



universe
group plc



Universe Group plc

Annual Report 2010

Stock code: UNG

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Universe Group plc

Universe Group plc is incorporated in the UK and operates through HTEC Limited, a specialist in payment, loyalty and forecourt technology.



get data **smart**

Highlights

- Revenue down 10% to £11.29 million (2009: £12.56 million)
- Gross margin percentage increased to 40% (2009: 37%) driven by improved sales mix and cost reductions
- Profit before tax from continuing operations of £0.27 million (2009: profit of £0.15 million)
- Operating profit from continuing operations up 8% to £0.58 million (2009: £0.54 million)
- EBITDA from continuing operations down 2% to £1.86 million (2009: £1.89 million)

Revenue*

Decreases

by 10% to £11.3m (2009: £12.6m)

Gross margin*

Increases

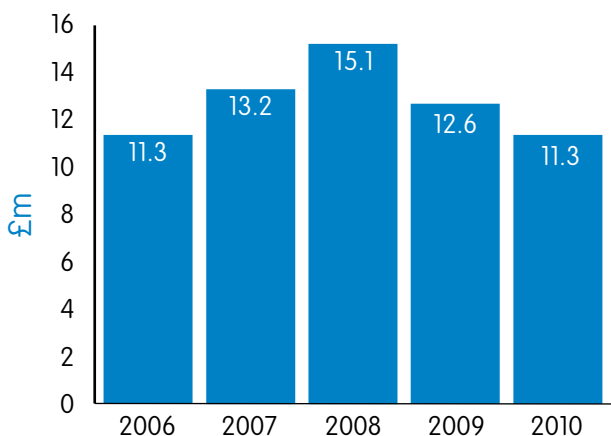
to 40% (2009: 37%)

Operating profit†

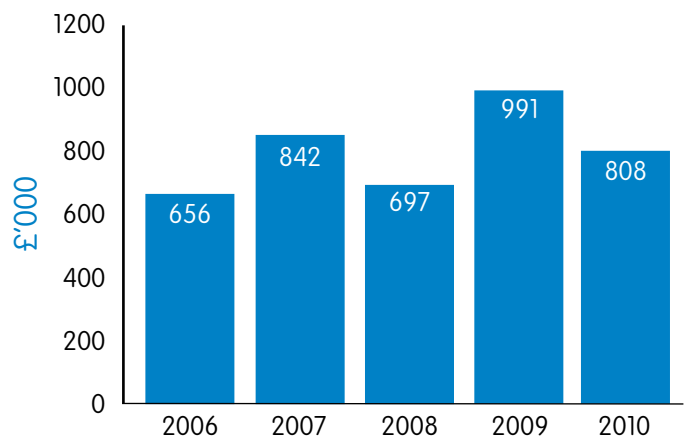
Decreases

to £0.8m (2009: £1.0m)

Revenue



Operating profit*†



* from continuing operations

† from continuing operations and before exceptional items

Group at a Glance

Universe operates through HTEC.



HTEC in brief

- Europe's leader in payment, loyalty and forecourt technology
- £8bn payment transactions per annum processed on HTEC equipment
- 50% of the main UK supermarkets use HTEC products and services
- 3,500 UK petrol stations use HTEC solutions
- Bespoke, innovative, solutions to meet your needs
- In-house Design, Development and Manufacture
- Contract Manufacturing Services
- Service and Support

Pioneering Development

HTEC is at the forefront of technical innovation. From the implementation of the first UK Chip & PIN transaction via an Unattended Payment Terminal, to providing the only truly global on-line loyalty solution in the petrol market place, we set trends that others strive to emulate.

Our dedicated in-house product development programme is breaking barriers. We pride ourselves on pioneering the development of groundbreaking retail services and solutions. HTEC continues to create innovative solutions that enhance customer relationships and a wide range of products and services are available to provide unique solutions.

Payment Services

HTEC provide a range of high performance tailor-made solutions for almost every industry and market sector. Our services include secure electronic transaction processing, including hardware solutions and services such as software development, helpdesk, maintenance and transaction routing.

Our processing solutions meet the most demanding of retail environments, including systems requiring multi-channel services. Using a combination of industry 'best of breed' solutions and in house management services HTEC are able to deliver a complete payment system for virtually every environment.

HTEC are fully PCI DSS compliant — a comprehensive standard which ensures organisations pro-actively protect customer account data.

PCI DSS Approved Data Centre

HTEC runs its own PCI DSS approved Data Centre based at its offices in Southampton.



Tailored solutions

Many of the projects we undertake have international scope. Our client base includes a significant number of blue-chip companies and in recent years we have consolidated our relationships with many major international oil companies and leading UK supermarkets.

The scalable solutions we provide are always tailored to meet the needs of our customers and are integrated seamlessly with corporate IT.

Relationships with Tier 1 and 2 retailers and leading oil companies include:



Three Decades of Innovation

It has been an amazing journey over three fascinating and vigorously changing decades in technology.

Since first opening its doors in 1979 HTEC has enjoyed significant success, supplying software and specialist hardware to many of the UK's major petrol retailers, as well as a number of European deployments.

It is especially gratifying that many companies who started with HTEC are still using our products and services today. Most have gone on to become much larger and more internationally focused, with many now leaders in their respective fields.



Chairman's Statement

"Profitability from the continuing businesses has held up despite the fall in turnover, as cost control measures have enabled us to grow our profit before taxation by 73% year on year. Investment in business and product development has continued throughout 2010 in order to position Universe for success as business confidence recovers."



Introduction

The continuing economic difficulties again made 2010 a year when few, if any, new initiatives were launched by our customers. Nonetheless, improved demand in the core markets for Petrol Forecourt Services ("PFS") increased the turnover of our largest division during the year. This was counterbalanced by specific contractual effects in both Universe Data Systems ("UDS") and in Contract Electronic Manufacturing ("CEM"), resulting in an overall turnover reduction of 10.1% to £11.29 million (2009: £12.56 million).

Despite this reduction, gross profit fell by only 2.5% to £4.57 million (2009: £4.69 million) as a combination of the sales mix improvement strategy and the cost cutting measures effected in earlier years improved the underlying profitability of the Group. Operating profit from continuing operations after exceptional items grew by 8% to £0.58 million (2009: £0.54 million).

As previously announced, the JetSet operating subsidiary was divested in July 2010. After a promising start to its first year of trading in 2008, the economic crisis of that year prevented the division from reaching profitability. In an increasingly competitive market, further development of the business was not possible. JetSet has been treated as a discontinued activity in these results, and in the comparative information provided within this statement.

Results

The reduction in turnover was disappointing and does not reflect the business development efforts being made across the divisions. Turnover in PFS grew by 4% following higher demand from existing customers, and segment profitability grew by 27% reflecting an improved sales mix and improved contractual terms. This segment remains the core of the Group and we continue to expand our service offering to existing customers, and to introduce new customers to our existing products.

Turnover in UDS was impacted by the end of first year premium pricing from an existing contract. This was partially compensated for by a strong pipeline of work for extra developments, a trend that looks likely to continue into 2011. However there was an inevitable reduction in the gross margin achieved by UDS and consequently a significant reduction in the segmental result to £0.35 million (2009: £0.96 million). Whilst the Group has continued to invest in business development activities in this division, major new contracts have yet to come through.

CEM suffered the loss of a long running repairs contract which resulted in restructuring of the workforce and financial results that show a significant reduction in segmental profitability with the loss increasing to £0.26 million (2009: loss of £0.10 million). CEM continues to make a valuable contribution to the profitability of the PFS division and to the fixed overheads of the Group. The division has started to show significant progress in winning new customers resulting in turnover from the electronics manufacturing part of the division increasing by 55% in the second half of 2010. This growth trend is anticipated to continue into 2011.

With an improvement in the sales mix and improved operational efficiency, overall gross margin increased to 40.5% (2009: 37.4%), reducing the impact of the turnover decline. Operating profit before exceptional items fell to £0.8 million (2009: £1.0 million), a modest reduction given the £1.3 million decline in turnover, much of which was at especially high margin. 2010 saw limited restructuring costs, which were significant in 2009, and consequently operating profit after exceptional items showed a modest improvement.

EBITDA before exceptional items from the continuing operations was £1.86 million, 1.7% less than that achieved in 2009.

Cash generated from the continuing operations remained strong at £1.6 million (2009: £2.0 million). Debt repayments and debt service costs totalling £1.46 million were made and, in addition, £0.47 million of invoice discounting was repaid. Debt repayments are scheduled to fall in 2011 but will remain significant in the context of a Group trying to develop its products and explore new market opportunities.

Annual General Meeting

The share price of the Group has for a number of years been below the nominal value of the Group's shares, and this is a significant factor in preventing the Group from raising equity finance. As such the 5% authority for the issue of new share capital granted by Shareholders at the 2010 AGM will go unused this year. To remove this artificial and unnecessary cap on fund raising at the 2011 AGM the Directors will be proposing the resolutions necessary to enable the nominal value of the Group's shares to be reduced to 1 pence.

Dividend

The level of debt repayments and the need to invest in products and business development limits the funds available to commence dividend payments. We will continue to review the position regarding future dividend payments as the Group progresses.

Outlook and Prospects

Profitability from the continuing businesses has held up despite the fall in turnover, as cost control measures have enabled the Group to grow its profit before taxation by 73% year on year. Investment in business and product development has continued throughout 2010 in order to position the Group for success as business confidence recovers.

Whilst this recovery was not seen in 2010, there are signs that the current year will benefit from an improved market environment. This year will also see the launch of our new payments and loyalty terminal, providing an upgrade path for our existing customers and the potential to attract business from the wider retail market.

Considerable interest in the new product range has already been received from a number of potential customers. Conversion of this interest into firm orders is the critical factor in enabling the Group to return to turnover growth and, consequently, to benefit from its reduced cost base.

John Scholes

Chairman
30 March 2011

Chief Executive's Report

In a year when HTEC, the Group's principal subsidiary celebrated its 30th year in business, trading continued in similar tough conditions to the prior year. HTEC again concentrated on improving profitability, cash flow and pursuing recurring revenue streams, as growth opportunities continued to be affected by capital expenditure freezes, especially in the Group's traditional markets serving oil companies and petrol retailers. The availability of growth capital at economic cost proved to be a significant restricting factor on HTEC's development aspirations. The Board's actions continue to improve profitability and cash flow and will ensure that full advantage can be taken in any future economic upturn.

The Group provides mission critical services to two of the UK's supermarket groups and four of the major oil companies, both in the UK and Europe. Currently the data centre handles £8 billion of transactions per year and has loyalty schemes with up to 14 million members operating in a real time environment.

Financial Performance Review and Key Performance Indicators

The disappointing fall in turnover reflected two particular non-recurring events: Contract Electronic Manufacturing saw a 41% reduction in turnover due to a long-term contract ending and Universe Data Services revenue fell by 24%, being impacted by the elimination of premium rate first year pricing from a major contract. Set against this, there was growth in the Petrol Forecourt Systems division of 4%, reversing the prior year's downward trend. Despite the reduction in turnover, gross margins grew to 40.5% (2009: 37.4%), restricting the reduction in gross profit to 2.5%, at £4,573,000 (2009: £4,692,000).

Although costs remain tightly controlled, administrative expenses showed a 2% increase due to increased investment in business development expenditure. Operating profit before exceptional items fell to £808,000 (2009: £991,000) and with a reduction in exceptional items, profit before tax increased by 73% to £267,000 (2009: £154,000).

A £1,241,000 loss was recorded against discontinued activities causing the Group to record an overall loss for the year of £900,000 (2009: loss of £503,000). The loss from discontinued activities mainly related to the disposal of the JetSet business and included £462,000 of goodwill impairment, trading losses of £433,000 and a loss on disposal of £207,000.

The financial crisis which began in 2008 continued to seriously affect the viability of the JetSet business. The market became increasingly competitive as capital expenditure was cut back and asset finance to support machine placement was difficult to obtain and unreasonably expensive. It was not possible to install enough machines to get into profit and reluctantly the decision was taken to realise a sale and to remove a business risk. While a substantial loss was booked on the sale, the transaction removed liabilities of £625,000 from the balance sheet and allowed the Group to concentrate on more attractive data centre business.

The Group's challenge of transitioning to a focused software solutions provider for payment processing and loyalty is now clearer. While levels of cost remain under review at all times, the main

foreseeable restructuring costs have now been incurred and Universe looks forward to a period of growth.

Strong EBITDA performance in the prior year was all but repeated in 2010, with £1,857,000 generated (2009: £1,889,000) demonstrating that progress continues to be made in improving operational cash generation. I firmly believe that this is not currently reflected in the share price and with falling debt, Universe and its Shareholders are in a position to benefit from any economic upturn.

The Board will continue to monitor revenue change, operating profit, cash generation and customer satisfaction as key performance indicators. Service excellence has become an essential element in customer relationships with demands for improved service level agreement ('SLA') targets being widespread. Overall SLAs for 2010 were an excellent 97% (2009: 94%), well above contractual requirements.

Petrol Forecourt Systems (PFS)

The PFS business segment produced £2,087,000 (2009: £1,644,000) of segmental profit and remains the Group's largest and most profitable segment, with a return to turnover growth of 4%, after a prior year decline. This is a good performance in a depressed market segment. Recurring contract business is in excess of 70% of turnover.

The core solutions of the PFS business relate to the supply of point of sale (POS) payment systems and 'wet stock' management reporting.

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 33% of all UK forecourts have HTEC equipment integrated on-site, much of which is under long term contract. Development of the software continues, in order to improve functionality for the growing convenience store market, and to allow easier integration with other third party products.

HTEC has a wide range of end-to-end approvals to handle bank and fuel payment cards and will continue to be a market leader for this type of payment processing. HTEC's payment terminals are recognised as amongst the most secure within the industry, meeting the challenges posed constantly from card fraud criminals. Investment in the next generation payment terminal, which will begin roll out in 2011, has been carefully controlled to give a rapid payback to the Group.

New outdoor payment terminal (OPT) roll outs were affected, as capital expenditure plans were put on hold. Two prestigious contracts did roll out in 2010, a multilane system at Europe's biggest commercial vehicle filling station, based at Lymm in Cheshire and a prestigious fully unmanned site in Ireland. Our OPT technology is now opening up new markets related to airfields, marinas, commercial truck stops as well as unmanned stations.

Universe Data Systems (UDS)

The UDS division has been affected by the lack of available development capital and this has prevented the division from

building on the success of the global real time loyalty system for a major oil company, which was launched in early 2009. Initial transaction revenues from that system were contractually at a premium first year rate, which has now significantly reduced. Consequently, the segmental reporting breakdown shows a fall in revenue of 24% for the year, to £2,351,000 (2009: £3,086,000), which in turn caused segmental profit to fall to £350,000 (2009: £959,000). The global recession has obviously influenced transaction volumes and slowed the geographic spread of the system.

Progress has been made during the year to establish UDS outside the petrol and oil industry. Partnerships and alliances with market specialists are continuing to introduce exciting new opportunities as UDS is positioned as a data handling platform in the extended loyalty and customer relationship management ('CRM') space, alongside payments processing.

Development funding has been an issue for this segment and in particular, two major projects are being undertaken, albeit in a restricted manner. A range of payment terminal applications is being developed on a best of breed, third party platform and the first product, GemPoints, was launched in December attracting considerable interest. Further products in the range are scheduled for release in 2011 and will form the basis of a push into wider markets. This development has been funded from internal resources. The second project, updating our Electronic Funds Transfer payments platform, requires finance from new investment to ensure speedy delivery and launch. The target is to release the new service in Q3 of 2011. This service is aimed at a large and growing market where our existing customer base and expertise will add to the new service proposal.

Contract Electronic Manufacturing (CEM)

The historic core business of HTEC, CEM, has over a number of years, played an important role in the success of the Petrol Forecourt Services division, whilst at the same time seeing a contraction in its own third party customer base. The ending of a significant third party service contract reduced turnover further, to £1,215,000 (2009: £2,056,000) and consequently increased the segmental loss to £258,000 (2009: loss of £97,000). However, the division continues to make a positive contribution to fixed overheads, and investment in sales promotion has seen a dramatic increase in the order book in the second half of 2010, signalling a welcome upturn for 2011. A number of new long-term customers have been added and an improvement in results is anticipated in 2011.

Balance Sheet, Cash Flow, Banking Facilities and Going Concern

During 2010, the priority has been to continue to generate cash and to improve the debt repayment profile of the Group's borrowings. By the year end, net borrowings (debt less cash) had been reduced to £2.0 million (2009: £2.5 million), and net current liabilities had reduced by £710,000, to £790,000 (2009: £1,500,000). The repayment profile of the bank debt has improved significantly with capital repayments in the next year now reduced to £207,000 (2010: £760,000). Debt repayment (including finance leases) will remain a burden on the Group's cash flow in 2011, with scheduled capital

repayments due of £509,000, but this debt repayment burden is falling and becoming increasingly manageable.

Continuing operations were significantly cash generative in 2010, generating £1.6 million, slightly down from the previous year (2009: £2.0 million). £703,000 of bank borrowing was repaid in the year and a further £474,000 was effectively repaid within the invoice discounting facility.

The Group still does not generate sufficient surplus funds to complete its investment needs in a timely fashion and growth will be held back until this is addressed.

During the year, the Group was able to negotiate a removal of all banking covenants. Compliance with the loan terms now rests on the ability to repay loan instalments as they fall due. The Directors have prepared financial forecasts for the business covering the 12 months from the date of this report and are confident that the repayment schedule will be satisfied and that the Group will be able to operate within its current banking facilities. As a result, the Directors have continued to adopt the going concern basis in preparing the financial statements.

Outlook

The strategy of the Board remains to grow and transform the Group from lower margin product sale and manufacturing activities, to a payments and loyalty software services business with associated recurring revenue. Dealing with the burdensome debt structure and having limited funding for investment has been a challenge. It is essential that when the economy comes out of recession, we are able to exploit opportunities and have new products ready. The Board will seek appropriate new investment to achieve this.

2011 sees us enter a year where the cost structure has been significantly improved by the actions taken during the last three years. The Group is now better placed to deliver growth and profitability but still needs to complete its product development pipeline to ensure success. 2011 will see further debt reduction and a push into the wider retail sector with our new payment and terminal processing systems, where initial market testing has created significant interest.

The sales pipeline for UDS continues to grow and strategic partnerships within the loyalty/CRM field are still generating significant new opportunities. A characteristic of this business remains the long and unpredictable sales cycle times. The PFS business is maintaining its market leading position and is seeing growth opportunities from its major customers, which have been absent for the last two years. As the market leader, we will deliver innovative new payment solutions during 2011 to maintain and build on this position.

Paul Cooper

Chief Executive Officer

30 March 2011

Officers and Professional 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 in June 2008 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. He was appointed Group Finance Director on 1st January 2009.

Non-Executive Director

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
M Coster
R J Smeeton

Secretary

E M Paul

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Directors' Remuneration Report

In accordance with the AIM Listing Rules of the Financial Services Authority the following disclosures in respect of Directors' remuneration are made on an unaudited basis.

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;
- 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; and
- to ensure that all long term incentive schemes for the Directors are approved by 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 and other group's 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 the 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 30 July 2010 for the Executive Directors of Universe Group Plc and an unapproved option scheme was set up for the Non-Executive Directors of Universe Group Plc on 30 July 2010. These options will vest only upon the achievement of a 5p market price for the shares of Universe Group plc, and will lapse if a) the Directors leave employment for any reason other than a 'Good Reason' as defined within the scheme rules and b) at the end of the tenth anniversary of the Date of Grant. The existing schemes, set up in 2007, have been cancelled in order to create the capacity for the new schemes.

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 2010.

Director's Detailed Emoluments

	Salary & fees £000	Benefits £000	Bonus £000	Pension £000	2010 £000	2009 £000
Executives						
P Cooper	120	5	—	11	136	136
R J Smeeton	80	7	—	8	95	95
Non-Executives						
J R Scholes	31	—	—	—	31	32
B L Brinkman (resigned 28th June 2010)	11	—	—	—	11	20
M Coster	25	—	—	—	25	25
	<u>267</u>	<u>12</u>	<u>—</u>	<u>19</u>	298	308

As disclosed at note 30, two Directors, John Scholes and Malcolm Coster, earned interest on loans provided to the Company.

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 3.25 per 5p share (2009: 4.125p per 5p share) and the range of market prices during the year was between 2.25p and 4.25p.

Scheme	At 1 Jan 2010	Exercised	Granted	Cancelled	At 31 Dec 2010	Exercise price
J R Scholes Unapproved	—	750,000	—	—	750,000	0p
J R Scholes Unapproved	1,250,000	—	—	(1,250,000)	—	8p
P Cooper EMI	—	1,000,000	—	—	1,000,000	0p
P Cooper EMI	1,250,000	—	—	(1,250,000)	—	8p
M Coster Unapproved	—	500,000	—	—	500,000	0p
R J Smeeton EMI	—	750,000	—	—	750,000	0p
	<u>2,500,000</u>	<u>3,000,000</u>	<u>—</u>	<u>(2,500,000)</u>	3,000,000	

Directors' share options are exercisable from three years after the date of grant, being 30 July 2010, 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 R Scholes

Chairman of the Remuneration Committee
30 March 2011

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 Company is not required to comply with Schedule 8 of the Companies Act 2006 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.

The Group does voluntarily comply with many of the requirements of the Combined Code as described in this statement and the Directors' Remuneration Report and consequently, this report is intended to highlight the key areas in which the Group complies with the code but does not serve as a report into the Group's compliance with the whole code.

The Board

As at the date of signing of these accounts, the Board comprises two Executive Directors and two 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; and
- 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 2010.

Principal Activities

The principal activity of the Company is as a holding Company, with one main trading subsidiary, HTEC Limited ('HTEC'). HTEC is engaged in the provision of managed services, payment and loyalty systems for the Petrol Forecourt and Retail sector. Jet Set Wash Systems Limited ('JetSet') was disposed of during 2010.

Result for the Year

For the purposes of these financial statements JetSet has been treated as a discontinued operation and comparative information has been adjusted to reflect that treatment. For 2010 there was an operating profit before exceptional items of £808,000 (2009: £991,000). The Company's profit for the year after interest and exceptional items, but before taxation and discontinued operations, was £267,000 (2009: £154,000).

Business Review

A review of business in 2010 is included in the Chief Executives Report on pages 6 to 7.

Key performance indicators (KPI's)

There are three main KPI's that management monitor within the Group:

- The order inflow at HTEC each day to ensure that annual sales forecasts are on schedule.
- Operating profit from management accounts which are prepared each month in order to monitor that forecast profitability is achieved.
- Performance against contracted service level agreements ('SLA's').

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

Principal risks and uncertainties facing the Company

The principal risks facing the Company relate to:

- the availability of either debt or equity finance sufficient to allow the Group to invest into its product lines and business development teams. Cash generated by the operating subsidiary, HTEC, allows for maintenance of the current product set and some investment but is currently insufficient to allow the Group to fully exploit its potential market opportunities;
- concentration of customers such that five customers accounted for 71% of turnover in 2010 (2009: 62%). Such a level of concentration clearly provides the Group with risks associated with loss of business, and default on debts. The blue chip nature of the customer list provides mitigation against the latter risk.

Mitigation against the threat of potential loss of business comes from the Group's policy of securing long term contracts with each customer where possible, and in attempting to broaden the customer base through business development initiatives;

- technological risks inherent in the Group's product set which are vulnerable to continual demands for improvements to functionality and competition from other suppliers. The Group continues to invest heavily in Research and Development in order to improve its product set and increase the value of them to its customers;
- the costs associated with maintaining bank and other approvals which allow the Group to operate as a payment system provider. These regimes are onerous and do require continuous product refresh, which the Group is committed to undertaking. The approvals regime however does provide a barrier to entry into the market place, providing a stable platform to be a value-added supplier.

Going Concern

UK Company Law requires Directors to consider whether it is appropriate to prepare the financial statements on the basis the Company and Group are going concerns. Throughout the financial statements there are various disclosures relating to going concern. This 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 continued to implement cost reduction programmes in order to improve operational gearing.

The Group's main sources of finance are bank loans, finance leases and invoice discounting. The year end amounts outstanding on each are discussed within note 18. The bank loans do not have any financial covenants attached to them.

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 ensure that the existing bank facilities are sufficient to meet the Group's requirements. This is discussed further within liquidity risk in note 20 and is the key factor in relation 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.

Directors' Report continued

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 manage the actual and potential environment 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.

Employees

The quality and commitment of the Group's employees has played a major role in the success of HTEC over the years. 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 £1,069,000 (2009: £937,000) was charged to the Statement of Comprehensive Income. In addition, development costs of £318,000 (2009: £327,000) were capitalised. Research and development in the year concentrated on the development of a new payments and loyalty processing terminal.

Dividends

The Directors do not propose the payment of a dividend (2009: £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 61 (2009: 66) 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 and 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 9 June 2011, together with explanatory notes, appear in the separate Notice of Annual General Meeting sent to all Shareholders.

Substantial shareholdings

As at 30 March 2011 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
Brulines Group	13,209,754	11.5
Brookwell	12,200,100	10.6
Barclays Wealth	8,031,894	7.0
Rathbone	6,118,805	5.3
J R Scholes	5,691,960	5.0

Directors

The Directors who served throughout the year and to the date of approval of the financial statements were as follows:

J R Scholes (Chairman)
P Cooper
M Coster
R J Smeeton

B L Brinkman served as a Director until 28 June 2010

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 31 December as follows:

	Ordinary shares of 5p each	
	2011 No.	2010 No.
J R Scholes	5,691,960	5,691,960
P Cooper	650,000	500,000
M Coster	500,000	500,000
R J Smeeton	154,160	79,160

The Directors had no other disclosable interest under the Companies Act 2006 in the shares of the Company or of any other Group company.

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

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. Under that law the Directors have elected to prepare the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. The Directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

In preparing these financial statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website publication

The Directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Disclosure of information to Auditors

At the date of making this report each of the Company's Directors, as set out on page 9, confirm 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 s418 of the Companies Act 2006.

Auditors

BDO LLP were appointed as Auditors during the year and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approval

The report of the Directors was approved by the Board on 30 March 2011 and signed on its behalf by:

P Cooper
Director

Independent Auditor's Report to the Members of Universe Group plc

We have audited the Group and Parent financial statements of Universe Group plc for the year ended 31st December 2010 which comprise the consolidated statement of total comprehensive income, the consolidated and Company statement of changes in equity, the consolidated and Company balance sheets, the consolidated and Company cash flow statements, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an 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

As explained more fully in the statement of Directors' responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the Parent Company's affairs as at 31st December and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

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

Mr Paul Anthony (Senior Statutory Auditor)

For and on behalf of BDO LLP, Statutory Auditor
Southampton
United Kingdom
30 March 2011

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated Statement of Total Comprehensive Income

year ended 31st December 2010

		Before exceptional items 2010 £'000	Exceptional items 2010 £'000	Total 2010 £'000	Before exceptional items 2009 £'000	Exceptional items 2009 £'000	Total 2009 £'000
	Notes						
Continuing operations							
Revenue	2, 3, 4	11,292	—	11,292	12,560	—	12,560
Cost of sales		(6,719)	—	(6,719)	(7,868)	—	(7,868)
Gross profit		4,573	—	4,573	4,692	—	4,692
Administrative expenses	5	(3,765)	(230)	(3,995)	(3,701)	(456)	(4,157)
Operating profit	2	808	(230)	578	991	(456)	535
Finance costs	5, 6	(311)	—	(311)	(276)	(105)	(381)
Profit before taxation		497	(230)	267	715	(561)	154
Taxation	8			80			99
Profit for the period from continuing operations				347			253
Discontinued operations							
Loss for the period from discontinued operations	31			(1,241)			(753)
Loss for the year attributable to equity shareholders	7			(894)			(500)
Other comprehensive expense — translation differences				(6)			(3)
Total comprehensive expense attributable to equity holders of the parent				(900)			(503)
Loss per share							
				Pence			Pence
Basic and diluted	9						
— continuing operations				0.30			0.22
— discontinued operations				(1.08)			(0.66)
Total				(0.78)			(0.44)

The loss relating to the parent for the year was £4,156,000 (2009: £431,000).

Statements of Changes in Equity

year ended 31st December 2010

Consolidated

	Share capital £'000	Equity reserve £'000	Share premium £'000	Merger reserve on acquisition £'000	Translation reserve £'000	Profit and loss account deficit £'000	Total equity £'000
At 1 January 2009	5,735	110	10,753	3,503	(216)	(5,846)	14,039
Total comprehensive expense for the year	—	—	—	—	(3)	(500)	(503)
At 1 January 2010	5,735	110	10,753	3,503	(219)	(6,346)	13,536
Total comprehensive expense for the year	—	—	—	—	(6)	(894)	(900)
Reserves transfer	—	(110)	—	—	—	110	—
Share based payments	—	—	—	—	—	6	6
At 31 December 2010	5,735	—	10,753	3,503	(225)	(7,124)	12,642

Company

	Share capital £'000	Equity reserve £'000	Share premium £'000	Merger reserve on acquisition £'000	Profit and loss account deficit £'000	Total equity £'000
At 1 January 2009	5,735	110	10,753	476	(1,622)	15,452
Total comprehensive expense for the year	—	—	—	—	(431)	(431)
At 1 January 2010	5,735	110	10,753	476	(2,053)	15,021
Total comprehensive expense for the year	—	—	—	—	(4,156)	(4,156)
Reserves transfer	—	(110)	—	—	110	—
Share based payments	—	—	—	—	6	6
At 31 December 2010	5,735	—	10,753	476	(6,093)	10,871

The share capital represents the Ordinary shares of the Company issued at par which carry a right to participate in the distribution of dividends.

The transfer from equity reserve to profit and loss account reflects the cancellation of the share options which originally led to the creation of the equity reserve. All future share based payment credits will be recognised directly in the profit and loss account reserve.

The share premium account represents the difference between the issue price and the nominal value of shares issued.

The merger reserve relates to the acquisition of HTEC Limited in previous years.

The translation reserve is used to record exchange differences arising from the translation of the financial statements of overseas operations.

The profit and loss account deficit represents the accumulated net gains and losses recognised in the Comprehensive Statement of Income.

Balance Sheets

as at 31st December 2010

Company number: 02639726

	Notes	Consolidated		Company	
		2010 £000	2009 £000	2010 £000	2009 £000
Non-current assets					
Goodwill	10	12,150	12,612	—	—
Development costs	11	760	1,007	—	—
Property, plant and equipment	12	1,909	2,805	—	—
Investments	13	—	—	15,117	17,867
		14,819	16,424	15,117	17,867
Current assets					
Inventories	14	1,224	1,269	—	—
Trade and other receivables	15	1,856	3,060	49	380
Cash and cash equivalents	15	362	1,145	7	12
		3,442	5,474	56	392
Total assets		18,261	21,898	15,173	18,259
Current liabilities					
Trade and other payables	16	(2,932)	(4,421)	(395)	(254)
Current tax liabilities	17	(335)	(335)	—	—
Short term borrowings	18	(965)	(2,218)	(207)	(760)
		(4,232)	(6,974)	(602)	(1,014)
Non-current liabilities					
Medium term borrowings	18	(1,387)	(1,388)	(1,050)	(1,000)
Other liabilities	19	—	—	(2,650)	(1,224)
		(1,387)	(1,388)	(3,700)	(2,224)
Total liabilities		(5,619)	(8,362)	(4,302)	(3,238)
Net assets		12,642	13,536	10,871	15,021
Equity					
Share capital	22	5,735	5,735	5,735	5,735
Equity reserve		—	110	—	110
Share premium		10,753	10,753	10,753	10,753
Other reserves		3,503	3,503	476	476
Translation reserve		(225)	(219)	—	—
Profit and loss account deficit		(7,124)	(6,346)	(6,093)	(2,053)
Total equity attributable to equity shareholders		12,642	13,536	10,871	15,021

The financial statements were approved by the Board of Directors and authorised for issue on 30 March 2011. They were signed on its behalf by:

P Cooper
Director

Cash Flow Statements

year ended 31st December 2010

	Notes	Consolidated		Company	
		2010 £000	2009 £000	2010 £000	2009 £000
Net cash flows from operating activities:					
— Continuing operations	32	1,586	1,977	605	(123)
— Discontinued operations	32	(199)	(285)	—	—
Interest paid		(356)	(429)	(196)	(339)
Tax received		25	148	—	—
		1,056	1,411	409	(462)
Net cash inflow/(outflow) from operating activities					
Cash flows from investing activities:					
Disposal of subsidiary undertakings		289	—	289	—
Purchase of property, plant & equipment		(587)	(397)	—	—
Expenditure on product development		(318)	(327)	—	—
Proceeds from sale of property, plant & equipment		4	17	—	—
		(612)	(707)	289	—
Net cash (outflow)/inflow from investing activities					
Cash flow from financing activities:					
Repayments of obligations under finance leases		(389)	(437)	—	—
Repayment of borrowings		(1,192)	(765)	(703)	(668)
New loans raised		354	1,573	—	1,150
		(1,227)	371	(703)	482
Net cash (outflow)/inflow from financing					
(Decrease)/increase in cash and cash equivalents					
Cash and cash equivalents at beginning of year		1,145	70	12	(8)
		362	1,145	7	12
Cash and cash equivalents at end of year					

Notes to the Accounts

year ended 31st December 2010

1. Significant accounting policies

General information

Universe Group plc is a company incorporated in the United Kingdom under the Companies Act. 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.

In the current year, there are no new or revised Standards and Interpretations that have been adopted and have affected the amounts reported in these financial statements.

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:

IFRS 1	<i>Severe Hyperinflation</i>
IFRS 7	<i>Disclosures — Transfers of Fixed Assets</i>
IFRS 9	<i>Financial Instruments</i>
IAS 12	<i>Deferred tax — Recovery of Underlying Assets</i>
IAS 24	<i>Related Party Disclosure</i>
IFRIC 14, IAS 19	<i>The Limit on a Defined Benefit Asset</i>
IFRIC 19	<i>Extinguishing Financial Liabilities with Equity Instruments</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.

Basis of accounting

The financial statements have been prepared under the historical 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 2006.

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

As permitted by section 408 of the Companies Act 2006, 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 18.

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 IFRS 3 'Business Combinations' goodwill is not amortised.

For the purpose of impairment testing goodwill is allocated to operating segments, which are considered to be the cash generating units of the business. Goodwill is 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.

Notes to the Accounts

year ended 31st December 2010

1. Significant accounting policies continued

Investments

Investments are held at the lower of cost and net realisable value.

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.

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 (or 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 re-valued amount, in which case the impairment loss is treated as a revaluation decrease to the extent that it reverses gains previously recognised in other comprehensive income.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or 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 (or 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 re-valued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Borrowing costs

Borrowing costs attributable to capital projects are capitalised during the development phase of the project. Loan issue costs are accounted for on an accrual basis in the statement of comprehensive income and expense, and are added to the carrying amount of the instrument.

Operating profit

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

Exceptional items

Costs are treated as exceptional costs when they are associated with normal activities, are of a non-recurring nature and/or are of an exceptional magnitude. Management track the performance of the business excluding these items.

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 lower of the fair value of the leased property and the present value of the minimum lease payments over the term of the lease 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 statement of comprehensive income and expense over the period of the lease in proportion to the capital element outstanding.

Expenditure on operating leases is charged to the statement of comprehensive income and expense 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 pounds 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 statement of comprehensive income and expense.

1. Significant accounting policies continued**Foreign currencies** continued

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. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised in other comprehensive income and accumulated in the foreign exchange reserve.

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 profit before taxation as reported in the statement of comprehensive income and expense 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.

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 or comprehensive income, in which case the deferred tax is also dealt with in equity or comprehensive income as appropriate.

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.

Notes to the Accounts continued

year ended 31st December 2010

1. Significant accounting policies continued

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 by reference to prevailing market prices for each element delivered.

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 on a straight line basis over the period during which the benefits of the project are expected to arise, typically three to five years. Expenditure on research activities is recognised as an expense within administration expenses 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.

1. Significant accounting policies continued

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 statement of comprehensive income, 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. Borrowing costs associated with capital projects are capitalised during the development phase of the project.

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 initially recognised at fair value and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

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 payment

The Group has applied the requirements of IFRS 2 'Share-based Payments'. In accordance with the transitional provisions, IFRS 2 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.

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 £12.1 million (2009: £12.6 million). An annual impairment review is required under IAS 36 'Impairments of Assets' 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 IAS 38 'Intangible Assets'. All capitalised and ongoing projects are reviewed regularly to ensure they meet the criteria for capitalisation. The key judgements required by management are the judgement of the capitalisation of development expenditure and whether it meets the criteria defined within IAS 38 'Intangible Assets' and the potential impairment of the intangible assets once capitalised. The carrying value of capitalised development costs at the year end was £760,000.

Notes to the Accounts continued

year ended 31st December 2010

2. Operating profit and EBITDA before exceptional items and discontinued operations

	2010 £000	2009 £000
Revenue	11,292	12,560
Cost of sales	(6,719)	(7,868)
Gross profit	4,573	4,692
Administrative expenses	(3,765)	(3,701)
Exceptional items	(230)	(456)
Operating profit	578	535
Add back: exceptional items	230	456
Operating profit before exceptional items and discontinued operations	808	991
Add back:		
Depreciation	484	465
Amortisation	565	433
EBITDA before exceptional items and discontinued operations	1,857	1,889

3. Revenue analysis

Revenue arises from hardware and services is set out below:

	2010 Continuing operations £000	2010 Discontinued operations £000	2010 Total £000	2009 Continuing operations £000	2009 Discontinued operations £000	2009 Total £000
Hardware	1,897	499	2,396	2,283	531	2,814
Services	9,395	674	10,069	10,277	1,402	11,679
	11,292	1,173	12,465	12,560	1,933	14,493

The geographical region analysis of income by origin is as follows:

	2010 Continuing operations £000	2010 Discontinued operations £000	2010 Total £000	2009 Continuing operations £000	2009 Discontinued operations £000	2009 Total £000
United Kingdom	8,975	1,173	10,148	8,675	1,933	10,608
Europe	2,317	—	2,317	3,885	—	3,885
	11,292	1,173	12,465	12,560	1,933	14,493

4. Operating and Geographical Segments

The Group has three business segments. All material operations and non-current assets are in the UK. The three trading segments are: Universe Data Services (UDS), Contract Electronic Manufacturing (CEM) and Petrol Forecourt Solutions (PFS). Differentiation of segments is based upon the nature of the products and services provided by each segment, as set out below:

UDS provides payment and loyalty solutions into the general retail market.

PFS provides hardware, software and service solutions into the UK petrol market.

CEM provides subcontracted electronic manufacturing services into the UK electronics market.

	UDS 2010 £'000	CEM 2010 £'000	PFS 2010 £'000	Total 2010 £'000
Revenue — all external	2,351	1,215	7,726	11,292
Gross profit	1,100	107	3,366	4,573
Segment expenses	(750)	(365)	(1,279)	(2,394)
Segmental result	350	(258)	2,087	2,179
Unallocated central and corporate expenses				(1,371)
Operating profit before exceptional items				808
Exceptional items (see note 5)				(230)
Finance costs				(311)
Taxation				80
Profit for the year before discontinued operations				347

	UDS 2009 £'000	CEM 2009 £'000	PFS 2009 £'000	Total 2009 £'000
Revenue — all external	3,086	2,056	7,418	12,560
Gross profit	1,650	278	2,764	4,692
Segment expenses	(691)	(375)	(1,120)	(2,186)
Segment result	959	(97)	1,644	2,506
Unallocated central and corporate expenses				(1,515)
Operating profit before exceptional items				991
Exceptional items (see note 5)				(561)
Finance costs				(276)
Taxation				99
Profit for the year before discontinued operations				253

In prior years JetSet was disclosed as a segment. JetSet was disposed of during 2010 and all relevant segmental information is given in note 31 to the accounts.

Information about major customers

Included in revenues arising from the PFS segment are revenues of approximately £2.6 million (2009: £2.4 million) which arose from sales to the segment's largest customer. Included in revenues arising from the UDS segment are revenues of approximately £2.0 million (2009: £2.4 million) which arose from sales to the segment's largest customer.

Notes to the Accounts continued

year ended 31st December 2010

5. Exceptional items — continuing operations

	2010 £000	2009 £000
Administrative expenses		
Group restructuring costs*	221	357
Advisor fees in respect of Brulines approach	9	99
	<u>230</u>	<u>456</u>
* Consisting mainly of redundancy costs and in 2009 the closure of the Spanish office.		
Finance costs		
Refinancing costs	—	85
Interest on tax provision	—	20
	<u>—</u>	<u>105</u>

6. Finance costs

	2010 Continuing operations £000	2010 Discontinued operations £000	2010 Total £000	2009 Continuing operations £000	2009 Discontinued operations £000	2009 Total £000
Interest payable on bank loans and overdrafts	188	13	201	167	10	177
Interest payable on finance leases	74	6	80	73	19	92
Other interest	49	26	75	36	39	75
Exceptional finance costs (see note 5)	—	—	—	105	—	105
	<u>311</u>	<u>45</u>	<u>356</u>	<u>381</u>	<u>68</u>	<u>449</u>

7. Loss for the year

This is stated after charging/(crediting):

	2010 Continuing operations £000	2010 Discontinued operations £000	2010 Total £000	2009 Continuing operations £000	2009 Discontinued operations £000	2009 Total £000
Cost of inventory recognised as expense	1,312	198	1,510	1,354	248	1,602
Staff costs excluding redundancy costs (see note 23)	5,457	393	5,850	5,695	844	6,539
Foreign exchange losses	51	—	51	4	—	4
Depreciation and amortisation						
Development costs	565	—	565	433	—	433
Tangible, owned	259	142	401	244	118	362
Tangible, subject to finance lease	225	—	225	221	79	300
Profit on disposal of fixed assets	—	—	—	14)	—	(14)
Research expenditure	1,069	—	1,069	937	—	937
Auditors' remuneration (see below)	38	—	38	78	—	78
Operating lease charges						
— plant and machinery	327	34	361	329	77	406
Operating lease charges						
— property	393	38	431	421	85	506
Exceptional items (see note 5)	230	462	692	561	444	1,005

The analysis of the Auditors' remuneration is as follows:

	2010 £000	2009 £000
Fees payable to the Company's Auditors' for the audit of the Company's annual accounts	10	25
The audit of the Company's subsidiaries	15	35
Total audit fees	<u>25</u>	<u>60</u>
Other fees:		
Tax compliance	13	10
Tax advisory	—	8
Total non-audit fees	<u>13</u>	<u>18</u>

Notes to the Accounts continued

year ended 31st December 2010

8. Tax on loss on ordinary activities

	2010 £000	2009 £000
Continuing operations		
Current tax:		
Current year	—	(15)
Adjustments to tax charge in respect of previous periods	(80)	(84)
	(80)	(99)
Deferred tax (note 21):		
Current year	—	—
Total tax credit	(80)	(99)

Discontinued operations

No tax charge or credit to taxation arises in the discontinued operations.

Tax in Line

Corporation tax is calculated at 28% (2009: 28%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

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

	2010 £000	2009 £000
Loss before tax	(974)	(599)
Tax credit at the UK corporation tax rate of 28% (2009: 28%)	(273)	(168)
Tax effect:		
Expenses not deductible in determining taxable profit	159	75
Enhanced R&D tax relief	—	(34)
Capital allowances (in excess of)/less than depreciation	(5)	68
Unrelieved tax losses carried forward	—	44
Losses utilised	(148)	—
Expenses not deductible relating to disposal of subsidiary	267	—
Adjustments to tax charge in respect of previous periods	(80)	(84)
Tax credit for the current period	(80)	(99)

9. Loss per share

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

	2010 £000	2009 £000
Earnings:		
Profit after tax — continuing operations	347	253
Other comprehensive expense	(6)	(3)
Earnings from continuing operations	341	250
Loss after tax — discontinued operations	(1,241)	(753)
Loss after tax — all operations	(900)	(503)

	2010 No. '000	2009 No. '000
Number of shares		
Weighted average number of ordinary shares for the purposes of basic loss per share	114,705	114,705
Weighted average number of ordinary shares for the purposes of diluted loss per share	114,705	114,705

5,700,000 (2009: 3,750,000) share options are in issue and could potentially dilute earnings per share in the future, but were not included in the calculation of diluted earnings per share because they are not dilutive in the periods presented.

	2010 pence	2009 pence
Loss per share		
Earnings per share — continuing operations	0.30	0.22
Loss per share — discontinued operations	(1.08)	(0.66)
Basic & diluted loss per share	(0.78)	(0.44)

10. Goodwill

	HTEC Group £000	JetSet Group £000	2010 Total £000	2009 Total £'000
Cost at 1 January 2010	12,150	462	12,612	12,612
Impairment	—	(462)	(462)	—
Carrying amount at 31 December 2010	12,150	—	12,150	12,612

As stated in note 1 the goodwill has been tested for impairment in accordance with IAS 36 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 estimates 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.

Notes to the Accounts continued

year ended 31st December 2010

10. Goodwill continued

Following adoption of IFRS8, the goodwill relating to the HTEC acquisition was required to be allocated to all operational segments within HTEC. The carrying values of goodwill in the HTEC segments are set out below.

	PFS £'000	CEM £'000	UDS £'000	Total £'000
At 1 January 2010 and 31 December 2010	9,228	1,234	1,688	12,150

The Group tests for impairment by preparing cash flow forecasts derived from the most recent financial budgets approved by the Board. The future cash flows used are those anticipated in the budget for 2011 with the following profit growth assumption: UDS: Profit growth of 10% for the next five years and 2.5% thereafter, PFS: Profit growth of 6% for the next five years and 2.5% thereafter and CEM: Profit growth of £100,000 per annum for the next five years and 2.5% thereafter. The current growth rates used reflect anticipated future turnover growth, however the Group has conducted sensitivity analysis on the impairment tests of these segments carrying values. For all segments, the growth rate could reduce by one percentage point for the 5 years after the 2011 budget and this would still result in the carrying value being in excess of its recoverable amount.

The Board have concluded that no impairment of goodwill is required for the PFS, UDS and CEM operating segments.

The risk adjusted rate used to discount each of the CGU cash flow forecasts is 21.6% (2009: 12.5%).

11. Development Costs

	2010 £000	2009 £000
Consolidated Cost		
At 1 January	5,930	5,603
Additions	318	327
At 31 December	6,248	5,930
Amortisation		
At 1 January	4,923	4,490
Charge for the year	565	433
At 31 December	5,488	4,923
Carrying amount		
At 31 December	760	1,007

Development costs are tested for impairment annually as part of goodwill testing and are amortised over the period during which the benefits of the development projects are expected to arise. The significant capitalised development costs included above are:

	Remaining amortisation period	Net book amount £'000
On-line loyalty platform	3	240
New payment and loyalty terminal	5	250

12. Property, Plant and Equipment

	Leasehold Improvements £000	Plant and Equipment £000	Total £000
Consolidated			
Year ended 31 December 2010			
Cost			
At 1 January 2010	1,105	5,616	6,721
Additions	—	587	587
Disposals	—	(609)	(609)
Sale of business (see note 31)	—	(1,254)	(1,254)
At 31 December 2010	<u>1,105</u>	<u>4,340</u>	<u>5,445</u>
Depreciation			
At 1 January 2010	440	3,476	3,916
Charge for the year	59	567	626
Disposals	—	(604)	(604)
Sale of business (see note 31)	—	(402)	(402)
At 31 December 2010	<u>499</u>	<u>3,037</u>	<u>3,536</u>
Net book value			
At 31 December 2010	<u>606</u>	<u>1,303</u>	<u>1,909</u>
At 31 December 2009	<u>665</u>	<u>2,140</u>	<u>2,805</u>
Year ended 31 December 2009			
Cost			
At 1 January 2009	1,085	5,487	6,572
Additions	20	377	397
Disposals	—	(248)	(248)
At 31 December 2009	<u>1,105</u>	<u>5,616</u>	<u>6,721</u>
Depreciation			
At 1 January 2009	383	3,096	3,479
Charge for the year	57	605	662
Impairments	—	20	20
Disposals	—	(245)	(245)
At 31 December 2009	<u>440</u>	<u>3,476</u>	<u>3,916</u>
Net book value			
At 31 December 2009	<u>665</u>	<u>2,140</u>	<u>2,805</u>
At 31 December 2008	702	2,391	3,093

The impairment loss on plant and equipment of £20,000 in 2009 was due to the closure of JetSet's Scottish office.

The net book value of plant and equipment includes £826,000 (2009: £1,017,000) in respect of assets held under finance leases. The depreciation charged on these assets during the year was £224,000 (2009: £300,000).

Notes to the Accounts continued

year ended 31st December 2010

13. Investments

	2010 £000	2009 £000
Company		
Investments in subsidiary undertakings at 1 January 2010	17,867	17,117
Further investment into JetSet Wash Systems Limited	—	750
Disposal of investment in JetSet Wash Systems Limited	(750)	—
Impairment provision	(2,000)	—
At 31 December 2010	<u>15,117</u>	<u>17,867</u>

The investment in JetSet Wash Systems Limited related to the capitalisation of existing intercompany indebtedness and was a non-cash transaction.

The impairment provision relates to the write down of the investment in HTEC Limited to its value in use.

For details of principal subsidiaries see note 29.

14. Inventories

	2010 £000	2009 £000
Consolidated		
Raw materials	692	870
Work in progress	532	399
	<u>1,224</u>	<u>1,269</u>

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

15. Other Financial Assets

Trade and other receivables

	2010 £000	2009 £000
Consolidated		
Trade receivables	1,286	2,230
Other debtors	6	50
Prepayments and accrued income	469	740
Corporation tax receivable	95	40
	<u>1,856</u>	<u>3,060</u>
Company		
Amounts owed from Group undertakings	—	249
Other debtors	16	50
Prepayments and accrued income	33	81
	<u>49</u>	<u>380</u>

The average credit period taken on sales of goods and services is 37 days (2009: 41 days). No interest is charged on the receivables. Before accepting any new customer, the Group uses an external credit scoring system to access the potential customer's credit quality and defines credit limits by customer. Of the trade receivables balance at the end of the year, £410,485 (2009: £757,225) is due from the Group's largest customer.

15. Other Financial Assets continued

Included in the Group's trade receivable balance are debtors with a carrying value amount of £350,000 (2009: £590,000) 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 £210,000 (2009: £455,000), 60-90 days £82,000 (2009: £34,000) and 90 days and over £58,000 (2009: £101,000).

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 no bad debt provision is required (2009: £nil)

Cash and cash equivalents

	Consolidated		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Cash and cash equivalents	362	1,145	7	12

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

	Consolidated		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Trade creditors	769	1,266	108	122
Other creditors	68	39	39	39
Accruals and deferred income	1,631	2,296	248	93
Other taxation	464	820	—	—
	<u>2,932</u>	<u>4,421</u>	<u>395</u>	<u>254</u>

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 61 days (2009: 66 days).

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

17. Current tax liabilities

	Consolidated		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Corporation tax	335	335	—	—

Notes to the Accounts continued

year ended 31st December 2010

18. Borrowings

	Consolidated		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Unsecured — at amortised cost				
Current				
Bank overdrafts	—	—	—	—
Directors and management loans (iv)	25	229	—	—
Non-current				
Directors loans (iv)	200	—	200	—
Secured — at amortised cost				
Current				
Bank loans (i)	207	760	207	760
Finance lease liabilities (ii)	302	324	—	—
Invoice discounting (iii)	431	905	—	—
Non-current				
Bank loans (i)	850	1,000	850	1,000
Finance lease liabilities (ii)	337	388	—	—
	2,352	3,606	1,257	1,760
The borrowings are repayable as follows:				
On demand or within one year	965	2,218	207	760
In the second to fifth years inclusive	1,387	1,388	1,050	1,000
	2,352	3,606	1,257	1,760

(i) Bank loans consist of two separate term loans. They are secured by a first charge over all undertakings and assets of the Group. The weighted average interest rate paid in 2010 was 10.25% (2009: 9.84%). The original term loan bears interest based on a fixed rate of 5.33% plus a risk margin of 3.35%. At 31st December 2010 £57,000 was drawn on this loan and is being repaid on a monthly basis with final payment due in March 2011. The second loan, of £1,000,000 was drawn during 2009 and bears interest at 10% over HBOS bank rate. This loan is repayable in 60 instalments commencing in April 2011.

(ii) Finance lease liabilities are secured by the assets leased. The average lease term is five years. For the year ended 31st December 2010, the average effective borrowing rate was 6.9% (2009: 7.9%). 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% (2009: 6%).

(iv) The Directors and management loans are unsecured and bear interest at 15% (2009: 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 2010, the Group had available no undrawn committed borrowing facilities in respect of which all conditions precedent had been met (2009: £100,000).

The bank overdraft and bank loans are secured by a debenture over the assets of the Group but do not carry any financial covenants.

19. Other liabilities

	Consolidated		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Amounts owed to Group undertakings	—	—	2,650	1,224

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:

	2010 £000	2009 £000
Debt*	2,352	3,606
Cash and cash equivalents	(362)	(1,145)
Net debt	1,990	2,461
Equity†	12,642	13,536
Net debt to equity ratio	15.7%	18.2%

* 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

	Consolidated		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Financial assets:				
At amortised cost:				
Cash	362	1,145	7	12
Trade receivables	1,286	2,230	—	—
	1,648	3,375	7	12

Notes to the Accounts continued

year ended 31st December 2010

20. Financial Instruments continued

	Consolidated		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Financial liabilities:				
At amortised cost:				
Bank overdrafts	—	—	—	—
Trade payables	769	1,266	108	122
Other creditors	68	39	39	39
Accruals and deferred income	1,631	2,296	248	93
Intercompany debt	—	—	2,650	1,224
Invoice discounting loan	431	905	—	—
Bank loans	1,057	1,760	1,057	1,760
Directors and management loans	225	229	200	—
Finance lease obligations	639	712	—	—
	4,820	7,207	4,302	3,238

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 2010 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 but at approximately 17% 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 2010 would increase/decrease by £10,000 (2009: £11,000). 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.

20. Financial Instruments continued**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.

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.

Group	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	More than 3 years £'000	Total £'000
2010							
<i>Non-interest bearing:</i>							
Trade payables	—	667	102	—	—	—	769
<i>Fixed interest rate:</i>							
Finance leases liabilities	6.9	43	148	182	426	—	799
Bank loans	9.7	19	40	—	—	—	59
Directors loans	15.0	—	25	—	230	—	255
<i>Variable interest rate:</i>							
Invoice discounting	6.0	435	—	—	—	—	435
Bank loans	10.5	—	123	147	770	501	1,541
		<u>1,164</u>	<u>438</u>	<u>329</u>	<u>1,426</u>	<u>501</u>	<u>3,858</u>
2009							
<i>Non-interest bearing:</i>							
Trade payables	—	983	283	—	—	—	1,266
<i>Fixed interest rate:</i>							
Finance leases liabilities	7.9	30	170	167	402	—	769
Bank loans	9.7	836	—	—	—	—	836
Directors loans	15.0	—	29	—	260	—	289
<i>Variable interest rate:</i>							
Invoice discounting	6.0	910	—	—	—	—	910
Bank loans	10.5	9	45	54	433	956	1,497
		<u>2,768</u>	<u>527</u>	<u>221</u>	<u>1,095</u>	<u>956</u>	<u>5,567</u>

Notes to the Accounts continued

year ended 31st December 2010

20. Financial risk management continued

Group	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	More than 3 years £'000	Total £'000
2010							
<i>Non-interest bearing:</i>							
Trade payables	—	108	—	—	—	—	108
Intercompany debt	—	—	—	—	—	2,650	2,650
<i>Fixed interest rate:</i>							
Bank loan	9.7	19	40	—	—	—	59
Directors loans	15.0	—	—	—	230	—	230
<i>Variable interest rate:</i>							
Bank loans	10.5	—	123	147	770	501	1,541
		<u>127</u>	<u>163</u>	<u>147</u>	<u>1,000</u>	<u>3,151</u>	<u>4,588</u>
2009							
<i>Non-interest bearing:</i>							
Trade payables	—	122	—	—	—	—	122
Intercompany debt	—	—	—	—	—	1,224	1,224
<i>Fixed interest rate:</i>							
Bank loan	9.7	836	—	—	—	—	836
<i>Variable interest rate:</i>							
Bank loans	10.5	9	45	54	433	956	1,497
		<u>967</u>	<u>45</u>	<u>54</u>	<u>433</u>	<u>2,180</u>	<u>3,679</u>

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

21. Deferred tax

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

	2010 £000	2009 £000
Net provision at 1 January	—	—
Movement	—	—
At 31 December	—	—

At the year end £100,000 (2009: £166,000) of fixed asset temporary differences have not been recognised as a deferred tax asset.

At the balance sheet date, the Group has unutilised tax losses of £1,968,000 (2009: £2,600,000) available for offset against future profits. A deferred tax asset has not been recognised in respect of these losses due to the uncertainty of its recoverability.

22. Called up share capital

Group and Company	2010 £000	2009 £000
Authorised: 155,000,000 ordinary shares at 5p each (2009: 155,000,000)	7,750	7,750
Allotted, called up and fully paid: 114,704,539 ordinary shares of 5p each (2009: 114,704,539)	5,735	5,735

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

Allotments for cash made in 2010

No allotments of shares for cash were made in 2010 (2009: none).

Share options

Share options awards are disclosed at note 28.

Long-Term Investment Plan ('LTIP')

No shares were awarded as matching shares under the LTIP in 2010 (2009: none).

23. Employees and Directors**Continuing and discontinued operations**

	Consolidated		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Group				
Wages and salaries	5,163	5,757	130	140
Social security costs	510	578	14	14
Pension costs	177	204	11	11
Redundancy costs	221	511	—	—
	6,071	7,050	155	165

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

	2010 No.	2009 No.	2010 No.	2009 No.
HTEC	164	174	—	—
JetSet	15	29	—	—
Head Office	3	3	2	2
	182	206	2	2

Notes to the Accounts continued

year ended 31st December 2010

23. Employees and Directors continued

	2010 £000	2009 £000
Emoluments paid to the highest paid Director were as follows:		
Aggregate emoluments	125	125
Company pension contribution to money purchase schemes	11	11
	136	136

There were 2 Directors (2009: 2) 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 £177,000 (2009: £204,000), 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 2010 contributions of £31,000 (2009: £46,000) due in respect of the current reporting period had not been paid over to the scheme.

25. Operating lease commitments

At 31st December 2010 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	2010 Plant and Machinery £000	Total £000	Property £000	2009 Plant and Machinery £000	Total £000
Within 1 year	409	80	489	420	180	600
Between 2 to 5 years	1,636	57	1,693	1,636	52	1,688
After 5 years	3,579	—	3,579	3,988	—	3,988
Total	5,624	137	5,761	6,044	232	6,276

26. Contingent liabilities

The Group has given a duty deferment guarantee to HMRC of £5,000 (2009: £5,000).

27. Capital and other financial commitments

As at 31 December 2010 the Group had not entered into any contracts for future capital expenditure (2009: nil).

28. Share-based payments

At 31 December 2010 the outstanding share options, which include the share options granted to Directors, are shown below:

	Date of Grant	Exercise Price (p)	Number of shares	Date from which exercisable	Expiry Date
Approved EMI scheme	30 July 2010	0	3,150,000	30 July 2013	30 July 2020
	5 November 2010	0	1,100,000	5 November 2013	5 November 2020
Unapproved scheme	30 July 2010	0	1,250,000	30 July 2013	30 July 2020
	5 November 2010	0	200,000	5 November 2013	5 November 2020

Summary of share option schemes in operation during the year

The Directors' Remuneration Report on page 10 describes the plans to which IFRS 2 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 £6,000 in 2010 (2009: £nil).

Equity-settled share option schemes

The exercise price of options granted under the EMI and unapproved share option plans during 2010 was set at nil pence.

The options are subject to performance conditions, namely the share price increasing to 5 pence before options can vest, and options would only vest after three years continuous employment. 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:

	Number of share options No.	Weighted average exercise price £
Unapproved share options		
Outstanding at beginning of period	1,250,000	0.08
Granted during the period	1,450,000	0.00
Forfeited during the period	(1,250,000)	0.08
Exercised during the period	—	—
Outstanding at the end of the period	1,450,000	0.00
Exercisable at the end of the period	—	—

Options granted during the year vest over a three year period. All acquisitions under the plan are equity-settled

Notes to the Accounts continued

year ended 31st December 2010

28. Share-based payments continued

EMI	Number of share options No.	Weighted average exercise price £
Outstanding at beginning of period	2,500,000	0.08
Granted during the period	4,250,000	0.00
Forfeited during the period	(2,500,000)	0.08
Exercised during the period	—	—
Outstanding at the end of the period	<u>4,250,000</u>	0.00
Exercisable at the end of the period	—	—

All acquisitions under the plan are equity-settled.

As at 31 December 2010 no share options were capable of being exercised (2009: 4,250,000 with a weighted average exercise price of 8 pence). The options outstanding at 31 December 2010 had a weighted average exercise price of 0 pence (2009: 8 pence) and a weighted average remaining contractual life of 9.6 years (2009: 7.5 years). 2,500,000 EMI options and 1,250,000 unapproved options were surrendered during the year prior to the new grant. The full value of these options had already been recognised in the Group's financial statements.

The fair value per award granted and the assumptions used in the calculations are as follows:

Date of Grant	Type of award	Number of Shares	Exercise price (p)	Share price at date of grant (p)	Fair value per option (p)	Award life (years)
30 July 2010	EMI	3,150,000	0	3	1	3
30 July 2010	Unapproved	1,250,000	0	3	1	3
5 November 2010	EMI	1,100,000	0	3	1	3
5 November 2010	Unapproved	200,000	0	3	1	3
		<u>5,700,000</u>				

The key assumptions used in calculating the share-based payments charge are as follows:

- Fair value of each option was based on the share price at the date of grant and adjusted for the risk relating to satisfaction of the performance condition.
- Satisfaction of the performance condition has been assessed across a range of possible outcomes and in order to determine the likelihood of the options vesting after three years.
- The three year vesting period represents the minimum likely vesting period and consequently the highest per annum share-based payment charge.

29. Principal Subsidiaries and Joint Ventures

Name	Place and Date of Incorporation	Issued and Fully Paid Share Capital	Percentage Held	Business
HTEC Group Ltd	England and Wales	Ordinary £1	100% held	Holding company
HTEC Ltd*	England and Wales	Ordinary 1p	100% held	Manufacture and development of payment and information systems
High Technology* Electronic Clearance SL	Spain	Ordinary 6 euro	100% held	Dormant
HTEC Ltd*	Portugal	Branch, no share capital	100% held	Management of information systems
WSF Services Limited	Scotland	Ordinary £1	100% held	Dormant
Prepaid Card* Management Limited	England and Wales	A / B shares £0.01	50% held	Provision of prepaid cash card services

* Investments held in a subsidiary company.

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

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.

	Debts/(credits) to intercompany indebtedness	
	2010	2009
	£000	£000
HTEC Limited		
Funding transactions	(1,053)	(878)
Transfer of JetSet debt	(769)	—
Management recharge	396	396

Amounts owed to subsidiaries are disclosed at note 19.

Loans from 2 Directors, totalling £200,000 (2009: £200,000) were outstanding at the year end. Amounts owing at the balance sheet date were as follows:

	Interest paid during the year 2010	Interest accrued at 31 December 2010	Capital outstanding at 31 December 2010	Capital outstanding at 31 December 2009
	£'000	£'000	£'000	£'000
J R Scholes	4	16	100	100
M Coster	4	16	100	100
	8	32	200	200

Interest paid on the Director loans during the year included £8,000 accrued from the prior year.

Loan repayment is conditional upon the agreement of the Company's bankers.

Notes to the Accounts continued

year ended 31st December 2010

30. Related parties continued

Loans from 2 Directors, totalling £25,000 (2009: £14,000) at the year end, were provided to assist with the matched funding requirement of a short term loan taken out during the prior year. This short term loan was repaid in 2009, and consequently the loans provided by the Directors are now repayable. Amounts owing to Directors at the balance sheet date were as follows:

	Interest paid during the year 2010 £'000	Interest accrued at 31 December 2010 £'000	Capital outstanding at 31 December 2010 £'000	Capital outstanding at 31 December 2009 £'000
P Cooper	—	—	15	7
R J Smeeton	—	—	10	7
	—	—	25	14

The loans are repayable during 2011.

Remuneration of key personnel

Details of the remuneration of the Directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 'Related Party Disclosures'. Further information regarding the Directors individual remuneration package is provided in the Directors' Remuneration Report on page 10.

	2010 £000	2009 £000
Short-term employee benefits	299	299
Post-employment benefits	19	19
Share-based payments	4	—
	322	318

31. Discontinued Activities

The loss from discontinued operations comprises losses arising from the following operations:

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Disposal of JetSet in 2010	(1,147)	(753)
Disposal of Bellword SAS in 2006	(36)	—
Closure of Prepaid Card Management in 2010	(58)	—
	(1,241)	(753)

31. Discontinued Activities continued

Details of these transactions are set out below:

Disposal of Jet Set Wash Systems Limited

On 23 July 2010 the Group sold its interest in Jet Set Wash Systems Limited for a total consideration of £380,000 with £80,000 of that consideration deferred until 2011 and subject to a net assets adjustment. The incoming funds (net of costs) of £275,000 were immediately used to repay bank debt.

The comparative income statements have been restated to reflect the composition of the discontinued activities at the latest balance sheet date.

The results of the JetSet business unit included within the Consolidated Statement of Total Comprehensive Income were as follows:

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Revenue	1,173	1,933
Cost of sales and administrative expenses	<u>(1,606)</u>	<u>(2,174)</u>
Loss before exceptional items	(433)	(241)
Exceptional items — reorganisation costs	—	(444)
Exceptional items — impairment of goodwill	(462)	—
Finance charges	(45)	(68)
Loss on disposal	<u>(207)</u>	<u>—</u>
Loss from discontinued activities	(1,147)	(753)

Analysed below are the net assets of Jet Set Wash Systems as at 23 July 2010

	£'000
Property, plant and equipment	852
Inventories	168
Trade and other receivables	264
Trade and other payables	<u>(796)</u>
Net assets at date of disposal	488
Associated costs of disposal	25
	513
Loss on disposal	<u>(207)</u>
	<u>306</u>
Satisfied by:	
Debt	6
Cash	<u>300</u>
	306
Less debtor	(6)
Associated costs of disposal	<u>(25)</u>
Net proceeds from disposal	<u>275</u>

Notes to the Accounts continued

year ended 31st December 2010

31. Discontinued Activities continued

Disposal of Bellword SAS in 2006

The disposal of the Bellword SAS business in 2006 gave rise to contingent consideration of £50,000 falling due in 2010.

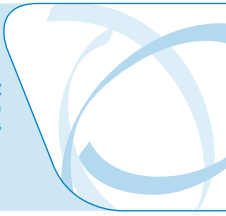
Finalisation of the contingent consideration gave rise to a £14,000 cash inflow in 2010 and consequent loss on disposal of £36,000.

Closure of Prepaid Card Management Limited in 2010

The failure of this joint venture to secure significant sales orders led to a cessation of operations and provision against the investment of £58,000 (previously included in current assets) incurred during the companies inception in 2007.

32. Net Cash Flows from Operating Activities

	Consolidated		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Continuing operations				
Cash flows from operating activities				
Operating profit/(loss)	578	535	(3,966)	(92)
Depreciation and amortisation	1,049	898	—	—
Impairment of investment	—	—	2,000	—
Loss on disposal of subsidiary	—	—	1,344	—
Profit on sale of fixed assets	—	(14)	—	—
Share option charge	6	—	6	—
	<u>1,633</u>	<u>1,419</u>	<u>(616)</u>	<u>(92)</u>
Movement in working capital:				
(Increase)/decrease in inventories	(112)	312	—	—
Decrease/(increase) in receivables	616	(159)	(26)	(232)
(Decrease)/increase in payables	(551)	405	1,247	201
Net cash inflow/(outflow) from operating activities	<u>1,586</u>	<u>1,977</u>	<u>605</u>	<u>(123)</u>
Discontinued operations				
Cash flows from operating activities				
Operating profit/(loss)	(1,196)	(685)	—	—
Depreciation and amortisation	145	197	—	—
Impairment of goodwill	462	—	—	—
Impairment of fixed assets	—	20	—	—
Impairment of other debtors and prepayments	94	—	—	—
Loss on disposal of subsidiary	207	—	—	—
	<u>(288)</u>	<u>(468)</u>	<u>—</u>	<u>—</u>
Movement in working capital				
(Increase)/decrease in inventories	(12)	67	—	—
Decrease in debtors	276	107	—	—
(Decrease)/increase in creditors	(175)	9	—	—
Net cash outflow from operating activities	<u>(199)</u>	<u>(285)</u>	<u>—</u>	<u>—</u>



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