Tax Systems plc

("Tax Systems", the "Group" or the "Company")

Interim results for the six months ended 30 June 2017

Tax Systems plc (AIM: TAX), a leading supplier of corporation tax software and services, is pleased to announce its unaudited interim results for the six months ended 30 June 2017. This is the first set of interim results since the acquisition of Tax Computer Systems Limited ("TCSL") on 26 July 2016 which means that comparable numbers for the 6 months to 30 June 2016 are not representative of the Group in its current form.

Highlights

- Revenue
    - Year-on-year comparable organic revenue growth[1] of 7% compared with none over the previous three years.
    - Year-on-year new order growth of 34% from licences, licence upgrades and professional services
    - 92% of revenue is recurring from software licences. 8% of revenue is from professional services
    - Revenue for the six months of £7.0m
    - 36 new clients won
    - Change of accounting policy for revenue recognition following early adoption of IFRS 15
- Retention
    - Customer retention rate of 96%
- Costs
    - 91% gross margin due to low cost of sales
    - Percentage of operating costs[2] covered by margin generated from recurring revenue is 197%
- Adjusted EBITDA[3]
    - Adjusted EBITDA for the period was £3.4m
    - Adjusted EBITDA margin of 49%
- Cash and debt
    - Cash[4] of £4.2m at 30 June 2017 (31 December 2016: £4.2m)
    - Conversion of Adjusted EBITDA to operating cash flow before exceptional items of 98%
    - £0.9m bank loans repaid during the period
    - Net debt[4] of £23.6m at 30 June 2017 (31 December 2016: £24.4m). Excluding the element of loan notes deemed as equity, net debt at 30 June 2017 was £21.2m (31 December 2016: £21.8m)
- Acquisitions
    - Acquisition of Osmo Data Technology Limited ("OSMO") on 3 April 2017 for £3.2m in shares
    - OSMO contributed £0.3m to revenue in the three months from date of acquisition
    - OSMO technology now linked with AlphaTax, the Company's flagship product

[1] *On a proforma basis, applying IFRS 15 to all periods and excluding results from OSMO.*
[2] *Operating costs are other administrative expenses before exceptional items.*
[3] *Adjusted EBITDA is defined as operating profit or loss before exceptional items, depreciation, amortisation and share-based payments.*
[4] *Cash at 31 December 2016 included £2m of cash held in a solicitor escrow account in connection with the acquisition of TCSL which has since been recovered in full. 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.*

Gavin Lyons, CEO, commented:

"The first half of the year has been a period of solid progress for the Group. Twelve months ago, when Tax Computer Systems Limited was acquired we embarked on an investment and transformation plan to fuel organic growth whilst controlling costs to generate high margins and pay down our debt. With these results, we are able to provide demonstrable evidence that our activities are generating the desired outcomes and this coupled with the market opportunity, leaves us excited about the Group's continuous growth prospects".

This announcement contains inside information for the purposes of Article 7 of Regulation (EU) No 596/2014.

Tax Systems plc

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About Tax Systems

Tax Systems 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.

Find out more at **www.taxsystems.com**

Chairman's Statement

I am pleased to present this interim report covering the six months ended 30 June 2017 and subsequent events.

This is my first interim report as Non-Executive Chairman following the board changes announced in April 2017, when Gavin Lyons became CEO, having previously held the position of Executive Chairman and I moved from Non-Executive Director to my current role. At the same time we also welcomed Kevin Goggin to the board as CFO and Paul Gibson was appointed as a Non-Executive Director. I am pleased to report the new arrangements are working well.

Since the acquisition of TCSL in July 2016 much has been achieved. Gavin has recruited new senior managers in technology, sales & marketing and human resources positions and has successfully integrated them with the core of the team in place at the time of the acquisition.

Customers remain strongly attached to our core products with new customers being added and new services sold to existing customers.

We have begun an overhaul of the products to update both the look and usability and plan to continue releasing product updates at regular intervals. With the acquisition of OSMO on 3 April 2017, we have added to our technology base and are now better placed to continue to exploit the opportunities arising from the general move to digitalise the reporting of tax in the corporate world as well as the requirement for tax departments to improve efficiency and reduce operational risk.

All this has been achieved while keeping control of costs.

In summary we remain pleased with the progress since the acquisition of TCSL and look forward with confidence to the future.

Clive Carver
Non-Executive Chairman

Chief Executive Officer's Review

I am pleased to present my review covering the six months ended 30 June 2017 in which I provide a high-level summary on four main areas:

- Investment and transformation for organic growth
- Goals and strategy
- The market
- Outlook

Investment and transformation for organic growth

It has been just over twelve months since the acquisition of TCSL and it was outlined at the time that investment would be required in culture, people, processes, systems and infrastructure to fuel organic growth.

There has been a tremendous amount of transformation tasks completed by the team including defining our culture and values, an organisational restructure, a cost reduction triage of unnecessarily expensive items, recruitment of over 25 people, implementation of Agile development methodologies, the re-architecture of core technology solutions, research and development of new solutions, the fit out and move to new headquarters, the acquisition of OSMO and defining key performance indicators.

We still have a number of programmes to be finalised so that we can maximise organic growth opportunities but I am pleased with the results and speed of execution to date, particularly the 34% Year-on-year growth in new orders, the development release of our first cloud product (Data Entry) and the acquisition of OSMO.

Our employees, customers and core intellectual property continue to be of the highest calibre and I would like to thank everyone for their contributions during a time of substantial change.

Goals and strategy

Tax Systems is a leading supplier of corporation tax software and services to large corporates and the accountancy profession in the UK and Ireland. Our goals are to grow organically in UK and Ireland and either build or acquire additional technology solutions that can service the demand of our existing and target customers.

The acquisition of OSMO (a leading provider of automated data extraction services that connects to 305 versions of accounting systems; cloud, on premise and enterprise) in April 2017 is a good example of how we can help with such demand. Using OSMO's technology, finance and tax teams can reduce the time spent on manual inputs and rekeying of data by automating the collection of data from their accounting systems. Less than 3 months after the acquisition, OSMO is now linked with AlphaTax, the Company's flagship product.

Having finalised our 18-month technology roadmap we have requirements for further technology components that we will either build or acquire. The objective is to create a single integrated platform that drives organic growth in the UK and Irish territories – once that is a proven and scalable model we will look to expand into new territories and diversify our offering.

The business currently has £23.6m of net debt so it is critical that we continue to function effectively and get the right balance between developing the business but not overstretching it by having too much leverage.

The Market

The market demand for corporation tax compliance and complementary solutions is being fuelled by four main areas:

- Finance and Tax departments are increasingly working closer together meaning that the maintenance, accuracy and consistency of data over the entire compliance life-cycle is critical;

- Requirements for Tax departments to provide meaningful tax intelligence to the business so that effective decisions regarding tax risk can be made whilst always ensuring compliance with tax regulations and filing requirements;

- Requirements for Tax departments to do 'more with less' therefore they are looking to ensure the end to end tax process is as efficient as possible whilst ensuring risk and audit is managed effectively; and

- Last but not least is the Government's policy of 'Making Tax Digital' by 2020. 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 processes as it will place a substantial strain on resources to move from annual to quarterly reporting.

Outlook

The Group continues to focus on delivering an end to end solution for tax departments to drive efficiency through automation and leverage tax data whilst managing tax risk and audit control.

We believe we are continuing to build a solid business platform from which to grow, and we have made solid progress in the first half of the year in no small part thanks to the hard work and diligence of our people.

Since the period end the trading performance of the Company has continued to be strong and in line with expectations.

The Board remains confident in the ability of the business to deliver growth and I look forward to the remainder of 2017 and beyond.

Gavin Lyons
Chief Executive Officer

Financial Review

In the first half of 2017, the Group has seen the benefits of the continuing transformation programme put in place following the acquisition of TCSL in July 2016 with increased order intake and a reduction in the operating cost base.

The results for the six months to 30 June 2017 comprise the results for TCSL for the six months together with the results for OSMO for the three-month period from the date of acquisition. The results for the year ended 31 December 2016 comprise the results for TCSL for the five months from acquisition. The costs of Tax Systems plc are included throughout each period.

With effect from 1 January 2017, the Group has early adopted the new reporting standard on revenue recognition, IFRS 15 'Revenue from Contracts with Customers'. Previously, the licence fee element of software licence agreements was recognised in the month in which the agreement commenced. This is now accounted for evenly over the period of the licence term.

Results summary

	H1 2017
	£'000
Revenue	**7.0**
Cost of sales	**(0.6)**
Other administrative expenses	**(3.0)**
Adjusted EBITDA	**3.4**
Amortisation of development costs and depreciation	**(0.1)**
Adjusted operating profit	**3.3**
Exceptional items (transaction and restructuring costs)	**(1.0)**
Amortisation of other intangibles	**(3.0)**
Operating loss	**(0.7)**
Net finance charges	**(0.8)**
Loss before tax	**(1.5)**

Revenue and gross margin

Revenue for the period amounted to £7.0m from a mixture of software sales and services mostly to large blue-chip corporates and major accountancy firms. 89% of revenue is derived in the UK with the rest from Ireland.

Sales of software licences amounted to £6.5m of total revenue. This revenue stream provides the Group with a strong recurring revenue model with licence terms now ranging from 1 year to 5 years.

On a proforma basis, applying IFRS 15 to all periods and excluding the results from OSMO, year-on-year total revenue has increased by 7%.

Professional services revenue was £0.5m and due to the seasonality of tax filing deadlines this revenue is expected to increase in H2 2017.

Gross profit amounted to £6.4m after accounting for cost of sales which comprised directly attributable staff costs and third-party hosting costs. The corresponding gross margin is 91%.

Operating costs
Total operating costs for the six months to 30 June 2017 were £7.1m and comprised:

	H1 2017	FY 2016
	£'000	£'000
Other administrative expenses	**3.0**	2.7
Transaction costs	**0.2**	3.1
Restructuring costs	**0.8**	0.2
Amortisation and depreciation	**3.1**	2.6
Total operating costs	**7.1**	8.6

Other administrative expenses for H1 2017 include an amount of £0.3m in respect of the costs of OSMO from acquisition. The transaction and restructuring costs were principally the costs of the acquisitions together with redundancy and termination costs.

Amortisation and depreciation comprises £2.2m on customer contracts, £0.8m on intellectual property rights, £0.1m for capitalised development costs.

At 30 June 2017 the company employed 92 staff.

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

Adjusted EBITDA for the six months amounted to £3.4m. A reconciliation of operating loss to Adjusted EBITDA is as follows:

	H1 2017	FY 2016
	£'000	£'000
Operating loss	**(0.7)**	(3.2)
Transaction and restructuring costs	**1.0**	3.3
Amortisation and depreciation	**3.1**	2.6
Adjusted EBITDA	**3.4**	2.7

The operating loss for the period was £0.7m.

Net finance costs
Net finance costs for the period amounted to £0.8m, 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 for the six months to 30 June 2017 of £1.5m.

Tax
The tax credit for the period was £0.7m, which represented a corporation tax charge of £0.1m offset by a deferred tax credit of £0.8m. The deferred tax credit primarily related to acquired intangible assets.

Cash and net debt
The Group ended the period with £4.2m of cash at bank. During the period, the escrow arrangement for any potential payments on the acquisition of TCSL was settled resulting in the recovery of £2m by the Group. The Group generated £2.4m of cash from operating activities after exceptional items during the period.

Capital expenditure of £0.4m was incurred in the period, mostly in respect of the relocation of the UK operations. The Group capitalised £0.6m of development costs in the period reflecting the on-going development work for updating the core tax software products.

Net debt reduced from £24.4m at 31 December 2016 to £23.6m at 30 June 2017 and comprised the following:

- £17.9m of term loan and revolving credit facilities
- £7.4m of the debt element of loan notes recognised as liabilities
- £2.5m of the equity element of the loan notes
- £4.2m of cash and cash equivalents

Kevin Goggin
Chief Financial Officer

Condensed Consolidated Statement of Comprehensive Income

	Note	**Six months ended 30 June 2017 (unaudited) £'000**	Six months ended 30 June 2016 (unaudited) £'000	Year ended 31 December 2016 (audited) £'000
Revenue	4	**7,016**	-	5,753
Cost of sales		**(627)**	-	(377)
Gross profit		**6,389**	-	5,376
Administrative expenses		**(7,081)**	(478)	(8,609)
Operating loss	6	**(692)**	(478)	(3,233)
Finance income	7	**4**	-	26
Finance costs	7	**(839)**	-	(787)
Loss before income tax		**(1,527)**	(478)	(3,994)
Income tax	8	**737**	-	254
Loss for the period/year attributable to the owners of the parent		**(790)**	(478)	(3,740)
Other comprehensive income that may be reclassified subsequently to profit or loss:				
Currency translation differences on consolidation		**2**	-	61
Total comprehensive expense for the period/year attributable to the owners of the parent		**(788)**	(478)	(3,679)
Loss per share attributable to owners of the parent during the period/year (expressed in pence per share):				
– basic and diluted	9	**(1.01)**	(5.41)	(9.82)

Non-GAAP measure: Adjusted EBITDA				
Operating loss	6	**(692)**	(478)	(3,233)
Depreciation and amortisation	6	**3,099**	-	2,576
Operating profit/(loss) before share-based payments and exceptional items		**2,407**	(478)	(657)
Share-based payments		**37**	-	38
Exceptional items	6	**962**	-	3,333
Adjusted EBITDA[1]		**3,406**	(478)	2,714

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

Condensed Consolidated Statement of Financial Position

	Note	**As at 30 June 2017 (unaudited) £'000**	As at 30 June 2016 (unaudited) £'000	As at 31 December 2016 (audited) £'000
ASSETS				
Non-current assets				
Property, plant and equipment		**405**	-	30
Intangible assets	10	**82,009**	-	81,135
Deferred tax assets		**14**	-	13
		82,428	-	81,178
Current assets				
Trade and other receivables		**3,544**	65	2,880
Current tax assets		**1,035**	-	89
Restricted cash		**-**	-	2,000
Cash and cash equivalents	11	**4,180**	4,617	2,200
		8,759	4,682	7,169
Total assets		**91,187**	4,682	88,347
LIABILITIES				
Current liabilities				
Trade and other payables		**(9,604)**	(230)	(4,324)
Current tax liabilities		**(14)**	-	(165)
Financial liabilities	12	**(1,730)**	-	(1,730)
		(11,348)	(230)	(6,219)
Non-current liabilities				
Financial liabilities	12	**(23,639)**	-	(24,293)
Deferred tax liabilities		**(9,389)**	-	(9,948)
Total liabilities		**(44,376)**	(230)	(40,460)
Net assets		**46,811**	4,452	47,887
EQUITY				
Capital and reserves attributable to owners of the parent				
Ordinary shares	13	**807**	4,419	760
Share premium	13	**53,925**	3,655	50,775
Foreign exchange reserve		**63**	-	61
Other reserves		**3,283**	444	3,446
Accumulated losses		**(11,267)**	(4,066)	(7,155)
Total equity		**46,811**	4,452	47,887

Condensed Consolidated Statement of Changes in Equity

	Note	Ordinary shares	Share premium	Other reserve	Equity element of loan notes	Share-based payment reserve	Accumulated losses	Foreign exchange reserve	Total equity
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Six months to 30 June 2016									
Balance at 1 January 2016		4,419	3,655	444	-	-	(3,588)	-	4,930
Loss for the six months		-	-	-	-	-	(478)	-	(478)
Other comprehensive income		-	-	-	-	-	-	-	-
Total comprehensive expense		-	-	-	-	-	(478)	-	(478)
Balance at 30 June 2016		4,419	3,655	444	-	-	(4,066)	-	4,452
Twelve months to 31 December 2016									
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)	13	672	43,129	-	-	-	-	-	43,801
Restructuring of share capital	13	(4,331)	4,331	-	-	-	-	-	-
Recognition of warrants	13	-	(340)	340	-	-	-	-	-
Fair value of equity element of loan notes		-	-	-	2,624	-	173	-	2,797
Share-based payments		-	-	-	-	38	-	-	38
Balance at 31 December 2016		760	50,775	784	2,624	38	(7,155)	61	47,887
Six months to 30 June 2017									
Balance at 1 January 2017, as originally reported		760	50,775	784	2,624	38	(7,155)	61	47,887
Change in accounting policy	2.1, 5	-	-	-	-	-	(3,522)	-	(3,522)
Balance at 1 January 2017, as restated		760	50,775	784	2,624	38	(10,677)	61	44,365
Loss for the six months		-	-	-	-	-	(790)	-	(790)
Other comprehensive income		-	-	-	-	-	-	2	2
Total comprehensive (expense)/income		-	-	-	-	-	(790)	2	(788)
Issue of Ordinary shares	13	47	3,150	-	-	-	-	-	3,197
Transfer for equity element of loan notes		-	-	-	(200)	-	200	-	-
Share-based payments		-	-	-	-	37	-	-	37
Balance at 30 June 2017		**807**	**53,925**	**784**	**2,424**	**75**	**(11,267)**	**63**	**46,811**

Condensed Consolidated Cash flow Statements

	Note	**Six months ended 30 June 2017 (unaudited) £'000**	Six months ended 30 June 2016 (unaudited) £'000	Year ended 31 December 2016 (audited) £'000
Cash flows from/(used in) operating activities				
Cash generated/(used) by operations, before exceptional expenses	14	**3,325**	(410)	3,230
Exceptional expenses		**(920)**	-	(3,333)
Cash generated/(used) by operations after exceptional items		**2,405**	(410)	(103)
Net income tax paid		**(309)**	-	(393)
Net cash from/(used in) operating activities		**2,096**	(410)	(496)
Investing activities				
Acquisition of subsidiary, net of cash acquired	16	**2,384**	-	(73,988)
Interest received		**4**	-	26
Purchases of property, plant and equipment		**(367)**	-	(14)
Purchase and capitalisation of intangible assets		**(576)**	-	(417)
Net cash generated from/(used in) investing activities		**1,445**	-	(74,393)
Financing activities				
Proceeds from issuance of ordinary shares (net of expenses)		**-**	-	43,801
Interest paid		**(661)**	-	(348)
Proceeds from long-term borrowings		**-**	-	19,650
Repayments of long-term borrowings		**(900)**	-	(900)
Proceeds from loan notes		**-**	-	9,852
Net cash (used in)/from financing activities		**(1,561)**	-	72,055
Net increase/(decrease) in cash and cash equivalents		**1,980**	(410)	(2,834)
Cash and cash equivalents at beginning of the period/year		**2,200**	5,027	5,027
Effect of exchange rate changes		**-**	-	7
Cash and cash equivalents at end of the period/year		**4,180**	4,617	2,200

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 both the UK and Ireland. The Group is headquartered in the UK and, during the six months ended 30 June 2017, 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 the AIM market of the London Stock Exchange ('AIM'). The registered number of the Company is 04998151 and the registered address is Magna House, 18-32 London Road, Staines-upon-Thames TW18 4BP.

The condensed consolidated interim financial information was approved for issue by the Board on 1 September 2017.

The condensed consolidated interim financial information does not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2016 were approved by the Board on 18 April 2017 and delivered to the Registrar of Companies. The Auditors' report on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under Section 498 of the Companies Act 2006.

The condensed consolidated interim financial information is neither audited nor reviewed by the auditors and the results of the operations for the six months ended 30 June 2017 are not necessarily indicative of the operating results for future operating periods.

2. Basis of preparation

The condensed consolidated interim financial information in this report has been prepared under the measurement principles of International Financial Reporting Standards ('IFRS') as adopted by the European Union ('IFRS as adopted by the EU'), using accounting policies and methods of computation consistent, except as noted below, with those set out in the Company's 2016 Annual Report and Accounts. The 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. As permitted by AIM rules, the Group has not applied IAS 34 'Interim reporting' in preparing this interim report.

The principal accounting policies applied in the preparation of these interim statements are the same as those used in preparing the consolidated financial statements of the Group at 31 December 2016, except as stated below.

The Company has reviewed the way that it accounts for revenue from software licences and has early adopted the new reporting standard on revenue recognition, IFRS 15 ' Revenue from Contracts with Customers'. Previously the Company recognised the licence fee element of software licence agreements in the month in which the agreement commenced. Under IFRS 15 this is now accounted for evenly over the period of the licence term. The Company has applied the change in accounting policy by using a modified retrospective approach in which the comparative results for 2016 have not been restated, instead a cumulative adjustment has been recognised through retained earnings at 1 January 2017 in relation to agreements which still required performance by the Company at that date. Further details are set out in note 5.

Based on projections prepared of the Group's anticipated future results, the Directors have reasonable expectations that the Group will have adequate resources to continue in existence for the foreseeable future. Therefore, the Directors continue to adopt the going concern basis in preparing this financial information.

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 2017 that have a material impact on the Group's consolidated financial statements.

A number of new, revised and amended accounting standards and interpretations are currently endorsed but are effective for annual periods beginning after 1 January 2017, 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	Effective date (subject to EU endorsement)
IFRS 9 Financial instruments	1 January 2018
IFRS 16 Leases	1 January 2019

The Group is currently assessing the impact of the other standards listed above on its results, financial position and cash flows.

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.

3. 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:

3.1. 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.

3.2. 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.

3.3. Development costs

The Group has capitalised internally generated intangible assets 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.

3.4. 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.

3.5. 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.

3.6. 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.

3.7. 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 16.

4. Segmental information

Reportable segments

Tax Systems' 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 Adjusted 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.

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.

	Six months ended 30 June 2017 £'000	Six months ended 30 June 2016 £'000	Year ended 31 December 2016 £'000
United Kingdom	**6,213**	-	4,990
Ireland	**803**	-	763
Total	**7,016**	-	5,753

Products and services

	Six months ended 30 June 2017 £'000	Six months ended 30 June 2016 £'000	Year ended 31 December 2016 £'000
Software	**6,463**	-	4,938
Professional services	**553**	-	815
Total	**7,016**	-	5,753

5. Change in accounting policy

The impact of the change in accounting policy as a result of the early adoption of IFRS 15 'Revenue from Contracts with Customers' if the Company had restated the financial position at 31 December 2016 would have been as follows:

	As previously reported £'000	Accounting adjustments £'000	Pro-forma net assets £'000
Non-current assets	81,178	-	81,178
Trade and other receivables	2,880	412	3,292
Corporation tax	89	831	920
Cash and restricted cash	4,200	-	4,200
Trade and other payables	(6,219)	(4,765)	(10,984)
Non-current financial liabilities	(24,293)	-	(24,293)
Deferred tax liabilities	(9,948)	-	(9,948)
Net assets	**47,887**	**(3,522)**	**44,365**

If the acquisition of Tax Computer Systems Limited ("TCSL") had occurred on 1 January 2016 and IFRS 15 had been applied at that time, the revenue for TCSL would have been as follows:

	Six months ended 30 June 2017 £'000	Six months ended 30 June 2016 £'000	Year ended 31 December 2016 £'000
Proforma revenue	**6,670**	6,249	12,889

6. Operating loss

This is stated after charging:

	Note	**Six months ended 30 June 2017 £'000**	Six months ended 30 June 2016 £'000	Year ended 31 December 2016 £'000
Depreciation		**18**	-	17
Amortisation	10	**3,081**	-	2,559

Included within the operating loss is an amount in respect of research and development of £237,000 (2016: £393,000).

Exceptional items comprise:

	Six months ended 30 June 2017 £'000	Six months ended 30 June 2016 £'000	Year ended 31 December 2016 £'000
Restructuring costs	**773**	-	169
Acquisition related costs	**189**	-	3,164
	962	-	3,333

Acquisition related costs for the period ended 30 June 2017 represented costs relating to the acquisition of Osmo Data Technology Limited and final settlement of the escrow arrangement in respect of the prior period acquisition of TCSL. Acquisition related costs for the year ended 31 December 2016 represented professional fees, broker fees and due diligence costs relating to the acquisition of TCSL. Restructuring costs in 2016 were principally redundancy and termination costs relating to the acquisition of TCSL.

7. Finance income and expenses

	Six months ended 30 June 2017 £'000	Six months ended 30 June 2016 `	Year ended 31 December 2016 £'000
Finance income			
Interest income on short-term deposits	**4**	-	19
Net foreign exchange gains on financing activities	**-**	-	7
	4	-	26
Finance costs			
Interest payable on bank borrowings and loan notes	**(592)**	-	(569)
Effective interest on equity element of loan notes	**(200)**	-	(173)
Amortisation of debt arrangement fees	**(47)**	-	(45)
	(839)	-	(787)
Net finance costs	**(835)**	-	(761)

8. Income tax

	Six months ended 30 June 2017 £'000	Six months ended 30 June 2016 £'000	Year ended 31 December 2016 £'000
Current tax	**(124)**	-	(199)
Deferred tax	**861**	-	453
Total tax credit in the Statement of Comprehensive Income	**737**	-	254

9. 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 period. 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:

	Six months ended 30 June 2017 £'000	Six months ended 30 June 2016 £'000	Year ended 31 December 2016 £'000
Loss attributable to owners of the parent	**(790)**	(478)	(3,740)
Weighted average number of shares (thousands)	**78,288**	8,838	38,096
Loss per share (pence)	**(1.01)**	(5.41)	(9.82)

10. Intangible assets

	Goodwill	Customer contracts	Intellectual property rights	Capitalised development costs	Total
	£'000	£'000	£'000	£'000	£'000
Six months to 30 June 2016					
Net book value	-	-	-	-	-
As at 1 January 2016	-	-	-	-	-
As at 30 June 2016	-	-	-	-	-
Twelve months to 31 December 2016					
Cost					
As at 1 January 2016	-	-	-	-	-
Additions	-	-	-	417	417
Acquisitions	24,927	43,475	14,875	-	83,277
As at 31 December 2016	24,927	43,475	14,875	417	83,694
Accumulated amortisation and impairment					
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
Six months to 30 June 2017					
Cost					
As at 1 January 2017	24,927	43,475	14,875	417	83,694
Additions	-	-	-	576	576
Acquisitions	1,788	645	946	-	3,379
As at 30 June 2017	**26,715**	**44,120**	**15,821**	**993**	**87,649**
Accumulated amortisation					
As at 1 January 2017	-	1,882	644	33	2,559
Charge	-	2,190	767	124	3,081
As at 30 June 2017	**-**	**4,072**	**1,411**	**157**	**5,640**
Net book value					
As at 1 January 2017	24,927	41,593	14,231	384	81,135
As at 30 June 2017	**26,715**	**40,048**	**14,410**	**836**	**82,009**

11. Net (debt)/funds

	Note	**30 June 2017 £'000**	30 June 2016 £'000	31 December 2016 £'000
Cash at bank and in hand		**4,180**	4,617	2,200
Restricted cash		**-**	-	2,000
Bank loans and loan notes	12	**(25,369)**	-	(26,023)
Equity element of loan notes		**(2,424)**	-	(2,624)
Net (debt)/funds		**(23,613)**	4,617	(24,447)

The restricted funds related to an escrow held for the satisfaction of any potential payments in respect of the acquisition of TCSL. This has now been transferred to cash at bank as the position has been settled.

12. Financial liabilities

	30 June 2017 £'000	30 June 2016 £'000	31 December 2016 £'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	**16,190**	-	17,055
Loan notes	**7,449**	-	7,238
Financial liabilities due after one year	**23,639**	-	24,293
Total financial liabilities	**25,369**	-	26,023

The Group has revolving and term loan facilities, which are available until 30 June 2021. The term loan is amortised evenly over the five year term.

The Company has a £10,000,000 unsecured fixed rate loan notes agreement with the Business Growth Fund ("BGF"). 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 effective interest charge on the loan notes has been transferred from Other Reserves to Retained Earnings in the Consolidated Statement of Changes in Equity.

13. 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 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 1 January 2017	76,001	760	50,775
Issue of new shares	4,701	47	3,150
As at 30 June 2017	**80,702**	**807**	**53,925**
As at 1 January 2016	441,885	4,419	3,655
Issue of new shares	-	-	-
As at 30 June 2016	441,885	4,419	3,655

Reconciliation of shares issued

	Number of shares '000	Ordinary shares £'000	Share premium £'000	Total £'000
As at 1 January 2016	441,885	4,419	3,655	8,074
Restructuring of share capital	(433,048)	(4,331)	4,331	-
Issue of warrants	-	-	(340)	(340)
Issue of shares	67,164	672	43,129	43,801
As at 1 January 2017	76,001	760	50,775	51,535
Share issue	4,701	47	3,150	3,197
As at 30 June 2017	**80,702**	**807**	**53,925**	**54,732**

Share capital and share premium

At 30 June 2017 the share capital of Tax Systems plc consisted of 80,703,381 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 of TCSL.

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.

On 3 April 2017 the Company issued 4,701,492 Ordinary shares as consideration for the acquisition of the entire share capital of OSMO.

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

	Six months ended 30 June 2017 £'000	Six months ended 30 June 2016 £'000	Year ended 31 December 2016 £'000
Loss before income tax	**(1,527)**	(478)	(3,994)
Adjustments for:	**-**	-	-
Depreciation and impairments to property, plant and equipment	**18**	-	17
Amortisation and impairments to intangible assets	**3,081**	-	2,559
Share-based payments	**37**	-	38
Finance costs - net	**835**	-	761
Operating cash flows before movements in working capital	**2,444**	(478)	(619)
Increase in receivables	**(103)**	(41)	(74)
Increase in payables	**22**	109	590
Cash generated/(used) by operations, after exceptional expenses	**2,363**	(410)	(103)
Exceptional expenses	**962**	-	3,333
Cash generated/(used) by operations, before exceptional expenses	**3,325**	(410)	3,230

15. Commitments, contingencies and guarantees

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.

16. Acquisitions

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.

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

	Provisional fair value £'000	Fair value adjustments £'000	Provisional fair value £'000
Property, plant and equipment	33	-	33
Intangible assets	58,350	-	58,350
Cash	1,012	-	1,012
Trade and other receivables	2,782	-	2,782
Trade and other payables	(3,447)	(87)	(3,534)
Corporation tax	(269)	-	(269)
Deferred tax liabilities	(10,388)	-	(10,388)
Total	**48,073**	**(87)**	**47,986**
Consideration	73,000	-	73,000
Provisional fair value of net assets acquired	(48,073)	87	(47,986)
Provisional goodwill recognised	**24,927**	**87**	**25,014**
Provisional consideration satisfied by:			
- Cash consideration	73,000	-	73,000
- Escrow payment	2,000	(1,913)	87
- Cash and cash equivalents acquired	(1,012)	-	(1,012)
Total net cash outflow on acquisition	**73,988**	**(1,913)**	**72,075**

No adjustments for accounting policy alignments were required.

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

Osmo Data Technology Limited

On 3 April 2017, the Company completed the acquisition of the entire share capital of Osmo Data Technology Limited ("OSMO"), a supplier of software solutions to the financial services industry in return for the issue of 4,701,492 ordinary shares in the Company, which valued OSMO at £3,197,000.

OSMO contributed revenue of £346,000 and a loss after tax of £45,000 to the Group for the period from acquisition to 30 June 2017.

The Group made this acquisition in order to gain automation technology to extract data from accounting packages into its core tax technologies.

One-off costs relating to the acquisition of £189,000 have been recognised in the Consolidated Statement of Comprehensive Income within 'Exceptional items'.

The Directors made an initial provisional assessment of the fair values of the assets and liabilities at 3 April 2017.

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

	Provisional fair value £'000
Property, plant and equipment	26
Intangible assets	1,591
Cash	471
Trade and other receivables	149
Trade and other payables	(523)
Corporation tax	84
Deferred tax liabilities	(302)
Total	**1,496**
Consideration	3,197
Fair value of net assets acquired	(1,496)
Goodwill recognised	**1,701**
Provisional consideration satisfied by:	
- Issuance of shares	3,197
- Cash and cash equivalents acquired	(471)
	2,726

No adjustments for accounting policy alignments were required.

The intangible assets capitalised as part of the acquisition of OSMO can be analysed as follows:

	£'000
Customer relationships - amortised over ten years	645
Technology related intangibles - amortised over ten years	946
	1,591

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.

17. Post balance sheet events

On 2 August 2017, the Company made awards to certain directors and members of the senior management team under the Company's recently established long term incentive plan ("LTIP") and entered into a deed of amendment and restatement in relation to the MXC Capital Limited warrant instrument. These awards follow the changes in board composition and the recruitment of a senior management team as previously announced and result in no additional dilution to shareholders from the original arrangements as set out in the admission document dated 1 July 2016 ("Admission Document") which was sent to shareholders in connection with the Company's acquisition of TCSL.

Awards under the LTIP are structured as a combination of EMI options with an exercise price of 81.5 pence per ordinary share of 1 penny each in the capital of the Company ("Ordinary Share"), being the mid closing price of an Ordinary Share as at 1 August 2017, and growth shares exercisable at nil cost. The commercial terms are the same as those awards made under the original Employee Share Scheme as disclosed in the Admission Document.

Awards of 4.7 per cent. of shareholder value created have been made to Gavin Lyons, Chief Executive Officer, (3.2 per cent.), Paul Gibson, Non-Executive Director (1.0 per cent.) and Kevin Goggin, Chief Financial Officer, (0.5 per cent.) (the "Director LTIP Awards"). Further awards of 3.3 per cent. of shareholder value created have been made to certain members of the senior management team. In order to satisfy personal taxes which will be incurred as a result of their participation in the LTIP, Tax Computer Systems Limited, a subsidiary of the Company, has made loans to certain beneficiaries of the LTIP (the "Loans"). The Loans, together with the taxes and fees payable by the Company in relation to the LTIP, will result in a cash outflow of approximately £300,000.

The Company also entered into a deed of amendment and restatement whereby MXC Capital Limited ("MXC") has agreed to reduce its evergreen warrants over 6 per cent. of the fully diluted share capital of the Company to 4 per cent. in order that the awards under the LTIP be increased from 6 per cent. to 8 per cent. of shareholder value created. Therefore 1,488,543 warrants have been cancelled and MXC now hold 3,362,641 warrants (the "Warrants"), representing 4 per cent. of the issued share capital, as enlarged by the Warrants. MXC also hold 15,200,718 Ordinary Shares, representing 18.8 per cent. of the Company's issued share capital.