REGISTERED NUMBER: 04062416 (England and Wales)

Arcontech Group PLC

Year ended 30 June 2017

Contents

Company Information

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

Chairman's Statement

Arcontech Group plc ("Arcontech" or the "Company") is pleased to report a profit before share-based payments and taxation for the year ended 30 June 2017 of £441,996 (2016: £329,260), a year-on-year increase of 34.2%. After taking the benefit of the Research and Development tax credit of £96,988 (2016: £105,813) which the Company receives, due to the amount it has invested in qualifying product design and development and the cost of share based payments of £68,733 (2016: £26,931), Arcontech achieved a profit after tax of £470,251 (2016: £408,142) for the year.

Turnover for the year increased by 7.8% to £2,307,751 (2016: £2,141,630) this was achieved mainly through additional sales of server-side infrastructure solutions to existing customers. The level of new sales has not yet benefitted from the new business expected from our new desktop software solution launched earlier in the year. Expected desktop solution sales in 2018 and the full year effect of the net new sales achieved in the year ended 30 June 2017 is expected to lead to an increase in turnover for the year ending 30 June 2018.

We have continued to operate tight cost control throughout the year, whilst maintaining investment in product development and enhancement, which we expect to sustain going forward. The sales resource was increased during the year, which, together with marketing, are areas where we expect to see additional investment in 2018.

Financing
As at 30 June 2017 Arcontech had net cash balances of £2,636,471 (2016: £1,633,159), reflecting increased profitability and an improved working capital position. The business is well financed for the future and has a robust balance sheet.

Dividend and Share Consolidation
Having completed the cancellation of the share premium account (creating positive distributable reserves) and the share consolidation, 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 maiden dividend of 1 pence per share for the year ended 30 June 2017, to those shareholders on the register as at the close of business on 25 August 2017, with an ex-dividend date of 24 August 2017.

Employees
We have a small team of dedicated employees who are the core of our business. I would like to thank them for their hard work and continued support which is greatly appreciated.

Outlook
Arcontech is a well-run business where costs, including continued product investment, are well controlled such that increases in revenue materially improve profitability. Our focus is, therefore, on winning new business. Whilst we believe the opportunities for increased sales exist, the sales cycle is unpredictable and remains longer than we would like. Our prospects are positive, albeit they need to be tempered against uncertainties in the investment banking and finance sectors, as a result of the low interest rate environment and issues following Brexit.

Richard Last
Chairman and Non-Executive Director

Chief Executive's Review

I am pleased to report that during the year our continued attention to costs whilst building out and delivering on the sales pipeline resulted in a profit before tax of £373,263 (2016: £302,329), an increase of 23.5% compared to the previous year.

During the year under review we have further reconfirmed the value of our products and quality of support to the market by increasing the use of our server-side solutions such as our real-time last value cache and symbol mapper with existing clients, and on the desktop with Excelerator, whilst not receiving a single contract cancellation.

We continue to progress the sales pipeline and improve our product offering by adding functionality to existing products as well as enhancing our new desktop software solution. This software solution continues to be of significant interest to our clients, with one of the trials with Tier 1 clients culminating in a signed agreement for its deployment in New York. It is hoped by both ourselves, and our client, that it will expand from there and be rolled out in additional office locations over coming months. The prospects elsewhere, whilst taking time, continue to develop and are looking promising.

To increase sales growth, in January 2017 we recruited a sales person in Hong Kong to explore opportunities in this region

During the year we have also increased our participation in the fintech community, where we believe we can both add and receive value. This includes becoming members of the OpenMAMA steering committee and more recently, the Symphony Foundation. Both these global, open source, not for profit organisations include major Tier 1 clients and non-clients as members, who we are working closely with, whilst providing vendor agnostic solutions to the market data needs of the broader financial community.

The outlook for the business remains positive and to date unaffected by the wider uncertainties surrounding Brexit. The length of the sales cycle is something that is a constant and the only realistic way to address it is to create more sales opportunities. This is being done by building solutions that increase the addressable market whilst increasing our sales resource. As a result, the sales pipeline is looking healthy.

In order to supplement the Company's growth strategy, we will continue to review prospective complementary acquisition opportunities.

With such a strong foundation, we will keep working to strengthen our position by focusing on increasing revenues. Going forward, sales growth remains our clear priority.

Matthew Jeffs
Chief Executive

Strategic Report

The Directors present the group strategic report for Arcontech Group plc and its subsidiaries for the year ended 30 June 2017.

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 £2,307,751 (2016: £2,141,630; 2015: £2,129,958)	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 £441,996 (2016: £329,260; 2015: £263,859)	Measurement: Profit before share based payments and tax Performance: Continued growth reflects increase in revenues whilst continuing to maintain tight cost control
Cash £2,636,471 (2016: £1,633,159; 2015: £1,069,755)	Measurement: Cash and cash equivalents held at the end of the year Performance: The Group intends to maintain cash balances at this level subject to any exceptional items or acquisition opportunities that may arise

Non-financial KPIs:

Staff retention rate (net) 100% (2016: 93%; 2015: 93%)	Measurement: Net movement in joiners and leavers as a percentage of the number of staff at the beginning of the year Performance: Staff morale from our dedicated employees remains strong, reflected in the net increase

Strategic Report (continued)

Principal risks and uncertainties

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

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

Approved on behalf of the board on 11 August 2017 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 20 years' experience in IT and communications. Currently, he is Chairman and Non-Executive Director of fully listed Servelec Group plc and The British Smaller Companies VCT 2 Plc, and Chairman of AIM listed Gamma communications plc, Tribal Group plc and Lighthouse Group plc. He is also a Non-Executive director of Corero Network Security plc and Chairman of APD communications, a private company. 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 Company does not comply with all aspects of the UK Corporate Governance Code (the "Code"). We have reported on our Corporate Governance arrangements by drawing upon best practice available, including those aspects of the Code we consider relevant to the Company and best practice. As an AIM quoted company we are not required to comply with the Code.

The working of the Board and its Committees

At 30 June 2017, the Board comprised two Non-Executive Directors, one of whom is the Chairman, and two Executive Directors. Both of the Non-Executive Directors are considered to be independent. 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.

The Chairman and Executive Directors have other third-party commitments including directorships of other companies. The Board is satisfied that these commitments do not affect their ability to discharge their responsibilities effectively.

The Company Secretary is responsible to the Board for ensuring that Board procedures are complied with. The appointment of the Company Secretary is a matter for the Board as a whole. All Directors are supplied with information on a timely basis to enable them to discharge their duties.

Board performance

The performance of the Board and individual Directors is monitored and reviewed annually. The Company has Directors' and officers' liability insurance in place.

Committees

The following committees deal with the Group's affairs:

Audit Committee
Details of the Audit Committee are given in its Report on page 8.

Remuneration Committee
Details of the Remuneration Committee are given in its Report on pages 9-14. 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.

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
11 August 2017

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 2017, 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.

Impairment
Goodwill is tested annually to determine if there has been any impairment and also to consider whether the fixed assets used in the business are carried at an appropriate amount. The Audit Committee reviewed the impairment testing carried out and agreed with management that there was no impairment of goodwill or any of the fixed assets used in the business.

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
11 August 2017

Corporate Governance (continued)

Remuneration Committee report

Dear shareholder

I am pleased to introduce the Directors' Remuneration Report for the year ended 30 June 2017.

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.

As an AIM-listed company this report is not mandatory, but is included as a matter of best practice.

Louise Barton
Remuneration Committee Chairman
11 August 2017

Directors' Remuneration Policy

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

Policy on Executive Remuneration

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

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

Key elements of Remuneration

Remuneration element	Purpose	Operation	Potential remuneration	Performance metrics
Base salary	To attract and retain key executives.	Reviewed annually, effective from 1 January. 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 1 January 2017 and was increased by 5% to £157,500. The Group Finance Director's base salary was reviewed on 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
Benefits	To attract and retain key executives.	An Executive Director is entitled to participate in the Company's life and medical insurance schemes.	Premiums vary from year to year. The Remuneration Committee monitors the overall cost of the benefits package.	Not applicable.
Pension	To attract and retain key executives.	The Executive Directors (together with all other eligible staff) are entitled to participate in the Company's workplace pension scheme.	The Company contributes 1% 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 £45,520 on behalf of the CEO in lieu of bonus.	Not applicable.
Annual bonus	To incentivise the achievement of the company's annual financial and strategic targets.	Performance is measured on an annual basis for each financial year. Targets are established at the beginning of each financial year. At the end of the year the Remuneration Committee determine the extent to which these have been achieved. Bonuses are paid in cash.	The CEO's maximum capped bonus potential is £200,000. The Group Finance Director's maximum capped bonus potential is 100% of salary.	Any bonus is discretionary and subject to achievement against targets set by the Remuneration Committee. The Remuneration Committee has discretion to adjust the bonus to ensure alignment of pay with the performance of the business in the financial year.
Share Option Scheme	To motivate and facilitate share ownership.	Options to acquire shares may be granted to eligible employees at the discretion of the Remuneration. Committee	The number of shares in respect of which options can be granted is limited in any financial year to shares with a market value of no more than 100% of salary.	The Remuneration Committee may impose certain performance conditions on any option preventing its exercise unless such conditions have been satisfied.

Corporate Governance (continued)

Remuneration Committee report (continued)

Key elements of Remuneration (continued)

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

Alignment of Executive Remuneration and the Market

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

Consideration of Employee Pay

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

Policy on recruitment

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

Corporate Governance (continued)

Remuneration Committee report (continued)

Policy on recruitment (continued)

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

Policy on Loss of Office

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

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

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

External appointments

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

Policy on Non-Executive Director Remuneration

The remuneration of the Chairman and the other Non-Executive Director comprises fees that are paid via the payroll as well as being entitled to 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:

Richard Last (Chairman and Non-Executive Director)	£30,000
Louise Barton (Non-Executive Director)	£20,000

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 £157,500 reviewed annually	Currently £25,000 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 1% of basic salary contributed by the Company into the Company's workplace pension scheme	Currently 1% 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 2017.

Remuneration Committee
The Remuneration Committee consisted of the following Directors during the year ended 30 June 2017:

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

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.

	Year ended 30 June 2017					
	Salary/fees	Benefits	Bonus	Share options	Pension	Total
Chairman and Non-Executive Directors						
Richard Last (Chairman)	27,240	375	-	-	-	27,615
Louise Barton	17,650	-	-	5,386	-	23,036
Total Non-Executive	44,890	375	-	5,386	-	50,651
Executive Directors						
Matthew Jeffs	154,423	2,408	10,000	57,961	46,683	271,745
Michael Levy*	22,700	1,412	-	-	179	24,291
Total Executives	177,123	3,820	10,000	57,961	46,862	295,766
Total remuneration	**222,013**	**4,195**	**10,000**	**63,347**	**46,862**	**346,417**

Analysis of bonuses:

	Accrued	Paid as cash	Paid as pension	Total
Director				
Matthew Jeffs				
Year ended 30 June 2016	(50,000)	-	-	(50,000)
Year ended 30 June 2017	100,000	-	(40,000)	60,000
Total	**50,000**	**-**	**(40,000)**	**10,000**

Corporate Governance (continued)

Remuneration Committee report (continued)

Directors' Remuneration (Continued)

	Year ended 30 June 2016					
	Salary/fees	Benefits	Bonus	Share options	Pension	Total
Chairman and Non-Executive Directors						
Richard Last (Chairman)	24,240	329	-	-	-	24,569
Louise Barton	15,150	-	-	5,386	-	20,536
Total Non-Executive	39,390	329	-	5,386	-	45,105
Executive Directors						
Matthew Jeffs	155,135	2,172	50,000	16,159	-	223,466
Michael Levy*	20,200	1,323	-	-	-	21,523
Total Executives	175,335	3,495	50,000	16,159	-	244,989
Total remuneration	**214,725**	**3,824**	**50,000**	**21,545**	**-**	**290,094**

	Accrued	Paid as cash	Paid as pension	Total
Director				
Matthew Jeffs				
Year ended 30 June 2016	50,000	-	-	50,000
Total	**50,000**	**-**	**-**	**50,000**

*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.

Directors' share interests

The number of ordinary shares of the Company in which the Directors were beneficially interested at 30 June 2017 was:

Director	**30 June 2017**	**30 June 2016**
Richard Last	1,596,421	1,596,421
Louise Barton	1,031,416	1,031,416
Matthew Jeffs	450,000	384,000
Michael Levy	50,295	50,295

Directors' share options interests

The awards made to Directors during the year ended 30 June 2017 are set out below. No awards were made during the year ended 30 June 2016.

Director	At 1 July 2016	Granted	Exercised/ lapsed	At 30 June 2017	Exercise price	Normal exercise period
Richard Last	95,238	-	-	95,238	17.50 pence	18 Oct 13 – 17 Oct 17
	-	24,762	-	24,762	64.50 pence	25 Apr 20 – 24 Apr 27
Louise Barton	80,000	-	-	80,000	23.75 pence	18 Oct 13 – 17 Oct 17
	-	20,000	-	20,000	64.50 pence	25 Apr 20 – 24 Apr 27
Matthew Jeffs	240,000	-	-	240,000	23.75 pence	1 Sep 17 – 31 Aug 21
	-	127,516	-	127,516	12.50 pence	1 Sep 17 – 31 Aug 21
Michael Levy	79,365	-	-	79,365	17.50 pence	18 Oct 13 – 17 Oct 17
	-	20,635	-	20,635	64.50 pence	25 Apr 20 – 24 Apr 27

Louise Barton
Remuneration Committee Chairman
11 August 2017

Directors' Report

The Directors present their Report and financial statements for the year ended 30 June 2017.

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 22. The Directors recommend the payment of a final dividend of 1 pence per ordinary share to be paid on 29 September 2017 to ordinary shareholders on the register on 25 August 2017 (2016: £Nil).

Directors

The Directors who have held office during the period from 1 July 2016 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 independence is not affected. However, 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.

Corporate governance

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

Internal control

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

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
11 August 2017

Statement of Directors' Responsibilities

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

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

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

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

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

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

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 2017 which comprise the Group Income Statement and Statement of Comprehensive Income, the Statement of Changes in Equity, Balance Sheets, Group Cash Flow Statement, Company Cash Flow Statement 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.

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.

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 2017 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, 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 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.

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
Carrying value and impairment of goodwill	The group has a significant goodwill balance relating to three Cash Generating Units considered together. The group’s assessment of carrying value requires significant judgement, in particular regarding cash flows, growth rates, discount rates and sensitivity assumptions.	We challenged the assumptions used in the impairment model for goodwill, described in note 10. As part of our procedures we: - considered historical trading performance by comparing recent growth rates of both revenue and operating profit; - assessed the appropriateness of the assumptions concerning growth rates and inputs to the discount rate against latest market expectations; - considered management’s assertions about the group’s future utilisation of assets following a review of the business’s strategic plan by CGU; - performed sensitivity analysis to determine the minimum revenue and profit growth necessary to support the goodwill balance; and - performed sensitivity analysis to determine whether an impairment would be required if costs increase at a higher than forecast rate. In performing our procedures, we used our internal valuation specialists and third party evidence to assess the appropriateness of the discount rate applied. Based on our procedures we concluded that the carrying value of goodwill is appropriate.

Materiality

The materiality for the group financial statements as a whole was set at £141,000. This has been determined with reference to the benchmark of the group’s assets, which we consider to be an appropriate measure for a group of companies involved in the research and development of software products. Materiality represents 3% of total assets as presented on the face of the Group Balance Sheet.

The materiality for the parent company financial statements as a whole was set at £112,800. This has been determined with reference to the group’s assets, which we consider to be an appropriate measure for a company involved in the research and development of software products. Materiality represents 2% of 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 5 reporting components, we subjected 2 to audits for group reporting purposes and 3 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 latter were not individually significant enough to require an audit for group reporting purposes but were still material to the group.

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, 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 17, 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. This description forms part of our auditor's report.

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

11 August 2017

Group Income Statement and Statement of Comprehensive Income

For the year ended 30 June 2017

	Note	2017 £	2016 as restated £
Revenue	3	2,307,751	2,141,630
Administrative costs		(1,942,430)	(1,849,257)
Operating profit	4	365,321	292,373
Finance income		7,942	9,956
Profit before taxation		373,263	302,329
Taxation	8	96,988	105,813
Profit for the year after tax		470,251	408,142
Total comprehensive income for the year		470,251	408,142
Earnings per share (basic)	9	3.79p	3.38p
Earnings per share (diluted)	9	3.68p	3.25p

Comparative figures for the year ended 30 June 2016 have been restated to take into account the share consolidation carried out in September 2016.

All of the results relate to continuing operations.

The notes on pages 27 to 48 form part of these financial statements

Statement of Changes in Equity

For the year ended 30 June 2017

Group:

	Share capital £	Share premium £	Share option reserve £	Retained earnings £	Total equity £
Balance at 30 June 2015	1,536,672	9,430,312	92,761	(9,269,623)	1,790,122
Profit for the year	-	-	-	408,142	408,142
Total comprehensive income for the year	-	-	-	408,142	408,142
Cancellation of share premium account	-	(9,430,312)	-	9,430,312	-
Issue of shares	5,060	2,024	-	-	7,084
Share-based payments	-	-	26,931	-	26,931
Balance at 30 June 2016	1,541,732	2,024	119,692	568,831	2,232,279
Profit for the year	-	-	-	470,251	470,251
Total comprehensive income for the year	1,541,732	2,024	119,692	1,039,082	2,702,530
Issue of shares	20,944	7,778	-	-	28,722
Share-based payments	-	-	68,733	-	68,733
Balance at 30 June 2017	1,562,676	9,802	188,425	1,039,082	2,799,985

Company:

	Share capital £	Share premium £	Share option reserve £	Retained earnings £	Total equity £
Balance at 30 June 2015	1,536,672	9,430,312	92,761	(7,797,685)	3,262,060
Profit for the year	-	-	-	10,899	10,899
Total comprehensive expense for the year	-	-	-	10,899	10,899
Cancellation of share premium account	-	(9,430,312)	-	9,430,312	-
Issue of shares	5,060	2,024	-	-	7,084
Share-based payments	-	-	26,931	-	26,931
Balance at 30 June 2016	1,541,732	2,024	119,692	1,643,526	3,306,974
Profit for the year	-	-	-	1,418,859	1,418,859
Total comprehensive income for the year	1,541,732	2,024	119,692	3,062,385	4,725,833
Issue of shares	20,944	7,778	-	-	28,722
Share-based payments	-	-	68,733	-	68,733
Balance as at 30 June 2017	1,562,676	9,802	188,425	3,062,385	4,823,288

The notes on pages 27 to 48 form part of these financial statements.

Balance Sheets

Registered number: 04062416

As at 30 June 2017

	Note	Group 2017 £	Group 2016 £	Company 2017 £	Company 2016 £
Non-current assets					
Goodwill	10	1,715,153	1,715,153	-	-
Property, plant and equipment	11	33,825	44,785	-	-
Investments in subsidiaries	12	-	-	2,017,373	2,017,373
Trade and other receivables	13	141,750	141,750	-	-
Total non-current assets		1,890,728	1,901,688	2,017,373	2,017,373
Current assets					
Trade and other receivables	13	175,496	265,360	1,806,341	206,769
Cash and cash equivalents	14	2,636,471	1,633,159	1,658,039	1,272,292
Total current assets		2,811,967	1,898,519	3,464,380	1,479,061
Current liabilities					
Trade and other payables	15	(1,902,710)	(1,567,928)	(658,465)	(189,460)
Total current liabilities		(1,902,710)	(1,567,928)	(658,465)	(189,460)
Net current assets		909,257	330,591	2,805,915	1,289,601
Net assets		2,799,985	2,232,279	4,823,288	3,306,974
Equity					
Called up share capital	17	1,562,676	1,541,732	1,562,676	1,541,732
Share premium account	18	9,802	2,024	9,802	2,024
Share option reserve	18	188,425	119,692	188,425	119,692
Retained earnings	18	1,039,082	568,831	3,062,385	1,643,526
		2,799,985	2,232,279	4,823,288	3,306,974

The profit dealt with in the financial statements of the Parent Company was £1,418,859 (2016: £10,899).

Approved on behalf of the board on 11 August 2017 by:

Matthew Jeffs
Chief Executive

Michael Levy
Group Finance Director

The notes on pages 27 to 48 form part of these financial statements.

Group Cash Flow Statement

For the year ended 30 June 2017

	Note	2017 £	2016 £
Net cash generated from operating activities	20	**974,800**	**567,420**
Investing activities			
Interest received		7,942	9,956
Purchases of plant and equipment		(8,152)	(21,056)
Net cash invested in investing activities		**(210)**	**(11,100)**
Financing activities			
Issue of shares		28,722	7,084
Net cash generated from financing activities		**28,722**	**7,084**
Net increase in cash and cash equivalents		**1,003,312**	**563,404**
Cash and cash equivalents at beginning of year		1,633,159	1,069,755
Cash and cash equivalents at end of year	14	**2,636,471**	**1,633,159**

The notes on the pages 27 to 48 form part of these financial statements.

Company Cash Flow Statement

For the year ended 30 June 2017

	Note	2017 £	2016 £
Net cash generated from operating activities	20	**349,506**	**605,860**
Investing activities			
Interest received		7,519	9,441
Net cash generated from investing activities		**7,519**	**9,441**
Financing activities			
Issue of shares		28,722	7,084
Net cash generated from financing activities		**28,722**	**7,084**
Net increase in cash and cash equivalents		**385,747**	**622,385**
Cash and cash equivalents at beginning of year		1,272,292	649,907
Cash and cash equivalents at end of year	14	**1,658,039**	**1,272,292**

The notes on the pages 27 to 48 form part of these financial statements.

Notes to the Financial Statements

For the year ended 30 June 2017

1. Accounting policies

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

Reporting entity

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

Basis of preparation

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

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

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

Accounting standards and interpretations adopted during the period

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

Standards, amendments and interpretations that are expected to be effective for periods beginning on or after 1 July 2017 for standards, amendments subject to EU endorsement:

Standards, interpretations and amendments to existing standards that have been published, and are mandatory to accounting periods beginning on or after 1 July 2017 or later periods and that have not been early adopted by the Group or the Company include the following:

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

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

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

Notes to the Financial Statements

For the year ended 30 June 2017 (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 2017. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

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

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

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

Business combinations and goodwill

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

Revenue recognition

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

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

Revenue arising is recognised when and to the extent that the Group obtains the right to consideration in exchange for the performance of its contractual obligations.

Taxation

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

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

Notes to the Financial Statements

For the year ended 30 June 2017 (continued)

1. Accounting policies (continued)

Taxation (continued)

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

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

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

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

Share-based payments

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

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

Impairment of tangible and intangible assets

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

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

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

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

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

Notes to the Financial Statements

For the year ended 30 June 2017 (continued)

1. Accounting policies (continued)

Impairment of tangible and intangible assets (continued)

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

Property, plant and equipment

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

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

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

Investments in subsidiaries

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

Financial instruments

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

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

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

Trade and other receivables

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

Trade and other payables

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

Cash and cash equivalents

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

Leasing commitments

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

Notes to the Financial Statements

For the year ended 30 June 2017 (continued)

1. Accounting policies (continued)

Research and development

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

Pension costs and other post-retirement benefits

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

Foreign currencies

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

Segment reporting

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

2. Critical judgments and key sources of estimation uncertainty

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

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

Notes to the Financial Statements

For the year ended 30 June 2017 (continued)

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

Share-based payments

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

Impairment of non-current assets

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

Capitalisation of development costs and recognition of deferred tax assets

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

3. Revenue

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

	2017	**2016**
	£	**£**
Software development and licence fees	2,307,751	2,141,630

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

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

	2017	**2016**
	£	**£**
Depreciation of plant and equipment	19,112	17,140
Loss on disposal of fixed assets	-	736
Staff costs (*see note 7*)	1,431,316	1,325,064
Operating lease rentals - land and buildings (*see note 21*)	140,866	140,866
Research and development	516,160	514,526

Notes to the Financial Statements

For the year ended 30 June 2017 (continued)

5. Auditor's remuneration:

	2017 £	2016 £
Fees payable to the Group's auditor for the audit of the Group's annual accounts	16,000	16,000
Fees payable to the Group's auditor for other services:		
- audit of the Company's subsidiaries	4,500	9,000

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.

	2017 £	2016 £
Revenue by segment		
Software development and licence fees	2,307,751	2,141,630
External segment revenue	2,307,751	2,141,630
Operating profit by segment		
Software development and licence fees	854,981	656,226
Unallocated overheads	(489,660)	(363,853)
Total operating profit	365,321	292,373
Finance income	7,942	9,956
Total profit before tax as reported in the Group income statement	373,263	302,329

	2017 £	2016 £
Segment total of assets		
Software development and licence fees	3,547,110	4,419,890
Unallocated assets	3,802,083	1,795,400
	7,349,193	6,215,290
Less inter company debtors	(2,646,498)	(2,415,083)
Total assets	4,702,695	3,800,207

Notes to the Financial Statements

For the year ended 30 June 2017 (continued)

6. Operating segments (continued):

	2017	**2016**
	£	**£**
Segment total liabilities		
Software development and licence fees	3,890,649	3,792,521
Unallocated liabilities	658,560	190,490
	4,549,209	3,983,011
Less inter company creditors	(2,646,499)	(2,415,083)
Total liabilities	1,902,710	1,567,928

	2017	**2016**
	£	**£**
Additions of property, plant and equipment assets by segment		
Software development and licence fees	8,152	21,056
Total additions	8,152	21,056
Disposals of property, plant and equipment assets by segment		
Software development and licence fees	2,699	26,462
Total disposals	2,699	26,462

	2017	**2016**
	£	**£**
Depreciation of property, plant and equipment assets recognised in the period by segment		
Software development and licence fees	19,112	17,140
Total depreciation	19,112	17,140

Non-current assets by country	**2017**	**2016**
	£	**£**
UK	1,890,728	1,901,688
Total non-current assets	1,890,728	1,901,688

Notes to the Financial Statements

For the year ended 30 June 2017 (continued)

6. Operating segments (continued):

Geographical information - External revenue	**2017**	**2016**
	£	**£**
UK	1,600,027	1,354,976
Europe (excluding UK)	652,894	463,437
North America	27,830	127,459
Asia Pacific	27,000	195,758
	2,307,751	2,141,630

During the year there were 3 customers (2016: 1) who accounted for more than 10% of the Group's revenues as follows:

	2017		**2016**	
	Value of sales £	**% of Total**	**Value of sales £**	**% of Total**
Customer 1	612,998	27%	601,616	28%
Customer 2	357,327	15%	-	-
Customer 3	309,232	13%	-	-
	1,279,557	55%	601,616	28%

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

Notes to the Financial Statements

For the year ended 30 June 2017 (continued)

7. Staff costs:

		2017	2016
		£	**£**
a)	**Aggregate staff costs, including Directors' remuneration**		
	Wages and salaries	1,172,764	1,159,066
	Social security costs	138,031	139,067
	Pension contributions	51,788	-
	Share-based payments	68,733	26,931
		1,431,316	1,325,064

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

		£	**£**
c)	**Directors' emoluments**		
	Short-term employee benefits	283,070	268,549
	Share-based payments	63,347	21,545
		346,417	290,094
	Social security costs	32,779	32,352
	Key management personnel compensation	379,196	322,446

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

The highest paid Director received remuneration of £270,582 (2017: £223,466).

The number of Directors that are members of a defined contribution pension scheme is 2 (2016: Nil). Pension contributions paid to a defined benefit contribution scheme in respect of the highest paid Director amounted to £1,163 (2016: £Nil).

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

8. Taxation

	2017	2016
	£	**£**
Current tax	96,988	105,813
Deferred tax	-	-
Total tax credit for the year	96,988	105,813

Notes to the Financial Statements

For the year ended 30 June 2017 (continued)

8. Taxation (continued)

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:

	2017	2016
	£	£
Profit on ordinary activities before tax	373,263	302,329
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19.75% (2016: 20.00%)	73,719	60,466
Effects of:		
Disallowed expenses	1,172	679
Temporary differences on deferred tax not recognised	765	556
Singapore taxable profit at lower tax rate	426	(42)
Loss on sale of fixed assets	-	147
Research and development tax credits	(96,988)	(105,813)
(Brought forward losses utilised)/loss for the year carried forward	(76,082)	(61,806)
Total tax credit for the year	(96,988)	(105,813)

Factors which may affect future tax charges

At 30 June 2017 the Group has tax losses of approximately £9,900,000 (2016: £9,900,000) to offset against future trading profits.

Notes to the Financial Statements

For the year ended 30 June 2017 (continued)

9. Profit per share

	2017	2016 as restated
	£	£
Earnings		
Earnings for the purpose of basic and diluted earnings per share being net profit attributable to equity shareholders	470,251	408,142
	470,251	408,142

	No.	No.
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	12,396,220	12,297,590
Number of dilutive shares under option	367,595	213,457
Weighted average number of ordinary shares for the purposes of dilutive earnings per share	12,763,815	12,511,047

The number of shares for the year ended 30 June 2017 takes into account the share consolidation of 125:1 carried out in September 2016. The number of shares for the year ended 30 June 2016 has been restated accordingly.

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

	2017	2016
	£	£
Cost and net book amount		
At 1 July 2016 and at 30 June 2017	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:

	2017	2016
	£	£
Arcontech Limited	1,715,153	1,715,153
Arcontech Pte. Ltd.	-	-
	1,715,153	1,715,153

The CGUs used in these calculations are Arcontech Limited, Arcontech Solutions Limited and Arcontech Pte. Ltd. which should be considered together. The group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. The discount rate is estimated using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. Long-term growth rates are based on industry growth forecasts. Changes in selling prices are based on past practices and expectations of future changes in the market. Changes in direct costs are based on expected cost of inflation of 1.9%.

Notes to the Financial Statements

For the year ended 30 June 2017 (continued)

10. Goodwill (continued)

Cashflow forecasts are based on the latest financial budgets and extrapolate the cashflows for the next five years based on an estimated growth in revenue representing an average rate of 7% (2016: 5%) 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 0.5% 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 9.6% (2016: 8.6%), which represents the Group's cost of capital.

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

11. Property, plant and equipment - Group

Cost	**Leasehold Property £**	**Office furniture & equipment £**	**Total £**
At 1 July 2015	6,642	133,087	139,729
Additions	12,250	8,806	21,056
Disposals	-	(26,462)	(26,462)
At 1 July 2016	18,892	115,431	134,323
Additions	-	8,152	8,152
Disposals	-	(2,699)	(2,699)
At 30 June 2017	18,892	120,884	139,776
Depreciation			
At 1 July 2015	138	97,986	98,124
Charge for the year	4,979	12,161	17,140
On disposals	-	(25,726)	(25,726)
At 1 July 2016	5,117	84,421	89,538
Charge for the year	4,722	14,390	19,112
On disposals	-	(2,699)	(2,699)
At 30 June 2017	9,839	96,112	105,951
Net book amount at 30 June 2017	9,053	24,772	33,825
Net book amount at 30 June 2016	13,775	31,010	44,785

Notes to the Financial Statements

For the year ended 30 June 2017 (continued)

12. Investment in subsidiaries

	2017 £	2016 £
Carrying amount		
At 1 July 2016 and 30 June 2017	2,017,373	2,017,373

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

	Country of Incorporation	Address	Nature of business	Ordinary shares held
Arcontech Solutions Limited*	England	11-21 Paul Street, London EC2A 4JU	Software development and consultancy	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%
Arcontech Pte. Ltd.*	Singapore	10 Hoe Chiang Road, #07-07 Keppel Towers, Singapore 089315	Software development and consultancy	100%

*Exempt from audit

13. Trade and other receivables

	Group 2017 £	Group 2016 £	Company 2017 £	Company 2016 £
Due within one year:				
Trade receivables	98,262	188,961	-	-
Amounts owed by group undertakings	-	-	1,800,565	199,156
Other receivables	-	4,590	-	-
Prepayments and accrued income	77,234	71,809	5,776	7,613
	175,496	265,360	1,806,341	206,769

	Group 2017 £	Group 2016 £	Company 2017 £	Company 2016 £
Due after more than one year:				
Other receivables	141,750	141,750	-	-
	141,750	141,750	-	-

Trade receivables, other receivables and accrued income constitute the financial assets within the category "Loans and receivables" as defined by IAS 39 with a total value of £240,012 (2016: £335,301). Trade receivables are non-interest bearing and generally have a 30-90 day term. Due to their short maturities, the fair value of trade receivables approximates their book value. A provision for impairment of trade receivables is established when there is no objective evidence that the Group will be able to collect all amounts due according to the original terms. The Group considers factors such as default or delinquency in payment, significant financial difficulties of the debtor and the probability that the debtor will enter bankruptcy in deciding whether the trade receivable is impaired. Trade and other receivables are disclosed net of allowances for bad and doubtful debts.

Notes to the Financial Statements

For the year ended 30 June 2017 (continued)

13. Trade and other receivables (continued)

As at 30 June 2017, trade receivables of £Nil were impaired (2016: £Nil). As at 30 June 2017 trade receivables of £95,972 (2016: £117,310) were past due but not impaired. The ageing analysis of these trade receivables is as follows:

	Group 2017 £	Group 2016 £	Company 2017 £	Company 2016 £
Up to 3 months past due	95,972	117,310	-	-
	95,972	117,310	-	-

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

14. Cash and cash equivalents

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

15. Trade and other payables

	Group 2017 £	Group 2016 £	Company 2017 £	Company 2016 £
Trade payables	39,729	36,662	1,562	1,289
Amounts owed to group undertakings	-	-	508,233	87,420
Other tax and social security payable	51,404	9,166	-	-
Other payables and accruals	823,968	752,941	148,670	100,751
Deferred income	987,609	769,159	-	-
	1,902,710	1,567,928	658,465	189,460

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

Trade payables and other payables and accruals constitute the financial liabilities within the category "Financial liabilities at amortised cost" as defined by IAS 39 with a total value of £863,697 (2016: £789,603).

16. Deferred tax

There is no actual or potential liability for deferred taxation due to the availability of losses, which at 30 June 2017 amounted to approximately £9,900,000 (2016: £9,900,000). The unprovided deferred tax asset at 30 June 2017 was £2,000,000 (2016: £2,000,000).

Currently the criteria for the recognition of a deferred tax asset have not been met and accordingly a deferred tax asset has not been included in the balance sheet as at 30 June 2017 and as at 30 June 2016.

Notes to the Financial Statements

For the year ended 30 June 2017 (continued)

17. Share capital

	2017 £	2016 £
Company		
Allotted and fully paid:		
12,501,407 Ordinary shares of 12.5p each (2016: 1,541,731,537 Ordinary Shares of 0.1p each)	1,562,676	1,541,732

On 27 September 2016 the company consolidated every 125 existing ordinary shares of 0.1p each into 1 new ordinary share of 12.5p each.

During the year the company allotted for cash the following ordinary shares of 0.1p each:

Date	Number of shares	Price per share
10 August 2016	4,000,000	0.125p

During the year the company allotted for cash the following new ordinary shares of 12.5p each:

Date	Number of shares	Price per share
7 December 2016	25,238	17.5p
8 March 2017	31,746	17.5p
5 May 2017	47,619	17.5p
30 June 2017	30,952	17.5p

Notes to the Financial Statements

For the year ended 30 June 2017 (continued)

17. Share capital (continued)

Share options

The number of share options and exercise price for the year ended 30 June 2017 takes into account the share consolidation of 125:1 carried out in September 2016. The number of share options at 1 July 2016 has been restated accordingly.

Under the Company's approved 2002 Share Option Scheme, certain Directors and employees held options at 30 June 2017 for unissued Ordinary Shares of 12.5 pence each as follows:

Share options	At 1 July 2016 as restated	Granted	Exercised	Lapsed	At 30 June 2017	Exercise price	Normal exercise period
Employees:	32,000	-	(32,000)	-	-	15.625 pence	17 Sep 12 – 16 Sep 16
	262,540	-	(135,555)	-	126,985	17.50 pence	18 Oct 13 – 17 Oct 17
	80,000	-	-	-	80,000	23.75 pence	1 Sep 17 – 31 Aug 21
	-	165,000	-	-	165,000	64.50 pence	25 Apr 20 – 24 Apr 27
Directors:							
Michael Levy	79,365	-	-	-	79,365	17.50 pence	18 Oct 13 – 17 Oct 17
	-	20,635	-	-	20,635	64.50 pence	25 Apr 20 – 24 Apr 27
Richard Last	95,238	-	-	-	95,238	17.50 pence	18 Oct 13 – 17 Oct 17
	-	24,762	-	-	24,762	64.50 pence	25 Apr 20 – 24 Apr 27
Louise Barton	80,000	-	-	-	80,000	23.75 pence	1 Sep 17 – 31 Aug 21
	-	20,000	-	-	20,000	64.50 pence	25 Apr 20 – 24 Apr 27
Matthew Jeffs	240,000	-	-	-	240,000	23.75 pence	1 Sep 17 – 31 Aug 21
	-	127,516	-	-	127,516	12.50 pence	1 Sep 2017 – 31 Aug 21
	869,143	357,913	(167,555)	-	1,059,501		
Weighted average exercise price	20.0 pence	46.0 pence	17.1 pence	-	29.5 pence		

The number of options exercisable at 30 June 2017 was 301,587 (At 30 June 2016: 469,143), these had a weighted average exercise price of 17.5 pence (2016: 17.5 pence).

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

The highest price of the Company's shares during the year was 71.5p, the lowest price was 37.5p and the price at the year-end was 65p.

The weighted average remaining contractual life of share options outstanding at 30 June 2017 was 4 years (2016: 3 years).

Notes to the Financial Statements

For the year ended 30 June 2017 (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 share options.

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

The fair value of options is valued using the Black-Scholes pricing model. An expense of £68,733 (2016: £26,931) has been recognised in the period in respect of share options granted. The cumulative share option reserve at 30 June 2017 is £188,425 (2016: £119,692). The inputs into the Black-Scholes pricing model, which take into account the share consolidation of 125:1 carried out in September 2016, are as follows:

	30 June 2017 Directors	**30 June 2017 Employees**	**30 June 2016 Directors**	**30 June 2016 Employees**
Exercise price	17.5/23.75/12.5/ 64.5 pence	15.625/17.5/23.75/ 64.5 pence	17.5/23.75 pence	15.625/17.5/23.75 pence
Expected life	4.5/6/10 years	6/10 years	6 years	6 years
Expected volatility	100%	100%	100%	100%
Risk free rate of interest	5%	5%	5%	5%
Dividend yield	Nil	Nil	Nil	Nil
Weighted average share price	15.0/23.75/64.5 pence	15.625/15.0/23.75/ 64.5 pence	15.0/23.75 pence	15.625/15.0/23.75 pence
Fair value of option	14.1875/19.64/ 43.71/64.5 pence	15.0/14.1875/19.64/ 64.5 pence	14.1875/23.75 pence	15.0/14.1875/23.75 pence

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

18. Reserves

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

Share premium account

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

Share option reserve

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

Retained earnings

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

Notes to the Financial Statements

For the year ended 30 June 2017 (continued)

19. Income statement

The Company has taken advantage of the exemption provided under section 408 of the Companies Act 2006 not to publish its individual income statement and related notes. The profit dealt with in the financial statements of the Parent Company was £1,418,859 (2016: £10,899).

20. Net cash generated from operations - Group

	2017 £	2016 £
Operating profit	365,321	292,373
Depreciation charge	19,112	17,140
Non cash share option charges	68,733	26,931
Decrease in trade and other receivables	89,864	213,042
Increase/(decrease) in trade and other payables	334,782	(88,615)
Loss on disposal of plant and equipment	-	736
Cash generated from operations	877,812	461,607
Tax recovered	96,988	105,813
	974,800	567,420

Net cash generated from operations - Company

	2017 £	2016 £
Operating profit	1,411,340	1,458
Non cash share option charges	68,733	26,931
(Increase)/decrease in trade and other receivables	(1,599,572)	599,613
Increase/(decrease) in trade and other payables	469,005	(22,142)
Cash generated from operations	349,506	605,860

Notes to the Financial Statements

For the year ended 30 June 2017 (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 2017 £	**Group 2016 £**	**Company 2017 £**	**Company 2016 £**
Land and buildings:				
Due within one year	141,094	141,094	-	-
Due between two and five years	129,336	270,430	-	-
	270,430	411,524	-	-

22. Related party transactions

Group

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

Key management compensation

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

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

Michael Levy:
Fees payable to Michael Levy & Co, Chartered Accountants, in which Michael Levy is the principal, in respect of accountancy services of £53,664 (2016: £48,242). At 30 June 2017 the amount outstanding was £Nil (2016: £Nil).

Company

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

Management charges payable by subsidiaries £570,563 (2016: £491,041).

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

	2017 £	**2016 £**
Amount due from subsidiaries	6,744,129	6,470,942
Less: Provision for impairment	(4,943,564)	(6,271,786)
Amount due from subsidiaries - net	1,800,565	199,156

During the year a provision of £1,328,222 was released (2016: provision made £68,410) in respect of balances due from subsidiaries.

	2017 £	**2016 £**
Amount due to subsidiaries	508,233	87,420
	508,233	87,420

Notes to the Financial Statements

For the year ended 30 June 2017 (continued)

23. Dividends

A final dividend of 1 pence will be proposed at the Annual General Meeting but has not been recognised as it requires approval (2016: £Nil).

24. Material non-cash transactions

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

25. Financial instruments

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

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

Credit risk

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

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

	Group 2017 £	**Group 2016 £**	**Company 2017 £**	**Company 2016 £**
Trade receivables	98,262	188,961	-	-
Other receivables	-	4,590	-	-
Cash and cash equivalents	2,636,471	1,633,159	1,658,039	1,272,292
Amounts owed by group undertakings	-	-	1,800,565	199,156
	2,734,733	1,826,710	3,458,604	1,471,448

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 0.10% below bank base rate and 1.54% above bank base rate and at fixed rates of between 0.35% and 1.1% (2016: 1% below bank base rate and at a fixed rate of 1%).

Liquidity risk

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

Notes to the Financial Statements

For the year ended 30 June 2017 (continued)

25. Financial instruments (continued)

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 £863,697 (2016: £789,603) 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 2017, if bank base rate had increased by 0.5% with all other variables held constant, post-tax profit would have been £10,675 (2016: £6,750) higher and equity would have been £10,675 (2016: £6,750) higher. Conversely, if bank base rate had fallen 0.5% with all other variables held constant, post-tax profit would have been £10,675 (2016: £6,750) lower and equity would have been £10,675 (2016: £6,750) 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. Ultimate controlling party

There is no ultimate controlling party.

28. Copies of this statement

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