

Universe Group plc

Annual Report 2008

Stock code: UNG





data smart



Universe Group plc

Established in 1991, Card Clear was admitted to the Alternative Investment Market (AIM) in 1995, and renamed Universe Group in January 2000.

Universe Group plc is incorporated in the UK and its main operations are in the UK, Ireland and Portugal.

Universe Group operates through two trading subsidiaries, HTEC Limited and Jet Set Wash Systems Limited.

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Highlights

- Successful establishment of JetSet and significant contract wins contribute £1.5 million to the revenue growth.
- Successful implementation of global 5-year on-line loyalty programme.
- Significant contract wins in Petrol Forecourt Solutions division.

Revenue

+26%

to £16.6m (2007: £13.2m)

Gross margin

Increases

to 38% (2007: 37%)

Loss after tax

Reduces

to £0.3m (2007: £1.9m)

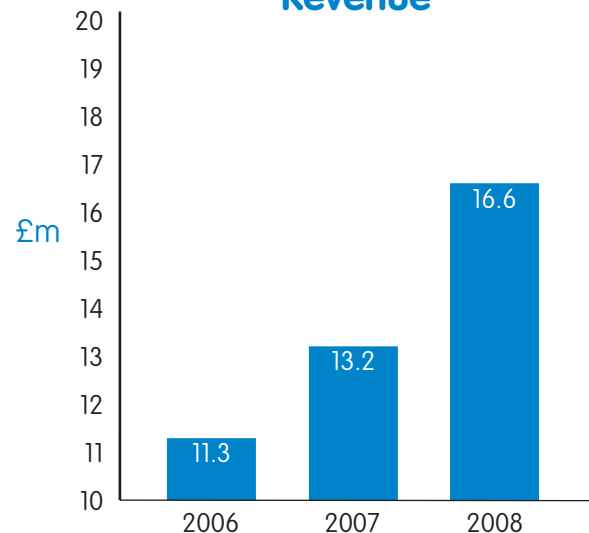
Loss per share

Reduces

to 0.30p (2007: loss of 1.85p)



Revenue



Group at a Glance

Petrol Forecourt Solutions

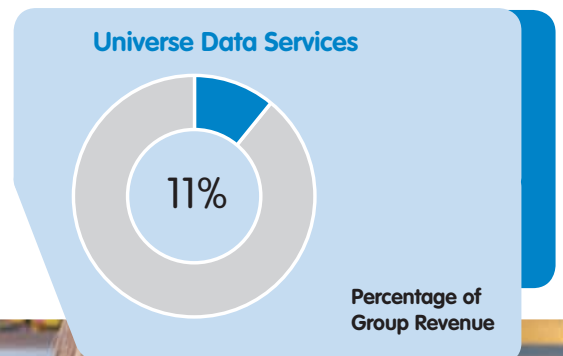
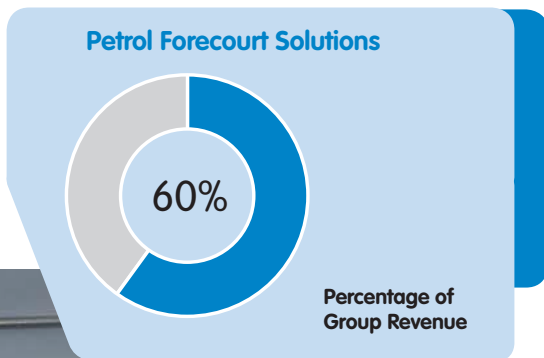
PFS provides managed services to the UK petrol forecourt market covering:

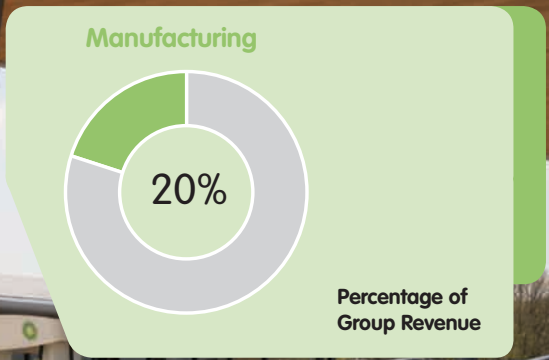
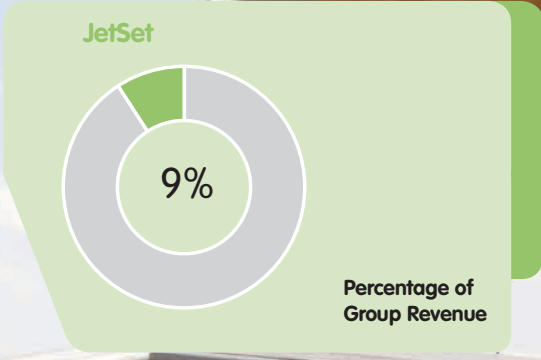
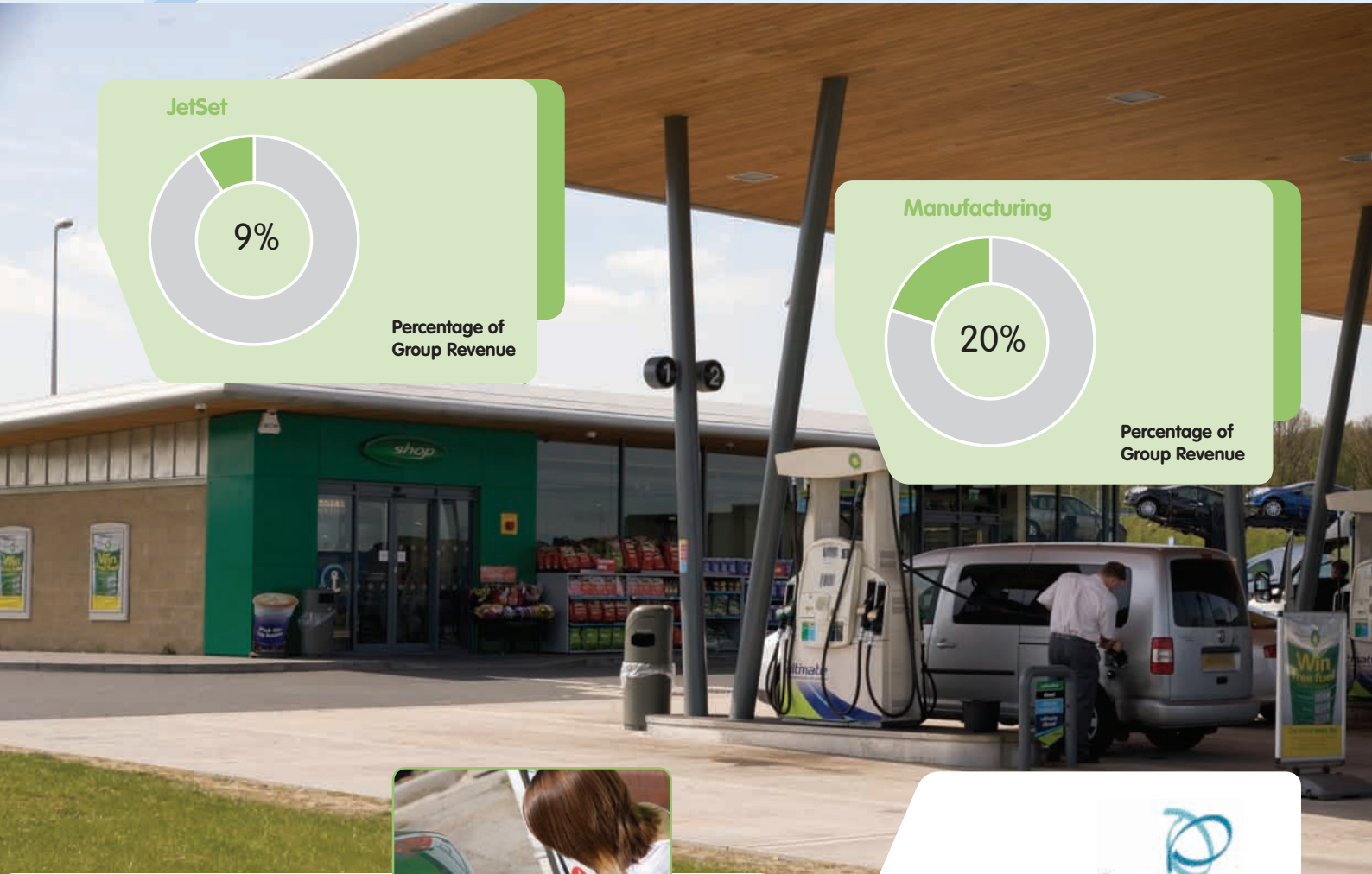
- Point of sale equipment,
- Fuel card acceptance solutions,
- Data analytics and back office systems,
- Outdoor payment terminals; and
- Automatic number plate recognition to prevent fuel theft.

Universe Data Services

UDS operates a PCIDSS approved data centre to an international client base, providing:

- On-Line loyalty solutions,
- Automatic number plate recognition barrier control systems,
- Payment processing solutions; and
- Data analytics.





JetSet

JetSet are market leaders in vehicle washing technology and ancillary forecourt equipment offering state-of-the-art technology and excellent service.

JetSet offers:

- Supply and maintenance of valeting equipment,
- Revenue share managed service programmes; and
- Environmentally friendly solutions.



Manufacturing

HTEC'S division operates from an ISO 9001 accredited facility and offers:

- Bespoke electrics solutions to a specialised customer base, comprising design and build capability; and
- Maintenance services for electronic payment terminals.

Chairman's Statement



"Two highlights of the year were the successful launch of an On-line Loyalty scheme for a major global oil company, and the contract wins secured by JetSet in its first year of operation."



Introduction

During 2008 Universe Group again grew strongly, continuing on the track established in the two previous years. Whilst we were disappointed to report an operating loss in the first half of the year, profitability showed a considerable improvement in the second half, along with further revenue growth.

Two highlights of the year were the successful launch of an On-Line Loyalty scheme for a major global oil company, and the contract wins secured by JetSet in what was its first year of operation.

2008 was also the year of the global banking debacle, and this played its part in restricting the growth of our operations as potential funding lines became more difficult to access. The Group's position in supplying mission critical systems to a blue chip customer base will mitigate the impact of the recession on our operations. However, even amongst our customers there are signs of capital expenditure being deferred.

Results and current trading

I am pleased to be able report that, after recording an operating loss for the first half of the year, the second half showed a considerable improvement in the profitability of the Group. Turnover in the latter six months again grew, by 11% compared to the first half of the year, and an adjusted operating profit of £0.9 million was generated in this second period.

Overall in 2008 we achieved an adjusted operating profit of £0.5 million* despite the loss experienced in the first six months. Whilst this was a 39% decrease on the adjusted operating profit for 2007, over half of the decrease relates to the loss incurred by the JetSet business in its start-up year. The statutory operating loss was £0.1 million (2007: loss of £1.6 million).

As was announced on 8th December 2008, JetSet's first year of trading has been adversely impacted by the banking crisis as it operates a business model that requires asset backed finance, which became increasingly difficult to secure through the latter months of 2008. Consequently, rollout programmes were delayed and both revenue and profitability targets in JetSet were missed. The impact of the success of JetSet in securing three major contracts during 2008 will start to come through as these roll out programmes are completed in 2009.

JetSet contributed 9% to the overall turnover growth of 26% (to £16.6 million), with the balance provided by the Petrol Forecourt Solutions division of HTEC. Turnover within this division grew by 31% to £9.9 million as a result of the roll out of hardware to the major customers.

The main event within the Universe Data Services division was the launch, in the last few weeks of the year, of the On-Line Loyalty system

for a major oil company. Taking this system live had been delayed for nearly a full year by factors outside of our control. The success of this launch offers the potential for further growth of this account, and for expansion into new retail markets and geographic locations.

Board of Directors

As already announced, Eddie Paul stepped down as Finance Director at the end of 2008. Eddie has provided excellent service to Universe for many years, and he leaves the Board with our thanks. Whilst no longer a Director, Eddie continues to serve as our Company Secretary.

At the beginning of 2009 we welcomed Bob Smeeton to the Board, replacing Eddie as Finance Director. Bob's experience in technology services and manufacturing companies has already contributed greatly to the Group.

Dividend

We continue to be strongly focused on growth and require sufficient financial resources to deliver that growth. The tightening of credit markets in 2008 and into 2009 means that those resources will largely be internally generated. Consequently, we do not recommend paying a final dividend for the year. We will review the position regarding future dividend payments in the context of the performance of the Group.

Prospects

In 2009, the Board's focus will be on driving profitability in our four trading divisions, by growing turnover, improving product mix and carefully controlling costs.

As already mentioned, we are seeing signs of our customers delaying decisions on capital expenditure. Consequently, we have taken steps to reduce the fixed cost base of the Group and since the year end have implemented a headcount reduction programme of 15%, mainly within the Manufacturing division.

In the current economic climate, each of the four divisions will have its own challenges, but I am confident that we will build on the progress that has already been made.

John Scholes

Chairman
28th April 2009

* Before exceptional costs comprising restructuring costs of £0.5 million and costs of £0.1 million relating to stock obsolescence as a result of EU legislation (2007: Before exceptional costs comprising impairment of development costs of £2.3 million and restructuring costs of £0.1 million).

Chief Executive's Report

Introduction

2008 saw a continuation of the strategy to grow top line revenue through increased sales and marketing of a better defined product set. The Group's major market in petrol forecourt retailing continues to be dominated by a small number of specialised companies. Universe's main subsidiary HTEC has maintained and grown its leading position in the UK as a supplier of payment and loyalty systems, supported by robust service management and the supply of business analytics. The new JetSet subsidiary has won some very impressive contracts in its first year, with oil companies and major retailers. Our focus is still on increasing our percentage of business with strong recurring revenue streams.

Financial Performance Review

Group revenues at £16.6 million (2007: £13.2 million) showed a 26% increase, with an adjusted operating profit of £0.5 million (2007: £0.8 million) down on the prior year mainly due to start up losses of £0.2 million at JetSet and investment for revenue growth. Revenue growth was strongest in the Petrol Forecourt Solutions division, where year on year growth was an impressive 31%. Gross margins for the Group increased slightly to 38% (2007: 37%) overall as the move from low margin manufacturing continued.

The Board will continue to monitor revenue growth, operating profit and customer satisfaction as key performance indicators. Service excellence has become an essential element in customer retention, and no major customer was lost in 2008.

Balance Sheet, Cash Flow, Banking Facilities and Going Concern

At the start of 2008 the HBOS funding lines were refreshed and increased to allow for the planned acquisitions necessary to create the JetSet division. In addition, asset based finance was used to fund the acquisition of IT equipment necessary for the On-Line Loyalty programme development.

Later in the year securing asset based financing to fund the JetSet roll out programmes was a major challenge, and resulted in fixed asset expenditure being largely self funded from working capital resources.

As a result of the growth in the business and acquisitions, borrowings increased from £1.8 million to £3.2 million over the course of 2008. Operational cash flows generated income of £0.8 million in 2008, an improvement of £1.2 million on the cash outflow reported in 2007. This, along with cash generated from the increase in borrowings of £1.3 million, was used to invest in JetSet equipment and the development of the software products in HTEC. The positive cash flows now being generated by JetSet equipment and the On-Line Loyalty programme will serve to reduce these borrowings over the course of 2009.

During 2008 the Group was in breach of certain of its banking covenants. These breaches were subsequently waived by HBOS and amendments were made by HBOS to the financial covenants. These amendments to the covenants will ensure that the Group remains in compliance with its bank facility requirements over the coming 12 months based on the financial forecasts set for the business during this period, and which

management believe will be achieved despite the continuing difficult economic conditions. As a result, the Directors have continued to adopt the going concern basis in preparing the financial statements.

Senior Management

A well-balanced management group suitable to drive significant growth is now in place, and includes experienced executives taken from the petroleum retailing sector and wider IT services sector. The accumulated knowledge of these managers is framing our managed service business approach.

Bob Smeeton joined HTEC in June 2008 and was appointed Group Finance Director of Universe Group plc on 1st January 2009. Bob was previously European FD of the AIM quoted Opsec Security Group plc. He will lead the finance team through a period of systems upgrade and financial control development to underpin the Group's growth plans.

The Group's divisional reporting structure now produces a focus and measurement to enable the managers to deliver the growth potential. There are three divisions within HTEC:

1. Petrol Forecourt Solutions ('PFS'), dealing with petrol retailers' point of sale, payment and business intelligence systems.
2. Universe Data Systems ('UDS'), specialising in on-line loyalty and payment systems.
3. Manufacturing ('CEM'), handling subcontract design, development, manufacturing and repair services both for other divisions and third parties.

And:

4. JetSet, which is the new venture based in Bedford, manufacturing and selling forecourt valeting equipment. A revenue share model for placement of JetSet owned equipment on a petrol forecourt site is operated, alongside a traditional sales strategy, to ensure regular income from contracts up to 5 years in length.

Petrol Forecourt Solutions

HTEC has occupied a prominent position in the UK forecourt managed services market for a number of years and its systems currently run the petrol forecourts of two major supermarket chains. Over one-third of all UK forecourts rely on HTEC systems. The core of the business is the supply of point of sale ('POS') and payment systems. Investment has been made during the year to expand and repack the system elements to allow for expansion into a channel sales model, sitting alongside the traditional direct sales force. Development of the software continues, both to improve functionality for the growing convenience store market and to facilitate the roll out of foreign language versions.

HTEC has a wide range of end to end approvals to handle bank and fuel payment cards, and will continue to maintain this market leading position. HTEC's payment terminals are recognised as some of the most secure within the industry, meeting the challenges posed constantly from card fraud criminals.

The revenue growth of 31% to £9.9 million (2007: £7.6 million) during the year was mainly attributable to continued success in deploying outdoor payment terminals ('OPTs') into the UK market. This is driven by the desire for faster forecourt throughput and unattended 24-hour stations. We continue to pursue partnering opportunities to expand into export markets and see this as an important strategy for continued growth. The UK market is a mature market and the excellent recurring revenue streams provide the solid base of the Universe business.

Universe Data Services

During the latter part of 2008 UDS began the roll out of what is believed to be the largest and only truly global real time loyalty scheme on behalf of a major US oil company. The web based system is now live in four European countries with licence arrangements for many more to come on stream in future periods. In excess of 100 million transactions are forecast to be processed by our data centre for the first year and significant ongoing revenue streams will accrue from the initial five year agreement.

Good progress has been made during the year to establish UDS outside of the petrol and oil industry. An agreement has been reached with RAPP, a leading global marketing and advertising company, for them to feature UDS's loyalty software as their preferred partner solution. As a true global agency, RAPP give Universe excellent exposure in a wider market.

The segmental reporting breakdown shows an increase in revenue of 26% for the year but a divisional loss. Customer dictated roll out delays, on the large contract referred to above, resulted in lower revenue than anticipated. At the same time, investment in sales and marketing in UDS increased the cost base, resulting in a small loss at the divisional level. In 2009, the division will benefit from income derived from the major global loyalty roll out which will return UDS to profit.

Long sales cycles are a feature of loyalty systems projects, but the growing number of exciting opportunities presenting themselves indicates strong future potential based on a recurring revenue model.

Development continued on the number plate recognition software ('ANPR') to upgrade the software ready for sale through channel partners whilst using the HTEC data centre to hold and process data. Links are being established to police databases to enhance the system capability. The rapidly increasing market for surveillance and security products provides a growing sales opportunity for future years. The product range now includes car park barrier control and visitor systems. Both our hypermarket customers use ANPR to prevent non-payment from drive offs at their petrol forecourts.

Manufacturing

Revenue was down to £3.3 million (2007: £4.1 million) with a gross margin of 17% (2007: 12%). The revenue decline was as a result of customers transferring production to China. For 2009 the cost base has been significantly reduced to return the division to profitability but in the current economic climate, no immediate growth is forecast.

JetSet

The acquisition of the trade and certain assets of an established industry manufacturer, AIB Services Limited, based in Bedford, enhanced this new venture, which was started in 2007. The concept of revenue share from equipment owned by the supplier and sited on the customers' premises resulted in the winning of contracts from three major petrol retailers during 2008. The cross selling opportunity from other Universe business units is clearly demonstrated here. All equipment was manufactured in the Bedford facility and some 530 units had rolled out by the year end. The integration of the Bedford operation, increased costs and delayed equipment placement, resulted in a loss for the year of £0.2 million for the division.

The major constraint on the business was the sudden and unprecedented withdrawal of asset backed finance facilities from a number of banks which had agreed drawdown facilities prior to the credit crisis in the banking sector. JetSet would have moved into profit had finance been available to roll out orders as planned.

Despite its initial losses JetSet has won prestigious contracts and has excellent future growth potential.

Outlook

Today, Universe provides mission critical services to two of the UK's hypermarket groups and all five of the major oil companies in Europe. The 2008 Retail Marketing Survey from the Energy Institute concluded that the previous steady decline in petrol forecourts had finally reversed with a modest increase in sites to 9,283 (2007: 9,271). The Group is well placed to serve the dominant retailers in the sector. Currently the Payment Card Industry Data Security Standard approved data centre handles £8 billion worth of EFT transactions per year and has loyalty schemes with up to 14 million members operating in a real time environment.

2008 saw emphasis placed on investment in areas that will provide the Group's future growth. The recruitment of new sales staff and increased marketing added £0.6 million to the cost base, particularly in PFS and UDS. The changed economic climate persuaded the Board in early 2009 that it would be prudent to remove some cost to deliver the results currently expected by the market. The savings were mainly from reductions in the manufacturing workforce and engineering support teams for end of life products.

I am confident that the management team will continue to deliver sustained year on year growth.

Paul Cooper

Chief Executive Officer
 28th April 2009

Directors and Advisers

Non-Executive Chairman

John Scholes

John Scholes is Chairman and Chief Executive of The Catalyst Group International Limited, a privately owned business providing corporate development advisory services to companies across the technology industry from its offices in the UK, USA, France and Germany. John has been closely involved in advising the boards of many businesses in the last ten years.

Executive Directors

Paul Cooper — Chief Executive Officer

Paul Cooper became Chief Executive on 1st January 2007 having previously been appointed a Non-Executive Director on 8th September 2006. Paul qualified as a chartered accountant with Deloitte before taking up Finance Director roles in industry. Much of his business career has been spent in high tech manufacturing companies including as European Head of Eltron International Limited and Comtec Information Systems Limited. As Group Managing Director of Blazepoint Group plc from June 2000 to March 2003, he led the company's AIM flotation.

Bob Smeeton — Finance Director

Bob Smeeton joined Universe earlier this year as the finance director of HTEC Limited, the Company's principal operating subsidiary. Bob, who qualified as a chartered accountant whilst at Price Waterhouse, was previously at OpSec Security Group PLC, an AIM quoted company, latterly as its European Finance Director.

Non-Executive Directors

Barrie Brinkman

Barrie Brinkman joined the board of HTEC in 1987 and has over 30 years of electronics and software design experience with a number of companies including City Business Products Limited, a subsidiary of British Telecommunications plc. He joined the Universe Group Board in February 1998 following the Company's acquisition of HTEC.

Malcolm Coster

Malcolm Coster joined the Universe Group Board in August 2007 and is an experienced businessman who has held senior international positions in the Management Consultancy and Information Technology industries. Malcolm is an experienced Chairman, Board Member and Non-Executive Director of several well known public companies. Other current positions include Chairman of DMW Group, a technology consultancy specialising in large-scale project and programme management.

Directors

J R Scholes (Chairman)
P Cooper
B L Brinkman
E M Paul (resigned 1/1/09)
M Coster
R J Smeeton (appointed 1/1/09)

Secretary

E M Paul

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Auditors

Deloitte LLP
Southampton
SO15 2BZ

Solicitors

Fox Williams LLP
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London
EC2M 2EE

Bankers

Bank of Scotland
144/148 High Street
Southampton
SO14 2JF

Registrars

Capita Registrars
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Woodsome Park
Fenay Bridge
Huddersfield
HD8 0LA

Registered Number

2639726

Directors' Remuneration Report

The Company is not required to comply with Schedule 7A of the Companies Act 1985 or the Listing Rules of the Financial Services Authority as its shares are traded on AIM; the following disclosures are therefore made on a voluntary basis.

UNAUDITED INFORMATION

The Remuneration Committee

The Remuneration Committee consists of the Non-Executive Directors of the Company. The role of the Committee is to determine, on behalf of the Board, the Company's policy on Executive Directors' and other senior employees' remuneration, within set written terms of reference approved by the Board. The remuneration of the Non-Executive Directors is approved by the Board of Directors. As Chairman of the Committee, I have been asked by the Board to report to you on all remuneration matters on its behalf.

Remuneration Policy

The remuneration policy of the Company is:

- to provide a suitable remuneration package to attract, motivate and retain Executive Directors who will run the Company successfully; and
- to formulate a package that will include a significant proportion of performance related pay and to align the Directors' personal interests to those of the shareholders.

Other than as disclosed at note 30 and as shareholders, none of the Committee has any personal financial interest, conflicts of interest arising from cross-directorships or day-to-day involvement in running the business. The Committee makes recommendations to the Board. No Director plays a part in any discussion about their own remuneration. The Remuneration Committee members are expected to draw on their experience to judge where to position the Company, relative to other companies' rates of pay, when considering remuneration packages for Executives. The committee

may use outside professional advice if they consider it necessary. No such advice has been sought during the year or preceding year.

Benefits in kind include the provision of medical insurance premiums and a car or car allowance. Two Executive Directors participate in the Company's pension plan. The pension contributions represent the Company's contribution to defined contribution pension plans. Bonuses and benefits in kind are not pensionable.

All of the Executive Directors have service contracts, which provide for notice periods of no more than one year. All the Non-Executive Directors have service contracts, which provide for notice periods of three months.

The Remuneration Committee recognises the importance of appropriate incentive arrangements in assisting with the recruitment and retention of senior executives. The Remuneration Committee believes that share-based incentives align the interests of employees with those of shareholders but recognises that options to acquire shares at their market value on the date of grant are not always the most appropriate way to achieve this.

An EMI option scheme was set up on 27th June 2007 for the Executive Directors of Universe Group plc and an unapproved option scheme was set up for the Non-Executive Chairman of Universe Group plc on 27th June 2007. These options will lapse if (a) the Directors leave employment for any reason other than a 'Good Reason' as defined within the schemes and (b) at the end of the tenth anniversary of the Date of Grant.

The Group also operates a Long Term Incentive Plan ("LTIP") for employees (including certain Executive Directors) selected by the Board (but taking account of the recommendations of the Remuneration Committee). The LTIP operates by issuing matching shares in respect of qualifying share purchases by certain Directors and employees. No such shares were issued during 2008.

Directors' Detailed Emoluments

	Salary & fees £'000	Benefits £'000	Bonus £'000	Pension £'000	2008 £'000	2007 £'000
Executives						
P Cooper	120	6	—	11	137	94
E M Paul	80	7	—	8	95	95
Non-Executives						
J R Scholes	32	—	—	—	32	51
B L Brinkman	20	—	—	—	20	20
M Coster	25	—	—	—	25	9
	277	13	—	19	309	269

As disclosed at note 30 two Directors, John Scholes and Malcolm Coster, earned interest on loans provided to HTEC Limited and Jet Set Wash Systems Limited, two of the Group's subsidiaries.

Directors' Share Options

Details of share options held by Directors over the ordinary shares of the Company are set out below. The Remuneration

Committee considers and recommends all new long-term incentive arrangements for the Executive Directors and other employees.

The market price of the Company's shares at the end of the financial year was 2.25p per 5p share (2007: 6.4p per 5p share) and the range of market prices during the year was between 2.25p and 6.4p.

	Scheme	At 1st Jan 2008	Granted	Exercised	Lapsed	At 31st Dec 2008	Exercise price
J R Scholes	Unapproved	1,250,000	—	—	—	1,250,000	8p
P Cooper	EMI	1,250,000	—	—	—	1,250,000	8p
E M Paul	EMI	625,000	—	—	—	625,000	8p
		3,125,000	—	—	—	3,125,000	

Directors' share options are exercisable from the date of grant, being 27th June 2007, and expire ten years from the date of grant.

Interests in Shares

Interests in shares have been disclosed in the Directors' Report on page 15.

On behalf of the Board

J Scholes

Chairman of the Remuneration Committee
 28th April 2009

Corporate Governance Report

The Board is accountable to the Company's shareholders for good governance and this statement describes how the principles of good corporate governance are applied by the Company.

The Group is not required to comply with the Combined Code on Corporate Governance issued by the UK Listing Authority, and does not currently comply with all of its requirements. However, the Group does voluntarily comply with many of the requirements of the Combined Code as described in this statement and the Directors' Remuneration Report.

The Board

As at the date of the signing of these accounts, the Board comprises two Executive Directors and three Non-Executive Directors.

The Board meets formally at least ten times a year and full information is given to the Directors to enable the Board to function effectively and to allow the Directors properly to fulfil their responsibilities. Board papers are usually distributed four days in advance of meetings and decisions may be deferred if Directors require further information to be made available to them. The Company Secretary is responsible to the Board for the timeliness of the information provided to it.

Board Committees

In furtherance of the principles of Corporate Governance the Board has appointed the following Committees, each of which has formal terms of reference. The membership of the Committees is shown below.

Audit Committee

The Audit Committee, comprising the Non-Executives, is chaired by John Scholes and meets two or three times a year with the Executive Directors and representatives of the Auditors in attendance as required. The Committee assists the Board in the discharge of its duties concerning the announcements of results and the Annual Report and Accounts and the maintenance of proper internal controls; it reviews the Auditors' findings and considers Group accounting policies and the compliance of those policies with applicable legal and accounting standards.

Remuneration Committee

The Remuneration Committee, comprising the Non-Executive Directors under the chairmanship of John Scholes, sets the Group's overall remuneration policy. It determines, on behalf of the Board, the remuneration and other benefits of the Executive Directors. It meets on a regular basis, usually twice a year and additionally whenever required. The Directors' Remuneration Report is set out on pages 10 and 11.

Internal Controls

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

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

Directors' Report

The Directors present their report and the audited accounts for the year ended 31st December 2008.

Principal Activities

The principal activity of the Company is as a holding company, with two main trading subsidiaries, HTEC Limited ('HTEC') and Jet Set Wash Systems Limited ('JetSet'). HTEC is engaged in the provision of managed services, payment and loyalty systems for the Petrol Forecourt and Retail sector. HTEC continues to invest in developing new equipment and systems for its markets. JetSet was established in late 2007, focusing on the provision of car wash and valeting services.

Result for the Year

For 2008 there was an operating profit before exceptional items of £516,000 (2007: £842,000). The Company's loss for the year after interest and exceptional items was £484,000 (2007: loss of £1,882,000).

Business Review

A review of business in 2008 is included in the Chief Executive's Report on pages 6 and 7.

Key performance indicators ('KPIs')

There are three main KPIs that management monitor within the Group:

- The order inflow at HTEC and JetSet each day to ensure that annual sales forecasts are on schedule.
- Detailed cost of sales documents, which are prepared each month in order that forecast product margins are achieved.
- Performance against contracted service level agreements ('SLAs').

The performance against these KPIs is discussed in the Chief Executive's Report on page 6.

Principal risks and uncertainties facing the Company

Despite the current economic environment, the market for petrol forecourts equipment and services remains steady. The Group has been adversely impacted by the availability of asset based lending necessary to fund the expansion of its JetSet operations. Whilst these funding restrictions persist the expansion of JetSet is likely to be slower than would be possible in more normal credit markets.

A discussion of the market, liquidity and credit risks in relation to financial instruments held within the Group takes place in note 20.

Going Concern

UK Company Law requires Directors to consider whether it is appropriate to prepare the financial statements on the basis that the Company and Group are going concerns. Throughout the financial statements there are various disclosures relating to going concern. The Directors' report summarises the key themes and references those areas where greater disclosure is given.

The Group has good visibility of recurring revenues, which make up a significant proportion of annual revenues. However the Group does still have some exposure to current economic conditions which have the potential to impact annual revenues. The Directors have therefore prepared downside sensitised forecasts for the current and following years and have implemented a cost reduction programme in order to improve operational gearing.

The Group's main sources of finance are a bank loan, finance leases and invoice discounting. The year end amounts outstanding on each are disclosed within note 18. In addition to this, the Group has a £0.1 million overdraft facility that is not currently in use. The bank loan has several covenants attached that, if breached, give the lender the option to immediately recall the funding. During the year the Group breached these covenants on two occasions, although these breaches were waived by the lender. Further details are disclosed within note 18 to the financial statements.

The downside sensitised forecasts have been reviewed by the Directors to ensure that the profit and cash generation derived from these forecasts are sufficient to meet the covenants associated with the banking facilities, and to ensure that those facilities are sufficient to meet the Group's requirements. This is discussed further within liquidity risk in note 20 and is the key uncertainty relating to going concern.

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

Financial instruments

Information about the use of financial instruments by the Company and its subsidiaries, and the Group's financial risk management policies is given in note 20.

Environment

The Company's policy with regard to the environment is to ensure that the Group's operational subsidiaries understand and effectively

Directors' Report (continued)

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

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

The Company continues to be impacted by the introduction in 2006 of the EC Directive on the Restriction of the use of Certain Hazardous Substances in Electrical and Electronic Equipment. The RoHS Directive seeks to prevent the use of hazardous substances such as lead, mercury, cadmium and Polybrominated Biphenyls (PBBs) in the production of electrical and electronic equipment. Stock costing £93,000 (2007: £nil) that does not comply with the RoHS directive, but which originally was being used for exempt activities, has been written off during the year.

The Company is committed to minimising its environmental impact wherever possible and consequently from 2009 e-Communications are to be introduced in order to provide members of the Company interim and annual results, and AGM and other notices.

Employees

The quality and commitment of the Group's employees has played a major role in the success of HTEC over many years and JetSet over the last year. This has been demonstrated in many ways, including improvements in customer satisfaction, the development of new product lines and the flexibility employees have shown in adapting to changing business requirements and new ways of working. Employee turnover remains below the 10% target set by the Executive Directors.

Research and development

The Company has a continuing commitment to a high level of research and development. During the year expenditure on research and development of £967,000 (2007: £813,000) was charged to the Consolidated Income Statement. In addition, development costs of £569,000 (2007: £650,000) were capitalised. Research and development in the year concentrated on development of the online loyalty and back-office products.

Dividends

The Directors do not propose the payment of a dividend (2007: £nil).

Supplier payment policy

The Group's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction, ensure that suppliers are made aware of the terms of payment and abide by the terms of payment.

Trade creditors were equivalent to 62 (2007: 60) days' purchases, based on the average daily amount invoiced by suppliers during the year.

Capital structure

Details of the authorised and issued share capital, together with details of the movements in the Company's issued share capital during the year, are shown in note 22. The Company has one class of ordinary shares which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Company.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

Details of employee share schemes are set out in note 28. No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

Directors' indemnities

The Company has made qualifying third party indemnity provisions for the benefit of its Directors. These provisions remain in force at the date of this report.

Annual General Meeting

The resolutions to be processed at the Annual General Meeting to be held on 11th June 2009, together with explanatory notes, appear in the separate Notice of Annual General Meeting sent to all shareholders.

Substantial shareholdings

As at 15th April 2009 the Company had been notified of the following substantial holdings in the ordinary share capital of the Company:

Shareholder	No. of ordinary shares	% of voting rights and issued share capital
Ennismore Fund Management	18,217,122	15.9
R J Mackie	9,075,064	7.9
Barclays Wealth	6,807,267	5.9
Rathbone	6,138,595	5.4
J R Scholes	5,691,960	5.0

Post-balance sheet events

Subsequent to the year end the Group has embarked upon a cost reduction programme in response to the current economic environment. Details of the programme are set out within note 32.

Directors

The Directors who served throughout the year were as follows:

J R Scholes (Chairman)
P Cooper
B L Brinkman
E M Paul (resigned 1st January 2009)
M Coster

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

	Ordinary shares of 5p each	
	2008 No.	2007 No.
J R Scholes	5,691,960	690,000
P Cooper	388,460	215,000
B L Brinkman	886,147	886,147
E M Paul	204,951	204,951
M Coster	500,000	250,000

Subsequent to the year end, on 1st January 2009, Bob Smeeton was appointed to the Board, at which date he held an interest in 79,160 ordinary shares of the Company.

Subsequent to the year end Paul Cooper acquired a further 111,540 ordinary shares giving him an interest in 500,000 ordinary shares.

The Directors had no other disclosable interest under the Companies Act 1985 in the shares of the Company or of any other Group company.

Details of the Directors' share options are provided in the Directors' remuneration report on page 11.

In accordance with the Articles of Association, Barrie Brinkman offers himself for appointment at the forthcoming Annual General Meeting.

Statement of Directors' responsibilities for the financial statements

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

Company law requires the Directors to prepare financial statements for each financial year. The Directors are required by the IAS Regulation to prepare the Group financial statements under IFRSs as adopted by the European Union and have also elected to prepare the Parent Company financial statements in accordance with IFRSs as adopted by the European Union. The financial statements are also required by law to be properly prepared in accordance with the Companies Act 1985.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the Preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

Directors' Report (continued)

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's web site. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Disclosure of information to Auditors

At the date of making this report each of the Company's Directors, as set out on page 9, confirms the following:

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

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

Auditors

On 1st December 2008 Deloitte & Touche LLP changed its name to Deloitte LLP. A resolution to reappoint Deloitte LLP will be proposed at the forthcoming Annual General Meeting.

Approval

The report of the Directors was approved by the Board on 28th April 2009 and signed on its behalf by:

P Cooper
Director

Independent Auditors' Report to the Members of Universe Group plc

We have audited the Group and Parent Company financial statements ("the financial statements") of Universe Group plc for the year ended 31st December 2008 which comprise the consolidated income statement, the Group statement of recognised income and expense, the Group and Company statement of changes in equity, the Group and Company balance sheets, the Group and Company cash flow statements and the related notes 1 to 32. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 Auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31st December 2008 and of its loss for the year then ended;
- the Parent Company's financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the Parent Company's affairs as at 31st December 2008;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Deloitte LLP

Chartered Accountants & Registered Auditors
 Southampton, United Kingdom
 28th April 2009

Consolidated Income Statement year ended 31st December 2008

	Notes	Before exceptional items £'000	Exceptional items £'000	2008 Total £'000	2007 Total £'000
Continuing operations					
Revenue	2, 3, 4	16,556	—	16,556	13,186
Cost of sales		(10,188)	—	(10,188)	(8,247)
Gross profit		6,368	—	6,368	4,939
Administrative expenses	2, 5	(5,852)	(627)	(6,479)	(6,512)
Operating profit/(loss)	2	516	(627)	(111)	(1,573)
Finance costs	5, 6	(353)	(20)	(373)	(309)
Profit/(loss) before taxation		163	(647)	(484)	(1,882)
Taxation	8			139	—
Loss for the year attributable to equity shareholders	7			(345)	(1,882)
Loss per share					
Basic and diluted	9			(0.30)p	(1.85)p

Consolidated Statement of Recognised Income and Expense year ended 31st December 2008

	2008 Total £'000	2007 Total £'000
Exchange difference on translation of foreign operations	(35)	—
Net expense recognised directly in equity	(35)	—
Loss for the year	(345)	(1,882)
Total recognised income and expense for the year attributable to equity shareholders	(380)	(1,882)

Statement of Changes in Equity

year ended 31st December 2008

Group	Share capital £'000	Equity reserve £'000	Share premium £'000	Merger reserve on acquisition £'000	Translation reserve £'000	Profit and loss £'000	Total equity £'000
At 1st January 2008	5,747	110	10,753	8,603	(181)	(5,501)	19,531
Shares issued (see note 22)	(12)	—	—	—	—	—	(12)
Loss for the year attributable to equity shareholders	—	—	—	—	—	(345)	(345)
Translation difference	—	—	—	—	(35)	—	(35)
At 31st December 2008	5,735	110	10,753	8,603	(216)	(5,846)	19,139
At 1st January 2007	3,281	—	10,117	8,603	(181)	(3,619)	18,201
Shares issued	2,466	—	636	—	—	—	3,102
Share options issued	—	110	—	—	—	—	110
Loss for the year attributable to equity shareholders	—	—	—	—	—	(1,882)	(1,882)
At 31st December 2007	5,747	110	10,753	8,603	(181)	(5,501)	19,531

Company	Share capital £'000	Equity reserve £'000	Share premium £'000	Merger reserve on acquisition £'000	Profit and loss £'000	Total equity £'000
At 1st January 2008	5,747	110	10,753	476	(1,397)	15,689
Shares issued (see note 22)	(12)	—	—	—	—	(12)
Loss for the year attributable to equity shareholders	—	—	—	—	(225)	(225)
At 31st December 2008	5,735	110	10,753	476	(1,622)	15,452
At 1st January 2007	3,281	—	10,117	476	636	14,510
Shares issued	2,466	—	636	—	—	3,102
Share options issued	—	110	—	—	—	110
Loss for the year attributable to equity shareholders	—	—	—	—	(2,033)	(2,033)
At 31st December 2007	5,747	110	10,753	476	(1,397)	15,689

Balance Sheets as at 31st December 2008

		Group		Company	
	Notes	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Non-current assets					
Goodwill	10	17,712	17,250	—	—
Development costs	11	1,113	800	—	—
Property, plant and equipment	12	3,093	2,170	—	—
Investments	13	—	—	17,117	17,117
		<u>21,918</u>	<u>20,220</u>	<u>17,117</u>	<u>17,117</u>
Current assets					
Inventories	14	1,647	1,768	—	—
Trade and other receivables	15	3,061	2,720	148	825
Cash and cash equivalents	15	70	93	—	45
		<u>4,778</u>	<u>4,581</u>	<u>148</u>	<u>870</u>
Total assets		<u>26,696</u>	<u>24,801</u>	<u>17,265</u>	<u>17,987</u>
Current liabilities					
Trade and other payables	16	(4,008)	(3,119)	(167)	(122)
Current tax liabilities	17	(315)	(373)	—	—
Short-term borrowings	18	(1,951)	(888)	(526)	(700)
		<u>(6,274)</u>	<u>(4,380)</u>	<u>(693)</u>	<u>(822)</u>
Non-current liabilities					
Medium-term borrowings	18	(1,283)	(890)	(760)	(318)
Other liabilities	19	—	—	(360)	(1,158)
		<u>(1,283)</u>	<u>(890)</u>	<u>(1,120)</u>	<u>(1,476)</u>
Total liabilities		<u>(7,557)</u>	<u>(5,270)</u>	<u>(1,813)</u>	<u>(2,298)</u>
Net assets		<u>19,139</u>	<u>19,531</u>	<u>15,452</u>	<u>15,689</u>
Equity					
Share capital	22	5,735	5,747	5,735	5,747
Equity reserve	28	110	110	110	110
Share premium		10,753	10,753	10,753	10,753
Other reserves		8,603	8,603	476	476
Translation reserve		(216)	(181)	—	—
Profit and loss account		(5,846)	(5,501)	(1,622)	(1,397)
Total equity attributable to equity shareholders		<u>19,139</u>	<u>19,531</u>	<u>15,452</u>	<u>15,689</u>

The financial statements were approved by the Board of Directors and authorised for issue on 28th April 2009. They were signed on its behalf by

P Cooper
Director

Cash Flow Statements

year ended 31st December 2008

	Notes	Group		Company	
		2008 £'000	2007 £'000	2008 £'000	2007 £'000
Cash flows from operating activities:					
Operating loss — continuing operations		(111)	(1,573)	(86)	(1,867)
Depreciation and amortisation		692	601	—	—
Impairments		10	2,306	—	—
Share-based payment expense		—	110	—	110
		<u>591</u>	<u>1,444</u>	<u>(86)</u>	<u>(1,757)</u>
Movement in working capital:					
Decrease/(increase) in inventories		208	(563)	—	—
(Increase)/decrease in receivables		(150)	(777)	677	(601)
Increase/(decrease) in payables		533	(236)	(761)	(792)
Interest paid		(353)	(309)	(139)	(166)
Dividends paid		—	—	—	(27)
Tax paid		(3)	20	—	—
		<u>826</u>	<u>(421)</u>	<u>(309)</u>	<u>(3,343)</u>
Cash flows from investing activities:					
Acquisition of subsidiary undertakings	31	(388)	—	—	—
Purchase of plant, property & equipment		(1,198)	(371)	—	—
Expenditure on product development		(569)	(650)	—	(40)
Proceeds from assets held for sale		—	550	—	—
		<u>(2,155)</u>	<u>(471)</u>	<u>—</u>	<u>(40)</u>
Cash flow from financing activities:					
Repayments of obligations under finance leases		(439)	(101)	—	—
Repayment of borrowings		(1,389)	(3,414)	(1,344)	(545)
Issue of shares net of expenses		—	3,102	—	3,102
New loans raised		3,134	1,871	1,600	—
		<u>1,306</u>	<u>1,458</u>	<u>256</u>	<u>2,557</u>
(Decrease)/increase in cash and cash equivalents					
Cash and cash equivalents at beginning of year		93	(473)	45	871
		<u>70</u>	<u>93</u>	<u>(8)</u>	<u>45</u>

Notes to the Accounts

year ended 31st December 2008

1 Significant accounting policies

General information

Universe Group plc is a company incorporated in the United Kingdom under the Companies Act 1985. The address of the registered office is given on page 9. The nature of the Group's operations and its principal activities are set out on page 13.

At the date of authorisation 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:

IFRS8	<i>Operating segments</i>
IFRIC11	<i>IFRS2 — Group and Treasury Share Transactions</i>
IFRS2 (amended)	<i>Share-based Payment — Vesting Conditions and Cancellations</i>
IFRS3 (revised 2008)	<i>Business Combinations</i>
IFRIC12	<i>Service Concession Arrangements</i>
IFRIC14	<i>IAS9 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</i>

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group except for additional segment disclosures when IFRS8 comes into effect for periods commencing on or after 1st January 2009 and the treatment of the acquisition of subsidiaries when IFRS3 comes into effect for business combinations for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1st July 2009.

Basis of accounting

The financial statements have been prepared under the historic cost convention and in accordance with applicable International Financial Reporting Standards (IFRS) as adopted for use in the EU and as applied in accordance with the Companies Act 1985.

A summary of the more significant accounting policies, which have been applied consistently, is set out below.

As permitted by section 230 of the Companies Act 1985, the income statement of the Parent Company has not been separately presented in the financial statements. The Parent Company's result for the year is disclosed in the Company statement of changes in equity on page 19.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31st December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

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

All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

Going concern

The Directors have undertaken a detailed review of the financial position and financial forecasts of the Group as explained in the Directors' Report on page 13 and on the basis of this review have continued to adopt the going concern basis in preparing the financial statements.

Goodwill

Goodwill arising on acquisition represents the excess of the fair value of the consideration given, plus associated costs, for a business, over the fair value of the net assets acquired after accounting for identifiable intangible assets. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

Goodwill arising on acquisition is capitalised. In respect of acquisitions prior to 1st January 2004, goodwill is included at the amount recorded previously under UK GAAP.

In accordance with IFRS3 'Business Combinations' goodwill is not amortised.

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

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

1 Significant accounting policies (continued)

Impairment of tangible and intangible assets excluding goodwill (continued)

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Operating profit

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

Exceptional items

Exceptional items are separately disclosed where the nature of the item is such that it is non-recurring by type and its identification will contribute to the user's understanding of the financial performance of the Group.

Borrowing costs

Borrowing costs are not capitalised. Loan issue costs are accounted for on an accrual basis in the income statement, and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Leasing

Where assets are acquired under finance leases (including hire purchase contracts), which confer rights and obligations similar to those attached to owned assets, the amount representing the outright purchase price of such assets is included in property, plant and equipment. Depreciation is provided in accordance with the accounting policy below. The capital element of future finance lease payments is included in creditors and the interest element is charged to the income statement over the period of the lease in proportion to the capital element outstanding.

Expenditure on operating leases is charged to the income statement on a straight-line basis.

Foreign currencies

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purposes of the consolidated financial statements, the results and financial position of each Group company are expressed in pound sterling, which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains and losses on translation are included in the income statement.

The assets and liabilities of overseas subsidiary undertakings are translated at the closing exchange rates. Profit and loss accounts of such undertakings are consolidated at the average rates of exchange during the year. Gains and losses arising on these transactions are taken to reserves.

Pension costs

The Group operates a defined contribution scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The pension costs charged represent contributions payable by the Group to the fund together with the administration charge of the fund. In addition, the Group continues to contribute to personal pension plans for certain employees.

Taxation

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

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

Notes to the Accounts (continued)

year ended 31st December 2008

1 Significant accounting policies (continued)

Taxation (continued)

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

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient tax profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Property, plant and equipment

The cost of property, plant and equipment is their purchase price, together with any incidental costs of acquisition.

Depreciation is charged so as to write off the cost of property, plant and equipment less residual value, on a straight-line basis over the expected useful lives of the assets concerned.

The principal annual rates used for this purpose are:

Computer and office equipment	25%
Operational equipment	14%–33%
Leasehold improvements	Over the lease term subject to maximum of 20 years

Assets under finance leases are depreciated over useful economic life on the same basis as owned assets or, where shorter, over the term of the relevant lease.

Non-current assets held for sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services in the normal course of business, net of discounts, VAT and other sales related taxes.

Sales of goods are recognised when goods are delivered and title has passed. Revenues from service contracts are recognised evenly over the contractual period.

Where sales of goods and services involve the provision of multiple elements such as licence fees, installation fees and maintenance fees, the appropriate revenue recognition convention is then applied to each element. The consideration allocated to each element is measured by reference to their fair value.

1 Significant accounting policies (continued)

Development expenditure

Development expenditure relating to specific projects intended for commercial exploitation is capitalised as an intangible fixed asset where the following conditions are met:

- an identifiable asset is being created;
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

Such expenditure is amortised over the period during which the benefits of the project are expected to arise. Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Trade payables

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

Borrowings

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

Equity instruments

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

Trade receivables

Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Financial liabilities and equity

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

Share-based payments

The Group has applied the requirements of IFRS2 'Share-based Payments'. In accordance with the transitional provisions, IFRS2 has been applied to all grants of equity instruments after 7th November 2002 that were unvested at 1st January 2005.

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Fair value is measured by use of the Black Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Notes to the Accounts (continued)

year ended 31st December 2008

1 Significant accounting policies (continued)

Critical estimates and judgements

In the process of applying the Group's accounting policies, which are described above, management has made the following judgements and estimations about the future that have the most significant effect on the amounts recognised in the financial statements. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Impairment of goodwill

The carrying value of goodwill at the year end is £17.7 million (2007: £17.3 million). An annual impairment review is required under IFRS3 'Business Combinations' involving judgement of the future cash flows for cash-generating units and the discount rates applied to future cash flows in order to calculate present value. Management prepare such cash flow forecasts derived from the most recent budgets approved by the Board.

Recoverability of capitalised development costs

The capitalisation of development expenditure is a requirement of IAS38 'Intangible Assets'. All capitalised and ongoing projects are reviewed regularly to ensure they meet the criteria for capitalisation.

In the prior year, as a result of new technology and development, management considered it appropriate to write down the carrying value of projects relating to payment terminal hardware which may not recover their costs in future sales. This resulted in a charge to the income statement of £2.3 million in 2007. No further such impairment changes were considered necessary in 2008.

2 Operating profits before exceptional items

	2008 £'000	2007 £'000
Revenue	16,556	13,186
Cost of sales	(10,188)	(8,247)
Gross profit	6,368	4,939
Administrative expenses	(5,852)	(4,097)
Operating profit before exceptional items	516	842

3 Revenue analysis

Revenue consists of £8,587,000 from sales of hardware and software products and £7,969,000 from the provision of services (2007: £6,219,000 sale of products, £6,967,000 provision of services).

4 Segment information

The Group now has four business segments, operating within HTEC Limited and JetSet Wash Systems Limited. All material operations are in the UK. HTEC Limited is currently organised into three trading divisions: Universe Data Services (UDS), Manufacturing and Petrol Forecourt Solutions (PFS). Further information is presented below on a divisional basis.

	HTEC Divisions			JetSet 2008 £'000	Total 2008 £'000
	UDS 2008 £'000	Manufacturing 2008 £'000	PFS 2008 £'000		
Revenue — all external	1,885	3,263	9,933	1,475	16,556
Gross profit	936	560	4,169	703	6,368
Segment expenses	(1,005)	(680)	(1,683)	(884)	(4,252)
Segmental result	(69)	(120)	2,486	(181)	2,116
Unallocated central and corporate expenses					(1,600)
Operating profit before exceptional items					516
Exceptional items					(627)
Finance costs					(373)
Taxation					139
Loss for the year					(345)

	HTEC Divisions			JetSet 2007 £'000	Total 2007 £'000
	UDS 2007 £'000	Manufacturing 2007 £'000	PFS 2007 £'000		
Revenue — all external	1,495	4,086	7,605	—	13,186
Gross profit	1,297	507	3,135	—	4,939
Segment expenses	(906)	(660)	(1,052)	—	(2,618)
Segment result	391	(153)	2,083	—	2,321
Unallocated central and corporate expenses					(1,479)
Operating profit before exceptional items					842
Exceptional items					(2,415)
Finance costs					(309)
Taxation					—
Loss for the year					(1,882)

Notes to the Accounts (continued)

year ended 31st December 2008

4 Segment information (continued)

It is not currently possible to present segment assets and liabilities on a divisional basis; accordingly, this information is presented in respect of operational subsidiaries.

	HTEC 2008 £'000	JetSet 2008 £'000	Head Office 2008 £'000	Total 2008 £'000
Total assets	24,492	2,063	141	26,696
Total liabilities	(4,746)	(1,366)	(1,445)	(7,557)
Net book amount	19,746	697	(1,304)	19,139
Other information:				
Depreciation and amortisation	616	76	—	692
Impairment of assets	10	—	—	10
Capital expenditure:				
Tangible assets	420	959	—	1,379
Intangible assets	569	462	—	1,031
Total	989	1,421	—	2,410

	HTEC 2007 £'000	JetSet 2007 £'000	Head Office 2007 £'000	Total 2007 £'000
Total assets	24,600	—	201	24,801
Total liabilities	(4,130)	—	(1,140)	(5,270)
Net book amount	20,470	—	(939)	19,531
Other information:				
Depreciation and amortisation	601	—	—	601
Impairment of assets	2,306	—	—	2,306
Capital expenditure:				
Tangible assets	1,101	—	—	1,101
Intangible assets	650	—	—	650
Total	1,751	—	—	1,751

5 Exceptional items

	2008 £'000	2007 £'000
Operating costs		
Impairment of development costs	—	2,306
Group restructuring costs*	534	109
Stock write off as a result of EU legislation	93	—
	<u>627</u>	<u>2,415</u>
* Consisting mainly of redundancy costs.		
Finance costs		
Bank risk fees	—	63
Interest on tax provision	20	57
	<u>20</u>	<u>120</u>

6 Finance costs

	2008 £'000	2007 £'000
Interest payable on bank loans and overdrafts	242	172
Interest payable on finance leases	78	17
Other interest	33	—
Exceptional finance costs (see note 5)	20	120
	<u>373</u>	<u>309</u>

7 Loss for the year

This is stated after charging:

	2008 £'000	2007 £'000
Cost of inventory recognised as expense	3,680	3,754
Staff costs (see note 23)	8,078	4,902
Foreign exchange gains	(49)	—
Depreciation/amortisation		
— Development costs	256	199
— Tangible, owned	409	318
— Tangible, subject to finance lease	27	84
Impairment of development costs	—	2,306
Impairment of tangible fixed assets	10	—
Research expenditure	967	813
Auditors' remuneration (see below)	83	51
Operating lease charges — plant and machinery	478	302
Operating lease charges — property	515	430
Exceptional items (see note 5)	647	2,535

The analysis of the Auditors' remuneration is as follows:

	2008 £'000	2007 £'000
Fees payable to the Company's Auditors for the audit of the Company's annual accounts	25	25
The audit of the Company's subsidiaries pursuant to legislation	45	25
Total audit fees	<u>70</u>	<u>50</u>
Other fees pursuant to legislation:		
Tax compliance	10	—
Tax advisory	3	1
Total non-audit fees	<u>13</u>	<u>1</u>

Notes to the Accounts (continued)

year ended 31st December 2008

8 Tax on loss on ordinary activities

	2008 £'000	2007 £'000
Continuing operations		
Current tax:		
Current year	1	78
Adjustments to tax charge in respect of previous periods	(166)	4
	<u>(165)</u>	<u>82</u>
Deferred tax (note 21):		
Current year	—	14
Prior year	26	(96)
Total tax credit	<u>(139)</u>	<u>—</u>

Corporation tax is calculated at 28.5% (2007: 30%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The charge for the year can be reconciled to the loss per the income statement as follows:

	2008 £'000	2007 £'000
Loss before tax	(484)	(1,882)
Tax credit at the UK corporation tax rate of 28.5% (2007: 30%)	(138)	(565)
Tax effect:		
Expenses not deductible in determining taxable profit	31	33
Enhanced R&D tax relief	(89)	(75)
Pre-acquisition losses	(21)	—
Capital allowances in excess of depreciation	(6)	(15)
Unrelieved tax losses carried forward	224	714
Adjustments to tax charge in respect of previous periods	(140)	(92)
Tax credit for the current period	<u>(139)</u>	<u>—</u>

9 Loss per share

The calculation of the basic and diluted loss per share is based on the following data:

	2008 £'000	2007 £'000
Loss for the purposes of basic and diluted earnings per share being net loss attributable to equity holders of the parent	(345)	(1,882)
	Number '000	Number '000
Number of shares Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	114,705	101,602
	2008 pence	2007 pence
Loss per share Basic and diluted loss per share	(0.30)	(1.85)

Notes to the Accounts (continued)

year ended 31st December 2008

10 Goodwill

	HTEC Group £'000	JetSet Group £'000	2008 Total £'000	HTEC Group £'000	2007 Total £'000
Cost at 1st January	17,250	—	17,250	17,250	17,250
Additions	—	462	462	—	—
Carrying amount at 31st December	17,250	462	17,712	17,250	17,250

The acquisitions of the trade and assets of AIB Services Limited and the entire ordinary share capital of WSF Services Limited give rise to goodwill of £462,000 as set out in Note 31. The JetSet Group is recognised as a cash-generating unit ('CGU') for the first time this year. The HTEC Group CGU comprises the operational divisions within HTEC Limited.

As stated in note 1 the goodwill has been tested for impairment in accordance with IAS36 by discounting estimated future cash flows.

The recoverable amounts of each of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimate discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management. The HTEC future cash flows are those anticipated in the budget for 2009 with 3% profit growth assumed thereafter for the next 5 years and no growth thereafter. The JetSet future cash flows are those anticipated in the budget for 2009 with no growth assumed thereafter. Growth rates used reflect the anticipated turnover growth, margin improvements from changing sales mix and reflect the financial performance of the CGUs. The Group has conducted sensitivity analysis on the impairment tests of each CGU's carrying value. For the HTEC CGU the growth rate could reduce to zero % and this would still result in the recoverable amount being in excess of its carrying value. For the JetSet CGU a reduction in the anticipated cash flows by 50% would result in the carrying value being reduced to its recoverable amount.

The risk adjusted rate used to discount each of the cash flow forecasts is 12.5%.

Management have concluded that no impairment of goodwill is required.

11 Development Costs

Group	2008 £'000	2007 £'000
Cost		
At 1st January	5,034	4,384
Additions	569	650
At 31st December	5,603	5,034
Amortisation		
At 1st January	4,234	1,729
Charge for the year	256	199
Impairment losses	—	2,306
At 31st December	4,490	4,234
Carrying amount		
At 31st December	1,113	800

Development costs are tested for impairment annually and are amortised over the period during which the benefits of the development projects are expected to arise.

The 2007 impairment loss on development costs arose in connection with pre 2006 costs incurred on developing payment terminal hardware, which may not recover its costs in future sales due to recent changes in technology.

12 Property, Plant and Equipment

Group	Leasehold improvements £'000	Plant and equipment £'000	Total £'000
Year ended 31st December 2008			
Cost			
At 1st January 2008	1,058	4,159	5,217
Additions	27	1,181	1,208
Acquired upon acquisition (Note 31)	—	171	171
Disposals	—	(24)	(24)
At 31st December 2008	<u>1,085</u>	<u>5,487</u>	<u>6,572</u>
Depreciation			
At 1st January 2008	327	2,720	3,047
Charge for the year	56	380	436
Impairments	—	10	10
Disposals	—	(14)	(14)
At 31st December 2008	<u>383</u>	<u>3,096</u>	<u>3,479</u>
Net book value			
At 31st December 2008	<u>702</u>	<u>2,391</u>	<u>3,093</u>
At 31st December 2007	<u>731</u>	<u>1,439</u>	<u>2,170</u>
Year ended 31st December 2007			
Cost			
At 1st January 2007	990	3,167	4,157
Additions	68	1,033	1,101
Disposals	—	(41)	(41)
At 31st December 2007	<u>1,058</u>	<u>4,159</u>	<u>5,217</u>
Depreciation			
At 1st January 2007	276	2,409	2,685
Charge for year	51	351	402
Disposals	—	(40)	(40)
At 31st December 2007	<u>327</u>	<u>2,720</u>	<u>3,047</u>
Net book value			
At 31st December 2007	<u>731</u>	<u>1,439</u>	<u>2,170</u>
At 31st December 2006	<u>714</u>	<u>758</u>	<u>1,472</u>

The impairment loss on plant and equipment of £10,000 is due to the closure of HTEC's Spanish operation.

The net book value of plant and equipment includes £1,185,000 (2007: £1,024,461) in respect of assets held under finance leases. The depreciation charged on these assets during the year was £26,000 (2007: £84,426).

13 Investments

Company

Investments in subsidiary undertakings

	Total £'000
At 1st January and 31st December 2008	17,117

For details of principal subsidiaries see note 29.

Notes to the Accounts (continued)

year ended 31st December 2008

14 Inventories

Group	2008 £'000	2007 £'000
Raw materials	1,132	851
Work in progress	505	875
Finished goods	10	42
	1,647	1,768

There are no significant differences between the replacement costs shown above and the fair values.

15 Other financial assets

Trade and other receivables

Group	2008 £'000	2007 £'000
Trade receivables	2,126	2,254
Other debtors	100	150
Prepayments and accrued income	745	290
Deferred tax asset	—	26
Corporation tax receivable	90	—
	3,061	2,720

Company	2008 £'000	2007 £'000
Amounts owed from Group undertakings	—	624
Other debtors	100	150
Prepayments and accrued income	48	51
	148	825

The average credit period taken on sales of goods and services is 46 days (2007: 50 days). No interest is charged on the receivables. Before accepting any new customer, the Group uses an external credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Of the trade receivables balance at the end of the year, £679,000 (2007: £395,000) is due from the Group's largest customer.

Included in the Group's trade receivable balance are debtors with a carrying value amount of £669,000 (2007: £1,230,000) which are past due at the reporting date for which the Group has not made any provision as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold collateral over these balances. Ageing of past due but not impaired receivables is 30–60 days £543,000 (2007: £553,000), 60–90 days £70,000 (2007: £336,000) and 90 days and over £56,000 (2007: £341,000).

In determining the recoverability of a trade receivable the Group considers any change in the credit quality of the trade receivable from the date the credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the Directors believe that there is no bad debt provision required.

Cash and cash equivalents

	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Cash and cash equivalents	70	93	—	45

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less. The carrying value of these assets is approximately equal to their fair value.

16 Trade and other payables

	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Trade creditors	1,434	1,835	71	60
Other creditors	116	70	—	2
Accruals and deferred income	1,378	567	56	32
Other taxation	1,040	607	—	(12)
Dividends	40	40	40	40
	4,008	3,119	167	122

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 62 days (2007: 60 days).

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

17 Current tax liabilities

	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Corporation tax	315	373	—	—

18 Borrowings

	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Unsecured — at amortised cost				
Current				
Bank overdrafts	—	—	8	—
Directors' loans (iv)	275	—	—	—
Secured — at amortised cost				
Current				
Bank loans (i)	540	700	518	700
Finance lease liabilities (ii)	350	188	—	—
Invoice discounting (iii)	786	—	—	—
Non-current				
Bank loans (i)	760	318	760	318
Finance lease liabilities (ii)	523	572	—	—
	3,234	1,778	1,286	1,018
The borrowings are repayable as follows:				
On demand or within one year	1,951	888	526	700
In the second to fifth years inclusive	1,283	890	760	318
	3,234	1,778	1,286	1,018

- (i) The bank loans bear interest based on a fixed rate of 5.33% plus a risk margin. They are secured by a first charge over all undertakings and assets of the Group. The weighted average interest rate paid in 2008 was 8.76% (2007: 8.1%).
- (ii) Finance lease liabilities are secured by the assets leased. The average lease term is five years. For the year ended 31st December 2008, the average effective borrowing rate was 8.8% (2007: 12%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.
- (iii) The invoice discounting facility is secured on the trade receivables of HTEC Limited and bears interest at an effective rate of 6%.
- (iv) The Directors' loans are unsecured and bear interest at 15%.

All borrowings are denominated in sterling.

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

At 31st December 2008, the Group had available £310,700 (2007: £1,290,000) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

The bank overdraft and bank loans are secured by a debenture over the assets of the Group and are subject to certain covenants in respect of interest cover, cash flow cover and net asset value. The former two of these covenants were breached during the year. These breaches have been waived by the Bank of Scotland. As a result of these breaches the risk margin applied to the loan was increased by 1.5% from August 2008.

Notes to the Accounts (continued) year ended 31st December 2008

19 Other liabilities

	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Amounts owed to Group undertakings	—	—	360	1,158

20 Financial instruments

Capital risk management

The Group manages its capital to ensure that entities within the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in Note 18, cash and cash equivalents, and equity attributable to shareholders of the parent, comprising issued share capital, reserves and retained earnings as disclosed on page 19.

Gearing ratio

The Group regularly reviews the capital structure. As part of this review, it considers the cost of capital and the risks associated with each class of capital.

The gearing ratio at the year end is as follows:

	2008 £'000	2007 £'000
Debt*	3,234	1,778
Cash and cash equivalents	(70)	(93)
Net debt	3,164	1,685
Equity†	19,139	19,531
Net debt to equity ratio	16.5%	8.6%

* Debt is defined as medium and short-term borrowings, as detailed in Note 18.

† Equity includes all capital and reserves of the Group attributable to equity holders of the parent.

Significant accounting policies

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

Categories of financial instruments

	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Financial assets:				
At amortised cost:				
Cash	70	93	—	45
Trade receivables	2,126	2,254	—	—
	<u>2,196</u>	<u>2,347</u>	<u>—</u>	<u>45</u>
Financial liabilities:				
At amortised cost:				
Bank overdrafts	—	—	8	—
Trade payables	1,434	1,835	71	60
Invoice discounting loan	786	—	—	—
Bank loans	1,300	1,018	1,278	1,018
Directors' loan	275	—	—	—
Finance lease obligations	873	760	—	—
	<u>4,668</u>	<u>3,613</u>	<u>1,357</u>	<u>1,078</u>

20 Financial instruments (continued)

Financial risk management objectives

The Group's operations expose it to a variety of risks including the effect of changes in interest rates on debt, credit risk and liquidity risk. In 2008 the Group did not have significant risk on foreign currency.

Neither the Company nor the Group has material exposures in any of the areas identified above and consequently they do not use derivative instruments to manage these exposures.

Market risk

The activities of the Company and Group primarily expose them to the financial risks of changes in interest rates (see below). The Group does transact business in euros and US dollars but at less than 10% of turnover the exchange risk is small.

Interest rate management

The Company and the Group are exposed to interest rate risk as entities in the Group borrow funds at floating interest rates. The Group continually reviews the appropriateness of fixing interest rates on its borrowings.

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

Interest rate sensitivity

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

At the reporting date, if interest rates had been 1% higher/lower and all other variables were held constant, the Group and Company's net loss and equity reserves for the year ended 31st December 2008 would increase/decrease by £8,000 (2007: £10,000). This is mainly attributable to the Group and Company's exposure to interest rates on its variable rate borrowings. A 1% movement in basis points has been used as this provides a benchmark against which to measure any future interest rate movements.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group's policy is to only deal with creditworthy counterparties, carrying out background checks before any new accounts are opened so as to mitigate the risk of financial loss from defaults. The Group's exposure and the credit ratings of its counterparties are monitored regularly with no significant concentration of credit risk with a single counterparty. Credit exposure is controlled by counterparty limits that are reviewed and approved by senior management as and when necessary, but at a minimum annually.

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

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which reviews and manages the Group's short and medium-term funding and liquidity requirements on a regular basis. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by regularly monitoring forecast and actual cash flows whilst attempting to match the maturity profiles of financial assets and liabilities.

As noted within the Directors' Report on page 13 there were breaches of the loan covenants during the year that were waived by the bank. One of the key liquidity risks is to ensure ongoing compliance with banking covenants. The bank has amended the covenants' testing points to reduce the risk of future breaches and the Directors closely monitor their forecasts to identify any potential breaches and put mitigating action in place before they occur.

The following table details the Company and the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted contractual maturities of the financial liabilities including interest that will accrue to those liabilities.

Notes to the Accounts (continued) year ended 31st December 2008

20 Financial instruments (continued)

Group 2008	Weighted average effective rate %	Less than 1 month £'000	1 to 6 months £'000	6 months to 1 year £'000	1 to 3 years £'000	Total £'000
Non-interest bearing:						
Trade payables	—	1,240	194	—	—	1,434
Fixed interest rate:						
Finance leases liabilities	8.8	44	200	137	592	973
Bank loans	8.8	46	237	294	870	1,447
Directors' loans	15.0	—	86	220	—	306
Variable interest rate:						
Bank overdrafts	—	—	—	—	—	—
Invoice discounting	6.0	790	—	—	—	790
		<u>2,120</u>	<u>717</u>	<u>651</u>	<u>1,462</u>	<u>4,950</u>

Group 2007	Weighted average effective rate %	Less than 1 month £'000	1 to 6 months £'000	6 months to 1 year £'000	1 to 3 years £'000	Total £'000
Non-interest bearing:						
Trade payables	—	1,511	324	—	—	1,835
Fixed interest rate:						
Finance lease liabilities	12.0	20	80	88	734	922
Variable interest rate:						
Bank overdrafts	—	—	—	—	—	—
Bank loans	8.1	63	313	376	348	1,100
Invoice discounting	—	—	—	—	—	—
		<u>1,594</u>	<u>717</u>	<u>464</u>	<u>1,082</u>	<u>3,857</u>

Company 2008	Weighted average effective rate %	Less than 1 month £'000	1 to 6 months £'000	6 months to 1 year £'000	1 to 3 years £'000	Total £'000
Non-interest bearing:						
Trade payables	—	40	31	—	—	71
Variable interest rate:						
Bank loans	8.8	45	232	276	860	1,413
		<u>85</u>	<u>263</u>	<u>276</u>	<u>860</u>	<u>1,484</u>

Company 2007	Weighted average effective rate %	Less than 1 month £'000	1 to 6 months £'000	6 months to 1 year £'000	1 to 3 years £'000	Total £'000
Non-interest bearing:						
Trade payables	—	30	30	—	—	60
Variable interest rate:						
Bank loans	8.1	63	313	376	348	1,100
		<u>93</u>	<u>343</u>	<u>376</u>	<u>348</u>	<u>1,160</u>

20 Financial instruments (continued)

The following table details the Group's and the Company's expected maturity for its non-derivative financial assets. The table has been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Company or Group anticipates that the cash flow will occur in a different period.

Group 2008	Weighted average effective rate %	Less than 1 month £'000	1 to 6 months £'000	6 months to 1 year £'000	1 to 3 years £'000	Total £'000
Variable interest rate:						
Cash	1.0	70	—	—	—	70
Non-interest bearing:						
Trade receivables	—	668	1,458	—	—	2,126
		<u>738</u>	<u>1,458</u>	<u>—</u>	<u>—</u>	<u>2,196</u>

Group 2007	Weighted average effective rate %	Less than 1 month £'000	1 to 6 months £'000	6 months to 1 year £'000	1 to 3 years £'000	Total £'000
Variable interest rate:						
Cash	5.0	93	—	—	—	93
Non-interest bearing:						
Trade receivables	—	1,051	1,203	—	—	2,254
		<u>1,144</u>	<u>1,203</u>	<u>—</u>	<u>—</u>	<u>2,347</u>

Company 2008	Weighted average effective rate %	Less than 1 month £'000	1 to 6 months £'000	6 months to 1 year £'000	1 to 3 years £'000	Total £'000
Variable interest rate:						
Cash	1.0	—	—	—	—	—

Company 2007	Weighted average effective rate %	Less than 1 month £'000	1 to 6 months £'000	6 months to 1 year £'000	1 to 3 years £'000	Total £'000
Variable interest rate:						
Cash	5.0	45	—	—	—	45

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

Notes to the Accounts (continued) year ended 31st December 2008

21 Deferred tax Group

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

	2008 £'000	2007 £'000
Net provision at 1st January	(26)	56
Debit/(credit) to profit and loss account	26	(82)
Net asset at 31st December	—	(26)

The prior year deferred tax asset is disclosed in Note 15 and related entirely to accelerated capital allowances. At the year end £87,000 of fixed asset timing differences have not been recognised as a deferred tax asset.

At the balance sheet date, the Group has unutilised tax losses of £2,082,000 (2007: £1,898,000) available for offset against future profits. A deferred tax asset has not been recognised in respect of these losses.

From 1st April 2008, the UK corporation tax rate has reduced from 30% to 28%. Deferred tax has been recognised at the balance sheet date at 28% as this is the rate at which it is expected to unwind in the future. The effective rate of taxation for the year ended 31st December 2008 is 28.5%.

22 Called up share capital

	2008 £'000	2007 £000
Group and Company		
Authorised		
155,000,000 ordinary shares at 5p each (2007: 155,000,000)	7,750	7,750
Allotted, called up and fully paid:		
114,704,539 ordinary shares of 5p each (2007: 114,704,539)*	5,735	5,747

* In 2007 closing share capital was overstated by £12,376 (247,516 ordinary shares of 5 pence each) in respect of matching shares acquired to satisfy obligations of the LTIP scheme. These shares were originally treated as having been issued and this has been corrected, with the corresponding credit to the income statement in the current year.

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

Allotments for cash made in 2008

No allotments of shares for cash were made in 2008 (2007: 49,082,143 shares allotted for cash consideration of £3,373,500).

Share options

No share options were awarded to Directors in 2008 (2007: 3,750,000 shares).

Long-term Investment Plan ("LTIP")

No shares were awarded as matching shares under the LTIP in 2008 (2007: 247,516 shares).

23 Employees and Directors

Group	2008 £'000	2007 £'000
Wages and salaries	7,183	4,281
Social security costs	750	463
Pension costs	145	158
	8,078	4,902

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

	No.	No.
HTEC	209	187
JetSet	35	—
Head Office	3	3
	247	190

Emoluments paid to the highest paid Director were as follows:

	2008 £'000	2007 £'000
Aggregate emoluments	126	87
Company pension contribution to money purchase schemes	11	7
	137	94

There were 2 Directors (2007: 3) to whom retirement benefits accrued under money purchase schemes during the year.

Further details of the Directors' remuneration are included in the Directors' Remuneration Report on pages 10 and 11.

24 Pension commitments

The Group operates a defined contribution scheme. The assets of the scheme are held separately from these of the Group in funds under the control of investment managers. The pension costs charged represent contributions payable by the Group to the fund amounting to £145,493 (2007: £158,085), together with the administration charge of the fund. In addition, the Group continues to contribute to personal pension plans for certain of its employees. As at 31st December 2008 contributions of £41,000 (2007: £34,000) due in respect of the current reporting period had not been paid over to the scheme.

25 Operating lease commitments

At 31st December 2008 the Group has lease agreements in respect of properties, vehicles, plant and equipment, for which payments extend over a number of years:

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	Property £'000	2008 Plant and machinery £'000	Total £'000	Property £'000	2007 Plant and machinery £'000	Total £'000
Within 1 year	511	211	722	409	133	542
Between 2 to 5 years	1,636	203	1,839	1,636	144	1,780
After 5 years*	716	—	716	1,125	—	1,125
Total	2,863	414	3,277	3,170	277	3,447

* The comparative figure has been adjusted to reflect a tenant only break clause exercisable in 2015.

26 Contingent liabilities

HTEC has given a duty deferment guarantee to HMRC of £5,000 (2007: £5,000).

Notes to the Accounts (continued) year ended 31st December 2008

27 Capital and other financial commitments

As at 31st December 2008 The Group had not entered into any contracts for future capital expenditure (2007: nil).

28 Share-based payments

Summary of share option schemes in operation during the year

The Directors' Remuneration Report on page 10 describes the plans to which IFRS2 applies. In summary, the Group operated the following plans during the period:

- Enterprise Management Incentive ("EMI") Plan
- Discretionary Unapproved Share Option Plan

The Group recognised a total expense of £nil in 2008 (2007: £110,000), with the corresponding credit being recorded in the equity reserve.

Equity-settled share option schemes

The exercise price of options granted under the EMI and unapproved share option plans was set at the market value at the date of grant, that is the price which equates to the closing middle market quotation for the shares on AIM on the date of grant.

The options are not subject to any performance conditions and vested immediately upon grant. Where options remain unexercised after a period of 10 years from the date of grant the options expire. Moreover, the options will lapse in the case of termination of employment, subject to the good leaver provisions or the Remuneration Committee exercising its discretion to permit options to be exercised.

The total number of shares under option is as follows:

Unapproved share options

	Number of share options	Weighted average exercise price
Outstanding at beginning of period	1,250,000	£0.08
Granted during the period	—	—
Forfeited during the period	—	—
Exercised during the period	—	—
Outstanding at the end of the period	1,250,000	£0.08
Exercisable at the end of the period	1,250,000	£0.08

All acquisitions under the plan are equity-settled.

EMI

	Number of share options	Weighted average exercise price
Outstanding at beginning of period	2,500,000	£0.08
Granted during the period	—	—
Forfeited during the period	—	—
Exercised during the period	—	—
Outstanding at the end of the period	2,500,000	£0.08
Exercisable at the end of the period	2,500,000	£0.08

Options granted under the plan vest immediately. All acquisitions under the plan are equity-settled.

29 Principal Subsidiaries and Joint Ventures

Name	Place of incorporation	Issued and fully paid share capital	Percentage held	Business
HTEC Group Ltd	England and Wales	Ordinary £1	100%	Holding company
HTEC Ltd*	England and Wales	Ordinary 1p Convertible redeemable preference £1	100%	Manufacture & development of payment & information systems
High Technology Electronic Clearance SL*	Spain	Ordinary €6	100 %	Management of information systems
HTEC Ltd*	Portugal	Branch, no share capital	100%	Management of information systems
Jet Set Wash Systems Limited	England and Wales	Ordinary £1	100%	Manufacture and retail of forecourt valeting equipment
WSF Services Limited*	Scotland	Ordinary £1	100%	Provision of forecourt valeting services
Prepaid Card Management Limited*	England and Wales	A/B shares £0.01	50%	Provision of prepaid cash card services

* Investments held in a subsidiary company.

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

Notes to the Accounts (continued) year ended 31st December 2008

30 Related parties

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation. Transactions between the Company and its subsidiaries are disclosed below:

Trading transactions

During the year, the Company entered into the following transactions with its subsidiaries, which are related parties:

	2008 £'000	2007 £'000
Amounts recharged to subsidiaries		
HTEC Limited	396	624

Loans from Directors

Loans from two Directors, totalling £275,000 (2007: £nil) at the year end, were provided to assist with growth of the newly acquired subsidiary, Jet Set Wash Systems Limited. Amounts owing at the balance sheet date were as follows;

	Capital outstanding at 31st December 2008 £'000	Interest paid during the year £'000	Interest accrued at 31st December 2008 £'000
J R Scholes	150	6	11
M Coster	125	6	9
	<u>275</u>	<u>12</u>	<u>20</u>

The loans are repayable during 2009.

Remuneration of key personnel

Details of the remuneration of the Directors, who are the key management personnel of the Group, is provided in aggregate for each of the categories specified in IAS24 'Related Party Disclosures' in the Directors' remuneration report on page 11.

31 Acquisition of subsidiary undertakings

In early 2008 Jet Set Wash Systems Limited, a wholly owned subsidiary, made two acquisitions in order to establish itself as a manufacturer of car valeting equipment with nationwide service coverage. Cash consideration of £364,000 was paid and legal costs of £24,000 incurred. The goodwill arising on these acquisitions is attributable to the anticipated profitability of the combined businesses. The Directors do not consider that any identifiable intangible assets were acquired as a result of these acquisitions, and therefore the difference between the fair value of the net assets acquired and the purchase costs is goodwill.

- (a) On 1st February 2008 Jet Set Wash Systems Limited acquired the trade and assets of AIB Services Limited, a manufacturer of car valeting equipment. Fair value adjustments were made to the book values at the acquisition date to more adequately reflect the value of assets acquired, in particular in respect of stock obsolescence and the carrying value of plant and equipment. This transaction has been accounted for by the purchase method of accounting.

Net assets acquired

	Book value £'000	Fair value £'000
Tangible fixed assets	258	133
Stocks	176	61
Finance lease liabilities	(70)	(70)
	<u>364</u>	<u>124</u>
Goodwill		252
Total consideration		<u>376</u>
Satisfied by:		
Cash		364
Directly attributable costs		12
		<u>376</u>

31 Acquisition of subsidiary undertakings (continued)

(b) On 1st March 2008 Jet Set Wash Systems Limited acquired the entire issued share capital of WSF Services Limited, a company providing services to the car valeting industry in Scotland and Northern England. Fair value adjustments were made to the book values at the acquisition date to more adequately reflect the net assets acquired, in particular in respect of trade creditor liabilities. The impact of these adjustments will be to reduce the amount of contingent consideration payable to the vendors.

Net assets acquired

	Book value £'000	Fair value £'000
Fixed assets	54	38
Stocks	36	26
Debtors	78	62
Trade creditors	(67)	(101)
Taxation and social security	(62)	(65)
HP agreements	(10)	(10)
Long-term loans	(137)	(148)
	<u>(108)</u>	<u>(198)</u>
Goodwill		210
Total consideration		<u>12</u>
Satisfied by:		
Directly attributable costs		12

The combination of the two acquisitions and Jet Set Wash Systems Limited led to the creation of an integrated operational structure and therefore significant differences in revenues and operational costs when compared to each of the pre-acquisition entities. Consequently, it is impracticable to disclose revenue, profit and loss or cash flow information for the period from the start of the year ended 31st December 2008 for any of the entities on a pre-acquisition basis.

32 Subsequent Events

Subsequent to the year end the Group entered into a cost reduction programme, part of which was to reduce headcount by 15% generating cost savings of £700,000 on an annualised basis. Payment of notice periods and statutory redundancy pay will cost the Group £150,000 and will be dealt with in the accounts for the year ending 31st December 2009.

Shareholder Notes

Shareholder Notes

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