Arcontech Group PLC
Annual report and accounts for the year ended 30 June 2018

ARCONTECH
CREATING ADVANTAGE

REGISTERED NUMBER: 04062416 (England and Wales)

Arcontech Group PLC

Annual Report and Accounts
Year ended 30 June 2018

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	Faegre Baker Daniels LLP 7 Pilgrim Street London EC4V 6LB
Auditors	Nexia Smith & Williamson Statutory Auditor Chartered Accountants Portwall Place Portwall Lane Bristol BS1 6NA
Registrars	Link Asset Services The Registry 34 Beckenham Road Beckenham Kent BR3 4TU
Principal Bankers	Nat West Bank Plc 94 Moorgate London EC2M 6UR
Company website	www.arcontech.com

Chairman's Statement

Arcontech Group plc ("Arcontech" or the "Company") is pleased to report another year of good growth, with profit before taxation for the year ended 30 June 2018 of £575,632 (2017: £373,263), a year-on-year increase of 54% and ahead of expectations. Arcontech achieved a profit after tax of £915,084 (2017: £470,251) for the year, this included a deferred tax credit of £270,000 arising from recognising previous tax losses due to the improving profitability of the Group.

Turnover for the year increased by 9% to £2,519,699 (2017: £2,307,751). This was achieved mainly through additional annual licence sales to existing customers. During the year we redeployed our Hong Kong based salesman to the UK to focus on our Desktop software solution which was launched in late 2017. Since the year-end we have taken on additional sales resource to drive new sales activity whilst continuing to provide excellent account management to existing customers.

Fully diluted earnings per share for the year ended 30 June 2018 increased by 92% to 7.09 pence (2017: 3.68 pence).

Although we have invested in additional sales resource we have maintained tight cost control throughout the year. Investment in product development and enhancement continued at similar levels to the previous year, which we expect to sustain going forward. We also expect to invest in additional marketing of our MVCS and desktop software solution in the coming year.

Financing

As at 30 June 2018 Arcontech had no debt and cash balances of £3,210,058 (2017: £2,636,471) after paying a maiden dividend, an increase of 21% reflecting increased profitability. The business continues to be well financed and has a robust balance sheet.

Dividend

I am pleased to announce that subsequent to the year-end we agreed to propose, subject to approval at the Annual General Meeting, to pay a dividend of 1.30 pence per share for the year ended 30 June 2018 (1.0 pence per share for the year ended 30 June 2017), an increase of 30%, to those shareholders on the register as at the close of business on 7 September 2018, with an ex-dividend date of 6 September 2018.

Employees

I would like to thank our employees and my colleagues on the Board for their hard work, continued support and dedication, which is greatly appreciated.

Outlook

Arcontech is a well-run Company where operational gearing is such that increased sales will have a material positive impact on our profitability. We have added additional sales resource to increase our focus on new business growth and while this will add to our cost base we believe it will generate positive results in the near future. Our pipeline of prospects remains positive, albeit they need to be tempered by the traditionally long and complex sales cycles that are an enduring facet of our business.

Richard Last
Chairman and Non-Executive Director

Chief Executive's Review

I am pleased to report that during the year we maintained our focus on expanding and delivering on the sales pipeline, whilst continuing to control costs, which resulted in a profit before tax of £575,632 (2017: £373,263), an increase of 54% compared to the previous year and a creditable performance by the Group.

The year under review saw two global clients that were trialling our desktop software solution signed up as paying users. Pleasingly, they have both rolled out our solution internationally. We also have six other clients running trials and secured an additional client for our cache product in Africa, our first client on that continent. The majority of our business during the year was a result of expanding our existing client relationships.

Significantly, we renewed a multi-year agreement with an existing global client who is moving from a traditional market data platform to an open-source solution. As an integral part of the overall solution we expect the relationship will grow as the new solution is rolled out globally across the business. Other installations and upgrades, such as Windows to Linux, continue without issue.

We relocated our Hong Kong based salesperson to London, where we believe greater opportunities exist both within the UK and also by using it as a base from where we can target other regions. We have also recruited another salesperson to help accelerate sales growth further. Learning new products and building new relationships in our domain takes time and we expect to see an increasingly positive impact towards the latter part of the current year.

Our participation in the FinTech community, where we both add and receive value, continues to be beneficial for all parties. We have retained our membership of the OpenMAMA steering committee and changed our membership of the Symphony Foundation to now become a development partner with Symphony LLC. As these organisations evolve we will benefit through exposure of our solutions and the ways in which we can meet market data needs to the broader financial community.

The outlook for the business remains positive and unaffected by the wider uncertainties surrounding Brexit.

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

Our overriding focus remains on sales growth and continuing to build our pipeline. We are also exploring opportunities with other organisations that will complement our offerings, whilst continuing to look for strategic acquisition opportunities that will benefit the Group.

We look forward to continued growth in the year ahead.

Matthew Jeffs
Chief Executive

Strategic Report

The Directors present the group strategic report for Arcontech Group plc and its subsidiaries for the year ended 30 June 2018.

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 £2,519,699 (2017: £2,307,751; 2016: £2,141,630)	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 £626,856 (2017: £441,996; 2016: £329,260)	Measurement: Profit before share based payments and tax Performance: Continued growth reflects increase in revenues whilst continuing to maintain tight cost control
Cash £3,210,058 (2017: £2,636,471; 2016: £1,633,159)	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
Earnings per share (basic) 7.14p (2017: 3.79p; 2016: 3.38p)	Measurement: Earnings after tax divided by the weighted average number of shares Performance: Expected to grow
Earnings per share (diluted) 7.09p (2017: 3.68p; 2016: 3.25p)	Measurement: Earnings after tax divided by the fully diluted number of shares Performance: Continued growth

Non-financial KPIs:

Staff retention rate (net) 92% (2017: 100%; 2016: 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 small net decrease

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 22 August 2018 by:

Matthew Jeffs Chief Executive	Michael Levy Group Finance Director

Board of Directors

Directors - Executive

Matthew Jeffs (Chief Executive Officer)

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

Michael Levy (Group Finance Director)

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

Directors – Non-Executive

Richard Last (Chairman)

Richard was appointed Chairman and Non-Executive Director in February 2007. He has over 25 years' experience in IT and communications. Currently, he is Chairman and Non-Executive Director of Gamma Communications plc (AIM listed), ITE Group plc (fully listed), Tribal Group plc (AIM listed) and Lighthouse Group plc (AIM listed). In addition, Richard is Chairman of The British Smaller Companies VCT2 plc (fully listed) and is a Non-Executive Director of Corero Network Security plc (AIM listed). He is a Fellow of the Institute of Chartered Accountants in England and Wales.

Louise Barton

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

Corporate Governance

Corporate governance report

The 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 2018, 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 9.

Remuneration Committee
Details of the Remuneration Committee are given in its Report on pages 10-16. This includes details of the Directors' remuneration, interest in shares, interest in share options, and service contracts. No Director is involved in decisions about their own remuneration.

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

The Nomination Committee is chaired by Richard Last. Its other members are Louise Barton and Michael Levy. The Nomination Committee meets not less than once a year.

Corporate Governance (continued)

Corporate governance report (continued)

<u>Relations with shareholders</u> (continued)

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
22 August 2018

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 2018, 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
22 August 2018

Corporate Governance (continued)

Remuneration Committee report

Dear shareholder

I am pleased to introduce the Directors' Remuneration Report for the year ended 30 June 2018.

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
22 August 2018

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: i) 1 January 2017 and was increased by 5% to £157,500; and ii) 1 July 2018 and was increased by 4.8% to £165,000. 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 2% (previously 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 additional contributions where salary or bonus has been. waived. During the year the company contributed £Nil (2017: £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 100% of salary. 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 Director and Executive Directors. Fees for the Non-Executive Directors are approved by the Board on the recommendation of the Chairman and Executive Directors. The Chairman and Non-Executive Directors are not involved in any discussion or decision about their own remuneration. The Chairman and Non-Executive Directors are entitled to be reimbursed for reasonable expenses.	Details of the fees currently payable are set out in the Annual Report on Remuneration. The fees are reviewed periodically taking into account the time commitment and responsibilities involved and fees paid by other companies of comparable size and complexity.	Not applicable.

Alignment of Executive Remuneration and the Market

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

Consideration of Employee Pay

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

Policy on recruitment

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

Corporate Governance (continued)

Remuneration Committee report (continued)

Policy on recruitment (continued)

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

Policy on Loss of Office

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

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

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

External appointments

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

Policy on Non-Executive Director Remuneration

The remuneration of the Chairman and the other Non-Executive Director comprises fees that are paid via the payroll 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 £165,000 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 2% of basic salary contributed by the Company into the Company's workplace pension scheme	Currently 2% 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 2018.

Remuneration Committee
The Remuneration Committee consisted of the following Directors during the year ended 30 June 2018:

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

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

Activities of the Remuneration Committee during the year
The Remuneration Committee met once during the year to agree the remuneration report and to review the remuneration of the Executive Directors.

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

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

Corporate Governance (continued)

Remuneration Committee report (continued)

Directors' Remuneration (Continued)

Analysis of bonuses:

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

	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**

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

*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.

Corporate Governance (continued)

Remuneration Committee report (continued)

Directors' Remuneration (Continued)

Directors' share interests

The number of ordinary shares of the Company in which the Directors were beneficially interested at 30 June 2018 was:

Director	**30 June 2018**	**30 June 2017**
Richard Last	1,691,659	1,596,421
Louise Barton	1,071,416	1,031,416
Matthew Jeffs	890,000	450,000
Michael Levy	129,660	50,295

Directors' share options interests

No awards were made to Directors during the year ended 30 June 2018.

Director	At 1 July 2017	Granted	Exercised	At 30 June 2018	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	-	40,000	40,000	23.75 pence	1 Sep 17 – 31 Aug 21
	20,000	-	-	20,000	64.50 pence	25 Apr 20 – 24 Apr 27
Matthew Jeffs	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
22 August 2018

Directors' Report

The Directors present their Report and financial statements for the year ended 30 June 2018.

General information

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

Results and dividends

Details of the results for the year are given on page 24. The Directors recommend the payment of a final dividend of 1.3 pence per ordinary share (2017: 1.0 pence per share) to be paid on 4 October 2018 to ordinary shareholders on the register on 24 August 2018 £171,737 (2017: £125,760).

Directors

The Directors who have held office during the period from 1 July 2017 to the date of this report are as follows:

Richard Last
Matthew Jeffs
Michael Levy
Louise Barton

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

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

Independence of Non-Executive Directors

Richard Last and Louise Barton were appointed Non-Executive Directors on 19 February 2007 and have served for more than 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

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 2018 which comprise the Group Income Statement and Statement of Comprehensive Income, Group and Company Statements of Changes in Equity, Group and Company Balance Sheets, Group and Company Cash Flow Statements and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 30 June 2018 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

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

Conclusions relating to going concern
We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:
- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters
We identified the key audit matter described below 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 which have been combined to form one CGU. 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; - 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 £55,000. This has been determined with reference to the benchmark of the group's profit before tax, which we consider to be one of the principal considerations for members of the parent company in assessing the performance of the group. Materiality represents 10% of the group's profit before tax as presented on the face of the consolidated Income Statement.

The materiality for the parent company financial statements as a whole was set at £44,000. This has been determined with reference to the parent company's assets, which we consider to be an appropriate measure for a company with significant investment holdings. Materiality represents 1% of the net assets as presented on the face of the parent company's Balance Sheet.

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

An overview of the scope of our audit

Of the group's 4 reporting components, we subjected 2 to audits for group reporting purposes and 2 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 components within the scope of our work covered: 100% of group revenue, 100% of group profit before tax and 100% of group net assets.

Other information

The other information comprises the information included in the annual report and accounts, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 19, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal controls as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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

22 August 2018

Group Income Statement and Statement of Comprehensive Income

For the year ended 30 June 2018

	Note	2018 £	2017 £
Revenue	3	2,519,699	2,307,751
Administrative costs		(1,958,176)	(1,942,430)
Operating profit	4	561,523	365,321
Finance income		14,109	7,942
Profit before taxation		575,632	373,263
Taxation	8	339,452	96,988
Profit for the year after tax		915,084	470,251
Total comprehensive income for the year		915,084	470,251
Earnings per share (basic)	9	7.14p	3.79p
Earnings per share (diluted)	9	7.09p	3.68p

All of the results relate to continuing operations.

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

Statement of Changes in Equity

For the year ended 30 June 2018

Group:

	Share capital £	Share premium £	Share option reserve £	Retained earnings £	Total equity £
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
Dividend paid	-	-	-	(125,760)	(125,760)
Profit for the year	-	-	-	915,084	915,084
Total comprehensive income for the year	1,562,676	9,802	188,425	1,828,406	3,589,309
Issue of shares	88,638	46,579	-	-	135,217
Share-based payments	-	-	51,224	-	51,224
Realisation of share option reserve	-	-	(183,283)	183,283	-
Balance at 30 June 2018	1,651,314	56,381	56,366	2,011,689	3,775,750

Company:

	Share capital £	Share premium £	Share option reserve £	Retained earnings £	Total equity £
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 expense 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 at 30 June 2017	1,562,676	9,802	188,425	3,062,385	4,823,288
Dividend paid	-	-	-	(125,760)	(125,760)
Profit for the year	-	-	-	1,076,709	1,076,709
Total comprehensive income for the year	1,562,676	9,802	188,425	4,013,334	5,774,237
Issue of shares	88,638	46,579	-	-	135,217
Share-based payments	-	-	51,224	-	51,224
Realisation of share option reserve	-	-	(183,283)	183,283	-
Balance as at 30 June 2018	1,651,314	56,381	56,366	4,196,617	5,960,678

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

Balance Sheets

Registered number: 04062416

As at 30 June 2018

	Note	Group 2018 £	Group 2017 £	Company 2018 £	Company 2017 £
Non-current assets					
Goodwill	10	1,715,153	1,715,153	-	-
Property, plant and equipment	11	17,941	33,825	-	-
Investments in subsidiaries	12	-	-	2,017,471	2,017,373
Deferred tax asset	16	270,000	-	50,000	-
Trade and other receivables	13	141,750	141,750	-	-
Total non-current assets		2,144,844	1,890,728	2,067,471	2,017,373
Current assets					
Trade and other receivables	13	310,123	175,496	2,571,949	1,806,341
Cash and cash equivalents	14	3,210,058	2,636,471	1,458,390	1,658,039
Total current assets		3,520,181	2,811,967	4,030,339	3,464,380
Current liabilities					
Trade and other payables	15	(1,889,275)	(1,902,710)	(137,132)	(658,465)
Total current liabilities		(1,889,275)	(1,902,710)	(137,132)	(658,465)
Net current assets		1,630,906	909,257	3,893,207	2,805,915
Net assets		3,775,750	2,799,985	5,960,678	4,823,288
Equity					
Called up share capital	17	1,651,314	1,562,676	1,651,314	1,562,676
Share premium account	18	56,381	9,802	56,381	9,802
Share option reserve	18	56,366	188,425	56,366	188,425
Retained earnings	18	2,011,689	1,039,082	4,196,617	3,062,385
		3,775,750	2,799,985	5,960,678	4,823,288

The profit dealt with in the financial statements of the Parent Company was £1,076,709 (2017: £1,418,859).

Approved on behalf of the board on 22 August 2018 by:

Matthew Jeffs
Chief Executive

Michael Levy
Group Finance Director

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

Group Cash Flow Statement

For the year ended 30 June 2018

	Note	2018 £	2017 £
Net cash generated from operating activities	20	**552,111**	**974,800**
Investing activities			
Interest received		14,109	7,942
Purchases of plant and equipment		(2,090)	(8,152)
Net cash generated from/(invested in) investing activities		**12,019**	**(210)**
Financing activities			
Issue of shares		135,217	28,722
Dividend paid		(125,760)	-
Net cash generated from financing activities		**9,457**	**28,722**
Net increase in cash and cash equivalents		**573,587**	**1,003,312**
Cash and cash equivalents at beginning of year		2,636,471	1,633,159
Cash and cash equivalents at end of year	14	**3,210,058**	**2,636,471**

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

Company Cash Flow Statement

For the year ended 30 June 2018

	Note	2018 £	2017 £
Net cash (used in)/generated from operating activities	20	**(218,821)**	**349,506**
Investing activities			
Interest received		9,715	7,519
Net cash generated from investing activities		**9,715**	**7,519**
Financing activities			
Issue of shares		135,217	28,722
Dividend paid		(125,760)	-
Net cash generated from financing activities		**9,457**	**28,722**
Net (decrease)/increase in cash and cash equivalents		**(199,649)**	**385,747**
Cash and cash equivalents at beginning of year		1,658,039	1,272,292
Cash and cash equivalents at end of year	14	**1,458,390**	**1,658,039**

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

Notes to the Financial Statements

For the year ended 30 June 2018

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 England and Wales. The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries (together referred to as "the Group").

Basis of preparation

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

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

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

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	Yes
IFRS 16 Leases	1 January 2019	Yes

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 2018 (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 2018. 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.

Research and development tax credits are recognised when received.

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

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

For the year ended 30 June 2018 (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.

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 2018 (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 2018 (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 2018 (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

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

Recognition of deferred tax assets

As described in Note 1, the Group recognises deferred tax assets arising from unused tax losses when certain criteria are met including the probability that future relevant taxable profits will be available. The directors have assessed the likelihood of future taxable profits being available and have judged it appropriate to recognise deferred tax assets for unused losses.

3. Revenue

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

	2018	**2017**
	£	**£**
Software development and licence fees	2,519,699	2,307,751

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

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

	2018	**2017**
	£	**£**
Depreciation of plant and equipment *(see note 11)*	17,974	19,112
Staff costs (*see note 7*)	1,446,965	1,431,316
Operating lease rentals - land and buildings (*see note 21*)	140,866	140,866
Research and development	517,042	516,160

5. Auditor's remuneration:

	2018 £	2017 £
Fees payable to the Group's auditor for the audit of the Group's annual accounts	17,000	16,000
Fees payable to the Group's auditor for other services:		
- audit of the Company's subsidiaries	5,000	4,500

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.

	2018 £	2017 £
Revenue by segment		
Software development and licence fees	2,519,699	2,307,751
External segment revenue	2,519,699	2,307,751
Operating profit by segment		
Software development and licence fees	1,126,932	854,981
Unallocated overheads	(565,409)	(489,660)
Total operating profit	561,523	365,321
Finance income	14,109	7,942
Total profit before tax as reported in the Group income statement	575,632	373,263

	2018 £	2017 £
Segment total of assets		
Software development and licence fees	4,090,852	3,547,110
Unallocated assets	4,140,338	3,802,083
	8,231,190	7,349,193
Less inter company debtors	(2,566,166)	(2,646,498)
Total assets	5,665,024	4,702,695

Notes to the Financial Statements

For the year ended 30 June 2018 (continued)

6. Operating segments (continued):

	2018	**2017**
	£	**£**
Segment total liabilities		
Software development and licence fees	4,318,229	3,890,649
Unallocated liabilities	137,212	658,560
	4,455,441	4,549,209
Less inter company creditors	(2,566,166)	(2,646,499)
Total liabilities	1,889,275	1,902,710

	2018	**2017**
	£	**£**
Additions of property, plant and equipment assets by segment		
Software development and licence fees	2,090	8,152
Total additions	2,090	8,152
Disposals of property, plant and equipment assets by segment		
Software development and licence fees	-	2,699
Total disposals	-	2,699

	2018	**2017**
	£	**£**
Depreciation of property, plant and equipment assets recognised in the period by segment		
Software development and licence fees	17,974	19,112
Total depreciation	17,974	19,112

Non-current assets by country	**2018**	**2017**
	£	**£**
UK	2,144,844	1,890,728
Total non-current assets	2,144,844	1,890,728

Notes to the Financial Statements

For the year ended 30 June 2018 (continued)

6. Operating segments (continued):

Geographical information - External revenue	**2018**	**2017**
	£	**£**
UK	1,669,949	1,600,027
Europe (excluding UK)	796,468	652,894
Africa	22,562	-
North America	28,488	27,830
Asia Pacific	2,232	27,000
	2,519,699	2,307,751

During the year there were 3 customers (2017: 3) who accounted for more than 10% of the Group's revenues as follows:

	2018		**2017**	
	Value of sales £	**% of Total**	**Value of sales £**	**% of Total**
Customer 1	620,630	25%	612,998	27%
Customer 2	477,258	19%	357,327	15%
Customer 3	375,219	15%	309,232	13%
	1,473,107	59%	1,279,557	55%

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

Notes to the Financial Statements

For the year ended 30 June 2018 (continued)

7. Staff costs:

		2018	2017
		£	**£**
a)	**Aggregate staff costs, including Directors' remuneration**		
	Wages and salaries	1,211,183	1,172,764
	Social security costs	167,280	138,031
	Pension contributions	17,279	51,788
	Share-based payments	51,223	68,733
		1,446,965	1,431,316
b)	**The average number of employees (including executive Directors) was:**		
	Sales and administration	6	6
	Development and support	10	11
		16	17
		£	**£**
c)	**Directors' emoluments**		
	Short-term employee benefits	375,413	283,070
	Share-based payments	26,835	63,347
		402,248	346,417
	Social security costs	69,409	32,779
	Key management personnel compensation	471,657	379,196

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

The average number of employees of the parent company is 4 (2017: 4)

The highest paid Director received remuneration of £306,780 (2017: £270,582).

The number of Directors that are members of a defined contribution pension scheme is 2 (2017: 2). Pension contributions paid to a defined contribution scheme in respect of the highest paid Director amounted to £8,969 (2017: £1,163).

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

	2018	2017
	£	**£**
Current tax	69,452	96,988
Deferred tax	270,000	-
Total tax credit for the year	339,452	96,988

Notes to the Financial Statements

For the year ended 30 June 2018 (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:

	2018	**2017**
	£	**£**
Profit on ordinary activities before tax	575,632	373,263
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19 % (2017: 19.75%)	109,370	73,719
Effects of:		
Disallowed expenses	1,984	1,172
Temporary differences on deferred tax	2,841	765
Singapore taxable profit at overseas tax rate	-	426
Research and development tax credits	(69,452)	(96,988)
Deferred tax asset not previously recognised	(270,000)	-
Brought forward losses utilised/loss for the year carried forward	(114,195)	(76,082)
Total tax credit for the year	(339,452)	(96,988)

Factors which may affect future tax charges

At 30 June 2018 the Group has tax losses of approximately £9,600,000 (2017: £9,900,000) to offset against future trading profits.

Notes to the Financial Statements

For the year ended 30 June 2018 (continued)

9. Profit per share

	2018 £	2017 £
Earnings		
Earnings for the purpose of basic and diluted earnings per share being net profit attributable to equity shareholders	915,084	470,251
	915,084	470,251

	No.	No.
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	12,821,702	12,396,220
Number of dilutive shares under option	77,699	367,595
Weighted average number of ordinary shares for the purposes of dilutive earnings per share	12,899,401	12,763,815

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

	2018 £	2017 £
Cost and net book amount		
At 1 July 2017 and at 30 June 2018	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:

	2018 £	2017 £
Arcontech Limited	1,715,153	1,715,153
	1,715,153	1,715,153

The CGUs used in these calculations are Arcontech Limited and Arcontech Solutions Limited which have been combined to form one CGU as they do not operate independently. 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 1.5%.

Notes to the Financial Statements

For the year ended 30 June 2018 (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% (2017: 7%) per annum, after which the UK long-term growth rate is applied. The Directors consider that this rate is appropriate, given the level of new contracts achieved during the year. Fluctuation in revenue is the most sensitive of assumptions. Should revenue fall by more than an average of 6% then this could result in the value of goodwill being impaired.

As the Group does not have any borrowings, the rate used to discount all the forecast cash flows is 9.9% (2017: 9.6%), 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 2016	18,892	115,431	134,323
Additions	-	8,152	8,152
Disposals	-	(2,699)	(2,699)
At 1 July 2017	18,892	120,884	139,776
Additions	-	2,090	2,090
At 30 June 2018	18,892	122,974	141,866
Depreciation			
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 1 July 2017	9,839	96,112	105,951
Charge for the year	4,723	13,251	17,974
At 30 June 2018	14,562	109,363	123,925
Net book amount at 30 June 2018	4,330	13,611	17,941
Net book amount at 30 June 2017	9,053	24,772	33,825

Notes to the Financial Statements

For the year ended 30 June 2018 (continued)

12. Investment in subsidiaries

	2018 £	2017 £
Carrying amount		
At 1 July 2017	2,017,373	2,017,373
Provisions written back	99	-
Amounts written off	(1)	-
At 30 June 2018	2,017,471	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%

13. Trade and other receivables

	Group 2018 £	Group 2017 £	Company 2018 £	Company 2017 £
Due within one year:				
Trade receivables	161,540	98,262	-	-
Amounts owed by group undertakings	-	-	2,565,925	1,800,565
Prepayments and accrued income	148,583	77,234	6,024	5,776
	310,123	175,496	2,571,949	1,806,341

	Group 2018 £	Group 2017 £	Company 2018 £	Company 2017 £
Due after more than one year:				
Other receivables	141,750	141,750	-	-
	141,750	141,750	-	-

For the year ended 30 June 2018 (continued)

13. Trade and other receivables (continued)

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 £303,290 (2017: £240,012). 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.

As at 30 June 2018, trade receivables of £Nil were impaired (2017: £Nil). As at 30 June 2018 trade receivables of £33,588 (2017: £95,972) were past due but not impaired. The ageing analysis of these trade receivables is as follows:

	Group 2018 £	Group 2017 £	Company 2018 £	Company 2017 £
Up to 3 months past due	24,997	95,972	-	-
More than 3 months past due	8,591	-	-	-
	33,588	95,972	-	-

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 2018 £	Group 2017 £	Company 2018 £	Company 2017 £
Trade payables	45,335	39,729	1,868	1,562
Amounts owed to group undertakings	-	-	241	508,233
Other tax and social security payable	64,008	51,404	6,726	-
Other payables and accruals	753,813	823,968	128,297	148,670
Deferred income	1,026,119	987,609	-	-
	1,889,275	1,902,710	137,132	658,465

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 £799,148 (2017: £863,697).

Notes to the Financial Statements

For the year ended 30 June 2018 (continued)

16. Deferred tax

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

	Group 2018 £	Group 2017 £	Company 2018 £	Company 2017 £
At 1 July 2017	-	-	-	-
Tax credit recognised in group income statement	270,000	-	50,000	-
At 30 June 2018	270,000	-	50,000	-

The deferred tax asset has been recognised in relation to forecast taxable profits which are considered probable.
Losses to offset against future trading profits at 30 June 2018 amounted to approximately £9,600,000 (2017: £9,900,000).

17. Share capital

	2018 £	2017 £
Company		
Allotted and fully paid:		
13,210,510 (2017: 12,501,407) Ordinary shares of 12.5p each	1,651,314	1,562,676

During the year the company allotted new ordinary shares as follows:

Date	Number of shares	Price per share
5 July 2017	18,413	17.5p
21 July 2017	10,952	17.5p
15 August 2017	76,190	17.5p
21 September 2017	21,429	17.5p
11 October 2017	174,603	17.5p
18 April 2018	127,516	12.5p
18 April 2018	240,000	23.75p
19 April 2018	40,000	23.75p

Notes to the Financial Statements

For the year ended 30 June 2018 (continued)

17. Share capital (continued)

Share options

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

Share options	**At 1 July 2017**	**Granted**	**Exercised**	**Lapsed**	**At 30 June 2018**	**Exercise price**	**Normal exercise period**
Employees:	126,985	-	(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	-	(40,000)	-	40,000	23.75 pence	1 Sep 17 – 31 Aug 21
	20,000	-	-	-	20,000	64.50 pence	25 Apr 20 – 24 Apr 27
Matthew Jeffs	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
	1,059,501	-	(709,104)	-	350,397		
Weighted average exercise price	29.5 pence	-	19.1 pence	-	50.5 pence		

The number of options exercisable at 30 June 2018 was 120,000 (At 30 June 2017: 301,587), these had a weighted average exercise price of 23.75 pence (2017: 17.5 pence).

The weighted average share price as at the exercise date of the shares exercised in the year was 66.6 pence (2017: 59.5 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 79 pence, the lowest price was 62 pence and the price at the year-end was 76 pence.

The weighted average remaining contractual life of share options outstanding at 30 June 2018 was 7 years (2017: 4 years).

Notes to the Financial Statements

For the year ended 30 June 2018 (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.

The fair value of options is valued using the Black-Scholes pricing model. An expense of £51,224 (2017: £68,733) has been recognised in the period in respect of share options granted. The cumulative share option reserve at 30 June 2018 is £56,366 (2017: £188,425). 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 2018 Directors	**30 June 2018 Employees**	**30 June 2017 Directors**	**30 June 2017 Employees**
Exercise price	23.75/64.5 pence	23.75/64.5 pence	17.5/23.75/12.5/64.5 pence	15.625/17.5/23.75/64.5 pence
Expected life	6/10 years	6/10 years	4.5/6/10 years	6/10 years
Expected volatility	60%-65%	60%-65%	100%	100%
Risk free rate of interest	0.5%	0.5%	0.5%	0.5%
Dividend yield	Nil	Nil	Nil	Nil
Weighted average share price	23.75/64.5 pence	23.75/64.5 pence	15.0/23.75/64.5 pence	15.625/15.0/23.75/64.5 pence
Fair value of option	19.64/36.7 pence	19.64/36.7 pence	14.1875/19.64/43.71/64.5 pence	15.0/14.1875/19.64/64.5 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, less amounts realised and transferred to retained earnings.

Retained earnings

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

For the year ended 30 June 2018 (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.

20. Net cash generated from operations - Group

	2018 £	2017 £
Operating profit	561,523	365,321
Depreciation charge	17,974	19,112
Non cash share option charges	51,224	68,733
(Increase)/decrease in trade and other receivables	(134,626)	89,864
(Decrease)/increase in trade and other payables	(13,436)	334,782
Cash generated from operations	482,659	877,812
Tax recovered	69,452	96,988
	552,111	974,800

Net cash generated from operations - Company

	2018 £	2017 £
Operating profit	1,018,397	1,411,340
Non cash share option charges	51,224	68,733
Increase in trade and other receivables	(765,606)	(1,599,572)
(Decrease)/increase in trade and other payables	(522,836)	469,005
Cash (used in)/generated from operations	(218,821)	349,506

Notes to the Financial Statements

For the year ended 30 June 2018 (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 2018 £	Group 2017 £	Company 2018 £	Company 2017 £
Land and buildings:				
Due within one year	129,336	141,094	-	-
Due between two and five years	-	129,336	-	-
After more than five years	-	-	-	-
	129,336	270,430	-	-

22. Related party transactions

Group

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are disclosed in this part of the note.

Key management compensation

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

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

Michael Levy:
Fees payable to Michael Levy & Co, Chartered Accountants, in which Michael Levy is the principal, in respect of accountancy services of £57,875 (2017: £53,664). At 30 June 2018 the amount outstanding was £Nil (2017: £Nil).

Company

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

Management charges payable by subsidiaries £659,214 (2017: £570,563).

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

	2018 £	2017 £
Amount due from subsidiaries	7,054,104	6,744,129
Less: Provision for impairment	(4,488,179)	(4,943,564)
Amount due from subsidiaries - net	2,565,925	1,800,565

During the year a provision of £455,386 was released (2017: provision released £1,328,222) in respect of balances due from subsidiaries.

	2018 £	2017 £
Amount due to subsidiaries	659,214	508,233
	659,214	508,233

Notes to the Financial Statements

For the year ended 30 June 2018 (continued)

23. Dividends

A final dividend of 1.3 pence will be proposed at the Annual General Meeting but has not been recognised as it requires approval (2017: 1.0 pence).

24. Material non-cash transactions

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

25. Financial instruments

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

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

Credit risk

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

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

	Group 2018 £	**Group 2017 £**	**Company 2018 £**	**Company 2017 £**
Trade receivables	161,540	98,262	-	-
Cash and cash equivalents	3,210,058	2,636,471	1,458,390	1,658,039
Amounts owed by group undertakings	-	-	2,565,925	1,800,565
	3,371,598	2,734,733	4,024,315	3,458,604

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 0.24% below bank base rate and 1.1% above bank base rate and at fixed/variable rates of between 0.35% and 1.79% (2017: 0.10% below bank base rate and 1.54% above bank base rate and at fixed/variable rates of between 0.35% and 1.1%).

Notes to the Financial Statements

For the year ended 30 June 2018 (continued)

25. Financial instruments (continued)

Liquidity risk

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

The Group's only financial liabilities comprise trade payables and other payables and accruals, excluding deferred income, with a carrying value equal to the gross cash flows payable of £799,148 (2017: £863,697) 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 2018, if bank base rate had increased by 0.5% with all other variables held constant, post-tax profit would have been £14,616 (2017: £10,675) higher and equity would have been £14,616 (2017: £10,675) higher. Conversely, if bank base rate had fallen 0.5% with all other variables held constant, post-tax profit would have been £14,616 (2017: £10,675) lower and equity would have been £14,616 (2017: £10,675) 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.

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