the key market area in which we operate. The enhancements are predominantly in speed performance of the device and improved connectivity options. Whilst the hardware element of our product set is important, it is no longer the dominant force in our product offering. The success of the cloud-based software applications we have developed has reduced our reliance on the hardware side of the business. We are now a complete solutions business, differentiating us from many of our competitors. Improved margin and increased recurring revenue is an exact result of the introduction of complete solution sales. Total recurring revenue grew by 16% in FY22, including the software licence revenue element which achieved 31% growth year on year.

The strength of our strong product set has resulted in a growing and healthy order bank during FY22 and this continues into 2023. This provides us with a strong confidence level for the business going forward, as it allows us to securely move forward with expansion plans to continue the sales growth and achievements of the last three years.

With the level of cash we have and with cash generation also becoming more predictable, we are now accelerating investment in the long-term organic growth potential of the business by seeking to:

- increase sales through increased innovation of our products and solutions;
- expand into new territories through development of local relationships and partnerships;
- put in place the skills and structure to tender for larger, complex contracts; and
- enter into new vertical sectors by adaption of existing products and solutions

In particular, we are concentrating efforts on overseas sales and are confident this will start to bear fruit in 2023. We have selected a number of European countries and have engaged with the British consulate in two countries already. To date this is showing positive signs of success. The Group is now in a stronger position to

Chairman's statement for the year ended 31 December 2022 (continued)

undertake non-organic growth too, and an acquisition of either a product set or a company in the relevant fields we specialise in will be considered strategically.

Financial results

	2022	2021	% Change
Revenue	£6,743,000	£6,104,000	+10.5%
Gross margin	61.7%	59.5%	+220 basis points
Pre-tax profit	£422,000	£207,000	+103.9%
Post tax profit	£558,000	£341,000	+63.6%
Earnings per share (EPS)	6.58p	4.02p	+63.7%

Revenue grew 10.5% in FY22 to £6,743,000, much of this growth came from successfully securing major project contracts in the petrochemical distribution sector, which, as we expected, returned to normalised levels in FY22.

An increased percentage of software sales continued to drive progression in gross margins which rose a further 220 basis points in FY22 to 61.7%.

Costs rose to £3,722,000 in FY22 (2021: £3,449,000) which reflects a general inflationary pressure on costs within the business. Through effective management the increase in costs of 6.7% was lower than the growth rate of 10.5% in revenue, so the business achieved productivity gain in FY22.

Growth in revenue, tight control of costs and higher margins resulted in improved financial returns with pre-tax profits up by 103.9% to £422,000. A strategy of continued investment in the business meant we again benefitted from a tax credit, which in FY22 totalled £136,000 (2021: £134,000). So, in FY22 both earnings per share and profits after tax increased by about 64% to 6.58p and £558,000 respectively.

	2022	2021	% Change
Recurring revenue	£2,688,000	£2,322,000	+15.7%
Recurring revenue as % of total revenue	40%	38%	+200 Basis Points

As we had anticipated recurring revenue growth outpaced the increase in total revenue which enabled the Company to meet expectations of recurring revenue, moving to 40% of total revenues. This increases our quality of earnings and makes for a more predictable outcome which underpins performance in future years.

	2022	2021	% Change
EBITDA	£1,334,000	£1,072,000	+24.4%
Spend on Research & Development (R&D) *	£1,029,000	£936,000	+ 9.9%
R & D Capitalised	£565,000	£461,000	+22.6%

(* inclusive of capitalisation)

Chairman's statement for the year ended 31 December 2022 (continued)

EBITDA increased by 24.4% driven by improved profitability. Touchstar continued to invest in the business with spend in R&D rising to £1,029,000 which represents 15.3% of revenue (2021: 15.3%). Capitalisation returned to more normalised levels following the pandemic.

	2022	2021	Change
Net cash **	£3,476,000	£2,380,000	+£1,096,000 (+46%)
Free cash generation	£1,096,000	£609,000	+£487,000 (+79%)
Cash per share	41p	28p	+13p per share

*(**Net cash is exclusive of the CIBLs balance in 2021 which was subsequently fully repaid during FY22)*

Cash generation continues to be strong with £1,096,000 of free cash generated in FY22 including the full repayment of CIBLs in July 2022. This strengthened further the balance sheet with net cash ending the year at £3,476,000, equivalent to 41p per share.

The order book ended the year end at £1,700,000 (2021: £600,000) an increase of 183% over the prior year. This reflects the normalisation of trading across our markets, and buoyancy in the petrochemical distribution market in particular.

Capital management

As we stated in our trading update in January with the level of cash and the cash generation of the business becoming more predictable the board feel it is appropriate not only to invest in the long-term organic growth potential of the business, but to also to consider bolt on acquisitions and develop a clear route for the enhancing shareholder value.

To have the ability to consider increasing to returning value to shareholders, either via share buybacks or the payment of dividends, company law requires the Company to have positive distributable reserves. At present the Company does not have positive distributable reserves due to the deficit on its retained earning reserve which as of 31 December 2022 stood at £2,376,000 (2021: £2,696,000). The Directors are close to achieving a pathway to eliminate this deficit through combining dividend payments from the Company's underlying subsidiaries, profitable trading, and a capital reduction via a court process.

It is hoped to be in a position to pay dividends and start a share buyback programme in 2023.

Chairman's statement for the year ended 31 December 2022 (continued)

The Board

It is with a sense of achievement that I have informed the Board of my intention to step down as Chair during 2024, or earlier if a suitable successor is found. An important job for a chair is knowing when to make a transition, and to make sure it is seamless. The time is right for me, as I know the business needs someone with a longer timeframe than mine to evolve the business to the next level, and ensure it fully fore fills the potential it has.

I am happy that the business is in such a good place, has excellent management, is strongly capitalised, and has considerable growth opportunity.

Our people

I would like to thank all our colleagues for their outstanding collective contribution not only in producing such a good performance in 2022, but also for the part they have played in successfully navigating the challenges of the past few years. The strong position the company finds itself is not down to chance, it is due to their focus, skills, hard work, conviction, and a culture to keep doing the right thing.

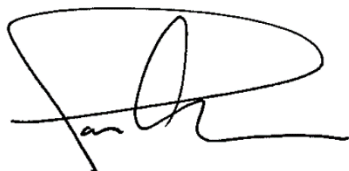
Thank you – I have a deep fondness for what is developing into a special business.

Current trading and outlook

The level of demand we are seeing combined with the level of the order book going into 2023 underpins the confidence that the strong start to 2023 results in another good year for the business.

Touchstar in in good shape with a customer service lead approach and a proven cash generative business model. We have a clear focus, robust financial position and ambition that supports our plans for long term sustainable growth.

We remain positive in the long-term potential of our business.



I Martin
Chairman
17 April 2023

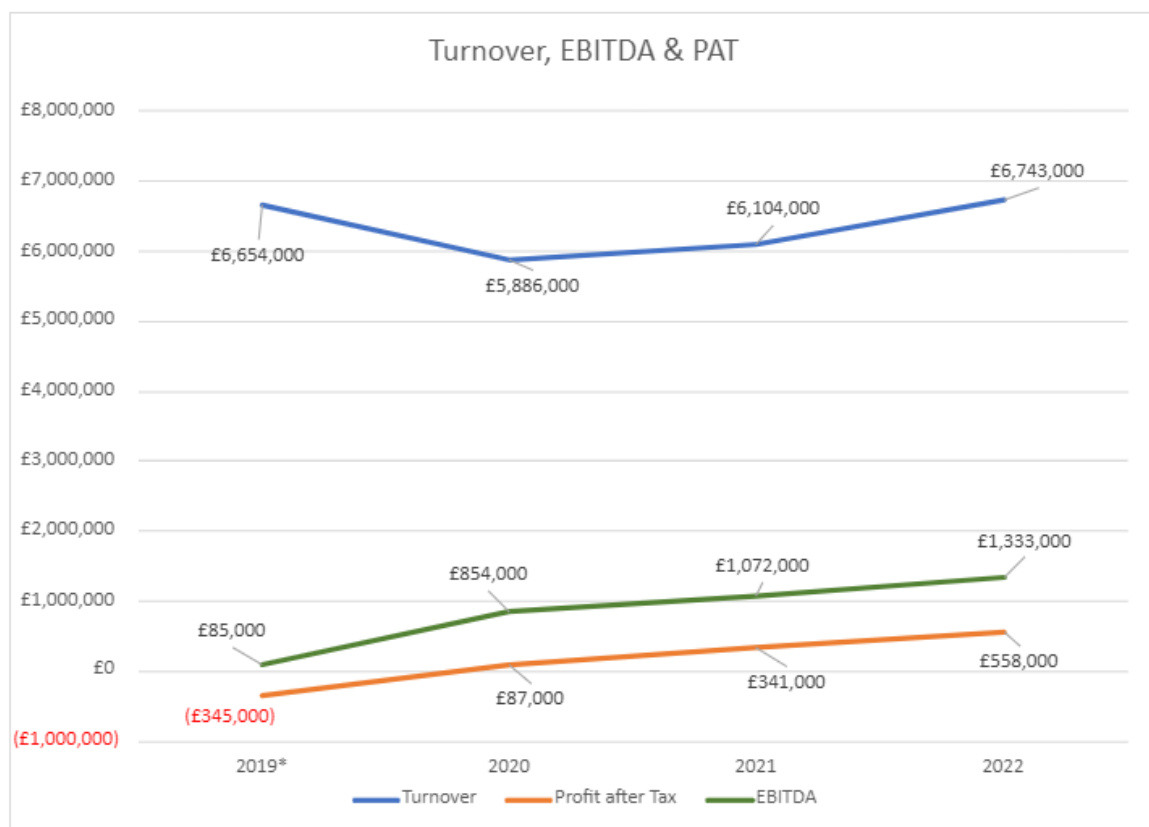
Strategic report for the year ended 31 December 2022

Business review and principal activities

The Group supplies, installs and maintains licenced software applications and hardware solutions for mobile applications in the transport, logistics and access control industries. We continue to develop and enhance the Group's product portfolio and whilst we continue to supply our core and the more traditional product set, the new complete solutions allow for increased revenues, greater business stability and profitability for the future.

Turnover & Profitability

The planned strategic change in the business direction over the past 3-5 years is now evident, with a year-on-year steady improvement in profitability. The real strength for the business is the hard evidence that new and more profitable revenue streams are coming to the fore. The business turnover grew at a healthy rate of 10.5% over FY21 (more than double the growth rate of FY20 to FY21 of 3.7%). Cash generation also continues to remain healthy with the Group's year-end net cash position at £3.5 million. The business made £558,000 profit after tax, a 64% increase over the FY21 post tax profit of £341,000. EBITDA grew by 24%, from £1,072,000 in FY21 to £1,333,000.

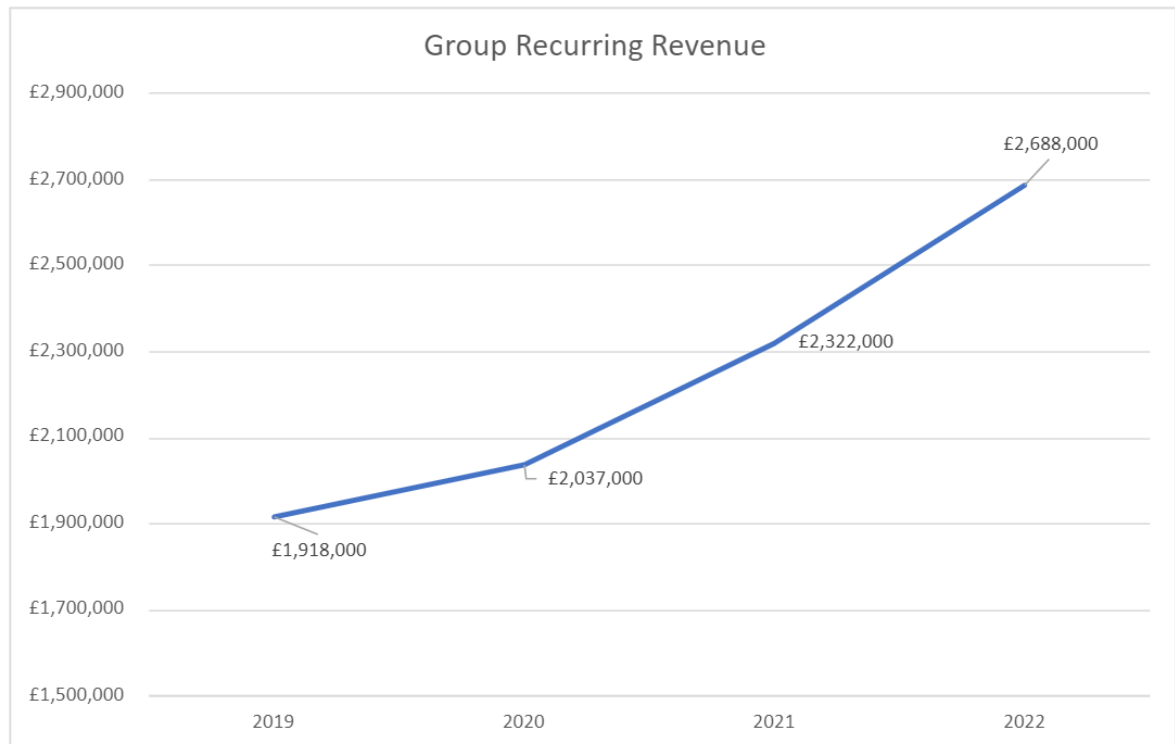


* continuing operations

Strategic report for the year ended 31 December 2022 (continued)

Recurring Revenue

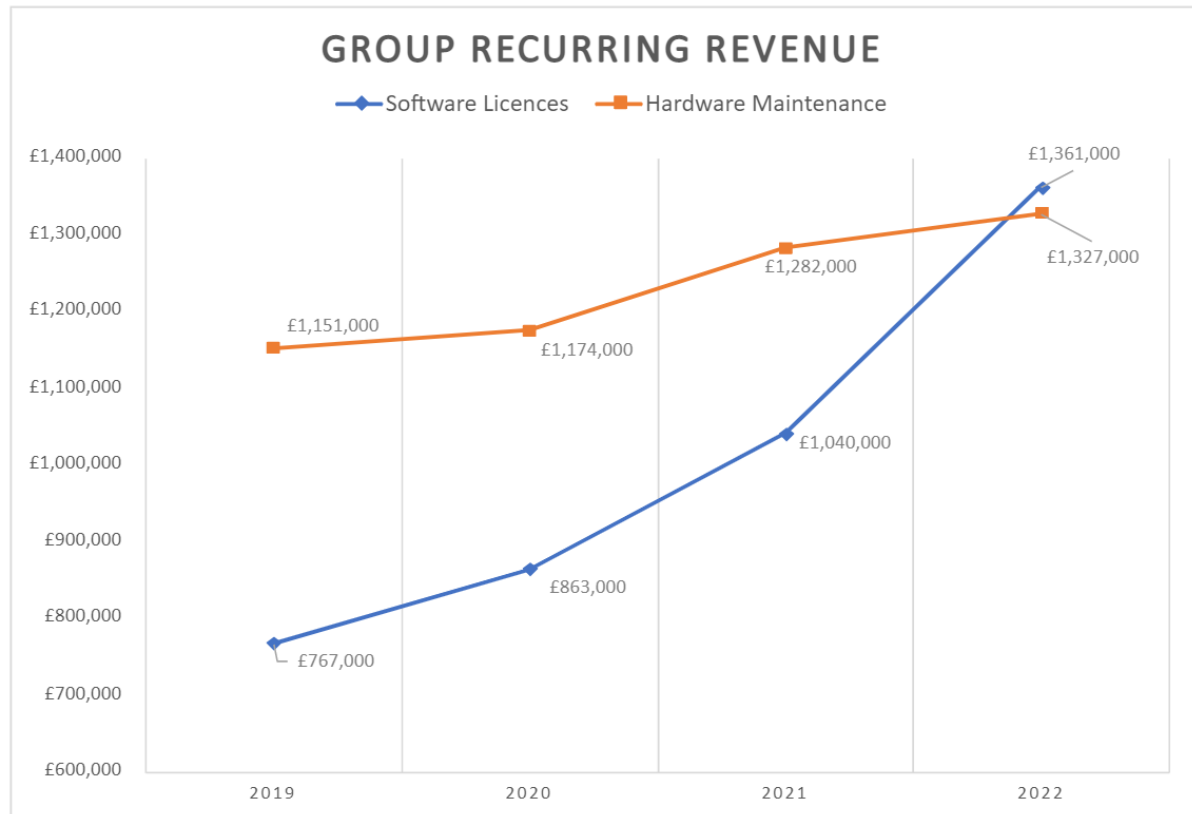
Recurring revenue is now the valuable asset we all envisaged, following our strategic review in 2018. FY22 saw total recurring revenue increase by 16% - a continuing and positive trend. This success is making a positive impact into the performance and underlying value of the business. In FY22, the Groups recurring revenue equated to 40% of turnover and the Board envisage this percentage will continue increasing.



Strategic report for the year ended 31 December 2022 (continued)

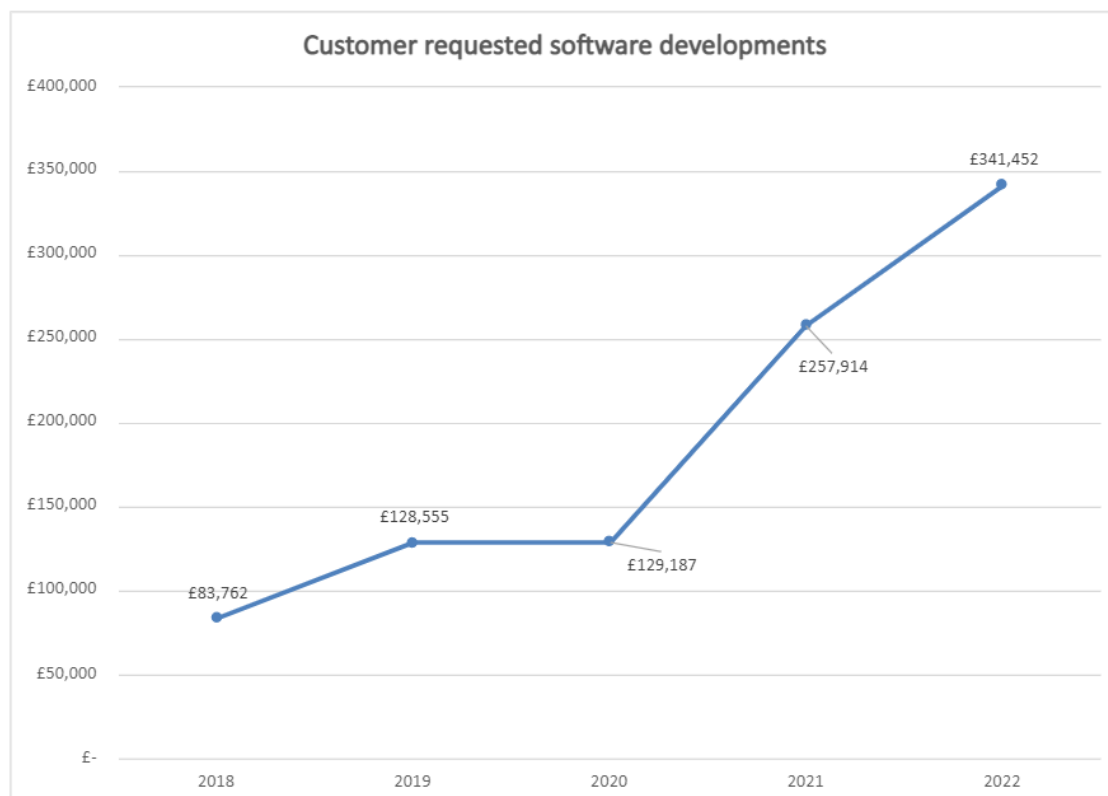
Software Licence Recurring Revenue

Whilst the Group enjoyed an increase of 16% in total recurring revenue over previous year, the predominant impact in growth of this type of profitable revenue has come from software licence, a key strategic objective. Recurring revenue in software licences grew a marked 31% over FY21 performance. This key area of growth will continue to increase as the change in our business strategy takes effect. As we alluded to in FY21, the growth line in software licence revenue has now exceeded hardware recurring revenue and expected to grow further still in 2023 and beyond.



Strategic report for the year ended 31 December 2022 (continued)

All the complete solutions the company now offer, consist of the majority of in house owned software and hardware (Touchstar 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 sale of software development as customers require tweaks and modifications to our standard products to suit their operation. The chart below illustrates the increases in chargeable software development and support over previous years.



Gross Margin

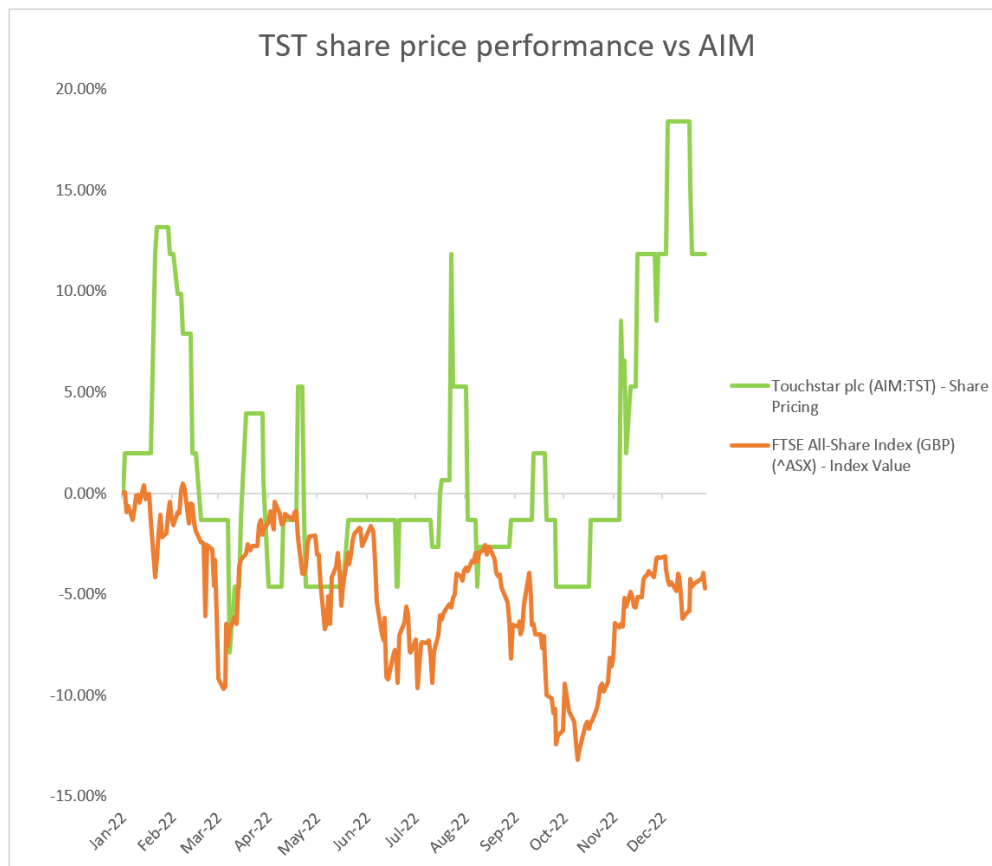
We continue to secure large contracts with blue chip companies across the UK. The strategy to supply a SaaS (Software as a Service) model to the industry is now widely accepted. This now provides consistent recurring revenue greater than in previous years. Combining increases of recurring revenue and the above software development charges continues to provide a healthy gross margin for the company, of 61.7% of the group turnover in FY22 (FY21: 59.5%).

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.

Strategic report for the year ended 31 December 2022 (continued)

Shareholder Value

The year-on-year improvements in the business has contributed significantly to shareholder value as we continue this positive trend. EPS increased over 60% from 4.02 pence to 6.58 pence in 2022. In a turbulent year of company stock valuations Touchstar share price has continued to increase at a level far greater than its peers on the AIM exchange. The share price movement during the trading year of 2022 increased a modest 13% from 75 pence to 85 pence per share.



Business environment

The Group's operations remain focused on the logistics, transport distribution and secure access control markets. Although servicing different customers, the nature of the products, services and channels to market are comparable and hence the Directors regard the Group as operating in one primary segment, where the risks and returns are similar.

2022 saw a healthy environment for the business sectors we operate in. Whilst some areas were not at pre-pandemic levels, Touchstar saw a healthy growth in both turnover and profit.

During this period, product development continued in a progressive manner and as each year goes by our solutions become functionally richer whilst maintaining up to date practises and technical enhancements of existing solutions.

Strategic report for the year ended 31 December 2022 (continued)

Business environment (continued)

Our in-house developed cloud-based software solutions & services, continue to play a significant role in the Groups development and success. The hardware we design, assemble and supply continues to be well received and provides the 'one stop' shop that much of our customer base enjoy. It continues to be a key differentiator in the market and has assisted in our growth, particularly in our transport management system within the petrochemical market.

In the Warehouse and Logistics market, the Group provides mobile computing solutions for warehouse operations for both truck-mounted and hand-held applications. These solutions communicate using wireless technology and provide real time data. This technology improves supply chain management and significantly reduces warehouse operating costs.

The Group Access Control Systems for industrial and retail environments continue to improve and customer loyalty is a reward of our support ethos. We have expanded our offerings to include other features within access security, such as Number plate recognition, the integration of facial scanner door entry and CCTV solutions.

Strategy

The Group's overriding strategy is to achieve attractive and sustainable rates of growth and returns through organic means. As we build our cash reserves and achieve profitable returns, this allows us to look further at potential growth by geographic expansion and other means. The Group is in a stronger position to build on a non-organic growth too and an acquisition of either a product set or a company in the relevant fields we specialise will be considered seriously.

Organic growth

During the year, we secured a number of new customers. The latest technologies that we have implemented into our solutions have assisted in growing our business into new sales avenues, in terms of software and managed services. The Directors are confident this will continue to generate additional sales revenues and further secures our position in a competitive market.

Revenue growth over the next few years will be expected to come in the form of capital sales, but an increasing element of the sale will focus on recurring revenue as contracts extended into three- and five-year minimum terms. Pricing policies will allow for annual upfront payment as well as monthly licence payment for software usage (SaaS).

To augment further organic growth, we have embarked on expanding sales outside the UK mainland with sales & marketing initiatives in specific regions, where we believe we can achieve the quickest wins. These are predominantly activities in Europe.

With certain product sets we are starting to build a partner channel to further our penetration to end users. This will also assist in us entering new market applications by utilising our existing product. Within the Access Control & CCTV market, our success with a government department in 2021/22 together with a track record in education and local authorities has commenced an initiative to structure our business in a way to create further opportunity in this market area – again assisting in natural organic growth.

Strategic report for the year ended 31 December 2022 (continued)

Product range

The Group product range include elements in three distinct sets; Software applications, Mobile computer hardware and Managed services. The Group will continue to invest in these core areas and to reduce product costs where possible.

In-house designed hardware and application software gives the business the opportunity to create market specific solutions backed by a complete managed service. This provides an offering far better than the competition, who rely on elements of third-party product to construct their solution and aftersales support programme.

Principal risks and uncertainties

The directors recognise there are a number of risks within the business which may significantly impact the performance of the business. These risks are subjected to regular review and, where appropriate, processes are established to minimise the level of exposure. These are summarised below:

1. People

The principal asset of the Group is the commitment and skill of its people. The retention of these people is therefore key to the success of the business. The Group monitors closely the satisfaction of its employees and ensures that remuneration packages match both contribution and the wider employment market. In addition, the Group has in place schemes which are related to Group results, and which allow key employees to participate in the success of the Group as a whole.

2. Technology changes

Changes in technology occur at an ever-increasing rate. Through its technical functions the business monitors emerging technologies and seeks to understand how these technologies will impact our current business and how they may be incorporated in designs of future product offerings.

3. Competition

The Group recognises that it operates on a global basis and as such is subject to competitive global pricing as well as service and performance criteria in local markets. Margins are monitored on a contract by contract basis and commercial decisions are adjusted accordingly. The Group recognises that a global strategy will create issues of foreign exchange fluctuations but that the overall contribution from such markets more than compensates for the level of risk. As described in note 2.1 the COVID-19 pandemic along with other external global economic challenges brought additional macroeconomic and societal challenges which the business and the wider sector are adapting to.

4. Key commercial relationships

The Group has a diverse range of customers and suppliers, and whilst these relationships are of significant importance to the Group's development, no single customer or supplier is of critical importance to the ongoing success of the Group.

As detailed in note 4, during the year ended 31 December 2022 approximately £803,000 (2020: £932,000) of the consolidated entity's external revenue was derived from sales to one customer however this was not deemed of critical importance to the ongoing success of the Group, this was a larger project which produces ongoing revenue at much lower levels than that generated in 2022.

In the opinion of the directors there no issues or uncertainties around sustainability of the relationship.

Strategic report for the year ended 31 December 2022 (continued)

Principal risks and uncertainties (continued)

5. Business partners

The Group operates through business partners in certain parts of the world. The retention of their loyalty to the Group's product offering is important. The business is in frequent contact with these companies and regular visits are made. The Group also encourages these partners to supply local services, and hence earn a revenue stream, for contracts that the Group may have secured on a worldwide basis. The financial risks faced by the Group are detailed in the Directors report on page 24.

Corporate responsibilities

The global events over recent years has highlighted more than ever the need for businesses to operate in a socially responsible and environmentally sustainable way and to look after their staff by providing a safe working environment. Touchstar conducts its activities to the highest ethical standards and expect customers and suppliers to embrace these same principles.

Environment

The Group recognises the importance of managing consumption of the world's natural resources as well as providing a safe and healthy working environment for its employees. The Group consumes non-replaceable raw materials and energy and clearly the successful growth of the Group will lead to an increased consumption of raw materials on an absolute basis. We therefore seek to reduce the amount of resources consumed on a unit by unit basis to limit the size of our environmental footprint.

It aims to do this by abiding by the requirements of accepted international standards and codes of practice which affect the sectors in which the businesses operate, minimise consumption through recycling or reuse of materials where possible and encouraging efficient use of energy and utilities throughout the business.

Touchstar is actively replacing its existing motor fleet with a combination of hybrid and fully electric vehicles along with the installation of electric charging points at its head office in Manchester.

Colleagues

Touchstar's key assets is its employees. The Group holds in high regard and actively encourages teamwork, striving to take personal responsibility, having a constructive attitudes, and working hard to deliver positive results for customers, colleagues and stakeholders alike. Personal training and development is encouraged, creating a more sustainable workforce and is very proud of its low attrition rates with the average length of tenure being over 10 years.

Ethical business practices

Human Rights

Touchstar fully recognises and supports the protection of Human Rights, The Bill of Human Rights and the Core Conventions in International Labour Organisation (ILO), which have been supplemented by additional nationally granted rights.

Strategic report for the year ended 31 December 2022 (continued)

Ethical business practices (continued)

Anti-corruption and bribery

It is the Group's policy to conduct all its business in an honest and ethical manner. It takes a zero-tolerance approach to bribery and corruption and is committed to acting professionally, fairly and with integrity in all its business dealings and relationships wherever it operates - implementing and enforcing effective systems to counter bribery.

Touchstar will uphold all laws relevant to countering bribery and corruption in all the jurisdictions in which it operates. As a UK plc, the Group remains bound by the laws of the UK, including the Bribery Act 2010, in respect of its conduct.

Modern slavery

Touchstar has a zero-tolerance approach to modern slavery and will act ethically and with integrity in all its business dealings and relationships.

Diversity and inclusion

Creating a diverse, inclusive, and positive place for colleagues to work is a core focus for the Group. It also fosters an environment that enhances innovation, creativity, and productivity.

In order to provide equal employment and advancement opportunities to all individuals, employment decisions at Touchstar are based on merit, qualifications and abilities.

Except where required by law, employment practices will not be influenced or affected by an applicant's or employee's race, colour, religion, gender, national origin, political affiliation, marital status, sexual orientation, age, or any other characteristic protected by law. This policy governs all aspects of employment, including selection, job assignment, compensation, discipline, termination, and access to benefits and training.

Health & safety

Touchstar is committed to maintaining high standards of health and safety. The Group's response to the global pandemic was high priority and it remains committed to ensuring the physical safety and positive mental health of all colleagues now and in the future. Where at all possible employees are offered hybrid working.

Section 172 Statement

Under section 172 of the Companies Act 2006 ("Section 172"), a director of a Group must act in a way that they consider, in good faith, and would most likely promote the success of the Group for the benefit of its members as a whole, taking into account the non-exhaustive list of factors set out in Section 172.

Section 172 also requires directors to take into consideration the interests of other stakeholders set out in Section 172(1) in their decision making. See table below detailing each stakeholder along with why and how we engage with each.

Touchstar Plc's ("Touchstar", "Group" or the "Company") key stakeholders include its investors, employees, regulatory bodies, suppliers and customers.

The Group's strategy is to achieve attractive and sustainable rates of growth and returns through organic means. Upon the successful implementation of the Group's strategy, the Group will have an expanded range of internal and external stakeholders, relations with which the Board will take into consideration when making decisions on Group strategy.

Strategic report for the year ended 31 December 2022 (continued)

Section 172 Statement (continued)

Engagement with our members plays an essential role throughout our business. We are cognisant of fostering an effective and mutually beneficial relationship with our members. Our understanding of our members is factored into boardroom discussions regarding the potential long-term impacts of our strategic decisions.

Post the reporting period end, the directors of the Group (“Directors”) have continued to have regard to the interests of the Group’s stakeholders, including the potential impact of its future activities on the community, the environment and the Group’s reputation when making decisions. The Directors also continue to take all necessary measures to ensure the Group is acting in good faith and fairly between members and is promoting the success of the Group for its members in the long term.

The table below acts as our Section 172 statement by setting out the key stakeholder groups, their interests and how the Group engages with them. Given the importance of stakeholder focus, long-term strategy and reputation to the Group, these themes are also discussed throughout this Annual Report.

Stakeholder	Why we engage	How we engage
Our Investors	We maintain and value regular dialogue with our financial stakeholders throughout the year and place great importance on our relationship with them. We know that our investors expect a comprehensive insight into the financial performance of the Group, and awareness of long-term strategy and direction. As such, we aim to provide high levels of transparency and clarity about our results and long-term strategy and to build trust in our future plans.	• Regular reports and analysis on investors and shareholders • Annual Report • Group website • Shareholder circulars • AGM • RNS announcements • Press releases
Our Employees	Our people are at the heart of our business. Effective employee engagement leads to a happier, healthier workforce who are invested in the success of the Group and who are all pulling in the same direction. Our engagement seeks to address any employee concerns regarding working conditions, health and safety, training and development, as well as workforce diversity. Engagement with our employees starts from the top and is driven effectively throughout the Group.	• Evaluation and feedback processes for employees and management • Competitive rewards packages • Encouraging employee training and development • Flat structure communication with Board
Regulatory bodies	The Group’s operations are subject to a wide range of laws, regulations, and listing requirements including data protection, tax, employment, environmental and health and safety legislation, along with contractual terms.	• Group website • RNS announcements • Annual Report • Direct contact with regulators • Compliance updates at Board Meetings • Consistent risk review

Strategic report for the year ended 31 December 2022 (continued)

Section 172 Statement (continued)

Our Customers	Our customers have individual requirements that require diligence and trust in our offering. We aim to listen to and engage with our customers on a regular basis to ensure that we understand their needs and can provide solutions that address them. We ensure that information is easily accessible and customer concerns are dealt with in a timely and professional manner.	• Continual review of feedback from customers to ensure satisfaction • Dedicated team for Client Services and Operations to ensure consumer concerns are addressed • Face to face meetings with customers to further develop relationships.
Our Suppliers	We have a number of key partners and suppliers with whom we have built strong relationships with and strongly value. We establish effective engagement channels to ensure our relationships remain collaborative and forward focused, and to foster relationships of mutual trust and loyalty.	• Building strong partnerships with suppliers through open two-way dialogue and regular face to face meetings. • Relationships with suppliers allow the ongoing review and monitoring of their performance levels

The above statement should be read in conjunction with the Chairman's Statement, the rest of the Strategic Report and the Directors' Report.

Strategic report for the year ended 31 December 2022 (continued)

Key performance indicators

The Group have adopted both financial and non-financial measures to achieve a balanced view of performance.

Recurring revenue	This KPI continues to be a major strategic focus for the Group. A key aspect of the business was to, not only increase the level of recurring revenue as part of overall sales but also generate new types of recurring revenue, namely charging for ongoing licencing (SaaS – Software as a Service), use of our new suite of Android software solutions whilst still offering the traditional hardware support/maintenance contracts. Recurring revenue for 2022 has again increased by 16% and makes up 40% of total Group revenue (2021: 14% & 38% respectively). Touchstar expect further double-digit point increases in future years.
Sales and order pipeline	During FY22 the turnover increased by over 10% from £6,104,000 to £6,743,000. The Group pipeline remains strong for all its new hardware and software solutions, legacy products are still required by a few of our existing customers, however, more continue to upgrade to our new Android solutions. This in turn generates an increase in recurring revenue. Order book at the year-end stood at £1,700,000 being 186% higher than 2021 - £646,000. Order intake continues to grow with orders received since 1 January 2022 exceeding the prior years, at 31 March 2022 the valuation was £1,992,000. The management also actively monitor this KPI to justify the continued development of the Groups product suite. Understanding our customer needs and expectations is of primary importance in securing orders and future proofing recurring revenue. Previously, software development was primarily outsourced to non-UK development consultants. Over recent years there has been modification to the Group's software development strategy. The management believed that a hybrid of UK employed, and non-UK consultant developers provide a more balanced understanding thereby efficiently developing the software solutions sought by existing and prospective customers. The Group development team now consists of 14 UK employees supported by 6 non-UK developers. (2021: 10 UK & 9 non-UK). With the impending changes to the HMRC R&D enhancement incentive the Group will be assessing how these changes will impact the Groups ability to maximise its usage of the scheme whilst still providing the most efficient team.
Gross margin	Since the pandemic and as a consequence of more recent global challenges, the world markets have experienced increased delivery costs and product/component shortages which in turn drive a rise in prices throughout the supply chain. Hardware margins have been increasingly affected and discovering new ways of mitigating these price increases has been challenging. However, even considering these challenges, gross margins have increased by 220bps from 59.5% in 2021 to 61.7% driven by a higher level of software sales along with operational efficiencies.
Cash	Cash generation continues to be of primary importance to the business and remains strong. During FY22 the Group fully repaid the CIBLs as management decided this funding was no longer required. Cash balances at the end of FY22 were £3,475,000 compared to £2,380,000, net of CIBLs for FY21.

Strategic report for the year ended 31 December 2022 (continued)

Key performance indicators (continued)

Customer retention	Retention of customers nearing the end of their contract is of significant importance for the Group. The business continues to benefit from existing customer upgrading to the new Android platform and suite of systems. We also have a number of new customers upgrading to our new solution, which is testament to our ongoing quality service and support offering and thus enhancing the future pipeline for the Group.
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Future outlook

Across all markets serviced by the Group there is a sustained drive to reduce costs and to improve customer service. This can only be achieved by continued investment in the most modern technologies providing instantaneous information between back-office applications and field-based functions. The Group recognises that competition will continue to impose challenges on margins. With investment in product offering, however, a robust commercial approach to the marketplace and above all a strong desire to succeed, we are confident about our prospects, even amidst the recent global challenges.

On behalf of the board

A handwritten signature in blue ink, appearing to read 'M W Hardy', with a horizontal line underneath.

M W Hardy
Chief Executive Officer
17 April 2023

Statement of Corporate governance

Quoted Companies Alliance Code

As an AIM listed Group, the Group is required to adopt a recognised corporate governance code and disclose any deviations from the chosen code. The Group has decided to adopt the Quoted Companies Alliance ("QCA") code. High standards of Corporate Governance are a key priority of the Board and details of how the Group addresses key governance issues are set out in the Corporate Governance section of its website by reference to the 10 principles of Corporate Governance developed by the QCA.

<http://www.touchstarplc.com/about/governance>

Business model and strategy

The Group's vision, together with its partners, is to create innovative data capture solutions that enhance business intelligence for our client base. Touchstar's mission is to deliver innovative products and solutions on a 'turnkey' basis, underpinned by an unparalleled attention to detail and customer-centred philosophy.

To achieve this, the Group will focus on five key business strategies;

- Further penetrating existing markets by forging stronger customer and partner relationships, including alliances with independent software vendors and third-party hardware manufacturers
- Expanding into new markets, where the Group will offer compelling solutions set to meet specific sector / geographical customer requirements
- Inspiring Touchstar personnel and clients by building on the Group's track record of high-performance teamwork and collaboration
- Intensifying R&D innovation throughout the organisation and delivering unsurpassed quality and performance in the Group's products and solutions
- Maximising operational effectiveness with lean, world-class operations underpinned by an investment in personnel, appropriate technologies and business tools to improve functional performance across the Group

This strategy is intended to deliver long-term growth in shareholder value.

Effective risk management

The Board has an established Audit, Remuneration, and Executive Committees.

The Group receives regular feedback from its external auditors on the state of its risk management and internal controls. The Board does not consider it to be appropriate to have its own internal audit function at the present time, given the Group's size and nature of its business.

The annual budget setting process examines all areas of the Group's operations both operationally and financially.

Statement of Corporate governance (continued)

The Group has clear, documented procedures in place to assess and progress opportunities arising, whether for process improvement, product enhancement, new business or any other matter.

Board of directors

During 2022 the Board was comprised of a non-executive Chairman, one executive director, and an independent non-executive director. The Board considers that of its two non-executive directors, only one is independent however they are considered independent in terms of character and judgement in how they conduct their roles, giving a balance between executive and non-executive directors.

The Chairman is responsible for leading the Board, facilitating the effective contribution of all members and ensuring that it operates effectively in the interests of the shareholders. The Chief Executive Officer is responsible for the leadership of the business and implementation of the strategy. The Group Secretary is responsible, on behalf of the Chairman, for ensuring that all Board and Committee meetings are conducted properly, that the Directors receive the appropriate information prior to the meeting, for ensuring that governance requirements are considered and implemented and for accurately recording each meeting. The Directors may have access to independent professional advice, where needed, at the Group's expense.

A description of the roles of the Directors is included on the website. The directors are aware of, and committed to, the time requirements needed to fulfil their roles. Directors are required to devote such time and effort to their duties as is required to secure their proper discharge and, for Non-Executive Directors, this typically entails one or two days of meetings per month as well as reading and preparation time.

Meetings of the Board and committees

The Board has established Audit, Remuneration and Executive Committees, each of which conducted their duties throughout the year. The Audit Committee scrutinise the planned scope of the annual audit as well as monitoring the independence of the auditors. The Remuneration Committee assess the remuneration of Directors and senior staff and ensured this was appropriate and consistent with the interests of shareholders and the business. The Executive Committee managed the operation and strategy of the business throughout the financial year, in regular consultation with the Board.

The Board meets at least four times a year with relevant information distributed to the Directors in advance of each meeting.

All members attended each meeting held during the year.

The Board makes decisions on all material matters including long term and commercial strategy, annual operating and capital budgets along with capital and financial structure.

The Remuneration and Audit Committees are held on an annual basis.

There were 5 Board meeting held during the year. All members required to attend the relevant meeting did attend except for 6 December where Mark Hardy could not attend, a follow up meeting was held on 19 December at which all directors were in attendance.

Details of remuneration paid to each director during the year can be found in note 8.

Board Performance

The Board judges its own performance by reference to the Group's progress against the targets set out in the Group's strategic plan.

Statement of Corporate governance (continued)

The Group undertakes regular monitoring of personal and corporate performance using agreed key performance indicators and detailed financial reports. Responsibility for assessing and monitoring the performance of the executive directors lies with the Chairman and the independent non-executive director.

The Board and the Remuneration Committee evaluate the Board performance, including but not limited to Board balance, Board skills and remuneration, to ensure that the Board is fit for purpose and is appropriate for the Group's ongoing development and growth.

Corporate culture and responsibility

The Board is committed to embodying and promoting a sound corporate culture and has endorsed various policies which require ethical behaviour of staff and relevant counterparties.

The Board and management conduct themselves ethically at all times and promote a culture in line with the standards set out on the website.

Communication with shareholders and other relevant stakeholders

The Board attaches great importance to providing shareholders with clear and transparent information on the Group's activities, strategies and financial position, in addition to having regard to its obligations as a quoted public Group and the AIM Rules.

The Group holds meetings with significant shareholders on a regular basis and regards the Annual General Meeting as a good opportunity to communicate directly with shareholders via an open question and answer session.

The Group lists contact details on its website should shareholders wish to communicate with the Board. All announcements and results, including those released via RNS and RNS Reach, are available on the Group's website.

Employees

The Group recognises that the contribution made by its skilled and committed workforce is the business's most valuable asset. The Group will continue to provide its people with a challenging environment and to provide rewards which recognise their achievements. The Group recognises that the needs of the business will continue to change. As such, training is and will continue to be offered such that employees are able to enhance their skill base to assist the business in meeting future challenges.

The Group has an established policy of encouraging the employment of disabled persons wherever this is practicable and endeavours to ensure that disabled employees benefit from training and career development programmes in common with all other employees. The Group's policy includes, where practicable, the continued employment of those who may become disabled during their employment.

Statement of Corporate governance (continued)

Financial instruments

The Group's operations expose it to a variety of financial risks that include the effects of changes in credit risk, liquidity risk and exchange rate risk. The policies set by the Board of Directors are implemented by the Group's finance department and are detailed in note 3 to the Group financial statements for the year ended 31 December 2022.

Board of directors

The directors who held office during the year and to the date of this report are given below:

I P Martin - Chairman

Ian has worked in the Insurance and Media industries for over 30 years. More recently, as Chairman and CEO of Avesco (2002 to 2012) the quoted provider to the event and broadcast industry, Ian led the transformation of the company from a faltering company to a vibrant business, with revenues rising from around £50 million to £140 million and a profit that grew at a compound profit of 20% per annum.

Prior to this period, Ian has held board positions at Ascot Underwriting and Brockbank Group plc, where he was CEO and he helped form Admiral Insurance the FT 100 Company. Ian also holds a number of executive and non-executive directorships, including as a non-executive Director of Chelverton Growth.

M W Hardy - Chief Executive Officer

Mark joined the company in 1992 and has been involved in the mobile communications market since graduating from University with a BA Honours degree in Business Studies in 1986. Prior to joining the company, Mark worked for American based companies and was instrumental in driving sales of high-tech products into developing markets.

With overall responsibility for the commercial running of Touchstar since 1997, Mark remains extremely active in the sales and key account management aspects of the business.

J L Christmas - Non-Executive Director

John is a chartered accountant with over 20 years' experience as finance director of UK listed businesses, most recently at Avesco Group plc, whom he joined in 2004.

He was Group Finance Director at Boosey & Hawkes plc and previously held positions as Group Finance Director at MediaKey plc and Video Arts Ltd.

Audit Committee report for the year ended 31 December 2022

Audit Committee membership

- John Christmas (Chair)
- Ian Martin

I am pleased to present the report of the Audit Committee for the year ended 31 December 2022.

The Audit Committee comprises two Non-Executive Directors of the Company, both of whom served for the entirety of the year. The Committee is chaired by myself, John Christmas and met once during the year under review. It operates under formal terms of reference, which are available on request from the Company Secretary or at the AGM. The Committee provides a forum for reporting by the Group's auditors. By invitation, the meetings are also attended by the CEO and Group Financial Controller of the Company.

The Audit Committee is responsible for reviewing a wide range of financial matters including ensuring that the financial performance of the Group is adequately measured and controlled, correctly represented, reported to, and understood by the Board. The Audit Committee advises the Board on the appointment of external auditors and on their remuneration, both for audit and non-audit work, and discusses the nature and scope of their audit.

The Audit Committee liaises with the auditors at least once a year without any Executive Directors present.

The Audit Committee includes one financially qualified member as recognised by the Consultative Committee of Accountancy Bodies. All Audit Committee members are expected to be financially literate. Following the above, the Audit Committee has recommended to the Board that Haysmacintyre LLP is re-appointed.

The two main issues that the Audit Committee are concerned with are in relation to revenue recognition and the carrying value of intangible assets being development costs. The Committee review the Group's revenue recognition policies to ensure they are compliant with current accounting standards. In addition, the Committee monitors the intangible carrying value in the Group for any indications of impairment.

Auditor Independence

To ensure auditor independence, consideration is given to their integrity and the objective approach of the audit process. The use of non-audit services is not considered to be significant, and amounts paid in respect of these are disclosed in note 6.

I am satisfied that the Committee has satisfactorily discharged its duties in the year in accordance with its terms of reference, which are reviewed annually.

A handwritten signature in blue ink, appearing to read 'John Christmas'.

John Christmas
Chair of the Audit Committee
17 April 2023

Remuneration Committee report for the year ended 31 December 2022

Remuneration Committee membership

- Ian Martin (Chair)
- John Christmas

I am pleased to present the report of the Remuneration Committee for the year ended 31 December 2022.

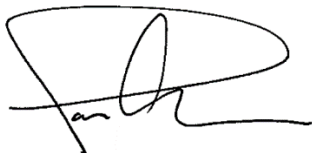
The Remuneration Committee comprises two Non-Executive Directors of the Company, both of whom served for the entirety of the year. The Committee is chaired by myself, Ian Martin and met once during the year under review. It is responsible for reviewing and determining the policy of the Group on executive remuneration including specific remuneration packages for each of the Executive members of the Board, pension rights and compensation payments. The Committee is also responsible for monitoring compliance with the implementation by the Group of the legal requirements and, so far as reasonably practical, recommendations and guidelines relating to Directors' remuneration.

None of the Committee has any personal financial interest (other than as shareholders or as noted in the Directors' report), conflicts of interests arising from cross- directorships or day-to-day involvement in running the business. The Committee makes recommendations to the Board. No Director plays any part in any discussion about his or her own remuneration.

For 2022, the Remuneration Committee has continued to operate a simple remuneration structure made up of basic salary, pensions and benefits, annual performance-related bonuses, and share options. As in prior years, a proportion of executive remuneration has been based on performance, designed to align executive pay with shareholder interests. In this respect, the Committee has assessed the performance of the Executive Director for the year reported against the targets set a year ago, set performance targets for the following financial year and made recommendations to the Board on the overall packages for the Executive Directors.

Following the shareholder approval granted at our 2020 AGM, we made our second or four grants under the Long Term Incentive Plan (LTIP) in September 2022. Providing further alignment with wider shareholder experience, these will vest two/three years after grant, subject to the satisfaction of performance criteria based on Total Shareholder Return (TSR) and growth in recurring revenue over the same period. See note 8 for details of remuneration paid and options issued to directors during the period.

I am satisfied that the Committee has appropriately discharged its duties in the year in accordance with its responsibilities and encourage you to read the Directors Remuneration Report on the following pages.



Ian Martin
Chair of the Remuneration Committee
17 April 2023

Directors' report for the year ended 31 December 2022

The directors present their annual report and the audited financial statements of the Group for the year ended 31 December 2022 which should be read in conjunction with the Strategic Report on pages 5 to 17. The Corporate Governance Statement set out on pages 18 to 21 forms part of this report.

Incorporation

Touchstar plc is a company incorporated in Scotland and its registered number is SC005543.

Dividends

The directors do not recommend a final dividend (2021: £Nil).

Purchase of own shares

The Group did not purchase any of its own shares in 2022.

Shares issued during the year

No shares were issued in 2022.

Research and development

The Group is continually developing its products and services to meet the increasing demands of the markets in which the Group operates. During the year, the Group incurred total research and development costs of £1,102,900 (2021: £935,000), of which £565,000 (2021: £460,000) has been capitalised.

Future outlook

The Group's future outlook and opportunities are referred to in the Strategic report on page 5.

Going Concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out above and the risks and uncertainties summarised. The Group and Company has sufficient financial resources to cover budgeted future cash-flows and has contracts in place with customers and suppliers across different geographic areas and industries. As a consequence of these factors, the Directors believe that the Group is well placed to manage its business risks successfully.

Having reviewed the future plans and projections for the business, the Directors believe that the Group and Company and its subsidiary undertakings have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements. Refer to note 2.1 Basis of preparation for further details.

In accordance with the Companies Act s414 c(11) information in relation to the business and risks is shown in the Strategic Report.

Matters covered in the Strategic report

Statutory disclosures required under Company law within the Directors' report are included where relevant in the Strategic report.

Directors' indemnities

As permitted by the Articles of Association, the directors have the benefit of an indemnity which is a qualifying third-party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The Company also purchased and maintained throughout the financial year directors' and officers' liability insurance in respect of itself and its directors.

Directors' report for the year ended 31 December 2022 (continued)

Substantial shareholdings

As of 27 March 2023, the Company had been notified of the following interests representing 3% or more of the issued ordinary share capital:

	Ordinary shares	Percentage of ordinary share capital
I P Martin	805,250	9.50%
Interactive Investor Services Ltd	1,235,823	14.58%
Thomas William George Charlton	935,000	11.03%
Chelverton Growth Trust plc	850,000	10.03%
Charles Stanley & Co	565,039	6.67%
Killik & Co	404,000	4.77%
R D McDougall	368,500	4.35%
Robert & Virginia Millington	355,000	4.19%
Unicorn Asset Management	289,995	3.42%
Hargreaves Lansdown Stockbrokers	284,366	3.36%

Except for those disclosed above, the directors are not aware of any shareholding which represents 3% or more of the present issued ordinary share capital of the Company.

Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, principally with respect to the euro and the US dollar. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

Natural hedging occurs through the matching of foreign currency income, expenditure and commitments. When projected foreign currency balances are not anticipated to be covered through this natural matching process, the Group may choose to enter into forward foreign exchange contracts through its bankers and other financial institutions.

(ii) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

Directors' report for the year ended 31 December 2022 (continued)

Financial risk management (continued)

(b) Credit risk

The Group has a customer credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

At 31 December 2022 there were no significant concentrations of credit risk (2021: £nil). The maximum exposure to credit risk is represented by the carrying amount of each financial asset included in the balance sheet. Management does not expect any losses from non-performance by these counterparties. Due to the nature of the Group's business, credit risk is assessed on a customer by customer basis prior to entering into contractual arrangements and on an expected credit loss basis in line with IFRS9. See note 2.1 for impact assessment.

(c) Liquidity risk

The Group maintains short-term cash deposits and unutilised banking facilities to mitigate any liquidity risk it may face. Management monitors rolling forecasts of the Group's liquidity reserves on the basis of forecast cash flow.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. Impact on discounting is not deemed material/relevant in respect of trade and other payables since this relates predominantly to deferred revenue for which the cash has already been received and the balance is being released to the income statement in line with the contract.

	Less than one year £'000	Between one and four years £'000
At 31 December 2022		
Bank overdraft	985	-
Trade and other payables (note 22)	1,491	-
Other borrowings (note 24)	-	-
At 31 December 2021		
Bank overdraft	1388	-
Trade and other payables	1332	-
Other borrowings	30	105

Lease liabilities have been presented within Liabilities as a result of the Group's implementation of IFRS 16 in 2019.

Directors' report for the year ended 31 December 2022 (continued)

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt.

The gearing ratios at 31 December 2022 and 2021 were as follows:

	2022	2021
	£'000	£'000
Net debt	-	-
Total equity	2,799	2,319
Total capital	2,799	2,319
Gearing ratio	-%	-%

As at 31 December 2022, borrowings (which constitute PLC bank overdraft) were entirely offset by positive cash balances within the subsidiary companies, meaning the Group had no net debt, and therefore no gearing ratio, at the reporting date (2021 - no gearing ratio).

Fair value estimation

The carrying value, less impairment provision of trade receivables and payables are assumed to approximate to their fair value. The carrying values of borrowings approximate to their fair value due to their short-term maturity.

Directors' report for the year ended 31 December 2022 (continued)

Disclosure of information to auditors

Each director at the date of approval of this report confirms that:

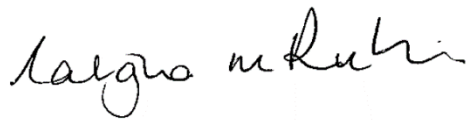
- so far as each director is aware, there is no relevant audit information (that is, information needed by the auditors in connection with preparing their report) of which the auditors are unaware; and
- each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the auditors are aware of that information.

This statement is given and should be interpreted in accordance with the provision of Section 418 of the Companies Act 2006.

Independent auditors

The auditors, Haysmacintyre LLP, have indicated their willingness to continue in office, and a resolution that they be reappointed will be proposed at the Annual General Meeting.

By order of the Board



N M Rourke
Company Secretary
17 April 2023

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the Group financial statements and IFRSs as adopted by the European Union have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The directors are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

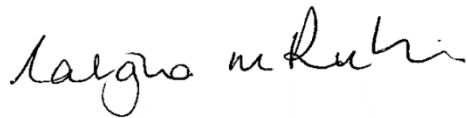
The directors of the ultimate parent company are responsible for the maintenance and integrity of the ultimate parent company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement of directors' responsibilities in respect of the financial statements (continued)

Each of the directors, whose names and functions are listed in the Directors' Report confirm that, to the best of their knowledge:

- the Company financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and result of the Company;
- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

By order of the Board

A handwritten signature in black ink, appearing to read 'N M Rourke'.

N M Rourke
Company Secretary
17 April 2023

Independent auditors' report to the members of Touchstar plc

Opinion

We have audited the financial statements of Touchstar Plc (the 'parent company') and its subsidiaries ('the group') for the year ended 31 December 2022 which comprise of the Consolidated income statement, the Consolidated and Company statements of financial position, the Consolidated and Company statement of changes in equity, the Consolidated and Company statements 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 International Financial Reporting Standards (IFRSs) as adopted by the United Kingdom.

In our opinion, the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2022 and of the group's profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the United Kingdom; and
- 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 in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

An overview of the scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud. We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

The Group comprises three financially significant companies: two principal trading companies and one holding company, all of which are based in the UK. We performed audits of the three companies in the Group, giving us the evidence we needed to form our opinion on the Group financial statements. All work was performed by the Group engagement team.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent auditors' report to the members of Touchstar plc (continued)

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<i>Recoverability of capitalised development costs</i>	
The Group recognises intangible assets of £1,087,000 (2021: £1,198,000). This represents costs incurred on development projects that are assessed to meet the criteria as set out in 'IAS 38: Intangible assets'. The decision whether to capitalise and how to determine the period of economic benefit requires judgement, including an assessment of the commercial viability of the project, and the prospect of future sales. There is a risk that development costs have been inappropriately capitalised and therefore intangibles assets are materially overstated.	Costs capitalised represent both internal staff costs (time) capitalised, as well as third party costs. These costs are allocated on a project basis. For a sample of material internal staff costs capitalised, we have understood the employees' specific roles and work, and the allocation between project and non-project activities. We have discussed and challenged these allocations with management and with employees. A sample of third-party costs capitalised have been agreed to supporting documentation including understanding the appropriateness of capitalising 100% of time where applicable. The nature of these costs has been tested to confirm they are used in viable projects. In addition, we have understood the status of each project, and compared this to the requirements of IAS 38 to ensure that capitalisation is appropriate. We have challenged management's assessment of the commercial viability of each active project, to consider whether capitalised costs are recoverable.
<i>Revenue recognition</i>	
The Group recognised revenue of £6,743,000 in the year. There is a risk that revenue is recognised inappropriately and not in accordance with IFRS 15. There is a cut-off risk with incentives to overstate revenue near or around year end and consider Q4 sales to be exposed to error.	We substantively tested a sample of transactions to assess the recognition of the revenue streams in line with IFRS 15 to ensure that they were congruent by examining appropriate support to evidence satisfaction of the performance obligations by the group. For significant contracts identified in the year, we have separately assessed the revenue recognition associated with them in line with IFRS 15. We used data analytics procedures to identify unusual double entry pairings impacting revenue to cash flow of transactions for the year. We performed testing over cut-off and also recalculated and corroborated a sample of deferred revenue items for occurrence and completeness.

Our application of materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Independent auditors' report to the members of Touchstar plc (continued)

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	<i>Group financial statements</i>	<i>Company financial statements</i>
Overall materiality	£133,000 (2021: £122,000).	£38,750 (2021: £57,350).
How we determined it	2% of revenue (2021: 2% of revenue)	5% of Equity (2021: 5% Equity).
Rationale for benchmark applied	Based on the benchmarks used in the annual report, revenue is a primary measure used by the shareholders in assessing the performance of the group and is a generally accepted auditing benchmark.	We believe that equity is a primary measure used by the shareholders in assessing the performance of the entity given the company is a holding company and so does not trade. Equity is a generally accepted auditing benchmark.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the entity's ability to continue to adopt the going concern basis of accounting included review of the Group's budgets and cashflow forecasts and supporting information such as order books.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Independent auditors' report to the members of Touchstar plc (continued)

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 24, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Independent auditors' report to the members of Touchstar plc (continued)

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Based on our understanding of the company and industry, we identified that the principal risks of noncompliance with laws and regulations related to health & safety and employment law, and regulatory requirements for AIM listed companies, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006, corporation tax, payroll tax and sales tax.

We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to the posting of inappropriate journal entries during the final quarter of the year and also management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Inspecting correspondence with regulators and tax authorities;
- Discussions with management including consideration of known or suspected instances of noncompliance with laws and regulation and fraud;
- Identifying and testing journals, in particular journal entries posted by management in the final quarter of the year; and
- Challenging assumptions and judgements made by management in their critical accounting estimates

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

Use of our report

This report is made solely to the 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.

Christopher Cork

Christopher Cork (Senior Statutory Auditor)
For and on behalf of Haysmacintyre LLP, Statutory Auditors
Date: 17 April 2023

10 Queen Street Place
London
EC4R 1AG

Consolidated income statement for the year ended 31 December 2022

		2022	2021
		£'000	£'000
	Note		
Revenue	4	6,743	6,104
Cost of sales		(2,583)	(2,472)
Gross profit		4,160	3,632
Distribution costs		(46)	(49)
Administrative expenses		(3,676)	(3,400)
Other operating income	5	-	44
Operating profit before share-based payment provision		490	233
Share-based payment provision included in administrative expenses	7(b)	(52)	(6)
Operating profit	5	438	227
Finance costs	10	(16)	(20)
Profit before income tax		422	207
Income tax credit	11	136	134
Profit for the year attributable to the owners of the parent		558	341

Earnings per ordinary share (pence) attributable to owners of the parent during the year (note 12):

	2022	2021
Basic	6.58p	4.02p

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 2022 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.

Consolidated statement of changes in equity for the year ended 31 December 2022

	Share capital £'000	Share premium account £'000	Share based payment Reserves £'000	Retained earnings £'000	Total equity £'000
At 1 January 2021	424	1,119	-	435	1978
Profit for the year	-	-	-	341	347
At 31 December 2021	424	1,119	6	776	2,325
Cost of capital reduction in subsidiary	-	-	-	(2)	(2)
Profit for the year	-	-	52	558	610
At 31 December 2022	424	1,119	58	1,332	2,933

Company statement of changes in equity for the year ended 31 December 2022

	Share capital £'000	Share premium account £'000	Share based payment reserve £'000	Retained earnings £'000	Total equity £'000
At 1 January 2021	424	1,119	-	(2,702)	(1,159)
Profit for the year	-	-	-	6	6
At 31 December 2021	424	1,119	6	(2,696)	(1,147)
Profit for the year	-	-	52	320	372
At 31 December 2022	424	1,119	58	(2,376)	(775)

Consolidated and Company statements of financial position as at 31 December 2022

		Group		Company	
		2022	2021	2022	2021
	Note	£'000	£'000	£'000	£'000
Non-current assets					
Intangible assets	13	1,087	1198	-	-
Investments	14	-	-	47	5
Property, plant and equipment	15	94	94	-	-
Right-of-use assets	16	299	399	-	-
Deferred tax assets	18	46	81	3	3
		1,526	1,772	50	3
Current assets					
Inventories	19	967	865	-	-
Trade and other receivables	20	975	1071	415	462
Corporation tax receivable		18	166	-	-
Cash and cash equivalents	21	4,461	3,903	-	-
		6,421	6,005	415	462
Total assets		7,947	7,777	465	470
Current liabilities					
Trade and other payables	22	1,491	1,333	255	94
Contract liabilities	23	2,022	1,762	-	-
Borrowings	24	985	1,418	985	1,418
Lease liabilities	25	157	169	-	-
		4,655	4,682	1,240	1,512
Non-current liabilities					
Deferred tax liabilities	18	80	251	-	-
Contract liabilities	23	144	172	-	-
Borrowings	24	-	105	-	105
Lease liabilities	25	135	242	-	-
		359	770	-	105
Total liabilities		5,014	5,452	1,240	1,617

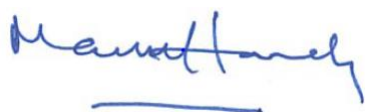
Consolidated and Company statement of financial position as at 31 December 2022 (continued)

		Group		Company	
		2022	2021	2022	2021
	Note	£'000	£'000	£'000	£'000
Capital and reserves attributable to owners of the parent					
Retained earnings at beginning of year		776	435	(2,696)	(2,702)
Cost of capital reduction in subsidiary		(2)	-	-	-
Profit/(loss) for the year		558	341	320	6
Retained earnings at end of year		1,332	776	(2,376)	(2,696)
Share capital	26	424	424	424	424
Share based payment reserve	26	58	6	58	6
Share premium	26	1,119	1,119	1,119	1,119
Total equity		2,933	2,325	(775)	(1,147)
Total equity and liabilities		7,947	7,777	465	470

The notes on pages 41 to 73 are an integral part of these Group financial statements.

The Company reported a profit for the financial year of £320,000 (2021: £6,000).

The Group and Company financial statements on pages 30 to 67 were approved by the Board of Directors on 17 April 2023 and were signed on its behalf by:



M W Hardy

Director

Registered number Scotland: SC005543

Consolidated and Company cash flow statement for the year ended 31 December 2022

		Group		Company	
	Note	2022	2021	2022	2021
		£'000	£'000	£'000	£'000
Cash flows from operating activities					
Operating Profit/(loss)		438	226	(1)	1
Depreciation	15,16	218	233	-	-
Amortisation	13	677	612	-	-
Share-based payment provision	7(b)	52	6	52	6
Movement in:					
Inventories	19	(92)	(151)	-	-
Trade and other receivables	20	86	(60)	47	(80)
Trade and other payables and contract liabilities	22,23	390	358	160	(36)
Cash generated from/(used in) operations		1,769	1,224	258	(109)
Interest paid		(16)	(20)	(4)	(3)
Corporation tax received		148	97	-	-
Net cash generated from operating activities		1,901	1,301	254	(112)
Cash flows from investing activities					
Addition of intangible assets	13	(565)	(460)	-	-
Investment in subsidiaries	14	-	-	(42)	(5)
Purchase of property, plant and equipment	15	(60)	(50)	-	-
Net cash used in investing activities		(625)	(510)	(42)	(5)
Cash flows from financing activities					
Cost of capital reduction in subsidiary		(2)	-	-	-
Dividend received from subsidiary		-	-	326	-
Repayment of business loan		(135)	(15)	(135)	(15)
Principal elements of lease payments		(178)	(182)	-	-
Net cash generated from financing activities		(315)	(197)	191	(15)
Net increase/(decrease) in cash and cash equivalents		961	594	403	(132)
Cash and cash equivalents at start of the year		2,515	1,921	(1,388)	(1,256)
Cash and cash equivalents at end of the year *	21	3,476	2,515	(985)	(1,388)

(* Net of overdrafts – see note 21 for reconciliation)

Notes to the Group financial statements for the year ended 31 December 2022

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 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated and Company financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The annual report and financial statements of the Company and the Group have been prepared in accordance with IFRS as adopted by the United Kingdom (IFRS), IFRS IC interpretations, the Companies Act 2006 applicable to companies reporting under IFRSs and the AIM rules for companies. The annual report and financial statements have been prepared under the historic cost convention.

The annual report and financial statements have been prepared on a going concern basis. 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 loss for the Company is detailed in the Statement of changes in shareholders' equity.

The presentational currency of the Group and Company is pounds sterling. The Company's functional currency is pounds sterling. All amounts included in these financial statements are rounded to the nearest thousand pounds sterling, except where explicitly stated otherwise.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

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 2022, the Group held unencumbered cash of £3,476,000 (2021: £2,515,000), after considering overdraft balances as presented in note 21. The company fully repaid Coronavirus Business Interruption Loan in July 2022 as the management decided this funding was no longer required. The Group still holds an undrawn £200,000 on demand overdraft facility as of 31 December 2022 (also £nil in April 2023).

Notes to the Group financial statements for the year ended 31 December 2022 (continued)

2 Summary of accounting policies (continued)

2.1 Basis of preparation (continued)

Going concern (continued)

The Touchstar management continues to demonstrate its ability to proactively respond to both internal and external challenges it faces, non-more so than those encountered over the past three years.

The directors remain confident in the business, the skillset employed in its dedicated staff, solid product set and loyal customer base.

External global economic challenges continue to impact business during 2022, nonetheless, Group sales increased on 2021 by over 10%, margins grew from 59.5% in 2021 to 61.7% in 2022 driven by richer margin sales and operational efficiencies, along with tight control of costs, resulted in a profit after tax of £558,000 (2021: £341,000).

The Group continues to benefit from a supportive bank who have provided the borrowing facility since 2005. Group has reduced its reliance on the facility provided by the bank and since the year end has placed £2,000,000 on deposit thereby generating cash via interest receivable. 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.

Changes in accounting policies and disclosures

New standards, amendments to standards or interpretations adopted by the Group and Company

The accounting policies adopted are consistent with those of the previous financial year.

The following standards became effective on 1 January 2020, and in the opinion of the Directors will not have a material impact on the Group's financial statements:

- IAS 1 Presentation of Financial Statements
- IAS 12 Income Taxes

Notes to the Group financial statements for the year ended 31 December 2022 (continued)

2 Summary of accounting policies (continued)

2.1 Basis of preparation (continued)

Changes in accounting policies and disclosures (continued)

New standards, interpretations and amendments not yet effective

At the date of approval of these financial statements, the following standards and interpretations which have not been applied in these financial statements were in issue, but not yet effective (and in some cases had not been adopted by the EU):

- Amendment to IFRS 3 Business Combinations – Reference to the Conceptual Framework – effective 1 January 2022*
- Amendments to IAS 37: Provisions, Contingent Liabilities and Contingent Assets – effective 1 January 2022*
- Annual Improvements to IFRS Standards 2018-2020 Cycle – effective 1 January 2022*
- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current and Amendments to IAS 1: Classification of Liabilities as Current or Non-current – Deferral of Effective Date – effective 1 January 2023*
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting Policies – effective 1 January 2023*
- Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors –Definition of Accounting Estimates – effective 1 January 2023*

*Not yet endorsed in the UK

2.2 Consolidation

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group.

The financial statements consolidate the accounts of Touchstar plc and all of its subsidiary undertakings. Intra-Group sales and profits are eliminated fully on consolidation.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Notes to the Group financial statements for the year ended 31 December 2022 (continued)

2 Summary of accounting policies (continued)

2.3 Segment reporting

In accordance with IFRS 8 operating segments are reported in a manner consistent with the internal reporting provided to the directors who are considered to be the chief operating decision makers (CODM). The CODM's, who are deemed to be the executive board i.e. Directors, are responsible for allocating resources and assessing performance of the operating segments, these have been identified as the Executive Board. The Executive Board considers that the Group comprises one segment, being the supply and maintenance of real time electronic data systems, and this is how results are reported to the Executive Board.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in sterling, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

2.5 Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to reduce an asset's cost to its residual value over its estimated useful life, as follows:

Plant and machinery	over 2-5 years
Fixtures, fittings, tools and equipment	over 4-5 years

Residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Notes to the Group financial statements for the year ended 31 December 2022 (continued)

2 Summary of accounting policies (continued)

2.6 Intangible assets

Development expenditure

Development expenditure is stated at historic cost less accumulated amortisation. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

- it is technically feasible to complete the intangible asset so that it will be available for use;
- management intends to complete the intangible asset and use or sell it;
- there is an ability to use or sell the intangible asset;
- it can be demonstrated how the intangible asset will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditure that does not meet the criteria is recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development expenditure is recorded as an intangible asset and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding five years (note 5).

2.7 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost relating to raw materials, consumables, work on progress and finished goods comprises actual costs incurred in bringing each product to its present location and condition within each trading subsidiary as follows:

- **Touchstar ATC Limited:**
Purchase cost and cost of direct materials using standard cost
- **Touchstar Technologies Limited:**
Purchase cost and cost of direct materials using first in/first out (FIFO) basis

The cost of work in progress and finished goods excludes direct labour and related production overheads as the directors consider that this element is not material.

Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Provision is made where necessary for obsolete, slow moving and defective inventory.

Notes to the Group financial statements for the year ended 31 December 2022 (continued)

2 Summary of accounting policies (continued)

2.8 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Under IFRS 9, effective from 1 January 2019, the Group elected to use the simplified approach to measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables and contract assets that result from transactions that are within the scope of IFRS 15, irrespective of whether they contain a significant financing component or not.

Under the new accounting standard, the Group continues to establish a provision for impairment of trade receivables when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the counterparty, probability that the counterparty will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. In addition, IFRS 9 requires the group to consider forward looking information and the probability of default when calculating expected credit losses. The measurement of expected credit losses reflects an unbiased and probability-weighted amount that is determined by evaluating the range of possible outcomes as well as incorporating the time value of money. The Group considers reasonable and supportable customer-specific and market information about past events, current conditions and forecasts of future economic conditions when measuring expected credit losses.

The amount of the provision is the difference between the carrying amount and the present value of estimated future cashflows of the asset, discounted, where material, at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the Income Statement within 'administrative costs'. When a trade receivable is uncollectable, it is written off against the allowance account for the trade receivables. Subsequent recoveries of amounts previously written off are credited against 'administrative costs' in the Income Statement.

They are included within current assets, except where the receivables are expected to be settled in more than 12 months in which case they are classified as non-current assets.

2.9 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts where applicable are shown within borrowings in current liabilities on the balance sheet and where appropriate the right of offset has been taken.

Notes to the Group financial statements for the year ended 31 December 2022 (continued)

2 Summary of accounting policies (continued)

2.10 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.11 Trade and other payables

Trade payables are obligations to pay for goods and services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less. If not they are presented as non-current liabilities.

Trade payables are recognised at fair value and subsequently held at amortised cost.

2.12 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Notes to the Group financial statements for the year ended 31 December 2022 (continued)

2 Summary of accounting policies (continued)

2.13 Current and deferred tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profits or losses. Deferred income tax is determined using tax rates (and laws) that have been substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.14 Employee benefits

(a) Pension obligations

The Group operates various pension schemes. The schemes are generally funded through payments to insurance companies. The Group has only defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity.

The Group pays contributions to privately administered pension insurance plans on a contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payment is available.

(b) Profit-sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

Notes to the Group financial statements for the year ended 31 December 2022 (continued)

2 Summary of accounting policies (continued)

2.15 Share-based payments

The group operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) of the group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted based on the performance of the group as defined in the Plan.

When the options are exercised, the company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

The grant by the company of options over its equity instruments to the employees of subsidiary undertakings in the group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with corresponding credit to equity in the parent entity accounts.

2.16 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value added tax, returns, rebates and discounts and after eliminating sales within the Group. All Group revenue is derived from contracts with customers.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the relevant entity and the Group has satisfied its performance obligations as laid out in contracts with its customers. Any revenue received from customers in advance of the Group satisfying its performance obligations is classified as a contract liability and carried in the Statement of Financial Position until it is appropriate to recognise the corresponding revenue (see note 23 Contract liabilities).

Revenue recognised over time relates to fixed term maintenance and software contracts and is recognised on a straight-line basis over the life of an agreement. All other revenue including but not limited to Installations, spares, repairs and system sales, relates to Group activities that are recognised at a point in time, with consideration falling due as performance obligations are satisfied within pre-existing credit terms (see note 4 Revenue).

Transaction prices are determined with reference to contracted consideration. No element of financing is deemed present as sales are typically made with 30-90-day credit terms, which is consistent with market practice. Where longer term arrangements do arise, the impact of the time value of money on contract liabilities is considered immaterial and therefore no adjustment is made to reflect this.

Notes to the Group financial statements for the year ended 31 December 2022 (continued)

2 Summary of accounting policies (continued)

2.17 Leases

The Group as a lessee

The Group assesses whether a contract is or contains a lease, at inception of a contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate based on rate provided by the Groups bankers, Barclays.

The lease liability is included in 'Payables' on the Statement of Financial Position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Company did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are included in the 'Intangible Assets', 'Tangible Fixed Assets' and 'Investment Property' lines, as applicable, in the Statement of Financial Position.

The Company applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in note 16.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Company has used this practical expedient.

2.18 Dividend distribution

Any annual final dividend is not provided for until approved at the Annual General Meeting, whilst interim dividends are charged in the period they are paid.

Notes to the Group financial statements for the year ended 31 December 2022 (continued)

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 (see note 13).

(b) Impairment of intangibles

Judgement is required in determining both the useful economic life of the asset along with any impairment, notably intangible software development costs. Useful economic life is based on the life expectancy of software licences and 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 (see note 13).

(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 (see note 19).

(d) Allowance for expected credit losses

The allowance for expected credit losses assessment requires a degree of estimation and judgement. It is based on the lifetime expected credit loss, grouped based on days overdue, and makes assumptions to allocate an overall expected credit loss rate for each group. These assumptions include recent sales experience, historical collection rates, the impact of the Coronavirus (COVID-19) pandemic and forward-looking information that is available.

After due consideration of the assumptions detailed above, no credit loss provision was considered necessary for the year ended 31 December 2022 (2021: nil) (note 20).

Notes to the Group financial statements for the year ended 31 December 2022 (continued)

4 Revenue

The Group has two trading subsidiaries, Touchstar ATC Limited and Touchstar Technologies Limited, however the Executive Board who are deemed to be the CODMs consider that both companies are engaged in the same market and therefore the Executive Board review the results of the Group as a whole.

Consequently, the Executive Board regard the Group as operating in one segment, being the supply and maintenance of real time electronic data systems. All of the Group's revenue, expenses, results, assets and liabilities are in respect of the supply and maintenance of real time electronic data systems and are presented on pages 30 to 34.

All revenue is generated within the UK.

4.1 Geographical information

	2022	2021
	£'000	£'000
UK	6,654	5,752
Europe	89	333
Rest of World	-	19
	6,743	6,104

4.2 Major customers

During the year ended 31 December 2022 approximately £803,000 (2021: £932,000) of the consolidated entity's external revenue was derived from sales to one customer.

4.3 Analysis of revenue

	2022	2021
	£'000	£'000
Recognised at a point in time	4,055	3,782
Recognised over time (recurring revenue) – note 23	2,688	2,322
	6,743	6,104

Notes to the Group financial statements for the year ended 31 December 2021 (continued)

5 Operating profit

	2022	2021
	£'000	£'000
Operating loss is stated after charging/(crediting):		
Depreciation:		
Owned assets (note 16(a))	60	77
Leased assets (note 16(b))	159	156
Development expenditure amortisation (note 13)	677	612
Share-based payment provision (note 5)	52	6
Research and development expenditure	464	475
Cost of inventories recognised as an expense	1,541	1,494
Write down of inventory as an expense	60	93
Staff costs – excluding share based payments (note 7)	2,578	2,366
(Profit)/loss on foreign exchange	(1)	(8)
Other operating income:		
HMRC Job Retention Scheme grant funding	-	44

6 Auditors' remuneration

During the year the Group obtained the following services from the Company's auditors at costs as detailed below:

	2022	2021
	£'000	£'000
Audit services:		
Fees payable to the Company's auditors for the audit of the Parent Company and consolidated financial statements	22	15
Fees payable to the Company's auditors for other services:		
Audit of subsidiaries pursuant to legislation	38	35
Other assurance services	3	3
	63	53

Notes to the Group financial statements for the year ended 31 December 2022 (continued)

7 Employee remuneration

(a) Employee benefits expense

The average monthly number of persons (including directors) employed by the Group and Company during the year was:

	Group	
	2022	2021
	Number	Number
Administrative, management and sales	38	35
Production and technical	15	15
	53	50
	2022	2021
	£'000	£'000
Staff costs for the above persons were:		
Wages and salaries	2,340	2,199
Social security costs	285	245
Other pension costs – defined contribution plans	121	109
Share-based payments provision	52	6
	2,798	2,553

As at 31 December 2022 the Group and Company had accrued pension costs of £29,000 (2021: £21,000). Staff costs are inclusive of capitalised salaries amounting to £220,000 (2021: £193,000).

(b) 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 performance conditions, are met pertaining to profit after tax and recurring revenue growth as defined in the Plan. 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.

Notes to the Group financial statements for the year ended 31 December 2022 (continued)

7 Employee remuneration (continued)

(b) Share-based employee remuneration (continued)

The number of options granted during the year and outstanding at 31 December 2022:

	Group	
	2022 Number	2021 Number
At 1 January	211,000	-
Granted during the year	211,000	211,000
At 31 December	422,000	211,000

The assessed fair value at grant date of options granted during the year ended 31 December 2022 was £0.30 per option (2021: £0.35). 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 2022 included:

Grant date	18 Nov 2021 Term A	18 Nov 2021 Term B	21 Sep 2022 Term A	21 Sep 2022 Term B
Vesting period ends	30 Jun 2023	30 Jun 2024	30 Jun 2024	30 Jun 2025
No of shares granted	105,500	105,500	105,500	105,500
Share price at date of grant	£0.85	£0.85	£0.775	£0.775
Volatility	50%	50%	33%	33%
Risk-free rate	1%	1%	3.3%	3.3%
Exercise price at date of grant	£0.85	£0.85	£0.775	£0.775
Exercise period ends	17 Nov 2031	17 Nov 2031	20 Sep 2032	20 Sep 2032
Weighted average remaining contractual life	6.06 years	6.06 years	6.15 years	6.15 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, £52,000 (2021: £6,000) 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.

Notes to the Group financial statements for the year ended 31 December 2022 (continued)

8 Directors' emoluments

	2022	2021
	£'000	£'000
Aggregate emoluments	301	292
Pension costs – defined contribution plans	-	-
	301	292

All three Directors are remunerated through the parent company.

The emoluments of the individual Directors were as follows:

	2022	2021
	£'000	£'000
Salaries and bonuses:		
I P Martin	50	50
M W Hardy	224	215
J L Christmas	27	27
	301	293

Salaries and fees are inclusive of car allowance for M W Hardy of £7,000 (2021: £2,000).

No directors receive contributions to any pension scheme.

During the year 31 December 2022 M W Hardy was awarded and paid a bonus amounting to £20,000 (2021: £16,000).

Of the 211,000 (2021: 211,000) share options granted during the year, 36,000 (2021: 40,000) were granted to M W Hardy. The share-based provision recognised during the year relating to the options granted to M W Hardy amounted to £9,400 (2021: £1,300).

Notes to the Group financial statements for the year ended 31 December 2022 (continued)

9 Key management compensation

Key management consists of the directors and three key departmental managers (2021: three).

	2022	2021
	£'000	£'000
Wages and salaries	545	552
Social security costs	70	69
Pension costs – defined contribution plans	34	23
	649	644

10 Finance costs

	2022	2021
	£'000	£'000
Interest and finance charges paid/payable for lease liabilities	12	17
Bank interest	4	3
Total Finance costs	16	20

11 Income tax credit

	2022	2021
	£'000	£'000
Corporation tax		
Current tax	-	(147)
Adjustments in respect of prior years	-	(5)
Deferred tax	(136)	18
Total tax credit	(136)	(134)

Corporation tax is calculated at 19% (2021: 19%) of the estimated assessable profit for the year. This is the weighted average tax rate applicable for the year.

Notes to the Group financial statements for the year ended 31 December 2022 (continued)

11 Income tax credit (continued)

Factors affecting the tax credit for the year

The tax credit for the year is same as (2021: same as) the standard rate of corporation tax in the UK of 19% (2021: 19%). The differences are explained below:

	2022	2021
	£'000	£'000
Profit before income tax	422	207
Multiplied by the standard rate of corporation tax in the UK of 19% (2021: 19%)	80	39
Effects of:		
Items not deductible for tax purposes	12	2
Enhanced research and development deduction	(225)	(213)
Adjustments in respect of prior years	-	(5)
Losses surrendered through R&D tax credit	-	46
Capital allowances claimed in year less than/(in excess of) depreciation	20	20
Previously unrecognised tax losses used to reduce current tax expense	5	(71)
Adjustment to deferred tax arising from changes in tax rate	(28)	48
Total tax credit for the year	(136)	(134)

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 2023). 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%.

Notes to the Group financial statements for the year ended 31 December 2022 (continued)

12 Earnings/(losses) per share

	2022	2021
Basic	6.58p	4.02p
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 (2021: 211,000) options with an exercise price of 77.5p (2021: 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:

	2022		2021	
	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	558	8,475	341	8,475
Adjusted EPS				
Earnings attributable to owners of the parent before share-based payment provision	610	8,475	341	8,475

Notes to the Group financial statements for the year ended 31 December 2022 (continued)

13 Intangible assets

	Group		
	Goodwill £'000	Development expenditure £'000	Total £'000
Cost			
At 1 January 2021	8,591	3,301	11,892
Additions	-	460	460
Disposal	-	(678)	(678)
At 31 December 2021	8,591	3,083	11,674
Additions	-	565	565
Disposal	-	(33)	(33)
At 31 December 2022	8,591	3,615	12,206
Accumulated amortisation			
At 1 January 2021	8,591	1,951	10,542
Amortisation charge	-	612	612
Disposal	-	(678)	(678)
At 31 December 2021	8,591	1,885	10,476
Amortisation charge	-	677	677
Disposal	-	(34)	(34)
At 31 December 2022	8,591	2,528	11,119
Net book value			
At 31 December 2022	-	1,087	1,087
At 1 January 2021	-	1,350	1,350
At 31 December 2021	-	1,198	1,198

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

Amortisation of £677,000 (2021: £612,000) is included within administrative expenses in the income statement.

Notes to the Group financial statements for the year ended 31 December 2022 (continued)

13 Intangible assets (continued)

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 future cashflows for 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.

Notes to the Group financial statements for the year ended 31 December 2022 (continued)

14 Investments

	Shares in subsidiary undertakings £'000
Cost	
At 1 January 2021	11,625
Addition	5
At 31 December 2021	11,630
Addition	42
At 31 December 2022	11,672
Accumulated amortisation	
At 1 January and 31 December 2022	11,625
Net book value	
At 31 December 2022	47
At 31 December 2021	5
At 1 January 2021	-

The additions in 2021 and 2022 relate to the share-based options granted to employees of the subsidiaries (note 7).

The Parent Company has the following wholly owned trading subsidiary undertakings, incorporated and operating in Great Britain, which are registered in England and Wales:

Name of company and registered address	Nature of business	Description of shares held
Touchstar Technologies Limited 7 Commerce Way, Trafford Park, Manchester, M17 1HW	Real time electronic data systems	100,000 ordinary £1 shares
Touchstar ATC Limited 7 Commerce Way, Trafford Park, Manchester, M17 1HW	Real time electronic data systems	140,000 ordinary £1 shares

Notes to the Group financial statements for the year ended 31 December 2022 (continued)

15 Property, plant and equipment

	Plant and machinery £'000	Fixtures, fittings, tools and equipment £'000	Total £'000
Cost			
At 1 January 2021	315	348	663
Additions	37	13	50
Disposals	(87)	(49)	(136)
At 31 December 2021	265	312	577
Additions	29	31	60
Disposals	(39)	(5)	(44)
At 31 December 2022	255	338	593
Accumulated depreciation			
At 1 January 2021	254	288	542
Charge for the year	36	41	77
Disposals	(87)	(49)	(136)
At 31 December 2021	203	280	483
Charge for the year	41	19	60
Disposals	(39)	(5)	(44)
At 31 December 2022	205	294	499
Net book value			
At 31 December 2022	50	44	94
At 31 December 2021	62	32	94
At 1 January 2021	90	85	175

Depreciation expenditure of £60,000 (2021: £77,000) is included within administrative expenses in the income statement.

Notes to the Group financial statements for the year ended 31 December 2022 (continued)

16 IFRS 16 Right of use assets

	Premises £'000	Motor vehicles £'000	Total £'000
Cost			
At 1 January 2021	577	213	790
Additions	-	76	76
At 31 December 2021	577	289	866
Additions	-	59	59
Disposal	(67)	(38)	(105)
At 31 December 2022	510	310	820
Accumulated depreciation			
At 1 January 2021	230	81	311
Charge for the year	82	74	156
At 31 December 2021	312	155	467
Charge for the year	82	77	159
Disposal	(67)	(38)	(105)
At 31 December 2022	327	194	521
Net book value			
At 31 December 2022	183	116	299
At 1 January 2021	347	132	479
At 31 December 2021	265	134	399

Depreciation expenditure of £159,000 (2021: £156,000) is included within administrative expenses in the income statement.

Notes to the Group financial statements for the year ended 31 December 2022 (continued)

17 (a) Financial instruments by category

The accounting policies for financial instruments have been applied to the line items below:

		Group		Company	
		2022	2021	2022	2021
	note	£'000	£'000	£'000	£'000
Financial assets					
Trade and other receivables	20	975	1,070	415	462
Cash and cash equivalents	21	4,461	3,903	-	-
Total		5,436	4,973	415	462

		Group		Company	
		2022	2021	2022	2021
		£'000	£'000	£'000	£'000
Financial liabilities					
Trade and other payables (excluding tax and social security payable)	22	1,491	1,332	255	94
Borrowings	24	985	1,523	985	1,523
Total		2,476	2,855	1,240	1,617

17 (b) Credit quality of financial assets

Credit risk is managed on a Group basis and arises from cash and cash equivalents and credit exposures to customers. For banks, only independently rated parties with a minimum rating of 'A' are acceptable. The Group has dealt with one (2021: one) bank during the year. For customers the directors consider that, based on the historical information about default rates and the current strength of customer relationships, a number of which are recurring long-term customers, the credit quality of financial assets that are neither past due nor impaired is good.

None of the financial assets that are fully performing have been renegotiated in the last twelve months.

Notes to the Group financial statements for the year ended 31 December 2022 (continued)

18 Deferred tax

18.1 Deferred tax asset

	Group		Company	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
At 1 January	81	63	3	3
Credited/(charged) to income	(35)	18	-	-
At 31 December	46	81	3	3

The deferred tax asset for the Group relates to unused tax losses of £904,000 (2021: £521,000).

18.2 Deferred tax liability

There has been a movement of £171,000 (2021: £36,000) in the deferred tax liability during the year.

	2022	2021
	£'000	£'000
At 1 January	251	215
(Credited)/charged to income statement	(171)	36
At 31 December	80	251

Deferred tax (liability)/asset analysis:

	2022	2021
	£'000	£'000
Amount in respect of fixed assets	(80)	(251)
Amount in respect of losses	46	81

Notes to the Group financial statements for the year ended 31 December 2022 (continued)

19 Inventories

	2022	2021
	£'000	£'000
Raw materials and consumables	669	480
Finished goods and goods for resale	393	469
Provision	(95)	(84)
	967	865

The cost of inventories recognised as an expense amounted to £1,541,000 included within cost of sales (2021: £1,494,000). Provisions of £60,000 were recognised in the income statement within cost of sales (2021: £93,000). No finished goods are held at fair value less cost to sell (2021: £nil).

20 Trade and other receivables

	Group		Company	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Trade receivables	768	882	6	-
Amounts owed by subsidiary undertakings	-	-	398	455
Prepayments and accrued income	207	188	11	7
Other debtors	-	-	-	-
	975	1,070	415	462

The amounts owed by subsidiary undertakings are interest free, unsecured and repayable on demand.

The fair value of trade and other receivables is the same as the book value. No provision for impairment of trade receivables has been made (2021: £nil).

Trade receivables that are less than three months past due are not considered impaired. As of 31 December 2021, trade receivables of £nil (2021: £nil) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2022	2021
	£'000	£'000
Up to 3 months past due	2	-

Notes to the Group financial statements for the year ended 31 December 2022 (continued)

20 Trade and other receivables (continued)

As of 31 December 2022, £nil of trade receivables (2021: £nil) were impaired and provided for. No bad debt expenses (2021: £nil) has been recognised in the income statement.

The carrying amount of the trade and other receivables denominated in the following currencies is:

	Group		Company	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Sterling	927	1,070	415	462
Euros	48	-	-	-
	975	1,070	415	462

The other classes within trade and other receivables do not contain impaired assets. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

21 Cash and cash equivalents

	Group		Company	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Cash at bank and in hand	4,461	3,903	-	-
Less: bank overdraft (included within borrowings note 24)	(985)	(1,388)	(985)	(1,388)
	3,476	2,515	(985)	(1,388)

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

Notes to the Group financial statements for the year ended 31 December 2022 (continued)

22 Trade and other payables

	Group		Company	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Trade payables	429	462		15
Other taxes and social security	587	453	118	26
Amounts owed to subsidiary undertakings	-	-	90	-
Other payables	63	50	-	-
Customer deposits	247	158	-	-
Accruals	165	209	37	53
	1,491	1,332	255	94

Amounts owed to subsidiary undertakings are interest free, unsecured and repayable on demand.

23 Contract liabilities

	2022	2021
	£'000	£'000
At beginning of year	1,934	1,662
Invoiced	2,920	2,594
Released to income statement	(2,688)	(2,322)
At end of year	2,166	1,934

The group has recognised the following liabilities related to contracts with customers:

Due to be released within one year	2,022	1,762
Due to be released in more than one year	144	172

Contract liabilities relate to unsatisfied performance obligations from maintenance and software licensing contracts.

Notes to the Group financial statements for the year ended 31 December 2022 (continued)

24 Borrowings

	Group		Company	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Current borrowings:				
Bank overdraft	985	1,388	985	1,388
Other loans	-	30	-	30
	985	1,418	985	1,418
	Group		Company	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Non-current borrowings:				
Bank overdraft	-	-	-	-
Other loans	-	105	-	105
	-	105	-	105

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 2022, the Group had total committed undrawn facilities of £200,000 (2021: £200,000).

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 2022, this represents the net cash balance of £3,476,000 (2021: £2,515,000) in Note 21.

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.

Notes to the Group financial statements for the year ended 31 December 2022 (continued)

25 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:

Notes	2022 £'000	2021 £'000
Right-of-use assets		
Buildings	183	265
Vehicles	116	134
16(b)	299	399
	2022 £'000	2021 £'000
Lease liabilities		
Current	157	169
Non-current	135	242
	292	411

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:

	2022 £'000	2021 £'000
Lease liabilities (undiscounted)		
Not later than one year	165	171
Between one year and five years	150	240
	315	412

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

Notes to the Group financial statements for the year ended 31 December 2022 (continued)

25 Leases (continued)

ii) Amounts recognised in the statement of profit or loss

	Notes	2022 £'000	2021 £'000
Depreciation charge of right-of-use assets			
Buildings		82	82
Vehicles		77	74
	6	159	156

The statement of profit or loss shows the following amounts relating to leases:

	2022 £'000	2021 £'000
Interest expense (included in finance cost)	12	17
Expense relating to short-term leases (included in administrative expenses)	22	18

26 Reserves

The following describes the nature of each reserve within equity:

Reserve	Description and purpose
<i>Share premium</i>	Amount subscribed for share capital in excess of nominal value.
<i>Share-based payment reserve</i>	Provision for options granted under the Group Enterprise Management Incentive Scheme.
<i>Retained earnings</i>	All other net gains and losses and transactions with owners (e.g. dividends) not recognised elsewhere.

Notes to the Group financial statements for the year ended 31 December 2022 (continued)

27 Share capital and share premium

Group and company	Number of shares (thousands)	Ordinary shares £'000	Share premium £'000	Total £'000
At 1 January 2022 and 31 December 2022	8,475	424	1,119	1,543

Group Information

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