TAX SYSTEMS

ANNUAL REPORT 2016

TAX SYSTEMS PLC

Contents

Highlights for the year

Tax Systems plc is a leading provider of corporation tax software and services in the UK and Ireland. The business has a long track record of being a key supplier of corporation tax software and services to many of the largest companies and the accounting profession in the UK and Ireland. The Company is seeking to build on, and expand the solutions it provides to its clients both organically and through acquisition.

Overview

- Acquisition of Tax Computer Systems Limited on 26 July 2016 for an enterprise value of £73m
- £75m of new capital raised during the year to fund the acquisition, transaction costs, working capital and future growth:
  - Oversubscribed placing of new ordinary shares raising £45m
  - New bank facilities of £20m
  - £10m unsecured loan notes issued to the Business Growth Fund plc
- Revenue for the year of £5.8m, representing the trading of Tax Computer Systems Limited for the five months from date of acquisition to 31 December 2016
- EBITDA[1] for the year was £2.7m. Operating loss of £3.2m reflecting the acquisition and restructuring costs of £3.3m
- Cash[2] of £4.2m and net debt[3] of £24.4m as at 31 December 2016
- New Board and senior management team with strong track record of delivery recruited
- Significant investment made into leadership, software engineering and development teams and methodology to maintain and enhance the software portfolio
- Post year end strategic acquisition of OSMO Data Technology Limited, a provider of automated data extraction software that connects to 295 versions of accounting packages, on 3 April 2017 for £3.2m in shares

Key strengths of the business:

- A customer base of over 1,000 large corporates and major accountancy firms
  - 43 of the FTSE 100
  - 23 of the top 25 UK accountancy firms
- Strong recurring revenues with high customer retention
- Comprehensive corporation tax engine with over 25 years of intellectual property
- Substantial amount of sector expertise providing high barrier to entry to the market

[1] EBITDA is defined as operating profit or loss before exceptional items, depreciation, amortisation and share-based payments.
[2] Cash includes £2m of cash held in a solicitor escrow account in connection with the acquisition of TCSL.
[3] Net debt is defined as bank borrowings and loan notes recognised as liabilities and the equity element of the loan notes recognised in equity less cash

➢ Find more about Tax Systems' business model on page 6

➢ Read more in the financial review on page 11

➢ Stay up to date online: www.taxsystemsplc.co.uk

Forward-looking statements

This report includes forward-looking statements. Whilst these forward-looking statements are made in good faith, they are based upon the information available to Tax Systems at the date of this report and upon current expectations, projections, market conditions and assumptions about future events. These forward-looking statements are subject to risks, uncertainties and assumptions about the Group and should be treated with an appropriate degree of caution.

Chairman's Statement

Clive Carver

"We are well set for growth"

These financial statements provide the first opportunity to report to shareholders on the performance of Tax Systems plc ("Tax Systems" or the "Company" and, together with its subsidiaries, the "Group") for the year ended 31 December 2016. These are also the first results of the Group since the acquisition of Tax Computer Systems Limited ("TCSL") (the "Acquisition") in July 2016.

In summary, the integration of the acquired business has been successfully completed as planned. Clients have been retained, new senior management have been added to an already successful operational team and product development initiatives are well underway.

The process of introducing greater automation into the tax reporting process has begun with the acquisition of OSMO Data Technology Limited ("OSMO") at the beginning of April and will continue with further targeted acquisitions and internally generated product enhancements and developments.

In April 2017, we were pleased to announce that Gavin Lyons became the Chief Executive Officer having formerly held the position of Executive Chairman. At the same time, we announced a number of other board changes. I became the Non-Executive Chairman, Kevin Goggin was appointed Chief Financial Officer, with Grahame Benson, the previous Finance Director and COO, stepping down and Paul Gibson joined the Board as a Non-Executive Director. I am very pleased to welcome Kevin and Paul to the Board, both of whom have strong backgrounds in the technology sector, and wish Grahame all the best for his future endeavours.

Gavin Lyons and his management team fully understand the opportunities the Company enjoys and have the backing of the Board and the Company's leading shareholders to use the Group's strong competitive position as a base to deliver growth in the years to come. This growth, in the UK, Ireland and potentially overseas, is set to be technology led as the pace of increasing automation of the tax reporting and compliance process quickens.

I look forward to updating shareholders further over the coming months with news of our progress.

Annual General Meeting

The Annual General Meeting of the Company will be held on 14 June 2017 at 11 am at the offices of K&L Gates, One New Change, London EC4M 9AF.

Clive Carver
Non-Executive Chairman 18 April 2017

Chief Executive Officer's Review

Gavin Lyons

"This has been a year of significant change for the Company. In July 2016 the Company completed the acquisition of TCSL, a business which the Board believed met the defined criteria and represents a strong and stable platform from which to build a tax software and services business of scale."

As an investment company, Eco City Vehicles plc ("ECV"), the Company's previous name, the stated strategy was to invest in and/or acquire companies in the technology sector where there are opportunities for growth which, if achieved, would enhance earnings for shareholders.

TCSL was acquired for £73 million in cash which was funded via a placing of new ordinary shares, raising £45 million, senior debt from HSBC plc, raising £20 million and debt from the Business Growth Fund plc ("BGF"), raising £10 million.

The Acquisition was a reverse takeover under the AIM Rules for Companies and, following shareholder approval, the Company was re-admitted to AIM on 26 July 2016 and changed its name to Tax Systems plc.

The first five months of operation have demonstrated that our employees, customers and core intellectual property are of the highest calibre and I would like to thank everyone for their contribution since the Acquisition completed. The business has required investment in people, processes, systems and infrastructure, which was known to us at the time of the Acquisition, and I am pleased with the way employees have embraced change. As a team we are all excited about the future.

There are several challenges for our customers' tax department which in broad terms fall into three categories – managing tax risk and audit, leveraging tax data and automating as much of the end to end tax process as possible.

Tax departments need to be able to provide meaningful tax intelligence so that effective decisions regarding tax risk can be made and to ensure businesses remain compliant with tax regulations and filing requirements while driving as much efficiency and automation into their tax processes.

The government's policy of 'Making Tax Digital' by 2020 is a key driver for the Group. This will require organisations to submit quarterly reports rather than an annual tax return which will force many companies to evaluate how they manage their process as it will place a substantial strain on resources to move from annual to quarterly reporting.

Our vision to help tax departments has been broken down into technology component parts and, to achieve this goal, we will execute a buy, build or borrow strategy. The maturing of digitalisation and digital ecosystems means that we do not have to develop every component ourselves – it provides us the opportunity to utilise other technologies which we would consider non-core but are still required to deliver an end to end customer solution.

The number one priority was finding a solution to help organisations automatically collect data as it is the first point in the end to end tax process and we decided to buy that technology component which we consider to be a critical building block. Our acquisition of OSMO on 3 April 2017 is the first step towards our vision of improved automation of the tax process. OSMO was acquired in return for the issue of 4,701,492 new ordinary shares in the capital of the Company. At the previous day's mid closing price, this valued OSMO at £3.2 million.

OSMO is a leading provider of automated data extraction services that connects to 295 versions of accounting systems; cloud, on premise and enterprise, with new ones being continually added. Using OSMO's technology, finance and tax teams can reduce the time spent on manual inputs and re-keying of data by automating the collection of data from their accounting systems. This will significantly reduce the manual workload for finance and tax teams thus increasing efficiency and cost savings. OSMO's products are ideal add-ons to the existing software and services that Tax Systems already provides.

Outlook

The Group continues to focus on executing its vision for an end to end solution for tax departments to manage tax risk and audit, leverage tax data and automate as much of the tax process as possible. This will be achieved through the development of its own software solutions and services as well as complementary acquisitions or borrow (OEM) deals. The route to market and opportunity to grow is via the existing customer base, new customers in the UK and Ireland and then geographical expansion.

We believe we have the right business platform from which to grow, in no small part thanks to the hard work and diligence of our people, whom I would like to thank for their dedication and contribution to the ongoing success of the business.

The Board remains confident in the ability of the business to deliver increasing shareholder value over the coming years. I look forward to 2017 and beyond with excitement.

Gavin Lyons
Chief Executive Officer 18 April 2017

Business Overview

What we do

TCSL was formed in 1991 and has built up an excellent reputation as a trusted supplier of corporation tax software and services. We now have a number of solutions that serve the evolving needs of corporation tax departments. Today our solutions are used by circa 900 large corporations and over 150 accounting firms in the UK and Ireland.

We have got to a market leading position by developing exceptional software and services, investing in great people and focusing on customer service. We have a continuing customer retention rate in excess of 97%.

Our customers

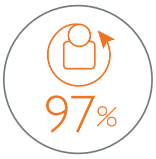
In total, we currently serve the needs of over 1,000 customers in the UK and Ireland which is made up of about 900 large corporations, including 43 of the FTSE 100, and 160 accounting firms, including 23 of the top 25 UK practices. The average tenure of our customers is over 11 years.

The customer relationships are strong with a significant length of tenure. Customers stay with us due to our people and their ability to program complex tax legislation into automated tax software solutions.

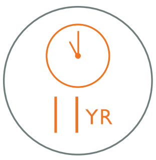
The opportunity

Organic growth

As a result of the Acquisition we inherited an enviable blue-chip customer base with long standing relationships. However, the penetration rate of all of our solutions into those customers remains low. A key priority and major opportunity for the sales function is to increase our market share by selling existing solutions into current customers, selling existing solutions to new customers and then to focus on geographical expansion thereafter.



A new sales director with a proven track record of delivering organic growth has been recruited to lead the transformation and reinvigoration of the sales function. We now have a proactive sales approach focussed on identifying, targeting and converting sales opportunities. We expect the investments made in sales heads and our CRM system to generate benefits in this coming financial year.



Product leadership and innovation

Post-Acquisition, we have taken the opportunity to speak to many of our existing and prospective customers about technology usage, user experience, feature requests and the impact of the government's policy of 'Making Tax Digital' (see below).

In order to maximise the market opportunity as well as retaining our marketing leading position, significant investments have been made in leadership, agile development methodology, software engineering and product management. Senior appointments include a new Chief Technology Officer and a VP of Engineering both of whom have proven track records of delivering best of breed technology that is reliable, scalable and meeting customer needs.

One example of how we will be responding to customer requests is by offering a fully hosted cloud version of our solutions to reduce the requirement for onsite updates. Additionally, we are updating our technology to provide an open system with public Application Programme Interfaces ("APIs") for integration with other software used within and outside the industry – a concept we referred to earlier known as digital ecosystems. We are delighted that, due to our unique underlying architecture, we have been able to do this while maintaining full compatibility with our existing products, in particular, our renowned and comprehensive corporation tax calculation engine which contains more than 25 years of intellectual property.

Acquisitions

As demonstrated by our acquisition of OSMO post the reporting date, there are a number of technology components which we are looking to either buy, build or partner. Therefore we will continually be analysing and evaluating suitable acquisitions that will either complement or expand our commercial offering thus increasing the scale of operations.

Market dynamics

Over the last decade, tax jurisdictions have been embarking on a process known as channel shift – the aim being to move away from phone or paper based tax submissions to online digital services and the objective being to cut costs and improve efficiency. The UK has been one of the leaders in this shift where currently over 99% of VAT returns, 98% of business tax returns and 86% of personal returns are filed electronically.

HMRC has recognised the potential digital holds to its routine compliance and enquiry work. HMRC's Making Tax Digital ("MTD") project is a £1.3 billion programme of investment in the digitisation of administrative methods and has the headline goal of eliminating the annual tax returns companies file by 2020 making HMRC one of the leading digital tax authorities in the world.

The existing reporting regime will be replaced with a quarterly reporting regime in which companies will report summary totals to HMRC, which it would use to provide an estimated year end liability and to monitor compliance activity.

There has been no slowdown in HMRC's plans despite objections from taxpayer groups. HMRC plans to phase in mandatory quarterly filing under the new regime as follows:

- April 2018 – unincorporated businesses: income tax and class 4 NICs
- April 2019 – VAT
- April 2020 – Corporation tax: corporates and partnerships with turnover greater than £10m.

The impact of MTD on corporates and accountancy firms

HMRC's proposals to impose quarterly submissions as early as 2018 means there could be many changes affecting how a business prepares and submits its filings to HMRC, as well as significant cost and resource implications.

In light of the cost and resource implications of implementing HMRC's MTD initiative, corporates and accountancy firms are coming under increasing pressure to automate as much of their end to end tax process as possible whilst making sure they are still managing tax risk and audit appropriately. Utilising tax software and services can help deliver efficiencies and enable better allocation of resources.

Business Overview

continued

For corporates with in-house tax capability, a large part of their work in submitting a tax return currently involves the gathering and inputting of financial data into the tax technology platform which are both laborious and inefficient tasks. The recent acquisition of OSMO and the proposed integration of its automated data extraction technology into Tax Systems' software portfolio will remove the need for manual data inputs by automating the data collection process directly from accounting systems. This has the benefit of reducing errors and inefficiencies and increasing cost savings. Internal tax professionals can add more value by applying their professional expertise and judgement on more complex tax matters.

For accountancy firms which use tax technology platforms to produce tax computations for their clients, the automation of financial data collection frees them up to deliver best value to companies by providing more complex tax planning and structuring advice.

Tax Systems' track record of responding to changes in tax administration regimes

HMRC has stated that it will start the consultation process for complex businesses in Spring 2017. We are committed to working closely with HMRC to share our experience to ensure a seamless transition to the new ways of working for our current and future users. Here at Tax Systems, we have witnessed and dealt with multiple changes in the UK corporation tax regime. When XML and Inline Extensible Business Reporting Language ("iXBRL") were introduced we worked closely with HMRC to ensure that we brought to market a fully tested and aligned solution and were the first major corporation tax software supplier to e-file under both XML and iXBRL.

We continue to work hand in hand with our customers who are some of the most complex UK companies to ensure that they meet their corporation tax compliance requirements and our experience in doing so means we now have a blueprint for working with HMRC around MTD to ensure its introduction is a smooth and positive experience for our customers.

The solution portfolio

Alphatax software

Alphatax is Tax Systems' lead product in its software portfolio. It provides an end to end tax compliance solution. It supports virtually all phases of the compliance cycle, from streamlining data collection, simplifying tax analyses, producing computations and tax accruals, and managing the overall process. It is fully enabled for iXBRL online filing and is recognised by HMRC. It provides solutions for all sizes of company and accountancy firm.

The Alphatax software incorporates a comprehensive range of corporation tax rules and logic. The integrated tax logic brings high levels of automation when preparing tax computations and reports. These rules are updated regularly in line with tax law and legislative changes. Furthermore, Alphatax has an interactive help system with legislative references and up to date tax content providing users with the technical support they need when preparing computations.

Alphatag software

Alphatag converts a Word or Excel document prepared for the statutory accounts to an iXBRL file in a format suitable for HMRC. iXBRL allows organisations to automate the submission of financial statements.

Alphatag incorporates the tools and functions required to manage the process of tagging statutory accounts documents so that they can be filed automatically with HMRC. The submission of tagged accounts is a requirement from HMRC.

Alphatrac software

Alphatrac is workflow software providing a dashboard for status reporting concerning the entire tax compliance process, including across multiple countries. It uses web-based technology to manage risk and improve efficiencies. It assigns tasks to individuals, tracks deadlines and issues alerts, and uploads documents for file sharing.

Alphacat software

Under the US Foreign Account Tax Compliance Act ("FATCA"), non-US financial institutions are required to report US client account management to the Internal Revenue Service ("IRS"). The UK is one of over 100 participating tax authorities. Financial organisations in the UK affected by FATCA are required to report key information to HMRC on an annual basis. In addition, under the Common Reporting Standards ("CRS"), the US FATCA model has been extended to other countries within the Organisation for Economic Cooperation and Development.

Alphacat enables companies to prepare and manage FATCA reportable accounts filings to HMRC for onward transmission to the IRS in the US. Alphacat also effectively manages a company's end to end CRS compliance processes.

Business Overview

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Tax Technology Services and Support

The professional services offered by Tax Systems include:

Strategic consulting

We offer strategic consulting on every aspect of the corporation tax compliance cycle.

Outsourced corporation tax compliance service

We provide a fully outsourced service providing data collection, preparation of the tax computation, client approval, testing of e-filing with attachments, and the final client sign-off.

iXBRL tagging service

For companies that prefer to outsource the process of tagging, we take statutory accounts from the client, carry out the requisite tagging, ensure sign off by the client, and deliver the files on the web.

Tax reporting solutions

It is necessary for companies to have a standardised process to complete their interim and year-end tax provision calculations. We offer a service which automates this process and provides a comprehensive suite of tax reports for both company and group accounting.

Hosting

We provide a hosted service which enables our software to be used without impacting our customers' technology infrastructure.

Training

For companies that want to manage their tax computations and returns in-house, we provide The Corporation Tax Technical Training Course. This is an intensive, two day course which enables finance professionals to control their tax compliance process.

Financial Review

Kevin Goggin

"I am pleased to report the results of Tax Systems for the year ended 31 December 2016.

The year ended 31 December 2016 has been a transformational year for the Company with its transition from an investing company to becoming a leading supplier of tax software and services following the acquisition of TCSL on 26 July 2016."

The results for the year ended 31 December 2016 are comprised of the results for Tax Systems plc for the full year together with the results for TCSL for the five-month period from the date of Acquisition.

Revenue and gross margin

Revenue for the year to 31 December 2016 amounted to £5.8m (2015: £nil) from a mixture of software sales and services mostly to large blue-chip corporates and major accountancy firms. 87% of revenue is derived in the UK with the balance from Ireland.

Sales of annually renewable software licences amounted to £5.0m, representing 86% of total revenue. This revenue stream provides the Group with a strong recurring revenue model. The Group's services revenue for the period from Acquisition was £0.8m.

Gross profit amounted to £5.4m (2015: £nil) after accounting for cost of sales which comprised of directly attributable staff costs and third-party hosting costs. The gross margin is 93%.

Operating costs

Total operating costs for the year were £8.6m (2015: £0.3m). The increase was largely driven by the operating costs of TCSL, £3.3m of transaction and restructuring costs associated with the Acquisition and amortisation and depreciation of £2.6m in respect of acquired intangible assets.

	2016 £'m	2015 £'m
Other administrative expenses	**2.7**	0.2
Transaction and restructuring costs	**3.3**	0.1
Amortisation and depreciation	**2.6**	–
Total operating costs	**8.6**	0.3

The other administrative expenses of £2.7m relate to the overhead costs of TCSL which principally include staff and premises costs.

Operating loss and EBITDA

The operating loss for the year was £3.2m (2015: £0.3m).

The Directors use EBITDA as a non-GAAP measure in order to assess the underlying performance of the Company. This is considered to be the most relevant measure of the performance of the Group. EBITDA is defined as operating profit or loss before exceptional items, depreciation, amortisation and share-based payments.

EBITDA amounted to £2.7m (2015: loss £0.2m) for the year.

A reconciliation of operating loss to EBITDA is as follows:

	2016 £'m	2015 £'m
Operating loss	**(3.2)**	(0.3)
Amortisation and depreciation	**2.6**	–
Transaction and restructuring costs	**3.3**	0.1
EBITDA	**2.7**	(0.2)

Net finance costs

Net finance costs for the year amounted to £0.8m (2015: £nil), principally made up of interest payable on bank borrowings and unsecured loan notes of £0.6m, together with an effective interest charge of £0.2m on the equity element of the loan notes.

Loss before tax

The Group reported a loss before tax of £4.0m in 2016 (2015: £0.3m).

Tax

The tax credit for the year was £0.3m (2015: £nil), represented by a corporation tax charge of £0.2m which was

Financial Review

continued

offset by a deferred tax credit of £0.5m. The deferred tax credit primarily related to acquired intangible assets.

Statutory loss after tax

The reported loss after tax was £3.7m (2015: £0.3m).

Capital raise

On 26 July 2016, the Company completed the acquisition of the entire issued share capital of TCSL for an enterprise value of £73m, settled in cash.

The Acquisition was financed as follows:

- A placing of 67,164,180 ordinary shares of 1p each ("Ordinary Shares") at a price of 67p per share raising £45m (before costs)
- New bank facilities of £20m, comprising a revolving credit facility of £11m and a term loan of £9m
- The issue of £10m unsecured loan notes to the BGF with an associated option to subscribe for 5,970,149 Ordinary Shares at a price of 67p per share. These loan notes and options are considered as linked and are treated as one financial instrument with loan and equity elements. The fair values of the loan and equity elements have been assessed to be £7.2m and £2.6m respectively at the year end.

Warrants

During the year, as a result of sourcing, running and corner stoning the capital raise and the Acquisition, the Company issued warrants to MXC Capital Limited ("MXC") to subscribe for 4,409,299 Ordinary Shares at a price of 67p per share. This brings the total number of warrants issued to MXC to 4,851,184, equating to 6% of the share capital of the Company. The fair value of the warrants granted was assessed to be £0.3m and has been recognised in Other Reserves and offset against Share Premium.

Long Term Incentive Plan

A Long Term Incentive Plan ("LTIP") was implemented in July 2016 to incentivise certain directors and senior executives of the Group. The awards are structured as Employee Shareholder Shares in TCSL. Beneficiaries will share in a pool of up to 6% of the growth in value in the market capitalisation of the Company from the market capitalisation of the Company on the date of its re-admission to trading on AIM adjusted for further share issuance and capital returns if any. At the reporting date, LTIP awards equal to 5.3% of the growth in value have been made.

Capital reorganisation

During the year the Company undertook a capital reorganisation to reduce the number of shares in issue. The capital reorganisation was effected by way of a consolidation, subdivision and reclassification of every 50 existing ordinary shares into one new ordinary share of 1p each and one deferred share of 49p each. The deferred shares were subsequently acquired by the Company and cancelled.

Cash flow

The Group absorbed £2.8m of cash during the year with the key components of the Group's cash flow being:

	2016 £'000	2015 £'000
Net cash from operating activities, before exceptional expenses	**3.2**	(0.1)
Exceptional expenses	**(3.3)**	(0.2)
Acquisition of TCSL, net of cash acquired	**(74.0)**	–
Net proceeds from issue of shares	**43.8**	5.0
Cash inflow from bank borrowings and loan notes	**29.5**	0.3
Repayment of bank borrowings	**(0.9)**	–
Capital expenditure	**(0.4)**	–
Tax paid	**(0.4)**	–
Net interest paid	**(0.3)**	–
Net (decrease)/increase in cash in the year	**(2.8)**	5.0

Net debt

The Group ended the year with cash balances of £2.2m (2015: £5.0m). In addition, an amount of £2.0m was classified as restricted cash to satisfy a final payment, if any, in respect of the acquisition of TCSL.

Net debt at 31 December 2016 amounted to £24.4m (2015: net funds £5.0m) which comprised of the following:

- £18.8m of term loan and revolving credit facilities
- £7.2m of the debt element of loan notes recognised as liabilities
- £2.6m of the equity element of the loan notes
- £2.2m of cash and cash equivalents
- £2.0m of cash held in escrow

Change in accounting policy for FY2017

The Company is reviewing the way it accounts for revenue from annual software licences in the light of the new reporting standard on revenue recognition, IFRS 15 'Revenue from Contracts with Customers'. Currently the Company recognises the licence fee element of software licence agreements in the month in which the agreement commences. It is likely that the Company will early adopt IFRS 15 for the year ending 31 December 2017 and expects that this will result in a change to its current accounting policy to one of recognising revenue from the licence fee element of software licence agreements evenly over the term of the agreement. Such a change in revenue recognition policy will impact revenue recognised but is not expected to affect invoicing, cash flow profile or net debt position.

Should the Company early adopt IFRS 15 it will apply the change using a modified retrospective approach in which the comparative results for 2016 will not be restated, instead the Company will recognise a cumulative adjustment to opening retained earnings at 1 January 2017 in relation to agreements which still required performance by the Company at that date. The early adoption of IFRS 15 demonstrates the Board's desire to align ourselves with best practice.

Kevin Goggin
Chief Financial Officer 18 April 2017

Risk Management and Principal Risks

There are a number of potential risks and uncertainties that could have a material impact on the Group's long-term performance. The Board has overall responsibility for managing risk. Risks are formally identified and recorded in a risk register which is reviewed by the Board and appropriate processes are in place to implement and monitor mitigating controls.

The Audit and Risk Committee, comprising independent Non-Executive Directors, continually monitors and promotes the highest standards of integrity, financial reporting, risk management and internal control.

The Executive Directors are closely involved in the day to day management of the business and oversee a wide range of controls, including financial, operational and compliance controls, together with risk management. They ensure that key messages around risk management are communicated throughout the business.

In order to assist with the management of risks, the Group continues to recruit individuals who are expert in our markets, technology and support disciplines. The Group has a delegation of authorities that clearly sets out the approval required for key activities, including those restricted to the Board and the Executive Directors.

The key risks to which the Group is exposed are set out below:

Risk area and potential impact	Management of risks
Market competition and product development The market in which the Group operates is fragmented and competitive. It is possible that developments by others will render the Group's current and proposed products and services obsolete. Further, new competitors, or alliances among competitors could emerge. Increased competition may cause price reductions, reduced margins and loss of market share, any of which could have a material adverse effect on the Group's business, financial performance and results of operations.	The Group continues to invest substantially in the development of its products and services, both current and proposed, in order to meet the challenge of ever increasing levels of technological advancements. The Group also continually monitors the market place for competitor developments.
Undetected defects in the software The Group's business involves providing customers with reliable software. If the software contains undetected defects when first introduced or when upgraded or enhanced, the Group's customers may suffer incorrect tax computations. As a result, it may lose customers or become liable to its customers for damages.	The Group has dedicated tax and IT technical teams which focus on product integrity and testing to help reduce errors in tax computations. The Group also continues to invest in test automation.

Risk area and potential impact	Management of risks
Breach of data integrity and confidentiality Threats to the confidentiality, integrity and availability of the information systems and information that the Group holds about and on behalf of its customers and staff. This could impact the Group's operations, result in fines and undermine customer trust in the Group's business and brand leading to a loss of customers.	The Group implements and maintains controls, processes and tools that ensure continuity of information systems and the confidentiality and integrity of confidential and sensitive information. The Group's technical team includes a number of experienced IT security professionals, and the Group uses third party providers' expertise as appropriate.
Governmental developments The Group responds to each budget statement with a software update. Revision of the frequency and timing of the Chancellor's budget statements may impact the Group's ability to respond with updates leading to product inoperability due to non-current tax rules being incorporated in the software. This may lead to loss of customers and faith in the Group's products.	The Group is a member of HMRC's software development group and therefore it keeps up to date with and has advanced warning of potential changes to the corporation tax regime and timing thereof, allowing it to adapt and update its products in a timely fashion.
Failure to recruit and retain key management and staff If the Group fails to recruit and retain individuals with appropriate skills and experience its performance may suffer.	The Group places a significant emphasis on staff retention. Key management and staff are incentivised via bonus plans and share schemes.
Acquisitions The Group may fail to execute its acquisition strategy successfully which may impact on the Group's financial performance.	Before an acquisition, the Group commissions financial and legal due diligence reports to highlight potential risks and mitigate them where possible.

Clive Carver
Non-Executive Chairman 18 April 2017

Board of Directors

Gavin Lyons (39)

Chief Executive Officer ("CEO")

Gavin is responsible for the planning, setting and execution of the company's strategy as well as identifying acquisition opportunities. Gavin became Chief Executive Officer of Tax Systems at the beginning of April 2017, having been Executive Chairman since the Company's re-admission to AIM in July 2016. Gavin has had a distinguished career in the TMT sector completing close to 20 corporate transactions (including three major exits) totalling more than £200m. Gavin was until recently a partner at MXC Capital Limited, the AIM quoted technology focused merchant bank but stepped away from his operating role to concentrate his efforts on Tax Systems plc and Adept4 plc where he remains Executive Chairman.

Prior to MXC Capital Limited, Gavin was CEO of Accumuli plc, a successful buy and build in the IT security sector sold to NCC Group plc for 55m. Prior to Accumuli plc, Gavin was Head of Telecoms & Utilities at SAP UK&I, the global market and technology leader in business management software. Prior to SAP, Gavin had considerable executive-level experience derived from his role as Vice President of Sales and Alliances with Identum and three subsequent director positions with Trend Micro. Identum was a venture capitalist backed email encryption business that was successfully sold to IT security giant Trend Micro in 2008 for a multimillion dollar sum. Gavin has also worked at Xerox, Compuware and The Caudwell Group.

Kevin Goggin (54)

Chief Financial Officer ("CFO")

Kevin joined the group as Chief Financial Officer on 3 April 2017. Kevin is a chartered accountant by profession with significant international experience in finance and operations, having previously held CFO and MD positions. Kevin has worked in both listed and private companies, most recently in software and technology and, prior to this, in media storage and logistics. Kevin has completed a number of corporate transactions, including two business sales to private equity. Before joining Tax Systems, Kevin has worked with Monitise plc and was CFO at Bonded Services Group.

Clive Carver (56)

Independent Non-Executive Chairman

Clive recently became Non-Executive Chairman, having previously been a Non-Executive Director of the Company. Clive is a Fellow of the Institute of Chartered Accountants in England & Wales, having specialised in corporate tax while qualifying at Coopers & Lybrand.

He spent 17 years in the corporate broking arena becoming, successively, head of corporate finance at Seymour Pierce, Williams de Broë and finnCap. Since 2006, Clive has been chairman of Caspian Sunrise PLC, becoming executive chairman in June 2012.

Clive is also non-executive chairman of Ascent Resources plc and 365 Agile Group plc and a non-executive director of several other public and private companies. He is also a Fellow of the Association of Corporate Treasurers.

Linda Beal (55)

Independent Non-Executive Director

Linda is a chartered accountant and worked in major accounting firms for 33 years. During this time, she spent 27 years specialising in tax structuring and tax compliance for UK and international groups.

Linda was, until 30 June 2016, a tax partner at Grant Thornton. Prior to Grant Thornton, Linda was at PwC and one of its legacy firms from 1982 until 2013, becoming a tax partner in 1997.

Linda has significant experience of advising large and medium sized groups operating in the UK and internationally, including supporting boards and in-house tax teams on tax compliance using Alphatax and other tax compliance software.

Paul Gibson (52)

Non-Executive Director

Paul Gibson is a partner in MXC Capital Limited and has had a highly successful career in the TMT sector, most recently as Chief Operating Officer of Advanced Computer Software plc ("ACS") prior to its acquisition by Vista Equity Partners for £725m. In his five years at ACS Paul oversaw a period of exceptional value creation and transformation, with responsibility for driving both organic and acquisitive growth. Prior to ACS, Paul held a number of senior roles in both financial and operational capacities, latterly as Finance Director of Redac Limited, the Alchemy backed turnaround that was subsequently sold to ACS for £100m. The foundations of Paul's career were built at Unigate, GrandMet (now Diageo) and Oracle.

Corporate Governance Report

As an AIM-listed company, Tax Systems is not required to comply with the provisions of the UK Corporate Governance Code published by the Financial Reporting Council in 2016. However, the Board is committed to the maintenance of high standards of corporate governance and seeks to implement best practice as appropriate for smaller listed companies by reference to the provisions of the Quoted Companies Alliance's Corporate Governance Code for Small and Mid-Size Quoted Companies.

The Board of Directors and Committees

The Board is responsible for setting the overall strategy of the business, reviewing management performance and ensuring the Group has sufficient financial and human resources to meet its objectives. It directs the Group's activities in an effective manner through general Board meetings and monitors performance through timely and relevant reporting procedures. Where it deems necessary, the Board requests reports on specific areas outside the normal reporting regime.

The Chairman is responsible for the leadership of the Board and ensuring its effectiveness. The Board at present comprises two Executives (the CEO and the CFO) and three Non-Executive Directors. The size of the Board is considered to be appropriate to the current size and character of the Group. Clive Carver and Linda Beal are independent of management and any business or other relationships which would interfere with the exercise of their independent judgement.

Authority for the execution of the business plan and the daily running of the business is delegated to the Executive Directors and the senior management team, who meet regularly to review current business performance, sales activity, operational projects, customer service, human resourcing matters and other day to day activities.

The Board has established two standing committees, the Audit and Risk Committee and the Remuneration and Nomination Committee. Each of these Committees acts within defined terms of reference which are available on the Company's website.

Formal agendas and reports are provided to the Board on a timely basis in advance of Board and Committee meetings and the Chairman ensures that all Directors are properly briefed on issues to be discussed at Board meetings. Directors are able to obtain further advice or seek clarity on issues raised at the meetings from within the Company or from external sources.

All Directors are subject to appraisal by the Board. The Non-Executive Directors are responsible for the evaluation of the Chairman.

In accordance with the Company's Articles of Association, Gavin Lyons, Linda Beal, Paul Gibson and Kevin Goggin will retire and offer themselves for re-election at the forthcoming Annual General Meeting.

Report of the Audit and Risk Committee

Role and responsibilities

The Audit and Risk Committee is responsible for monitoring the integrity of the Company's financial statements, reviewing significant financial reporting issues, reviewing the effectiveness of the Company's internal control and risk management systems, monitoring the need for or the effectiveness of the internal audit function and overseeing the relationship with the Auditor (including advising on their appointment, agreeing the scope of the audit and reviewing the audit findings). The Audit and Risk Committee also reviews the nature and amount of non-audit work undertaken by the Auditor, if any, to satisfy itself that there is no effect on its independence. The Committee is satisfied that Crowe Clarke Whitehill is independent.

Composition of the Audit and Risk Committee

The Audit and Risk Committee comprises Clive Carver and Linda Beal and is chaired by Linda Beal. The Committee meets at least twice a year at appropriate times in the reporting and audit cycle and otherwise as required. The Committee also meets regularly with the Company's Auditor.

Internal control and risk management

The Board is responsible for the Group's systems of internal controls and for reviewing its effectiveness. The implementation and maintenance of the risk management and internal control systems are the responsibility of the Executive Directors and senior management. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board confirms that there are ongoing processes for identifying, evaluating and mitigating the significant risks faced by the Group.

The key procedures that have been established in respect of internal financial control are as follows:

- An established operational management structure with clearly defined responsibilities and regular performance reviews;
- A comprehensive system for reporting financial and non-financial information to the Board, including review of annual budgets and strategy plans;
- Detailed monthly budgeting and reporting of trading results, balance sheets and cash flows, with regular review by management and the Board of variances from budget;
- The control of key financial risks through appropriate authorisation levels and segregation of accounting duties; and
- Review of reports issued by the external auditor.

The Audit and Risk Committee on behalf of the Board reviews reports from the external auditor together with management's response regarding proposed actions. In this manner they have reviewed the effectiveness of the system of internal controls for the period covered by the accounts.

Investor relations

Tax Systems is committed to open communication with all its shareholders. The Company believes it is important to explain business development and financial results to its shareholders, to understand shareholder concerns, and to ensure that suitable arrangements are in place to ensure a balanced understanding of the issues and concerns of major shareholders.

Copies of the Annual Report and Accounts are issued to all shareholders who have requested them and copies are available on the Group's investor website www.taxsystemsplc.co.uk. The Group's interim results are also made available on the Company's website. The Group makes full use of its investor website to provide information to shareholders and other interested parties.

Shareholders are given the opportunity to raise questions at the Annual General Meeting and the Directors are available both before and after the meeting for further discussion with shareholders. As a matter of policy, the level of proxy votes (for, against and vote withheld) lodged on each resolution is declared at the meeting.

The CEO and CFO are primarily responsible for investor relations. Meetings are offered to major institutional

Report of the Audit and Risk Committee

continued

shareholders to discuss strategy, financial performance and investment activity immediately after the full year and interim results announcements. All the Non-Executive Directors are available to meet with major shareholders if such meetings are required. Feedback from such meetings with shareholders is provided to the Board to ensure the Directors have a balanced understanding of the issues and concerns of major shareholders. Trading updates and press releases are issued as appropriate and the Group's brokers provide briefings on shareholder opinion and compile independent feedback from investor meetings.

External auditors

The Audit and Risk Committee reports to the Board on the effectiveness of the Auditor and receives information from the Executive team in this regard. The Audit and Risk Committee and Board also consider the appointment of the Auditor annually prior to recommending the appointment of the Auditor at the Annual General Meeting in June.

Linda Beal
Chair of the Audit and Risk Committee
18 April 2017

Report of the Remuneration and Nomination Committee

The Remuneration and Nomination Committee is responsible for determining and agreeing with the Board the framework for the remuneration of Executive Directors and other designated senior executives and, within the terms of the agreed framework, determining the total individual remuneration packages of such persons, including, where appropriate, bonuses, incentive payments and share options or other share awards.

The remuneration of Non-Executive Directors will be a matter for the Executive Directors. No director will be involved in any decision as to his or her own remuneration. Further details are set out in the Directors' Remuneration Report on pages 22 to 23.

The Remuneration and Nomination Committee comprises Clive Carver, Gavin Lyons and Linda Beal and is chaired by Clive Carver. The Remuneration and Nomination Committee meets at least twice a year and otherwise as required.

For nominations, the Committee meets as and when necessary to consider the appointment of new executive and non-executive directors.

Clive Carver
Chair of the Remuneration and Nomination Committee
18 April 2017

Directors' Remuneration Report

General policy

The Remuneration and Nomination Committee determines, on behalf of the Board, the Company's policy for executive remuneration and the individual remuneration packages for the Executive Directors. The Remuneration and Nomination Committee determines the detailed terms of service of the Executive Directors, including basic salary, incentives and benefits and the terms upon which their service may be terminated.

The Group's remuneration policy for Executive Directors is designed to attract, retain and motivate executives of the highest calibre to ensure the Group is managed successfully to the benefit of shareholders.

In setting remuneration levels, the Remuneration and Nomination Committee takes into consideration remuneration within the Group and the remuneration practices in other companies of a similar size in the markets and locations in which Tax Systems operates. The packages are designed to be competitive in value to those offered to the Directors of similar sized public companies in related sectors. It is the Board's policy to align the long-term interests of managers with those of our shareholders in the granting of options and other equity rewards.

Remuneration of Executive Directors

The remuneration packages comprise the following components:

- **Basic salary**
  Basic salary is based on a number of factors including market rates together with the individual director's experience, responsibilities and performance. For the year ended 31 December 2016, Gavin Lyons, as Executive Chairman and an operating partner of MXC Capital Limited, had a basic salary of £30,000 with the majority of his cost being charged by MXC Advisory Limited, his employer, to the Company. On 4 April 2017, it was announced that Gavin Lyons would be stepping down from his role as an operating partner of MXC Capital Limited to become CEO of Tax Systems, entering into a new service contract with Tax Systems, and paid directly by the Company. Car allowances form part of an Executive Director's basic salary.

- **Bonus scheme**
  The Company operates an annual performance related bonus scheme for Executive Directors. For the year ended 31 December 2016 no bonus scheme was in place for Gavin Lyons as Executive Chairman. The bonus scheme is discretionary and dependent on the performance of the individual and the Group.

- **Pensions**
  The Company makes payments into defined contribution Personal Pension Plans on behalf of the Executive Directors. These payments are at a rate of 1% of basic salary.

- **LTIP**
  Under the LTIP participants are entitled to receive a share of shareholder value created, subject to achievement of share price and employment related performance criteria. Further information can be found in the Directors' Report on page 25.

- **Other benefits**
  The Executive Directors are entitled to receive the benefit of private medical insurance and income protection insurance. For his role as Executive Chairman, Gavin Lyons received no benefits.

The CEO and CFO are engaged under service contracts which require a notice period of six months. For the year to 31 December 2016, Gavin Lyons' services as Executive Chairman were secured under a service contract and an engagement letter with MXC Advisory Limited, both of which contained a notice period of six months.

Remuneration of Non-Executive Directors

The fees paid to the Non-Executive Directors are determined by the Executive Directors. They are not entitled to receive any bonuses or other benefits, other than Paul Gibson who is a participant in the LTIP. Non-Executive Directors' letters of appointment are on a three-month rolling basis.

Directors' remuneration

	Salary and fees 2016 £'000	Bonus 2016 £'000	Pension 2016 £'000	Other benefits 2016 £'000	Total 2016 £'000	Total 2015 £'000
Executive Directors						
G Lyons[1] (appointed 26 July 2016)	**94**	**–**	**–**	**–**	**94**	–
G Benson[2] (appointed 26 July 2016, resigned 3 April 2017)	**63**	**–**	**–**	**–**	**63**	–
K Goggin (appointed 3 April 2017)	**–**	**–**	**–**	**–**	**–**	–
Non-Executive Directors						
C Carver (appointed 23 March 2016)	**31**	**–**	**–**	**–**	**31**	–
L Beal (appointed 26 July 2016)	**17**	**–**	**–**	**–**	**17**	–
P Gibson[3] (appointed 3 April 2017)	**–**	**–**	**–**	**–**	**–**	–
C Vivian[4] (appointed 6 January 2016, resigned 26 July 2016)	**–**	**–**	**–**	**–**	**–**	–
J Swingewood (resigned 23 March 2016)	**8**	**–**	**–**	**–**	**8**	34
R Oren (resigned 23 March 2016)	**8**	**–**	**–**	**–**	**8**	34
Total remuneration	**221**	**–**	**–**	**–**	**221**	68

1 £81,000 was paid to MXC Advisory Limited, with the remainder paid to G Lyons directly. A further £87,000 was charged by MXC Capital Advisory Limited in connection with the due diligence and consultancy services provided by Gavin Lyons prior to the Company's acquisition of TCSL. See note 27 for further details.

2 Prior to the Company's re-admission to trading on AIM on 26 July 2016, £69,000 was paid to Intronovo Limited in respect of consultancy services provided by G Benson. See note 27 for further details.

3 P Gibson was appointed as a director post year end. In the year to 31 December 2016, £23,000 was paid to MXC Advisory Limited and £13,000 was paid to P Gibson in respect of his services to the Company.

4 C Vivian's appointment as a Non-Executive Director was as a representative of MXC Capital Limited and was unpaid.

Directors' interests in shares

The Directors' shareholdings in the Company are listed in the Directors' Report on page 24.

On behalf of the Board

Clive Carver

Chair of the Remuneration and Nomination Committee 18 April 2017

Directors' Report

The Directors present their report and the audited financial statements for the year ended 31 December 2016. This Directors' Report contains certain statutory, regulatory and other information and incorporates, by reference, the Strategic Report and Governance Review included earlier in this document.

Strategic report

This Annual Report and Accounts has been prepared to provide shareholders with a fair and balanced review of the Group's business and the outlook for the future development of the Group as well as the principal risks and uncertainties which could affect the Group's performance.

Principal activity

The principal activity of the Group during the year was the supply of tax compliance software and services to large corporates and the accountancy profession in the UK and Ireland.

Results and dividends

Details of the Group's results are set out in the Consolidated Statement of Comprehensive Income on page 30. The Group's loss for the year after taxation amounted to £3.7m (2015: loss £0.3m). The Directors do not propose a dividend for the year ended 31 December 2016 (2015: £nil).

Change of name

On 26 July 2016, the Company changed its name from Eco City Vehicles plc to Tax Systems plc.

Directors

The current Directors of the Company are shown on pages 16 and 17. During the year under review, all Non-Executive Directors were considered to be independent of management and any business or other relationships which could interfere with the exercise of their independent judgement.

Clive Carver was appointed to the Board on 23 March 2016. Gavin Lyons and Linda Beal were appointed to the Board on 26 July 2016.

Kevin Goggin and Paul Gibson were appointed to the Board on 3 April 2017.

Grahame Benson was appointed to the Board on 26 July 2016 and resigned from the Board on 3 April 2017.

Charles Vivian was appointed to the Board on 6 January 2016 and resigned from the Board on 26 July 2016.

Ran Oren and John Swingewood resigned from the Board on 23 March 2016.

In accordance with the Company's Articles of Association, Gavin Lyons, Linda Beal, Paul Gibson and Kevin Goggin will retire and offer themselves for re-election at the forthcoming Annual General Meeting.

Directors' interests in shares

The beneficial interests of the Directors in the share capital of the Company at 31 December 2016 were as follows:

	Number of ordinary shares	Percent of issued share capital
G Lyons	149,254	0.2
G Benson (resigned 3 April 2017)	149,254	0.2
K Goggin (appointed 3 April 2017)	–	–
C Carver	–	–
L Beal	–	–
P Gibson (appointed 3 April 2017)	–	–

LTIP

The new LTIP was introduced in July 2016 to provide an effective mechanism for senior executives to participate in the Company's equity, aligning their interests with those of shareholders. Details of the LTIP are set out in note 23 to the financial statements.

The directors participating in the scheme at the date of this report and their respective entitlement to the growth in value of market capitalisation of the Company are as follows:

- Gavin Lyons 2.0%
- Paul Gibson 2.0%

Directors' indemnity and insurance

The Group maintained insurance cover during the year for its Directors and Officers under a Directors and Officers liability insurance policy against liabilities that may be incurred by them while carrying out their duties.

Substantial shareholders

At 1 February 2017, shareholders with a beneficial holding of more than 3% of the Company's issued share capital were as follows:

	Number of ordinary shares of 1p each	**% of issued share capital**
Henderson Global Investors	15,299,068	20.1%
MXC Capital Limited	15,200,726	20.0%
Coltrane Master Fund LP	10,149,254	13.4%
Schroder Investment Management	6,729,851	8.9%
Nigel Wray	5,354,743	7.0%
Premier Fund Managers	5,228,060	6.9%
River & Mercantile Asset Management LLP	4,600,000	6.1%
Harwood Capital LLP	4,500,000	5.9%

Share capital and reserves

Details of changes in the authorised and issued share capital and reserves of the Company are shown in note 22 to the financial statements.

Post balance sheet events

Post year end, on 3 April 2017, Tax Systems completed the acquisition of OSMO in return for the issue of 4,701,492 ordinary shares in the capital of the Company. At the previous day's mid closing price, this valued OSMO at £3.2m. OSMO is a leading provider of automated data extraction services that connects to 295 accounting systems.

Employees

As at the date of this report, the Group employed 67 people.

The Group's policy is to consult and discuss with employees matters likely to affect employees' interests. The Group systematically provides employees with information on matters of concern to them, consulting them or their representatives regularly, so that their views can be taken into account when making decisions that are likely to affect their interests. Employee involvement in the Group is encouraged, as achieving a common awareness on the part of all employees of the financial and economic factors affecting the Group plays a major role in maintaining its relationship with its staff.

The Group is committed to employment policies which follow best practice, based on equal opportunities for all employees, irrespective of ethnic origin, religion, political opinion, gender, marital status, disability, age or sexual orientation. Applications for employment by disabled persons are fully considered, bearing in mind the respective aptitudes and abilities of the applicants concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled employees should, as far as possible, be identical with that of other employees.

Environmental policy

The Group acknowledges the importance of environmental matters and where possible uses environmentally friendly policies in its offices, such as recycling and energy-efficient practices.

Directors' Report

continued

Health and safety

The Group aims to provide and maintain a safe working environment for all colleagues and visitors to its premises, and to comply with all relevant UK health and safety legislation. Health and safety matters are delegated to representatives within the business, who can raise any issues arising via a number of means, including the corporate risk register whose highest rated risks are reviewed periodically by the Board.

Financial risk management objectives and policies

The Company's financial risk management objectives and policies are described in note 3 to the financial statements.

Research and development

The Group capitalised £0.4m during the year (2015: £nil) on development of software products.

Charitable and political donations

The Group has made no charitable or political donations in the year (2015: £nil).

Going concern

The Directors, having made suitable enquiries and analysis of the accounts, consider that the Group has adequate resources to continue in business for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements. In making this assessment, the Directors have considered the Group's budget, cash flow forecasts, available banking facilities and levels of recurring revenue.

Disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware; and all Directors have taken the steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Statement of Directors' responsibilities

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 financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and applicable law.

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. 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 applicable IFRSs as adopted by the European Union have been followed subject to any material departures disclosed and explained; and
- 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 the time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are further responsible for ensuring that the Strategic Report and Report of the Directors and other information included in the Annual Report and financial statements are prepared in accordance with applicable law in the United Kingdom.

The maintenance and integrity of the corporate and financial information included on the Company's website is the responsibility of the Directors; the work carried out by the auditors does not involve the consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Annual General Meeting

The Annual General Meeting will be held at 11 am on 14 June 2017. Details and an explanation of the resolutions to be proposed are contained in the Notice of Annual General Meeting and explanatory notes either sent to shareholders with the Annual Report or available on the Company's website, www.taxsystemsplc.co.uk.

Auditors

Crowe Clark Whitehill LLP, who were reappointed on 11 July 2016, have expressed their willingness to continue in office as auditors and a resolution to appoint them and authorise the Directors to determine their remuneration for the ensuing year will be proposed at the forthcoming Annual General Meeting.

By order of the Board

Adrian Harvey
Company Secretary 18 April 2017

Independent Auditor's Report

to the members of Tax Systems plc

We have audited the financial statements of Tax Systems plc for the year ended 31 December 2016, which comprise the Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Cash Flows, Consolidated Statement of Changes in Equity and the Parent Company Statement of Financial Position, Parent Company Statement of Changes in Equity, Parent Company Statement of Cash Flows and the related notes.

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Report, 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 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 Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

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 31 December 2016 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS 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 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 based on the work undertaken in the course of our audit:

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

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters 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

Stephen Bullock (Senior Statutory Auditor)
For and on behalf of
Crowe Clark Whitehill LLP
Statutory Auditor
St Bride's House
10 Salisbury Square
London EC4Y 8EH
18 April 2017

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2016

	Note	2016 £'000	2015 £'000
Revenue	5	**5,753**	–
Cost of sales		**(377)**	–
Gross profit		**5,376**	–
Administrative expenses		**(8,609)**	(345)
Operating loss	6	**(3,233)**	(345)
Finance income	8	**26**	–
Finance costs	8	**(787)**	–
Loss before income tax		**(3,994)**	(345)
Income tax	9	**254**	–
Loss for the year attributable to the owners of the parent		**(3,740)**	(345)
Other comprehensive income that may be reclassified subsequently to profit or loss:			
Currency translation differences on consolidation		**61**	–
Total comprehensive expense for the year attributable to the owners of the parent		**(3,679)**	(345)
Loss per share attributable to owners of the parent during the year (expressed in pence per share):			
– basic and diluted	10	**(9.82)**	(67.12)

Non-GAAP measure: EBITDA	Note	2016 £'000	2015 £'000
Operating loss	6	**(3,233)**	(345)
Depreciation and amortisation	6	**2,576**	–
Operating loss before share-based payments and exceptional items		**(657)**	(345)
Share-based payments	23	**38**	–
Exceptional items	6	**3,333**	145
EBITDA[1]		**2,714**	(200)

[1] EBITDA is defined as operating profit or loss before exceptional items, depreciation, amortisation and share-based payments.

The Company has elected to take the exemption under Section 408 of the Companies Act 2006 to not present the parent company Statement of Comprehensive Income (see note 29).

The notes on pages 36 to 68 are an integral part of these financial statements.

Consolidated Statement of Financial Position

as at 31 December 2016

	Note	2016 £'000	2015 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	11	**30**	–
Intangible assets	12	**81,135**	–
Deferred tax assets	20	**13**	–
		81,178	–
Current assets			
Trade and other receivables	14	**2,880**	24
Current tax assets		**89**	–
Restricted cash	15	**2,000**	–
Cash and cash equivalents	16	**2,200**	5,027
		7,169	5,051
Total assets		**88,347**	5,051
LIABILITIES			
Current liabilities			
Trade and other payables	18	**(4,324)**	(121)
Current tax liabilities		**(165)**	–
Financial liabilities	19	**(1,730)**	–
		(6,219)	(121)
Non-current liabilities			
Financial liabilities	19	**(24,293)**	–
Deferred tax liabilities	20	**(9,948)**	–
Total liabilities		**(40,460)**	(121)
Net assets		**47,887**	4,930
EQUITY			
Capital and reserves attributable to owners of the parent			
Ordinary shares	22	**760**	4,419
Share premium	22	**50,775**	3,655
Foreign exchange reserve	22	**61**	–
Other reserves	22	**3,446**	444
Accumulated losses		**(7,155)**	(3,588)
Total equity		**47,887**	4,930

These financial statements on pages 30 to 68 were approved and authorised for issue by the Board of Directors on 18 April 2017 and were signed on its behalf by:

Gavin Lyons
Chief Executive Officer

Kevin Goggin
Chief Financial Officer

Company number: 04998151

The notes on pages 36 to 68 are an integral part of these financial statements.

Company Statement of Financial Position

as at 31 December 2016

	Note	2016 £'000	2015 £'000
ASSETS			
Non-current assets			
Investments in subsidiaries	13	**73,038**	–
		73,038	–
Current assets			
Trade and other receivables	14	**834**	24
Restricted cash	15	**2,000**	–
Cash and cash equivalents	16	**258**	5,027
		3,092	5,051
Total assets		**76,130**	5,051
LIABILITIES			
Current liabilities			
Trade and other payables	18	**(2,567)**	(121)
Financial liabilities	19	**(1,730)**	–
		(4,297)	(121)
Non-current liabilities			
Financial liabilities	19	**(24,293)**	–
Total liabilities		**(28,590)**	(121)
Net assets		**47,540**	4,930
EQUITY			
Capital and reserves attributable to owners of the parent			
Ordinary shares	22	**760**	4,419
Share premium	22	**50,775**	3,655
Other reserves	22	**3,446**	444
Accumulated losses		**(7,441)**	(3,588)
Total equity		**47,540**	4,930

The loss for the financial year of the Company was £4,026,000 (2015: £345,000).

These financial statements on pages 30 to 68 were approved and authorised for issue by the Board of Directors on 18 April 2017 and were signed on its behalf by:

Gavin Lyons
Chief Executive Officer

Kevin Goggin
Chief Financial Officer

Company number: 04998151

The notes on pages 36 to 68 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2016

	Note	Ordinary shares £'000	Share premium £'000	Other reserve £'000	Equity element of loan notes £'000	Share-based payment reserve £'000	Accumulated losses £'000	Foreign exchange reserve £'000	Total equity £'000
Balance at 1 January 2015		4,713	3,190	–	–	–	(7,918)	–	(15)
Loss for the year		–	–	–	–	–	(345)	–	(345)
Other comprehensive income		–	–	–	–	–	–	–	–
Total comprehensive expense		–	–	–	–	–	(345)	–	(345)
Issue of Ordinary shares (net of expenses)	22	4,131	909	–	–	–	–	–	5,040
Restructuring of share capital	22	(4,675)	–	–	–	–	4,675	–	–
Recognition of warrants	22	–	(444)	444	–	–	–	–	–
Conversion of loan notes	22	250	–	–	–	–	–	–	250
Balance at 31 December 2015		4,419	3,655	444	–	–	(3,588)	–	4,930
Balance at 1 January 2016		4,419	3,655	444	–	–	(3,588)	–	4,930
Loss for the year		–	–	–	–	–	(3,740)	–	(3,740)
Other comprehensive income		–	–	–	–	–	–	61	61
Total comprehensive (expense)/income		–	–	–	–	–	(3,740)	61	(3,679)
Issue of Ordinary shares (net of expenses)	22	672	43,129	–	–	–	–	–	43,801
Restructuring of share capital	22	(4,331)	4,331	–	–	–	–	–	–
Recognition of warrants	22	–	(340)	340	–	–	–	–	–
Fair value of equity element of loan notes		–	–	–	2,624	–	173	–	2,797
Share-based payments	23	–	–	–	–	38	–	–	38
Balance at 31 December 2016		**760**	**50,775**	**784**	**2,624**	**38**	**(7,155)**	**61**	**47,887**

The notes on pages 36 to 68 are an integral part of these financial statements.

Company Statement of Changes in Equity

for the year ended 31 December 2016

	Note	Ordinary shares £'000	Share premium £'000	Other reserve £'000	Equity element of loan notes £'000	Share-based payment reserve £'000	Accumulated losses £'000	Total equity £'000
Balance at 1 January 2015		4,713	3,190	–	–	–	(7,918)	(15)
Loss for the year and total comprehensive expense	29	–	–	–	–	–	(345)	(345)
Issue of Ordinary shares (net of expenses)	22	4,131	909	–	–	–	–	5,040
Restructuring of share capital	22	(4,675)	–	–	–	–	4,675	–
Recognition of warrants	22	–	(444)	444	–	–	–	–
Conversion of loan notes	22	250	–	–	–	–	–	250
Balance at 31 December 2015		4,419	3,655	444	–	–	(3,588)	4,930
Balance at 1 January 2016		4,419	3,655	444	–	–	(3,588)	4,930
Loss for the year and total comprehensive expense	29	–	–	–	–	–	(4,026)	(4,026)
Issue of Ordinary shares (net of expenses)	22	672	43,129	–	–	–	–	43,801
Restructuring of share capital	22	(4,331)	4,331	–	–	–	–	–
Recognition of warrants	22	–	(340)	340	–	–	–	–
Fair value of equity element of loan notes		–	–	–	2,624	–	173	2,797
Share-based payments	23	–	–	–	–	38	–	38
Balance at 31 December 2016		**760**	**50,775**	**784**	**2,624**	**38**	**(7,441)**	**47,540**

The notes on pages 36 to 68 are an integral part of these financial statements.

Cash Flow Statements

for the year ended 31 December 2016

		Group		Company	
	Note	**2016 £'000**	2015 £'000	**2016 £'000**	2015 £'000
Cash flows used in operating activities					
Cash generated/(used) by operations, before exceptional expenses	25	**3,230**	(118)	**1,340**	(118)
Exceptional expenses		**(3,333)**	(145)	**(3,103)**	(145)
Cash used in operations after exceptional expenses		**(103)**	(263)	**(1,763)**	(263)
Net income tax paid		**(393)**	–	**–**	–
Net cash used in operating activities		**(496)**	(263)	**(1,763)**	(263)
Investing activities					
Acquisition of subsidiary, net of cash acquired	28	**(73,988)**	–	**(75,061)**	–
Interest received		**26**	–	**–**	–
Purchases of property, plant and equipment		**(14)**	–	**–**	–
Purchase and capitalisation of intangible assets		**(417)**	–	**–**	–
Net cash used in investing activities		**(74,393)**	–	**(75,061)**	–
Financing activities					
Proceeds from issuance of ordinary shares (net of expenses)		**43,801**	5,040	**43,801**	5,040
Interest paid		**(348)**	–	**(348)**	–
Proceeds from long-term borrowings		**19,650**	250	**19,650**	250
Repayments of long-term borrowings		**(900)**	–	**(900)**	–
Proceeds from loan notes		**9,852**	–	**9,852**	–
Net cash from financing activities		**72,055**	5,290	**72,055**	5,290
Net (decrease)/increase in cash and cash equivalents		**(2,834)**	5,027	**(4,769)**	5,027
Cash and cash equivalents at beginning of the year		**5,027**	–	**5,027**	–
Effect of exchange rate changes		**7**	–	**–**	–
Cash and cash equivalents at end of the year	16	**2,200**	5,027	**258**	5,027

The notes on pages 36 to 68 are an integral part of these financial statements.

Notes to the Financial Statements

for the year ended 31 December 2016

1. General information

Tax Systems plc ('the Company') and its subsidiaries (together 'the Group') are leading suppliers of corporation tax and associated software and services to large corporates and accountancy firms in the UK and Ireland. The Group is headquartered in the UK and, during the year ended 31 December 2016, operated ventures in the UK and Ireland.

The Company is a public limited company incorporated and domiciled in England and Wales whose shares are publicly traded on AIM market of the London Stock Exchange ("AIM"). The registered number of the Company is 04998151.

The Company changed its name from Eco City Vehicles plc to Tax Systems plc by board resolution on 26 July 2016.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. The policies are the same as those used in preparing the consolidated financial statements at 31 December 2015, unless otherwise stated.

2.1. Basis of preparation

The consolidated financial statements of Tax Systems plc have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union ('IFRS as adopted by the EU'), IFRS Interpretations Committee and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention, as modified, where applicable, by the revaluation of financial assets and financial liabilities (including derivatives) at fair value through profit or loss.

2.1.1. Going concern

These consolidated financial statements have been prepared on the going concern basis. The Group meets its day to day working capital requirements through its existing cash resources and borrowing facilities which are sufficient to meet currently maturing obligations as they fall due. The Directors have reviewed the Group's financial projections including sensitivities for at least the next 12 months and have, at the time of approving the financial statements, a reasonable expectation that the Group will have adequate resources to continue in operational existence for the foreseeable future and accordingly these financial statements are prepared on the going concern basis.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies (see note 4).

2.1.2. New standards and interpretations

a) New, revised and amended standards adopted

There were no new or amended accounting standards relevant to the Group that were effective for the first time for the financial year beginning 1 January 2016 that have a material impact on the Group's consolidated financial statements.

2. Summary of significant accounting policies (continued)

b) New, revised and amended standards issued but not yet adopted

A number of new, revised and amended accounting standards and interpretations are currently endorsed but are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these consolidated financial statements. None of these are expected to have material impact on the consolidated financial statements of the Group, except the following:

Accounting standard	Requirement
IFRS 16 Leases (effective for the first time for the year beginning 1 July 2019, subject to EU endorsement)	Under the previous guidance in IAS 17, a lessee had to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). The new standard requires lessees to recognise almost all lease contracts on the balance sheet; the only optional exemptions are for certain short term leases and leases of low-value assets. An interest expense on the lease liability and depreciation on the 'right-of-use' asset will also have to be recognised. The Group is in the process of assessing IFRS 16's full impact.
IFRS 15 Revenue from contracts with customers (effective for the first time for the year beginning 1 July 2018, subject to EU endorsement)	IFRS 15 deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 Revenue and IAS 11 Construction contracts and related interpretations. The Company is reviewing the way it accounts for revenue from annual software licences in the light of the IFRS 15. Currently the Company recognises the licence fee element of software licence agreements in the month in which the agreement commences. It is likely that the Company will early adopt IFRS 15 for the year ending 31 December 2017 and expects that this will result in a change to its current accounting policy to one of recognising revenue from the licence fee element of software licence agreements evenly over the term of the agreement. Such a change in revenue recognition policy will impact revenue recognised but is not expected to affect invoicing, cash flow profile or net debt position. Should the Company early adopt IFRS 15 it will apply the change using a modified retrospective approach in which the comparative results for 2016 will not be restated, instead the Company will recognise a cumulative adjustment to opening retained earnings at 1 January 2017 in relation to agreements which still required performance by the Company at that date.
IFRS 9 Financial instruments (effective for accounting periods beginning on or after 1 January 2018, subject to EU endorsement)	IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income not recycling. The Group is in the process of assessing IFRS 9's full impact.

The Group continues to monitor the potential impact of other new standards and interpretations which may be endorsed by the European Union and require adoption by the Group in future accounting periods.

Notes to the Financial Statements

for the year ended 31 December 2016

2. Summary of significant accounting policies (continued)

2.2. Consolidation

The financial information consolidates the financial statements of Tax Systems plc and the entities controlled by the Company.

a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over whose financial and operating policies the Group has the power to govern, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of the potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Accounting policies of subsidiaries are changed where necessary to ensure consistency with the policies adopted by the Group.

b) Business combinations

The acquisition method of accounting is used to account for business combinations by the Group. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the Statement of Comprehensive Income. Gains on acquisitions may arise where the acquisition date fair value of any previous equity interest in the acquiree exceeds the book value of that interest.

The Company completed the acquisition of the entire shareholding of Tax Computer Systems Limited and its subsidiary ("TCSL") on 26 July 2016 for an enterprise value of £73,000,000, a reverse acquisition under the AIM Rules, which has been accounted for using the acquisition method of accounting. See note 28 for more details.

2.3. Revenue

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services provided within the Group's ordinary activities, net of discounts and sales taxes. It comprises software licences and professional services.

Software licences are sales where the customer has the ability to exploit the licensed functionality upon delivery and represents term-based licences including support, technical upgrades and user training. Revenue from the sale of software is recognised upon delivery to a customer when there are no significant vendor obligations remaining. Revenue in respect of support, technical upgrades and user training is recognised over the term of the licence on a straight-line basis.

2. Summary of significant accounting policies (continued)

2.3. Revenue (continued)

Revenue relating to professional services contracted on a time and materials basis is recognised as the services are performed. Professional service revenue delivered under a fixed-price contract is recognised on a percentage of completion basis, based on the extent of work completed as a percentage of overall estimated project cost, when the outcome of a contract can be estimated reliably. Determining whether a contract's outcome can be estimated reliably requires management to exercise judgement and estimates are continually reviewed as determined by events or circumstances.

Amounts which meet the Group's revenue recognition policy which have not yet been invoiced are accounted for as accrued income whereas amounts invoiced which have not met the Group's revenue recognition criteria are deferred and are accounted for as deferred income until such time as the revenue can be recognised. Management makes an assessment of the certainty of any accrued revenue amounts in determining how much revenue to recognise.

2.4. Segmental reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. During the year ended 31 December 2016, the Group had one single operating segment, being the provision of software and services to corporates and accountancy firms.

2.5. Property, plant and equipment

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

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

Depreciation on assets is calculated using the straight-line method to allocate their costs, over their estimated useful lives, as follows:

Fixtures and fittings	4 years
Computer equipment	4 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each year end reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within the Statement of Comprehensive Income.

Notes to the Financial Statements

for the year ended 31 December 2016

2. Summary of significant accounting policies (continued)

2.6. Goodwill

Goodwill arising on the acquisition of an entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the entity recognised at the date of acquisition.

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. It is held in the currency of the acquired entity and revalued at the closing rate at the reporting date. Goodwill on acquisition of subsidiaries is included in intangible assets.

Goodwill is not subject to amortisation but is tested at least annually for impairment, or more frequently if events or changes in circumstances indicate a potential impairment. On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss recognised in the Statement of Comprehensive Income on disposal.

2.7. Other intangible assets

Expenditure incurred in the development of software products, and their related intellectual property rights, is capitalised as an intangible asset only when technical feasibility has been demonstrated, adequate technical, financial and other resources exist to complete the development, which the Group intends to complete and use, future economic benefits expected to arise are deemed probable, and the costs can be reliably measured. Research costs and development costs not meeting these criteria are expensed in the Statement of Comprehensive Income as incurred. Capitalised development costs are amortised as a charge to the Statement of Comprehensive Income within amortisation on a straight-line basis over their useful economic lives. Capitalised development costs for assets which are not yet in use are tested for impairment annually, or more frequently if events or changes in circumstances indicate a potential impairment. Separately acquired licences have a finite useful life and are carried at cost less accumulated amortisation.

Contractual customer relationships and technology-related intangible assets purchased or acquired in a business combination are recognised at fair value at the acquisition date. These assets have finite useful lives and are carried at cost less accumulated amortisation.

Amortisation on the assets is calculated using the straight-line method over their estimated useful lives as follows:

Customer relationships	10 years
Intellectual property rights	10 years

2.8. Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate a potential impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Goodwill is allocated to cash-generating units or groups of cash-generating units for the purpose of impairment reviews (see note 12). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2. Summary of significant accounting policies (continued)

2.9. Financial instruments

Financial assets

The Group classifies its financial assets, and cash and cash equivalents, as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of reporting period date. These are classified as non-current assets.

The Group's financial assets are disclosed in notes 14, 15, 16 and 21. Impairment testing of trade receivables is described in note 14.

Financial liabilities

The Group has two categories of financial liabilities, which are financial liabilities measured at amortised cost using the effective interest method, and financial liabilities at fair value through profit or loss (designated on initial recognition). Both categories are classified as non-current when payments fall due greater than 12 months after the end of the reporting period.

Financial liabilities are described in further detail in notes 18, 19 and 21.

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group does not currently designate any derivatives as hedging instruments. Gains and losses on derivative instruments that are not designated as hedge instruments are recognised immediately in the Statement of Comprehensive Income within finance costs.

Fair value estimation for financial liabilities

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group's financial liabilities at fair value primarily comprise contingent consideration payable on acquisitions. The Group uses a variety of methods to determine the fair value, including pricing models which reflect the specific instrument. Management uses judgement to select a variety of methods and make assumptions that are based on market conditions existing at the end of the reporting period as well as internal information regarding a variety of probable outcomes.

2.10. Trade receivables

Trade receivables are initially recognised at fair value and subsequently held at amortised cost using the effective interest rate method. Trade receivables with standard payment terms of 30 days are recognised and carried at the lower of their original invoiced or recoverable amount. Where the time value of money is material, receivables are carried at amortised cost. Provision is made when there is objective evidence that the Group will not be able to recover balances in full, the amount of the provision being the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Balances are written off when the probability of recovery is assessed as being remote.

2.11. Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held on call with banks and other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts are included within financial liabilities.

Notes to the Financial Statements

for the year ended 31 December 2016

2. Summary of significant accounting policies (continued)

2.12. Share capital

Ordinary shares are classified as equity.

Share premium recognised on the issue of share capital is stated as the excess consideration received over the nominal value of shares issued, net of any costs directly attributable to the issue.

2.13. Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.14. Borrowings

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

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

2.15. Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in the countries where the Company's subsidiaries operate and generate taxable income.

Deferred income tax is recognised in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is not provided on the initial recognition of an asset or liability in a transaction, other than a business combination, if at the time of the transaction there is no effect on either accounting or taxable profit or loss.

Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset or liability is released or settled.

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

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

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

Current and deferred tax are recognised in the profit and loss except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

2. Summary of significant accounting policies (continued)

2.16. Employee benefits

a) Pension obligations

The Group operates defined contribution plans.

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

b) Share-based compensation

The Group operates an equity-settled long term incentive plan ("LTIP"). The fair value of the employee services received in exchange for the grant of the LTIP awards is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the LTIP awards granted. At each reporting date, the entity revises its estimates of the amount of LTIP awards that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the Statement of Comprehensive Income, with a corresponding adjustment to equity.

The grant by the Company of LTIP awards over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase in investments in subsidiary undertakings, with a corresponding credit to equity.

2.17. Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Statement of Comprehensive Income on a straight-line basis over the period of the lease. Assets held under finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease, with a corresponding liability being recognised for the lower of the fair value of the leased asset and the present value of the minimum lease payments. Lease payments are apportioned between the reduction of the lease liability and finance charges in the Statement of Comprehensive Income so as to achieve a constant rate of interest on the remaining balance of the liability. Assets held under finance leases are depreciated over the shorter of the estimated useful life of the asset and the lease term.

2.18. Foreign currency translation

a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The consolidated financial statements are presented in thousands of Pounds (£'000), which is the Company's functional and the Group's presentational currency.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the year end rates are recognised in the Statement of Comprehensive Income. Foreign exchange gains and losses on borrowings, investments and cash and cash equivalents are presented in the Statement of Comprehensive Income within finance costs. All other foreign exchange gains and losses are presented within operating results.

Notes to the Financial Statements

for the year ended 31 December 2016

2. Summary of significant accounting policies (continued)

c) Group companies

The results and financial position of all subsidiaries (none of which have the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

i) assets and liabilities for each Statement of Financial Position presented are translated at the closing rate at the reporting date;

ii) income and expenses for each Statement of Comprehensive Income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

iii) all resulting exchange differences are recognised as a separate component of equity within the foreign exchange reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the Statement of Comprehensive Income as part of the gain or loss on sale.

2.19. Investments

Investments held by the Company in its subsidiary undertakings are stated at cost less provision for any impairment in value. Impairment reviews are performed if events or changes in circumstances indicate a potential impairment.

2.20. Exceptional items

These are items which, in management's judgement, need to be disclosed by virtue of their size or nature in order for the user to obtain a proper understanding of the financial information and the underlying business performance.

3. Financial risk management

3.1. Financial risk factors

The Group's activities expose it to a variety of financial risks arising from its use of financial instruments: credit risk, liquidity risk and market risk.

This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

The principal financial instruments held by the Group, from which financial instrument risks arise, are as follows:

- trade and other receivables;
- cash at bank; and
- trade and other payables.

3. Financial risk management (continued)

3.1. Financial risk factors (continued)

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function. The Board reviews regular finance reports from the Chief Financial Officer through which it evaluates any risk exposures with a view to minimising any potential adverse effects on the Group's financial performance. Transactions that are speculative in nature are expressly forbidden.

Details regarding the policies that address financial risk are set out below:

(a) Credit risk

The nature of the Group's operations means that most of its current key customers are large corporates and accountancy firms. The credit risks are minimised due to the nature of these customers. The Group continually reviews its credit risk policy, taking particular account of future exposure to developing markets and associated changes in customers' credit risk profiles.

The Group has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit. At the balance sheet date there was no significant concentration of credit risks. The maximum exposure to credit risk is represented by the carrying amount of each financial asset on the balance sheet. In particular the group benefits from the fact that most of its customers are required to settle contracts before rights under them are transferred.

The carrying amount in the Statement of Financial Position, net of any applicable provisions, represents the amount exposed to credit risk and hence there is no difference between the carrying amount and the maximum credit risk exposure.

(b) Liquidity risk

Management strive to ensure that there are sufficient levels of committed facilities, cash and cash equivalents to enable the company at all times to meet its financial commitments. The policy is to finance operations through working capital. They consider that cash and cash equivalents are equivalent to their fair value, largely due to their short term status.

The Group's policy is to ensure that it will always have sufficient cash within the Group to allow it to meet its liabilities when they become due and to have such funds available for its operations. Management monitors rolling forecasts of the Group's liquidity reserve which comprises cash and cash equivalents (note 16) on the basis of expected cash flow. At the reporting date, these projections indicate that the Group expects to have sufficient liquid resources to meet its obligations under all reasonable expected circumstances for the forthcoming year. The Group continues to monitor its liquidity position through budgetary procedures and cash flow analysis.

Notes to the Financial Statements

for the year ended 31 December 2016

3. Financial risk management (continued)

3.1. Financial risk factors (continued)

(b) Liquidity risk (continued)

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period from the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows:

	31 December 2016			
	Less than 1 year £'000	**Between 1 and 2 years £'000**	**Between 2 and 5 years £'000**	**Over 5 years £'000**
Trade and other payables	**1,874**	**–**	**–**	**–**

	31 December 2015			
	Less than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	Over 5 years £'000
Trade and other payables	121	–	–	–

(c) Market risk

Market risk arises from the Group's use of interest-bearing and foreign currency financial instruments. There is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk), or foreign exchange rates (currency risk).

(i) Interest rate risk

Interest payable on the Group's bank borrowings is calculated with reference to pre-agreed margins above the London Interbank Overnight Rate ('LIBOR'). The interest payable on the loan notes is based on a fixed coupon which is not subject to change. Overall risk is not regarded as significant and the effect of a 100 bps increase in the LIBOR during the year would have resulted in an increase in post-tax loss for the year of £113,000 (2015: £nil) and a decrease in equity of £113,000 (2015: £nil).

(ii) Currency risk

The Group's main exposure to foreign exchange is to the Euro exchange rate arising from the Group's overseas operation in Ireland. The level of risk is reviewed regularly throughout the year. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities, and net investments.

In order to reduce the foreign exchange risk arising, the Group's policy is to allow the operations to settle liabilities denominated in their functional currency with the funds obtained from the activities arising in that currency. Given the current scale and natural hedging of the Group's overseas operations, overall foreign currency risk remains relatively low.

A 8% appreciation in the average 2016 Euro exchange rate would have decreased the Group's loss after tax by £13,000 (2015: £nil). At 31 December 2016, the effect on retained earnings of a 8% appreciation in the closing Euro exchange rate would be a decrease of £77,000 (2015: £nil). The effect on the foreign exchange reserve of a 8% appreciation in the closing Euro exchange rate would be a decrease of £64,000 (2015: £nil).

3. Financial risk management (continued)

3.2. Capital risk management

The Group's objective when managing capital is to safeguard the Group's ability to continue as a going concern in order to provide future returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Group seeks to maintain, at this stage of its development, sufficient funding drawn primarily from debt and equity to enable the Group to meet its working capital and strategic needs. The Group may issue new shares or realise value from its existing investments and other assets as deemed necessary.

The Group centrally manages borrowings, investment of surplus funds and financial risks. The objective of holding financial investments is to provide efficient cash and tax management and effective funding for the Group.

4. Critical accounting estimates and judgements

The preparation of the financial statements requires the Group to make estimates, judgements and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. The Directors base their estimates on historical experience and various other assumptions that they believe are reasonable under the circumstances, the results of which form the basis for making judgements about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

In the process of applying the Group's accounting policies, management has made a number of judgements and estimations, of which the following are deemed to have the most significant effect on amounts recognised in the financial statements:

4.1. Revenue recognition

The Group enters into agreements with customers where a software licence is bundled with services. Revenue is recognised separately for each component if it is considered to represent a separable good or service and a fair value can be reliably established. This consideration requires an element of judgement.

Revenue for professional services is recognised when the right to consideration is earned as each project progresses. Provisions against accrued income are made as and when management becomes aware of objective evidence that the amount of time worked will not be recoverable in full.

4.2. Share-based payments

Judgement and estimation are required in determining the fair value of shares at the date of award. The fair value is estimated using valuation techniques which take into account the award's term, the risk-free interest rate and the expected volatility of the market price of the Company's shares. Judgement and estimation are also required to assess the number of options expected to vest. Details of share-based payments and the assumptions applied are disclosed in note 23.

4.3. Development costs

The Group has capitalised internally generated intangible assets as required in accordance with IAS 38. Management has assessed expected contribution to be generated from these assets and deemed that no adjustment is required to the carrying value of the assets. The recoverable amount of the assets has been determined based on value in use calculations which require the use of estimates and judgements. Management reviews the assets for impairment on a regular basis.

Notes to the Financial Statements

for the year ended 31 December 2016

4. Critical accounting estimates and judgements (continued)

4.4. Impairment of assets

IFRS requires management to undertake an annual test for impairment of assets with indefinite lives, including goodwill and, for assets with finite lives, to test for impairment if events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Impairment testing is an area involving management judgement, requiring assessment as to whether the carrying value of assets can be supported by the fair value less costs to sell or net present value of future cash flows derived from such assets using cash flow projections which have been discounted at an appropriate rate. In calculating the net present value of the future cash flows, certain assumptions are required to be made in respect of highly uncertain matters including management's expectations of growth and discount rates. Changing the assumptions selected by management could significantly affect the Group's impairment evaluation and, hence, results. The Group's review includes the key assumptions related to sensitivity in the cash flow projections.

4.5. Deferred tax

Deferred tax assets and liabilities require management judgement in determining the amounts to be recognised. In particular, judgement is used when assessing the extent to which deferred tax assets should be recognised, with consideration given to the timing and level of future taxable income.

4.6. Fair value measurement of other financial instruments

Key judgements and estimates have been made to the fair value of the loan notes and associated share warrants, to the Business Growth Fund plc ("BGF") between equity and debt elements. Key estimates include the effective rate of interest inherent in the debt element of this instrument and share price volatility associated with the Company's share price used to determine the equity element of this instrument.

4.7. Acquisition accounting and goodwill

Where the Group undertakes business combinations, the cost of acquisition is allocated to identifiable net assets and contingent liabilities acquired and assumed by reference to their estimated fair values at the time of acquisition. The remaining amount is recorded as goodwill. The valuation of identifiable net assets involves an element of judgement related to projected results. Fair values that are stated as provisional are not finalised at the reporting date and final fair values may be determined that are materially different from the provisional values stated.

Judgement was exercised on use of the acquisition method of accounting in respect of the acquisition of TCSL which constituted a reverse takeover under the AIM Rules for Companies. Further details are set out in note 28.

5. Segmental information

Reportable segments

Tax Systems's operating segments are reported based on the information reviewed by the chief operating decision maker for the purposes of allocating resources and assessing performance. The Board of Directors is the Group's chief operating decision maker.

The Board of Directors considers revenue, cost of sales, operating costs, exceptional costs and EBITDA of the Group as a whole when assessing the performance of the business and making decisions about the allocation of resources. In addition, the Board reviews revenue split by business unit, products and geographies to assist with the allocation of resources. During the current financial year the Group had a single class of business being the provision of software and services to corporates and accountancy firms.

The results from continuing operations, in the format as provided to the Board, has not been reproduced below and can be found in the Statement of Comprehensive Income on page 30.

Geographical disclosures

In presenting information on the basis of geography, revenue is based on the location of the customers. Non-current assets are based on the geographical location of those assets.

	Revenues		Non-current assets	
	2016	2015	**2016**	2015
	£'000	£'000	**£'000**	£'000
United Kingdom	**4,990**	–	**73,848**	–
Ireland	**763**	–	**7,317**	–
Total	**5,753**	–	**81,165**	–

Revenue has been allocated to geographical segments based upon the location of the customer.

Products and services

	Revenues	
	2016	2015
	£'000	£'000
Software	**4,938**	–
Professional services	**815**	–
Total	**5,753**	–

Software licences are sales where the customer has the ability to exploit the licensed functionality upon delivery and represents term-based licences (see note 2.3 for further information).

There is no single customer whose revenues are 10% or greater than overall Group revenues in either the current, or prior, financial year.

Notes to the Financial Statements

for the year ended 31 December 2016

6. Operating loss

This is stated after charging:

	Note	2016 £'000	2015 £'000
Employee benefit expense	24	**2,280**	76
Depreciation	11	**17**	–
Amortisation	12	**2,559**	–
Operating lease expense		**286**	–

Included within the operating loss is an amount in respect of research and development of £393,000 (2015: £nil).

Exceptional items comprise:

	2016 £'000	2015 £'000
Restructuring costs	**169**	–
Recapitalisation costs	**–**	145
Acquisition related costs	**3,164**	–
	3,333	145

Acquisition related costs represented professional fees, broker fees and due diligence costs relating to the acquisition of TCSL. Restructuring costs were principally redundancy and termination costs relating to the Acquisition.

7. Auditor's remuneration

The analysis of the auditor's remuneration is as follows:

	2016 £'000	2015 £'000
Fees payable to the Company's auditors and their associates for the audit of the Company's annual financial statements	**27**	15
Fees payable to the Company's auditors and their associates for other services to the Group		
The audit of the Company's subsidiaries	**13**	–
Total audit fees	**40**	15
Other services		
Tax advisory services	**4**	–
Total other services	**4**	–
Total fees	**44**	15

8. Finance income and expenses

	2016 £'000	2015 £'000
Finance income		
Interest income on short-term deposits	**19**	–
Net foreign exchange gains on financing activities	**7**	–
	26	–
Finance costs		
Interest payable on bank borrowings and loan notes	**(569)**	–
Effective interest on equity element of loan notes	**(173)**	–
Amortisation of debt arrangement fees	**(45)**	–
	(787)	–
	(761)	–

An effective interest charge of £173,000 (2015: £nil) on the equity element of the loan notes has been charged during the year and included within finance costs. Further details of the loan notes are set out in note 19.

Debt arrangement fees and legal costs incurred in negotiating the bank borrowing facilities and the loan notes amounting to £498,000 have been deferred and are being amortised over the term of the borrowings. An amount of £45,000 (2015: £nil) has been recognised in finance costs.

9. Income tax

Recognised in the Statement of Comprehensive Income

	Note	2016 £'000	2015 £'000
Current tax			
Current tax, overseas withholding and other taxes		**(199)**	–
Total current tax		**(199)**	–
Deferred tax			
Origination and reversal of temporary differences	20	**453**	–
Total deferred tax		**453**	–
Total tax credit in the Statement of Comprehensive Income		**254**	–

Reconciliation of effective tax rate

Changes to the UK corporation tax rates were substantively enacted on 26 October 2015 and 6 September 2016. These included reductions to the main rate to 19% from 1 April 2017 and to 17% from 1 April 2020. As these changes had been substantively enacted at the balance sheet date their effects are included in these financial statements.

Notes to the Financial Statements

for the year ended 31 December 2016

9. Income tax (continued)

Reconciliation of effective tax rate (continued)

The credit for the year is lower (2015: lower) than the standard rate of corporation tax in the UK of 20% (2015: 20%). The differences are explained below:

	2016 £'000	2015 £'000
Loss before income tax	**(3,994)**	(345)
Tax calculated at UK effective tax rate of 20% (2015: 20%)	**(799)**	(69)
Effects of:		
Expenses not deductible for tax purposes	**551**	–
Losses not utilised	**7**	69
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(13)**	–
Total tax in the Statement of Comprehensive Income	**(254)**	–

10. Loss per share

Basic and diluted

Basic loss per share is calculated by dividing the loss attributable to owners of the parent by the weighted average number of Ordinary shares in issue during the year. As the Group is loss-making, any LTIP awards in issue are considered to be 'anti-dilutive'. As such, there is no separate calculation for diluted loss per share.

Details of the loss and weighted average number of shares used in the calculation are set out below:

	2016			2015		
	Loss for the year £'000	**Weighted average number of shares (thousands)**	**Loss per share (pence)**	Loss for the year £'000	Weighted average number of shares (thousands)	Loss per share (pence)
Loss attributable to owners of the parent	**(3,740)**	**38,096**	**(9.82)**	(345)	514	(67.12)

The weighted average number of shares used in the calculation of loss per share in 2015 has been restated for comparative purposes to reflect the 50:1 share consolidation (see note 22).

11. Property, plant and equipment

Group	Note	Office equipment £'000	Computer equipment £'000	Total £'000
Cost				
As at 1 January 2016		–	–	–
Additions		–	14	14
Acquisitions	28	2	31	33
As at 31 December 2016		**2**	**45**	**47**
Accumulated depreciation				
As at 1 January 2016		–	–	–
Charge		1	16	17
As at 31 December 2016		**1**	**16**	**17**
Net book value				
As at 1 January 2016		–	–	–
As at 31 December 2016		**1**	**29**	**30**

The Company does not have any property, plant or equipment.

12. Intangible assets

Group	Note	Goodwill £'000	Customer contracts £'000	Intellectual property rights £'000	Capitalised development costs £'000	Total £'000
Cost						
As at 1 January 2016		–	–	–	–	–
Additions		–	–	–	417	417
Acquisitions	28	24,927	43,475	14,875	–	83,277
As at 31 December 2016		**24,927**	**43,475**	**14,875**	**417**	**83,694**
Accumulated amortisation						
As at 1 January 2016		–	–	–	–	–
Charge		–	1,882	644	33	2,559
As at 31 December 2016		**–**	**1,882**	**644**	**33**	**2,559**
Net book value						
As at 1 January 2016		–	–	–	–	–
As at 31 December 2016		**24,927**	**41,593**	**14,231**	**384**	**81,135**

The Company does not have any intangible assets.

Notes to the Financial Statements

for the year ended 31 December 2016

12. Intangible assets (continued)

Impairment tests for goodwill

The Group annually tests goodwill for impairment or more frequently if there are indications that goodwill might be impaired.

Goodwill acquired in a business combination is allocated at acquisition to the cash-generating unit ('CGU') that is expected to benefit from that business combination.

In order to determine whether impairments are required, the Group estimates the recoverable amount of the CGU or group of CGUs. The calculation is based on projecting future cash flows and a discount factor is applied to obtain a 'value in use' which is the recoverable amount.

Key assumptions

The value in use calculation includes estimates about the future financial performance of the CGU. The cash flow projections cover five years based on management-approved financial budgets for the first year, and reflect management's expectations of the medium-term operating performance of the CGU and its growth prospects for the subsequent years. Cash flows beyond the five year period are extrapolated using the estimated growth rates stated below.

The key assumptions in the value in use calculations are the revenue growth rates which directly influence the forecasted operating cash flows, as well as the discount rate applied. In determining the key assumptions, management has taken into account the current economic climate and the resulting impact on expected growth and discount rates, as applicable to the Group's business and industry. Average annual revenue growth rates used reflect past experience and are considered appropriate. The discount rate applied represents a pre-tax rate that reflects the Group's internal rate of return, adjusted for specific risks associated with each individual CGU.

Key assumptions used for the value in use calculations are as follows:

	2016 TCSL CGU
Discount rate	**13.3%**
Medium-term cash flow growth rate	**3.0%**
Long-term growth rate	**3.0%**

Sensitivity analysis

The Group has conducted a sensitivity analysis on the carrying value of goodwill allocated to each CGU. The Board has considered downside scenarios, including reductions in growth and increases to operating costs. The following table sets out the impact of the individual sensitivities on goodwill and other intangible assets:

	2016 TCSL
Sensitised medium term growth rate	**1.0%**
Potential impairment	**0.0%**

Any potential impairment would be charged against the assets allocated to that CGU. It would first be allocated against goodwill balances summarised above, then to other assets allocated to that CGU.

13. Investments in subsidiaries

Company only	2016 £'000	2015 £'000
Cost		
As at 1 January	**–**	–
Acquisitions	**73,000**	–
Capital contributions relating to share-based payments	**38**	–
As at 31 December	**73,038**	–
Net book amount		
As at 31 December	**73,038**	–

Investments in subsidiaries are recorded at cost, which is the fair value of the consideration paid, and this cost is tested periodically for impairment.

The capital contribution relating to share-based payments relates to LTIP awards granted by the Company to employees of subsidiary undertakings in the Group.

A full list of the undertakings whose results or financial position are included within the Company's annual financial statements is set out below.

Name	Country of incorporation (or registration) and operation	Registered number	Proportion of voting rights and ordinary share capital held	Nature of business
Direct subsidiary undertakings				
Tax Computer Systems Limited	United Kingdom	05347048	100%	Development and marketing of tax software
Indirect subsidiary undertakings				
Tax Computer Systems Limited	Ireland		100%	Development and marketing of tax software

14. Trade and other receivables

	Group		Company	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000
Due within one year				
Trade receivables	**2,249**	–	**–**	–
Less: provision for impairment of trade receivables	**(67)**	–	**–**	–
Trade receivables – net	**2,182**	–	**–**	–
Other taxes and social security	**88**	–	**88**	–
Other receivables	**462**	24	**–**	24
Prepayments	**148**	–	**–**	–
Amounts due from Group undertakings	**–**	–	**746**	–
Prepayments and other receivables	**698**	24	**834**	24
Total trade and other receivables due within one year	**2,880**	24	**834**	24

Notes to the Financial Statements

for the year ended 31 December 2016

14. Trade and other receivables (continued)

The maximum exposure to credit risk at 31 December 2016 is the carrying value of each class of receivables mentioned above. In determining the recoverability of trade receivables, the Group considers the ageing of each debtor and any change in the circumstances of the individual receivable. Due to this, management believes there is no further credit risk provision required in excess of that stated above for doubtful receivables. Other receivables principally comprise deposits and non-interest bearing loans in respect of the LTIP holders.

The value of trade and other receivables quoted in the table above also represents the fair value of these items.

Trade receivables are considered impaired if they are not considered recoverable. As at 31 December 2016, trade receivables of £876,000 (2015: £nil) were past due but not impaired. The Group considers any change in the credit quality of trade receivables from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the quality of the customer base.

The ageing analysis of trade receivables and impairment is as follows:

	2016		2015	
	Trade receivables £'000	**Impairment provision £'000**	Trade receivables £'000	Impairment provision £'000
Current and not impaired	**1,306**	**–**	–	–
Up to 3 months past due	**894**	**(18)**	–	–
Over 3 months past due	**49**	**(49)**	–	–
	2,249	**(67)**	–	–

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	2016 £'000	2015 £'000
Pounds Sterling	**2,332**	24
Euros	**548**	–
	2,880	24

Movements on the Group provision for impairment of trade receivables are as follows:

	2016 £'000	2015 £'000
As at 1 January	**–**	–
Movement in provision	**67**	–
As at 31 December	**67**	–

There are no other financial assets that are past due or impaired.

15. Restricted cash

	Group		Company	
	2016	2015	**2016**	2015
	£'000	£'000	**£'000**	£'000
Restricted cash	**2,000**	–	**2,000**	–

At 31 December 2016, a cash amount of £2,000,000 was held in escrow in respect of the satisfaction of a potential further payment in respect of the acquisition of TCSL. The Directors are of the opinion that the final recoverable amount will not be materially different from the current carrying amount.

16. Cash and cash equivalents

	Group		Company	
	2016	2015	**2016**	2015
	£'000	£'000	**£'000**	£'000
Cash at bank and in hand	**2,200**	5,027	**258**	5,027

17. Net (debt)/funds

		Group		Company	
		2016	2015	**2016**	2015
	Note	**£'000**	£'000	**£'000**	£'000
Cash at bank and in hand	16	**2,200**	5,027	**258**	5,027
Restricted cash and cash equivalents	15	**2,000**	–	**2,000**	–
Bank loans and loan notes	19	**(26,023)**	–	**(26,023)**	–
Equity element of loan notes		**(2,624)**	–	**(2,624)**	–
Net (debt)/funds		**(24,447)**	5,027	**(26,389)**	5,027

18. Trade and other payables

	Group		Company	
	2016	2015	**2016**	2015
	£'000	£'000	**£'000**	£'000
Due within one year				
Trade payables	**326**	70	**239**	70
Other taxes and social security	**932**	–	**–**	–
Accruals	**1,139**	51	**317**	51
Deferred income	**1,518**	–	**–**	–
Other payables	**409**	–	**332**	–
Amounts due to Group undertakings	**–**	–	**1,679**	–
Other payables due within one year	**3,998**	51	**2,328**	51
Trade and other payables due within one year	**4,324**	121	**2,567**	121

Trade and other payables principally comprise amounts outstanding for trade purchases, ongoing costs and transfer from provisions. The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms. The Directors consider that the carrying amount of trade payables approximates to their fair value.

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19. Financial liabilities

	Group		Company	
	2016	2015	**2016**	2015
	£'000	£'000	**£'000**	£'000
Due within one year				
Bank loans	**1,730**	–	**1,730**	–
Financial liabilities due within one year	**1,730**	–	**1,730**	–
Due after one year				
Bank loans	**17,055**	–	**17,055**	–
Loan notes	**7,238**	–	**7,238**	–
Financial liabilities due after one year	**24,293**	–	**24,293**	–
Total financial liabilities	**26,023**	–	**26,023**	–

The Group has revolving and term loan facilities, which are available until 30 June 2021. The term loan will be amortised evenly over the five year term. Interest payable in respect of the revolving credit facility ranges between 1.75% to 3.25% per annum above the London Inter-Bank Offered Rate ("LIBOR") and for the term loan facility between 2.0% to 3.5% above LIBOR.

The Company entered into a £10,000,000 unsecured fixed rate loan notes agreement with the BGF with a 6.5 year term from 26 July 2016. Repayment will be made in four equal instalments semi-annually from 30 June 2021. The Company also granted the BGF an option to subscribe for 5,970,149 Ordinary Shares at a price of 67p at any time before 26 July 2023.

In accordance with IAS 32, the loan notes and warrants issued to the BGF are deemed to be linked and are treated as a single financial instrument and shown at fair value. The fair value of the loan element was calculated at £7,203,000 using a discounted cash flow model over the term of the instrument and an effective borrowing rate of 13%, deemed by the Directors to be an appropriate market rate, reflecting the 6% coupon interest payments and the capital repayment profile of the loan notes. The balance of £2,797,000 is deemed to be the fair value of the equity element and is credited to Other Reserves.

An effective interest of £173,000 has been charged on the equity element of the loan notes during the year. The effective interest charge is transferred from Other Reserves to Retained Earnings in the Consolidated Statement of Changes in Equity.

20. Deferred tax

The movement in the deferred income tax assets/(liabilities) during the year is as follows:

Group	Note	**2016** **£'000**	2015 £'000
As at 1 January		**–**	–
On acquisition	28	**(10,388)**	–
Credited to Consolidated Statement of Comprehensive Income	9	**453**	–
As at 31 December		**(9,935)**	–

The movement in deferred income tax assets and liabilities during the year, is as follows:

Group	**2016** **Tax losses** **£'000**	2015 Tax losses £'000
Deferred tax assets		
As at 1 January	**–**	–
Credit to Consolidated Statement of Comprehensive Income	**13**	–
As at 31 December	**13**	–

		2016				2015
Group	Note	**Acquisition related intangible assets** **£'000**	**Capitalised development costs** **£'000**	**Tangible fixed assets** **£'000**	**Total** **£'000**	Total £'000
Deferred tax liabilities						
As at 1 January		**–**	**–**	**–**	**–**	–
On acquisition	28	**10,386**	**–**	**2**	**10,388**	–
Recognised through profit or loss		**(506)**	**66**	**–**	**(440)**	–
As at 31 December		**9,880**	**66**	**2**	**9,948**	–

The timing of the recoverability/(settlement) of the deferred tax assets/(liabilities) is set out below:

	2016			2015		
	Due within one year **£'000**	**Due after one year** **£'000**	**Due within Total** **£'000**	Due after one year £'000	one year £'000	Total £'000
Deferred tax assets	**13**	**–**	**13**	–	–	–
Deferred tax liabilities	**(1,123)**	**(8,825)**	**(9,948)**	–	–	–
	(1,110)	**(8,825)**	**(9,935)**	–	–	–

Details of changes to tax rates are included in note 9.

Notes to the Financial Statements

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21. Financial instruments

Accounting classification of financial assets and liabilities

Group	Loans and receivables £'000	Other financial liabilities at amortised cost £'000	Total £'000
As at 31 December 2016			
Cash and cash equivalents	**2,200**	**–**	**2,200**
Trade and other receivables excluding non-financial assets	**2,644**	**–**	**2,644**
Trade and other payables excluding non-financial liabilities	**–**	**(1,667)**	**(1,667)**
Total	**4,844**	**(1,667)**	**3,177**
As at 31 December 2015			
Cash and cash equivalents	5,027	–	5,027
Trade and other receivables excluding non-financial assets	24	–	24
Trade and other payables excluding non-financial liabilities	–	(70)	(70)
Total	5,051	(70)	4,981

Company	Loans and receivables £'000	Other financial liabilities at amortised cost £'000	Total £'000
As at 31 December 2016			
Cash and cash equivalents	**258**	**–**	**258**
Trade and other receivables excluding non-financial assets	**746**	**–**	**746**
Trade and other payables excluding non-financial liabilities	**–**	**(2,250)**	**(2,250)**
Total	**1,004**	**(2,250)**	**(1,246)**
As at 31 December 2015			
Cash and cash equivalents	5,027	–	5,027
Trade and other receivables excluding non-financial assets	24	–	24
Trade and other payables excluding non-financial liabilities	–	(70)	(70)
Total	5,051	(70)	4,981

22. Ordinary shares, share premium and other reserves

Allotted and fully paid £0.01 nominal value shares

	Number of shares '000	Ordinary shares £'000	Share premium £'000
As at 1 January 2015	471,336	4,713	3,190
Issue of new shares	438,114	4,381	909
Restructuring of share capital	(467,565)	(4,675)	–
Issue of warrants	–	–	(444)
As at 1 January 2016	441,885	4,419	3,655
Issue of new shares	67,164	672	44,328
Restructuring of share capital	(433,048)	(4,331)	4,331
Issue of warrants	–	–	(340)
Cost of share issue	–	–	(1,199)
As at 31 December 2016	**76,001**	**760**	**50,775**

Reconciliation of shares issued

	Number of shares '000	Ordinary shares £'000	Share premium £'000	Total £'000
As at 1 January 2015	471,336	4,713	3,190	7,903
Restructuring of share capital	(467,565)	(4,675)	–	(4,675)
Issue of warrants	–	–	(444)	(444)
Issue of shares	413,114	4,131	909	5,040
Issue of shares on conversion of loan notes	25,000	250	–	250
As at 1 January 2016	441,885	4,419	3,655	8,074
Share issue	67,164	672	43,129	43,801
Issue of warrants	–	–	(340)	(340)
Restructuring of share capital	(433,048)	(4,331)	4,331	–
As at 31 December 2016	**76,001**	**760**	**50,775**	**51,535**

Share capital and share premium

The share capital of Tax Systems plc consists of 76,001,889 fully paid Ordinary shares with a nominal value of 1p per share. All shares are equally eligible to receive dividends and the repayment of capital and represent one vote.

On 26 July 2016, the Company issued 67,164,180 New Ordinary Shares with a nominal value of 1p at 67p each raising £45,000,000, before costs, as part of its funding of the Acquisition.

At the same time the Company undertook a capital restructuring in order to reduce the number in shares in issue. The capital restructuring was effected by way of a consolidation, subdivision and reclassification of every 50 existing ordinary shares of 1p each into one new ordinary share of 1p each and one deferred share of 49p each. The deferred shares were then acquired by the Company and cancelled.

The movements in share capital in 2015 arose from share capital restructuring and recapitalisation undertaken as part of the process of the Company (formerly Eco City Vehicles plc) exiting administration and becoming an investing company under the AIM Rules.

Notes to the Financial Statements

for the year ended 31 December 2016

22. Ordinary shares, share premium and other reserves (continued)

Other reserves

For the purposes of presentation on the Consolidated and Company Statements of Financial Position, the share-based payment reserve, the equity element of loan notes and the other reserve have been combined and disclosed as 'Other reserves'.

The other reserve is comprised of the fair value of warrants issued.

By a warrant instrument dated 23 December 2015, as amended by a deed of amendment and restatement dated 30 June 2016 ("the Warrant Instrument"), the Company created and issued to MXC Capital warrants to subscribe for up to 4,409,299 New Ordinary Shares ("the Transaction Warrants"). After accounting for 441,885 warrants issued in December 2015 ("the Initial Warrants"), this brings the total number of warrants in the ordinary share of the Company issued to MXC Capital at 31 December 2016 to 4,851,184, representing in aggregate 6% of the issued share capital of the Company. The warrant instrument provides that the number of warrants created pursuant to the Warrant Instrument shall at all times be equal to 6 per cent. of the issued share capital of the Company. The subscription prices for the Initial Warrants and Transaction Warrants are 61p and 67p per share respectively. The subscription price for warrants created and issued pursuant to any further share issuance by the Company will be the price at which the Company allots and issues new shares (subject to adjustment for any sub-division or consolidation of the share capital of the Company).

The Initial Warrants are exercisable on or after 23 December 2018 if, at any time on or before that date, the average share price for ten consecutive trading days is equal to or greater than 85.50p. The Transaction Warrants are exercisable on or after 26 July 2019 if, at any time on or before that date, the average share price for ten consecutive trading days is equal or greater than 93.80p. If these conditions are not met, the vesting period will be extended for a further 24 months from the first vesting dates.

The fair value of the Transaction Warrants was determined using a Black-Scholes model. The performance conditions related to the Transaction Warrants take into account factors specific to the warrants, such as the vesting period. The share price performance condition related to the scheme, being a market condition, has been incorporated into the measurement by means of binomial modelling. The following principal assumptions were used in the valuation:

Grant date	26 Jul 2016
Share price at issue date	79.5p
Exercise price	67.0p
Fair value per option	15.41p
Dividend yield	–
Risk free rate used in valuation	0.25%
Volatility used in valuation	8.35%
Expected life (years)	3.50
Expected exercise date used in valuation	January 2020

The foreign exchange reserve is used to record exchange differences arising from the translation of foreign subsidiaries.

The Group share-based payment reserve at 31 December 2016 is £38,000 (2015: £nil) and is discussed in detail in note 23.

23. Share-based payments

Equity-settled share-based payments plan

The Group operates an equity-settled share-based payment plan. A summary of the main terms of the arrangement is given below, with particular reference made to the terms of those grants for which the share-based payment expense has been recognised.

On 26 July 2016, the Group made awards to certain directors and employees under its recently established LTIP.

The Group recognised total expenses in relation to share-based payments as follows:

	2016	2015
	£'000	£'000
Equity-settled share-based payments	**38**	–
Total	**38**	–

The beneficiaries of the LTIP are entitled to receive a share in a pool of up to 6% of the shareholder value created since the re-admission of the Company to AIM, subject to share price performance criteria and staff remaining employed by the Group for a minimum of three years.

Shareholder value creation is defined as the growth in the market capitalisation of the Company from the base value of at least three years from 26 July 2016, taking into account dividends and capital returns, if any. The base value is defined as the aggregate value of all Ordinary shares in the capital of the Company in issue on 26 July 2016 as adjusted for the issue or cancellations of new ordinary shares after that date.

The LTIP is implemented by way of an Employee Shareholder Shares scheme in TCSL. During the year to 31 December 2016, initial awards of 5.3% of shareholder value created were made.

Participants at 31 December 2016 are entitled to share in a pool equivalent to 5.3% of shareholder value created in excess of the base value of the Company as at 26 July 2016, subject to the share price performance of Tax Systems plc. Share price performance will initially be measured at 26 July 2019 (being the 3rd anniversary of the re-admission), with an extension to 26 July 2021 if the performance condition is not met by that date. The share price performance criterion is a share price equal to or greater than 93.8p over five consecutive trading days.

Assumptions used in the valuation of share-based payment arrangements

The fair value of the LTIP was determined using a Black-Scholes model. The performance condition related to the LTIP takes into account factors specific to the share incentive plans, such as the vesting period. The share price performance condition related to the scheme, being a market condition, has been incorporated into the measurement by means of binomial modelling. The following principal assumptions were used in the valuation:

Grant date	26 Jul 2016
Share price at issue date	79.5p
Exercise price	67.0p
Fair value	15.41p
Dividend yield	–
Risk free rate used in valuation	0.25%
Volatility used in valuation	8.35%
Expected life (years)	3.50
Expected exercise date used in valuation	January 2020

Notes to the Financial Statements

for the year ended 31 December 2016

24. Employee benefit expense and Directors' emoluments

Group	**2016 £'000**	2015 £'000
Employees (including Directors)		
Wages and salaries	**2,036**	68
Social security costs	**161**	8
Share-based payments	**38**	–
Other pension costs	**45**	–
	2,280	76
Monthly average number of employees (including Directors)		
Management and administration	**10**	2
Sales and technical	**9**	–
Support and development	**48**	–
	67	2

The Group has defined contribution pension schemes available to all employees.

Company Directors' emoluments	**2016 £'000**	2015 £'000
Aggregate emoluments	**221**	68
Amounts receivable under long-term incentive schemes	**22**	–
	243	68

Emoluments of the highest paid Director	**2016 £'000**	2015 £'000
Aggregate emoluments	**94**	34
Total	**94**	34

25. Reconciliation of net loss to net cash used in operating activities

	Group		Company	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000
Loss before income tax	**(3,994)**	(345)	**(4,026)**	(345)
Adjustments for:				
Depreciation and impairments to property, plant and equipment	**17**	–	**–**	–
Amortisation and impairments to intangible assets	**2,559**	–	**–**	–
Share-based payments	**38**	–	**–**	–
Finance costs – net	**761**	–	**787**	–
Operating cash flows before movements in working capital	**(619)**	(345)	**(3,239)**	(345)
Increase in receivables	**(74)**	(24)	**(810)**	(24)
Increase in payables	**590**	106	**2,286**	106
Cash used in operations after exceptional expenses	**(103)**	(263)	**(1,763)**	(263)
Exceptional expenses	**3,333**	145	**3,103**	145
Cash generated/(used) by operations, before exceptional expenses	**3,230**	(118)	**1,340**	(118)

26. Commitments, contingencies and guarantees

The Group leases its office premises under non-cancellable operating lease agreements. The Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2016	2015
	£'000	£'000
Within 1 year	**308**	–
Within 2 to 5 years	**20**	–
Total	**328**	–

Subsequent to the year end the Group entered into a new property lease. The amounts in respect of this lease, not included in the minimum lease payments above, due within one year is £222,000, due within two to five years is £888,000.

The Group had no capital commitments at the end of the year for capital expenditure contracted for but not provided for in the financial statements.

Legal contingencies

No member of the Group is or has been involved in any governmental, legal or arbitration proceedings and the Directors are not aware of any such proceedings pending or threatened by or against the Group during the 12 months preceding the date of these financial statements which may have or have had, in the recent past, a significant effect on the financial position or profitability of the Group.

Guarantees

There are a number of operational and financial guarantees given by the Company and certain subsidiary companies in each case on behalf of other subsidiary entities.

The Company had no other commitments or contingencies at the end of the year.

Notes to the Financial Statements

for the year ended 31 December 2016

27. Related parties

Group

Key management personnel

The compensation of key management personnel, being Directors, members of the Executive Management team and senior technical staff, was as follows:

	2016 £'000	2015 £'000
Short-term employee benefits	**268**	68
Share-based payments	**38**	–
	306	68

Details regarding Directors' emoluments can be found in the Directors' remuneration report on pages 22 to 23 and in note 24.

In addition to his role as Director of the Company, Gavin Lyons was a partner and shareholder in MXC Capital Limited during the financial year and remains a shareholder. MXC Capital Limited is a substantial shareholder of the Company and also holds share warrants, see note 22, and is considered to have a significant influence over the Group.

During the year, MXC Capital Advisory Limited, a subsidiary of MXC Capital Limited charged the Company £81,000 for Gavin Lyons' services as Chairman of the Company as reflected in the Directors' Remuneration Report. A further £87,000 was charged by MXC Capital Advisory in connection with the due diligence and consultancy services provided by Gavin Lyons prior to the Company's acquisition of TCSL.

In addition, MXC Capital Advisory Limited charged the Company £23,000 in relation to consultancy services provided by Paul Gibson, a partner and shareholder in MXC Capital Limited.

The Company was charged £69,000 by Intronovo Limited, Grahame Benson's service company in connection to consultancy services provided in the period prior to the acquisition of TCSL.

Corporate finance advisory and transaction services totalling £2,040,000 were purchased from MXC Capital Markets LLP, a subsidiary of MXC Capital Limited during the year.

During the year, non-interest bearing loans of £41,000, £41,000 and £19,000 have been made to Gavin Lyons, Paul Gibson and Grahame Benson respectively to cover upfront tax liabilities incurred when awards were made under the LTIP. The loans are repayable on exercise of the awards. However, in the event of the performance conditions not being met, the loans shall be written off.

Company

Subsidiaries

Amounts receivable from subsidiaries total £746,000 (2015: £nil), which are payable on demand.

28. Acquisition

Tax Computer Systems Limited

On 26 July 2016, the Company completed the acquisition of the entire share capital of TCSL, a leading supplier of tax software and services to the large corporate sector and the accounting profession in the UK and Ireland for an enterprise value of £73,000,000 settled entirely in cash from the proceeds from the equity placing of new ordinary shares, banking borrowings and loan notes. The acquisition constituted a reverse takeover under the AIM Rules for Companies. The acquisition method of accounting has been used as the Company is the acquirer, the consideration was paid wholly in cash and the former shareholders of TCSL exited the business on acquisition and have no interest in the enlarged group.

TCSL contributed revenue of £5,753,000 and a profit after tax of £1,256,000 to the Group for the period from acquisition to 31 December 2016.

If the acquisition had occurred on 1 January 2015, combined Group revenue and loss after tax for the prior year would have been £12,779,000 and £5,342,000.

Costs relating to the acquisition of £3,164,000 have been recognised in the Consolidated Statement of Comprehensive Income within 'Other exceptional items'.

The acquisition had the following effect on the Group's assets and liabilities:

	Provisional fair value £'000
Property, plant and equipment	33
Intangible assets	58,350
Cash	1,012
Trade and other receivables	2,782
Trade and other payables	(3,447)
Corporation tax	(269)
Deferred tax liabilities	(10,388)
Total	**48,073**
Consideration	73,000
Provisional fair value of net assets acquired	(48,073)
Provisional goodwill recognised	**24,927**
Provisional consideration satisfied by:	
– Cash consideration	73,000
– Escrow payment	2,000
– Cash and cash equivalents acquired	(1,012)
Total net cash outflow on acquisition	**73,988**

No adjustments for accounting policy alignments were required.

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for the year ended 31 December 2016

28. Acquisition (continued)

Tax Computer Systems Limited (continued)

£58,350,000 of customer related and intellectual property rights intangible assets were capitalised as part of the acquisition of TCSL and will be amortised over ten years. A deferred tax liability of £10,386,000 on the capitalisation of the intangible assets has been created on acquisition.

The calculation of provisional fair values of consideration, assets and liabilities such as goodwill and intangible assets as well as the assessment of any impairment to fair values generally, involve estimations of likely future cash flows delivering from or accruing to those assets and liabilities.

Judgement is also involved in selecting appropriate discount rates for determining the present value of those future cash flows. Final fair values may differ materially from those provisional values stated.

29. Company statement of comprehensive income

As permitted by Section 408 of the Companies Act 2006, the Company has not presented its own Statement of Comprehensive Income and related notes. The loss for the financial year of the Company was £4,026,000 (2015: £345,000).

30. Post balance sheet events

Post year end, on 4 April 2017, the Group announced the acquisition of OSMO Data Technology Limited ("OSMO") in return for the issue of 4,701,492 ordinary shares in the Company. At the previous day's mid closing price, this valued OSMO at £3,200,000.

Company information

DIRECTORS:	Clive Carver, Non-Executive Chairman Gavin Lyons, Chief Executive Officer Kevin Goggin, Chief Financial Officer Linda Beal, Non-Executive Director Paul Gibson, Non-Executive Director
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