

**Arcotech Group PLC**

Annual report and accounts for the year ended 30 June 2019



**Arcontech Group PLC**  
**Annual Report and Accounts**  
**Year ended 30 June 2019**

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# Company Information

<b>Directors</b>	Richard Last (Chairman and Non-Executive Director) Matthew Jeffs (Chief Executive Officer) Michael Levy (Group Finance Director) Louise Barton (Non-Executive Director)
<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>	Faegre Baker Daniels LLP 7 Pilgrim Street London EC4V 6LB
<b>Auditors</b>	Nexia Smith & Williamson Statutory Auditor Chartered Accountants Portwall Place Portwall Lane Bristol BS1 6NA
<b>Registrars</b>	Link Asset Services 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>

# Chairman's Statement

I am pleased to report another year of progress for Arcontech Group plc ("Arcontech" or the "Company") with good growth in profit before taxation for the year ended 30 June 2019 to £1,057,143 (2018: £575,632), a year-on-year increase of 84% (62% before the adoption of IFRS 15 "Revenue from contracts with customers"). During the year we re-assessed the level of accruals to be carried forward on our balance sheet, as a result of which we have released accruals no longer required of £156,786 (2018: £25,500). After adjusting for release of these accruals, profit before taxation would have been £900,357 (2018: £550,132), an increase of 64% over the previous year (35% before adoption of IFRS 15). 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 a good increase in turnover for the year which grew by 18% to £2,966,788 (2018: £2,519,699) a year-on-year increase of £447,089 (£321,633 before the adoption of IFRS 15). This was achieved primarily through increasing our product sales to existing customers. We sold 300 Excelerators bringing those deployed in our customer base to 1,410 and doubled our Desktop software solution customer base to 90. Whilst sales to new customers have not been significant during the year, our pipeline of opportunities with potential new customers is already proving positive, particularly for our Excelerator and Desktop software products.

We believe that fully diluted earnings based on profit before taxation, excluding the release of accruals noted above, provides a better measure of our underlying performance. As at 30 June 2019 Arcontech had tax losses of approximately £8.7m to offset against future trading profits. On this basis earnings (determined as profit before tax, assuming no tax charge/credit for the year,) grew by 58% to 6.73p (36% before adoption of IFRS 15) during the year ended 30 June 2019 (30 June 2018: 4.26p). Based on the actual tax charge, adjusted earnings grew by 4.1% to 7.18p during the year to 30 June 2019 (30 June 2018: 6.90p) reflecting the reduction in the overall tax credit.

## Financing

As at 30 June 2019 Arcontech had no debt and cash balances of £4,063,484 (2018: £3,210,058) an increase of 27% which represents a cash conversion of adjusted operating profit (determined as operating profit before share-based payments and before the release of accruals for administrative costs in respect of prior years) of 109% (2018: 94%). 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 subsequent to the year-end we agreed to propose, subject to approval at the Annual General Meeting, to pay a dividend of 2.0 pence per share for the year ended 30 June 2019 (30 June 2018: 1.30 pence), an increase of 54%, to those shareholders on the register as at the close of business on 6 September 2019, with an ex-dividend date of 5 September 2019.

## Employees

Arcontech has a small, highly effective and committed workforce that is customer focused. Their hard work, continued support and dedication, is greatly appreciated and for which I thank them. I should also like to thank my colleagues on the Board for their continued support.

## Outlook

As a business we face a number of uncertainties: Brexit and changes taking place in the financial markets, as well as with our competitors. However, against this backdrop, 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 would expect to see continued growth, despite the macro climate. Our pipeline of prospects remains positive, albeit, as we have consistently noted, the outlook needs to be tempered by the traditionally long and complex sales cycles that are a feature of our business.

Richard Last

Chairman and Non-Executive Director

# Chief Executive's Review

I am pleased to report that during the year we maintained our focus on expanding and delivering on the sales pipeline whilst continuing to control costs, which resulted in a profit before tax of £1,057,143 (2018: £575,632), an increase of 84% (2018: 54%) compared to the previous year and a creditable performance by the Group.

The year under review saw the two global clients using our Desktop software solution increase their usage and the signing of another client, bringing the total to three, the third being a completely new client. We now have a total of 90 end users (2018: 45) and continue to work with other clients where we are running trials.

We also managed to grow our Excelerator end users by just over 300 which, together with our Desktop software solution, means a further 345 end users of Arcontech software.

To increase the value provided and therefore the use case for both Excelerator and our Desktop software solution we have also been working with a client on building a RESTful interface which will enable content in JSON and SQL formats to be pulled into our software from the web or intranets to display and use in spreadsheets, templates and charts. This provides a huge increase in the data available to be consumed and can benefit any client.

We are also working on our server-side offerings to provide added value. To this end, we have been collaborating with key clients to develop the first iteration of a new GUI for Director, our interface for MVCS and our Cache.

Work on improving our sales structure continued too and we have added a pre-sales support function. This role works with sales personnel and their clients as a dedicated resource for technical issues, whereas previously the requirement was fulfilled by support or development staff which interfered with the development process.

The length of the sales cycle continues to be longer than we would like, however, we believe the expanded product offering and sales capability should improve the frequency of sales. Coupled with the excellent work of our development and support teams, we continue to build on and broaden our strengths whilst working with our clients to help meet their ever-changing needs.

As ever, our overriding focus remains on sales growth and building our pipeline. At the same time, we are continuing to explore opportunities with other organisations that can complement our offerings, whilst remaining alert for strategic acquisition opportunities that will benefit the Group.

We look forward to continued growth in the year ahead.

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 2019.

## 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 £2,966,788 (2018: £2,519,699; 2017: £2,307,751)

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 £960,675 (2018: £889,584; 2017: £441,996)

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 £4,063,484 (2018: £3,210,058; 2017: £2,636,471)

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) 8.46p (2018: 7.14p; 2017: 3.79p)

Measurement:

Earnings after tax divided by the weighted average number of shares

Performance:

Continued growth

Earnings per share (diluted) 8.35p (2018: 7.09p; 2017: 3.68p)

Measurement:

Earnings after tax divided by the fully diluted number of shares

Performance:

Continued growth

### Non-financial KPIs:

Staff retention rate (net) 100% (2018: 92%; 2017: 100%)

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:

<u>Risk area</u>	<u>Mitigation</u>
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

Approved on behalf of the board on 21 August 2019 by:

Matthew Jeffs  
Chief Executive

Michael Levy  
Group Finance Director

# 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.

### Michael Levy (Group Finance Director)

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

## Directors – Non-Executive

### Richard Last (Chairman)

Richard was appointed Chairman and Non-Executive Director in February 2007. He has over 25 years' experience in IT 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.

### 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.

# 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](http://www.arcontech.com).

### **The working of the Board and its Committees**

At 30 June 2019, the Board comprised two Non-Executive Directors, one of whom is the Chairman, and two Executive Directors. 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 2018 Annual General Meeting 100% (2017: 99.99%) of shareholders voted in favour of their re-election. As such the Board consider their independence is not affected.

Given their length of service both retire under Article 106 of the Company's articles of association and, being eligible, offer themselves to be re-elected as non-executive Directors of the Company.

The Chairman and Executive Directors 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**

	<b>Board Meeting</b>	<b>Audit Committee</b>	<b>Remuneration Committee</b>	<b>Nomination Committee</b>
<b>Executive Directors</b>				
Matthew Jeffs	10/10	1/1	N/A	N/A
Michael Levy	10/10	N/A	N/A	1/1
<b>Non-Executive Directors</b>				
Richard Last (Independent)	10/10	1/1	4/4	2/2
Louise Barton (Independent)	10/10	1/1	4/4	2/2

### **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.

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.

# Corporate Governance (continued)

## Corporate governance report (continued)

### Committees

The following committees deal with the Group's affairs:

#### Audit Committee

Details of the Audit Committee are given in its Report on page 9.

#### Remuneration Committee

Details of the Remuneration Committee are given in its Report on pages 10-16. 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 Richard Last. Its other members are Louise Barton and Michael Levy. The Nomination Committee meets not less than once a year.

### Relations with shareholders

The Board gives shareholder communication high priority, by way of press releases and presentations at the time of the release of the interim and annual results. The Group issues its results on a timely basis. The website is updated on a regular basis to record any relevant news.

The Board uses the Annual General Meeting to communicate with investors.

Richard Last

Chairman and Non-Executive Director

21 August 2019

# 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 Group Finance Director also attends by invitation. At 30 June 2019, 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**

The selection of appropriate accounting policies and practices is the responsibility of management. Significant areas considered in respect of these financial statements are as follows.

#### Adoption of IFRS 15

For the purposes of recognising revenue under IFRS 15, the Directors are required to identify distinct services in contracts and allocate the transaction price to the performance obligations. The Audit Committee reviewed the implementation of IFRS 15 as applied to contracts and agreed with management that no adjustments to the amounts recognised was required.

### **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  
21 August 2019

# Corporate Governance (continued)

## Remuneration Committee report

### Dear shareholder

I am pleased to introduce the Directors' Remuneration Report for the year ended 30 June 2019.

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  
21 August 2019

## 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
<b>Base salary</b>	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 The Group Finance Director's base salary was reviewed on: i) 1 January 2017 and was increased by 22.5% to £25,000.	Not applicable.

# Corporate Governance (continued)

## Remuneration Committee report (continued)

### Key elements of Remuneration (continued)

Remuneration element	Purpose	Operation	Potential remuneration	Performance metrics
<b>Base salary (continued)</b>			ii) 1 January 2018 and was increased by 5.0% to £26,250.	
<b>Benefits</b>	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.
<b>Pension</b>	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. The 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 contributed £5,000 (2018: £Nil) on behalf of the CEO in lieu of bonus.	Not applicable.
<b>Annual bonus</b>	To incentivise the achievement of the company's annual financial and strategic targets.	<p>Performance is measured on an annual basis for each financial year.</p> <p>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.</p> <p>Bonuses are paid in cash and/or pension contributions</p>	<p>The CEO's maximum capped bonus potential is 100% of salary.</p> <p>The Group Finance Director's maximum capped bonus potential is 100% of salary.</p>	<p>Any bonus is discretionary and subject to achievement against targets set by the Remuneration Committee.</p> <p>The Remuneration Committee has discretion to adjust the bonus to ensure alignment of pay with the performance of the business in the financial year.</p>
<b>Share Option Scheme</b>	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. (In the case of the Group Finance Director this also includes fees payable).	The Remuneration Committee may impose certain performance conditions on any option preventing its exercise unless such conditions have been satisfied.

# Corporate Governance (continued)

## Remuneration Committee report (continued)

### Key elements of Remuneration (continued)

Remuneration element	Purpose	Operation	Potential remuneration	Performance metrics
<b>Chairman and Non-Executive Directors</b>	To attract and retain Non-Executive Directors of the right calibre.	<p>The Chairman and Non-Executive Directors' remuneration comprises fees and share options.</p> <p>The Chairman's fee is approved by the Board on the recommendation of the Non-Executive Director and Executive Directors.</p> <p>Fees for the Non-Executive Directors are approved by the Board on the recommendation of the Chairman and Executive Directors.</p> <p>The Chairman and Non-Executive Directors are not involved in any discussion or decision about their own remuneration.</p> <p>The Chairman and Non-Executive Directors are entitled to be reimbursed for reasonable expenses.</p>	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 current fees are set out below:

<u>Richard Last (Chairman and Non-Executive Director)</u>	<u>£30,750</u>
<u>Louise Barton (Non-Executive Director)</u>	<u>£20,500</u>

### Directors' Service Agreements

#### Executive Directors' Service Agreements

	Matthew Jeffs	Michael Levy
Date of service agreement	29 April 2013	10 May 2001
Notice period	3 months' notice given by either party	3 months' notice given by either party
Basic salary	Currently £170,000 reviewed annually	Currently £25,625 reviewed annually
Annual bonus	Discretionary performance related	Discretionary performance related
Benefits	Participation in the Company's life assurance and medical insurance schemes	Participation in the Company's life assurance and medical insurance schemes
Share schemes	Eligible to participate in Company 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	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 2019.

### Remuneration Committee

The Remuneration Committee consisted of the following Directors during the year ended 30 June 2019:

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 met once during the year to agree the remuneration report and to review the remuneration of the Executive Directors.

### Directors' Remuneration

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

	Salary/fees	Benefits	Year ended 30 June 2019			Pension	Total
			Bonus	Share options			
<b>Chairman and Non-Executive Directors</b>							
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	
<b>Executive Directors</b>							
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	
<b>Total remuneration</b>	<b>241,875</b>	<b>6,963</b>	<b>49,782</b>	<b>27,288</b>	<b>9,294</b>	<b>335,202</b>	

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

# Corporate Governance (continued)

## Remuneration Committee report (continued)

### Directors' Remuneration (Continued)

#### Analysis of bonuses:

	Accrued	Paid as cash	Paid as pension	Total
<b>Directors</b>				
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
<b>Total</b>	<b>(34,672)</b>	<b>84,454</b>	<b>5,000</b>	<b>54,782</b>

	Year ended 30 June 2018					Total
	Salary/fees	Benefits	Bonus	Share options	Pension	
<b>Chairman and Non-Executive Directors</b>						
Richard Last (Chairman)	30,750	516	-	3,525	-	34,791
Louise Barton	20,500	-	-	3,745	-	24,245
Total Non-Executive	51,250	516	-	7,270	-	59,036
<b>Executive Directors</b>						
Matthew Jeffs	154,053	3,468	101,495	47,764	1,969	308,749
Michael Levy*	25,625	2,080	3,500	2,938	321	34,464
Total Executives	179,678	5,548	104,995	50,702	2,290	343,213
<b>Total remuneration</b>	<b>230,928</b>	<b>6,064</b>	<b>104,995</b>	<b>57,972</b>	<b>2,290</b>	<b>402,249</b>

	Accrued	Paid as cash	Paid as pension	Total
<b>Director</b>				
Matthew Jeffs				
Year ended 30 June 2017	(60,000)	73,067	7,000	20,067
Year ended 30 June 2018	81,428	-	-	81,428
	21,428	73,067	7,000	101,495
Michael Levy				
Year ended 30 June 2018	3,500	-	-	3,500
	3,500	-	-	3,500
<b>Total</b>	<b>24,928</b>	<b>73,067</b>	<b>7,000</b>	<b>104,995</b>

\*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 to the Financial Statements.

# 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 2019 was:

Director	30 June 2019	30 June 2018
Richard Last	1,541,659	1,691,659
Louise Barton	1,071,416	1,071,416
Matthew Jeffs	910,000	890,000
Michael Levy	129,660	129,660

#### Directors' share options interests

Director	At 1 July 2018	Granted	Exercised	At 30 June 2019	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
Michael Levy	20,635	-	-	20,635	64.50 pence	25 Apr 20 – 24 Apr 27
	-	50,000	-	50,000	110.00 pence	30 Jun 21 – 29 Jun 28

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 2021, dependent on the Company's compound annual rate of growth in fully diluted earnings\* for the three financial years ending 30 June 2021. 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  
21 August 2019

# Directors' Report

The Directors present their Report and financial statements for the year ended 30 June 2019.

## **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 24. The Directors recommend the payment of a final dividend of 2.0 pence per ordinary share (2018: 1.3 pence per share) to be paid on 4 October 2019 to ordinary shareholders on the register on 6 September 2019 £264,210 (2018: £171,334).

## **Directors**

The Directors who have held office during the period from 1 July 2018 to the date of this report are as follows:

Richard Last  
Matthew Jeffs  
Michael Levy  
Louise Barton

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.

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

## **Independence of Non-Executive Directors**

Richard Last and Louise Barton were appointed Non-Executive Directors on 19 February 2007 and have served for more than 10 years. The Board are of the opinion that their shareholdings align their interests with other shareholders, and, in addition, they offer themselves for re-election each year. At the 2018 Annual General Meeting 100% (2017: 99.99%) of shareholders voted in favour of their re-election. As such the Board consider their independence is not affected.

Given their length of service both retire under Article 106 of the Company's articles of association and, being eligible, offer themselves 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.

## **Future developments**

The outlook for the year ending 30 June 2020 is expected to see continued growth, despite the macro climate and tempered as always by the traditionally long and complex cycles that are a feature of the business.

# Directors' Report (continued)

## **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.

## **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.

## **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 Nexia Smith & Williamson will be proposed at the annual general meeting.

On behalf of the Board

Michael Levy  
Group Finance Director

# 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 2019 which comprise the Group Income Statement and Statement of Comprehensive Income, Group and Company Statements of Changes in Equity, Group and Company Balance Sheets, Group and Company Cash Flow Statements and the 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 2019 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.

## 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 SME 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.

## Key audit matters

We identified the key audit matter described below in respect of the group as that which was most significant in the audit of the financial statements of the current period. Key audit matters include the most significant assessed risks of material misstatement, including those risks that had the greatest effect on our overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the audit team. There were no key audit matters identified in respect of the parent company.

In addressing this matter, we have performed the procedures below which were designed to address the matter in the context of the financial statements as a whole and in forming our opinion thereon. Consequently, we do not provide a separate opinion on this individual matter.

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

Key audit matter	Description of risk	How the matter was addressed in the audit and key observations arising with respect to that risk
<b>Revenue recognition</b>	<p>Due to the adoption of a new accounting standard for revenue with contracts with customers (IFRS 15) and the nature of revenue recognition of the group in respect of various performance obligations within contracts, and the estimates and judgement involved in determining the amount of revenue to recognise each year, we have considered revenue recognised a key area of audit focus.</p>	<p>The main procedures performed on the revenue recognised and areas where we challenged management were as follows:</p> <p>A sample of contracts with customers were obtained and reviewed against the steps referenced by IFRS 15. Assessment of management's accounting treatment were performed on each contract sampled in respect of:</p> <ul style="list-style-type: none"> <li>• contracts identified;</li> <li>• performance obligations identified;</li> <li>• determination and allocation of transaction price for each of those; and</li> <li>• determination of revenue recognition method for satisfying those performance obligations.</li> </ul> <p>Management were challenged on judgements made.</p> <p>The revenue recognised in the year was assessed against the criteria specified in the standard that demonstrates control has passed to the customer.</p> <p>The appropriateness and completeness of the disclosures made in the financial statements in respect of revenue recognition in accordance with the new standard was considered.</p> <p>The following further tests were also performed on revenue:</p> <ul style="list-style-type: none"> <li>• performing tests of detail on revenue covering both existence and completeness; and</li> <li>• performing cut-off procedures on revenue recognised.</li> </ul>

## Materiality

The materiality for the group financial statements as a whole was set at £59,300. This has been determined with reference to the benchmark of the group's revenue, which we consider to be one of the principal considerations for members of the parent company in assessing the performance of the group. Materiality represents 2% of the group's revenue as presented on the face of the consolidated Income Statement.

The materiality for the parent company financial statements as a whole was set at £47,400. This has been determined with reference to the parent company's assets, which we consider to be an appropriate measure for a company with significant investment holdings. Materiality represents 1% of the net assets as presented on the face of the parent company's Balance Sheet.

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

## An overview of the scope of our audit

Of the group's 4 reporting components, we subjected 2 to audits for group reporting purposes and 1 to specific audit procedures where the extent of our audit work was based on our assessment of the risk of material misstatement and of the materiality of that component, the remaining component was dormant for the year.

The components within the scope of our work covered: 100% of group revenue, 100% of group profit before tax and 100% of group net assets.

## Other information

The other information comprises the information included in the annual report and accounts, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the 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.

## Opinion on other matters prescribed by 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 group and the parent company and their 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 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.

## Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 19, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal controls 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 financial statements, the directors are responsible for assessing the group's and the 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](http://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 parent 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 parent 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 parent company and the parent company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Kelly Jones  
Senior Statutory Auditor, for and on behalf of  
**Nexia Smith & Williamson**  
Statutory Auditor  
Chartered Accountants  
Portwall Place  
Portwall Lane  
Bristol  
BS1 6NA

21 August 2019

# Group Income Statement and Statement of Comprehensive Income

For the year ended 30 June 2019

	Note	2019 £	2018 £
Revenue	3	2,966,788	2,519,699
Administrative costs		(1,936,829)	(1,958,176)
<b>Operating profit</b>	4	1,029,959	561,523
Finance income		27,184	14,109
<b>Profit before taxation</b>		1,057,143	575,632
Taxation	8	60,318	339,452
<b>Profit for the year after tax</b>		1,117,461	915,084
<b>Total comprehensive income for the year</b>		1,117,461	915,084
<b>Earnings per share (basic)</b>	9	8.46p	7.14p
<b>Adjusted* Earnings per share (basic)</b>	9	7.27p	6.94p
<b>Earnings per share (diluted)</b>	9	8.35p	7.09p
<b>Adjusted* Earnings per share (diluted)</b>	9	7.18p	6.90p

\*Adjusted for release of accruals for administrative costs of £156,786 (2018: £25,500) in respect of prior years.

All of the results relate to continuing operations.

The notes on pages 29 to 50 form part of these financial statements

# Statement of Changes in Equity

For the year ended 30 June 2019

Group:

	Share capital £	Share premium £	Share option reserve £	Retained earnings £	Total equity £
<b>Balance at 30 June 2017</b>	1,562,676	9,802	188,425	1,039,082	2,799,985
Profit for the year	-	-	-	915,084	915,084
<b>Total comprehensive income for the year</b>	-	-	-	915,084	915,084
Dividend paid	-	-	-	(125,760)	(125,760)
Issue of shares	88,638	46,579	-	-	135,217
Share-based payments	-	-	51,224	-	51,224
Transfer between reserves	-	-	(183,283)	183,283	-
<b>Balance at 30 June 2018</b>	1,651,314	56,381	56,366	2,011,689	3,775,750
Adjustment for adoption of IFRS 15	-	-	-	1,026,119	1,026,119
Profit for the year	-	-	-	1,117,461	1,117,461
<b>Total comprehensive income for the year</b>	-	-	-	1,117,461	1,117,461
Dividend paid	-	-	-	(171,334)	(171,334)
Share-based payments	-	-	53,857	-	53,857
Transfer between reserves	-	-	(10,576)	10,576	-
<b>Balance at 30 June 2019</b>	1,651,314	56,381	99,647	3,994,511	5,801,853

Company:

	Share capital £	Share premium £	Share option reserve £	Retained earnings £	Total equity £
<b>Balance at 30 June 2017</b>	1,562,676	9,802	188,425	3,062,385	4,823,288
Profit for the year	-	-	-	1,076,709	1,076,709
<b>Total comprehensive expense for the year</b>	-	-	-	1,076,709	1,076,709
Dividend paid	-	-	-	(125,760)	(125,760)
Issue of shares	88,638	46,579	-	-	135,217
Share-based payments	-	-	51,224	-	51,224
Transfer between reserves	-	-	(183,283)	183,283	-
<b>Balance at 30 June 2018</b>	1,651,314	56,381	56,366	4,196,617	5,960,678
Profit for the year	-	-	-	342,250	342,250
<b>Total comprehensive income for the year</b>	-	-	-	342,250	342,250
Dividend paid	-	-	-	(171,334)	(171,334)
Share-based payments	-	-	53,857	-	53,857
Transfer between reserves	-	-	(10,576)	10,576	-
<b>Balance as at 30 June 2019</b>	1,651,314	56,381	99,647	4,378,109	6,185,451

The notes on pages 29 to 50 form part of these financial statements.

# Balance Sheets

Registered number: 04062416

As at 30 June 2019

	Note	Group 2019 £	Group 2018 £	Company 2019 £	Company 2018 £
<b>Non-current assets</b>					
Goodwill	10	1,715,153	1,715,153	-	-
Property, plant and equipment	11	15,011	17,941	-	-
Investments in subsidiaries	12	-	-	2,017,471	2,017,471
Deferred tax asset	16	285,000	270,000	125,000	50,000
Trade and other receivables	13	141,750	141,750	-	-
<b>Total non-current assets</b>		<b>2,156,914</b>	<b>2,144,844</b>	<b>2,142,471</b>	<b>2,067,471</b>
<b>Current assets</b>					
Trade and other receivables	13	263,875	310,123	3,073,519	2,571,949
Cash and cash equivalents	14	4,063,484	3,210,058	1,078,755	1,458,390
<b>Total current assets</b>		<b>4,327,359</b>	<b>3,520,181</b>	<b>4,152,274</b>	<b>4,030,339</b>
<b>Current liabilities</b>					
Trade and other payables	15	(682,420)	(1,889,275)	(109,294)	(137,132)
<b>Total current liabilities</b>		<b>(682,420)</b>	<b>(1,889,275)</b>	<b>(109,294)</b>	<b>(137,132)</b>
<b>Net current assets</b>		<b>3,644,939</b>	<b>1,630,906</b>	<b>4,042,980</b>	<b>3,893,207</b>
<b>Net assets</b>		<b>5,801,853</b>	<b>3,775,750</b>	<b>6,185,451</b>	<b>5,960,678</b>
<b>Equity</b>					
Called up share capital	17	1,651,314	1,651,314	1,651,314	1,651,314
Share premium account	18	56,381	56,381	56,381	56,381
Share option reserve	18	99,647	56,366	99,647	56,366
Retained earnings	18	3,994,511	2,011,689	4,378,109	4,196,617
		<b>5,801,853</b>	<b>3,775,750</b>	<b>6,185,451</b>	<b>5,960,678</b>

The profit dealt with in the financial statements of the Parent Company was £342,250 (2018: £1,076,709).

Approved on behalf of the board on 21 August 2019 by:

Matthew Jeffs  
Chief Executive

Michael Levy  
Group Finance Director

The notes on pages 29 to 50 form part of these financial statements.

ARCONTECH GROUP PLC

# Group Cash Flow Statement

For the year ended 30 June 2019

	Note	2019 £	2018 £
<b>Cash generated from operations</b>	20	<b>966,060</b>	<b>482,659</b>
Tax recovered		45,318	69,452
<b>Net cash generated from operating activities</b>		<b>1,011,378</b>	<b>552,111</b>
<b>Investing activities</b>			
Interest received		27,184	14,109
Purchases of plant and equipment		(13,802)	(2,090)
<b>Net cash generated from investing activities</b>		<b>13,382</b>	<b>12,019</b>
<b>Financing activities</b>			
Issue of shares		-	135,217
Dividend paid		(171,334)	(125,760)
<b>Net cash (invested in)/generated from financing activities</b>		<b>(171,334)</b>	<b>9,457</b>
<b>Net increase in cash and cash equivalents</b>		<b>853,426</b>	<b>573,587</b>
Cash and cash equivalents at beginning of year		3,210,058	2,636,471
<b>Cash and cash equivalents at end of year</b>	14	<b>4,063,484</b>	<b>3,210,058</b>

The notes on pages 29 to 50 form part of these financial statements.

# Company Cash Flow Statement

For the year ended 30 June 2019

	Note	2019 £	2018 £
<b>Net cash used in operating activities</b>	20	<b>(219,528)</b>	<b>(218,821)</b>
<b>Investing activities</b>			
Interest received		11,227	9,715
<b>Net cash generated from investing activities</b>		<b>11,227</b>	<b>9,715</b>
<b>Financing activities</b>			
Issue of shares		-	135,217
Dividend paid		(171,334)	(125,760)
<b>Net cash (invested in)/generated from financing activities</b>		<b>(171,334)</b>	<b>9,457</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(379,635)</b>	<b>(199,649)</b>
Cash and cash equivalents at beginning of year		1,458,390	1,658,039
<b>Cash and cash equivalents at end of year</b>	14	<b>1,078,755</b>	<b>1,458,390</b>

The notes on pages 29 to 50 form part of these financial statements.

# Notes to the Financial Statements

For the year ended 30 June 2019

## 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.

### Changes in accounting policies and disclosures

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

The Group and Company have adopted IFRS 9 “Financial Instruments” and IFRS 15 “Revenue from contracts with customers” for the first time this period.

#### *b) New and amended standards and Interpretations mandatory for the first time for the financial year beginning 1 July 2018 but not currently relevant to the Group or Company*

The following new and amended Standards and Interpretations are not currently relevant to the Group or Company; however, they may have a significant impact in future years:

- Amendments to IFRS2: Classification and measurement of share-based payment transactions
- IFRIC 22: Foreign currency transactions and advance consideration

#### *c) New and amended Standards and Interpretations issued but not effective for the financial year beginning 1 July 2018.*

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):

- IFRS 16 “Leases” will be effective for the year ending 30 June 2020 onwards and the impact on the financial statements will be significant. IFRS 16 requires lessees to recognise a lease liability reflecting future lease payments and right-of-use asset for all lease contracts. The Group’s only operating lease commitment (approximately £785,000 on an undiscounted basis as shown in Note 21 of the financial statements) would be brought onto the statement of financial position and amortised and depreciated separately. There will be no impact on cash flows, although the presentation of the cash flow statement will change significantly. Management are currently working on the new processes and systems that will be required to comply with this accounting standard.

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 2019 (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 2019. 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 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.

Contracts include promises to transfer services to a customer (i.e. “performance obligations”) which are typically indistinct and hence are accounted for together in a single performance obligation.

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.

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 at the point of customer acceptance, 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.

Prior to 1 July 2018, deferred income arose where license fee income was spread over the period of the licence and reflected the remaining passage of time on the license. As a result of the adoption of IFRS 15 “Revenue from contracts with customers” from 1 July 2018 licence income is now recognised at the point of customer acceptance and accordingly previously held deferred income has been released as an IFRS 15 adjustment at 1 July 2018.

# Notes to the Financial Statements

For the year ended 30 June 2019 (continued)

## 1. Accounting policies (continued)

### 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.

### 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.

# Notes to the Financial Statements

For the year ended 30 June 2019 (continued)

## 1. Accounting policies (continued)

### 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.

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.

#### *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.

# Notes to the Financial Statements

For the year ended 30 June 2019 (continued)

## 1. Accounting policies (continued)

### Financial instruments (continued)

#### *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.

### Leases

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

### 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.

### 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.

# Notes to the Financial Statements

For the year ended 30 June 2019 (continued)

## 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 (2018 - £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 £285,000 (2018 - £270,000) was recognised.

# Notes to the Financial Statements

For the year ended 30 June 2019 (continued)

## 3. Revenue

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

	2019 £	2018 £
Software development, licence fees and project work	2,966,788	2,519,699

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

The group recognises revenue when it satisfies a performance obligation by transferring a promised service to the customer. Prior to 1 July 2018, deferred income arose where license fee income was spread over the period of the licence and reflected the remaining passage of time on the license. As a result of the adoption of IFRS 15 "Revenue from contracts with customers" from 1 July 2018 licence income is now recognised at the point of customer acceptance and accordingly previously held deferred income (*see note 15*) has been released as an IFRS 15 adjustment at 1 July 2018.

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

	2019 £	2018 £
Depreciation of plant and equipment ( <i>see note 11</i> )	16,732	17,974
Staff costs ( <i>see note 7</i> )	1,493,460	1,446,965
Operating lease rentals - land and buildings ( <i>see note 21</i> )	145,159	140,866
Research and development	584,524	517,042
Release of accruals for administrative costs in respect of prior years	(156,786)	(25,500)

## 5. Auditor's remuneration:

	2019 £	2018 £
Fees payable to the Group's auditor for the audit of the Group's annual accounts	19,000	17,000
Fees payable to the Group's auditor for other services: - audit of the Company's subsidiaries	6,000	5,000

## 6. Operating segments:

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

	2019 £	2018 £
<b>Revenue by segment</b>		
Software development and licence fees	2,966,788	2,519,699
External segment revenue	2,966,788	2,519,699
<b>Operating profit by segment</b>		
Software development and licence fees	1,513,240	1,126,932
Unallocated overheads	(483,281)	(565,409)
<b>Total operating profit</b>	1,029,959	561,523
Finance income	27,184	14,109
<b>Total profit before tax as reported in the Group income statement</b>	1,057,143	575,632

# Notes to the Financial Statements

For the year ended 30 June 2019 (continued)

## 6. Operating segments (continued):

	2019 £	2018 £
<b>Segment total of assets</b>		
Software development and licence fees	5,196,369	4,090,852
Unallocated assets	4,357,274	4,140,338
	<u>9,553,643</u>	<u>8,231,190</u>
Less inter company debtors	(3,069,370)	(2,566,166)
<b>Total assets</b>	<u>6,484,273</u>	<u>5,665,024</u>

	2019 £	2018 £
<b>Segment total of liabilities</b>		
Software development and licence fees	3,642,199	4,318,229
Unallocated liabilities	109,591	137,212
	<u>3,751,790</u>	<u>4,455,441</u>
Less inter company creditors	(3,069,370)	(2,566,166)
<b>Total liabilities</b>	<u>682,420</u>	<u>1,889,275</u>

	2019 £	2018 £
<b>Additions of property, plant and equipment assets by segment</b>		
Software development and licence fees	13,802	2,090
<b>Total additions</b>	<u>13,802</u>	<u>2,090</u>

	2019 £	2018 £
<b>Depreciation of property, plant and equipment assets recognised in the period by segment</b>		
Software development and licence fees	16,732	17,974
<b>Total depreciation</b>	<u>16,732</u>	<u>17,974</u>

<b>Non-current assets by country</b>	2019 £	2018 £
UK	2,156,914	2,144,844
<b>Total non-current assets</b>	<u>2,156,914</u>	<u>2,144,844</u>

# Notes to the Financial Statements

For the year ended 30 June 2019 (continued)

## 6. Operating segments (continued):

Geographical information - External revenue	2019	2018
	£	£
UK	1,997,490	1,669,949
Europe (excluding UK)	822,251	796,468
Africa	45,000	22,562
North America	99,010	28,488
Asia Pacific	3,037	2,232
	<u>2,966,788</u>	<u>2,519,699</u>

During the year there were 4 customers (2018: 3) who accounted for more than 10% of the Group's revenues as follows:

	2019	% of Total	2018	% of Total
	Value of sales		Value of sales	
	£		£	
Customer 1	643,491	22%	620,630	25%
Customer 2	527,145	18%	477,258	19%
Customer 3	378,326	13%	375,219	15%
Customer 4	361,426	12%	96,000	4%
	<u>1,910,388</u>	<u>65%</u>	<u>1,569,107</u>	<u>63%</u>

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

## 7. Staff costs:

	2019	2018
	£	£
<b>a) Aggregate staff costs, including Directors' remuneration</b>		
Wages and salaries	1,263,341	1,211,183
Social security costs	151,286	167,280
Pension contributions	24,976	17,279
Share-based payments	53,857	51,223
	<u>1,493,460</u>	<u>1,446,965</u>
<b>b) The average number of employees (including executive Directors) was:</b>		
Sales and administration	6	6
Development and support	10	10
	<u>16</u>	<u>16</u>
	£	£
<b>c) Directors' emoluments</b>		
Short-term employee benefits	298,621	366,123
Pension contributions	9,294	9,290
Share-based payments	27,286	26,835
	<u>335,201</u>	<u>402,248</u>
Social security costs	36,126	69,409
Key management personnel compensation	<u>371,327</u>	<u>471,657</u>

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

The average number of employees of the parent company is 4 (2018: 4)

The highest paid Director received remuneration of £236,757 (2018: £306,780).

# Notes to the Financial Statements

For the year ended 30 June 2019 (continued)

## 7. Staff costs (continued):

The number of Directors that are members of a defined contribution pension scheme is 2 (2018: 2). Pension contributions paid to a defined contribution scheme in respect of the highest paid Director amounted to £8,704 (2018: £8,969).

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.

## 8. Taxation

	<b>2019</b>	<b>2018</b>
	<b>£</b>	<b>£</b>
Current tax	45,318	69,452
Deferred tax	15,000	270,000
<b>Total tax credit for the year</b>	<b>60,318</b>	<b>339,452</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 profit before tax is as follows:

	<b>2019</b>	<b>2018</b>
	<b>£</b>	<b>£</b>
<b>Profit on ordinary activities before tax</b>	<b>1,057,143</b>	<b>575,632</b>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19 % (2018: 19%)	200,857	109,370
Effects of:		
Disallowed expenses	1,400	1,984
Temporary differences on deferred tax	1,800	2,841
Research and development tax credits	(45,318)	(69,452)
Deferred tax asset not previously recognised	(15,000)	(270,000)
<b>Brought forward losses utilised/loss for the year carried forward</b>	<b>(204,057)</b>	<b>(114,195)</b>
<b>Total tax credit for the year</b>	<b>(60,318)</b>	<b>(339,452)</b>

### Factors which may affect future tax charges

At 30 June 2019 the Group has tax losses of approximately £8,700,000 (2018: £9,600,000) to offset against future trading profits.

# Notes to the Financial Statements

For the year ended 30 June 2019 (continued)

## 9. Earnings per share

	2019 £	2018 £
<b>Earnings</b>		
Earnings for the purpose of basic and diluted earnings per share being net profit attributable to equity shareholders	1,117,461	915,084
	<u>1,117,461</u>	<u>915,084</u>
<b>Number of shares</b>		
	<b>No.</b>	<b>No.</b>
Weighted average number of ordinary shares for the purpose of basic earnings per share	13,210,510	12,821,702
Number of dilutive shares under option	165,223	77,699
Weighted average number of ordinary shares for the purposes of dilutive earnings per share	<u>13,375,733</u>	<u>12,899,401</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

	2019 £	2018 £
<b>Cost and net book amount</b>		
At 1 July 2018 and at 30 June 2019	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:

	2019 £	2018 £
Arcontech Limited	1,715,153	1,715,153
	<u>1,715,153</u>	<u>1,715,153</u>

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 1.8%.

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% (2018: 7%) per annum, after which the UK long-term growth rate is applied. The Directors consider that this rate is appropriate, given the level of new contracts achieved during the year. Fluctuation in revenue is the most sensitive of assumptions. Should revenue fall by more than an average of 5% then this could result in the value of goodwill being impaired.

As the Group does not have any borrowings, the rate used to discount all the forecast cash flows is 8.8% (2018: 9.9%), 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 2019 (continued)

## 11. Property, plant and equipment - Group

Cost	Leasehold Property £	Office furniture & equipment £	Total £
At 1 July 2017	18,892	120,884	139,776
Additions	-	2,090	2,090
At 1 July 2018	18,892	122,974	141,866
Additions	7,307	6,495	13,802
At 30 June 2019	26,199	129,469	155,668
<b>Depreciation</b>			
At 1 July 2017	9,839	96,112	105,951
Charge for the year	4,723	13,251	17,974
At 1 July 2018	14,562	109,363	123,925
Charge for the year	4,574	12,158	16,732
At 30 June 2019	19,136	121,521	140,657
<b>Net book amount at 30 June 2019</b>	7,063	7,948	15,011
<b>Net book amount at 30 June 2018</b>	4,330	13,611	17,941

## 12. Investment in subsidiaries

	2019 £	2018 £
<b>Carrying amount</b>		
At 1 July 2018	2,017,471	2,017,373
Provisions written back	-	99
Amounts written off	-	(1)
At 30 June 2019	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 as follows:

	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 2019 (continued)

## 13. Trade and other receivables

	Group 2019 £	Group 2018 £	Company 2019 £	Company 2018 £
<b>Due within one year:</b>				
Trade receivables	132,625	161,540	-	-
Amounts owed by group undertakings	-	-	3,069,270	2,565,925
Prepayments and accrued income	131,250	148,583	4,249	6,024
	<u>263,875</u>	<u>310,123</u>	<u>3,073,519</u>	<u>2,571,949</u>
	Group 2019 £	Group 2018 £	Company 2019 £	Company 2018 £
<b>Due after more than one year:</b>				
Other receivables	141,750	141,750	-	-
	<u>141,750</u>	<u>141,750</u>	<u>-</u>	<u>-</u>

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 2019, trade receivables of £Nil were impaired (2018: £Nil) and during the year an impairment charge relating to trade receivables of £Nil (2018: £Nil) was recognised. As at 30 June 2019 trade receivables of £8,893 (2018: £33,588) were past due but not impaired. The ageing analysis of these trade receivables is as follows:

	Group 2019 £	Group 2018 £	Company 2019 £	Company 2018 £
Up to 3 months past due	5,000	24,997	-	-
3 to 6 months past due	3,893	8,591	-	-
	<u>8,893</u>	<u>33,588</u>	<u>-</u>	<u>-</u>

## 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.

# Notes to the Financial Statements

For the year ended 30 June 2019 (continued)

## 15. Trade and other payables

	Group 2019 £	Group 2018 £	Company 2019 £	Company 2018 £
Trade payables	76,823	45,335	9,824	1,868
Amounts owed to group undertakings	-	-	100	241
Other tax and social security payable	27,365	64,008	7,531	6,726
Other payables and accruals	578,232	753,813	91,839	128,297
Deferred income	-	1,026,119	-	-
	682,420	1,889,275	109,294	137,132

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 £655,055 (2018: £799,148).

## 16. Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using the tax rate at which it is expected to unwind, being 19% until 31 March 2020 and then 17% from 1 April 2020. The movement on the deferred tax account is as shown below:

	Group 2019 £	Group 2018 £	Company 2019 £	Company 2018 £
At 1 July 2018	270,000	-	50,000	-
Tax credit recognised in group income statement	15,000	270,000	75,000	50,000
At 30 June 2019	285,000	270,000	125,000	50,000

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 2019 amounted to approximately £8,700,000 (2018: £9,600,000).

## 17. Share capital

	2019 £	2018 £
Company		
<b>Allotted and fully paid:</b>		
13,210,510 (2018: 13,210,510) Ordinary shares of 12.5p each	1,651,314	1,651,314

# Notes to the Financial Statements

For the year ended 30 June 2019 (continued)

## 17. Share capital (continued)

### Share options

Under the Company's approved 2002 Share Option Scheme, certain Directors and employees held options at 30 June 2019 for unissued Ordinary Shares of 12.5 pence each as follows:

Share options	At 1 July 2018	Granted	Exercised	Forfeited	At 30 June 2019	Exercise price	Normal exercise period
Employees:	80,000	-	-	-	80,000	23.75 pence	1 Sep 17 – 31 Aug 21
	165,000	-	-	(40,000)	125,000	64.50 pence	25 Apr 20 – 24 Apr 27
	-	50,000	-	-	50,000	110.00 pence	30 Jun 21 – 29 Jun 28
Directors:							
Michael Levy	20,635	-	-	-	20,635	64.50 pence	25 Apr 20 – 24 Apr 27
	-	50,000	-	-	50,000	110.00 pence	30 Jun 21 – 29 Jun 28
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
	<u>350,397</u>	<u>200,000</u>	<u>-</u>	<u>(40,000)</u>	<u>510,397</u>		
<b>Weighted average exercise price</b>	<u>50.5 pence</u>	<u>110.0 pence</u>	<u>-</u>	<u>64.5 pence</u>	<u>72.7 pence</u>		

The number of options exercisable at 30 June 2019 was 120,000 (At 30 June 2018: 120,000), these had a weighted average exercise price of 23.75 pence (2018: 23.75 pence).

The weighted average share price as at the exercise date of the shares exercised in the year was Nil pence (2018: 66.6 pence and of the shares were forfeited in the year was 64.5 pence (2018: Nil).

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 183.5 pence, the lowest price was 75 pence and the price at the year-end was 164 pence.

The weighted average remaining contractual life of share options outstanding at 30 June 2019 was 7 years (2018: 7 years).

# Notes to the Financial Statements

For the year ended 30 June 2019 (continued)

## 17. Share capital (continued)

### Share-based payments

The Group operates an approved Share Option Scheme for the benefit of Directors and employees. Options are granted to acquire shares at a specified exercise price at any time following but no later than 6 years after the grant date. There are no performance conditions on the exercise of the options granted prior to 1 July 2018. The performance conditions of those granted during the year are set out below.

The options will be exercisable from 30 June 2021, dependent on the Company's compound annual rate of growth in fully diluted earnings\* for the three financial years ending 30 June 2021. 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 £53,857 (2018: £51,224) has been recognised in the period in respect of share options granted. The cumulative share option reserve at 30 June 2019 is £99,647 (2018: £56,366). The inputs into the Black-Scholes pricing model are as follows:

	<b>30 June 2019 Directors</b>	<b>30 June 2019 Employees</b>	<b>30 June 2018 Directors</b>	<b>30 June 2018 Employees</b>
Exercise price	23.75/64.5/110.0 pence	23.75/64.5/110.0 pence	23.75/64.5 pence	23.75/64.5 pence
Expected life	6/10 years	6/10 years	6/10 years	6/10 years
Expected volatility	50%-65%	50%-65%	60%-65%	60%-65%
Risk free rate of interest	0.5%-0.75%	0.5%-0.75%	0.5%	0.5%
Dividend yield	Nil	Nil	Nil	Nil
Weighted average share price	23.75/64.5/110.0 pence	23.75/64.5/110.0 pence	23.75/64.5 pence	23.75/64.5 pence
Fair value of option	19.64/36.7/57.0 pence	19.64/36.7/ 57.0 pence	19.64/36.7 pence	19.64/36.7 pence

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

## 18. Reserves

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

### Share premium account

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

# Notes to the Financial Statements

For the year ended 30 June 2019 (continued)

## 18. Reserves (continued)

### 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.

## 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.

## 20. Net cash generated from operations - Group

	<b>2019</b>	<b>2018</b>
	<b>£</b>	<b>£</b>
Operating profit	1,029,959	561,523
Depreciation charge	16,732	17,974
Non cash share option charges	53,857	51,224
Adjustment for adoption of IFRS 15	1,026,119	-
Decrease/(increase) in trade and other receivables	46,248	(134,626)
Decrease in trade and other payables	(1,206,855)	(13,436)
	<hr/>	<hr/>
<b>Cash generated from operations</b>	<b>966,060</b>	<b>482,659</b>
	<hr/>	<hr/>
<b>Net cash generated from operations - Company</b>		
	<b>2019</b>	<b>2018</b>
	<b>£</b>	<b>£</b>
Operating profit	256,023	1,018,397
Non cash share option charges	53,857	51,224
Increase in trade and other receivables	(501,570)	(765,606)
Decrease in trade and other payables	(27,838)	(522,836)
	<hr/>	<hr/>
<b>Cash used in operations</b>	<b>(219,528)</b>	<b>(218,821)</b>
	<hr/>	<hr/>

# Notes to the Financial Statements

For the year ended 30 June 2019 (continued)

## 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 2019 £	Group 2018 £	Company 2019 £	Company 2018 £
Land and buildings:				
Due within one year	162,000	129,336	-	-
Due between two and five years	623,219	-	-	-
After more than five years	-	-	-	-
	<u>785,219</u>	<u>129,336</u>	<u>-</u>	<u>-</u>

## 22. 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 is the principal, in respect of accountancy services of £59,945 (2018: £57,875). At 30 June 2019 the amount outstanding was £Nil (2018: £Nil).

### Company

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

Management charges payable by subsidiaries £574,017 (2018: £659,214).

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

	2019 £	2018 £
Amount due from subsidiaries	7,397,095	7,054,104
Less: Provision for impairment	(4,327,825)	(4,488,179)
Amount due from subsidiaries - net	<u>3,069,270</u>	<u>2,565,925</u>

During the year a provision of £160,354 was released (2018: £455,386) in respect of balances due from subsidiaries.

	2019 £	2018 £
Amount due to subsidiaries	574,017	659,214
	<u>574,017</u>	<u>659,214</u>

# Notes to the Financial Statements

For the year ended 30 June 2019 (continued)

## 23. Dividends

A final dividend of 2.0 pence will be proposed at the Annual General Meeting but has not been recognised as it requires approval (2018: 1.3 pence).

## 24. Material non-cash transactions

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

## 25. Financial instruments

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

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

### *Credit risk*

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

	<b>Group 2019</b>	<b>Group 2018</b>	<b>Company 2019</b>	<b>Company 2018</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Trade receivables	132,625	161,540	-	-
Cash and cash equivalents	4,063,484	3,210,058	1,078,755	1,458,390
Amounts owed by group undertakings	-	-	3,069,270	2,565,925
	<b>4,196,109</b>	<b>3,371,598</b>	<b>4,148,025</b>	<b>4,024,315</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, between 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% (2018: 0.24% below bank base rate and 1.1% above bank base rate and at fixed/variable rates of between 0.35% and 1.79%).

# Notes to the Financial Statements

For the year ended 30 June 2019 (continued)

## 25. Financial instruments (continued)

### *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 £655,055 (2018: £799,148) all of which are payable within 6 months.

### *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 2019, if bank base rate had increased by 0.5% with all other variables held constant, post-tax profit would have been £18,184 (2018: £14,616) higher and equity would have been £18,184 (2018: £14,616) higher. Conversely, if bank base rate had fallen 0.5% with all other variables held constant, post-tax profit would have been £18,184 (2018: £14,616) lower and equity would have been £18,184 (2018: £14,616) lower.

## 26. 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.

## 27. Adoption of IFRS 15

IFRS 15 "Revenue from contracts with customers" was adopted from 1 July 2018 in line with transitional provisions provided in the new standards. The changes in accounting policies have been described in Note 1. The standard has been adopted using the modified retrospective approach where the prior periods have not been restated but any difference between amounts recognised under IFRS 15 and those previously recognised under IAS 39, IAS 11 and IAS 18 has been recognised in the opening retained earnings at 1 July 2018.

The impact on the results of the Group or the Company as a result is shown below.

Group Income Statement and Statement of Comprehensive Income:

Revenue increased by £125,426

Profit for the year before taxation and after taxation increased by £125,426

# Notes to the Financial Statements

For the year ended 30 June 2019 (continued)

## 27. Adoption of IFRS 15 (Continued)

Statement of Changes in Equity:

Total comprehensive income for the year at 30 June 2019 increased by £1,026,119

Retained earnings at 30 June 2019 increased by £1,026,119

Group Balance Sheet:

Trade and other payables – Deferred income (*Note 15*) reduced by £1,151,545

## 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).



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