Arcontech Group PLC

Annual report and accounts for the year ended 30 June 2020

ARCONTECH

CREATING ADVANTAGE

REGISTERED NUMBER: 04062416 (England and Wales)

Arcontech Group PLC

Annual Report and Accounts
Year ended 30 June 2020

Contents

Company Information

Directors	Richard Last (Chairman and Non-Executive Director) Matthew Jeffs (Chief Executive Officer) Louise Barton (Non-Executive Director) Geoff Wicks (Non-Executive Director) – appointed 20 July 2020
Company Secretary	Ben Hodges
Registered Office	1st Floor 11-21 Paul Street London EC2A 4JU
Nominated Adviser and Broker	finnCap Ltd 1 Bartholomew Close London EC1A 7BL
Registered Number	04062416
Solicitors	Faegre Baker Daniels LLP 7 Pilgrim Street London EC4V 6LB
Auditors	PKF Littlejohn Statutory Auditor Chartered Accountants 15 Westferry Circus Canary Wharf London E14 4HD
Registrars	Link Asset Services 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

Chairman’s Statement

I am pleased to report another year of solid progress for Arcontech Group plc (“Arcontech” or the “Company”) despite the global pandemic, with good growth in profit before taxation for the year ended 30 June 2020 to £1,040,969 (2019: £931,717 restated (refer to Note 28 for further detail on 2019 restated numbers)), a year-on-year increase of 12%. These figures include accruals no longer required which are unrelated to the underlying business amounting to £86,500 (2019: £156,786). After adjusting for release of these accruals, profit before taxation is £954,469 (2019: £774,931 restated), an increase of 23% over the previous year. This demonstrates the significant profit conversion from increased revenues as we are able to deliver more from our existing and well managed cost base.

We achieved an increase in turnover for the year of 4% against a challenging business backdrop particularly in the second half. Revenue grew by £113,952 to £2,955,314 (2019: £2,841,362 restated) primarily through increasing our product sales to existing customers, including growing our Desktop software solution customer base to 130 (2019:90), which is a creditable performance. Whilst sales to new customers in the year have not been what we had hoped due to extending sales cycles and potential customers less inclined to take on new products during the pandemic, our pipeline of opportunities with potential new customers is looking increasingly positive, particularly for server-side software products. In the year to 30 June 2020 recurring annual license fees accounted for 93% of our revenue with the bulk of the balance represented by fees under contract but subject to some fluctuation.

Statutory earnings per share for the year to 30 June 2020 was 9.22p (7.51p) an increase of 23% over the corresponding figure for the previous 12 months. These figures included the release of accruals mentioned above. The tax credit for the year was £176,734 (2019: £60,318) reflecting the benefits from historic tax losses and recognition of a deferred tax asset. As at 30 June 2020 Arcontech had tax losses of approximately £7.5m to offset against future trading profits. We believe a better representation of our performance is provided by fully diluted earnings per share based on profit before taxation, excluding the release of accruals relating to a legacy liability that has no direct connection with the Group’s revenues or costs incurred for the year under review. On this basis adjusted earnings per share was 8.39p, a 34% increase over the adjusted earnings figure of 6.24p for the year to 30 June 2019.

Financing
As at 30 June 2020 Arcontech had, excluding right of use lease liabilities, no debt and cash balances of £5,006,969 (2019: £4,063,484) an increase of 23%. This represents a cash conversion of adjusted operating profit (determined as operating profit before share-based payments and before the release of accruals in respect of prior years) of 90% (2019: 109%). Arcontech continues to be well financed and has a robust balance sheet which is highly desirable for a small, growing software company.

Dividend
I am pleased to announce that, subject to approval at the Annual General Meeting, we intend to pay a dividend of 2.5 pence per share for the year ended 30 June 2020 (30 June 2019: 2.0 pence), an increase of 25%, to those shareholders on the register as at the close of business on 11 September 2020, with an ex-dividend date of 10 September 2020.

Employees
Arcontech has a small, highly effective and committed workforce that has proved more than up to delivering excellent customer service whilst working remotely due to the COVID-19 pandemic. On behalf of the Board and shareholders I should like to thank them for their continued support, commitment and dedication to the Company and its customers .

Board
As has been previously reported I am standing down , after 13 years , as Chairman and Non-executive director at our forth coming Annual General Meeting (AGM), which is due to take place on 29 September 2020. Geoff Wicks , who joined the Board as a non-executive director on 20 July will take over as Chairman; I wish him well in taking Arcontech through the next stages of its development. I should like to thank my Board colleagues, Matthew Jeffs and Louise Barton as well as our Head of Development Darren Lewis for their support; we have taken Arcontech on a long journey to achieving good sustainable profits with excellent cash generation. I wish them and Arcontech every success for the future.

Outlook
Our recurring annual licence fees provide a stable base for the business and our pipeline of prospects remains positive, but, as with most businesses we face a number of uncertainties: the impact of the Covid-19 pandemic, Brexit and changes taking place in the financial markets, as well as with our competitors. However, against this background our workforce has shown resilience and flexibility in dealing with the consequences of the pandemic and our customer relationships remain strong. We are a global business and believe we offer excellent levels of support and operational flexibility as well as significant competitiveness, hence, we have the ingredients for growth, despite the macro economic climate. However, given the uncertain backdrop the outlook needs to be tempered by the possibility of further magnification of our traditionally long and complex sales cycles.

Richard Last
Chairman and Non-Executive Director

Chief Executive's Review

During the year we continued to focus on expanding and delivering on the sales pipeline whilst controlling costs, resulting in a statutory profit before tax of £1,040,969 (2019 restated: £931,717), an increase of 12% compared to the previous year and a 23% increase in adjusted profit to £954,469.

The year under review also saw the number of end users for our desktop software solution increase so that we now have a total of 130 end users (2019 - 90) amongst 3 global institutions. Excelerator numbers remained stable.

With regard to development, we rolled out our RESTful interface which has been performing as expected. This will significantly increase the available data for consumption for our current and future clients by enabling content in JSON and SQL formats to be pulled into our software from the web or intranets to use in spreadsheets, templates and charts.

We have also rolled out our new GUI for Director, which is our interface for MVCS and our Cache for which feedback has been excellent. The new interface has made administration intuitive and straight forward whilst adding value by, for example, alerting designated staff to data or communication issues when they happen instead of when they are reported by users of the data. Therefore reducing or removing operational, reputational and financial risk.

Work on our sales structure continued with the recruitment of two sales professionals at the end of January. Regrettably no sooner than we had conducted product training and allocated territories, the increase in Covid 19 infections required we protect our staff and work from home. This exercise which was undertaken in March went very smoothly thanks to the staff themselves.

Our staff adjusted to this change pragmatically and since decamping to their respective home-offices, we have supported our clients seamlessly and developed and rolled out new software to accommodate vendor developments, and more generally, to meet clients' needs. Equally, our sales staff continued to uncover new opportunities and develop those already in the pipeline. Such dedication and professionalism reflects well on the company for which the board and I are very grateful. Richard Last steps down as Chairman after the AGM on 29 September 2020 after 13 years. He has played a major part in turning Arcontech from a loss making company to the profitable one it is today. The Board thanks him for his valuable contribution to the success of the Group during his term of office. Geoff Wicks becomes Chairman after the AGM on 29 September and we very much look forward to working with him.

The impact of Covid 19 has also been felt by our existing clients although to-date we have seen little impact on our business. It remains to be seen whether there will be permanent changes to the manner in which we secure future growth by signing up completely new clients given the new norm of online interaction. Our challenge is to ensure we devise our own strategies to succeed in this environment. We have already seen one positive in that we can meet people without the cost of travel or attending tradeshows.

Improving the frequency of sales remains our prime focus against our traditional background of a long sales cycle. We believe the expanded product offering and sales capability, along with our clients and potential clients need to reduce costs, should improve the frequency of sales.

We will also continue to explore opportunities with other organisations that can complement our offerings, whilst remaining alert for strategic acquisition opportunities that will benefit the Group.

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 2020.

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 2 to 3.

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:

Financial KPIs:

Revenue £2,955,314 (2019: £2,841,362 restated; 2018: £2,519,699)	Measurement: Revenue from sales made to all customers (excluding intra-group sales which eliminate on consolidation) Performance: Continued growth driven by increased sales of our product offering
Adjusted profit £1,131,203 (2019: £835,248 restated; 2018: £889,584)	Measurement: Profit after tax and before release of accruals for administrative costs in respect of prior years Performance: Continued growth reflects increase in revenues whilst continuing to maintain tight cost control
Cash £5,006,969 (2019: £4,063,484; 2018: £3,210,058)	Measurement: Cash and cash equivalents held at the end of the year Performance: The Group continues to maintain healthy cash balances subject to any exceptional circumstances or acquisition opportunities
Earnings per share (basic) 9.22p (2019: 7.51p restated; 2018: 7.14p)	Measurement: Earnings after tax divided by the weighted average number of shares Performance: Continued growth
Earnings per share (diluted) 9.03p (2019: 7.42p restated; 2018: 7.09p)	Measurement: Earnings after tax divided by the fully diluted number of shares Performance: Continued growth

Non-financial KPIs:

Staff retention rate (net) 91% (2019: 100%; 2018: 92%)	Measurement: Net retention after adjusting for joiners and leavers during the year Performance: Staff morale from our dedicated employees remains strong, reflected in the stable retention rate

Strategic Report (continued)

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 research and development Responding to the changing needs of clients to remain competitive
Loss of key personnel	Employee share option scheme in place
Covid-19 pandemic	The Directors and employees are operating remotely in order to protect their health and safety At present the Company believes that there should be no significant material disruption to its work
Brexit	Arcontech is a global company and as such seeks growth across a geographically diverse customer base

Relations with shareholders

Section 172(1) Statement - Promotion of the Company for the benefit of the members as a whole

The Directors believe they have acted in the way most likely to promote the success of the Group for the benefit of its members as a whole, as required by s172 of the Companies Act 2006.

The requirements of s172 are for the Directors to:

- Consider the likely consequences of any decision in the long term;
- Act fairly between the members of the Company;
- Maintain a reputation for high standards of business conduct;
- Consider the interests of the Company's employees;
- Foster the Company's relationships with suppliers, customers and others; and
- Consider the impact of the Company's operations on the community and the environment.

The Group's operation is the development and sale of proprietary software and provision of computer consultancy services. The Board has identified its key stakeholders as its customers, shareholders, employees and suppliers. The Board keeps itself appraised of its key stakeholders' interests through a combination of both direct and indirect engagement, and the Board has regard to these interests when discharging its duties.

The application of the s172 requirements can be demonstrated in relation to some of the key decisions made during the year to 30 June 2020:

- Allocation of the Group's capital in a way which offers significant returns to shareholders in line with the Company's dividend policy, while also ensuring that the Group retains flexibility to continue to deploy capital towards profitable growth;
- Adapting a rapid response to the working location restrictions arising from the Covid-19 pandemic, ensuring that the Group continued to deliver both the high level of service and security that our customers depend on without compromising the health and safety of employees.

Strategic Report (continued)

During the year to 30 June 2020, the Board assessed its current activities between the Board and its stakeholders, which demonstrated that the Board actively engages with its stakeholders and takes their various objectives into consideration when making decisions. Specifically, actions the Board has taken to engage with its stakeholders over the last twelve months include:

- Attended the 2019 AGM to answer questions and receive additional feedback from investors;
- Arranged meetings with certain stakeholders to provide them with updates on the Company's operational activities and other general corporate updates;
- We discussed feedback from investors' and analysts' meetings following the release of our annual and half-year announcements. We have an investor relations programme of meetings with existing and potential shareholders; and
- Monitored company culture and engaged with employees on efforts to continuously improve company culture and morale.

The Board believes that appropriate steps and considerations have been taken during the year so that each Director has an understanding of the various key stakeholders of the Company. The Board recognises its responsibility to contemplate all such stakeholder needs and concerns as part of its discussions, decision-making, and in the course of taking actions, and will continue to make stakeholder engagement a top priority in the coming years.

Approved on behalf of the board on 1 September 2020 by:

Matthew Jeffs
Chief Executive

Board of Directors

Directors - Executive

Matthew Jeffs (Chief Executive Officer)

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.

Directors – Non-Executive

Richard Last (Chairman)

Richard was appointed Chairman and Non-Executive Director in February 2007. He has over 25 years' experience in Hyve and communications. Currently, he is Chairman and Non-Executive Director of Gamma Communications plc (AIM listed), ITE Group plc (fully listed) and Tribal Group plc (AIM listed). In addition, Richard is a Non-Executive Director of Corero Network Security plc (AIM listed). He is a Fellow of the Institute of Chartered Accountants in England and Wales. Richard steps down as Chairman after the AGM on 29 September 2020.

Louise Barton

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 UK No 1 small company media analyst and is now an independent consultant.

Geoff Wicks

Geoff was appointed Non-Executive Directors in July 2020. He was most recently Chairman of ULS Technology plc, the provider of online technology platforms for the UK conveyancing and financial intermediary markets. Prior to this, he was CEO of Group NBT plc, a specialist in online brand protection and digital asset management, from 2001 until he led the sale of the business to HGCapital in 2011. He remained part of the Group NBT business, now renamed NetNames, as a non-executive director until 2013. Geoff spent much of his earlier career at Reuters, including heading divisions in the UK, France and Nordic regions and latterly was director of corporate communications. Prior to Reuters, Geoff worked in the banking and insurance industries. Geoff becomes Chairman of Arcontech after the AGM on 29 September 2020.

Corporate Governance

Corporate governance report

The directors recognise the importance of, and are committed to, high standards of corporate governance. Changes to the AIM rules as of 28 September 2018 require AIM companies to apply a recognised corporate governance code. Of the two widely recognised formal codes, the directors have decided to adhere to the Quoted Companies Alliance's Corporate Governance code. The Group's compliance with this code is summarised below and can be found in full on the Group's website at: www.arcontech.com.

The working of the Board and its Committees

At 30 June 2020, the Board comprised two Non-Executive Directors, one of whom is the Chairman, and one Executive Director. Subsequent to reporting date a third Non-Executive Director was appointed to the Board. The Board is responsible to the shareholders for the proper management of the Group. It meets regularly to review financial and non-financial performance. Matters for review by the Board are circulated before the Board Meetings.

All of the Directors are subject to election at the first Annual General Meeting following their appointment and to re-election at least once every three years. Non-Executive Directors who have served for more than nine years on the Board are subject to re-election annually. Both of the Non-Executive Directors, who were appointed on 15 January 2007 have served for longer than this period. The Board are of the opinion that their shareholdings align their interests with other shareholders. At the 2019 Annual General Meeting 100% (2018: 100%) of shareholders voted in favour of their re-election. As such the Board consider their independence is not affected.

Richard Last stands down after the AGM on 29 September 2020. Given Louise Barton's length of service she will retire under Article 106 of the Company's articles of association and, being eligible, offers herself to be re-elected as a non-executive Director of the Company.

The Chairman and Executive Director have other third-party commitments including directorships of other companies. The Company is satisfied that these commitments have no significant impact on their ability to carry out their responsibilities effectively. All Directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that Board procedures are followed, and that applicable rules and regulations are complied with. In addition, the Company Secretary will ensure that the Directors receive appropriate training as necessary. All Directors are supplied with information in a timely manner in a form, and of a quality, appropriate to enable them to discharge their duties.

During the year, certain Directors who were not Committee members attended meetings of the Audit Committee and Remuneration Committee by invitation. These details have not been included in the table.

Board meeting attendance

	Board Meeting	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors				
Matthew Jeffs	10/10	3/3	N/A	N/A
Michael Levy[1]	1/3	N/A	N/A	N/A
Non-Executive Directors				
Richard Last (Independent)	10/10	3/3	5/5	1/1
Louise Barton (Independent)	10/10	3/3	5/5	1/1

[1] Michael Levy ceased to be a director on 22nd January 2020

Board performance

The Company has a formal process of annual performance evaluation for the Board, its Committees and individual Directors. The Board and its Committees are satisfied that they are operating effectively. A performance evaluation of the Board, its Committees and individual Directors is conducted annually.

Corporate Governance (continued)

Corporate governance report (continued)

The review is based on key areas, to include Board composition, information, process, internal control, accountability, CEO and top management and standards of conduct. The areas are scored by all members, reviewed by the Chairman and Company Secretary and compared against the previous evaluation. Lower scores are discussed.

The Company has Directors' and officers' liability insurance in place.

Committees

The following committees deal with the Group's affairs:

Audit Committee
Details of the Audit Committee are given in its Report on pages 10-11.

Remuneration Committee
Details of the Remuneration Committee are given in its Report on pages 12-18. This includes details of the Directors' remuneration, interest in shares, interest in share options, and service contracts. No Director is involved in decisions about their own remuneration.

Nomination Committee
The Nomination Committee assists the Board in discharging its responsibilities relating to the composition and make-up of the Board and any committees of the Board. It is also responsible for periodically reviewing the Board's structure and identifying potential candidates to be appointed as Directors or committee members as the need may arise. The Nomination Committee is responsible for evaluating the balance of skills, knowledge and experience and the size, structure and composition of the Board and committees of the Board, retirements and appointments of additional and replacement Directors and committee members and will make appropriate recommendations to the Board on such matters.

The Nomination Committee is chaired by Louise Barton. Richard Last is the other committee member. The Nomination Committee meets not less than once a year.

Richard Last
Chairman and Non-Executive Director
1 September 2020

Corporate Governance (continued)

Audit Committee report

The Audit Committee is responsible for ensuring that the financial position of the Group is properly monitored. The Audit Committee generally meets twice a year and the Finance Director of the trading subsidiary also attends by invitation. At 30 June 2020, the members of the Audit Committee were:

Richard Last (Chairman)
Louise Barton
Matthew Jeffs

There were no changes to the membership of the Audit Committee during the year.

Objectives and responsibilities

The role of the Audit Committee is to primarily monitor the Group's financial statements, the effectiveness of financial controls and systems and to oversee the relationship with external auditors.

Activities of the Audit Committee during the year

The Audit Committee focuses on financial reporting and the statutory audit, and the assessment of internal controls.

Financial reporting and statutory audit

The Audit Committee reviews the half year and annual financial statements with emphasis on:
- the overall truth and fairness of the results and financial position;
- the appropriateness of the accounting policies;
- the resolution of management's significant accounting judgements or of matters raised by the external auditors;
- the quality of the Annual Report as a whole.

The Audit Committee considers that the Annual Report taken as a whole is fair, balanced and understandable.

Accounting policies, practices and judgements

Issue	Action
• Accounting policies	The Committee reviewed and discussed the significant accounting policies with management and the external auditor and reached the conclusion that each policy was appropriate to the Group.
• IFRS 15 Revenue from Customers restatement	The Committee reviewed its offering and performance obligations under the terms of recurring license fee contracts and also sought independent advice. The conclusion reached is that in the context of IFRS 15 the correct approach for the recognition of revenue is on an over time basis with 2019 comparative results restated in accordance. (Refer to Note 28 for further detail).
• Adopting IFRS 16 Accounting for leases	The Committee elected to adopt IFRS 16 using the modified retrospective approach with the effect of applying this standard at the date of initial recognition of 1 July 2019 (Refer to Note 17 for further detail).
• Going concern review	The Committee considered the ability of the Group to operate as a Going Concern considering cash flow forecast for the next 12 months and milestone achievements. It was determined by the Committee that it was reasonable to expect that the Group has or will have sufficient funds for the next 12 months and that it was appropriate for the Financial Statements to be prepared on a going concern basis.

Audit Committee report (continued)

Issue	Action
• Review of audit and non-audit services and fees	The external auditor is not engaged by the Group to carry out any non-audit work in respect of which it might, in the future, be required to express an audit opinion. The role of external auditor was put out to tender during the year and The Audit Committee took the decision to change the external auditor for the Group and Company for the year under review. The Committee reviewed the fees charged for the provision of audit and non-audit services and determined that they were in line with fees charged to companies of similar size and stage of development. The Committee considered and was satisfied the external auditor's assessment of its own independence.

Internal audit

The Group does not have internal auditors as the Audit Committee considers that it is not yet of a size or complexity to necessitate this.

Richard Last
Audit Committee Chairman
1 September 2020

Corporate Governance (continued)

Remuneration Committee report

Dear shareholder

I am pleased to introduce the Directors' Remuneration Report for the year ended 30 June 2020.

The Chairman's Statement on page 2 provides a summary of the progress the Group has made during the financial year. The Remuneration Committee is committed to structuring executive remuneration that supports the Group's strategy and performance and to help it grow profitably. The Remuneration Committee is appointed by the Board and comprises the two independent Non-Executive Directors.

Short-term performance is incentivised by an annual bonus scheme based on the achievement of certain financial and non-financial performance targets. Long-term performance is incentivised by the Group's Share Option Scheme.

Louise Barton
Remuneration Committee Chairman
1 September 2020

Directors' Remuneration Policy

This part of the Directors' Remuneration Report sets out the Group's remuneration policy.

Policy on Executive Remuneration

The Group's remuneration policy is designed to ensure that the Company is able to attract, motivate and retain executives and senior management to promote long-term success. The retention of key management and the alignment of management incentives with the creation of shareholder value are key objectives of this policy.

The Remuneration Committee seeks to ensure that salaries are market competitive for similar companies.

Key elements of Remuneration

Remuneration element	Purpose	Operation	Potential remuneration	Performance metrics
Base salary	To attract and retain key executives.	Reviewed annually, effective from 1 January/ 1 July. The review considers: - Role, experience and performance; - Average workforce salary adjustments. Salaries are benchmarked against companies of similar size and sector.	The CEO's base salary was reviewed on: i) 1 January 2017 and was increased by 5% to £157,500; and ii) 1 July 2018 and was increased by 4.8% to £165,000. iii) 1 July 2019 and was increased by 3.0% to £170,000 iv) 1 July 2020 and was increased by 2.9% to £175,000	Not applicable.

Corporate Governance (continued)

Remuneration Committee report (continued)

Key elements of Remuneration (continued)

Remuneration element	Purpose	Operation	Potential remuneration	Performance metrics
Benefits	To attract and retain key executives.	An Executive Director is entitled to participate in the Company's life and medical insurance schemes.	Premiums vary from year to year. The Remuneration Committee monitors the overall cost of the benefits package.	Not applicable.
Pension	To attract and retain key executives.	The Executive Directors (together with all other eligible staff) are entitled to participate in the Company's workplace pension scheme.	The Company contributes 3% (previously 2%) per annum of basic salary into the scheme. Executive Directors are able to request that the Company, at the discretion of the Remuneration Committee, makes additional contributions where salary or bonus has been waived. During the year the company made pension contributions of £5,100 (2019: £5,000).	Not applicable.
Annual bonus	To incentivise the achievement of the company's annual financial and strategic targets.	Performance is measured on an annual basis for each financial year. Targets are established at the beginning of each financial year. At the end of the year the Remuneration Committee determine the extent to which these have been achieved. Bonuses are paid in cash and/or pension contributions	The CEO's maximum capped bonus potential is 150% of salary.	Any bonus is discretionary and subject to achievement against targets set by the Remuneration Committee. The Remuneration Committee has discretion to adjust the bonus to ensure alignment of pay with the performance of the business in the financial year.
Share Option Scheme	To motivate and facilitate share ownership.	Options to acquire shares may be granted to eligible employees at the discretion of the Remuneration. Committee	The number of shares in respect of which options can be granted is limited in any financial year to shares with a market value of no more than 100% of salary.	The Remuneration Committee may impose certain performance conditions on any option preventing its exercise unless such conditions have been satisfied.

Remuneration Committee report (continued)

Key elements of Remuneration (continued)

Remuneration element	Purpose	Operation	Potential remuneration	Performance metrics
Chairman and Non-Executive Directors	To attract and retain Non-Executive Directors of the right calibre.	The Chairman and Non-Executive Directors' remuneration comprises fees and share options. The Chairman's fee is approved by the Board on the recommendation of the Non-Executive Director and Executive Directors. Fees for the Non-Executive Directors are approved by the Board on the recommendation of the Chairman and Executive Directors. The Chairman and Non-Executive Directors are not involved in any discussion or decision about their own remuneration. The Chairman and Non-Executive Directors are entitled to be reimbursed for reasonable expenses.	Details of the fees currently payable are set out in the Annual Report on Remuneration. The fees are reviewed periodically taking into account the time commitment and responsibilities involved and fees paid by other companies of comparable size and complexity.	Not applicable.

Alignment of Executive Remuneration and the Market

The Remuneration Committee takes advantage of various annual AIM Directors' Remuneration reports as well as available data about similar companies. The Company aims to ensure that Directors' salaries are set at a level sufficient to ensure there is significant incentive and regard for better than average long-term results.

Consideration of Employee Pay

The Remuneration Committee takes account of pay and conditions of employees throughout the Group when setting pay and benefits for Executive Directors. The Company endeavours to provide competitive remuneration packages for all employees. Employees may be eligible to participate in the Share Option Scheme at the discretion of the Remuneration Committee. The Company does not consult directly with its employees as part of the process for determining Executive pay.

Policy on recruitment

When appointing new Executive Directors, the Remuneration Committee will consider their remuneration by reference to the Remuneration Policy set out in this Report. The Remuneration Committee would not usually expect to pay sign-on payments or compensate new Directors for any variable remuneration forfeited from any employment prior to joining the Board other than in exceptional circumstances, recognising that the Company needs to attract appropriately skilled and experienced individuals.

Corporate Governance (continued)

Remuneration Committee report (continued)

Policy on recruitment (continued)

Salary and annual bonus will be set so as to be competitive with comparable companies and also taking into account the experience, seniority and responsibility of the appointee coming into the new role. New Executive Directors will receive benefits and pension contributions in line with the Company's existing policy and to participate in the annual bonus scheme on a pro-rated basis for the portion of the financial year for which they are in post.

Policy on Loss of Office

Executive Directors leaving employment from the Group, other than in circumstances of gross misconduct or incompetence, serious dishonesty or wilful neglect of duty (in which cases no amount will be payable), will be entitled to receive salary in accordance with their notice periods and pro-rated annual bonus to the date of leaving. The notice periods and the contractual rights on termination of each Director are set out below. The Company's Employee Share Option Scheme also provides leaver provisions as follows:

An Executive Director who ceases to be a Director or employee of the Group by reason of death, retirement, ill-health, injury or disability, redundancy or the sale of the company for which he works will be a good leaver. As such they will be permitted to exercise their options. Where the cessation is on any other grounds the awards will lapse on the date of cessation, unless the Remuneration Committee determines at its discretion prior to the date of cessation that the awards shall vest.

Share option awards held by good leavers that are already capable of being exercised at the date of cessation may, at the discretion of the Remuneration Committee, be exercised up to 12 months of the leaving date (depending on the reason for leaving). If the good leaver ceases to be an employee or Director before the end of the third anniversary of the grant of the award it may, at the discretion of the Remuneration Committee, be allowed to vest on the normal vesting date.

External appointments

It is the Board's policy to allow Executive Directors to accept directorships of other quoted and non-quoted companies provided that they have obtained the consent of the Chairman of the group. Any such directorships must be formally notified to the Board.

Policy on Non-Executive Director Remuneration

The remuneration of the Chairman and the other Non-Executive Director comprises fees that are paid via the payroll. They no longer participate in the Company's Share Option Scheme. Fees are reviewed annually. The Non-Executive Directors are not involved in any decisions about their own remuneration. No additional fees are payable to the chairmen of the Audit and Remuneration Committees. Details of the fees paid in the year to 30 June 2020 are set out below:

Richard Last (Chairman and Non-Executive Director)	£31,500
Louise Barton (Non-Executive Director)	£21,000

Directors' Service Agreements

Executive Directors' Service Agreements

	Matthew Jeffs
Date of service agreement	29 April 2013
Notice period	3 months' notice given by either party
Basic salary	Currently £175,000 reviewed annually
Annual bonus	Discretionary performance related
Benefits	Participation in the Company's life assurance and medical insurance schemes
Share schemes	Eligible to participate in Company share schemes
Pension contributions	Currently 3% of basic salary contributed by the Company into the Company's workplace pension scheme
Termination payments	The Company has discretion to pay a payment in lieu of notice to terminate the employment forthwith in the event of notice being given

Corporate Governance (continued)

Remuneration Committee report (continued)

Non-Executive Directors' Letters of Appointment

The Non-Executive Directors have Letters of Appointment stating that their appointment is for an initial term up until they are required to retire by rotation. The Letters of Appointment provide for termination of the appointment on three months' notice by either party.

The current Non-Executive Directors' appointments commenced on the following dates:

Richard Last	15 January 2007
Louise Barton	15 January 2007

Annual Report on Remuneration

Introduction
The Annual Report on Remuneration sets out information about the remuneration of the Directors of the Company for the year ended 30 June 2020.

Remuneration Committee
The Remuneration Committee consisted of the following Directors during the year ended 30 June 2020:

Richard Last, Independent Non-Executive Director and Chairman of the Board
Louise Barton (Chairman), Independent Non-Executive Director

Role of the Remuneration Committee
The Remuneration Committee assists the Board in determining the remuneration and benefits package for the Executive Directors.

Activities of the Remuneration Committee during the year

The Remuneration Committee meets whenever it is appropriate. The committee met five times in the current year. In addition to agreeing the remuneration report and reviewing the remuneration of the Executive Directors and a new non-executive director/Chairman designate, an additional meeting was required to deal with matters related to the death of Finance Director, Michael Levy.

Directors' Remuneration
The detailed emoluments of the Executive and Non-Executive Directors are set out below.

Year ended 30 June 2020

	Salary/fees	Benefits	Bonus	Share options	Pension	Total
Chairman and Non-Executive Directors						
Richard Last (Chairman)	31,500	797	-	2,518	-	34,815
Louise Barton	21,000	-	-	2,033	-	23,033
Total Non-Executive	52,500	797	-	4,551	-	57,848
Executive Directors						
Matthew Jeffs	170,000	5,066	70,000	37,747	5,100	287,913
Michael Levy*	10,938	1,501	2,100	1,659	328	16,526
Total Executives	180,938	6,567	72,100	39,406	5,428	304,439
Total remuneration	**233,438**	**7,364**	**72,100**	**43,957**	**5,428**	**362,287**

*Fees payable to Michael Levy & Co, Chartered Accountants, in which Michael Levy is the principal, in respect of accountancy services are disclosed in note 23 to the Financial Statements. Michael Levy ceased to be a Director of the Company on 22 January 2020.

Corporate Governance (continued)

Remuneration Committee report (continued)

Directors' Remuneration (Continued)

Analysis of bonuses:

	Accrued	Paid as cash	Paid as pension	Total
Directors				
Matthew Jeffs				
Year ended 30 June 2019	(46,756)	46,756	-	-
Year ended 30 June 2020	70,000	-	5,100	75,100
	23,244	46,756	5,100	75,100
Michael Levy				
Year ended 30 June 2019	(3,500)	3,500	-	-
Year ended 30 June 2020	1,050	1,050	-	2,100
	(2,450)	4,550	-	2,100
Total	**20,794**	**51,306**	**5,100**	**77,200**

			Year ended 30 June 2019			
	Salary/fees	Benefits	Bonus	Share options	Pension	Total
Chairman and Non-Executive Directors						
Richard Last (Chairman)	30,750	628	-	3,022	-	34,400
Louise Barton	20,500	-	-	2,441	-	22,941
Total Non-Executive	51,250	628	-	5,463	-	57,341
Executive Directors						
Matthew Jeffs*	165,000	3,900	46,282	12,871	8,703*	236,756
Michael Levy	25,625	2,435	3,500	8,954	591	41,105
Total Executives	190,625	6,335	49,782	21,825	9,294	277,861
Total remuneration	**241,875**	**6,963**	**49,782**	**27,288**	**9,294**	**335,202**

*£5,000 of the overall bonus in respect of the prior year was paid as an additional pension contribution instead of cash.

Analysis of bonuses:

	Accrued	Paid as cash	Paid as pension	Total
Directors				
Matthew Jeffs				
Year ended 30 June 2018	(81,428)	80,954	5,000	4,526
Year ended 30 June 2019	46,756	-	-	46,756
	(34,672)	80,954	5,000	51,282
Michael Levy				
Year ended 30 June 2018	(3,500)	3,500	-	-
Year ended 30 June 2019	3,500	-	-	3,500
	-	3,500	-	3,500
Total	**(34,672)**	**84,454**	**5,000**	**54,782**

Corporate Governance (continued)

Remuneration Committee report (continued)

Directors' Remuneration (Continued)

Directors' share interests

The number of ordinary shares of the Company in which the Directors were beneficially interested at 30 June 2020 was:

Director	**30 June 2020**	**30 June 2019**
Richard Last	1,541,659	1,541,659
Louise Barton	1,071,416	1,071,416
Matthew Jeffs	910,000	910,000

Directors' share options interests

Director	At 1 July 2019	Granted	Exercised	At 30 June 2020	Exercise price	Normal exercise period
Richard Last	24,762	-	-	24,762	64.50 pence	25 Apr 20 – 24 Apr 27
Louise Barton	40,000	-	-	40,000	23.75 pence	1 Sep 17 – 31 Aug 21
	20,000	-	-	20,000	64.50 pence	25 Apr 20 – 24 Apr 27
Matthew Jeffs	100,000	-	-	100,000	110.00 pence	30 Jun 21 – 29 Jun 28
	-	50,000	-	50,000	196.00 pence	30 Jun 22 – 29 Jun 30

There are no performance conditions on the exercise of the options granted prior to 1 July 2018. The performance conditions of the share options granted during the year are set out below.

The Options will be exercisable from 30 June 2022, dependent on the Company's compound annual rate of growth in fully diluted earnings* for the three financial years ending 30 June 2022. The Options will vest subject to performance criteria as follows:

- compound annual earnings growth of 10% or more - fully vested (100%);
- compound annual earnings growth between 5%-10% - partial vesting between 0% and 100% on a sliding scale; and
- compound annual earnings growth of 5% and below - nil.

Any Ordinary Shares arising from the vesting of Options must be held for a period of two years after vesting.

* Fully diluted earnings will be based on: (a) the Company's pre-tax profit excluding exceptional items and the share option charge and (b) the current UK corporation tax rate of 19%, such that the fully diluted earnings calculation takes no account of R&D and deferred tax credits. For the purposes of the fully diluted earnings calculation, the applied rate of corporation tax will remain constant at 19% irrespective of any current or future changes to corporation tax.

Louise Barton
Remuneration Committee Chairman
1 September 2020

Directors' Report

The Directors present their Report and financial statements for the year ended 30 June 2020.

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 26. The Directors recommend the payment of a final dividend of 2.5 pence per ordinary share (2019: 2.0 pence per share) to be paid on 9 October 2020 to ordinary shareholders on the register on 10 September 2020 £330,263 (2019: £264,210).

Directors

The Directors who have held office during the period from 1 July 2019 to the date of this report are as follows:

Richard Last
Matthew Jeffs
Michael Levy – ceased to be a Director on 22 January 2020
Louise Barton
Geoff Wicks – appointed 20 July 2020

Matthew Jeffs, 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.

Geoff Wicks, who was appointed since the date of the last annual general meeting, retires and, who being eligible, offers himself to be re-elected as a Director of the Company.

Michael Levy ceased to be a Director of the Company on 22 January 2020.

Except as disclosed in note 23 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

Louise Barton was appointed Non-Executive Director on 19 February 2007 and has served for more than 10 years. The Board is of the opinion that her shareholding aligns her interests with other shareholders, and, in addition, she offers herself for re-election each year. At the 2019 Annual General Meeting 100% (2018: 100%) of shareholders voted in favour of her re-election. As such the Board considers her independence is not affected.

Given her length of service she retires under Article 106 of the Company's articles of association and, being eligible, offers herself to be re-elected as non-executive Directors of the Company.

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.

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.

Directors' Report (continued)

Future developments

The outlook for the year ending 30 June 2020 is expected to see continued growth from both increased business with existing clients and winning new business., despite the macro climate and tempered as always by the traditionally long and complex cycles that are a feature of 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. Refer to Note 26 for further detail on the Group's financial instruments and risk exposures. 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.

Going concern

On the basis of current projections and having regard to the Group's existing cash reserves, 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.

Directors' and Officers' Liability Insurance

Directors' and Officers' liability insurance is in place at the date of this report. The Board remains satisfied that an appropriate level of cover is in place and a review of cover takes place annually.

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 PKF Littlejohn LLP will be proposed at the annual general meeting.

On behalf of the Board

Matthew Jeffs
Chief Executive

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 ensuring that they meet their responsibilities under the AIM rules.

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

Opinion

We have audited the financial statements of Arcontech Group PLC (the 'parent company') and its subsidiaries (the 'group') for the year ended 30 June 2020 which comprise the Group Income Statement and Statement of Comprehensive Income, the Group and Company Balance Sheets, the Group and Company Statements of Changes in Equity, the Group and Company Cash Flow Statements and notes to the financial statements, including a summary of significant accounting policies. 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.

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 2020 and of the group's and parent company'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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Our application of materiality

Materiality 2020	**Basis for materiality**
Group £ 44,300	*2% of revenue*
Company £ 33,225	*75% of Group materiality*

We consider revenue to be the most significant determinant of the group's financial position and performance used by shareholders. The going concern of the group is dependent on its ability to continue to generate profits through revenue growth.

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

Whilst materiality for the group financial statements as a whole was set at £44,300, materiality for the significant components was set at a level of £33,225 with performance materiality set at 75%. We applied the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements.

We agreed with the audit committee that we would report to the committee all audit differences identified during the course of our audit in excess of £2,215.

An overview of the scope of our audit

In designing our audit, we determined materiality and assessed the risk of material misstatement in the financial statements. In particular, we looked at areas requiring the directors to make subjective judgements, for example in respect of assessing the carrying value and recoverability of investments in subsidiaries at parent company level, the valuation of share-based payments and the consideration of future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

We considered revenue recognition to be a significant risk and key audit matter, and designed our audit procedures to address the risk of misstatement of revenue, including consideration of key contractual terms within customer agreements and whether recognition is therefore in accordance with IFRS 15 *Revenue from Contracts with Customers*.

An audit was performed on the financial information of the group's significant operating components which, for the year ended 30 June 2020, were located in the United Kingdom.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

<table>
<tr><th>Key Audit Matter</th><th>How the scope of our audit responded to the key audit matter</th></tr>
<tr><td>Revenue recognition</td><td></td></tr>
<tr><td>The Group generates sales from the licensing of its proprietary software, which delivers real time market data information tailored to customer requirements, as well as support and maintenance services.

Under IFRS 15 Revenue from Contracts with Customers, a key consideration for the Group is whether the performance obligation/s within their contracts with customers are met either at a point in time or over time.

The financial statements include a prior year adjustment in respect of an error in treatment at the time of initial adoption of IFRS 15 as at 1 July 2018.

There is a risk the group is not recognising revenue in accordance with IFRS 15.</td><td>Our work in this area included:

▪ Understanding the core nature of the business and how Arcontech performs its services for its clients;

▪ Documenting the systems and key controls in place surrounding significant income streams;

▪ Performing a walkthrough test to understand the internal control environment in operation for the significant income streams and ensure that the key controls within these systems have been operating in the period under audit;

▪ Reviewed the relevant papers prepared both by management and third parties in respect of revenue recognition under IFRS 15 and conclude and challenge the appropriateness of the proposed treatment;

▪ Reviewed the prior year adjustment workings, ensuring the accuracy of the accounting entries in line with IFRS 15, and review the financial statements to ensure the prior year adjustment is presented and disclosed appropriately;

▪ Substantive transactional testing of income recognised in the financial statements, including testing of deferred income balances; and

▪ Reviewing post year end receipts to ensure completeness of income recorded in the accounting period.</td></tr>
</table>

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

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the group and parent company financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

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

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which 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 and the part of the directors' remuneration report to be audited 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.

Responsibilities of directors

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the group and parent company financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the group and parent company financial statements, the directors are responsible for assessing the group's and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: *www.frc.org.uk/auditorsresponsibilities*.This description forms part of our auditor's report.

Use of our report

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.

Joseph Archer (Senior Statutory Auditor)
For and on behalf of PKF Littlejohn LLP
Statutory Auditor

15 Westferry Circus
Canary Wharf
London E14 4HD

Group Income Statement and Statement of Comprehensive Income

For the year ended 30 June 2020

	Note	2020	Restated 2019
		£	£
Revenue	3	2,955,314	2,841,362
Administrative costs		(1,917,502)	(1,936,829)
Operating profit	4	1,037,812	904,533
Net finance income	5	3,157	27,184
Profit before taxation		1,040,969	931,717
Taxation	9	176,734	60,318
Profit for the year after tax		1,217,703	992,035
Total comprehensive income for the year		1,217,703	992,035
Earnings per share (basic)	10	9.22p	7.51p
Adjusted* Earnings per share (basic)	10	8.56p	6.32p
Earnings per share (diluted)	10	9.03p	7.42p
Adjusted* Earnings per share (diluted)	10	8.39p	6.24p

*Adjusted to exclude the release of accruals for administrative costs of £86,500 (2019: £156,786) in respect of prior years.

All of the results relate to continuing operations.

The notes on pages 32 to 56 form part of these financial statements

Statement of Changes in Equity

For the year ended 30 June 2020

Group:

	Share capital £	Share premium £	Share option reserve £	Retained earnings £	Total equity £
Balance at 30 June 2018	1,651,314	56,381	56,366	2,011,689	3,775,750
Profit for the year	-	-	-	1,117,461	1,117,461
Adjustment for IFRS 15 restatement				(125,426)	(125,426)
Total comprehensive income for the year	-	-	-	992,035	992,035
Dividend paid	-	-	-	(171,334)	(171,334)
Share-based payments	-	-	53,857	-	53,857
Transfer between reserves	-	-	(10,576)	10,576	-
Restated Balance at 30 June 2019	1,651,314	56,381	99,647	2,842,966	4,650,308
Profit for the year	-	-	-	1,217,703	1,217,703
Total comprehensive income for the year	-	-	-	1,217,703	1,217,703
Dividend paid	-	-	-	(263,591)	(263,591)
Share-based payments	-	-	98,428	-	98,428
Transfer between reserves	-	-	(9,436)	9,436	-
Balance at 30 June 2020	1,651,314	56,381	188,639	3,806,514	5,702,848

Company:

	Share capital £	Share premium £	Share option reserve £	Retained earnings £	Total equity £
Balance at 30 June 2018	1,651,314	56,381	56,366	4,196,617	5,960,678
Profit for the year	-	-	-	342,250	342,250
Total comprehensive expense for the year	-	-	-	342,250	342,250
Dividend paid	-	-	-	(171,334)	(171,334)
Share-based payments	-	-	53,857	-	53,857
Transfer between reserves	-	-	(10,576)	10,576	-
Balance at 30 June 2019	1,651,314	56,381	99,647	4,378,109	6,185,451
Profit for the year	-	-	-	326,348	326,348
Total comprehensive income for the year	-	-	-	326,348	326,348
Dividend paid	-	-	-	(263,591)	(263,591)
Share-based payments	-	-	98,428	-	98,428
Transfer between reserves	-	-	(9,436)	9,436	-
Balance as at 30 June 2020	1,651,314	56,381	188,639	4,450,302	6,346,636

The notes on pages 312 to 56 form part of these financial statements.

Balance Sheets

Registered number: 04062416

As at 30 June 2020

	Note	Group 2020 £	Restated Group 2019 £	Company 2020 £	Company 2019 £
Non-current assets					
Goodwill	11	1,715,153	1,715,153	-	-
Property, plant and equipment	12	19,316	15,011	-	-
Right of use asset	17	512,061	-	-	-
Investments in subsidiaries	13	-	-	2,017,471	2,017,471
Deferred tax asset	18	452,000	285,000	151,000	125,000
Trade and other receivables	14	141,750	141,750	-	-
Total non-current assets		2,840,280	2,156,914	2,168,471	2,142,471
Current assets					
Trade and other receivables	14	192,632	263,875	3,181,410	3,073,519
Cash and cash equivalents	15	5,006,969	4,063,484	1,146,700	1,078,755
Total current assets		5,199,601	4,327,359	4,328,110	4,152,274
Current liabilities					
Trade and other payables	16	(1,851,037)	(1,833,965)	(149,945)	(109,294)
Lease liabilities	17	(141,693)	-	-	-
Total current liabilities		(1,992,730)	(1,833,965)	(149,945)	(109,294)
Non-current liabilities					
Lease liabilities	17	(344,303)	-	-	-
Total Non-current liabilities		(344,303)	-	-	-
Net current assets		3,206,871	2,493,394	4,178,165	4,042,980
Net assets		5,702,848	4,650,308	6,346,636	6,185,451
Equity					
Called up share capital	19	1,651,314	1,651,314	1,651,314	1,651,314
Share premium account	20	56,381	56,381	56,381	56,381
Share option reserve	20	188,639	99,647	188,639	99,647
Retained earnings	20	3,806,514	2,842,966	4,450,302	4,378,109
		5,702,848	4,650,308	6,346,636	6,185,451

As permitted by s408 of the Companies Act 2006, the Company has not presented its own income statement. The parent Company profit for the year was £326,348 (2019: £342,250).

Approved on behalf of the board on 1 September by:

Matthew Jeffs
Chief Executive
The notes on pages 32 to 56 form part of these financial statements.

Group Cash Flow Statement

For the year ended 30 June 2020

	Note	2020 £	Restated 2019 £
Cash generated from operations	22	**1,315,421**	**966,060**
Tax recovered		9,734	45,318
Net cash generated from operating activities		**1,325,155**	**1,011,378**
Investing activities			
Interest received		29,914	27,184
Purchases of plant and equipment		(12,750)	(13,802)
Net cash generated from investing activities		**17,164**	**13,382**
Financing activities			
Dividend paid		(263,591)	(171,334)
Payment of lease liabilities		(135,243)	-
Net cash used in financing activities		**(398,834)**	**(171,334)**
Net increase in cash and cash equivalents		**943,485**	**853,426**
Cash and cash equivalents at beginning of year		4,063,484	3,210,058
Cash and cash equivalents at end of year	15	**5,006,969**	**4,063,484**

The notes on pages 32 to 56 form part of these financial statements.

Company Cash Flow Statement

For the year ended 30 June 2020

	Note	2020 £	2019 £
Net cash generated by/(used in) operating activities	22	**320,462**	**(219,528)**
Investing activities			
Interest received		11,074	11,227
Net cash generated from investing activities		**11,074**	**11,227**
Financing activities			
Dividend paid		(263,591)	(171,334)
Net cash used in financing activities		**(263,591)**	**(171,334)**
Net increase/(decrease) in cash and cash equivalents		**67,945**	**(379,635)**
Cash and cash equivalents at beginning of year		1,078,755	1,458,390
Cash and cash equivalents at end of year	15	**1,146,700**	**1,078,755**

The notes on pages 32 to 56 form part of these financial statements.

Notes to the Financial Statements

For the year ended 30 June 2020

1. Accounting policies

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

Reporting entity

Arcontech Group PLC ("the Company") is a company incorporated in England and Wales. 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.

Going Concern

On the basis of current projections and having regard to the Group's existing cash reserves, the Directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future. In reaching this conclusion the Directors have taken into account of downside conditions considered reasonably possible in changes in trading performance due to the impact of Covid-19. The Board do not foresee a material negative impact on trading performance as a result of the current pandemic. Accordingly, the Directors have adopted the going concern basis in the preparation of the financial statements.

Changes in accounting policies and disclosures

a) New and amended Standards and Interpretations adopted by the Group and Company

The Group and Company has adopted IFRS 16 "Leases" for the first time this period. The Group has only one lease arrangement in place and the impact on transition is shown in Note 17.

No other standards or Interpretations that came into effect for the first time for the financial year beginning 1 July 2019 have had an impact on the Group.

b) New and amended Standards and Interpretations issued but not effective for the financial year beginning 1 July 2019

At the date of approval of these financial statements, the following standards and interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not been adopted by the EU):

- Amendments to References to Conceptual Framework in IFRS Standards – effective from 1 January 2020
- Definition of Material (Amendments to IAS 1 and IAS 8) – effective from 1 January 2020
- Amendment to IFRS 3 Business Combinations – effective 1 January 2020*
- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current – effective 1 January 2022*

**subject to EU endorsement*

The effect of all other new and amended Standards and Interpretations which are in issue but not yet mandatorily effective is not expected to be material.

Notes to the Financial Statements

For the year ended 30 June 2020 (continued)

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 2020. Subsidiaries are entities controlled by the Group. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee).
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee.
- Rights arising from other contractual arrangements.
- The Group's voting rights and potential voting rights.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary. The acquisition method is used to account for the acquisition of subsidiaries.

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 is recognised in accordance with the transfer of promised services to customers (i.e. when the customer gains control of the service) and is measured as the consideration which the group expects to be entitled to in exchange for those services. Consideration is typically fixed on the agreement of a contract except for quarterly flexible license contracts. Payment terms are agreed on a contract by contract basis.

A service is distinct if the customer can benefit from the service on its own or together with other resources that are readily available to the customer and the entity's promise to transfer the service to the customer is separately identifiable from other promises in the contract.

Contracts with customers do not contain a financing component.

Under IFRS 15, revenue earned from contracts with customers is recognised based on a five-step model which requires the transaction price for each identified contract to be apportioned to separate performance obligations arising under the contract and recognised either when the performance obligation in the contract has been performed (point in time recognition) or over time as control of the performance obligation is transferred to the customer.

Notes to the Financial Statements

For the year ended 30 June 2020 (continued)

1. Accounting policies (continued)

Revenue recognition (continued)

The group recognises revenue when it satisfies a performance obligation by transferring a promised service to the customer as follows:

• Revenue from recurring license fees and other license fees is recognised on an over time basis via a straight line across the period the services are provided. In reaching this conclusion the group has assessed that ongoing contractual obligations are not separately identifiable from other promises in the contract and are not distinct from the licence, and hence are accounted for as a single performance obligation. As the license is not distinct the combined performance obligation is recognised over time.

In assessing whether a licence is distinct the Group considered the continuing requirement to:–
– optimise functionality;
– optimise performance; and
– provide enhancements to ensure user regulatory compliance.

• Revenue from flexible license contracts that include variable consideration are quarterly contracts assessed at the end of each calendar quarter and revenue is recognised based on actual usage confirmed for that quarter at the point of customer acceptance,
• Revenue from project work is recognised on satisfactory completion of each project, as this is considered to be the point in time the customer gains control over the results of the project work.

Taxation

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

Research and development tax credits are recognised when received.

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 substantively 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.

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.

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.

Notes to the Financial Statements

For the year ended 30 June 2020 (continued)

1. Accounting policies (continued)

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.

Expenses incurred on Research & Development are currently expensed through the income statement as the expenditure is incurred on the maintenance and enhancement of existing products. The applicability of this treatment is reviewed regularly by the Company.

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.

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 in the statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Notes to the Financial Statements

For the year ended 30 June 2020 (continued

1. Accounting policies (continued)

Financial instruments (continued)

Financial assets

The Group does not hold any investments other than investments in subsidiaries.

Trade receivables are held in order to collect the contractual cash flows and are initially measured at the transaction price as defined in IFRS 15, as the contracts of the Group do not contain significant financing components. Impairment losses are recognised based on lifetime expected credit losses in profit or loss.

Other receivables are held in order to collect the contractual cash flows and accordingly are measured at initial recognition at fair value, which ordinarily equates to cost and are subsequently measured at cost less impairment due to their short-term nature. A provision for impairment is established based on 12-month expected credit losses unless there has been a significant increase in credit risk when lifetime expected credit losses are recognised. The amount of any provision is recognised in the income statement.

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.

Financial liabilities and equity

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.

Effective interest rate method

The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial asset or liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

(a) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss); and
- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will be recorded either in profit or loss or in OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI). See Note 16 for further details.

Notes to the Financial Statements

For the year ended 30 June 2020 (continued

1. Accounting policies (continued)

Financial instruments (continued)

(b) Recognition

Purchases and sales of financial assets are recognised on trade date (that is, the date on which the Group commits to purchase or sell the asset). Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(c) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Debt instruments

Amortised cost; Assets that are held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method.

Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as a separate line item in the statement of profit or loss.

(d) Impairment

From 1 January 2018, the Group assesses, on a forward-looking basis, the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Leases

In the current year, the Group, for the first time, has applied IFRS 16 Leases. IFRS 16 replaces IAS 17, the previous leasing standard, and introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right of use asset and a corresponding lease liability at the lease commencement date for all leases. There is an exemption available in respect of short-term leases (less than 12 months) and leases of low value assets. The impact of the adoption of IFRS 16 on the Group's financial statements is described below and in Note 17.

The date of initial application of IFRS 16 for the Group is 1 July 2019.

The Group has applied IFRS 16 using the modified retrospective approach. Comparative figures for the year ended 30 June 2019 are not restated to reflect the adoption of IFRS 16.

Notes to the Financial Statements

For the year ended 30 June 2020 (continued

1. Accounting policies (continued)

Leases (continued)

IFRS 16 changes how the Group accounts for leases previously classified as operating leases under IAS 17. These lease arrangements were previously expensed to the statement of comprehensive income over the lease term. Applying IFRS 16, the Group:

- recognises right of use assets and lease liabilities in the statement of financial position, initially measured at the present value of future lease payments;
- recognises depreciation of right of use assets and interest on lease liabilities in the statement of profit or loss; and
- separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the statement of cash flows.

Under IFRS 16, right of use assets are tested for impairment in accordance with IAS 36 Impairment of Assets. This replaces the previous requirement to recognise a provision for onerous lease contracts.

The application of IFRS 16 to leases previously classified as operating leases under IAS 17 resulted in the recognition of right of use assets and leases liabilities. There is no impact on retained profit.

The application of IFRS 16 has an impact on the statement cash flows of the Group.

Under IFRS 16, lessees must present:

- Cash paid for the interest portion of lease liability as either operating activities or financing activities, as permitted by IAS 7 (the Group has opted to include the interest paid as part of operating activities); and
- Cash payments for the principal portion for leases liability, as part of financing activities.

Under IAS 17, all lease payments on operating leases were presented as part of cash flows from operating activities.

The adoption of IFRS 16 did not have an impact on net cash flows.

Note 17 shows the impact on each affected line item in the financial statements.

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 occupational and 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. Where consideration is received in advance of revenue being recognised the date of the transaction reflects the date the consideration is received. 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.

Notes to the Financial Statements

For the year ended 30 June 2020 (continued

1. Accounting policies (continued)

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 and current and deferred tax assets and liabilities.

2. Critical accounting 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 historic experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgements

Determination of performance obligations and satisfaction thereof

For the purposes of recognising revenue, the Directors are required to identify distinct services in contracts and allocate the transaction price to the performance obligations. Details of determining performance obligations, passing of control and amounts recognised as costs incurred to obtain or fulfil a contract are given in Note 1 - Revenue recognition.

Capitalisation of development costs

As described in Note 1, the Group capitalises development costs when certain criteria are met including the probability of relevant future economic benefits. The directors have assessed the likelihood of relevant future economic benefits and have judged it appropriate to not capitalise any development costs (2019 - £Nil).

Estimates

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).*

Recognition of deferred tax assets

As described in Note 1, the Group recognises deferred tax assets arising from unused tax losses when certain criteria are met including the probability that future relevant taxable profits will be available. The directors have assessed the likelihood of future taxable profits being available and have judged it appropriate to recognise deferred tax assets for unused losses. At the year-end a deferred tax asset of £452,000 (2019 - £285,000) was recognised.

For the year ended 30 June 2020 (continued)

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

Prior year adjustment – Application of IFRS 15

The Group has undertaken a review and analysis of revenue from recurring license fees under IFRS 15 "Revenue from contracts with customers" which was first adopted for the year ended 30 June 2019 where an 'at a point in time' basis was reported. The conclusion reached is that in the context of IFRS 15 the correct approach for the recognition of revenue is on an over time basis whereby deferred income arises upon entering into a license fee agreement and is then subsequently recognised as revenue across the remaining passage of time on the license.

As a result of the change to this revenue recognition policy the 2019 results have been restated with both revenue and operating results decreasing by £125,426, and in the balance sheet Trade and other payables increasing by £1,151,545 and Retained earnings decreasing by £1,151,545.

3. Revenue

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

	2020 £	Restated 2019 £
Software development, licence fees and project work	2,955,315	2,841,362

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

During the year the group undertook further internal analysis on the adoption of IFRS 15 "Revenue from contracts with customers" and its application to the group's revenue from recurring license fees, as well as seeking independent review. The conclusion reached from both the internal analysis and independent review was that the correct method of revenue recognition for recurring license fees is on an over time basis via a straight line across the period the services are provided. Accordingly, the 2019 numbers have been restated to reflect this change in revenue recognition. (*see note 28 for further detail on the impact of the restatement*)

4. Operating profit for the year is stated after charging/(crediting):

	2020 £	2019 £
Depreciation of plant and equipment *(see note 12)*	8,444	16,732
Depreciation of leased assets *(see note 17)*	146,303	-
Interest on leased assets *(see note 17)*	26,757	-
Staff costs (*see note 8*)	1,401,227	1,493,460
Operating lease rentals - land and buildings	-	145,159
Research and development	468,680	584,524
Release of accruals for administrative costs in respect of prior years	(86,500)	(156,786)

5. Finance income and Finance costs:

	2020 £	2019 £
Finance income		
Income on cash and cash equivalents	**29,914**	27,184
Finance costs		
Lease interest expense	**(26,757)**	-
Net finance income	**3,157**	**27,184**

Notes to the Financial Statements

For the year ended 30 June 2020 (continued)

6. Auditor's remuneration:

	Current auditor 2020 £	Previous auditor 2019 £
Fees payable to the Group's auditor for the audit of the Group's annual accounts	28,750	19,000
Fees payable to the Group's auditor for other services:		
- audit of the Company's subsidiaries	6,000	6,000

7. 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.

	2020 £	Restated 2019 £
Revenue by segment		
Software development and licence fees	2,955,315	2,841,362
External segment revenue	2,955,315	2,841,362
Operating profit by segment		
Software development and licence fees	1,575,029	1,387,813
Unallocated overheads	(563,976)	(483,280)
Total operating profit	1,011,053	904,533
Finance income	29,916	27,184
Total profit before tax as reported in the Group income statement	1,040,969	931,717

	2020 £	2019 £
Segment total of assets		
Software development and licence fees	6,514,118	5,196,369
Unallocated assets	4,533,110	4,357,274
	11,047,228	9,553,643
Less intercompany debtors	(3,174,349)	(3,069,370)
Total assets	7,872,879	6,484,273

	2020 £	2019 £
Segment total of liabilities		
Software development and licence fees	5,360,835	3,642,199
Unallocated liabilities	150,546	109,591
	5,511,381	3,751,790
Less intercompany creditors	(3,174,349)	(3,069,370)
Total liabilities	2,337,032	682,420

Notes to the Financial Statements

For the year ended 30 June 2020 (continued)

7. Operating segments (continued):

	2020	2019
	£	£
Additions of property, plant and equipment assets by segment		
Software development and licence fees	12,749	13,802
Total additions	12,749	13,802

	2020	2019
	£	£
Depreciation of property, plant and equipment assets recognised in the period by segment		
Software development and licence fees	8,444	16,732
Total depreciation	8,444	16,732

Non-current assets by country	2020	2019
	£	£
UK	2,840,280	2,156,914
Total non-current assets	2,840,280	2,156,914

Geographical information - External revenue	2020	Restated 2019
	£	£
UK	2,000,457	1,910,969
Europe (excluding UK)	821,193	804,989
Africa	45,000	44,938
North America	78,177	75,767
Australia	4,267	-
Asia Pacific	6,221	4,699
	2,955,315	2,841,362

During the year there were 3 customers (2019: 4) who accounted for more than 10% of the Group's revenues as follows:

	2020		2019	
	Value of sales £	% of Total	Value of sales £	% of Total
Customer 1	659,327	22%	643,491	22%
Customer 2	516,605	17%	507,373	18%
Customer 3	371,536	13%	376,411	13%
Customer 4	300,696	10%	280,906	10%
	1,848,164	62%	1,808,181	63%

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

Notes to the Financial Statements

For the year ended 30 June 2020 (continued)

8. Staff costs:

		2020	2019
		£	£
a)	**Aggregate staff costs, including Directors' remuneration**		
	Wages and salaries	1,139,695	1,263,341
	Social security costs	140,611	151,286
	Pension contributions	22,493	24,976
	Share-based payments	98,428	53,857
		1,401,227	1,493,460

		2020	2019
b)	**The average number of employees (including executive Directors) was:**		
	Sales and administration	5	6
	Development and support	11	10
		16	16

		2020	2019
		£	£
c)	**Directors' emoluments**		
	Short-term employee benefits	312,902	298,621
	Pension contributions	5,428	9,294
	Share-based payments	57,432	27,286
		375,762	335,201
	Social security costs	37,536	36,126
	Key management personnel compensation	413,298	371,327

Directors' emoluments represent the staff costs of the parent company.

The average number of employees of the parent company is 3 (2019: 4)

The highest paid Director received remuneration of £287,913 (2019: £236,757).

The number of Directors that are members of a defined contribution pension scheme is 1 (2019: 2). Pension contributions paid to a defined contribution scheme in respect of the highest paid Director amounted to £5,100 (2019: £8,704).

Fees payable to Michael Levy & Co, Chartered Accountants, in which Michael Levy was the principal, in respect of accountancy services are disclosed in note 23.

Notes to the Financial Statements

For the year ended 30 June 2020 (continued)

9. Taxation

	2020	2019
	£	£
Current tax	9,734	45,318
Deferred tax	167,000	15,000
Total tax credit for the year	176,734	60,318

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

	2020	Restated 2019
	£	£
Profit on ordinary activities before tax	1,040,969	931,717
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19 % (2019: 19%)	197,784	177,026
Effects of:		
Disallowed expenses	416	1,400
Temporary differences on deferred tax	1,255	1,800
Research and development tax credits	(9,734)	(45,318)
Deferred tax asset not previously recognised	(167,000)	(15,000)
Brought forward losses utilised/loss for the year carried forward	(199,455)	(180,226)
Total tax credit for the year	(176,734)	(60,318)

Factors which may affect future tax charges

At 30 June 2020 the Group has tax losses of approximately £7,400,000 (2018: £8,700,000) to offset against future trading profits.

10. Earnings per share

	2020 £	Restated 2019 £
Earnings		
Earnings for the purpose of basic and diluted earnings per share being net profit attributable to equity shareholders	1,217,703	992,035
	1,217,703	992,035

	No.	No.
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	13,210,510	13,210,510
Number of dilutive shares under option	268,484	165,223
Weighted average number of ordinary shares for the purposes of dilutive earnings per share	13,478,994	13,375,733

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.

11. Goodwill

	2020 £	2019 £
Cost and net book amount		
At 1 July 2019 and at 30 June 2020	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:

	2020 £	2019 £
Arcontech Limited	1,715,153	1,715,153
	1,715,153	1,715,153

The CGU used in these calculations is Arcontech Limited. 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% and 1.8% after year 5.

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% (2019: 5%) per annum, after which the UK long-term growth rate of 1.8% is applied. The Directors consider that this rate is appropriate, given the level of new contracts achieved during the year. Fluctuation in revenue is the most sensitive of assumptions. Should revenue fall by more than an average of 5% per annum 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 8.8% (2019: 8.8%), which represents the Group's cost of capital.

Goodwill on the purchase of Arcontech Limited is attributable to the operating synergies that have arisen as a result of the combination.

Notes to the Financial Statements

For the year ended 30 June 2020 (continued)

12. Property, plant and equipment - Group

Cost	Leasehold Property £	Office furniture & equipment £	Total £
At 1 July 2018	18,892	122,974	141,866
Additions	7,307	6,495	13,802
At 1 July 2019	26,199	129,469	155,668
Additions	-	12,749	12,749
At 30 June 2020	26,199	142,218	168,417
Depreciation			
At 1 July 2018	14,562	109,363	123,925
Charge for the year	4,574	12,158	16,732
At 1 July 2019	19,136	121,521	140,657
Charge for the year	1,461	6,983	8,444
At 30 June 2020	20,597	128,504	149,101
Net book amount at 30 June 2020	5,602	13,714	19,316
Net book amount at 30 June 2019	7,063	7,948	15,011

13. Investment in subsidiaries

	2020 £	2019 £
Carrying amount		
At 1 July 2019	2,017,471	2,017,471
Provisions written back	-	-
Amounts written off	-	-
At 30 June 2020	2,017,471	2,017,471

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 listed below. The Goodwill recognised in Note 11 is in connection with investments made in subsidiaries:

	Country of Incorporation	Address	Nature of business	Ordinary shares held
Arcontech Solutions Limited	England	11-21 Paul Street, London EC2A 4JU	Dormant	100%
Cognita Technologies Limited	England	11-21 Paul Street, London EC2A 4JU	Software development	100%
Arcontech Limited	England	11-21 Paul Street, London EC2A 4JU	Software development and consultancy	100%

Notes to the Financial Statements

For the year ended 30 June 2020 (continued)

14. Trade and other receivables

	Group 2020 £	Group 2019 £	Company 2020 £	Company 2019 £
Due within one year:				
Trade and other receivables	38,162	132,625	-	-
Amounts owed by group undertakings	-	-	3,174,150	3,069,270
Prepayments and accrued income	154,470	131,250	7,160	4,249
	192,632	263,875	3,181,310	3,073,519

	Group 2020 £	Group 2019 £	Company 2020 £	Company 2019 £
Due after more than one year:				
Other receivables	141,750	141,750	-	-
	141,750	141,750	-	-

Trade receivables, which are the only financial assets at amortised cost, are non-interest bearing and generally have a 30-90 day term. Due to their short maturities, the carrying amount of trade and other receivables is a reasonable approximation of their fair value. A provision for impairment of trade receivables is established using an expected loss model. Expected loss is calculated from a provision based on the expected lifetime default rates and estimates of loss on default.

As at 30 June 2020, trade receivables of £Nil were impaired (2019: £Nil) and during the year an impairment charge relating to trade receivables of £Nil (2019: £Nil) was recognised. As at 30 June 2020 trade receivables of £792 (2019: £8,893) were past due but not impaired. The ageing analysis of these trade receivables is as follows:

	Group 2020 £	Group 2019 £	Company 2020 £	Company 2019 £
Up to 3 months past due	720	5,000	-	-
3 to 6 months past due	-	3,893	-	-
	720	8,893	-	-

15. 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.

Notes to the Financial Statements

For the year ended 30 June 2020 (continued)

16. Trade and other payables

	Group 2020 £	Restated Group 2019 £	Company 2020 £	Company 2019 £
Trade payables	76,765	76,823	21,199	9,824
Amounts owed to group undertakings	-	-	100	100
Other tax and social security payable	52,033	27,365	10,475	7,531
Other payables and accruals	527,109	578,232	118,171	91,839
Deferred income	1,195,130	1,151,545	-	-
	1,851,037	1,833,965	149,945	109,294

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" with a total value of £603,874 (2019: £655,055).

17. Leases

The Group has adopted IFRS 16 using the modified retrospective approach with the effect of applying this standard at the date of initial recognition of 1 July 2019, consequently comparatives have not been restated.

As a lessee, the Group has previously classified leases as operating or finance leases based on whether the lease transferred significantly all of the risks and rewards incidental to the ownership of the underlying asset. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for all leases on its balance sheet. The only lease applicable under IFRS 16 is the Group's office.

The key impacts on the Statement of Comprehensive Income and the Statement of Financial Position are as follows:

	Prepayments £	Lease liability £	Right of use asset £	Income statement £
Balance on transition (1 July 2019)	37,125	-	-	-
Recognised on adoption of IFRS 16	(37,125)	(621,239)	658,364	-
Depreciation	-	-	(146,303)	(146,303)
Interest	-	(26,757)	-	(26,757)
Lease payments	-	162,000	-	-
Carrying value at 30 June 2020	**-**	**(485,996)**	**512,061**	**(173,060)**

Contractual maturity analysis of lease liabilities as at 30 June 2020

	Less than 3 months £	3 – 12 Months £	1 – 5 Year £	Longer than 5 years £	Total £
Lease liabilities	40,500	101,193	344,303	-	485,996

Notes to the Financial Statements

For the year ended 30 June 2020 (continued)

18. Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using the tax rate of 17% which came into effect from 1 April 2020. The movement on the deferred tax account is as shown below:

	Group 2020 £	Group 2019 £	Company 2020 £	Company 2019 £
At 1 July 2019	285,000	270,000	125,000	50,000
Tax credit recognised in group income statement	167,000	15,000	26,000	75,000
At 30 June 2020	452,000	285,000	151,000	125,000

The deferred tax asset has been recognised in relation to forecast taxable profits which are considered probable.
Losses to offset against future trading profits at 30 June 2020 amounted to approximately £7,500,000 (2019: £8,700,000).

19. Share capital

Company	2020 £	2019 £
Allotted and fully paid:		
13,210,510 (2019: 13,210,510) Ordinary shares of 12.5p each	1,651,314	1,651,314

Share options

Under the Company's approved 2002 Share Option Scheme, certain Directors and employees held options at 30 June 2020 for unissued Ordinary Shares of 12.5 pence each as follows:

Share options	At 1 July 2019	Granted	Exercised	Forfeited	At 30 June 2020	Exercise price	Normal exercise period
Employees:	80,000	-	-	-	80,000	23.75 pence	1 Sep 17 – 31 Aug 21
	125,000	-	-	-	125,000	64.50 pence	25 Apr 20 – 24 Apr 27
	50,000	-	-	-	50,000	110.00 pence	30 Jun 21 – 29 Jun 28
	-	55,000	-	-	55,000	196.00 pence	30- Jun 22 – 27 Sep 29
Directors:							
Michael Levy	20,635	-	-	-	20,635	64.50 pence	25 Apr 20 – 24 Apr 27
	50,000	-	-	(33,334)	16,666	110.00 pence	30 Jun 21 – 29 Jun 28
	-	10,000	-	(9,445)	555	196.00 pence	30- Jun 22 – 27 Sep 29
Richard Last	24,762	-	-	-	24,762	64.50 pence	25 Apr 20 – 24 Apr 27
Louise Barton	40,000	-	-	-	40,000	23.75 pence	1 Sep 17 – 31 Aug 21
	20,000	-	-	-	20,000	64.50 pence	25 Apr 20 – 24 Apr 27
Matthew Jeffs	100,000	-	-	-	100,000	110.00 pence	30 Jun 21 – 29 Jun 28
	-	50,000	-	-	50,000	196.00 pence	30- Jun 22 – 27 Sep 29
Total	510,397	115,000	-	(42,779)	582,618		
Weighted average exercise price	72.7 pence	196.0 pence	-	67.3 pence	92.9 pence		

Notes to the Financial Statements

For the year ended 30 June 2020 (continued)

19. Share capital (continued)

The number of options exercisable at 30 June 2020 was 310,397 (At 30 June 2019: 120,000), these had a weighted average exercise price of 128.98 pence (2019: 23.75 pence).

The weighted average share price as at the exercise date of the shares exercised in the year was Nil pence (2019: Nil pence and of the shares were forfeited in the year was Nil pence (2019: 64.5).

Options granted under the Company's approved 2002 Share Option Scheme are forfeited 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 238 pence, the lowest price was 107 pence and the price at the year-end was 169 pence.

The weighted average remaining contractual life of share options outstanding at 30 June 2020 was 6 years (2019: 7 years).

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 10 years after the grant date. There are no performance conditions on the exercise of the options granted prior to 1 July 2018. The performance conditions of those granted after 1 July 2018 which apply to executive directors and certain key staff, are set out below.

The options issued in November 2018 and in September 2019 will be exercisable from 30 June 2021 and 30 June 2022 respectively, dependent on the Company's compound annual rate of growth in fully diluted earnings* for the three financial years ending 30 June 2021 and 2022, respectively.

Options issued date	Exercisable from	Dependent on the Company's compound annual rate of growth in fully diluted earnings* for the three financial years ending
November 2018	30 June 2021	30 June 2021
September 2019	30 June 2022	30 June 2022

The Options will vest subject to performance criteria as follows:

- compound annual earnings growth of 10% or more - fully vested (100%);
- compound annual earnings growth between 5%-10% - partial vesting between 0% and 100% on a sliding scale; and
- compound annual earnings growth of 5% and below - nil.

Any Ordinary Shares arising from the vesting of Options must be held for a period of two years after vesting.

* Fully diluted earnings will be based on: (a) the Company's pre-tax profit excluding exceptional items and the share option charge and (b) the current UK corporation tax rate of 19%, such that the fully diluted earnings calculation takes no account of R&D and deferred tax credits. For the purposes of the fully diluted earnings calculation, the applied rate of corporation tax will remain constant at 19% irrespective of any current or future changes to corporation tax.

The fair value of options is valued using the Black-Scholes pricing model. An expense of £98,428 (2019: £53,857) has been recognised in the period in respect of share options granted. The cumulative share option reserve at 30 June 2020 is £188,639 (2019: £99,647).

Notes to the Financial Statements

For the year ended 30 June 2020 (continued)

19. Share capital (continued)

The inputs into the Black-Scholes pricing model are as follows:

Directors & Employees				
Grant date	1 Sep 2014	25 Apr 2017	29 Nov 2018	27 Sep 2019
Exercise price	23.75 pence	64.5 pence	110.0 pence	196.0 pence
Expected life	6 years	10 years	10 years	10 years
Expected volatility	65%	50%	50%	50%
Risk free rate of interest	0.5%	0.5%	0.75%	0.75%
Dividend yield	Nil	Nil	Nil	Nil
Fair value of option	19.64 pence	36.7 pence	57.0 pence	115.0 pence

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

20. 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, less amounts transferred to retained earnings.

Retained earnings

This relates to accumulated profits and losses together with distributable reserves arising from capital reductions, less amounts distributed to shareholders.

21. 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.

Notes to the Financial Statements

For the year ended 30 June 2020 (continued)

22. Net cash generated from operations - Group

	2020 £	Restated 2019 £
Operating profit	1,037,812	904,533
Depreciation charge	154,747	16,732
Non cash share option charges	98,428	53,857
Lease interest paid	(26,757)	-
Adjustment for IFRS 16	(37,125)	-
Decrease/(increase) in trade and other receivables	71,244	46,248
Decrease in trade and other payables	17,072	(55,310)
Cash generated from operations	1,315,421	966,060

Net cash generated from operations - Company

	2020 £	2019 £
Operating profit	289,274	256,023
Non cash share option charges	98,428	53,857
Increase in trade and other receivables	(107,891)	(501,570)
Increase/(Decrease) in trade and other payables	40,651	(27,838)
Cash generated by/(used in) operations	320,462	(219,528)

For the year ended 30 June 2020 (continued)

23. Related party transactions

Group

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are disclosed in this part of the 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 was the principal, in respect of accountancy services of £38,215 (2019: £59,945). At 30 June 2020 the amount outstanding was £Nil (2019: £Nil).

Company

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

Management charges payable by subsidiaries £670,640 (2019: £574,017).

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

	2020 £	2019 £
Amount due from subsidiaries	7,324,474	7,397,095
Less: Provision for impairment	(4,150,324)	(4,327,825)
Amount due from subsidiaries - net	3,174,150	3,069,270

During the year a provision of £177,500 was released (2019: £160,354) in respect of balances due from subsidiaries.

	2020 £	2019 £
Amount due to subsidiaries	670,640	574,017
	670,640	574,017

24. Dividends

A final dividend of 2.5 pence will be proposed at the Annual General Meeting but has not been recognised as it requires approval (2019: 2.0 pence).

25. Material non-cash transactions

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

Notes to the Financial Statements

For the year ended 30 June 2020 (continued)

26. 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. Trade receivables are considered in default and subject to additional credit control procedures when they are more than 30 days past due in line with industry practice. Trade receivables are only written off when there is no reasonable expectation of recovery due to insolvency of the debtor.

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

	Group 2020 £	Group 2019 £	Company 2020 £	Company 2019 £
Trade receivables	38,162	132,625	-	-
Cash and cash equivalents	5,006,969	4,063,484	1,146,700	1,078,755
Amounts owed by group undertakings	-	-	3,174,250	3,069,270
	5,045,131	4,196,109	4,320,950	4,148,025

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, between 0.30% below bank base rate and 0.6% above bank base rate and at fixed/variable rates of between 0.35% and 1.85% (2019: 0.55% below bank base rate and 0.6% above bank base rate and at fixed/variable rates of between 0.45% and 2.04%).

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 £603,874 (2019: £655,055) all of which are payable within 6 months.

Notes to the Financial Statements

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 2020, if bank base rate had increased by 0.5% with all other variables held constant, post-tax profit would have been £25,035 (2019: £18,184) higher and equity would have been £25,035 (2019: £18,184) higher. Conversely, if bank base rate had fallen 0.5% with all other variables held constant, post-tax profit would have been £25,035 (2019: £18,184) lower and equity would have been £25,035 (2019: £18,184) 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. Prior year restatement

IFRS 15 "Revenue from contracts with customers" was adopted from 1 July 2018 in line with transitional provisions provided in the new standards. The audited financial statements for the year ended 30 June 2019 recognised revenue from recurring license fees on an 'at a point in time' basis. The Group has undertaken a further review and analysis of its offering and performance obligations under the terms of recurring license fee contracts and has also sought independent advice. The conclusion reached is that in the context of IFRS 15 the correct approach for the recognition of revenue is on an over time basis whereby deferred income arises upon entering into a license fee agreement and is then subsequently recognised as revenue across the remaining passage of time on the license.

This is consistent with the Group's approach to revenue recognition for recurring license fees prior to the introduction of IFRS 15.

The comparatives for the year to 30 June 2019 have been restated in this report to recognise revenue from recurring license fee contracts on an over time basis. The effect of this change on the trading result for the year to 30 June 2019 as a result of this change in revenue recognition policy is shown below.

Group Income Statement and Statement of Comprehensive Income:
Revenue decreased by £125,426
Profit for the year before taxation and after taxation decreased by £125,426
Basic earnings per share decreased from 8.49p to 7.40p
Diluted earnings per share decreased from 8.35p to 7.30p

Statement of Changes in Equity:
Total comprehensive income for the year at 30 June 2019 decreased by £125,426
Retained earnings at 30 June 2019 decreased by £1,151,545

Group Balance Sheet:
Trade and other payables - Deferred income *(Note 15)* increased by £1,151,545

Notes to the Financial Statements

For the year ended 30 June 2020 (continued)

28. Prior year restatement (continued)

A third statement of financial position as at the beginning of the preceding period has not been presented in accordance with IAS8 paragraph 42 as the amount relating to the preceding period is immaterial.

29. Ultimate controlling party

There is no ultimate controlling party.

30. 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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