Arcontech Group PLC
Report and financial statements for the year ended 30 June 2016

ARCONTECH
CREATING ADVANTAGE

REGISTERED NUMBER: 04062416 (England and Wales)

Arcontech Group PLC

Year ended 30 June 2016

Contents

Chairman's Statement

Arcontech Group plc ("Arcontech" or the "Company") is pleased to report a profit before taxation for the year ended 30 June 2016 of £302,329 compared to £243,660 for the year ended 30 June 2015. After taking the benefit of the Research and Development tax credit of £105,813 (2015: £109,378) which the company receives due to the amount it has invested in qualifying product design and development, Arcontech achieved a profit after tax of £408,142 (2015: £353,038).

Turnover for the year increased modestly by 0.5% to £2,141,630 (2015: £2,129,958) reflecting the situation that new business predominantly from existing customers only marginally exceeded the impact of the loss in revenue from the Asian focused bank, previously reported, from the start of the second half. With the "soft launch" of our new Desktop product we would expect to see increased sales momentum in the coming year.

Throughout the year ended 30 June 2016 we maintained tight control of costs which has helped improve our profitability. We have continued to invest in new product development which we expect to maintain going forward as we believe product development and innovation is key to our future success. Further investment in sales and marketing resources is expected but this will be dependent on new sales wins

Financing
As at 30 June 2016 Arcontech had no debt and cash balances of £1,633,159 (2015: £1,069,755), reflecting increased profitability. This leaves the business well financed for the future.

Dividend and Share Consolidation
In March 2016 Arcontech obtained court approval to cancel and thereby re-designate its share premium account, creating positive distributable reserves. This will enable the directors to recommend the payment of dividends out of retained profit in the future. Due to the large number of shares in issue and to avoid fractional entitlements to the dividend it is the Board's intention to consolidate the number of shares prior to announcing a dividend. The details of the share consolidation will be forwarded to shareholders in the Notice of Annual General Meeting.

Employees
Once again I would like to thank our employees who are the core of the business and whose support and dedication is greatly appreciated.

Outlook
We believe, as a result of continued product investment and from listening to our customers, we have a good product set that is suitable for our markets. Our focus is now fundamentally on winning new business and whilst we believe the opportunities for increased sales exist, the sales cycle remains longer than we would like. We also need to fully compensate for the reduction in revenue during the year from the Asian focused bank. Our prospects, however, whilst positive need to be tempered against uncertainties in the banking sector as a result of the low interest rate environment and potential issues following Brexit.

Richard Last
Chairman

Chief Executive’s Review

I am pleased to report that during the year our continued attention to managing costs whilst bringing the sales pipeline forward, has resulted in an increase in profit before tax of 24% compared to the previous year.

Our endeavours resulted in revenue growth of 0.5% and a reduction in costs of 2%. This had a significant and positive impact to our bottom line to generate a profit before tax of £302,329.

As well as progressing the sales pipeline, this year has also seen us improve our product offering by adding functionality to existing products as well as building out the product portfolio with a new Desktop component. This is currently in trials with several Tier 1 clients with whom prospects for commercial deployment are looking very promising.

More generally, the outlook for the business remains positive and as yet has been unaffected by the wider uncertainties surrounding Brexit. What does continue to affect revenues, however, is the length of the sales cycle. This is largely attributable to the fact that our traditional offerings invariably need to displace an incumbent for which the existing contract terms can affect our prospects. As has been stated previously, however, once a commercial relationship has been established, we inevitably find many opportunities to grow the relationship both through displacement and development of new solutions. We also look forward to securing cornerstone clients for our newly developed Desktop component in order to generate new and additional revenues outside of our traditional target market due to the broad appeal of its value proposition.

Having maintained momentum and grown profitability over the previous year, we have reconfirmed the value of our products to the market whilst strengthening our position. We are now working to capitalise on this by increasing revenues. Sales growth remains our clear priority.

Matthew Jeffs
Chief Executive

Strategic Report

The Directors present the group strategic report for Arcontech Group plc and its subsidiaries for the year ended 30 June 2016.

Principal activities

The principal activities of the Company and its subsidiaries during the year were the development and sale of proprietary software and provision of computer consultancy services.

Review of the business and prospects

A full review of the operations, financial position and prospects of the Group is given in the Chairman's Statement and Chief Executive's Review on pages 1 to 2.

Key performance indicators (KPIs)

The Directors monitor the business using management reports and information, reviewed and discussed at monthly Board meetings. Financial and non-financial KPIs used in this report include:

- subscription, software development and consultancy revenues
- revenue and overhead variations against budget
- technical development (e.g. project updates and progress)
- personnel matters
- revenue increased by 0.5% (2015 – 7.5%)
- administrative costs decreased by 2% (2015 – 5%)
- staff retention (net) 93% (2015 – 93%)
- staff costs spent on R&D 62% (2015 - 64%)

Principal risks and uncertainties

The Group's performance is affected by a number of risks and uncertainties, which the Board monitor on an ongoing basis in order to identify, manage and minimise their possible impact. General risks and uncertainties include changes in economic conditions, interest rate fluctuations and the impact of competition. The Group's principal risk areas and the action taken to mitigate their outcome are shown below:

Risk area	Mitigation
Competition	Ongoing investment in R&D Responding to the changing needs of clients to remain competitive
Loss of key personnel	Employee share option scheme in place

Approved on behalf of the board on 9 August 2016 by:

Matthew Jeffs Chief Executive	Michael Levy Group Finance Director

Company Information

Directors	Richard Last *(Chairman and Non-Executive Director)**+ Matthew Jeffs *(Chief Executive)*+ Michael Levy *(Group Finance Director)* Louise Barton *(Non-Executive Director)**+
Secretary and Registered Office	Michael Levy 1st Floor 11-21 Paul Street London EC2A 4JU
Nominated Adviser and Broker	finnCap Ltd 60 New Broad Street London EC2M 1JJ
Registered Number	04062416
Solicitors	DWF LLP Capital House 85 King William Street London EC4N 7BL
Auditors	Nexia Smith & Williamson Statutory Auditor Chartered Accountants Portwall Place Portwall Lane Bristol BS1 6NA
Registrars	Capita IRG Plc The Registry 34 Beckenham Road Beckenham Kent BR3 4TU
Principal Bankers	Nat West Bank Plc 94 Moorgate London EC2M 6UR
Company website	www.arcontech.com

* Members of the Remuneration Committee
+ Members of the Audit Committee

Board of Directors

Directors - Executive

Matthew Jeffs (54)

Matthew was appointed Chief Executive Officer in April 2013. Matthew spent 10 years with Barclays International, 10 years with Dow Jones and then 6 years with Reuters in a variety of senior roles. In addition to the UK, he has wide experience in the Asia Pacific region, working in Hong Kong, Japan, Korea (where he was country manager for Reuters and country representative for Dow Jones), Thailand and Vietnam. In his most recent role, Matthew was the Managing Director, ICS International at Broadridge Financial Solutions where he was responsible for the overall management of the Global Proxy business with offices in the U.K., U.S., Japan, Australia and India. Matthew has an MBA from Buckinghamshire Business School.

Michael Levy (54)

Michael was appointed Group Finance Director in May 2001. In addition he operates his own Chartered Accountants practice, Michael Levy & Co. Michael obtained a BA (Econ) in Economics and Social Studies from the University of Manchester in 1983. He qualified as a Chartered Accountant in 1986 with BDO Stoy Hayward and is a Fellow of The Institute of Chartered Accountants in England and Wales.

Directors – Non-Executive

Richard Last (59)

Richard was appointed Chairman and Non-Executive Director in February 2007. He has over 20 years experience in IT and communications. Currently, he is Chairman and Non-Executive Director of Servelec Group plc (fully listed), Gamma communications plc (AIM listed), Tribal Group plc (AIM listed), Corero Network Security plc and APD communications Limited (private company). In addition, Richard is Chairman of The British Smaller Companies VCT 2 PLC and Lighthouse Group plc (AIM listed), a financial services company. He is a Fellow of the Institute of Chartered Accountants in England and Wales.

Louise Barton (66)

Louise was appointed Non-Executive Director in February 2007. She worked for five years with the Institute of Applied Economic and Social Research in Melbourne before joining Prudential Portfolio Managers in 1979. She moved into stock broking/investment banking in 1987, joining CCF Laurence Prust and subsequently moved to Investec Henderson Crosthwaite in 1990. She retired from the City in 2002 when she was ranked UKs No 1 small company media analyst and is now an independent consultant.

Directors' Report

The Directors present their Report and financial statements for the year ended 30 June 2016.

General information

Arcontech Group plc is a public limited company which is listed on the AIM market of the London Stock Exchange and is incorporated in the United Kingdom.

Results and dividends

Details of the results for the year are given on page 11. The Directors do not recommend the payment of a dividend (2015: £Nil).

Directors

The Directors who have held office during the period from 1 July 2015 to the date of this report are as follows:

Richard Last
Matthew Jeffs
Michael Levy
Louise Barton

Michael Levy, who retires by rotation under Article 106 of the Company's articles of association and, who being eligible, offers himself to be re-elected as a Director of the Company.

Except as disclosed in note 22 to the financial statements none of the Directors had an interest in any contracts with the Company or its subsidiaries during the year.

Independence of Non-Executive Directors

Richard Last and Louise Barton were appointed Non-Executive Directors on 19 February 2007 and have served for more than 9 years. The Board are of the opinion that their independence is not affected.

Employees

The Directors recognise the importance of good communication with employees to ensure a common awareness of factors affecting the Group. They also recognise their statutory responsibilities. Matters of current concern or interest are discussed with staff on a regular basis.

Corporate governance

The Company's shares are traded on AIM, a market operated by the London Stock Exchange and the Company is not, therefore, required to report on compliance with the UK Corporate Governance Code ("the Code"). However, the Board of Directors support the Code and also the recommendations made by Quoted Companies Alliance in its bulletin "Corporate Governance Code for Small and Mid-Sized Quoted Companies 2013". The bulletin provides a series of recommendations for smaller quoted companies in approaching the question of corporate governance which the Company has complied with where it is considered justified as being relevant to a business of this size.

Internal control

The Directors acknowledge their responsibilities for the Group's system of internal control. The Board considers major business and financial risks. All strategic decisions are referred to the Board, which meets monthly, for approval. Accepting that no system of control can provide absolute assurance against material misstatement or loss, the Directors believe that the established systems of internal control within the Group are appropriate to the business.

Financial risk management

The Group's financial instruments comprise cash and cash equivalents, and items such as trade payables and trade receivables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate fluctuations and liquidity risk. It is the Group's policy to finance its operations through a mixture of cash and, where appropriate, external finance and to review the projected cash flow requirements of the Group with an acceptable level of risk exposure.

Directors' Report (continued)

Going concern

On the basis of current projections and having regard to the facilities available to the Group, the Directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly the Directors have adopted the going concern basis in the preparation of the financial statements.

Research and Development

The Group continues to make progress in product development, while continuing to keep control of costs. Research and development expenditure is charged to the income statement in the year incurred, unless it meets the criteria under IAS 38 to capitalise.

Disclosures to auditors

In the case of each of the persons who are Directors at the time when the report is approved, the following applies:

- so far as each of the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware; and

- each of the Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This information is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Auditors

A resolution to re-appoint Nexia Smith & Williamson will be proposed at the annual general meeting.

On behalf of the Board

Michael Levy
Company Secretary

9 August 2016

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Strategic Report, Directors' 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 applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006. 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 company and of the group 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 judgments 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 in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business;

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditor’s Report to the members of Arcontech Group PLC

We have audited the financial statements of Arcontech Group PLC for the year ended 30 June 2016 which comprise the Group Income Statement and Statement of Comprehensive Income, the Group and Company Statement of Changes in Equity, the Group and Company Balance Sheets, the Group and Company Cash Flow Statements and the related notes 1 to 29. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company’s members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company’s members those matters we are required to state to them in an 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’ Responsibilities Statement set out on page 8, 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 Financial Reporting Council’s (FRC’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 FRC’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 of the parent company’s affairs as at 30 June 2016 and of the group’s profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion the information given in the Strategic Report and the Directors’ Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent Auditor's Report to the members of Arcontech Group PLC

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Jonathan Talbot
Senior Statutory Auditor, for and on behalf of

Nexia Smith & Williamson
Statutory Auditor
Chartered Accountants
Portwall Place
Portwall Lane
Bristol
BS1 6NA

9 August 2016

Group Income Statement and Statement of Comprehensive Income

For the year ended 30 June 2016

	Note	2016 £	2015 £
Revenue	3	2,141,630	2,129,958
Administrative costs		(1,849,257)	(1,890,242)
Operating profit	4	292,373	239,716
Finance income		9,956	3,944
Profit before taxation		302,329	243,660
Taxation	8	105,813	109,378
Profit for the year after tax		408,142	353,038
Total comprehensive income for the year		408,142	353,038
Earnings per share (basic)	9	0.027p	0.023p
Earnings per share (diluted)	9	0.026p	0.023p

All of the results relate to continuing operations.

The notes on pages 16 to 36 form part of these financial statements

Statement of Changes in Equity

For the year ended 30 June 2016

Group:

	Share capital £	Share premium £	Share option reserve £	Retained earnings £	Total equity £
Balance at 30 June 2014	1,536,672	9,430,312	72,562	(9,622,661)	1,416,885
Profit for the year	-	-	-	353,038	353,038
Total comprehensive income for the year	-	-	-	353,038	353,038
Share-based payments	-	-	20,199	-	20,199
Balance at 30 June 2015	1,536,672	9,430,312	92,761	(9,269,623)	1,790,122
Profit for the year	-	-	-	408,142	408,142
Total comprehensive income for the year	-	-	-	408,142	408,142
Cancellation of share premium account	-	(9,430,312)	-	9,430,312	-
Issue of shares	5,060	2,024	-	-	7,084
Share-based payments	-	-	26,931	-	26,931
Balance at 30 June 2016	1,541,732	2,024	119,692	568,831	2,232,279

Company:

	Share capital £	Share premium £	Share option reserve £	Retained earnings £	Total equity £
Balance at 30 June 2014	1,536,672	9,430,312	72,562	(7,679,231)	3,360,315
Loss for the year	-	-	-	(118,454)	(118,454)
Total comprehensive expense for the year	-	-	-	(118,454)	(118,454)
Share-based payments	-	-	20,199	-	20,199
Balance at 30 June 2015	1,536,672	9,430,312	92,761	(7,797,685)	3,262,060
Profit for the year	-	-	-	10,899	10,899
Total comprehensive income for the year	-	-	-	10,899	10,899
Cancellation of share premium account	-	(9,430,312)	-	9,430,312	-
Issue of shares	5,060	2,024	-	-	7,084
Share-based payments	-	-	26,931	-	26,931
Balance as at 30 June 2016	1,541,732	2,024	119,692	1,643,526	3,306,974

The notes on pages 16 to 36 form part of these financial statements.

Balance Sheets
Registered number: 04062416

As at 30 June 2016

	Note	Group 2016 £	Group 2015 £	Company 2016 £	Company 2015 £
Non-current assets					
Goodwill	10	1,715,153	1,715,153	-	-
Property, plant and equipment	11	44,785	41,605	-	-
Investments in subsidiaries	12	-	-	2,017,373	2,017,373
Trade and other receivables	13	141,750	141,750	-	-
Total non-current assets		1,901,688	1,898,508	2,017,373	2,017,373
Current assets					
Trade and other receivables	13	265,360	478,402	206,769	806,382
Cash and cash equivalents	14	1,633,159	1,069,755	1,272,292	649,907
Total current assets		1,898,519	1,548,157	1,479,061	1,456,289
Current liabilities					
Trade and other payables	15	(1,567,928)	(1,656,543)	(189,460)	(211,602)
Total current liabilities		(1,567,928)	(1,656,543)	(189,460)	(211,602)
Net current assets/(liabilities)		330,591	(108,386)	1,289,601	1,244,687
Net assets		2,232,279	1,790,122	3,306,974	3,262,060
Equity					
Called up share capital	17	1,541,732	1,536,672	1,541,732	1,536,672
Share premium account	18	2,024	9,430,312	2,024	9,430,312
Share option reserve	18	119,692	92,761	119,692	92,761
Retained earnings	18	568,831	(9,269,623)	1,643,526	(7,797,685)
		2,232,279	1,790,122	3,306,974	3,262,060

Approved on behalf of the board on 9 August 2016 by:

Matthew Jeffs
Chief Executive

Michael Levy
Group Finance Director

The notes on pages 16 to 36 form part of these financial statements.

Group Cash Flow Statement

For the year ended 30 June 2016

	Note	2016 £	2015 £
Net cash generated from operating activities	20	**567,420**	**369,982**
Investing activities			
Interest received		9,956	3,944
Purchases of plant and equipment		(21,056)	(38,014)
Proceeds of sales of plant and equipment		-	167
Net cash invested in investing activities		**(11,100)**	**(33,903)**
Financing activities			
Issue of shares		7,084	-
Net cash generated from financing activities		**7,084**	**-**
Net increase in cash and cash equivalents		**563,404**	**336,079**
Cash and cash equivalents at beginning of year		1,069,755	733,676
Cash and cash equivalents at end of year	14	**1,633,159**	**1,069,755**

The notes on the pages 16 to 36 form part of these financial statements.

Company Cash Flow Statement

For the year ended 30 June 2016

	Note	2016 £	2015 £
Net cash generated from operating activities	20	**605,860**	**609,347**
Investing activities			
Interest received		9,441	2,706
Net cash generated from investing activities		**9,441**	**2,706**
Financing activities			
Issue of shares		7,084	-
Net cash generated from financing activities		**7,084**	**-**
Net increase in cash and cash equivalents		**622,385**	**612,053**
Cash and cash equivalents at beginning of year		649,907	37,854
Cash and cash equivalents at end of year	14	**1,272,292**	**649,907**

The notes on the pages 16 to 36 form part of these financial statements.

Notes to the Financial Statements

For the year ended 30 June 2016

1. Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the period covered by these financial statements.

Reporting entity

Arcontech Group PLC ("the Company") is a company incorporated in the United Kingdom. The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries (together referred to as "the Group").

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") endorsed by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

On the basis of current projections, confidence of future profitability and cash balances held, the Directors have adopted the going concern basis in the preparation of the financial statements.

The financial statements have been prepared under the historical cost convention.

Accounting standards and interpretations adopted during the period

There have only been minor improvements to existing International Financial Reporting Standards and interpretations that are effective for the first time in the current financial year that have been adopted by the Group. These have had no impact on its consolidated results or financial position.

Standards, amendments and interpretations that are expected to be effective for periods beginning on or after 1 July 2016 for standards, amendments subject to EU endorsement:

Standards, interpretations and amendments to existing standards that have been published, and are mandatory to accounting periods beginning on or after 1 July 2016 or later periods and that have not been early adopted by the Group or the Company include the following:

	Effective date (periods beginning on or after)	EU adopted
IFRS 9 Financial Instruments	1 January 2018	No
IFRS 15 Revenue from Contracts with Customers	1 January 2018	No
Annual Improvements to IFRSs 2012–2014 Cycle	1 January 2016	No
IFRS 16 Leases	1 January 2019	No

A number of other interpretations and amendments to existing standards have been made by the IASB and IFRIC but are not considered relevant to the Group's operations.

The directors are considering the impact of the above new standards and amendments on the reported results of the Group and Company.

Notes to the Financial Statements

For the year ended 30 June 2016

1. Accounting policies (continued)

Basis of consolidation

The Group financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) prepared to 30 June 2016. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Business combinations and goodwill

On acquisition, the assets and liabilities and contingent liabilities of subsidiaries are measured at their fair value at the date of acquisition. Any excess of cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to the income statement in the period of acquisition. Goodwill arising on consolidation is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

Revenue recognition

Revenue comprises the value of sales of proprietary software and the provision of consultancy services.

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of discounts, VAT and other sales related taxes.

Revenue arising from the provision of consultancy services is recognised when and to the extent that the Group obtains the right to consideration in exchange for the performance of its contractual obligations as follows:

Software development and licence fee income – recognised evenly over the contracted licence period.

Taxation

The tax charge/(credit) represents the sum of the tax payable/(receivable) and any deferred tax.

The tax payable/(receivable) is based on the taxable result for the year. The taxable result differs from the net result as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Notes to the Financial Statements

For the year ended 30 June 2016 (continued)

1. Accounting policies (continued)

Taxation (continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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

Share-based payments

The cost of share-based employee compensation arrangements, whereby employees receive remuneration in the form of shares or share options, is recognised as an employee benefit expense in the income statement.

The total expense to be apportioned over the vesting period of the benefit is determined by reference to the fair value (excluding the effect of non market-based vesting conditions) at the date of grant. Fair value is measured by the use of the Black-Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of the non-transferability, exercise restrictions and behavioural considerations. A cancellation of a share award by the Group or an employee is treated consistently, resulting in an acceleration of the remaining charge within the consolidated income statement in the year of cancellation.

Impairment of tangible and intangible assets

The carrying amounts of the Group's and Company's tangible and intangible assets are reviewed at each year end date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill the recoverable amount is estimated at each year end date, based on value in use. The recoverable amount of other assets is the greater of their net selling price and value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

An impairment loss is recognised in the income statement whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis.

Notes to the Financial Statements

For the year ended 30 June 2016 (continued)

1. Accounting policies (continued)

Impairment of tangible and intangible assets (continued)

A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is charged so as to write off the cost of assets, over their estimated useful lives, on the following bases:

Leasehold property	- over the period of the lease
Computer equipment	- 33% - 40% on cost
Office furniture and equipment	- 20% - 25% on cost or reducing balance

Investments in subsidiaries

Investments in subsidiaries are stated at cost less any provision for impairment.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments issued by the Group are classified in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Trade and other receivables

Trade and other receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method. A provision is established when there is objective evidence that the Group will not be able to collect all amounts due. The movement on any provision is recognised in the income statement.

Trade and other payables

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

Cash and cash equivalents

Cash and cash equivalents comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less.

Leasing commitments

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Notes to the Financial Statements

For the year ended 30 June 2016 (continued)

1. Accounting policies (continued)

Research and development

Research costs are charged to the income statement in the year incurred. Development expenditure is capitalised to the extent that it meets all of the criteria required by IAS 38, otherwise it is charged to the income statement in the year incurred.

Pension costs and other post-retirement benefits

The Group makes payments to employees' personal pension schemes. Contributions payable for the year are charged in the income statement.

Foreign currencies

Transactions denominated in foreign currencies are translated into sterling at the exchange rate ruling when the transaction was entered into. Foreign currency monetary assets and liabilities are translated into sterling at the exchange rate ruling at the balance sheet date. Exchange gains or losses are included in operating profit.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker as required by IFRS 8 "Operating Segments". The chief operating decision-maker responsible for allocating resources and assessing performance of the operating segments has been identified as the Board of Directors. The accounting policies of the reportable segments are consistent with the accounting policies of the group as a whole. Segment profit/(loss) represents the profit/(loss) earned by each segment without allocation of foreign exchange gains or losses, investment income, interest payable and tax. This is the measure of profit that is reported to the Board of Directors for the purpose of resource allocation and the assessment of segment performance. When assessing segment performance and considering the allocation of resources, the Board of Directors review information about segment assets and liabilities. For this purpose, all assets and liabilities are allocated to reportable segments with the exception of cash and cash equivalents, available-for-sale financial assets and current and deferred tax assets and liabilities.

2. Critical judgments and key sources of estimation uncertainty

The preparation of financial statements in conformity with generally accepted accounting practice requires management to make estimates and judgements that affect the reported amounts of assets and liabilities as well as the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Notes to the Financial Statements

For the year ended 30 June 2016 (continued)

2. Critical judgments and key sources of estimation uncertainty (continued)

Share-based payments

In determining the fair value of equity settled share-based payments and the related charge to the income statement, the Group makes assumptions about future events and market conditions. In particular, judgement must be made as to the likely number of shares that will vest, and the fair value of each award granted. The fair value is determined using a valuation model which is dependent on further estimates, including the Group's future dividend policy, the timing with which options may be exercised and the future volatility in the price of the Group's shares. Such assumptions are based on publicly available information and reflect market expectations and advice taken from qualified personnel. Different assumptions about these factors to those made by the Group could materially affect the reported value of share-based payments.

Impairment of non-current assets

Determining whether non-current assets are impaired requires an estimation of the value in use of the cash generating units to which non-current assets have been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. No provision for impairment was made in the year to the carrying value of goodwill (*see note 10*) or investments in subsidiaries (*see note 12).*

Capitalisation of development costs and recognition of deferred tax assets

As described in Note 1 the Group capitalises development costs when certain criteria are met including the probability of relevant future economic benefits and recognises deferred tax assets arising from unused tax losses when certain criteria are met including the probability that future relevant taxable profit will be available. The directors have assessed the likelihood of relevant future economic benefits and taxable profits being available and considering the application of prudence have judged it appropriate to not capitalise any development costs and to not recognise any deferred tax assets for unused losses.

3. Revenue

An analysis of the Group's revenue is as follows:

	2016	**2015**
	£	**£**
Software development and licence fees	2,141,630	2,129,958

All of the Group's revenue relates to continuing activities.

4. Operating profit for the year is stated after charging:

	2016	**2015**
	£	**£**
Depreciation of plant and equipment	17,140	8,682
Loss on disposal of fixed assets	736	6,673
Staff costs (*see note 7*)	1,325,064	1,352,295
Operating lease rentals - land and buildings (*see note 21*)	140,866	88,789
Research and development	514,526	592,185

Notes to the Financial Statements

For the year ended 30 June 2016 (continued)

5. Auditor's remuneration:

	2016 £	2015 £
Fees payable to the Group's auditor for the audit of the Group's annual accounts	16,000	16,000
Fees payable to the Group's auditor for other services:		
- audit of the Company's subsidiaries	9,000	7,850

6. Operating segments:

The Group reports internally to the Chief Operating Decision Maker (CODM), who is considered to be the Board. Intersegment license fees and management charges are not included in the reports reviewed by the CODM during the year but are calculated for statutory reporting purposes and therefore are excluded from the following revenue and operating profit disclosures.

	2016 £	2015 £
Revenue by segment		
Software development and licence fees	2,141,630	2,129,958
External segment revenue	2,141,630	2,129,958
Operating profit by segment		
Software development and licence fees	656,226	595,854
Unallocated overheads	(363,853)	(356,138)
Total operating profit	292,373	239,716
Finance income	9,956	3,944
Total profit before tax as reported in the Group income statement	302,329	243,660

	2016 £	2015 £
Segment total of assets		
Software development and licence fees	4,419,890	4,224,012
Unallocated assets	1,795,400	1,673,396
	6,215,290	5,897,408
Less inter company debtors	(2,415,083)	(2,450,743)
Total assets	3,800,207	3,446,665

Notes to the Financial Statements

For the year ended 30 June 2016 (continued)

6. Operating segments (continued):

	2016	2015
	£	£
Segment total liabilities		
Software development and licence fees	3,792,521	3,894,619
Unallocated liabilities	190,490	212,667
	3,983,011	4,107,286
Less inter company creditors	(2,415,083)	(2,450,743)
Total liabilities	1,567,928	1,656,543

	2016	2015
	£	£
Additions of property, plant and equipment assets by segment		
Software development and licence fees	21,056	38,014
Total additions	21,056	38,014
Disposals of property, plant and equipment assets by segment		
Software development and licence fees	26,462	125,957
Total disposals	26,462	125,957

	2016	2015
	£	£
Depreciation of property, plant and equipment assets recognised in the period by segment		
Software development and licence fees	17,140	8,682
Total depreciation	17,140	8,682

Non-current assets by country	**2016**	**2015**
	£	£
UK	1,901,688	1,756,758
	1,901,688	1,756,758

Notes to the Financial Statements

For the year ended 30 June 2016 (continued)

6. Operating segments (continued):

External revenue by country	**2016**	**2015**
	£	**£**
UK	1,354,976	1,212,279
Singapore	195,758	338,697
Denmark	379,626	356,881
USA	127,459	138,641
Germany	32,793	19,937
Belgium	19,040	33,994
Switzerland	31,978	29,529
	2,141,630	2,129,958

During the year there was 1 customer (2015: 2) who accounted for more than 10% of the Group's revenues as follows:

	2016		**2015**	
	Value of sales £	**% of Total**	**Value of sales £**	**% of Total**
Customer 1	601,616	28%	585,431	27%
Customer 2	-	-	338,277	16%
	601,616	28%	923,708	43%

These revenues are attributable to the software development and licence fees segment.

Notes to the Financial Statements

For the year ended 30 June 2016 (continued)

7. Staff costs:

		2016	**2015**
		£	**£**
a)	**Aggregate staff costs, including Directors' remuneration**		
	Wages and salaries	1,159,066	1,191,884
	Social security costs	139,067	140,212
	Share-based payments	26,931	20,199
		1,325,064	1,352,295

b)	**The average number of employees (including executive Directors) was:**		
	Sales and administration	6	6
	Development and support	11	13
		17	19

		£	**£**
c)	**Directors' emoluments**		
	Short-term employee benefits	266,978	209,599
	Share-based payments	21,545	16,159
		288,523	227,578
	Social security costs	32,352	24,735
	Key management personnel compensation	320,875	252,313

		£	**£**
Executive Directors			
Michael Levy	- emoluments*	21,346	20,961
	- share-based payments	-	-
Matthew Jeffs	- emoluments	206,242	151,458
	- share-based payments	16,159	12,119
Non-Executive Directors			
Richard Last	- emoluments	24,240	24,000
	- share-based payments	-	-
Louise Barton	- emoluments	15,150	15,000
	- share-based payments	5,386	4,040
		288,523	227,578

The number of Directors that are members of a defined contribution pension scheme is Nil (2015: Nil).

*****Fees payable to Michael Levy & Co, Chartered Accountants, in which Michael Levy is the principal, in respect of accountancy services are disclosed in note 22.

Notes to the Financial Statements

For the year ended 30 June 2016 (continued)

8. Taxation

	2016	**2015**
	£	**£**
Current tax	105,813	109,378
Deferred tax	-	-
Total tax credit for the year	105,813	109,378

The difference between the total tax credit shown above and the amount calculated by applying the standard rate of UK corporation tax to the loss before tax is as follows:

	2016	**2015**
	£	**£**
Profit on ordinary activities before tax	302,329	243,660
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 20.0% (2015: 20.75%)	60,466	50,560
Effects of:		
Disallowed expenses	679	1,852
Temporary differences on deferred tax not recognised	556	(9,309)
Singapore taxable profit at lower tax rate	(42)	(296)
Loss on sale of fixed assets	147	1,385
Research and development tax credits	(105,813)	(109,378)
(Brought forward losses utilised)/loss for the year carried forward	(61,806)	(44,192)
Total tax credit for the year	(105,813)	(109,378)

Factors which may affect future tax charges

At 30 June 2016 the Group has tax losses of approximately £9,900,000 (2015: £10,200,000) to offset against future trading profits.

Notes to the Financial Statements

For the year ended 30 June 2016 (continued)

9. Profit per share

	2016 £	2015 £
Earnings		
Earnings for the purpose of basic and diluted earnings per share being net profit attributable to equity shareholders	408,142	353,038
	408,142	353,038

	No.	No.
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,537,198,758	1,536,672,013
Number of dilutive shares under option	26,682,073	15,602,384
Weighted average number of ordinary shares for the purposes of dilutive earnings per share	1,563,880,831	1,552,274,847

The calculation of diluted earnings per share assumes conversion of all potentially dilutive ordinary shares, all of which arise from share options. A calculation is done to determine the number of shares that could have been acquired at fair value, based upon the monetary value of the subscription rights attached to outstanding share options.

10. Goodwill

	2016 £	2015 £
Cost and net book amount		
At 1 July 2015 and at 30 June 2016	1,715,153	1,715,153

Goodwill acquired in a business combination is allocated at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. The carrying amount of goodwill has been allocated as follows:

	2016 £	2015 £
Arcontech Limited	1,715,153	1,715,153
Arcontech Pte. Ltd.	-	-
	1,715,153	1,715,153

The CGUs used in these calculations are Arcontech Limited, Arcontech Solutions Limited and Arcontech Pte. Ltd. which should be considered together. The group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. The discount rate is estimated using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. Long-term growth rates are based on industry growth forecasts. Changes in selling prices are based on past practices and expectations of future changes in the market. Changes in direct costs are based on expected cost of inflation of 2.5%.

Notes to the Financial Statements

For the year ended 30 June 2016 (continued)

10. Goodwill (continued)

Cashflow forecasts are based on the latest financial budgets and extrapolate the cashflows for the next five years based on an estimated growth in revenue representing an average rate of 5% (2015: 8%) per annum, after which the UK long-term growth rate is applied. The Directors consider that this rate is appropriate, given the level of new contracts achieved during the year. Growth in revenue is the most sensitive of assumptions. Should this fall below an average of 2.5% then this could result in the value of goodwill being impaired.

As the Group does not have any borrowings, the rate used to discount all the forecast cash flows is 8.6% (2015: 13.5%), which represents the Group's cost of capital.

Goodwill on the purchase of Arcontech Limited is attributable to the anticipated future operating synergies which will arise as a result of the combination.

11. Property, plant and equipment - Group

Cost	**Leasehold Property £**	**Office furniture & equipment £**	**Total £**
At 1 July 2014	10,049	217,623	227,672
Additions	6,642	31,372	38,014
Disposals	(10,049)	(115,908)	(125,957)
At 1 July 2015	6,642	133,087	139,729
Additions	12,250	8,806	21,056
Disposals	-	(26,462)	(26,462)
At 30 June 2016	18,892	115,431	134,323
Depreciation			
At 1 July 2014	9,327	199,233	208,560
Charge for the year	860	7,822	8,682
On disposals	(10,049)	(109,069)	(119,118)
At 1 July 2015	138	97,986	98,124
Charge for the year	4,979	12,161	17,140
On disposals	-	(25,726)	(25,726)
At 30 June 2016	5,117	84,421	89,538
Net book amount at 30 June 2016	13,775	31,010	44,785
Net book amount at 30 June 2015	6,504	35,101	41,605

Notes to the Financial Statements

For the year ended 30 June 2016 (continued)

12. Investment in subsidiaries

	2016 £	2015 £
Carrying amount		
At 1 July 2015	2,017,373	2,017,373
At 30 June 2016	2,017,373	2,017,373

Details of the investments in which the Group and the Company holds 20% or more of the nominal value of any class of share capital are as follows:

	Country of Incorporation and place of business	Nature of business	% voting rights and shares held
Arcontech Solutions Limited	England and Wales	Software development and consultancy	100% of Ordinary shares
Cognita Technologies Limited	England and Wales	Software development	100% of Ordinary shares
Arcontech Limited	England and Wales	Software development and consultancy	100% of Ordinary shares
Arcontech Pte. Ltd.	Singapore	Software development and consultancy	100% of Ordinary shares

13. Trade and other receivables

	Group 2016 £	Group 2015 £	Company 2016 £	Company 2015 £
Due within one year:				
Trade receivables	188,961	417,531	-	-
Amounts owed by group undertakings	-	-	199,156	798,206
Other receivables	4,590	8,075	-	3,489
Prepayments and accrued income	71,809	52,796	7,613	4,687
	265,360	478,402	206,769	806,382

	Group 2016 £	Group 2015 £	Company 2016 £	Company 2015 £
Due after more than one year:				
Other receivables	141,750	141,750	-	-
	141,750	141,750	-	-

Trade receivables, other receivables and accrued income constitute the financial assets within the category "Loans and receivables" as defined by IAS 39 with a total value of £335,301 (2015: £567,356). Trade receivables are non-interest bearing and generally have a 30-90 day term. Due to their short maturities, the fair value of trade receivables approximates their book value.

A provision for impairment of trade receivables is established when there is no objective evidence that the Group will be able to collect all amounts due according to the original terms. The Group considers factors such as default or delinquency in payment, significant financial difficulties of the debtor and the probability that the debtor will enter bankruptcy in deciding whether the trade receivable is impaired. Trade and other receivables are disclosed net of allowances for bad and doubtful debts.

Notes to the Financial Statements

For the year ended 30 June 2016 (continued)

13. Trade and other receivables (continued)

As at 30 June 2016, trade receivables of £Nil were impaired (2015: £Nil). As at 30 June 2016 trade receivables of £117,310 (2015: £336,199) were past due but not impaired. The ageing analysis of these trade receivables is as follows:

	Group 2016 £	Group 2015 £	Company 2016 £	Company 2015 £
Up to 3 months past due	117,310	336,199	-	-
	117,310	336,199	-	-

Other receivables do not contain impaired assets or any amounts which are past due. The Directors consider that there has been no deterioration in the credit quality of debts which are past due.

14. Cash and cash equivalents

Cash and cash equivalents comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The Directors consider that the carrying amount of cash and cash equivalents approximates to their fair value.

15. Trade and other payables

	Group 2016 £	Group 2015 £	Company 2016 £	Company 2015 £
Trade payables	36,662	48,692	1,289	1,925
Amounts owed to group undertakings	-	-	87,420	128,345
Other tax and social security payable	9,166	62,718	-	7,459
Other payables and accruals	752,941	668,132	100,751	73,873
Deferred income	769,159	877,001	-	-
	1,567,928	1,656,543	189,460	211,602

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

Trade payables and other payables and accruals constitute the financial liabilities within the category “Financial liabilities at amortised cost” as defined by IAS 39 with a total value of £789,603 (2015: £712,433).

16. Deferred tax

There is no actual or potential liability for deferred taxation due to the availability of losses, which at 30 June 2016 amounted to approximately £9,900,000 (2015: £10,200,000). The unprovided deferred tax asset at 30 June 2016 was £2,000,000 (2015: £2,000,000).

Currently the criteria for the recognition of a deferred tax asset have not been met and accordingly a deferred tax asset has not been included in the balance sheet as at 30 June 2016 and as at 30 June 2015.

17. Share capital

	2016 £	2015 £
Company		
Allotted and fully paid:		
1,541,731,537 (2015: 1,536,672,013) Ordinary Shares of 0.1p each	1,541,732	1,536,672

On 24 May 2016 the company issued 5,059,524 Ordinary Shares of 0.1p each at 0.14p per share.

Share options

Under the Company's approved 2002 Share Option Scheme, certain Directors and employees held options at 30 June 2016 for unissued Ordinary Shares of 0.1 pence each as follows:

Share options	At 1 July 2015	Granted	Exercised	Lapsed	At 30 June 2016	Exercise price	Normal exercise period
Employees:	4,000,000	-	-	-	4,000,000	0.125 pence	17 Sep 12 – 16 Sep 16
	37,876,985	-	(5,059,524)	-	32,817,461	0.14 pence	18 Oct 13 – 17 Oct 17
	10,000,000	-	-	-	10,000,000	0.19 pence	1 Sep 17 – 31 Aug 21
Directors:							
Michael Levy	9,920,635	-	-	-	9,920,635	0.14 pence	18 Oct 13 – 17 Oct 17
Richard Last	11,904,762	-	-	-	11,904,762	0.14 pence	18 Oct 13 – 17 Oct 17
Louise Barton	10,000,000	-	-	-	10,000,000	0.19 pence	1 Sep 17 – 31 Aug 21
Matthew Jeffs	30,000,000	-	-	-	30,000,000	0.19 pence	1 Sep 17 – 31 Aug 21
	113,702,382	-	(5,059,524)	-	108,642,858		
Weighted average exercise price	0.16 pence	-	0.14 pence	-	0.16 pence		

The number of options exercisable at 30 June 2016 was 58,642,858 (At 30 June 2015: 63,702,382), these had a weighted average exercise price of 0.14 pence (2015: 0.14 pence).

Options granted under the Company's approved 2002 Share Option Scheme lapse when the Optionholder ceases to be a Director or employee of a Participating Company. The Directors may before the expiry of 3 months following cessation of employment permit an Optionholder to exercise their Option within a period ending no later than 12 months from the cessation of employment.

The highest price of the Company's shares during the year was 0.36p, the lowest price was 0.18p and the price at the year-end was 0.31p.

The weighted average remaining contractual life of share options outstanding at 30 June 2016 was 3 years (2015: 4 years).

17. Share capital (continued)

Share-based payments

The Group operates an approved Share Option Scheme for the benefit of Directors and employees. Options are granted to acquire shares at a specified exercise price at any time following but no later than 6 years after the grant date. There are no performance conditions on the exercise of the share options.

Options granted under the Scheme lapse when the Optionholder ceases to be a Director or employee of a Participating Company. The Directors may before the expiry of 3 months following cessation of employment permit an Optionholder to exercise their Option within a period ending no later than 12 months from the cessation of employment.

The fair value of options is valued using the Black-Scholes pricing model. An expense of £26,931 (2015: £20,199) has been recognised in the period in respect of share options granted. The cumulative share option reserve at 30 June 2016 is £119,692 (2015: £92,761). The inputs into the Black-Scholes pricing model are as follows:

	30 June 2016 Directors	**30 June 2016 Employees**	**30 June 2015 Directors**	**30 June 2015 Employees**
Exercise price	0.14/0.19 pence	0.125/0.14/0.19 pence	0.14/0.19 pence	0.125/0.14/0.19 pence
Expected life	6 years	6 years	6 years	6 years
Expected volatility	100%	100%	100%	100%
Risk free rate of interest	5%	5%	5%	5%
Dividend yield	Nil	Nil	Nil	Nil
Weighted average share price	0.12/0.19 pence	0.125/0.12/0.19 pence	0.12/0.19 pence	0.125/0.12/0.19 pence
Fair value of option	0.1135/0.19 pence	0.12/0.1135/0.19 pence	0.1135/0.19 pence	0.12/0.1135/0.19 pence

Volatility has been estimated based on the historic volatility over a period equal to the expected term from the grant date.

18. Reserves

Details of the movements in reserves are set out in the Statement of Changes in Equity. A description of each reserve is set out below.

Share premium account

This is used to record the aggregate amount or value of premiums paid when the Company's shares are issued at a premium, net of issue costs, less amounts cancelled by court order.

Share option reserve

This relates to the fair value of options granted which has been charged to the income statement over the vesting period of the options.

Retained earnings

This relates to accumulated profits and losses together with distributable reserves arising from capital reductions.

19. Income statement

The Company has taken advantage of the exemption provided under section 408 of the Companies Act 2006 not to publish its individual income statement and related notes. The profit dealt with in the financial statements of the Parent Company was £10,899 (2015: Loss £118,454).

Notes to the Financial Statements

For the year ended 30 June 2016 (continued)

20. Net cash generated from operations - Group

	2016 £	2015 £
Operating profit	292,373	239,716
Depreciation charge	17,140	8,682
Non cash share option charges	26,931	20,199
Decrease/(increase) in trade and other receivables	213,042	(259,136)
(Decrease)/increase in trade and other payables	(88,615)	244,471
Loss on disposal of plant and equipment	736	6,672
Cash generated from operations	461,607	260,604
Tax recovered	105,813	109,378
	567,420	369,982

Net cash generated from operations - Company

	2016 £	2015 £
Operating profit/(loss)	1,458	(121,159)
Non cash share option charges	26,931	20,199
Decrease in trade and other receivables	599,613	704,343
(Decrease)/increase in trade and other payables	(22,142)	5,964
Cash generated from operations	605,860	609,347

21. Operating lease commitments

At the year-end date the Group has lease agreements in respect of property for which the payments extend over a number of years. The commitments fall due as follows:

	Group 2016 £	Group 2015 £	Company 2016 £	Company 2015 £
Land and buildings:				
Due within one year	141,094	141,094	-	-
Due between two and five years	270,430	411,523	-	-
	411,524	552,617	-	-

Notes to the Financial Statements

For the year ended 30 June 2016 (continued)

22. Related party transactions

Group

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Key management compensation

Key management are those persons having authority and responsibility for planning, controlling and directing the activities of the Group. In the opinion of the Board, the Group's key management are the Directors of Arcontech Group PLC. Information regarding their compensation is given in notes 7 and 17 for each of the categories specified in IAS 24 *Related Party Disclosures.* All emoluments given in notes 7 and 17 relate to short-term employee benefits and there are no post-employment or other long-term benefits.

The financial statements include the following amounts in respect of services provided to the Group:

Michael Levy:
Fees payable to Michael Levy & Co, Chartered Accountants, in which Michael Levy is the principal, in respect of accountancy services of £48,242 (2015: £45,542). At 30 June 2016 the amount outstanding was £Nil (2015: £Nil).

Company

Transactions between the Parent Company and its subsidiaries during the year were as follows:

Management charges payable by subsidiaries £491,041 (2015: £254,445).

The amounts due from/to subsidiaries at the balance sheet date were as follows:

	2016	**2015**
	£	**£**
Amount due from subsidiaries	6,470,942	7,001,582
Less: Provision for impairment	(6,271,786)	(6,203,376)
Amount due from subsidiaries - net	199,156	798,206

During the year a provision of £68,410 was made (2015: £20,461) in respect of balances due from subsidiaries.

	2016	**2015**
	£	**£**
Amount due to subsidiaries	87,420	128,345
	87,420	128,345

23. Dividends

There were no dividends paid or proposed during the period (2015: £Nil).

24. Material non-cash transactions

There were no material non-cash transactions during the period.

25. Financial instruments

The Group's financial instruments comprise cash and cash equivalents, and items such as trade payables and trade receivables, which arise directly from its operations. The main purpose of these financial instruments is to provide finance for the Group's operations.

The Group’s operations expose it to a variety of financial risks including credit risk, liquidity risk and interest rate risk. Given the size of the Group, the Directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the Board. The policies set by the Board of Directors are implemented by the Company’s finance department.

Credit risk

The Group’s credit risk is primarily attributable to its trade receivables. The Group has implemented policies that require appropriate credit checks on potential customers before sales are made. The amount of exposure to any individual counterparty is subject to a limit, which is reassessed annually by the Board.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Group 2016 £	**Group 2015 £**	**Company 2016 £**	**Company 2015 £**
Trade receivables	188,961	417,531	-	-
Other receivables	4,590	8,075	-	3,489
Cash and cash equivalents	1,633,159	1,069,755	1,272,292	649,907
Amounts owed by group undertakings	-	-	199,156	798,206
	1,826,710	1,495,361	1,471,448	1,451,602

Interest rate risk

The Group has interest bearing assets and no interest bearing liabilities. Interest bearing assets comprise only cash and cash equivalents, which earn interest at a variable rate.

The Group has not entered into any derivative transactions during the period under review.

The Group does not have any borrowings.

The Group’s cash and cash equivalents earned interest at variable rates based on bank base rate, between 0.25% and 0.45% below bank base rate and at a fixed rate of 1% (2015: between 0.25% and 0.45% below bank base rate and at a fixed rate of 1%).

Liquidity risk

The Group has no short-term debt finance. The Group monitors its levels of working capital to ensure that it can meet its liabilities as they fall due.

The Group’s only financial liabilities comprise trade payables and other payables and accruals, excluding deferred income, with a carrying value equal to the gross cash flows payable of £789,603 (2015: £712,433) all of which are payable within 6 months.

26. Financial instruments (continued)

Market risk and sensitivity analysis

Equity price risk

The Directors do not consider themselves exposed to material equity price risk due to the nature of the Group's operations.

Foreign currency exchange risk

The Directors do not consider themselves exposed to material foreign currency risk due to the nature of the Group's operations. All invoices are raised in sterling.

Interest rate risk

The Group is exposed to interest rate risk as a result of positive cash balances, denominated in sterling, which earn interest at variable and fixed rates. As at 30 June 2016, if bank base rate had increased by 0.5% with all other variables held constant, post-tax profit would have been £6,750 (2015: £4,500) higher and equity would have been £6,750 (2015: £4,500) higher. Conversely, if bank base rate had fallen 0.5% with all other variables held constant, post-tax profit would have been £6,750 (2015: £4,500) lower and equity would have been £6,750 (2015: £4,500) lower.

27. Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and maintain an optimal capital structure.

The Group defines capital as being share capital plus reserves. The Board of Directors continually monitors the level of capital.

The Group is not subject to any externally imposed capital requirements.

28. Ultimate controlling party

There is no ultimate controlling party.

29. Copies of this statement

Copies of this statement are available from the Company Secretary at the Company's registered office at 1st Floor, 11-21 Paul Street, London, EC2A 4JU or from the Company's website at www.arcontech.com.

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