The information communicated in this announcement contains inside information for the purposes of Article 7 of the Market Abuse Regulation (EU) No. 596/2014.

13 December 2017

Electronic Data Processing PLC (EDP)

Preliminary results for the year ended 30 September 2017

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

Highlights:

- Turnover up 3% at £5.11 million (2016: £4.96 million)
- Adjusted operating profit increased 26% to £540,000 (2016: £430,000), representing an adjusted operating margin of 10.6% (2016: 8.7%)
- Pre-tax profit increased 71% to £417,000 (2016: £244,000). Adjusting for one-off property costs of £104,000 last year, the increase was 20%
- Contracted recurring revenues remain strong, representing 80% of total revenues (2016: 82%)
- Hosting revenues amounted to 61% of total revenues (2016: 59%), strengthening the relationship we have with our customers
- R&D cash expenditure was £901,000 in the year (2016: £982,000) reflecting continuing enhancement of Quantum VS and Vecta products
- Strong debt-free balance sheet; cash balances of £6.4 million at 30 September 2017 (2016: £5.4 million)
- Last remaining surplus freehold property sold for £1.2 million
- Net assets increased to £6.4 million (2016: £3.2 million). Position on defined benefit pension scheme improved by £3.4m after tax due largely to improved surrender terms for the scheme's principal asset
- The strategic review of the business is continuing. Should the process not result in an acceptable offer being made for the Company, the Board confirms that it intends to consider returning an amount of cash to shareholders subject to any constraints on distributable reserves and the rules of the Takeover Code
- Final dividend 3.0p per share, meaning overall dividend maintained at 5.0p for the full year

Sir Michael Heller, Chairman of EDP, said:

"With a strong, cash-generative business model and a debt-free balance sheet I remain confident that the business is well positioned for the future".

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Chairman's Statement

Turnover for the year to 30 September 2017 was £5.11 million compared with £4.96 million the previous year, an increase of 3%. At the half-year stage, we reported that sales activity had improved modestly compared to the previous year and that continued into the second half in spite of a challenging market.

Adjusted operating profit was £540,000, compared with £430,000 last year, an increase of 26%. This profit measure, which excludes non-cash IFRS items and exceptional non-trading costs, is reconciled to statutory operating profit in note 4 to the consolidated financial statements. As management exercised tight control to maintain overheads at similar levels to the previous year, the increase in sales had a significant impact on operating profit.

Statutory pre-tax profit for the year also increased to £417,000 compared with £244,000 the prior year, an increase of 71%. Last year's result included one-off property costs of £104,000 relating to a property that we have now sold. Adjusting for that item would result in an increase in statutory pre-tax profit of 20%.

Contracted recurring revenues, which comprise annual software licence fees and periodic hosting charges, remained strong at 80% of total revenues (2016: 82%). Revenues delivered through our hosting centre continued to increase and in the year under review represented 61% of total revenues (2016: 59%).

R&D cash expenditure for the year was £901,000 (2016: £982,000) and was principally focussed on continued enhancements to our key products, Quantum VS and Vecta.

As previously reported, we sold our remaining surplus freehold property for £1.2 million in December 2016. The property's carrying value had previously been adjusted to reflect the expected net sale proceeds which, after disposal costs, amounted to £1.17 million. The process that we started some years ago, to dispose of six freehold properties which had become surplus to operating requirements, has generated more than £7 million of cash which has supported distributions to shareholders in excess of £11 million over the same period.

At the year-end our cash balances were £6.4 million compared with £5.4 million last year. The increase reflects the proceeds from the sale of property referred to above. Operating cash flows were £580,000 (2016: £818,000) and dividends paid amounted to £635,000 (2016: £631,000).

Net assets at 30 September 2017 were £6.4 million compared to £3.2 million at 30 September 2016. This significant increase is principally due to the elimination of the deficit on the defined benefit pension scheme under IAS19. Net of deferred tax, the position on the scheme has improved by £3.4 million during the year due largely to improved surrender terms for the scheme's principal asset. This matter is explained further in the Chief Executive's Statement.

The Directors are proposing to pay a final dividend of 3p per share (2016: 3p) giving a total dividend for the year of 5.0p, the same as last year. Total cash dividends paid to shareholders will therefore amount to £635,000. If approved by shareholders, the final dividend will be paid on 6 April 2018 to those shareholders on the register at 9 March 2018. The shares will be ex-dividend on 8 March 2018.

We announced last year that we are carrying out a strategic review of the business. As previously reported, uncertainty over the pension scheme valuation since March 2017 has impacted on the strategic review process and caused it to take longer than originally expected. However, the process is continuing now that the actuarial valuation of the scheme has been completed. Should the strategic review process not result in an acceptable offer being made for the Company, the Board confirms that it intends to consider returning an amount of cash to shareholders subject to any constraints on distributable reserves and the rules of the Takeover Code. However, it should be noted that the improvement in the Group's net asset position referred to above positively impacts our distributable reserves. The Company will update shareholders further when it is in a position to do so.

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

With a strong, cash-generative business model and a debt-free balance sheet I remain confident that the business is well positioned for the future.

Sir Michael Heller
Chairman
12 December 2017

Chief Executive's Statement

Revenue for the year was up 3% at £5.11 million compared with £4.96 million the year before. We saw slightly higher sales activity throughout the year in relation to both of our key products, Quantum VS and Vecta, and also increased levels of professional services activity, for which credit should go to our professional services team.

Because of the high margin nature of the business (our gross margin is typically over 90%), this increase in turnover had a significant impact on our underlying operating profitability, which increased 26% to £540,000 from £430,000 a year earlier. Continued careful management of the cost base meant that overheads (as used in the calculation of adjusted operating profit) were maintained at near identical levels to the previous year. Whilst an increase in sales of 3% can result in a 26% increase in operating profit, we are always mindful that the converse is also true and remain vigilant in controlling the cost base.

In common with many businesses, we are conscious that the UK economy faces considerable uncertainty over the coming years. Most of our customers are directly impacted by Brexit one way or another. The majority of them import and are affected by the significant exchange rate movements that we have experienced over the last 18 months or so. Different sectors have varying views of the future, with some of those in the Builders Merchants sector, for example, currently feeling more positive than some of those who are not directly involved in construction. The fact that we offer our products into a variety of industry verticals within the distribution sector, provides our business with a good degree of resilience as we are not overly reliant on any one sector. However, economic uncertainty typically can mean that significant capital expenditure decisions can be delayed or even cancelled as businesses take a "wait and see" approach.

Our consistent strategy for many years has been to strengthen the relationship we have with our customers by growing the proportion of our revenues delivered through our hosting centre in Milton Keynes. Last year hit yet another record as 61% of our revenues were delivered using the hosting model. This was up from 59% last year, and, in fact, we have seen this figure grow for 17 out of the last 18 years.

We continue to manage the migration process from our legacy applications to Quantum VS carefully. At 30 September 2017, we had signed 48 customers for Quantum VS compared to 40 a year earlier. The decision to change ERP solution is a major decision for any business, and, whilst we believe that Quantum VS provides an excellent solution for the majority of the users of our older, legacy products, the migration process itself inevitably leads to higher levels of customer churn than we have historically seen. This will continue to be the case.

Some of the users of our legacy products are keen to remain on their current system for the foreseeable future and we are geared to offer a flexible approach to work with them. This often leads to a new long term (5 year) contract, which provides them with comfort and us with excellent visibility of revenues and the ability to plan our resources going forwards. Of course, we will seek to promote Quantum VS to them at an appropriate time in the future.

Our combined CRM and Business Intelligence (BI) product Vecta generated 28% of total revenues during the period under review, up from 25% a year earlier. We have stated previously that in the medium term, we would expect to see the proportion of our total revenues represented by Vecta to increase due to the fact that its sales cycle is much shorter than that for an ERP solution, such as Quantum VS, and this remains the case.

Strategy

Our principal software products, Quantum VS and Vecta, offer clear business benefits to our customers helping them to generate sales growth or to create efficiencies and reduce costs. Quantum VS and Vecta are complementary, with many of our customers using both.

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

Vecta is an extremely powerful combined CRM and BI product which drives sales growth for businesses in a range of verticals much wider than those addressed by Quantum VS.

Our strategy remains to exploit the space between the major CRM products, which typically do not deliver sales analysis as standard, and pure BI tools.

We continue to invest in the long-term future of our key products through significant levels of R&D. During the year to 30 September 2017 our R&D expenditure was £901,000 (2016: £982,000). This represented 18% of total revenues (2016: 20%).

Business Model

All of our software products are supplied under long-term contracts. In the case of Quantum VS and our legacy products these are typically of five years initial duration; in the case of Vecta it is typically three years. Contracts for ERP applications can be either in the form of traditional on-site licencing arrangements or hosted service level agreements. In the case of Vecta, which is only offered as a cloud-based service, new contracts are exclusively hosted service level agreements. These contracted recurring revenues represented 80% of total revenues during the year, compared with 82% last year. Typically, our customer relationships extend well beyond the initial contract period.

The recurring revenue model gives us good visibility of revenues and strong cashflows as charges are mainly invoiced annually in advance.

The remainder of our revenues arise from initial software licence fees, initial hosting service charges and the provision of professional services. We also supply a small amount of low-margin computer hardware.

Financial Review

Revenue for the year was £5.11 million compared with £4.96 million last year, an increase of 3%. Second half revenues were £2.57 million (2016: £2.45 million) compared with £2.54 million in the first half of the year (2016: £2.51 million).

As noted above adjusted operating profit increased 26% to £540,000 (2016: £430,000) representing an operating margin of 10.6% (2016: 8.7%). Statutory pre-tax profit was £417,000 (2016: £244,000). Adjusted operating profit is used by the Board and management to monitor the performance of the business on a day-to-day basis and it is the headline profit figure in the management accounts. It excludes interest receivable, any gains and losses on property transactions, one-off exceptional items and a number of non-cash items which arise under IFRS (including defined benefit pension scheme charges and the capitalisation and amortisation of development costs). A full reconciliation of adjusted operating profit to statutory operating profit is provided in note 4 to the consolidated financial statements. Furthermore, as noted in the Remuneration Report, adjusted operating profit is the measure on which the Directors' bonus is based.

Cash balances amounted to £6.4 million at 30 September 2017, up from £5.4 million the previous year. This includes operating cash flows of £580,000 and £1.2 million cash received from the sale of property. Other significant cash items were dividends paid of £635,000 and capital expenditure of £118,000.

R&D expenditure was £901,000 (2016: £982,000). Of this £89,000 (2016: £127,000) was capitalised as required by IAS 38. Amortisation of previously capitalised R&D expenditure amounted to £110,000 (2016: £96,000). Accordingly, the R&D charge in the income statement is £922,000 (2016: £951,000).

The tax charge for the year was £23,000 (2016: £86,000) which represents an effective tax rate of 5.5%. The main reason for the low effective tax rate this year is a prior year corporation tax adjustment of £71,000. Of this, £61,000 relates to tax refunds received in respect of R&D tax relief claimed for the 2015 and 2016 accounting periods.

Earnings per share was 3.11p compared to 1.25p last year, an increase of 149%. On a fully diluted basis this amounted to 3.09p (2016: 1.24p).

Pension

As a result of the significant increase in the discontinuance surrender value of the defined benefit scheme's Grouped Funding policy, the value of the pension scheme's assets under IAS 19 has increased by approximately £3 million this year. This factor, coupled with actuarial gains of approximately £900,000 resulting from updated financial and mortality assumptions, has eliminated the deficit of £3.88 million (£3.22 million net of deferred tax) that was shown in the 2016 balance sheet. In 2017, the balance sheet shows a small pension surplus under IAS 19 of £240,000 (£156,000 net of deferred tax), a movement of £4.12 million (£3.38 million after deferred tax). Of this movement, net of deferred tax, £70,000 has been charged in the income statement and £3.45 million has been credited directly to reserves.

As previously announced, the triennial valuation of the scheme as at 31 July 2016 was completed and signed off by the actuary, trustees and employer in October 2017. On a scheme funding basis, the deficit at 31 July 2016 was finalised at £70,000, representing a funding level of 99%.

The deficit is expected to have been cleared by the 2018/19 scheme year as a result of the payment of terminal bonuses by the scheme insurer in respect of member retirements that will take place over the next two years. The formal deficit recovery plan does not therefore require the immediate payment of cash contributions by the Company. However, the Company has agreed with the trustees to make a one-off contribution of up to a maximum of £118,000, payable on or before 31 July 2020, in the event that the terminal bonus payments do not cover the deficit in full.

Net assets

Net assets per share increased to 50.7p (2016: 25.3p). The increase is primarily due to the improvement in the position on the defined benefit pension scheme.

Property

As previously reported we sold our last remaining surplus freehold property in December 2016 for £1.2 million. We had previously written the property down in the balance sheet to reflect the expected net sale proceeds which amounted to £1.17 million after costs. Following the sale, we have achieved expected cash cost savings of around £20,000 a year.

Outlook

Balancing the migration of customers from our legacy ERP products to Quantum VS, whilst identifying and converting new business opportunities for Quantum VS and Vecta remains our principal focus. Wider economic factors and uncertainty over Brexit, in particular, continue to affect business confidence generally and may impact discretionary capital expenditure decisions including replacement of IT systems. However, the strength of our business model built around an 80% recurring revenue base, together with continued investment in our sales team and product development, should mean we are well placed to deal with the challenges we face over the coming year.

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

Julian Wassell
Chief Executive

12 December 2017

Consolidated Income Statement

for the year ended 30 September 2017

	Note	**2017 £'000**	2016 £'000
Revenue	3	**5,108**	4,958
Gross profit		**4,787**	4,675
Administrative expenses		**(4,397)**	(4,368)
One-off property costs		**-**	(104)
Total administrative expenses		**(4,397)**	(4,472)
Operating profit		**390**	203
Write-down of property value		**-**	(10)
Finance income		**27**	51
Profit before tax		**417**	244
Income tax expense	5	**(23)**	(86)
Profit for the period attributable to equity holders of the Parent		**394**	158
Earnings per share			
- Basic	6	**3.11p**	1.25p
- Diluted	6	**3.09p**	1.24p

Consolidated Statement of Comprehensive Income

for the year ended 30 September 2017

	2017	2016
	£'000	£'000
Profit for the period	**394**	158
Other comprehensive income		
Items that will not be reclassified to profit or loss:		
Remeasurement gains/(losses) on defined benefit pension scheme	**4,209**	(1,534)
Income tax on other comprehensive income	**(760)**	238
Other comprehensive income for the period, net of tax	**3,449**	(1,296)
Total comprehensive income for the period attributable to equity holders of the Parent	**3,843**	(1,138)

Consolidated Balance Sheet

at 30 September 2017

	Note	2017	2016
		£'000	£'000
Non-current assets			
Property, plant and equipment		**1,265**	1,343
Deferred tax asset		**-**	660
Employee benefits		**240**	-
Intangible assets		**414**	464
		1,919	2,467
Current assets			
Inventories		**68**	79
Trade and other receivables		**1,139**	1,237
Investments		**-**	3,500
Cash and cash equivalents		**6,360**	1,902
Assets held for sale	8	**-**	1,167
		7,567	7,885
Total assets		**9,486**	10,352
Current liabilities			
Deferred income		**(1,856)**	(2,055)
Income tax payable		**(59)**	(87)
Trade and other payables		**(948)**	(1,009)
		(2,863)	(3,151)
Non-current liabilities			
Deferred income		**(27)**	(42)
Employee benefits		**-**	(3,883)
Deferred tax liability		**(160)**	(82)
		(187)	(4,007)
Total liabilities		**(3,050)**	(7,158)
Net assets		**6,436**	3,194
Equity			
Share capital	9	**689**	689
Share premium		**119**	119
Capital redemption reserve		**625**	625
Treasury shares		**(542)**	(587)
Retained earnings		**5,545**	2,348
Total equity attributable to equity holders of the Parent		**6,436**	3,194

Consolidated Statement of Changes in Equity

for the year ended 30 September 2017

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Treasury shares £'000	Retained earnings £'000	Total £'000
Balance at 1 October 2015	689	119	625	(587)	4,115	4,961
Profit for the period	-	-	-	-	158	158
Other comprehensive income:						
- remeasurement loss on defined benefit pension scheme net of tax					(1,296)	(1,296)
Total comprehensive income	-	-	-	-	(1,138)	(1,138)
Transactions with owners:						
- deferred tax on share-based payment transactions	-	-	-	-	2	2
- dividends paid	-	-	-	-	(631)	(631)
Total transactions with owners	-	-	-	-	(629)	(629)
Balance at 30 September 2016	689	119	625	(587)	2,348	3,194

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Treasury shares £'000	Retained earnings £'000	Total £'000
Balance at 1 October 2016	689	119	625	(587)	2,348	3,194
Profit for the period	-	-	-	-	394	394
Other comprehensive income:						
- remeasurement gain on defined benefit pension scheme net of tax	-	-	-	-	3,449	3,449
Total comprehensive income	-	-	-	-	3,843	3,843
Transactions with owners:						
- issue of shares out of treasury	-	-	-	45	(4)	41
- deferred tax on share-based payment transactions	-	-	-	-	(7)	(7)
- dividends paid	-	-	-	-	(635)	(635)
Total transactions with owners	-	-	-	45	(646)	(601)
Balance at 30 September 2017	**689**	**119**	**625**	**(542)**	**5,545**	**6,436**

Consolidated Cash Flow Statement

for the year ended 30 September 2017

	2017	2016
		Restated*
	£'000	£'000
Cash flows from operating activities		
Profit for the period	**394**	158
Adjustments for:		
Depreciation	**214**	211
Amortisation	**149**	129
Profit on disposal of property, plant and equipment	**(9)**	(11)
Write-down of property value	**-**	10
Defined benefit pension charge net of employer contributions	**86**	84
Finance income	**(27)**	(51)
Income tax expense	**23**	86
Change in inventories net of transfers to property, plant and equipment	**(20)**	(20)
Change in receivables	**59**	223
Change in payables	**(61)**	9
Change in deferred income	**(214)**	32
Cash received from operations	**594**	860
Interest received	**63**	36
Income taxes paid	**(77)**	(78)
Net cash from operating activities	**580**	818
Cash flows from investing activities		
Cash transferred from/(to) fixed-term deposit investments	**3,500**	(500)
Purchase of property, plant and equipment	**(118)**	(198)
Purchase of intangible assets	**(10)**	(35)
Capitalised development expenditure	**(89)**	(127)
Net proceeds from sale of property, plant and equipment	**1,189**	28
Net cash generated by/(used in) investing activities	**4,472**	(832)
Cash flows from financing activities		
Issue of shares out of treasury	**41**	-
Dividends paid	**(635)**	(631)
Net cash used in financing activities	**(594)**	(631)
Net increase/(decrease) in cash and cash equivalents	**4,458**	(645)
Cash and cash equivalents at beginning of period	**1,902**	2,547
Cash and cash equivalents at end of period	**6,360**	1,902

*In the year ended 30 September 2017, cash transferred from/(to) fixed-term deposit investments, which had previously been classified as a financing cash flow, has been reclassified as an investing cash flow. The comparatives have also been reclassified. There was no impact on the consolidated income statement or the consolidated balance sheet presented.

1. Financial Information

The financial information set out above does not constitute the Company's statutory accounts for the years ended 30 September 2016 or 2017 but is derived from those accounts. Statutory accounts for 2016 have been delivered to the registrar of companies, and those for 2017 will be delivered in due course. The auditors have reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The financial information has been prepared on a basis consistent with that presented in the 30 September 2016 financial statements.

2. Accounting Policies

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

Basis of consolidation
The consolidated financial information incorporates the accounts of Electronic Data Processing PLC and all its subsidiaries. Such accounts are all made up to 30 September 2017.

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intragroup balances, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial information.

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

The Group’s software revenues derive from its software licensing contracts and software hosting agreements.

Revenue from new software licences, which typically run for between three and five years, is broken down into two components, namely an initial licence fee, payable upfront, and periodic charges, which are payable over the licence term. Initial licence fee revenue is recognised in full on delivery of the software to the customer following receipt of a non-cancellable contract. The Group considers that at this point its primary contractual obligation, the delivery of the current version of the software for use on the customer's own computer system, has been satisfied. The Group considers that at this point a significant proportion of the risks and rewards of ownership of the licence have been transferred to the customer. The periodic charges, which reflect the Group’s ongoing requirement to maintain and support the software, are recognised on a straight line basis as the remaining risks and rewards of ownership are transferred to the customer over the contract term.

The Group provides software hosting services through its standard Service Level Agreements (SLA) which also typically run for between three and five years. A new SLA has two separately identified fee components; an initial service charge, payable by the customer up front, and a periodic service charge, payable annually, quarterly or monthly over the contract term. In the case of an SLA for the Group's ERP software, the initial service charge represents a payment to acquire the software licence along with a charge for the services required to install the software and configure the hosted service on a server allocated to the customer. This revenue is recognised once a non-cancellable SLA is signed and the customer is provided with access to the software on their hosted server.

Periodic service charges are recognised evenly over the contract term, reflecting the Group's obligation to support the software and maintain the provision of the hosted service throughout the contract period. In the case of an SLA for the Group's Vecta hosted service, the initial service charge is attributed to the configuration and database preparation services that are provided at the start of the agreement and are deemed to have standalone value to the customer. This revenue is recognised once a customer is provided with access to their database on the Group's multi-tenanted Vecta server. The periodic charges, which reflect the Group's obligation to provide the Vecta hosted service throughout the contract period, are recognised evenly over time.

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

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

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

Research and development
Expenditure on research activities, undertaken with the prospect of gaining new technical knowledge and understanding, is recognised in the income statement as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and overheads that are directly attributable to preparing the asset for its intended use. Other development expenditure not meeting these criteria is recognised in the income statement as incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is based on the cost of an asset less its residual value. Capitalised software development costs are amortised over a period of between three and seven years on a straight line basis and amortised from the time the asset becomes available for use.

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

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

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

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

Remeasurement gains and losses arising from changes in actuarial assumptions, plan experience and differences between the expected and actual return on plan assets are recognised in "other comprehensive income" in the statement of comprehensive income in the year in which they occur.

All other movements in the pension asset or liability are recognised in the income statement for the relevant period.

3. Segmental Analysis

The Group has identified its reportable segment based on the financial reports that internally are provided to the Group's chief operating decision maker (CODM). In line with its management structure, the Executive Directors collectively make the key operating decisions and review internal monthly management accounts and budgets as part of this process. Accordingly, the Executive Directors collectively are considered to be the CODM.

The information reported regularly to the CODM presents the Group as a single segment supplying software and related services to customers operating in similar markets. The Group's software products share a common sales, development and implementation resource. Consequently, the Group has determined that there is one operating segment and therefore one reportable segment, Software.

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

	Software 2017 £'000	Software 2016 £'000
Revenue - external customers	**5,108**	4,958
Profit		
Adjusted operating profit (note 4)	**540**	430
Exceptional legal and professional costs	**(43)**	(62)
Segment non-cash IFRS (charges)/credits:		
- capitalised development expenditure	**89**	127
- amortisation of capitalised development expenditure	**(110)**	(96)
- change in provision for holiday pay	**-**	(8)
Interest revenue	**27**	51
Segment profit before tax	**503**	442
One-off property costs - roof repair	**-**	(104)
Write-down of property value	**-**	(10)
Defined benefit pension scheme charge net of employer contributions	**(86)**	(84)
Consolidated profit before tax	**417**	244

	Software 2017 £'000	Software 2016 £'000
Other segment items		
Interest revenue	**27**	51
Depreciation and amortisation	**363**	340
Capital expenditure	**128**	233

Geographical analysis

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

Revenue by destination	2017 £'000	2016 £'000
United Kingdom	**4,906**	4,800
Rest of the world	**202**	158
	5,108	4,958

4. Adjusted operating profit

	2017 £'000	2016 £'000
Operating profit	**390**	203
Exceptional legal and professional costs	**43**	62
Exceptional property costs - roof repair	**-**	104
Adjustments for non-cash items:		
- amortisation of capitalised development expenditure under IFRS	**110**	96
- capitalisation of current year development expenditure under IFRS	**(89)**	(127)
- defined benefit pension scheme charge under IFRS	**86**	84
- increase in provision for holiday pay under IFRS	**-**	8
Adjusted operating profit	**540**	430

The exceptional legal and professional costs shown in both 2016 and 2017 relate to expenditure associated with the Group's strategic review as discussed in the Chairman's statement. In the opinion of the Directors, these costs, due to their specific nature, are added back to statutory operating profit when assessing the trading performance of the Group. Similarly, significant one-off costs relating to the Group's vacant freehold property, which were incurred prior to its disposal in December 2016, are not considered to be a trading item and are also excluded from adjusted operating profit.

5. Income tax

	2017 £'000	2016 £'000
Income tax expense comprises:		
Current tax		
United Kingdom corporation tax	**120**	87
R&D tax relief receivable in respect of prior years	**(61)**	-
Tax over provided in prior years	**(10)**	-
Group current tax	**49**	87
Deferred tax		
Origination and reversal of temporary differences	**(38)**	(31)
Effect of decrease in the tax rate	**4**	30
Adjustments in respect of prior periods	**8**	-
Group deferred tax	**(26)**	(1)
Income tax expense	**23**	86

6. Earnings per share

Basic earnings per share
Earnings per share is calculated by dividing the profit for the period attributable to equity holders of the Parent of £394,000 (2016: £158,000) by 12,661,524 (2016: 12,610,976), being the weighted average number of shares in issue during the year.

Basic earnings per share is 3.11p (2016: 1.25p).

Diluted earnings per share
For diluted earnings per share, the weighted average number of shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Company has one class of dilutive potential ordinary share which is share options granted to employees under its Enterprise Management Incentive Share Option Plan. These shares have been included in the diluted earnings per share calculation. Diluted earnings per share is calculated by dividing the profit after tax of £394,000 (2016: £158,000) by 12,770,174 (2016: 12,742,107), being the weighted average number of shares in issue adjusted for the effects of all dilutive potential ordinary shares.

The weighted average number of shares has been calculated as follows:

	2017 Number	2016 Number
Weighted average number of ordinary shares (basic)	**12,661,524**	12,610,976
Effect of outstanding share options	**108,650**	131,131
Weighted average number of ordinary shares at 30 September	**12,770,174**	12,742,107

Diluted earnings per share is 3.09p (2016: 1.24p).

7. Dividends paid and proposed

			2017 £'000	2016 £'000
The following dividends were declared and paid during the year:				
Final dividend for 2016	3.0p	(2015: 3.0p)	**381**	379
Interim dividend for 2017	2.0p	(2016: 2.0p)	**254**	252
			635	631
Proposed for approval by shareholders at the AGM				
Final dividend for 2017	3.0p	(2016: 3.0p)	**381**	379

8. Assets held for sale

	2017 **£'000**	2016 £'000
At 1 October	**1,167**	-
Transferred from property, plant and equipment	**-**	1,177
Write-down	**-**	(10)
Disposal	**(1,167)**	-
At 30 September	**-**	1,167

9. Share Capital

	Ordinary shares of 5p each			
	2017 **Number**	2016 Number	**2017** **£'000**	2016 £'000
Allotted, called up and fully paid:				
At 1 October and 30 September	**13,784,073**	13,784,073	**689**	689
Less: held in Treasury	**(1,083,097)**	(1,173,097)	**(54)**	(59)
Issued share capital excluding treasury shares	**12,700,976**	12,610,976	**635**	630

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

Treasury shares

	Ordinary shares of 5p each			
	2017 **Number**	2016 Number	**2017** **£'000**	2016 £'000
Shares held in treasury on 1 October	**1,173,097**	1,173,097	**587**	587
Issued on exercise of EMI share options	**(90,000)**	-	**(45)**	-
Shares held in treasury at 30 September	**1,083,097**	1,173,097	**542**	587

This preliminary announcement was approved by the Board of Directors on 12 December 2017.