20 December 2016

# Electronic Data Processing PLC (EDP)

## Preliminary results for the year ended 30 September 2016

EDP is an IT solution provider to the UK wholesale distribution industry and a supplier of CRM and Business Intelligence software more widely.

**Highlights:**

- Turnover £4.96 million (2015: £5.16 million)
- Contracted recurring revenues remain strong, representing 82% of total revenues (2015: 79%)
- Hosting revenues amounted to 59% of total revenues (2015: 51%), strengthening our recurring revenues and therefore visibility
- Adjusted operating profit broadly maintained at £430,000 after margin improvements and targeted overhead savings (2015: £459,000), giving an operating margin of 8.7% (2015: 8.9%)
- Pre-tax profit of £244,000, after one-off charges of £114,000 in relation to property disposed of after the year end (2015: £347,000)
- R&D expenditure was £982,000 in the year (2015: £1,067,000) reflecting continuing enhancement of Quantum VS and Vecta products
- Strong debt-free balance sheet; cash balances of £5.40 million at 30 September 2016 (2015: £5.55 million)
- Last remaining surplus freehold property sold after the year end for £1.2 million
- A strategic review of the business is continuing. The conclusions of the review will be reported to shareholders in due course.
- Final dividend 3.0p per share, meaning overall dividend maintained at 5.0p for the full year

**Sir Michael Heller, Chairman of EDP, said:**

"With a robust, cash generative business model and a strong debt-free balance sheet I remain confident about the future"

**For further information please contact:**


| | | |
|---|---|---|
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## Chairman's Statement

Turnover for the year to 30 September 2016 was £4.96 million compared with £5.16 million the previous year. This resulted from a quiet end to the financial year as decisions on a discrete number of sales opportunities were delayed by customers. This is dealt with further in the Chief Executive's statement.

Adjusted operating profit (which excludes non-cash IFRS items and exceptional non-trading costs and is reconciled to statutory profit before tax in note 3 to the consolidated financial statements) was £430,000, compared with £459,000 last year. The reduction in turnover was largely offset by improved margins and lower overheads.

Statutory pre-tax profit for the year was £244,000 (2015: £347,000) after charges of £114,000 in relation to property matters which are referred to below.

Contracted recurring revenues, which comprise income from annual software licence fees and hosting subscription charges, amounted to 82% of total revenue compared with 79% in the previous year. Revenues generated through the hosting centre also increased to 59% of total revenues, up from 51%.

R&D expenditure for the year was £982,000 (2015: £1,067,000) as we continued to enhance our key products, Quantum VS and Vecta.

I am pleased to confirm that since the year end we have completed the sale of our surplus freehold property in Milton Keynes for £1.2 million. Net of disposal costs the proceeds amounted to £1.17 million. This resulted in a £10,000 reduction in the carrying value of the property at the year end. As reported at the half year stage, we incurred an exceptional charge of £104,000 relating to repairs to the roof of this property following storm damage.

This sale completes a process that we started some years ago, to dispose of six freehold properties which had become surplus to operating requirements. Overall this process has generated more than £7 million of cash which has supported distributions to shareholders totalling £11 million over the same period.

Operating cash flows were strong and at the year end cash and short-term deposits (classified as investments in the balance sheet) totalled £5.4 million (2015: £5.55 million). This is after dividends paid during the year of £631,000 but this does not include the cash from the property disposal which was received after the year end.

Net assets at 30 September 2016 were £3.19 million compared to £4.96 million at 30 September 2015. The reduction is due to a further increase in the liability relating to our defined benefit pension scheme under IAS19. Net of deferred tax we have made a non-cash provision during the year of £1.4 million following a further significant decrease in the discount rate used to value liabilities under IAS19. This is discussed further in the Chief Executive's Statement.

The Directors are proposing to pay a final dividend of 3p per share (2015: 3p) giving a total dividend for the year of 5.0p, the same as last year. Total cash dividends paid to shareholders will therefore amount to £631,000. If approved by shareholders, the final dividend will be paid on 6 April 2017 to those shareholders on the register at 10 March 2017. The shares will be ex-dividend on 9 March 2017.

We announced earlier in the year that we are carrying out a strategic review of the business and that process is continuing. We will report the conclusions of the review to shareholders in due course.

I would like to thank all our members of staff and my colleagues on the Board for their contribution during the year.

With a robust, cash generative business model and a strong debt-free balance sheet I remain confident about the future.

Sir Michael Heller
Chairman
19 December 2016

**Chief Executive's Statement**

Total revenue for the year was £4.96 million, a 4% reduction from last year. From a sales point of view, the end of the financial year was a little disappointing with a small number of customers delaying orders. Whilst each opportunity had a specific and understandable reason for the delay, it is also possible that caution over wider economic factors played a part in these instances. These opportunities have not been lost and we are continuing to work to expedite them. The first of the delayed orders was converted in October and so far in the current financial year we are slightly ahead of the previous year in overall revenue terms.

Our adjusted operating profit for the year was £430,000 compared with £459,000 in 2015. Ordinarily we would expect a reduction in turnover to have a similar pound for pound impact on operating profit, as our overall gross margin is typically well over 90%. We were, however, able to maintain our adjusted operating profit at a level broadly similar to last year due to an improvement in margins and targeted overhead savings. Hardware related revenue was £116,000 compared with £184,000.

We have for many years pursued a strategy to strengthen the relationship with our customers by growing the proportion of our revenues delivered through our hosting centre in Milton Keynes. Last year was no exception as hosting revenues amounted to 59% of total revenues, up from 51% the previous year, strengthening our recurring revenues and therefore visibility.

We strengthened our new business sales team last year and are currently looking to invest further in this area. We continue to manage the migration process to Quantum VS carefully, recognising that while Quantum VS provides an excellent solution for the majority of users of our older legacy products, the migration process itself inevitably leads to higher levels of customer churn than we have historically seen. We have continued to sign new orders during the year and at 30 September 2016, we had 40 customers signed up for our Quantum VS product with a further 113 still using our older applications.

The first customers for our new Quantum VS e-business module went live during the year and we have further customers currently in the implementation process. Quantum VS e-business allows us to offer a single product which can be implemented on an incremental basis starting with a simple website, through on-line catalogue access, to a sophisticated e–business solution fully integrated into their back-office application. It is also compatible with our legacy applications which assists the migration process.

In the short-term, we would expect to see the proportion of our total revenues represented by Vecta start to increase due to the fact that its sales cycle is much shorter than that for an ERP solution such as Quantum VS.

**Strategy**

Our two main products, Quantum VS and Vecta deliver software solutions that offer clear business benefits to our customers helping them to generate sales growth or to create efficiencies and drive down costs. Quantum VS and Vecta are complementary with many of our customers using both.

Quantum VS is an ERP application focussed on a number of verticals within the distribution sector including builders and timber merchants, suppliers of fixings and fastenings, industrial and security products and electrical wholesalers. Our long-term strategy is to manage the migration of customers from our four legacy applications (Merchant, Charisma, Esprit and The Business Programme) to Quantum VS whilst identifying and exploiting new business opportunities in our target vertical markets.

Vecta is a powerful combined CRM and Business Intelligence (BI) product which drives sales growth for businesses in a wide range of verticals. Our strategy remains to exploit the space between the major CRM products, which typically do not deliver sales analysis, and pure BI tools.

We plan to continue investing in the long-term future of our key products through significant levels of R&D. During the year under review total R&D expenditure amounted to £982,000 or 20% of total revenues. For comparison purposes, last year this was £1,067,000, also 20%.

**Business Model**

Our software products are supplied under long-term contracts of up to five years' initial duration. These can be either in the form of traditional on-site licencing arrangements or hosted service level agreements. These contracted recurring revenues represented 82% of total revenues during the year, up from 79% last year. Typically, our customer relationships extend well beyond the initial contract period.

This recurring revenue model gives us good visibility of revenues and also generates strong cashflows as charges are typically invoiced annually in advance.

The remaining 18% of our revenues arise from initial software licence fees, hosting joining fees and the provision of professional services (implementation, training and consultancy). We also supply a small amount of low-margin computer hardware.

We have seen a gradual move in recent years away from the traditional licence fee model in favour of subscription pricing. This is particularly the case with Vecta, the latest version of which is exclusively delivered on a cloud basis. Subscription pricing in the long-term will benefit the business as on-going revenues are typically higher than under traditional licence fee arrangements. However, this is at the expense of lower up-front revenues in the short-term.

**Financial Review**

Revenue for the year was £4.96 million compared with £5.16 million last year. Second half revenues were £2.45 million compared with £2.51 million in the first half of the year.

Adjusted operating profit for the year was £430,000 representing an operating margin of 8.7%. This compares to £459,000 last year (an operating margin of 8.9%). Statutory profit before tax was £244,000 compared to £347,000 last year.

We use adjusted operating profit to monitor the performance of the business on a day-to-day basis. It excludes interest receivable, any gains and losses on property transactions, one-off exceptional items and a number of non-cash items which arise under IFRS (namely defined benefit pension scheme charges and the capitalisation and amortisation of development costs). A reconciliation of adjusted operating profit to statutory profit before tax is provided in note 3 to the accounts.

The current year's result includes exceptional charges of £114,000 in relation to property matters. These are described in the property section below. Last year's result included a net charge of £72,000 in relation to property matters (a profit on disposal of £117,000 and a provision of £189,000 against the carrying value of the surplus Milton Keynes property.)

Operating cash flows remained strong at £860,000 (2015: £952,000). Other significant cash items were dividends of £631,000 and capital expenditure of £360,000, after which cash balances and short-term deposits totalled £5.40 million compared to £5.55 million at 30 September 2015.

R&D expenditure was £982,000 (2015: £1,067,000). Of this £127,000 (2015: £139,000) was capitalised as required by IAS 38. Amortisation of previously capitalised R&D expenditure amounted to £96,000 (2015: £66,000). Accordingly, the R&D charge in the income statement is £951,000 (2015: £994,000).

The tax charge for the year was £86,000 (2015: £43,000) which represents an effective tax rate of 35%. £30,000 of the charge arises from a reduction in the deferred tax rate applied to the pension scheme liability. Taking this into account gives an underlying effective tax rate of 23%.

Earnings per share was 1.25p or 1.24p on a fully diluted basis (2015: 2.41p and 2.39p).

**Pension**

The liability associated with the Group's defined benefit pension scheme has increased again this year, from £2.27 million to £3.88 million before deferred tax. This is principally due to a continuing fall in corporate bond yields which are used to value the liabilities in the scheme. Of this, £1.53 million has been taken directly to reserves as an actuarial loss. The remaining £84,000 has been charged in the income statement. The scheme was closed to future accrual in 2014 and consequently there was no current service cost in 2016.

Valuing the scheme under the accounting rules prescribed by IAS19, net assets since 2009 have been reduced by £3.38 million. The steady fall in corporate bond yields since 2009, which reflect the low interest rate environment that has prevailed over that period, has resulted in the discount rate assumption falling steadily, from 5.7% in 2009 to 2.2% in 2016. It should be noted that any subsequent increase in interest rates and recovery in bond yields would, inter alia, lead to an improvement in the IAS19 position of the scheme.

In contrast with the IAS19 valuation, the most recent triennial actuarial valuation of the scheme, which was performed at 31 July 2013, showed a small surplus on an ongoing funding basis. Importantly, as a result of the scheme being fully funded on this basis, the Group is not currently required to make cash contributions into the scheme. The scheme actuary is currently undertaking an updated triennial valuation as at 31 July 2016. This valuation will be finalised during 2017 and we will report the results to shareholders in due course.

The defined benefit pension scheme comprises a grouped funding arrangement whose sole asset is a with-profits insurance policy backed by corporate bonds. The main difference between the IAS19 valuation and the ongoing funding valuation is that IAS19 requires the scheme asset to be valued at the insurance policy's discontinuance surrender value at the period end. This valuation does not take into account the guaranteed annuity rates which have been secured by the policy and which are included in the ongoing scheme funding valuation.

## Net assets

Primarily as a result of the increase in pension liability referred to above, net assets reduced to £3.19 million from £4.96 million. Net assets per share amounted to 25.3p (2015: 39.3p).

## Property

We sold our last remaining surplus freehold property after the year end for £1.2 million. We had previously written the property down in the balance sheet to reflect the approximate expected net sale proceeds. A further charge of £10,000 was taken in the year under review to reflect the final disposal and clearance costs. Net cash proceeds after costs were £1.17 million.

As we have previously reported, we incurred an exceptional charge of £104,000 in relation to repairs to the roof of this property following storm damage. The repairs were essential to ensure the sale ultimately progressed.

This property had been let on a short-term lease to a charitable organisation and, whilst this did not generate significant rental income, this arrangement did mitigate business rates of £53,000 per annum. Following the disposal we will achieve further cash cost savings of around £20,000 a year.

Since the year end we have relocated our Warrington office to alternative premises nearby achieving annual cost savings of approximately £30,000.

## Outlook

It is too early to assess the impact of wider economic factors and any Brexit concerns in particular on our markets. However, the strength of our recurring revenue business model and continued investment in our new business sales team and our product portfolio should position us well to deal with challenges we face as a business over the coming year.

Finally, I would like to thank all of my colleagues throughout the business for their hard work and commitment during the year.

Julian Wassell
Chief Executive
19 December 2016

# Consolidated Income Statement

**for the year ended 30 September 2016**

| | **2016** | 2015 |
|---|---|---|
| | **£'000** | £'000 |
| **Revenue** | **4,958** | 5,157 |
| **Gross profit** | **4,675** | 4,758 |
| Administrative expenses | **(4,368)** | (4,381) |
| One-off property costs | **(104)** | **-** |
| Total administrative expenses | **(4,472)** | (4,381) |
| **Operating profit** | **203** | 377 |
| Profit on sale of property | **-** | 117 |
| Write-down of property value | **(10)** | (189) |
| Finance income | **51** | 42 |
| **Profit before tax** | **244** | 347 |
| Income tax expense | **(86)** | (43) |
| **Profit for the period attributable to equity holders of the Parent** | **158** | 304 |
| **Earnings per share** | | |
| - Basic | **1.25p** | 2.41p |
| - Diluted | **1.24p** | 2.39p |

# Consolidated Statement of Comprehensive Income

**for the year ended 30 September 2016**

| | **2016** | 2015 |
|---|---|---|
| | **£'000** | £'000 |
| **Profit for the period** | **158** | 304 |
| **Other comprehensive income** | | |
| **Items that will not be reclassified to profit or loss:** | | |
| Remeasurement losses on defined benefit pension scheme | **(1,534)** | (213) |
| Income tax on other comprehensive income | **238** | 43 |
| **Other comprehensive income for the period, net of tax** | **(1,296)** | (170) |
| **Total comprehensive income for the period attributable to equity holders of the Parent** | **(1,138)** | 134 |

# Consolidated Balance Sheet

**at 30 September 2016**

| | **2016** | 2015 |
|---|---|---|
| | **£'000** | £'000 |
| **Non-current assets** | | |
| Property, plant and equipment | **1,343** | 2,545 |
| Deferred tax asset | **660** | 453 |
| Intangible assets | **464** | 431 |
| | **2,467** | 3,429 |
| **Current assets** | | |
| Inventories | **79** | 64 |
| Trade and other receivables | **1,237** | 1,445 |
| Investments | **3,500** | 3,000 |
| Cash and cash equivalents | **1,902** | 2,547 |
| Assets held for sale | **1,167** | - |
| | **7,885** | 7,056 |
| **Total assets** | **10,352** | 10,485 |
| **Current liabilities** | | |
| Deferred income | **(2,055)** | (2,008) |
| Income tax payable | **(87)** | (79) |
| Trade and other payables | **(1,009)** | (1,000) |
| | **(3,151)** | (3,087) |
| **Non-current liabilities** | | |
| Deferred income | **(42)** | (57) |
| Employee benefits | **(3,883)** | (2,265) |
| Deferred tax liability | **(82)** | (115) |
| | **(4,007)** | (2,437) |
| **Total liabilities** | **(7,158)** | (5,524) |
| **Net assets** | **3,194** | 4,961 |
| **Equity** | | |
| Share capital | **689** | 689 |
| Share premium | **119** | 119 |
| Capital redemption reserve | **625** | 625 |
| Treasury shares | **(587)** | (587) |
| Retained earnings | **2,348** | 4,115 |
| **Total equity attributable to equity holders of the Parent** | **3,194** | 4,961 |

# Consolidated Statement of Changes in Equity

**for the year ended 30 September 2016**

| | Share capital £'000 | Share premium £'000 | Capital redemption reserve £'000 | Treasury shares £'000 | Retained earnings £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **Balance at 1 October 2014** | 689 | 119 | 625 | (587) | 4,496 | 5,342 |
| **Profit for the period** | - | - | - | - | 304 | 304 |
| **Other comprehensive income:** | | | | | | |
| - remeasurement loss on defined benefit pension scheme net of tax | - | - | - | - | (170) | (170) |
| **Total comprehensive income** | - | - | - | - | 134 | 134 |
| **Transactions with owners:** | | | | | | |
| - share-based payment transactions | - | - | - | - | 1 | 1 |
| - deferred tax on share-based payment transactions | - | - | - | - | (12) | (12) |
| - dividends paid | - | - | - | - | (504) | (504) |
| **Total transactions with owners** | - | - | - | - | (515) | (515) |
| **Balance at 30 September 2015** | 689 | 119 | 625 | (587) | 4,115 | 4,961 |

| | Share capital £'000 | Share premium £'000 | Capital redemption reserve £'000 | Treasury shares £'000 | Retained earnings £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **Balance at 1 October 2015** | 689 | 119 | 625 | (587) | 4,115 | 4,961 |
| **Profit for the period** | - | - | - | - | 158 | 158 |
| **Other comprehensive income:** | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| - remeasurement loss on defined benefit pension scheme net of tax | - | - | - | - | (1,296) | (1,296) |
| **Total comprehensive income** | - | - | - | - | (1,138) | (1,138) |
| | | | | | | |
| **Transactions with owners:** | | | | | | |
| - deferred tax on share-based payment transactions | - | - | - | - | 2 | 2 |
| - dividends paid | - | - | - | - | (631) | (631) |
| **Total transactions with owners** | - | - | - | - | (629) | (629) |
| | | | | | | |
| **Balance at 30 September 2016** | **689** | **119** | **625** | **(587)** | **2,348** | **3,194** |

# Consolidated Cash Flow Statement

**for the year ended 30 September 2016**

| | 2016 | 2015 |
|---|---|---|
| | £'000 | £'000 |
| **Cash flows from operating activities** | | |
| Profit for the period | **158** | 304 |
| Adjustments for: | | |
| Depreciation | **211** | 228 |
| Amortisation | **129** | 81 |
| Profit on disposal of property, plant and equipment | **(11)** | (120) |
| Write-down of property value | **10** | 189 |
| Transfer of inventory to property, plant and equipment | **(5)** | (2) |
| Defined benefit pension charge net of employer contributions | **84** | 77 |
| Finance income | **(51)** | (42) |
| Income tax expense | **86** | 43 |
| Change in inventories | **(15)** | 3 |
| Change in receivables | **223** | 124 |
| Change in payables | **9** | (68) |
| Change in deferred income | **32** | 134 |
| Equity settled share-based payment transactions | **-** | 1 |
| **Cash received from operations** | **860** | 952 |
| Interest received | **36** | 19 |
| Income taxes paid | **(78)** | (5) |
| **Net cash from operating activities** | **818** | 966 |
| **Cash flows from investing activities** | | |
| Purchase of property, plant and equipment | **(198)** | (167) |
| Purchase of intangible assets | **(35)** | (17) |
| Capitalised development expenditure | **(127)** | (139) |
| Proceeds from sale of property, plant and equipment | **28** | 424 |
| **Net cash (used in)/generated by investing activities** | **(332)** | 101 |
| **Cash flows from financing activities** | | |
| Transfers to fixed-term deposit investments | **(500)** | (3,000) |
| Dividends paid | **(631)** | (504) |
| **Net cash used in financing activities** | **(1,131)** | (3,504) |
| Net decrease in cash and cash equivalents | **(645)** | (2,437) |
| Cash and cash equivalents at beginning of period | **2,547** | 4,984 |
| **Cash and cash equivalents at end of period** | **1,902** | 2,547 |

# Notes

### 1. Financial Information

The financial information set out above does not constitute the Company's statutory accounts for the years ended 30 September 2015 or 2016 but is derived from those accounts. Statutory accounts for 2015 have been delivered to the registrar of companies, and those for 2016 will be delivered in due course. The auditors have reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The financial information has been prepared on a basis consistent with that presented in the 30 September 2015 financial statements.

### 2. Accounting Policies

*Basis of preparation*
The financial statements have been prepared in accordance with adopted IFRS and under the historical cost basis except as described elsewhere in note 2.

*Basis of consolidation*
The consolidated financial information incorporates the accounts of Electronic Data Processing PLC and all its subsidiaries. Such accounts are all made up to 30 September 2016.

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial information of subsidiaries is included in the consolidated financial information from the date that control commences until the date that control passes.
Intragroup balances, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial information.

*Revenue*
The Group's revenues derive from a number of sources which are described below. All revenue excludes value added tax and any sales between Group companies. Revenue relating to future periods is deferred. Revenue is recognised to the extent that it is probable the economic benefits will flow to the Group and the revenue can be reliably measured.

The Group’s software revenues are broken down into initial licence fees, upfront hosting charges and recurring software usage charges. Initial licence fees are recognised as revenue in full on delivery of the software following receipt of a non-cancellable contract as the Group considers that at this point all of the significant risks and rewards of ownership of the licence have been transferred to the customer. Upfront hosting charges are recognised as revenue on provision of access to the Group’s servers following receipt of a signed non-cancellable contract. Recurring software usage charges and periodic hosting service charges are recognised evenly over the period to which they relate.

Other software related revenues are mainly from the provision of professional services including implementation, training and consultancy. This revenue is recognised when the services have been performed. Sales of computer equipment are recognised on delivery to customers and equipment maintenance charges are recognised evenly over the period to which they relate.

*Property, plant and equipment*
Property, plant and equipment is stated at cost or deemed cost less accumulated depreciation and impairment losses. Land is not depreciated. The Directors assess the residual values and useful economic lives of the properties on an annual basis. Depreciation is provided so as to write off the cost, or deemed cost, less the estimated residual value of each asset in equal instalments over its estimated useful life from the time it becomes operational, at the following rates:

| | |
|---|---|
| Freehold property | 1 to 2 per cent |
| Motor vehicles | 20 to 33 per cent |
| Equipment, fixtures and fittings | 15 to 25 per cent |

*Investments*

Investments at the balance sheet date comprise fixed-term bank deposits which have a maturity at acquisition greater than three months.

*Assets held for sale*

A non-current asset is classified as held for sale if, at the balance sheet date, its carrying value will be recovered principally through sale rather than through continuing use, it is available for immediate sale and that sale is highly probable within one year. On initial classification as held for sale, non-current assets are measured at the lower of previous carrying amount and fair value less costs to sell, with any adjustments taken to the income statement. The same applies to gains and losses subsequent to re-measurement.

*Employee benefits - pensions*

The Group operates both defined contribution and defined benefit pension schemes. The premiums relating to defined contribution schemes are charged to the income statement in the period in which they accrue.

The Group's net obligation in respect of its defined benefit pension scheme is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of the scheme assets is deducted. The calculation is performed by a qualified actuary using the projected unit credit method.

Remeasurement gains and losses arising from changes in actuarial assumptions, plan experience and differences between the expected and actual return on plan assets are recognised in "other comprehensive income" in the statement of comprehensive income in the year in which they occur. All other movements in the pension asset or liability are recognised in the income statement for the relevant period.

### 3. Segmental Analysis

The Group has identified its reportable segment based on the financial reports that internally are provided to the Group's chief operating decision maker (CODM). In line with its management structure, the Executive Directors collectively make the key operating decisions and review internal monthly management accounts and budgets as part of this process. Accordingly, the Executive Directors collectively are considered to be the CODM. The information reported regularly to the CODM presents the Group as a single segment supplying software and related services to customers operating in similar markets. The Group's software products share a common sales, development and implementation resource. Consequently the Group has determined that there is one operating segment and therefore one reportable segment, Software.

Segment performance is measured based on segment profit before tax excluding IAS 19 defined benefit pension scheme adjustments and profits or losses on property disposals or revaluations.

| | **Software 2016 £'000** | Software 2015 £'000 |
|---|---|---|
| **Revenue - external customers** | **4,958** | 5,157 |
| **Profit** | | |
| Adjusted operating profit | **430** | 459 |
| Restructuring costs | **-** | (76) |
| Exceptional legal & professional costs | **(62)** | - |
| Segment non-cash net IFRS credit | **23** | 71 |
| Interest revenue | **51** | 42 |
| **Segment profit before tax** | **442** | 496 |
| Profit on sale of property | **-** | 117 |
| One-off property costs - roof repair | **(104)** | - |
| Write-down of property value | **(10)** | (189) |
| Defined benefit pension scheme charge net of employer contributions | **(84)** | (77) |
| **Consolidated profit before tax** | **244** | 347 |
| **Other segment items** | | |
| Interest revenue | **51** | 42 |
| Depreciation and amortisation | **340** | 309 |
| Capital expenditure | **233** | 184 |

**Geographical analysis**

Geographical segment revenues, based on the geographical location of customers, are as follows:

| Revenue by destination | **2016 £'000** | 2015 £'000 |
|---|---|---|
| United Kingdom | **4,800** | 4,985 |
| Rest of the world | **158** | 172 |
| | **4,958** | 5,157 |

## 4. Income tax

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Income tax expense comprises: | | |
| **Current tax** | | |
| United Kingdom corporation tax | **87** | 79 |
| Tax over provided in prior years | **-** | (12) |
| Group current tax | **87** | 67 |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | **(31)** | (24) |
| Effect of decrease in the tax rate | **30** | - |
| Group deferred tax | **(1)** | (24) |
| Income tax expense | **86** | 43 |

## 5. Earnings per share

**Basic earnings per share**
Earnings per share is calculated by dividing the profit for the period attributable to equity holders of the Parent of £158,000 (2015: £304,000) by 12,610,976 (2015: 12,610,976), being the weighted average number of shares in issue during the year.

Basic earnings per share is 1.25p (2015: 2.41p).

**Diluted earnings per share**
For diluted earnings per share, the weighted average number of shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Company has one class of dilutive potential ordinary share which is share options granted to employees under its Enterprise Management Incentive Share Option plan. These shares have been included in the diluted earnings per share calculation.

Diluted earnings per share is calculated by dividing the profit after tax of £158,000 (2015: £304,000) by 12,742,107 (2015: 12,745,733), being the weighted average number of shares in issue adjusted for the effects of all dilutive potential ordinary shares.
The weighted average number of shares has been calculated as follows:

| | 2016 Number | 2015 Number |
|---|---|---|
| Weighted average number of ordinary shares (basic) | **12,610,976** | 12,610,976 |
| Effect of outstanding share options | **131,131** | 134,757 |
| Weighted average number of ordinary shares at 30 September | **12,742,107** | 12,745,733 |

Diluted earnings per share is 1.24p (2015: 2.39p).

## 6. Dividends paid and proposed

| The following dividends were declared and paid during the year: | | | **2016 £'000** | 2015 £'000 |
|---|---|---|---|---|
| Final dividend for 2015 | 3.0p | (2014: 2.0p) | **379** | 252 |
| Interim dividend for 2016 | 2.0p | (2015: 2.0p) | **252** | 252 |
| | | | **631** | 504 |
| Proposed for approval by shareholders at the AGM | | | | |
| Final dividend for 2016 | 3.0p | (2015: 3.0p) | **379** | 379 |

## 7. Assets held for sale

| | **2016 £'000** | 2015 £'000 |
|---|---|---|
| At 1 October | **-** | - |
| Transferred from property, plant and equipment | **1,177** | - |
| Write-down | **(10)** | - |
| At 30 September | **1,167** | - |

The asset held for sale at 30 September 2016 is the Group's vacant property at Milton Keynes. The sale of this property completed on 13 December 2016.

## 8. Share Capital

| | Ordinary shares of 5p each | | | |
|---|---|---|---|---|
| | **2016 Number** | 2015 Number | **2016 £'000** | 2015 £'000 |
| Allotted, called up and fully paid: | | | | |
| At 1 October and 30 September | **13,784,073** | 13,784,073 | **689** | 689 |
| Less: held in Treasury | **(1,173,097)** | (1,173,097) | **(59)** | (59) |
| Issued share capital excluding treasury shares | **12,610,976** | 12,610,976 | **630** | 630 |

Each holder of an ordinary share is entitled to one vote for each share held at all meetings of shareholders and will be entitled to any dividends declared by the Board of Directors with the exception of treasury shares which do not carry any voting or dividend rights.

**Treasury Shares**

| | Ordinary shares of 5p each | | | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| | **Number** | Number | **£'000** | £'000 |
| Shares held in treasury on 1 October and 30 September | **1,173,097** | 1,173,097 | **587** | 587 |

This preliminary announcement was approved by the Board of Directors on 19 December 2016.