

**REGISTERED NUMBER: 04062416 (England and Wales)**

**Arcontech Group PLC**  
**Year ended 30 June 2015**

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# Chairman's Statement

I am pleased to report that Arcontech Group plc ("Arcontech") has moved into profit for the year ended 30 June 2015, reporting a profit before taxation of £243,660 compared to a loss before taxation of £35,565 for the year ended 30 June 2014. After taking the benefit of the Research and Development tax credit of £109,378 (2014: £100,251) which the company receives due to the amount it has invested in qualifying product design and development, Arcontech achieved a profit after tax of £353,038 (2014: £64,686).

Turnover for the year increased by 8% to £2,129,958 (2014: £1,981,375) largely reflecting new business from existing customers. Recently the customer base was expanded, with new business from a U.S. based international investment bank and a regional German bank. The termination of a material product agreement with an Asia focused bank (as announced on 4 June 2015) was disappointing, but it is encouraging that we are continuing to provide solutions to this group.

Staff changes during the year resulted in cost savings which contributed to the improvement in profit. Although we do not expect the same uplift from cost savings in the current year, we will continue to keep a tight rein on costs whilst we invest in our products and sales capability.

Arcontech has not been able to declare a dividend due to its negative distributable reserves. It is our intention to seek court approval to re-designate our reserves and thereby enable the company to pay dividends.

## Financing

As at 30 June 2015 Arcontech had no debt and cash balances of £1,069,755 (2014: £733,676), reflecting increased profitability and additional contract wins, bearing in mind that the majority of our agreements are recurring in nature and paid annually in advance. The company, therefore, remains capable of funding, from its own resources, any demands for additional product development and sales and marketing.

## Employees

Once again I would like to thank our employees who are the core of the business. They have continued to respond positively to the challenges presented by the competitive market place in which we operate to produce this excellent result.

## Outlook

Arcontech has a healthy pipeline of qualified prospects and although the lead time to a sale continues to be unpredictable, once a sale is completed we invariably have a long and positive relationship supported by annual recurring licence fees. Despite the challenges presented in the year under review, with a broadening product range and customer base, we are both positive and confident as to Arcontech's prospects.

Richard Last  
Chairman

# Chief Executive's Review

I am happy to report that during the year, our continued focus on streamlining costs whilst bringing the sales pipeline forward, has led to Arcontech moving firmly into profit.

We achieved revenue growth similar to that of last year at 8% which, along with a reduction in costs of 5%, had a significant and positive impact to our bottom line to generate a profit before tax of £243,660.

To build on this profitability we are now fully targeted on growing our business with existing clients and acquiring new ones. In the period under review we secured both a major U.S. investment bank and a regional German bank as new clients. Both these clients performed extensive due diligence and testing on our solutions and I am pleased to say we were appointed notwithstanding the competition.

We also managed to grow revenues with our existing clients by both expanding the use of existing solutions and deploying additional ones. We did this by adjusting or building out solutions to better meet their requirements.

In consultation with several existing clients we have also been working on the development of new product offerings to meet identified market needs. We hope to roll these out initially with those same clients and then to a wider client base during the coming year.

The year, however, was not without its challenges. We successfully maintained momentum through some staff changes, negotiated and resolved an issue with a major client and successfully moved to new office premises which are a significant improvement over the previous location.

With the initial milestone of moving into solid profitability accomplished, our goal is to continue to increase the rate of revenue growth organically and, if a suitable opportunity is identified, through focused acquisitions.

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 2015.

## Principal activities

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

## Review of the business and prospects

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

## Key performance indicators (KPIs)

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

- subscription, software development and consultancy revenues
- revenue and overhead variations against budget
- technical development (e.g. project updates and progress)
- personnel matters
- revenue increased by 8% (2014: increased by 8%)
- distribution and administrative costs decreased by 5% (2014: decreased by 8%)
- staff retention (net) 93% (2014: 89%)
- staff costs spent on R&D 64% (2014: 50%)

## 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:

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

Approved on behalf of the board on 4 August 2015 by:

Matthew Jeffs  
Chief Executive

Michael Levy  
Group Finance Director

# Company Information

<b>Directors</b>	Richard Last ( <i>Chairman and Non-Executive Director</i> )*+ Matthew Jeffs ( <i>Chief Executive</i> )+ Michael Levy ( <i>Group Finance Director</i> ) Louise Barton ( <i>Non-Executive Director</i> )*+
<b>Secretary and Registered Office</b>	Michael Levy 1 <sup>st</sup> Floor 11-21 Paul Street London EC2A 4JU
<b>Nominated Adviser and Broker</b>	finnCap Ltd 60 New Broad Street London EC2M 1JJ
<b>Registered Number</b>	04062416
<b>Solicitors</b>	DWF LLP 20 Fenchurch Street London EC3M 3AG
<b>Auditors</b>	Nexia Smith & Williamson Statutory Auditor Chartered Accountants Portwall Place Portwall Lane Bristol BS1 6NA
<b>Registrars</b>	Capita IRG Plc The Registry 34 Beckenham Road Beckenham Kent BR3 4TU
<b>Principal Bankers</b>	Nat West Bank Plc 94 Moorgate London EC2M 6UR
<b>Company website</b>	<a href="http://www.arcontech.com">www.arcontech.com</a>

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

# Board of Directors

## Directors - Executive

### **Matthew Jeffs – Chief Executive (53)**

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

### **Michael Levy – Group Finance Director (53)**

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

## Directors – Non-Executive

### **Richard Last – Chairman and Non-Executive Director (58)**

Richard has over 20 years senior experience in information technology, having worked at board level for a number of publicly quoted and private companies operating in this sector. Richard is Chairman of Servelec Group plc, a healthcare software and automation group and British Smaller Companies VCT 2 plc, a venture capital trust, both fully listed on the London Stock Exchange. In addition, Richard is Chairman of Gamma Communications plc, an AIM listed telecoms group. Richard also sits on the Boards of Corero plc, an AIM listed IT solutions provider and is Chairman of Lighthouse Group plc, an AIM listed financial services group, as well as a number of other private businesses.

### **Louise Barton – Non-Executive Director (65)**

Louise was appointed Non-Executive Director in February 2007. She has more than 30 years experience as an investment analyst. Louise's background embraces a high profile City career, including having held senior positions with fund management group Prudential Portfolio Managers and stockbrokers CCF Laurence Prust and Investec Securities.

# Directors' Report

The Directors present their Report and financial statements for the year ended 30 June 2015.

## **General information**

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

## **Results and dividends**

Details of the results for the year are given on page 11. The Directors do not recommend the payment of a dividend (2014: £Nil).

## **Directors**

The Directors who have held office during the period from 1 July 2014 to the date of this report are as follows:

Richard Last  
Matthew Jeffs  
Michael Levy  
Louise Barton

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

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

## **Employees**

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

## **Corporate Governance**

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

## **Internal control**

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

## **Financial risk management**

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

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



# Directors' Report (continued)

## Going concern

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

## Research and Development

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

## Disclosures to auditors

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

- so far as each of the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware; and
- each of the Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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

## Auditors

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

On behalf of the Board

Michael Levy  
Company Secretary

4 August 2015

# Statement of Directors' Responsibilities

The Directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the group and of the profit or loss of the group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business;

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

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

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

We have audited the financial statements of Arcontech Group PLC for the year ended 30 June 2015 which comprise the Group Income Statement and Statement of Comprehensive Income, the Group and Company Statement of Changes in Equity, the Group and Company Balance Sheets, the Group and Company Cash Flow Statements and the related notes 1 to 29. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement set out on page 8, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

## **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the FRC's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate)

## **Opinion on financial statements**

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 30 June 2015 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

## **Opinion on other matters prescribed by the Companies Act 2006**

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

## **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Jonathan Talbot  
Senior Statutory Auditor, for and on behalf of

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

4 August 2015

# Group Income Statement and Statement of Comprehensive Income

For the year ended 30 June 2015

	Note	2015 £	2014 £
Revenue	3	2,129,958	1,981,375
Distribution costs		-	(31,439)
Administrative costs		(1,890,242)	(1,989,156)
<b>Operating profit/(loss)</b>	4	239,716	(39,220)
Finance income		3,944	3,655
<b>Profit/(loss) before taxation</b>		243,660	(35,565)
Taxation	8	109,378	100,251
<b>Profit for the year after tax</b>		353,038	64,686
<b>Total comprehensive income for the year</b>		353,038	64,686
<b>Profit per share (basic)</b>	9	0.023p	0.004p
<b>Profit per share (diluted)</b>	9	0.023p	0.004p

All of the results relate to continuing operations.

The notes on pages 16 to 37 form part of these financial statements

# Statement of Changes in Equity

For the year ended 30 June 2015

Group:

	Share capital £	Share premium £	Share option reserve £	Retained earnings £	Total equity £
<b>Balance at 30 June 2013</b>	1,531,315	9,428,169	253,234	(9,886,696)	1,326,022
Profit for the year	-	-	-	64,686	64,686
<b>Total comprehensive income for the year</b>	-	-	-	64,686	64,686
Issue of shares	5,357	2,143	-	-	7,500
Share-based payments	-	-	18,677	-	18,677
Share-based payments reserve released	-	-	(199,349)	199,349	-
<b>Balance at 30 June 2014</b>	1,536,672	9,430,312	72,562	(9,622,661)	1,416,885
Profit for the year	-	-	-	353,038	353,038
<b>Total comprehensive income for the year</b>	-	-	-	353,038	353,038
Share-based payments	-	-	20,199	-	20,199
<b>Balance at 30 June 2015</b>	1,536,672	9,430,312	92,761	(9,269,623)	1,790,122

Company:

	Share capital £	Share premium £	Share option reserve £	Retained earnings £	Total equity £
<b>Balance at 30 June 2013</b>	1,531,315	9,428,169	253,234	(7,755,508)	3,457,210
Profit for the year	-	-	-	23,186	23,186
<b>Total comprehensive income for the year</b>	-	-	-	23,186	23,186
Issue of shares	5,357	2,143	-	-	7,500
Share-based payments	-	-	18,677	-	18,677
Share-based payments reserve released	-	-	(199,349)	53,091	(146,258)
<b>Balance at 30 June 2014</b>	1,536,672	9,430,312	72,562	(7,679,231)	3,360,315
Loss for the year	-	-	-	(118,454)	(118,454)
<b>Total comprehensive expense for the year</b>	-	-	-	(118,454)	(118,454)
Share-based payments	-	-	20,199	-	20,199
<b>Balance as at 30 June 2015</b>	1,536,672	9,430,312	92,761	(7,787,685)	3,262,060

The notes on pages 16 to 37 form part of these financial statements.

# Balance Sheets

Registered number: 04062416

As at 30 June 2015

	Note	Group 2015 £	Group 2014 £	Company 2015 £	Company 2014 £
<b>Non-current assets</b>					
Goodwill	10	1,715,153	1,715,153	-	-
Property, plant and equipment	11	41,605	19,112	-	-
Investments in subsidiaries	12	-	-	2,017,373	2,017,373
Trade and other receivables	13	141,750	-	-	-
<b>Total non-current assets</b>		<b>1,898,508</b>	<b>1,734,265</b>	<b>2,017,373</b>	<b>2,017,373</b>
<b>Current assets</b>					
Trade and other receivables	13	478,402	361,016	806,382	1,510,725
Cash and cash equivalents	14	1,069,755	733,676	649,907	37,854
<b>Total current assets</b>		<b>1,548,157</b>	<b>1,094,692</b>	<b>1,456,289</b>	<b>1,548,579</b>
<b>Current liabilities</b>					
Trade and other payables	15	(1,656,543)	(1,412,072)	(211,602)	(205,637)
<b>Total current liabilities</b>		<b>(1,656,543)</b>	<b>(1,412,072)</b>	<b>(211,602)</b>	<b>(205,637)</b>
<b>Net current (liabilities)/assets</b>		<b>(108,386)</b>	<b>(317,380)</b>	<b>1,244,687</b>	<b>1,342,942</b>
<b>Net assets</b>		<b>1,790,122</b>	<b>1,416,885</b>	<b>3,262,060</b>	<b>3,360,315</b>
<b>Equity</b>					
Called up share capital	17	1,536,672	1,536,672	1,536,672	1,536,672
Share premium account	18	9,430,312	9,430,312	9,430,312	9,430,312
Share option reserve	24	92,761	72,562	92,761	72,562
Retained earnings		(9,269,623)	(9,622,661)	(7,797,685)	(7,679,231)
		<b>1,790,122</b>	<b>1,416,885</b>	<b>3,262,060</b>	<b>3,360,315</b>

Approved on behalf of the board on 4 August 2015 by:

Matthew Jeffs  
Chief Executive

Michael Levy  
Group Finance Director

The notes on pages 16 to 37 form part of these financial statements.

# Group Cash Flow Statement

For the year ended 30 June 2015

	Note	2015 £	2014 £
<b>Net cash generated from/(used in) operating activities</b>	20	<b>369,982</b>	<b>(151,013)</b>
<b>Investing activities</b>			
Interest received		3,944	3,655
Purchases of plant and equipment		(38,014)	(5,270)
Sales of plant and equipment		167	-
<b>Net cash invested in investing activities</b>		<b>(33,903)</b>	<b>(1,615)</b>
<b>Financing activities</b>			
Issue of shares		-	7,500
<b>Net cash generated from financing activities</b>		<b>-</b>	<b>7,500</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>336,079</b>	<b>(145,128)</b>
Cash and cash equivalents at beginning of year		<b>733,676</b>	<b>878,804</b>
<b>Cash and cash equivalents at end of year</b>	14	<b>1,069,755</b>	<b>733,676</b>

The notes on the pages 16 to 37 form part of these financial statements.



# Company Cash Flow Statement

For the year ended 30 June 2015

	Note	2015 £	2014 £
<b>Net cash generated from/(used in) operating activities</b>	20	<b>609,347</b>	<b>(24,652)</b>
<b>Investing activities</b>			
Interest received		2,706	189
<b>Net cash generated from investing activities</b>		<b>2,706</b>	<b>7,689</b>
<b>Financing activities</b>			
Issue of shares		-	7,500
<b>Net cash generated from financing activities</b>		<b>-</b>	<b>7,500</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>612,053</b>	<b>(16,963)</b>
Cash and cash equivalents at beginning of year		37,854	54,817
<b>Cash and cash equivalents at end of year</b>	14	<b>649,907</b>	<b>37,854</b>

The notes on the pages 16 to 37 form part of these financial statements.

# Notes to the Financial Statements

For the year ended 30 June 2015

## 1. Accounting policies

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

### Reporting entity

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

### Basis of preparation

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

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

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

### Accounting standards and interpretations adopted during the period

IFRS 10: Revision to accounting for groups to provide additional guidance on when and how to consolidate group interests and related disclosures and IFRS 12: Disclosure of interests in other entities were adopted in the year but have only had a presentation and disclosure impact on these financial statements.

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

### Standards, amendments and interpretations that are expected to be effective for periods beginning on or after 1 July 2015 for standards, amendments subject to EU endorsement:

Standards, interpretations and amendments to existing standards that have been published, and are mandatory to accounting periods beginning on or after 1 July 2015 or later periods and that have not been early adopted by the Group or the Company include the following:

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

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

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

# Notes to the Financial Statements

For the year ended 30 June 2015

## 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 2015. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

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

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

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

### Business combinations and goodwill

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

### Revenue recognition

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

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

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

### Taxation

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

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

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

# Notes to the Financial Statements

For the year ended 30 June 2015 (continued)

## 1. Accounting policies (continued)

### Taxation (continued)

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

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

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

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

### Share-based payments

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

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

### Impairment of tangible and intangible assets

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

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

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

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

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

# Notes to the Financial Statements

For the year ended 30 June 2015 (continued)

## 1. Accounting policies (continued)

### Impairment of tangible and intangible assets (continued)

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

### Property, plant and equipment

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

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

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

### Investments in subsidiaries

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

### Financial instruments

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

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

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

### Trade and other receivables

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

### Trade and other payables

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

### Cash and cash equivalents

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

### Leasing commitments

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

# Notes to the Financial Statements

For the year ended 30 June 2015 (continued)

## 1. Accounting policies (continued)

### Research and development

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

### Pension costs and other post-retirement benefits

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

### Foreign currencies

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

### Segment reporting

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

## 2. Key sources of estimation uncertainty

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

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

# Notes to the Financial Statements

For the year ended 30 June 2015 (continued)

## 2. Key sources of estimation uncertainty (continued)

### Share-based payments

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

### Impairment of non-current assets

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

## 3. Revenue

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

	2015	2014
	£	£
Software development and licence fees	2,129,958	1,981,375

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

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

	2015	2014
	£	£
Depreciation of plant and equipment	8,682	10,736
Loss on disposal of fixed assets	6,673	465
Staff costs ( <i>see note 7</i> )	1,352,295	1,476,944
Operating lease rentals - land and buildings ( <i>see note 21</i> )	88,789	79,000
Research and development	592,185	736,867

# Notes to the Financial Statements

For the year ended 30 June 2015 (continued)

## 5. Auditor's remuneration:

	<b>2015</b>	<b>2014</b>
	£	£
Fees payable to the Group's auditor for the audit of the Group's annual accounts	16,000	16,250
Fees payable to the Group's auditor for other services: - audit of the Company's subsidiaries	7,850	8,500

## 6. Operating segments:

Following rationalisation of the group's internal reporting structure, the board now receives information only covering one segment being software development and licence fees and therefore the comparatives have been restated in line with the new reporting structure. This is the operating segment for which 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 (loss)/profit disclosures.

	<b>2015</b>	<b>Restated</b>
	£	2014
		£
<b>Revenue by segment</b>		
Software development and licence fees	2,129,958	1,981,375
External segment revenue	2,129,958	1,981,375
<b>Operating profit/(loss) by segment</b>		
Software development and licence fees	595,854	234,294
Unallocated overheads	(356,138)	(273,514)
<b>Total operating profit/(loss)</b>	<b>239,716</b>	<b>(39,220)</b>
Finance income	3,944	3,655
<b>Total profit/(loss) before tax as reported in the Group income statement</b>	<b>243,660</b>	<b>(35,565)</b>
	<b>2015</b>	<b>2014</b>
	£	£
<b>Segment total of assets</b>		
Software development and licence fees	4,224,012	4,279,665
Unallocated assets	1,673,396	1,701,693
	5,897,408	5,981,358
Less inter segment debtors	(2,450,743)	(3,152,401)
<b>Total assets</b>	<b>3,446,665</b>	<b>2,828,957</b>



# Notes to the Financial Statements

For the year ended 30 June 2015 (continued)

## 6. Operating segments (continued):

	<b>2015</b>	<b>Restated</b>
	£	2014
		£
<b>Segment total liabilities</b>		
Software development and licence fees	3,894,619	4,355,989
Unallocated liabilities	212,667	206,703
	<u>4,107,286</u>	<u>4,564,474</u>
Less inter segment creditors	(2,450,743)	(3,152,402)
<b>Total liabilities</b>	<u>1,656,543</u>	<u>1,412,072</u>

	<b>2015</b>	<b>2014</b>
	£	£
<b>Additions of property, plant and equipment assets by segment</b>		
Software development and licence fees	38,014	5,270
<b>Total additions</b>	<u>38,014</u>	<u>5,270</u>

<b>Disposals of property, plant and equipment assets by segment</b>		
Software development and licence fees	125,957	11,493
<b>Total disposals</b>	<u>125,957</u>	<u>11,493</u>

	<b>2015</b>	<b>2014</b>
	£	£
<b>Depreciation of property, plant and equipment assets recognised in the period by segment</b>		
Software development and licence fees	8,682	10,736
<b>Total depreciation</b>	<u>8,682</u>	<u>10,736</u>

<b>Non-current assets by country</b>	<b>2015</b>	<b>2014</b>
	£	£
UK	1,756,758	1,734,265
	<u>1,756,758</u>	<u>1,734,265</u>

# Notes to the Financial Statements

For the year ended 30 June 2015 (continued)

## 6. Operating segments (continued):

External revenue by country	2015	2014
	£	£
UK	1,212,279	1,102,644
Singapore	338,697	337,896
Denmark	356,881	321,153
USA	138,641	165,572
Germany	19,937	16,952
Belgium	33,994	35,518
Switzerland	29,529	1,640
	<b>2,129,958</b>	<b>1,981,375</b>

During the year there were 2 customers (2014: 2) who accounted for more than 10% of the Group's revenues as follows:

	2015	% of Total	2014	% of Total
	Value of sales		Value of sales	
	£		£	
Customer 1	585,431	27%	518,741	26%
Customer 2	338,277	16%	336,216	17%
	<b>923,708</b>	<b>43%</b>	<b>854,957</b>	<b>43%</b>

These revenues are attributable to the software development and consultancy segment.

# Notes to the Financial Statements

For the year ended 30 June 2015 (continued)

## 7. Staff costs:

	2015 £	2014 £
<b>a) Aggregate staff costs, including Directors' remuneration</b>		
Wages and salaries	1,191,884	1,301,129
Social security costs	140,212	154,138
Pension contributions	-	3,000
Share-based payments	20,199	18,677
	<b>1,352,295</b>	<b>1,476,944</b>
<b>b) The average number of employees (including executive Directors) was:</b>		
Sales and administration	6	5
Development and support	13	16
	<b>19</b>	<b>21</b>
	<b>£</b>	<b>£</b>
<b>c) Directors' emoluments</b>		
Short-term employee benefits	209,599	165,513
Share-based payments	16,159	3,733
	<b>227,578</b>	<b>169,246</b>
Social security costs	24,735	19,671
Key management personnel compensation	252,313	188,917
	<b>£</b>	<b>£</b>
<b>Executive Directors</b>		
Michael Levy - emoluments*	20,961	20,316
- share-based payments	-	1,697
Matthew Jeffs - emoluments	151,458	121,080
- share-based payments	16,159	-
<b>Non-Executive Directors</b>		
Richard Last - emoluments	24,000	24,000
- share-based payments	-	2,036
Louise Barton - emoluments	15,000	-
	<b>227,578</b>	<b>169,246</b>

The number of Directors that are members of a defined contribution pension scheme is Nil (2014: 1).

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

# Notes to the Financial Statements

For the year ended 30 June 2015 (continued)

## 8. Taxation

	<b>2015</b>	<b>2014</b>
	<b>£</b>	<b>£</b>
Current tax	109,378	100,251
Deferred tax	-	-
<b>Total tax credit for the year</b>	<b>109,378</b>	<b>100,251</b>

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

	<b>2015</b>	<b>2014</b>
	<b>£</b>	<b>£</b>
<b>Profit/(loss) on ordinary activities before tax</b>	<b>243,660</b>	<b>(35,565)</b>
Profit/(loss) on ordinary activities multiplied by the standard rate of corporation tax in the UK of 20.75% (2014: 22.5%)	50,560	(8,002)
Effects of:		
Disallowed expenses	1,852	1,459
Temporary differences on deferred tax not recognised	(9,309)	(938)
Singapore taxable profit at lower tax rate	(296)	(1,043)
Loss on sale of fixed assets	1,385	104
Research and development tax credits	(109,378)	(100,251)
(Brought forward losses utilised)/loss for the year carried forward	(44,192)	8,420
<b>Total tax credit for the year</b>	<b>(109,378)</b>	<b>(100,251)</b>

### Factors which may affect future tax charges

At 30 June 2015 the Group has tax losses of approximately £10,200,000 (2014: £10,500,000) to offset against future trading profits.

# Notes to the Financial Statements

For the year ended 30 June 2015 (continued)

## 9. Profit per share

	2015 £	2014 £
<b>Earnings</b>		
Earnings for the purpose of basic and diluted earnings per share being net profit attributable to equity shareholders	353,038	64,686
	<u>353,038</u>	<u>64,686</u>
	<b>No.</b>	<b>No.</b>
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,536,672,013	1,531,505,672
Number of dilutive shares under option	15,602,384	13,314,419
Weighted average number of ordinary shares for the purposes of dilutive earnings per share	<u>1,552,274,847</u>	<u>1,544,820,092</u>

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

## 10. Goodwill

	2015 £	2014 £
<b>Cost and net book amount</b>		
At 1 July 2014 and at 30 June 2015	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:

	2015 £	2014 £
Arcontech Limited	1,715,153	1,715,153
Arcontech Pte. Ltd.	-	-
	<u>1,715,153</u>	<u>1,715,153</u>

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

# Notes to the Financial Statements

For the year ended 30 June 2015 (continued)

## 10. Goodwill (continued)

Cashflow forecasts are based on the latest financial budgets and extrapolate the cashflows for the next five years based on an estimated growth in revenue representing an average rate of 8% (2014: 6%) per annum, after which the UK long-term growth rate is applied. The Directors consider that this rate is appropriate, given the significant new contracts achieved during the year, which resulted in an increase in contracted recurring revenues, together with those currently in negotiation anticipated to start in 2016. Growth in revenue is the most sensitive of assumptions. Should this fall below an average of 6% 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 13.5% (2014: 10.7%), which represents the Group's cost of capital.

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

## 11. Property, plant and equipment - Group

Cost	Leasehold Property £	Office furniture & equipment £	Total £
At 1 July 2013	10,049	223,846	233,895
Additions	-	5,270	5,270
Disposals	-	(11,493)	(11,493)
At 1 July 2014	10,049	217,623	227,672
Additions	6,642	31,372	38,014
Disposals	(10,049)	(115,908)	(125,957)
At 30 June 2015	6,642	133,087	139,729
<b>Depreciation</b>			
At 1 July 2013	8,539	200,312	208,851
Charge for the year	788	9,948	10,736
On disposals	-	(11,027)	(11,027)
At 1 July 2014	9,327	199,233	208,560
Charge for the year	860	7,822	8,682
On disposals	(10,049)	(109,069)	(119,118)
At 30 June 2015	138	97,986	98,124
<b>Net book amount at 30 June 2015</b>	6,504	35,101	41,605
<b>Net book amount at 30 June 2014</b>	722	18,390	19,112

# Notes to the Financial Statements

For the year ended 30 June 2015 (continued)

## 12. Investment in subsidiaries

Carrying amount	2015 £	2014 £
At 1 July 2014	2,017,373	2,017,373
At 30 June 2015	2,017,373	2,017,373

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

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

## 13. Trade and other receivables

	Group 2015 £	Group 2014 £	Company 2015 £	Company 2014 £
<b>Due within one year:</b>				
Trade receivables	417,531	285,021	-	-
Amounts owed by group undertakings	-	-	798,206	1,502,929
Other receivables	8,075	20,032	3,489	3,259
Prepayments and accrued income	52,796	55,963	4,687	4,537
	478,402	361,016	806,382	1,510,725

	Group 2015 £	Group 2014 £	Company 2015 £	Company 2014 £
<b>Due after more than one year:</b>				
Other receivables	141,750	-	-	-
	141,750	-	-	-

Trade receivables, other receivables and accrued income constitute the financial assets within the category “Loans and receivables” as defined by IAS 39 with a total value of £567,356 (2014: £305,053). Trade receivables are non-interest bearing and generally have a 30-90 day term. Due to their short maturities, the fair value of trade receivables approximates their book value.

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

# Notes to the Financial Statements

For the year ended 30 June 2015 (continued)

## 13. Trade and other receivables (continued)

As at 30 June 2015, trade receivables of £Nil were impaired (2014: £Nil). As at 30 June 2015 trade receivables of £336,199 (2014: £46,913) were past due but not impaired. The ageing analysis of these trade receivables is as follows:

	Group 2015 £	Group 2014 £	Company 2015 £	Company 2014 £
Up to 3 months past due	336,199	46,913	-	-
	336,199	46,913	-	-

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

## 14. Cash and cash equivalents

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

## 15. Trade and other payables

	Group 2015 £	Group 2014 £	Company 2015 £	Company 2014 £
Trade payables	48,692	37,102	1,925	134
Amounts owed to group undertakings	-	-	128,345	172,210
Other tax and social security payable	62,718	63,440	7,459	7,443
Other payables and accruals	668,132	460,892	73,873	25,850
Deferred income	877,001	850,638	-	-
	1,656,543	1,412,072	211,602	205,637

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

Trade payables and other payables and accruals constitute the financial liabilities within the category "Financial liabilities at amortised cost" as defined by IAS 39 with a total value of £712,433 (2014: £497,994).

## 16. Deferred tax

There is no actual or potential liability for deferred taxation due to the availability of losses, which at 30 June 2015 amounted to approximately £10,200,000 (2014: £10,500,000). The unprovided deferred tax asset at 30 June 2015 was £2,000,000 (2014: £2,400,000).

Currently the criteria for the recognition of a deferred tax asset have not been met and accordingly a deferred tax asset has not been included in the balance sheet as at 30 June 2015 and as at 30 June 2014.



# Notes to the Financial Statements

For the year ended 30 June 2015 (continued)

## 17. Share capital

	2015 £	2014 £
Company		
<b>Allotted and fully paid:</b>		
1,536, 672,013 (2014: 1,536, 672,013) Ordinary Shares of 0.1p each	1,536,672	1,536,672

### Share options

Under the Company's approved 2002 Share Option Scheme, certain Directors and employees held options at 30 June 2015 for unissued Ordinary Shares of 0.1 pence each as follows:

Share options	At 1 July 2014	Granted	Exercised	Lapsed	At 30 June 2015	Exercise price	Normal exercise period
Employees:	4,000,000	-	-	-	4,000,000	0.125 pence	17 Sep 12 – 16 Sep 16
	37,876,985	-	-	-	37,876,985	0.14 pence	18 Oct 13 – 17 Oct 17
	-	10,000,000	-	-	10,000,000	0.19 pence	1 Sep 17 – 31 Aug 21
Directors:							
Michael Levy	9,920,635	-	-	-	9,920,635	0.14 pence	18 Oct 13 – 17 Oct 17
Richard Last	11,904,762	-	-	-	11,904,762	0.14 pence	18 Oct 13 – 17 Oct 17
Louise Barton	-	10,000,000	-	-	10,000,000	0.19 pence	1 Sep 17 – 31 Aug 21
Matthew Jeffs	-	30,000,000	-	-	30,000,000	0.19 pence	1 Sep 17 – 31 Aug 21
	63,702,382	50,000,000	-	-	113,702,382		
<b>Weighted average exercise price</b>	0.14 pence	0.19 pence	-	-	0.16 pence		

The number of options exercisable at 30 June 2015 was 63,702,382 (At 30 June 2014: 63,702,382), these had a weighted average exercise price of 0.14 pence (2014: 0.14 pence).

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

The highest price of the Company's shares during the year was 0.23p, the lowest price was 0.12p and the price at the year-end was 0.21p.

The weighted average remaining contractual life of share options outstanding at 30 June 2015 was 4.0 years (2014: 3.2 years).

# Notes to the Financial Statements

For the year ended 30 June 2015 (continued)

## 18. Reserves

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

### Share premium account

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

### Share option reserve

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

### Retained earnings

This relates to accumulated profits and losses.

## 19. Income statement

The Company has taken advantage of the exemption provided under section 408 of the Companies Act 2006 not to publish its individual income statement and related notes. The (loss)/profit dealt with in the financial statements of the Parent Company was £(118,454) (2014: £23,186).

# Notes to the Financial Statements

For the year ended 30 June 2015 (continued)

## 20. Net cash used in operations - Group

	2015 £	2014 £
Operating profit/(loss)	239,716	(39,220)
Depreciation charge	8,682	10,736
Non cash share option charges	20,199	18,677
(Decrease)/increase in trade and other receivables	(259,136)	230,765
Increase/(decrease) in trade and other payables	244,471	(472,687)
Loss on disposal of plant and equipment	6,672	465
	<hr/>	<hr/>
<b>Cash generated from /(used in) operations</b>	260,604	(251,264)
Tax recovered	109,378	100,251
	<hr/>	<hr/>
	369,982	(151,013)
	<hr/>	<hr/>

## Net cash used in operations - Company

	2015 £	2014 £
Operating (loss)/profit	(121,159)	22,997
Non cash share option charges	20,199	(127,582)
Decrease in trade and other receivables	704,343	137,358
Increase/(decrease) in trade and other payables	5,964	(57,425)
	<hr/>	<hr/>
<b>Cash generated from/(used in) operations</b>	609,347	(24,652)
	<hr/>	<hr/>

## 21. Operating lease commitments

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

	Group 2015 £	Group 2014 £	Company 2015 £	Company 2014 £
Land and buildings:				
Due within one year	117,801	72,417	-	-
Due between two and five years	439,812	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	557,615	72,417	-	-
	<hr/>	<hr/>	<hr/>	<hr/>

# Notes to the Financial Statements

For the year ended 30 June 2015 (continued)

## 22. Related party transactions

### Group

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

### Key management compensation

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

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

Michael Levy:

Fees payable to Michael Levy & Co, Chartered Accountants, in which Michael Levy is the principal, in respect of accountancy services of £45,542 (2014: £41,945). At 30 June 2015 the amount outstanding was £Nil (2014: £Nil).

### Company

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

Management charges payable by subsidiaries £254,445 (2014: £208,436).

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

	2015 £	2014 £
Amount due from subsidiaries	7,001,582	7,685,845
Less: Provision for impairment	(6,203,376)	(6,182,916)
<b>Amount due from subsidiaries - net</b>	<b>798,206</b>	<b>1,502,929</b>

During the year a provision of £20,461 was made (2014: provision released £74,548) in respect of balances due from subsidiaries.

	2015 £	2014 £
Amount due to subsidiaries	128,345	172,210
	<b>128,345</b>	<b>172,210</b>

## 23. Dividends

There were no dividends paid or proposed during the period (2014: £Nil).

# Notes to the Financial Statements

For the year ended 30 June 2015 (continued)

## 24. Share-based payments

The Group operates an approved Share Option Scheme for the benefit of Directors and employees. Options are granted to acquire shares at a specified exercise price at any time following but no later than 6 years after the grant date. There are no performance conditions on the exercise of the share options. Outstanding options granted under the Scheme are disclosed in note 17.

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

The fair value of options is valued using the Black-Scholes pricing model. An expense of £20,199 (2014: £18,677) has been recognised in the period in respect of share options granted. The cumulative share option reserve at 30 June 2015 is £92,761 (2014: £72,562). The inputs into the Black-Scholes pricing model are as follows:

	<b>30 June 2015</b>	<b>30 June 2015</b>	<b>30 June 2014</b>	<b>30 June 2014</b>
	<b>Directors</b>	<b>Employees</b>	<b>Directors</b>	<b>Employees</b>
Exercise price	0.14/0.19 pence	0.125/0.14/0.19 pence	0.14 pence	0.125/0.14 pence
Expected life	6 years	6 years	6 years	6 years
Expected volatility	100%	100%	100%	100%
Risk free rate of interest	5%	5%	5%	5%
Dividend yield	Nil	Nil	Nil	Nil
Weighted average share price	0.12/0.19 pence	0.125/0.12/0.19 pence	0.12 pence	0.125/0.12 pence
Fair value of option	0.1135/0.19 pence	0.12/0.1135/0.19 pence	0.1135 pence	0.12/0.1135 pence

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

## 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 2015 (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.

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

	<b>Group 2015 £</b>	<b>Group 2014 £</b>	<b>Company 2015 £</b>	<b>Company 2014 £</b>
Trade receivables	417,531	285,021	-	-
Other receivables	8,075	20,032	3,489	3,259
Cash and cash equivalents	1,069,755	733,676	649,907	37,854
Amounts owed by group undertakings	-	-	798,206	1,502,929
	<b>1,495,361</b>	<b>1,038,729</b>	<b>1,451,602</b>	<b>1,544,042</b>

### *Interest rate risk*

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

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

The Group does not have any borrowings.

The Group's cash and cash equivalents earned interest at variable rates based on bank base rate, between 0.25% and 0.45% below bank base rate and at a fixed rate of 1% (2014: between 0% and 0.5% above bank base rate).

### *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 £712,433 (2014: £497,994) all of which are payable within 6 months.

# Notes to the Financial Statements

For the year ended 30 June 2015 (continued)

## 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 2015, if bank base rate had increased by 0.5% with all other variables held constant, post-tax profit would have been £4,500 (2014: £4,000) higher and equity would have been £4,500 (2014: £4,000) higher. Conversely, if bank base rate had fallen 0.5% with all other variables held constant, post-tax profit would have been £4,500 (2014: £4,000) lower and equity would have been £4,500 (2014: £4,000) lower.

## 27. Capital risk management

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

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

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

## 28. Ultimate controlling party

There is no ultimate controlling party.

## 29. Copies of this statement

Copies of this statement are available from the Company Secretary at the Company's registered office at 1<sup>st</sup> Floor, 11-21 Paul Street, London, EC2A 4JU or from the Company's website at [www.arcontech.com](http://www.arcontech.com).