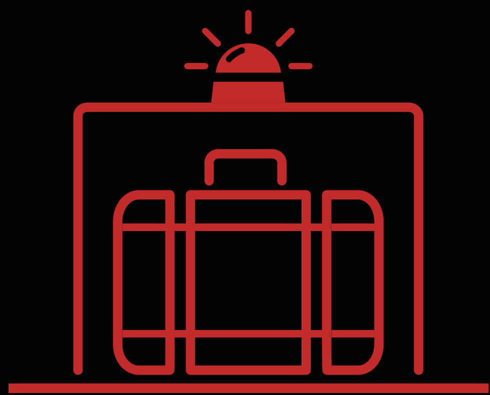
Detect
Image
Identify

Kromek Group plc
Annual report and accounts 2014



kromek™

Kromek is a leading provider of patented radiation technologies to the medical imaging, nuclear detection and security screening markets.

Our vision

To be the world-leading provider of multispectral radiation detection products and technologies enabling our customers and users to take more timely decisions based on superior information.

We operate in three large, growing global markets:

Medical imaging

Improved and earlier diagnoses, better patient outcomes and lowering overall cost of healthcare.

Nuclear detection

More accurate information leads to better safeguarding of people and increases in operational efficiency.

Security screening

More detailed, reliable and efficient detection of threats whilst maintaining operational efficiencies of airports.

Read more in the business model on **page 11**

Read more in the at a glance on **page 2**

Highlights of our year

- Year on year revenue growth of 122%
- Product-based revenue increased from £1.8m to £4.7m
- Strong cash position of £6.6m
- Successful IPO providing access to wider shareholder base and platform for future growth
- Completed successful operational integration of eV Products, Inc., our second US acquisition
- Further improvements in CZT material and detector manufacturing processes
- 28 new patents were filed or awarded
- Investment in expanded sales and marketing capability
- Multiple new and significant contract wins in the medical imaging market: for CT, including a development contract with a top four OEM; in BMD; and also an agreement for the supply of imaging modules in China
- A number of important contracts from both commercial and government customers won in the nuclear detection market
- The start of phase one of the implementation of the EU regulatory framework on 31 January 2014, which is the key to sales of the bottle scanner product in Europe

2014 revenue (£m)

£6.0

+122%

2013 revenue (£m)

£2.7

2014 adjusted EBITDA (£m)

£(2.5)

+22%

2013 adjusted EBITDA (£m)

£(3.2)

2014 cash (£m)

£6.6

2013 cash (£m)

£0.3

2014 debt (£m)

£0.0

2013 debt (£m)

£2.5

Visit us online

→ www.kromek.com

Overview

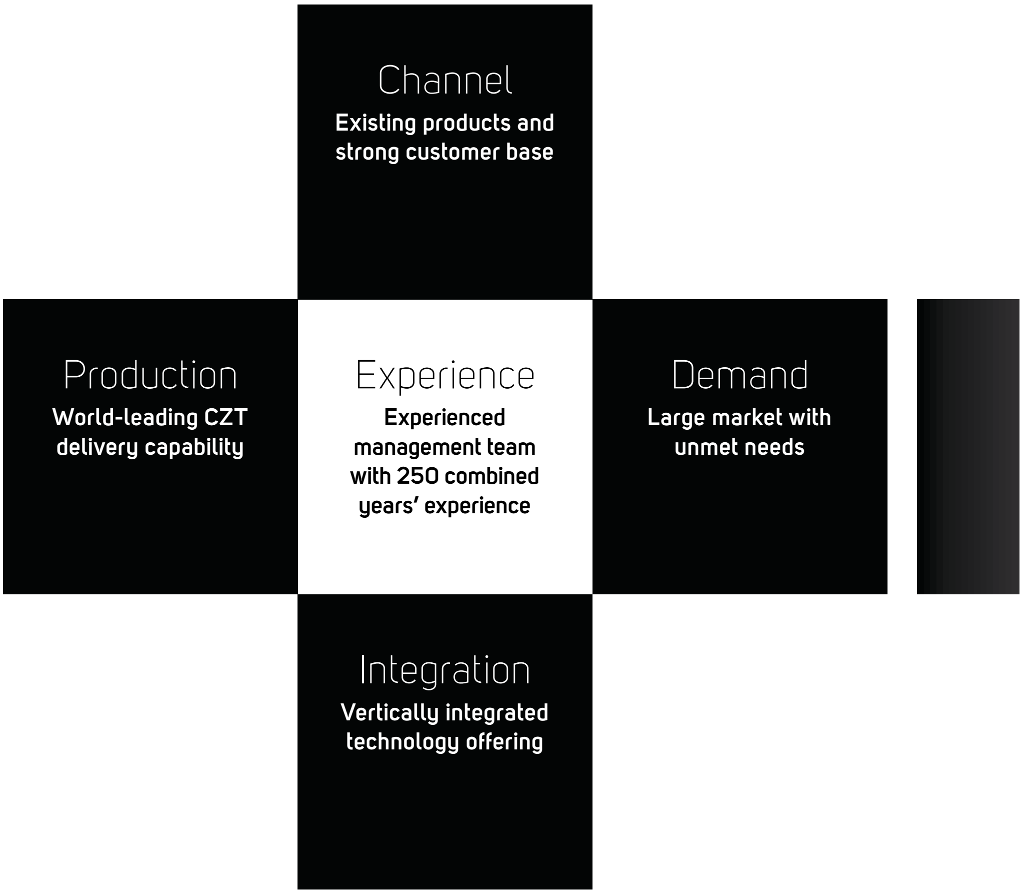
At a glance

Kromek designs, develops and produces x-ray and gamma-ray imaging and radiation detection products.

→ Global customer base

→ Meeting needs of customers through providing both end user products ("EUPs") and original equipment manufacturer ("OEM") components

The Group's business model provides a vertically integrated technology offering to customers. From the growth of cadmium zinc telluride ("CZT") crystals to finished products or detectors, including software, electronics and application specific integrated circuits ("ASICs").



For a more in-depth look at our business model, turn to **page 11**

Read more about our markets on **page 16**

Employees

100+

Patents

240+

We constantly evaluate new opportunities for our existing and complementary technologies.

Where we operate

Kromek's major operational facilities are in California, Pennsylvania and Durham. In addition to our sales office in Germany, we have established sales and distribution relationships covering Europe, North America and Asia Pacific.

Corporate facilities and sales

Sales and distribution partners

North America

Europe and Africa

Asia Pacific

NOVA R&D, Inc.
California

eV Products, Inc.
Pennsylvania

Group headquarters, UK
Durham

Kromek Germany Limited
Düsseldorf

Overview

Chairman's statement

The Group has seen revenue growth across all three trading entities.

→ Richard Morgan, Chairman

Introduction

2013–14 was a very challenging year for Kromek but one in which important transformational changes were achieved. In addition to the successful rationalisation and integration of eV Products, which approximately doubled the number of employees in the Company, important achievements were made in the marketplace. The progress in the contractual partnership with one of the leading CT system manufacturers was an important step forward for the Company in the medical diagnostic imaging market, which is dominated by just four major companies. The foundations of this and other advances were laid while the Company was preparing for and successfully completing its initial public offering ("IPO") and admission to AIM.

Unfortunately, it became clear to the Board that some of the contracts that had been expected (most of which have subsequently been confirmed) were not going to be booked and shipped in time for the revenue to be recognised in the fiscal year to the end of April. This included a promising alliance with an emerging Chinese company to develop novel components for the medical imaging market in China. As a result, the Board realised that the revenue was going to fall short of the budget prepared last summer and this was the subject of a public announcement on 28 March. While we have met the subsequently lowered sales forecast, which shows a significant growth from the previous year, we are disappointed with the shortfall and have taken steps to ensure that our forecasting is much improved in the future. The Board continues to spend a lot of time reviewing in considerable detail both the strategic framework of the business and the operational procedures that feed into the financial planning and budgeting system. I am pleased to report that the changes that were made to the Board at the time of the IPO and subsequently have strengthened it considerably and we are united in our commitment to improve all aspects of our business going forward.

Completing the IPO and raising the amount of funding aimed for was a critical step for Kromek. The Company managed to achieve a lot of progress in the years leading up to the IPO with barely adequate financial resources. This culminated in the acute financial challenges we faced in completing the acquisition of eV Products, which we regarded as a vital strategic step in many different dimensions. That belief has been more than justified by subsequent events, and the funding raised in the public offering has allowed the Company for the first time to focus on a number of fundamental aspects of the business and improve our operational and strategic capability.

Good progress has been made in most of our target markets and the Company has started to build on the headway achieved in all three major sectors, with the addition of key sales and marketing personnel. While the security market (bottle scanners for the analysis of liquids, aerosols and gels or "LAGs") has continued to prove challenging, we have confidence in the performance capabilities of the Kromek product, which has been further refined in the last two years. We have made progress in penetrating this market, which only started to become active in the second half of last year. Despite having seen some disappointments in Japan for our nuclear products, we have managed to build on the underlying product platform and have won some important new contracts from the US Government and other customers. Alongside the progress we have made in medical imaging, we feel confident that the basic metrics underpinning the business are moving in the right direction.

Financial results

The results for 2013–14 show an increase in revenue to £6.0m (2012–13: £2.7m), with the Group returning an adjusted loss before tax of £4.3m (2012–13: loss of £4.1m). This represents strong revenue growth across the business, up £3.3m on the prior year, with second half revenues of £3.7m, ahead of those in the first half by over 60%. This increase was driven by both product sales and revenues from government contracts, as well as commercial technology development agreements. The result for the year is stated after internal research and development costs of £2.0m (2012–13: £0.5m), which have been expensed through the income statement. These costs relate to investment in core technology, platform development and driving manufacturing efficiency to provide a strong and enhanced base for future profitability. The Group reported a basic and diluted loss per share of 5p (2012–13: loss of 8p per share) and an adjusted loss per share of 5p (2012–13: loss of 40p per share). At the balance sheet date, Group cash stood at £6.6m (2012–13: £0.3m).

Employees and partners

I would like to take this opportunity to thank all of our stakeholders – customers, suppliers, employees and shareholders – whose continued efforts and support have been key to our success. I would also like to extend my thanks to Charlotta Ginman for taking over the audit committee chair in March of this year and to Jerel Whittingham for chairing the remuneration committee.

Outlook

Kromek's area of expertise, radiation detection and imaging, represents one of the most basic and important techniques used globally for gaining better information about objects and the environment. Its importance can be seen on a daily basis in hospitals and airports throughout the world, as well as in its importance to those, both civil and military, serving to keep us safe from threats of various sorts.

Our financial position is robust with no debt and a strong cash position. With a strong order book and such a rich opportunity set given the Group's key proprietary technologies, international scope and integrated business model, the Board believes the Group is well positioned for continued growth and looks forward to the future with confidence.

"A transformational year."

Richard Morgan
Chairman
27 August 2014

Overview

Chief Executive's Q&A

→ Dr Arnab Basu MBE, Chief Executive Officer

How would you describe the last year for the Group?

Busy is the first word that comes to mind! The business has moved from a technology development phase into a period where we are now focused on growth that years of investment in our technology have enabled. This has required us to be successful on several fronts: making good progress on customer-funded product development projects; completing the very successful operational integration of eV Products; attracting some important senior hires; and, of course, the IPO and admission to the AIM market.

What has the IPO achieved?

Joining the AIM market gave us capital, liquidity and credibility; all of these will help us grow. As well as accessing the capital needed for our expansion and scaling-up of activities, meeting the stringent requirements needed to successfully complete admission to a regulated market gives customers a higher level of trust and confidence in us as potential partners. We have also benefited from the greater profile. Additionally, if any attractive merger and acquisition ("M&A") opportunities present themselves, such as the eV Products and NOVA acquisitions, then our listing can only help.

What do you see as Kromek's key competitive advantages?

Of course the market is competitive but we choose opportunities that best utilise our differentiators. We have deep experience, know-how and patent-protected manufacturing techniques, which allow us to produce world-leading CZT-based radiation detectors, as well as the electronics and software which analyse the improved information they capture.

With our vertical integration we can put solutions together using our range of capabilities in different ways, like "Lego bricks". This allows us to meet the new, emerging needs of our customers quickly and can deliver components and products that meet their challenges. Collectively I believe these give us a significant competitive advantage in our target markets.

Is the market adopting your products and technologies at the rate you expected?

We are pleased to have seen strong growth and traction this year, but at the same time, have had delays that impacted our revenues for the year, which we notified to the market in March. We were obviously disappointed that some contracts were delayed and we weren't able to recognise the revenues in the period where they were expected within the fiscal year. There is, however, a strong match between our specific capabilities and urgent customer needs in our target sectors of medical imaging, nuclear detection and security screening.

Accurate, quarter by quarter profiling can be a challenge when dealing with very large organisations and government departments. We are proud to be selected by such large-scale organisations as there is no better validation of our technology, but what goes with that is working to their schedules. This is a lesson that we have had to learn. The pipeline and our ability to capitalise on it is as strong as ever and the focus for 2014–15 is to build on that.

Why do your customers choose you? What benefits does Kromek bring?

Well, that can be answered in several ways, from our technology and performance differentiators to our offering of ready-to-use solutions. Ultimately, however, in all our application markets, the pressing need is for more useful and better quality information to make improved assessments of risks, whether that be of cancer, radiation contamination or a bomb. This allows either more rapid and effective interventions or, equally important, more confident reassurance that all is well.

It is this basic need for deeper insight that Kromek's imaging and detection products are repeatedly demonstrating that they can satisfy, evidenced both by new customer sales and by daily use of our products in airports and scores of hospitals.

"Technology leadership forms the basis of our ability to deliver superior value to our customers. It comes from focused investment and a deep understanding of how to produce, manipulate and engineer CZT into cost-effective products for use in multiple applications."

Is your business model scalable?

Our development of future products and our manufacturing capacity are scalable and our approach was designed this way. We can share base technologies to a broad degree across sectors. This also reduces development cost and risk for us and our partners. Our manufacturing can also be stepped up incrementally in line with demand. As a result, we will never have to make massive capital-intensive generational "bets" as is typical in the microprocessor world. Of course, careful investment choices will still be required at various stages of our growth.

Do you have the right team in place?

We are always alert to attracting and retaining the right talent to help take us further, for example, we focused especially on our sales and marketing team this year. Our acquisition of eV Products brought in a lot of additional talent too. We have more than 100 employees across the globe and 19 PhDs amongst them. We have a very accomplished and industry-experienced technology and product development team.

Why are you in your chosen markets? How were they selected?

Key factors are opportunity size and potential for growth and the match of the customer needs with our technology strengths. Additionally, we seek synergy overlaps in the base technologies required to address the selected segments. With competition and so many applications and needs for radiation detection, we cannot try to meet every possibility in every field. We have to be disciplined and focused.

Does any one of your core markets excite you more than the others?

They excite me equally but in different ways. Medical is our biggest opportunity medium term in that, in the last year, we have made the biggest advances since the Company was founded. The development deal in CT with one of the top four OEMs is strategically important and potentially very rewarding.

Shorter term, the aviation security LAGs market is expanding, effectively playing catch-up after a period of regulatory delay. That, at least, gave us an opportunity to even further strengthen our product. Over the next few years, significant opportunities are still to come in Europe and the rest of the world. Our unique ability to become fully integrated into OEM partners' checkpoint scanners, once the current transitional phase of standalone equipment is over, is also exciting.

Finally, we are seeing some further opportunities in nuclear detection, which is already a large market and has developed a lot in the previous 12 months alone.

What are the challenges of being a young company competing in large and growing international markets?

Optimal channels to market can be a stretch for a youthful company with global opportunities in large markets. We cannot afford to ignore the terrific opportunities that OEM partnerships offer, albeit with ultimate market access and time dependent on them. Our revenues this year represent considerable growth but we are still a small company in large competitive markets. However, despite these and other challenges, the foundation stones have now been laid for the success of the Company and the real growth phase is ahead of us.

Are there further target markets?

In terms of applications markets, our technology platform has multiple areas where it could make a difference, but we are extremely focused on the three sectors that we have selected. In terms of geographic markets, Asia is a very large and attractive market and we are working hard to increase penetration. We have experienced some encouraging early traction, as evidenced by recent contract wins announced since the year end.

What are you hoping to achieve in the next 12 months?

With so many opportunities that could be addressed we will certainly need to stay very focused. The coming year is about growing revenues, strengthening our capabilities and ensuring Kromek is recognised as the radiation detection specialist of choice in our target sectors. We want to demonstrate the full potential of Kromek by securing further blue-chip contracts with world-leading companies and deliver on our existing commercial agreements. The combination of those can deliver significant value back to our shareholders.

Strategic report

Business review

Strategic report

→ with Dr Arnab Basu MBE, CEO, and Derek Bulmer, CFO

	2013–14 £'000	2012–13 £'000
Revenue	5,972	2,691
Gross margin (%)	65%	47%
EBITDA	(2,483)	(773)
Exceptional items	—	2,418
Adjusted EBITDA	(2,483)	(3,191)
Result before tax	(4,295)	(1,656)
Adjusted result before tax	(4,295)	(4,074)
Tax	1,106	1,013
Result after tax	(3,189)	(643)
Adjusted result after tax	(3,189)	(3,061)
Net cash	6,563	309

Overview

During the financial year to 30 April 2014 the Group experienced a period of significant change and took a number of steps towards becoming the leading provider of patented radiation technologies to the medical imaging, nuclear detection and security screening markets.

The Company acquired eV Products, Inc. in the US in February 2013, and the financial and operational integration of the business has been successfully completed. The Group now has greater technological and production capability and has secured a strong range of products for the medical market to supplement those which it had previously. The management of the Group and the team in the US have successfully integrated the eV Products business during the year and executed a challenging turnaround, resulting in year on year growth and EBITDA profitability for this business in a very short timescale.

The Group's shares were also successfully admitted to trading on AIM during October 2013 following a successful IPO, which raised £13.4m net from new investors. This provides funding capital for the Group to drive its growth through the expansion of its product portfolio and technology platform; an increase and investment in its sales and marketing process and capacity; and the opportunity to undertake further capital expenditure in both the UK and US to facilitate continued efficiency and capacity improvements.

The results for 2013–14 show revenue of £6.0m (2012–13: £2.7m) and an adjusted EBITDA loss of £2.5m (2012–13: loss of £3.2m). Adjusted loss before tax was £4.3m (2012–13: loss of £4.1m), with cash at the balance sheet date of £6.6m. The Group is now debt free.

Revenue grew £3.3m on the prior year, an increase of over 122% (with like-for-like growth of over 40%, assuming a full year's prior annual revenue of eV Products). The second half revenue of £3.7m represents growth on the first half revenue to 31 October 2013 of 60%.

Despite absorbing eV Products, which was previously loss making, the Group managed to return an adjusted loss before tax of £4.3m against a loss of £4.1m for the prior year.

Sales

Sales in the year were £6.0m (2012–13: £2.7m), representing growth across all of the trading entities of the Group, with the UK showing growth of 18% and the US growing nearly 228% year on year (47% on a like-for-like basis) despite the challenges set by contract delays and adoption rates during the period as noted in the trading update to the market in March 2014. Details of the sales growth can be seen in note 6 to the financial statements.

The growth in sales resulted from contract wins with the bottle scanner, with devices installed in over 25 airports across Europe and Australia. The Group also saw growth in a range of medical products sold to businesses in the US, as well as securing and commencing a number of US Government contracts.

Growth in revenue is a fundamental driver for any business but especially so for one that seeks to commercialise its technology. The level of sales, despite being below original estimates, indicates accelerating traction and growing adoption of the products and technology offerings that the Group provides across our target markets. The Group has invested in expanding its sales and marketing team and has recruited both senior and field sales personnel.

Recent announcements relating to government contracts, the sale of bottle scanners into Asia and a number of contracts for the sale of the Group's range of nuclear products and technology solutions provide clear evidence of the Group's developing sales and marketing operations.

Gross margin

The gross margin (before direct overheads and labour costs) on sales for the year of 65% (2012–13: 47%) was favourably affected by the full-year impact of the acquisition of eV Products, stronger levels of product sales plus higher levels of revenue from government contracts and commercial development agreements.

The Group continually reviews and develops efficiency models and considers capital expenditure options to retain and improve the margins that are achieved. This is manifest in the year and also in the Company's continued commitment to research and development, not only into core technology and products, but also production processes and methodology.

Research and development

As noted above, the Group continues to invest in the development of products and its technology platform in order to advance its commercial advantage and increase margin on sales. During the year the Group undertook a total expenditure on research and development of £3.1m (2012–13: £1.4m) with £1.9m undertaken in the UK (2012–13: £1.4m) and £1.2m in the US (2012–13: £nil). The increase in the US reflects the impact of eV Products and NOVA, where several products have been developed in the year.

Of the £3.1m spent on research and development during the year, £1.1m relates to commercial near-term product development that has been capitalised (2012–13: £0.9m). This expenditure saw eight new nuclear products and five new medical products developed. This provides further short and medium-term opportunities for sales and reflects the capability of the Group to draw from its technology platform and rapidly develop bespoke, need-specific products, utilising the vertical integration model that is reflected in the skill set and profile of the employee base.

The balance of R&D expenditure of £2.0m for the year (2012–13: £0.5m) was expensed through the income statement and reflects further investment in Kromek's core technology, platform developments and improved manufacturing efficiency. This investment provides a strong and enhanced basis for efficiency and profitability in future years and strengthens the market position of the Group's technology. During the period, a total of 28 patents were filed or awarded.

All research and technology programmes, whether for product development or core technology, are subject to tightly controlled and monitored processes and project management.

Result before tax

Despite absorbing the full results of eV Products during the year (which was previously loss making), the Group managed to return an adjusted loss before tax of £4.3m (2012–13: loss of £4.1m) – see table opposite. Whilst the growth and change in the mix in revenue year on year has enhanced margin and resulted in an improved adjusted EBITDA of a loss of £2.5m (2012–13: loss of £3.2m), the result for the year was impacted by the level of depreciation and amortisation of intangible and tangible assets which rose to £1.3m (2012–13: £0.7m), largely due to the full impact of eV Products for the year. Further, the result was also subject to a higher interest charge of £0.5m (2012–13: £0.2m), which will not recur following the repayment of loans. The operating and overhead cost base of the business remained stable on a comparable basis, other than the impact of the recurring costs resulting from the admission to AIM, which were in line with expectations.

Tax

The Group benefits from the UK Research and Development Tax Credit and recorded a credit of £0.7m for the year (2012–13: £0.8m). In addition, the Group saw a movement in the deferred tax provision of £0.4m, resulting in an overall tax credit to the income statement of £1.1m (2012–13: £1.0m).

Earnings per share ("EPS")

EPS are recorded in the year on a basic and diluted basis of a loss of 5p per share (2012–13: loss of 8p per share) and an adjusted basic and diluted loss of 5p per share (2012–13: loss of 40p per share). Due to the Group having losses in each of the two years, the diluted EPS for disclosure purposes is the same as the basic EPS.

Cash and debt

Group cash stood at £6.6m following net receipts from the IPO of £13.4m and repayment of debt and accrued interest of £3.0m. The Group repaid all previously outstanding loans by 31 October 2013 and consequently removed the debenture held over the assets of the Group by Polymer Holdings.

Capital expenditure

Capital expenditure for the year amounted to £0.2m, of which £0.1m was supported by receipts of a grant from the Regional Growth Fund awarded during 2012–13.

Employees

Employee numbers are an important measure in the cost management of the business, representing expenditure in the year of £5.1m (2012–13: £3.4m). The average employee numbers for the year were 101 (2012–13: 75), though the actual number at the year end, excluding Non-Executive Directors, was 105 (2012–13: 101), indicating that staff numbers remained broadly in line on a pro-rata basis.

During the year, Derek Bulmer (CFO), was appointed to the Board as an Executive Director and Lawrence Kinet, Peter Bains and Charlotta Ginman joined the Board as Non-Executive Directors.

We would also like to extend our gratitude to all of our customers, suppliers and employees across the Group who have contributed to the growth and development of the business and we look forward to their valued input as we commercialise the technology during the next year.

Strategic report

Our key strengths

We are an experienced team delivering differentiated benefits to an established and increasing customer base in large and growing world markets.

1. Established and growing blue-chip customer base

The Group's customer base is global and includes market leading OEMs in the medical imaging sector, government agencies, nuclear power plant operators and decommissioning contractors in the nuclear sector. Kromek also has an increasing customer base in the security market, which includes international airport groups and OEMs.

2. Proprietary CZT production technology

Kromek is the world's only multi-site, multipurpose CZT developer and supplier. The Company's UK and US facilities have both been chosen by the US Government for materials delivery programmes. The Group has over 20 years of experience (the most extensive in the world) with successive generations of CZT production technology. In addition to its leading current capabilities in the travelling heater method ("THM") (a method of producing CZT), the Group is the only organisation to have developed a patented vapour phase growth technique vital to its capability of producing bulk CZT material with good structural integrity, uniform composition and high purity, which are all important qualities for future product and market needs.

3. Vertical integration

Kromek's OEM customers are involved in developing and making x-ray or gamma-ray based detection and imaging systems. These systems are designed to have significantly higher performance and functionalities, in order to aid better detection and identification of harmful materials such as explosives, cancerous cells or special nuclear materials. These advanced systems require multispectral detection capabilities and the means to interpret the data they collect.

Kromek's ability to provide the complete chain of technologies (detectors, electronics, simulators and application design) required by the customer to adopt multispectral or CZT detectors lowers the adoption barrier and provides lower cost and a faster path to final product for the customer. Having the "semiconductor to solutions" model also allows Kromek to be a value-added partner to OEMs. Kromek also utilises the vertical integration model, its technology building blocks, to develop and compete at selected EUP levels in our core markets.

4. Large and growing target markets with significant unmet needs

Kromek's products address three key sectors: medical imaging, nuclear detection and security screening. There is a growing need within each of these markets for improved radiation resolution and sensitivity, to provide accurate materials identification or differentiate between closely related materials (e.g. harmful versus benign liquids, cancerous versus normal tissue). These needs are well matched to the Group's capabilities.

The Group's products are in commercial use in all of its three target markets. Scanners with Kromek's detection systems are being used to diagnose cancer, osteoporosis and other diseases in hospitals around the world; its detectors are being used in nuclear power plants, research centres and nuclear decommissioning sites; and its bottle scanners are in daily use to screen liquids in European airports.

5. Experienced management and technology team

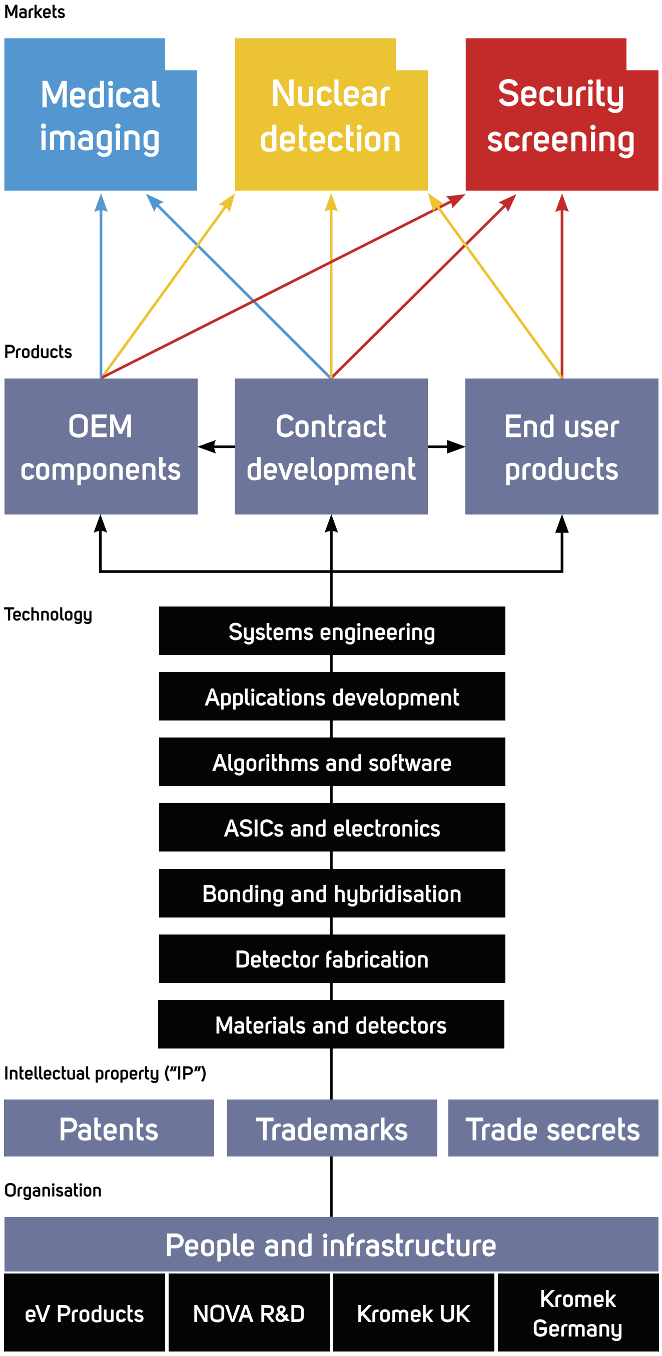
Kromek's management team has a combined experience of over 250 years in relevant technical, commercial and operational areas. Members of senior management have worked in both large global corporates and successful high-growth start-ups, a combination that is important for the current growth phase of the Group. The team has also executed a number of successful M&A transactions and been active in managing post deal integration. The Board has a diverse and international background with substantial public market experience.

Cumulative market in Kromek's target segments*

$2.67bn

* See page 13 for definition and further information.

Our business model



Strategic report

Our strategy

Our strategy is based on maximising the potential of our CZT technology and focusing on market segments where it can have most impact.

1

Element

Integration up the value chain with a "semiconductor to solutions" model

Driver

- Enhance value capture and increase barriers to entry
- Ease end user adoption in a specialised and non-commoditised technology
- Product optimisation given close relationship between technology layers

Example execution during the year

Further strengthening of key areas. For example, additional CZT capacity in the UK, improvement in production process efficiency and further strengthening in software and simulation capabilities.

Integrated offering allowed Kromek to effectively respond to several new opportunities, which resulted in new business wins.

2

Element

Address three core markets: medical imaging, nuclear detection and security screening

Driver

- Three of the largest growth sectors in radiation detection
- Good match to capability and strong technology synergies
- Balance focus and diversify market risks

Example execution during the year

Kromek's activity remains focused only in these markets and in carefully chosen sub-segments of each. There are significant growth opportunities in each.

3

Element

Revenue from both end product and OEM sales

Driver

- Revenue optimisation of technology and product evolution

Example execution during the year

Additional contract wins in both OEM and EUP segments.

Significant new contract announcements in OEM medical imaging market.

We operate in three of the largest segments in radiation detection within very selective sub-segments of those markets based on:

- Existing or defined **need** in a sizeable and growing market
- **Match** of core competency to market need
- **Synergy:** strong overlap in base technologies required to serve these markets

Strategy will be formally reviewed on an annual basis to reflect technology and market developments.

4

Element

Focus only on applications where Kromek's IP can have major commercial impact and utilise common product platforms where possible

Driver

→ Higher margins and reduced adoption risk. Given broad opportunities, focus on those with highest differentiation and value

→ Reduce cost and lower development time

Example execution during the year

Winning contract to supply Kromek's CZT imaging modules in China.

New products developed (e.g. Quant for GR1) based on common core technology.

5

Element

Use both organic growth and selective acquisition for growth

Driver

→ Maximising growth opportunity and rate

→ Access channels to market

→ Consolidation of capabilities

Example execution during the year

Completion of highly successful operational integration and turnaround of eV Products post acquisition in the second half of the previous financial year with sales growth and advances made in CZT growth and detector manufacturing techniques.

6

Element

Evolve towards a more sector-focused divisionalised structure

Driver

→ Maximise the efficacy of core technology and IP investments whilst recognising and addressing different cultures, buying cycles and needs in end user markets

→ Better serve customers within the individual sectors

→ Enhance sector expertise

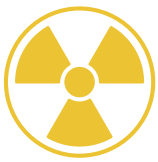
Example execution during the year

Review of IP management processes and review of IP assets versus market needs and competition.

Investment in key additional sector-focused sales capability and resources.

Medical imaging

$1.1bn



Nuclear detection

$1.2bn

Security screening

$370m

Cumulative market size of sub-segments addressed by Kromek.

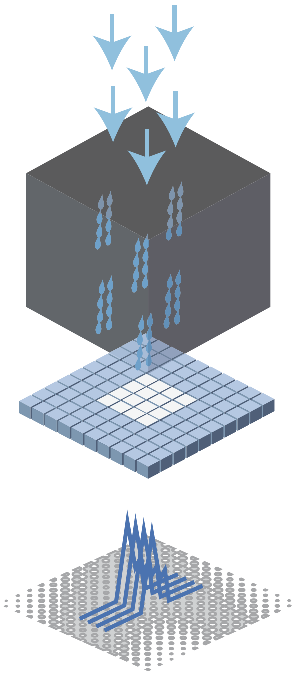
Strategic report

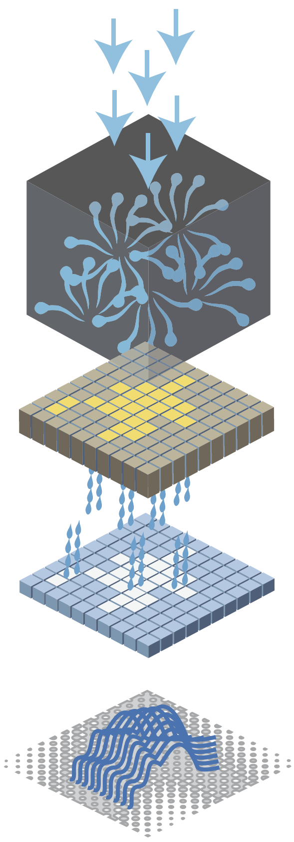
Our technology

Kromek has a diverse, IP-rich technology base and is continuing to build expertise based on its core competencies of materials technology and advanced x-ray imaging architectures.

Why CZT?

Kromek's products are predominately based on CZT. CZT is a compound semiconductor made from the elements cadmium, zinc and tellurium and has long attracted strong market interest as the basis for advanced radiation detectors or imagers, due to its ability to absorb radiation efficiently and directly convert incoming radiation to an electronic signal. CZT is very dense, absorbing x-ray and gamma-ray radiation effectively, improving the sensitivity of positive detection and providing the ability to use lower doses in active imaging applications.





The direct generation of an electronic signal eliminates the need for the two stage process used in scintillations, providing a significantly improved spacial and energy resolution. The improved spacial resolution provides the ability to resolve smaller features within an image, while better energy resolution is key to identify and differentiate materials in the image. CZT detectors have the additional advantage of being operational at room temperature, which reduces the cost and increases the versatility of its implementation, an important aspect to its commercial application.

CZT's electrical properties allow the material to reveal sensitive information about the different energies of radiation being detected. The ability to detect and display different energies is analogous to detecting different colours of the spectrum of light. Energy discrimination in x-ray and gamma-ray detection, combined with Kromek's additional proprietary technologies, can be used to reveal advanced information about the material content of an object or the environment, which aids detection of harmful substances such as explosives, cancerous cells or nuclear materials emitting dangerous levels of radiation.

The Group has a deep expertise in CZT detector production combined with a complete set of closely integrated capabilities to utilise them in meeting customers' needs.

Commercial methods for the production for CZT:

High pressure Bridgman ("HPB")

A mature method reaching the end of its lifespan. This method requires extraction of usable materials from a mixed quality boule; the quality of crystals are generally lower compared to other methods and it is limited to single-crystal grain size. The small single-crystal sizes are, however, well matched to x-ray applications.

Travelling heater method ("THM")

Currently the most commonly used method. Further process improvements have been made by the Group during the past financial year. The process takes longer than HPB; however little material extraction is required. Material uniformity offers beneficial properties for gamma-ray applications.

Multi-tube physical vapour transport ("MTPVT")

The most recently developed, its advantages are flexibility and the ability to adapt to large wafer sizes with a high purity crystal boule requiring limited material extraction processes. One of the principal advantages of this process is the ability to tailor-make material properties. Kromek has the only vapour-based bulk growth method developed worldwide, developed over 25 years, initially at Durham University. Kromek's technical lead in this emerging production process is critical in relation to its non-recurring engineering offerings and is an enabling technology for future products.

Our competitive advantage

Multispectral technology leadership based on CZT semiconductor capabilities and a complete "semiconductor to solutions" offering for customer applications and development.

Medical imaging

- Gamma probe
- CT
- SPECT/Molecular breast image
- BMD

Nuclear detection

Nuclear safeguard

- Handheld
- Network detectors

Civil nuclear

- Environmental monitoring
- Health physics
- Waste management

Security screening

- Liquid scanning
- Carry-on luggage
- Checked baggage

Strategic report

Our markets

Kromek operates in three key global markets: medical imaging, nuclear detection and security screening.

The Group has developed and enhanced its market presence in 2013–14, resulting in revenue growth of 122% and important new contract wins.

Medical imaging, nuclear detection and security screening all have three common and growing trends: improved radiation resolution and sensitivity; the ability to identify different radiation energies (colour); and the direct and timely identification of materials. The Group's products are focused on addressing each of these needs within each market.

		Medical imaging				Nuclear detection		Security screening		
Market		**CT**	**SPECT**	**BMD**	**Gamma probe**	**Safeguard**	**Civil**	**Liquid**	**Checkpoint**	**Checked**
Kromek offering	**Type**	OEM component				EUP and component	EUP	EUP	OEM component and algorithm	
Channel strategy		Direct				Distribution/ white labelling/ direct	Distribution	Distribution	Direct	
Regulatory framework		Approval based but procurement not influenced by regulation				Standards-based regulations Low influence on procurement	Framework for customer high Low influence on procurement	Approval and implementation time scales In US, Transport Safety Administration ("TSA") both regulator and procurement agency		
Nature of customer		Global OEMs			Niche OEMs	Government agencies/OEMs	Private nuclear companies and government agencies	Public and private airport groups	Global OEMs	
Competition		Niche component level companies for new generation Established component level companies				Established OEMs New EUP companies		Niche EUP companies	Established component level companies	

The Group has a diverse and international customer base, including a number of leading international OEMs within the medical sector, international research institutions and end product users within the medical imaging, nuclear detection and security screening markets.

Medical imaging

Adoption driver

Functional information-rich imaging, lower doses, earlier diagnosis, more efficient treatment and lower cost of care, resulting in better clinical outcomes.

Example Kromek benefit to customers

Better diagnosis because there is new and better quality information for detection of cancer, cardiac abnormalities and bone mineral density in the human body.

Potential addressable market for Kromek's products

$1.1bn

This is a large and diverse global market estimated to be worth over $23bn p.a. with demand underpinned by growing global living standards and ageing populations. An average growth of around 5% contains significant variation between markets. End users include hospitals, clinics and diagnostic centres. Regulators and large OEMs are both influential in market development. Various techniques involving ionising radiations (x-ray, etc.) jointly represent the largest market share. Kromek is involved only in certain sub-segments of these, including CT, bone mineral densitometry ("BMD") and single photon emission computed tomography ("SPECT").

The largest vendors in the space are GE, Siemens, Toshiba and Philips, with over 80% market share in total. The US remains the single most important geographical market for medical diagnostic imaging (circa 35%) but the highest growth is in Asia, which already accounts for a little under 30% of the market.

Drivers include the increased efficiency of digital rather than analogue imaging, the desire for richer diagnostic information capture, a focus on reduced diagnostic radiation doses in OECD countries and the general rapid growth in health expenditure in BRIC economies.

Asia has the highest growth driven by the increasing size, average age and health of its population

Strategic report

Our markets continued

Nuclear detection

Adoption driver

More accurate radiation detection and profiling of radioactive sources for increasing drive to improve safety for people and the environment.

Example Kromek benefit to customers

Better information on radiation and source type through use of high resolution CZT detectors; design allows for a small portable instrument suitable for field and in situ use as single or networked detectors.

Potential addressable market for Kromek's products

$1.2bn

→ Civil nuclear

Active and new reactors, decommissioning

Kromek is active in the health physics, environmental monitoring, and waste management sub-segments. Kromek can meet user needs for portable radiation detectors that are both sensitive and versatile in usage, to both monitor and characterise any hazards. Kromek's products enable our customers to cut operational time and carry out monitoring and investigative work in a field that is often challenging with existing products.

Globally, there are around 950 power stations in operation, plus approximately 250 research reactors and around 200 nuclear reactors on ships and submarines. Over 130 nuclear reactors have been shut down around the world, but fewer than 20 have been fully decommissioned. Drivers come from both old and new infrastructure. Significant new build programmes are underway, especially in Asia which is driven by a desire for energy independence and a lower carbon footprint. In the US and Europe the driver is both the monitoring of current plants and the multibillion decommissioning programmes that are to be completed over the next two decades. Costs per plant vary; they are in the order of a few hundred million dollars per plant. West Europe alone has 150 plants to decommission by 2030 and GlobalData has estimated that it will cost at least $81bn.

→ Nuclear safeguard

First responders, military and civil defence

In addition to standalone devices, Kromek has developed the capability to address the rapidly increasing interest in portable networked sensors for both civil and defence applications. There is an increasing trend towards establishing high performance detector networks that can provide real-time position and radiation information.

As is common in this sector Kromek also has component level products businesses. Components provide revenue generation opportunities and are also the building blocks of EUPs in the portfolio.

Security screening

Adoption driver

Improved baggage scanning, lowering false alarms. Mandated demand (EU and other geographic areas) for LAGs scanners since January 2014.

Example Kromek benefit to customers

Simple to use with high performance in terms of explosive detection and low false alarm rate through more accurate content characterisation and ability to scan all container types, including cans.

Potential addressable market for Kromek's products

$370m

Kromek focuses on these areas of the security screening market: standalone liquid screening equipment, carry-on baggage screening and checked-in baggage screening. The total security screening market is estimated to be worth roughly $875m p.a. with a growth rate of about 5% with considerable variation between segments.

It is a strongly regulated environment with the TSA in the US and the European Regulatory Committee for Civil Aviation Security ("ECAC") in Europe being the most influential standard setters worldwide, with considerable co-ordination between them. Regulation acts not only to set standards but as a driver of replacement and upgrade cycles.

Other growth drivers include: specific events (such as new threats), a steady increase in passenger volumes and airport expansion – especially in the Middle East and Asia – and the globalisation of trade boosting airfreight volumes.

Material identification is a primary focus for aviation security with regards to LAGs that are carried in hand luggage. EU legislation (EU Regulation 246/2013) that came into effect from 31 January 2014 states that it is mandatory to screen all LAGs obtained at an airport or on board an aircraft and then presented at airport security for onward travel with equipment approved by ECAC. This ability to carry such cleared materials between flights is the first part of an overall programme to relax restrictions on passenger LAGs by 2016. The market is at an early stage in its development with the majority of the global procurement still to occur.

Signed on behalf of the Board of Directors

Dr Arnab Basu MBE
Chief Executive Officer
27 August 2014

Derek Bulmer
Chief Financial Officer

The LAGs market is at an early stage in its development with the majority of the global procurement still to occur

Corporate governance

Board of Directors

Mr Richard Morgan, Chairman

is the CEO of Amphion Innovations plc, a London and New York-based venture capital firm listed on AIM. Richard has been directly involved in the start-up and development of more than 30 companies in the IT and medtech industries, including Celgene, MediSense, Sequus, Quidel and Vortech Data. He spent 15 years with British merchant bank Schroders plc, as a board member and founding head of the Schroder Strategy Group. Richard has a B.Eng first class honours from Auckland University, New Zealand, and has completed the Advanced Management Program at Harvard Business School. He chaired the audit committee in an interim capacity until Charlotta Ginman's appointment.

Dr Arnab Basu MBE, Chief Executive Officer

has a PhD in physics from Durham University, specialising in semiconducting sensor materials. Arnab held senior management positions in his family business, which manufactured materials for the electronics industry serving over 250 major telecommunications and consumer electronics manufacturers, including Siemens, GEC. He worked in commercial product development for Elmwood Sensors Ltd (Honeywell Group, UK). A prominent figure within the business community, he was awarded Ernst and Young Entrepreneur of the Year (2009) and received an MBE for services to regional development and international trade (2014).

Mr Derek Bulmer, Executive Director and Chief Financial Officer

is a qualified chartered accountant and barrister. Derek has worked with KPMG and undertaken a number of senior management roles with blue-chip PLCs including Bass plc, AWG plc and Ibstock plc. Additionally, and more recently, a number of roles as finance director of privately owned groups in both the IT and oil and gas industries have provided a wealth of experience in executing and managing business acquisitions plus significant aspects of the commercial and legal disciplines of corporate management.

Professor Brian Tanner, Director

is dean for university enterprise and professor of physics at Durham University. With an international reputation in x-ray characterisation of materials, and in particular semiconductors, he has published over 375 papers in international peer-reviewed journals and is the author or co-author of four books. He received the Queen's Award for Enterprise Promotion (2012) and the Barrett Award of the International Centre for Diffraction Data (2005). Brian holds, or has held, several directorships in addition to Kromek. He was a member of the governing council of Durham University for 15 years.

Mr Jerel Whittingham, Director and remuneration committee chairman

has extensive experience in investor, operational and strategy roles with technology-rich companies including Incuvest LLC, Generics Group PLC, Durlacher PLC, Inmarsat plc and a number of start-ups. He has been involved with Kromek since 2003 as its first external advisor before joining the Board in 2005. Currently he combines non-executive director and operational roles in technology growth companies. Jerel is former managing director and then non-executive director of Amphion Innovations plc (AIM). He also served as CEO and later executive chairman of Myconostica Ltd.

Mr Peter Bains, Director

had a 23-year career at GlaxoSmithKline, where he held senior strategic and operational roles including general manager of China, head of global marketing and senior VP of international commercial operations. A consultant since 2009, he specialises in supporting strategic growth opportunities in small/medium-sized innovation-based life science companies serving as non-executive director for Tokyo listed biotech company, Sosei, and Biocon subsidiary, Syngene, and as non-executive chairman of Fermenta Biotech Ltd. Peter holds a BSc combined honours in physiology/zoology from Sheffield University.

Professor Max Robinson, Founder Director

provided business angel finance in order to establish Kromek. He is a highly respected academic and a pioneer, inventor and visionary in the field of 3D x-ray imaging. He has been involved in the management of the interface between academic research and the commercialisation of its findings for 35 years. Max has been named as one of the top 100 academic entrepreneurs by the Times Higher Education supplement and currently holds the position of entrepreneur in residence at Newcastle University.

Dr Graeme Speirs, Director

is an experienced entrepreneur and owner of the Polymer Holdings Group and Polymer N2, an investment company focused on UK start-ups in the technology, life sciences and energy sectors. Graeme graduated with first class honours in chemistry and a PhD in molecular physics from Aberdeen University, and holds a masters degree in technology and economics from Birmingham University. Involved in the oil and gas industry, Graeme is an expert in the design and manufacture of polymer composite products.

Mr Lawrence Kinet, Director

has 40 years' experience in the medical device and bio-pharmaceutical industry in leadership positions, most recently as group chief executive of LMA International NV and president of Smiths Medical, London. Lawrence has raised more than $100m in funding for early stage companies, taking one through an IPO, and made over $1bn worth of acquisitions. His career began at Baxter International, running a number of overseas operations, eventually becoming president of Baxter's international division. He holds a BSc from the University of Birmingham (UK) and an MBA from the University of Chicago.

Ms Charlotta Ginman, Director and audit committee chairman

brings substantial experience in financial and operational management gained during her career in investment banking and global telecommunications. Joining Ernst & Young and later appointed to senior roles with JP Morgan, Deutsche Bank and UBS, Charlotta progressed to director of finance at Nokia Corporation, overseeing a number of acquisitions and leading the successful sale of Nokia's luxury mobile phone division, Vertu Corporation, to a private equity group. A chartered accountant, Charlotta also holds an MSc in Economics from the Swedish School of Economics and Business Administration in Helsinki.

Corporate governance

Review of principal risks

Risks are reviewed on a regular basis by the Board to identify any changes in risk profiles and to consider the optimal range of mitigation strategies.

Risk description	Mitigation
Risks associated with competition	
Kromek faces competition from two types of competitor: specialised companies targeting discrete markets and divisions of large integrated device manufacturers. The Group's current and future competitors may develop superior technology or offer superior products, sell products at a lower price or achieve greater market acceptance in the Group's target markets. Competitors may have longer operating histories, greater name recognition and access to larger customer bases and resources and so be able to respond more quickly to changing customer demands or to devote greater resources to the development, promotion and sale of their products than Kromek can.	To the extent possible, Kromek carefully monitors competing technologies and product offerings. The Group intends to continue to make commercially driven investments in developing new technologies and products to maintain a strong technology position and is investing in further and more specialised marketing and sales resources. Group IP gives some additional protection and we have invested in new IP management systems and processes in the last financial year.
Risks associated with management of the Group's growth strategy	
The ability of the Group to implement its strategy in rapidly evolving and competitive markets will require effective management planning and operational controls. Significant expansion will be required to respond to market opportunities and the Group's future growth and prospects will depend on its ability to manage this growth and to continue to expand and improve operational and financial performance, whilst at the same time maintaining effective cost controls.	Kromek's experienced management team is well versed in the current markets available to the Group and well positioned to adapt to any changes in those markets. The Company also has detailed control systems including R&D cost control and extensive project management criteria. The Group has demonstrated its ability to identify, execute and integrate M&A opportunities with its two successful US acquisitions.
Risks associated with product and technology adoption rates	
The rate of market acceptance of the Group's products is uncertain as many factors influence the adoption of new products including changing needs, regulation, marketing and distribution, users' habits and business systems and product pricing.	With a widely applicable technology base the Group only chooses opportunities in which it believes there is a good match between its rare or unique capabilities and strong adoption drivers in growing large markets. The use of common technology platforms across multiple markets and applications reduces the investment risk in any given market segment and diversifies overall adoption risk.

Risk description	Mitigation
Risks associated with timing of customer or third party projects	
The Group's strategy includes co-development with, or licensing its technologies to, large OEM partners for additional development, manufacturing or subsequent marketing. Consequently the Group will be increasingly reliant on securing and retaining such partners, and delays in the progress of the development, manufacturing or marketing of the end product, as a result of a partner's action or inaction, may delay the receipt of product-related revenues.	The Group has a diversified customer base and operates in a carefully selected portfolio of markets with different adoption risk and cycles. As part of its business model it also more directly controls a certain fraction of its revenues via the sale of complete EUPs in nine competing market segments.
Exchange rate fluctuations	
As a consequence of the international nature of its business, the Group is exposed to risks associated with changes in foreign currency exchange rates on both sales and operations. The Group is based in the UK and presents its financial statements in pounds sterling. However, its subsidiaries eV Products, Inc. and NOVA R&D, Inc., operate in the US and earn revenues and incur costs in US dollars. A growing proportion of the Group's future revenues are expected to be denominated in currencies other than pounds sterling. Exchange rate variations between currencies in which the Group operates could have a significant impact on the Group's reported financial results.	Kromek is predominantly exposed to currency risk on sales and purchases made from customers and suppliers. Sales and purchases from customers and suppliers are made on a central basis and the risk is monitored centrally but not hedged utilising any forward exchange contracts. Apart from these particular cash flows, the Group aims to fund expenses and investments in the respective currency and to manage foreign exchange risk at a local level by matching the currency in which revenue is generated and expenses are incurred.

Corporate governance

Corporate governance report

As an AIM listed company, Kromek Group plc is not obliged to comply with the UK Corporate Governance Code published in September 2012 (the "Code"). However, the Board follows, as far as practicable, the recommendations on corporate governance of the Quoted Companies Alliance for companies with shares traded on AIM.

The Board

The Board normally meets at least eight times per year. Its direct responsibilities include setting annual budgets, reviewing trading performance, approving significant capital expenditure, ensuring adequate funding, setting and monitoring strategy and reporting to shareholders. Between meetings there are monthly telephonic meetings between the Chairman, Chief Executive Officer, Chief Financial Officer and individual Non-Executive Directors. The Non-Executive Directors have a particular responsibility to ensure that the strategies proposed by the Executive Directors are fully considered.

Audit committee

The audit committee is chaired by Charlotta Ginman, an Independent Non-Executive Director. The audit committee was previously chaired by Richard Morgan, the Chairman of the Group, who is currently a member of the audit committee. The other members are Peter Bains, an Independent Non-Executive Director, and Graeme Speirs, a large shareholder and Director of the Board. The committee meets at least once a year, but in practice, strives to meet at least four times a year.

The audit committee is responsible for reviewing the half-year and annual financial statements, interim management statements, preliminary results announcements and any other formal announcement or presentation relating to the Group's financial performance. The audit committee also reviews significant financial returns to regulators and any financial information covered in certain other documents such as announcements of a price sensitive nature.

The audit committee advises the Board on the appointment of external auditors and on their remuneration (both for audit and non-audit work) and discusses the nature, scope and results of the audit with the auditors. The audit committee reviews the extent of the non-audit services provided by the auditors and reviews with them their independence and objectivity. The Chairman of the audit committee reports the outcome of audit committee meetings to the Board and the Board receives minutes of the meetings.

Remuneration committee

The remuneration committee is chaired by Jerel Whittingham, an Independent Non-Executive Director. The other members are Brian Tanner and Lawrence Kinet, Independent Non-Executive Directors. The committee is responsible for making recommendations to the Board, within agreed terms of reference, on the Group's framework of executive remuneration and its cost. The committee determines the contract terms, remuneration and other benefits for each of the Executive Directors, including performance related bonus schemes and pension rights. Further details of the Group's policies on remuneration and service contracts are given in the Remuneration report.

Relations with shareholders

Communication with shareholders is given high priority. There is regular dialogue with major and/or institutional shareholders including presentations after the Group's announcements of the half-year and full-year results. Presentations are also made to analysts at those times to present the Group's results and report on developments. This assists with the promotion of knowledge of the Group in the investment marketplace and with shareholders.

The Board uses both the annual report and financial statements and the Annual General Meeting to communicate directly with private and institutional investors and welcomes their participation. The Chairman aims to ensure that the Chairs of the audit and remuneration committees are available at the Annual General Meeting to answer questions.

Internal control

The Board is responsible for establishing and maintaining the Group's system of internal control and for reviewing its effectiveness. The system is designed to manage rather than eliminate the risk of failure to achieve the Group's strategic objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. As an AIM listed company, the Group does not need to comply with Code provision C2.1 regarding the Directors giving a summary of the process applied by the Board in reviewing the effectiveness of the system of internal control. Instead, the Directors have set out below some of the key aspects of the Group's internal control procedures.

An ongoing process has been established for identifying, evaluating and managing the significant risks faced by the Group. The process has been in place for the full year under review and up to the date of approval of the annual report and financial statements. The Board regularly reviews this process as part of its review of such risks within its meetings. Where any weaknesses are identified, an action plan is prepared to address the issues and is then implemented.

Each year the Board approves the annual budget. Key risk areas are identified, reviewed and monitored. Performance is monitored against budget, relevant action is taken throughout the year and updated forecasts are prepared as appropriate.

Capital and development expenditure is regulated by a budgetary process and authorisation levels. For expenditure beyond specified levels, detailed written proposals have to be submitted to the Board for approval. Reviews are carried out after the purchase is complete. The Board requires management to explain any major deviations from authorised capital proposals and to seek further sanction from the Board.

The Board has reviewed the need for an internal audit function and concluded that this is not currently necessary in view of the small size of the Group and the close supervision by the senior leadership team of its day-to-day operations. The Board will continue to keep this under review.

The Group has a whistle-blowing policy and procedures to encourage staff to contact the audit committee if they need to raise matters of concerns other than via the Executive Directors and senior leadership team.

Going concern

The Board of Directors has confidence that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, it continues to adopt the going concern basis in preparing the annual report and financial statements.

The Group has no external debt and at the statement of financial position date had £6.6m of cash reserves. The Group prepares forecasts which show, taking into account reasonably possible changes in trading performance, that it has sufficient resources to settle all of its liabilities as they fall due.

Corporate governance

Directors' report

The Directors present their annual report on the affairs of the Group, together with the financial statements and auditor's report, for the year ended 30 April 2014.

Principal activities

Kromek Group plc is the leading developer of radiation detectors based on cadmium zinc telluride, providing improved detection and characterisation capabilities within the medical imaging, nuclear detection and security screening markets.

Future development

Our development objectives for 2014–15 are disclosed in the Overview on page 7.

Capital structure

The capital structure is intended to ensure and maintain strong credit ratings and healthy capital ratios in order to support the Group's business and maximise shareholder value. It includes the monitoring of cash balances, available bank facilities and cash flows.

No changes were made to these objectives, policies or processes during the year ended 30 April 2014.

Results and dividends

The consolidated income statement is set out on page 32. The Group's loss after taxation amounted to £3.2m (2013: £0.6m).

The Directors do not recommend the payment of a dividend for the year ended 30 April 2014.

During the year ended 30 April 2014, the Group made political donations of £nil (2013: £nil) and charitable donations of £nil (2013: £nil).

Directors

The Directors of the Group are shown on pages 20 and 21. All of the Directors were Directors for the whole of the year, with the exception of the following: Derek Bulmer, who was appointed Executive Director on 10 December 2013; Charlotta Ginman, who was appointed as a Non-Executive Director on 18 February 2014; and Peter Bains and Lawrence Kinet, who were appointed Non-Executive Directors on 30 August 2013. The emoluments and interests of the Directors in the shares of the Group are set out in the Remuneration report.

Details of significant events since the balance sheet date are contained in note 35 to the financial statements.

Information about the use of financial instruments by the Group and its subsidiaries is given in note 34 to the financial statements.

The Directors, who served throughout the year except as noted, were as follows:

Dr A Basu MBE
Mr D Bulmer (existing CFO, joined the Board on 10 December 2013)
Mr R C E Morgan
Professor M Robinson
Professor B K Tanner
Mr J H Whittingham
Dr G K Speirs
Mr L Kinet (appointed 30 August 2013)
Mr P Bains (appointed 30 August 2013)
Ms C Ginman (appointed 18 February 2014)

Directors' indemnities

The Group has made qualifying third party indemnity provisions for the benefit of its Directors, which were made during the year and remain in force at the date of this report.

Statement of Directors' responsibilities in respect of the Directors' report and the financial statements

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations. Group law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare Group and parent company financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union. Under Group 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 Group and the parent company and of the profit or loss of the Group and the parent company for the period. The Directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the AIM. In preparing these financial statements, the Directors are required to:

→ select suitable accounting policies and then apply them consistently;

→ make judgements and estimates that are reasonable and prudent;

→ state whether applicable IFRSs 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 Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group 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 Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm that:

→ so far as each Director is aware, there is no relevant audit information of which the Group's auditors are not aware; and

→ the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The Directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the Group's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website.

Auditors

Each of the persons who is a Director at the date of approval of this annual report confirms that:

→ so far as the Director is aware, there is no relevant audit information of which the Group's auditors are unaware; and

→ the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

By order of the Board

Dr Arnab Basu MBE
Chief Executive Officer
27 August 2014

Corporate governance

Directors' remuneration report

As the Group is AIM listed, the Directors are not required, under Section 420(1) of the Companies Act 2006, to prepare a Directors' remuneration report for each financial year of the Group and so Kromek Group plc makes the following disclosures voluntarily, which are not intended to, and indeed do not, comply with the requirements of the Companies Act 2006.

The remuneration committee is responsible for recommending the remuneration and other terms of employment for the Executive Directors of Kromek Group plc.

In determining remuneration for the year, the committee has given consideration to the requirements of the UK Corporate Governance Code.

Remuneration policy

The remuneration of Executive Directors is determined by the committee and the remuneration of Non-Executive Directors is approved by the full Board of Directors. The remuneration of the Chairman is determined by the Independent Non-Executive Directors.

The remuneration packages of Executive Directors comprise the following elements:

Basic salary and benefits

Basic salaries for Executive Directors are reviewed annually having regard to individual performance and market practice. In most cases benefits provided to Executive Directors comprise the provision of a Group car, or appropriate allowance, health insurance and contributions to a Group personal pension scheme.

Annual bonus

A bonus may be awarded at the end of each financial year, at the discretion of the remuneration committee, currently ranging from a maximum of 25–75% of basic salary to reward for Executives' contribution to the growth in revenue, and specific targeted or strategic objectives.

Long-Term Incentive Plan ("LTIP")

The Group believes that share ownership by Executive Directors and employees strengthens the link between their personal interests and those of the Group and the shareholders.

The Group has executive share option and incentive schemes, which are designed to promote long-term improvement in the performance of the Group, sustained increase in shareholder value and clear linkage between executive reward and the Group's performance.

The LTIP is based on total shareholder return ("TSR") relative to an AIM peer group. Any awards made vest only after three years.

Service contracts

Arnab Basu and Derek Bulmer each have a service contract with a notice period (to the Company) of nine and six months respectively.

The committee considers the Directors' notice periods to be appropriate as they are in line with the market and take account of the Directors' knowledge and experience.

Non-Executive Directors

The fees of the Non-Executive Directors are determined by the full Board within the limits set out in the Memorandum and Articles of Association. The Non-Executive Directors are not eligible for bonuses, pension benefits or share options.

Directors' emoluments

Emoluments of the Directors for the year ended 30 April 2014 are shown below.

Pension contributions

During the year, the Group made annual pension contributions for Arnab Basu and Derek Bulmer to a personal pension scheme (i.e. a defined contribution scheme). Neither benefits in kind nor bonuses are pensionable.

Details of contributions payable by the Group are:

Director	30 April 2014 £'000	30 April 2013 £'000
Arnab Basu	30	24
Derek Bulmer	4	—

Directors' shareholdings

Beneficial interests of the Directors in the shares of the Group are shown below:

	30 April 2014		30 April 2013	
	Number	%	Number	%
Arnab Basu	2,000,000	1.9	2,000,000	2.6
Richard Morgan*	12,782,730	11.8	12,782,730	16.3
Graeme Speirs**	14,792,730	13.8	14,792,730	18.9
Jerel Whittingham	110,450	0.1	110,450	0.1
Brian Tanner	750,000	0.7	750,000	1.0
Max Robinson	9,500,000	8.8	9,720,000	12.4

* Richard Morgan is interested in Kromek Group plc through Amphion Innovations plc which owns 12,450,420 ordinary shares amounting to 11.5% of the issued share capital.

** Graeme Speirs is interested in Kromek Group plc through Polymer Holdings Ltd which owns 11,377,790 ordinary shares amounting to 10.6% of the issued share capital.

Directors' emoluments for the year ended 30 April 2014

	Salary £'000	Fees £'000	Benefits £'000	Bonus £'000	Pension contributions £'000	**Total emoluments 2014 £'000**	Total emoluments 2013 £'000
Non-Executive Chairman							
Richard Morgan	—	39	—	—	—	**39**	—
Executive							
Arnab Basu	177	—	4	—	30	**211**	205
Derek Bulmer*	48	—	—	—	4	**52**	—
Non-Executive							
Graeme Speirs	—	22	—	—	—	**22**	—
Max Robinson	—	20	—	—	—	**20**	—
Brian Tanner	—	22	—	—	—	**22**	—
Jerel Whittingham	—	24	—	—	—	**24**	—
Charlotta Ginman**	—	8	—	—	—	**8**	—
Peter Bains***	—	28	—	—	—	**28**	—
Lawrence Kinet***	—	28	—	—	—	**28**	—
	225	191	4	—	34	**454**	205

* Derek Bulmer joined the Board on 10 December 2013.
** Charlotta Ginman joined the Board on 18 February 2014.
*** Peter Bains and Lawrence Kinet joined the Board on 30 August 2013.

Executive Directors' share incentive scheme

Share incentive scheme for Arnab Basu, Chief Executive Officer, and Derek Bulmer, Chief Financial Officer

The remuneration committee agreed, in October 2013, an incentive award scheme for Arnab Basu and Derek Bulmer, to offer them shares up to 372,057 and 158,292 respectively, at a price of 1p per share to vest based on specified performance criteria.

These are measured by a TSR condition, calculated as the average total return in comparison to a peer group. The Board receives specialist advice from the Group's accountants.

As at 30 April 2014, no shares had vested under this incentive scheme.

Share price during the year

During the year to 30 April 2014, the highest share price was 81.0p and the lowest share price was 36.0p. The market price of the shares at 30 April 2014 was 41.5p.

Directors' interests in material contracts

No Director was materially interested either at the year end or during the year in any contract of significance to the Group other than their employment or service contract.

Executive Directors' share options

Director	Date of grant	Exercise price p	2013 Number	Awarded during the year	Exercised during the year	**At 30 April 2014 Number**	Expiry date
Arnab Basu	22 September 2006	1.5	720,000	—	—	**720,000**	22 September 2016
Arnab Basu	15 May 2007	1.5	160,000	—	—	**160,000**	15 May 2017
Arnab Basu	20 November 2011	20.0	1,000,000	—	—	**1,000,000**	20 November 2021
Derek Bulmer	13 September 2010	20.0	500,000	—	—	**500,000**	13 September 2020
Derek Bulmer	15 October 2012	20.0	125,000	—	—	**125,000**	15 October 2022
Derek Bulmer	31 May 2013	20.0	—	250,000	—	**250,000**	31 May 2023

Financial statements

Independent auditor's report

To the members of Kromek Group plc

We have audited the financial statements of Kromek Group plc for the year ended 30 April 2014 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and company statements of financial position, the consolidated and company statements of changes in equity, the consolidated and company statements of cash flows and the related notes 1 to 51. The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

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

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- → the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 30 April 2014 and of the Group's and the parent company's loss 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 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in note 3 to the Group financial statements, the Group, in addition to complying with its legal obligation to apply IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board ("IASB").

In our opinion the Group financial statements comply with IFRSs as issued by the IASB.

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

David Wilkinson FCA CF (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
Newcastle upon Tyne, United Kingdom
27 August 2014

Financial statements

Consolidated income statement

For the year ended 30 April 2014

	Note	Year ended 2014 £'000	Year ended 2013 £'000
Continuing operations			
Revenue	5	5,972	2,691
Cost of sales		(2,101)	(1,431)
Gross profit		3,871	1,260
Other operating income	5	719	25
Distribution costs		(144)	(110)
Administrative expenses (including operating expenses)		(8,226)	(5,077)
Operating loss		(3,780)	(3,902)
Finance income	10	15	—
Finance costs	11	(530)	(171)
Negative goodwill released to the income statement		—	2,417
Loss before tax		(4,295)	(1,656)
Tax	12	1,106	1,013
Loss for the year from continuing operations		(3,189)	(643)
Losses per share:	14		
– Basic and diluted (£)		(0.05)	(0.08)
– Adjusted basic and diluted (£)*		(0.05)	(0.40)

* The adjusted losses per share do not take into account the negative goodwill released to the income statement in 2013.

Consolidated statement of comprehensive income

For the year ended 30 April 2014

	Year ended 2014 £'000	Year ended 2013 £'000
Loss for the year	(3,189)	(643)
Exchange differences on translation of foreign operations	(641)	200
Total comprehensive losses for the year	(3,830)	(443)

Consolidated statement of financial position

As at the year ended 30 April 2014

	Note	30 April 2014 £'000	30 April 2013 £'000
Non-current assets			
Goodwill	15	1,275	1,275
Other intangible assets	16	6,965	6,137
Property, plant and equipment	17	2,285	3,005
		10,525	10,417
Current assets			
Inventories	19	2,389	2,098
Trade and other receivables	20	1,907	1,579
Current tax assets	12	696	767
Cash and bank balances		6,563	309
		11,555	4,753
Total assets		22,080	15,170
Current liabilities			
Trade and other payables	23	(3,210)	(3,149)
Current tax liabilities		—	(1)
Borrowings	21	—	(2,449)
		(3,210)	(5,599)
Net current assets/(liabilities)		8,345	(846)
Non-current liabilities			
Deferred tax liabilities	22	(1,134)	(1,544)
Total liabilities		(4,344)	(7,143)
Net assets		17,736	8,027
Equity			
Share capital	25	1,080	1,175
Share premium account	26	34,612	22,278
Capital redemption reserve	27	1,175	—
Translation reserve	28	(482)	159
Accumulated losses	29	(18,649)	(15,585)
Total equity		17,736	8,027

The financial statements of Kromek Group plc (registered number 8661469) were approved by the Board of Directors and authorised for issue on 27 August 2014. They were signed on its behalf by:

Dr Arnab Basu MBE
Chief Executive Officer

Financial statements

Consolidated statement of changes in equity

For the year ended 30 April 2014

	Equity attributable to equity holders of the Company					
	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Translation reserve £'000	Accumulated losses £'000	Total equity £'000
Balance at 1 May 2012	1,175	20,330	—	(41)	(15,064)	6,400
Loss for the year	—	—	—	—	(643)	(643)
Other comprehensive income for the year	—	—	—	200	—	200
Total comprehensive income/(losses) for the period	—	—	—	200	(643)	(443)
Issue of share capital	—	1,948	—	—	—	1,948
Credit to equity for equity-settled share-based payments	—	—	—	—	122	122
Balance at 30 April 2013	1,175	22,278	—	159	(15,585)	8,027
Loss for the year	—	—	—	—	(3,189)	(3,189)
Other comprehensive losses for the year	—	—	—	(641)	—	(641)
Total comprehensive losses for the period	—	—	—	(641)	(3,189)	(3,830)
Issue of share capital net of expenses	301	13,113	—	—	—	13,414
Share reorganisation	779	(779)	—	—	—	—
Share buyback	(1,175)	—	1,175	—	—	—
Credit to equity for equity-settled share-based payments	—	—	—	—	125	125
Balance at 30 April 2014	**1,080**	**34,612**	**1,175**	**(482)**	**(18,649)**	**17,736**

Consolidated statement of cash flows

For the year ended 30 April 2014

	Note	Year ended 2014 £'000	Year ended 2013 £'000
Net cash used in operating activities	30	**(2,149)**	(1,245)
Investing activities			
Interest received		15	—
Purchases of property, plant and equipment		(187)	(58)
Purchases of patents and trademarks		(567)	(400)
Capitalisation of research and development costs		(1,061)	(906)
Acquisition of overseas trade and assets		—	(1,272)
Deferred consideration		—	(53)
Net cash used in investing activities		**(1,800)**	(2,689)
Financing activities			
Loans (paid)/received		(2,449)	1,949
Proceeds on issue of shares		13,414	1,948
Interest paid		(530)	(171)
Net cash from financing activities		**10,435**	3,726
Net increase/(decrease) in cash and cash equivalents		**6,486**	(208)
Cash and cash equivalents at beginning of year		**309**	477
Effect of foreign exchange rate changes		(232)	40
Cash and cash equivalents at end of year		**6,563**	309

Financial statements

Notes to the consolidated financial statements

For the year ended 30 April 2014

1. General information

Kromek Group plc is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on page 68. The nature of the Group's operations and its principal activities are set out in the Strategic report on pages 8 to 19.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policies set out in note 3.

2. Adoption of new and revised standards

During the current reporting period there were no new standards or amendments that had a material impact on the net assets of the Group.

The following standards and interpretations issued by the IASB or IFRIC have not been adopted by the Group as these are not effective for the current year. The Group is currently assessing the impact these standards and interpretations will have on the presentation of its consolidated results in future periods:

- IFRS 15 'Revenue from Contracts with Customers' (effective for accounting periods beginning on or after 1 January 2017). This amendment has not yet been endorsed for use in the EU.

3. Significant accounting policies

Basis of preparation

The financial statements have been prepared in accordance with IFRSs as adopted by the European Union and IFRIC interpretations. Therefore the Group financial statements comply with Article 4 of the EU IAS Regulation.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain properties and financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for the assets. The principal accounting policies adopted are set out below.

Basis of consolidation

The consolidated financial statements incorporate the results and net assets of the Group and entities controlled by the Group (its subsidiaries) made up to 30 April each year. Control is achieved where the Group 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 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 results 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.

Merger accounting

In October 2013, when Kromek Group plc was included as the new ultimate parent entity as part of a Group reconstruction arrangement, the reconstructed Group was consolidated using merger accounting principles as outlined in Financial Reporting Standard 6 ("FRS") "Acquisitions and Mergers" (UK) and treated the reconstructed Group as if it had always been in existence.

The Company has taken advantage of merger relief available under Companies Act 2006 in respect of the share for share exchange as the issuing company has secured more than 90% equity in the other entity. The carrying value of the investment is carried at the nominal value of the shares issued.

3. **Significant accounting policies** continued

Going concern

The Board of Directors has confidence that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, it continues to adopt the going concern basis in preparing the annual report and financial statements.

The Group has no external debt and at the statement of financial position date had £6.6m of cash reserves. The Group prepares forecasts which show, taking into account reasonably possible changes in trading performance, that it has sufficient resources to settle all of its liabilities as they fall due.

Business combinations

The Group financial statements consolidate those of the Company and its subsidiary undertakings. Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The financial information of subsidiaries is included from the date that control commences until the date that control ceases. Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial information.

Acquisitions on or after 1 May 2010

For acquisitions on or after 1 May 2010, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, the negative goodwill is recognised immediately in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the entity over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGUs") expected to benefit from the synergies of the combination. CGUs to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Financial statements

Notes to the consolidated financial statements continued

For the year ended 30 April 2014

3. Significant accounting policies continued

Revenue recognition

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

i) Sale of goods

The Group's income derives from the sale of goods and from the research and development contracts that are typically with government agencies. Revenue on product sales is recognised when the risk and reward of ownership pass to the customer. The terms of sale are agreed with each customer on an individual basis, which is generally when the goods are dispatched to the carrier. Revenue from research and development contracts is recognised as revenue in the accounting period in which the milestones and performance are achieved.

ii) Long-term contracts

The Group reflects revenue from long-term contracts by reference to the stage of completion of the contract activity at the statement of financial position date. Revenue and profits are determined by estimating the outcome of the contract and determining the costs and profit attributable to the stage of completion. Any expected contract loss is recognised immediately.

iii) Exclusivity contracts

The Group reflects exclusivity payments as revenue at the point that it contractually agrees to become exclusive. Where terms of exclusivity require performance the Group reflects the revenue as performance is delivered.

iv) Interest revenue

Interest income is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Foreign currencies

The individual results of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in pounds sterling, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the results of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each statement of financial position date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

3. Significant accounting policies continued

Foreign currencies continued

Exchange differences are recognised in profit or loss in the period in which they arise.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the statement of financial position date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity.

On consolidation, the results of overseas operations are translated into sterling at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations, including goodwill arising on the acquisition of those operations, are translated at the rate ruling at the statement of financial position date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised directly in other comprehensive income and are credited/(debited) to the retranslation reserve.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants towards job creation ("GBI") costs are recognised as income over the periods necessary to match them with the related costs and are deducted in reporting the related expense.

Government grants relating to research and development ("GRD") costs are treated as deferred income and released to profit or loss over the expected useful lives of the assets concerned.

Operating result

Operating loss is stated as loss before tax, finance income and costs and other gains and losses.

Retirement benefit costs

The Group operates a defined contribution pension scheme for employees.

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. For these schemes the assets of the schemes are held separately from those of the Group in independently administered funds. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

i) Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit 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 Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the statement of financial position date.

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Notes to the consolidated financial statements continued

For the year ended 30 April 2014

3. Significant accounting policies continued

Taxation continued

ii) Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the statement of financial position and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the statement of financial position 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 the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, 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 statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the statement of financial position date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income. 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 tax assets and liabilities on a net basis.

Property, plant and equipment

Fixtures and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is recognised so as to write off the cost or valuation of assets (other than land and properties under construction) less their residual values over their useful lives, using the straight-line method, on the following bases:

Plant and machinery	25%
Fixtures, fittings and equipment	15%
Computer equipment	25%

The gain or loss arising on the disposal or scrappage of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

Internally generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally generated intangible asset arising from the Group's product development is recognised only if all of the following conditions are met:

- → an asset is created that can be identified (such as crystal production methodology);
- → it is probable that the asset created will generate future economic benefits; and
- → the development cost of the asset can be measured reliably.

Research expenditure is written off as incurred. Development expenditure is also written off, except where the Directors are satisfied as to the technical, commercial and financial viability of individual projects. In such cases, the identifiable expenditure is deferred and amortised over the period during which the Group is expected to benefit. This period normally equates to the life of the products the development expenditure relates to. Provision is made for any impairment.

3. Significant accounting policies continued

Patents and trademarks

Patents and trademarks are measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful lives.

Impairment of tangible and intangible assets excluding goodwill

At each statement of financial position date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the CGU to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

An intangible asset with an indefinite useful life is tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell 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 which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or CGU) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs comprise direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated in the statement of financial position at standard cost, which approximates to historical cost determined on a first in, first out basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Work in progress costs are taken as production costs, which include an appropriate proportion of attributable overheads.

Financial instruments

Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

i) Financial assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified category: "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. The Group held no fair value through profit and loss ("FVTPL"), available for sale ("AFS") or held-to-maturity ("HTM") financial assets during the historical financial information period.

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Notes to the consolidated financial statements continued

For the year ended 30 April 2014

3. Significant accounting policies continued

Financial instruments continued

ii) Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as "loans and receivables". Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

iii) Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each statement of financial position date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

iv) Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

v) Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

vi) Equity instruments

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

vii) Financial liabilities

Financial liabilities are classified as "other financial liabilities". The Group held no financial liabilities that would be classified as FVTPL.

viii) Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

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

ix) Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date and spread over the period during which the employees become unconditionally entitled to the options, which is based on a period of employment of three years from grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 32.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. The vesting date is determined based on the date an employee is granted options, usually three years from date of grant. At each statement of financial position date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserves.

3. Significant accounting policies continued

Cash

Cash, for the purposes of the statement of cash flows, comprises cash in hand and deposits repayable on demand, less overdrafts repayable on demand.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 3, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the Group's accounting policies

The following are the critical judgements that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Development costs

As described in note 3, the Group expenditure on development activities is capitalised if it meets the criteria as per IAS 38.

These capitalised assets are amortised on a straight-line basis over their useful lives. Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment as at the transition date and thereafter for all non-financial assets at each reporting date. Goodwill is tested for impairment annually and at other times when such indicators exist, such as negative cash flows and operating losses of subsidiaries. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Valuation of acquired intangible assets

Acquisitions may result in identifiable intangible assets such as customer relationships, supplier relationships, licences and technology being recognised. These are valued by professional valuation firms, using discounted cash flow methods that require the application of certain key judgements, and estimates are required to be made in respect of discount rates and future cash flows.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

i) Development costs

Development costs are capitalised in accordance with the accounting policy noted above. Initial capitalisation of costs is based on management's judgement that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone.

ii) Impairment of goodwill

The Group determines whether goodwill is impaired on at least an annual basis or more frequently when there are indications of possible impairment. The impairment review requires a value in use calculation of the CGUs to which the goodwill is allocated. In estimating the value in use, management is required to make an estimate of the expected future cash flows attributable to the CGU and to choose an appropriate discount rate to calculate the present value of those cash flows. The carrying amount of goodwill at 30 April 2014 was £1,275k (2013: £1,275k). Further details are given in note 15.

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Notes to the consolidated financial statements continued

For the year ended 30 April 2014

5. Revenue

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

	Year ended 2014 £'000	Year ended 2013 £'000
Continuing operations		
Sales of goods and other services	5,329	2,691
Other revenue	643	—
Total revenue	5,972	2,691
Grant income	229	—
Insurance claims	—	25
Legal settlement	490	—
Total income	6,691	2,716

6. Operating segments

Products and services from which reportable segments derive their revenues

For management purposes, the Group is organised into two business units (US and UK) and it is on these operating segments that the Group is providing disclosure.

The chief operating decision maker is the Board of Directors, which assesses performance of the segments using the following key performance indicators: revenues, gross profit and operating profit. The amounts provided to the Board with respect to assets and liabilities are measured in a way consistent with the financial statements.

The turnover, profit on ordinary activities and net assets of the Group are attributable to one business segment, i.e. the development of digital colour x-ray imaging enabling direct materials identification, as well as developing a number of detection products in the industrial and consumer markets.

Analysis by geographical area

A geographical analysis of the Group's revenue by destination is as follows:

	Year ended 2014 £'000	Year ended 2013 £'000
United Kingdom	385	85
North America	3,416	1,240
Asia	1,089	1,165
Europe	1,054	199
Australasia	28	2
Total revenue	5,972	2,691

6. Operating segments continued

Analysis by geographical area continued

A geographical analysis of the Group's revenue by origin is as follows:

Year ended 30 April 2014	UK operations £'000	US operations £'000	Total for Group £'000
Revenue from sales			
Revenue by segment:			
– Sale of goods and services	1,832	3,764	5,596
– Other revenue	—	643	643
Total sales by segment	1,832	4,407	6,239
Removal of inter-segment sales	(10)	(257)	(267)
Total external sales	1,822	4,150	5,972
Segment result – operating loss	(3,143)	(637)	(3,780)
Interest received	15	—	15
Interest expense	(530)	—	(530)
Loss before tax	(3,658)	(637)	(4,295)
Tax credit	1,106	—	1,106
Loss for the year	(2,552)	(637)	(3,189)
Adjusted EBITDA	(2,526)	43	(2,483)
Other segment information			
Property, plant and equipment additions	98	89	187
Depreciation of property, plant and equipment	364	373	737
Intangible asset additions	1,230	398	1,628
Amortisation of intangible assets	253	307	560
Statement of financial position			
Total assets	15,290	6,790	22,080
Total liabilities	(3,649)	(695)	(4,344)

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Notes to the consolidated financial statements continued

For the year ended 30 April 2014

6. Operating segments continued

Analysis by geographical area continued

Year ended 30 April 2013	UK operations £'000	US operations £'000	Total for Group £'000
Revenue from sales			
Revenue by segment:			
– Sale of goods and services	1,548	1,343	2,891
Removal of inter-segment sales	—	(200)	(200)
Total external sales	1,548	1,143	2,691
Segment result – operating loss	(3,407)	(495)	(3,902)
Interest received	—	—	—
Interest expense	(148)	(23)	(171)
Gain on a bargain purchase	2,417	—	2,417
Loss before tax	(1,138)	(518)	(1,656)
Tax credit	765	248	1,013
Loss for the year	(373)	(270)	(643)
Adjusted EBITDA	(2,909)	(282)	(3,191)
Other segment information			
Property, plant and equipment additions	58	2,222	2,280
Depreciation of property, plant and equipment	346	101	447
Intangible asset additions	1,298	2,114	3,412
Amortisation of intangible assets	152	112	264
Statement of financial position			
Total assets	8,370	6,800	15,170
Total liabilities	(5,108)	(2,035)	(7,143)

Inter-segment sales are charged at prevailing market prices.

No other additions of non-current assets have been recognised during the year other than property, plant and equipment and intangible assets.

No impairment losses were recognised in respect of property, plant and equipment and goodwill.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment loss represents the loss earned by each segment without allocation of the share of losses of associates, central administration costs including Directors' salaries, investment revenue and finance costs, and income tax expense. This is the measure reported to the Group's Chief Executive for the purpose of resource allocation and assessment of segment performance.

6. Operating segments continued

Revenues from major products and services

The Group's revenues from its major products and services were as follows:

	Year ended 2014 £'000	Year ended 2013 £'000
Product revenue	4,746	1,786
Research and development revenue	1,226	905
Consolidated revenue (excluding investment revenue)	5,972	2,691

Information about major customers

Included in revenues arising from US operations are revenues of approximately £1,249k (2013: £899k) which arose from sales to the Group's largest customer.

7. Loss for the year

Loss for the year has been arrived at after (crediting)/charging:

	Year ended 2014 £'000	Year ended 2013 £'000
Net foreign exchange gains	(84)	(1)
Research and development costs recognised as an expense	2,020	580
Depreciation of property, plant and equipment	737	447
Amortisation of internally generated intangible assets	560	264
Release of negative goodwill to income statement	—	(2,417)
Cost of inventories recognised as expense	1,911	1,023
Staff costs (see note 9)	5,104	3,431

8. Auditor's remuneration

The analysis of the auditor's remuneration is as follows:

	Year ended 2014 £'000	Year ended 2013 £'000
Fees payable to the Company's auditor and their associates for other services to the Group		
– The audit of the Company's subsidiaries	35	38
Total audit fees	35	38
– Audit related assurance services	—	40
– Taxation compliance services	6	6
– Other taxation advisory services	107	3
– Corporate finance transaction services	139	—
Total non-audit fees	252	49

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Notes to the consolidated financial statements continued

For the year ended 30 April 2014

9. Staff costs

The average monthly number of employees (including Executive Directors) was:

	Year ended 2014 Number	Year ended 2013 Number
Directors	4	6
Research and development, production, sales and distribution	81	58
Administration	16	11
	101	75

Their aggregate remuneration comprised:

	Year ended 2014 £'000	Year ended 2013 £'000
Wages and salaries	4,177	2,806
Social security costs	439	218
Pension scheme contributions	363	285
Share-based payments	125	122
	5,104	3,431

Further details on the remuneration of the Directors are included in the Directors' remuneration report on pages 28 and 29.

Key management compensation:

	Year ended 2014 £'000	Year ended 2013 £'000
Wages and salaries and other short-term benefits	790	575
Social security costs	99	55
Pension scheme contributions	76	99
Share-based payment expense	45	70
	1,010	799

Key management comprises the Executive Directors and senior operational staff.

10. Finance income

	Year ended 2014 £'000	Year ended 2013 £'000
Interest revenue	15	—

Investment revenue earned on financial assets, analysed by category of asset, is as follows:

	Year ended 2014 £'000	Year ended 2013 £'000
Loans and receivables (including cash and bank balances)	15	—
Total interest income for financial assets not designated at FVTPL	15	—

11. Finance costs

	Year ended 2014 £'000	Year ended 2013 £'000
Interest on bank overdrafts and loans	17	59
Interest on loans due to related parties	513	112
Total interest expense	530	171

12. Tax

Recognised in the income statement

	Year ended 2014 £'000	Year ended 2013 £'000
Current tax credit:		
– UK corporation tax on losses in the year	696	767
– Adjustments in respect of previous years	—	(2)
– Foreign taxes paid	(1)	(1)
Total current tax	695	764
Deferred tax:		
– Origination and reversal of timing differences	411	201
– Adjustment in respect of previous years	—	48
Total deferred tax	411	249
Total tax credit in income statement	1,106	1,013

Corporation tax is calculated at 22.83% (2013: 23.92%) of estimated taxable loss for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Reconciliation of tax credit

The charge for the year can be reconciled to the profit in the income statement as follows:

	Year ended 2014 £'000	Year ended 2013 £'000
Loss before tax	4,295	1,656
Tax at the UK corporation tax rate of 22.83% (2013: 23.92%)	981	396
Expenses not deductible for tax purposes	(57)	(14)
Effect of R&D	791	195
Rate differences effect of R&D	(727)	—
Negative goodwill non-taxable write-off	—	578
Income not taxable	155	—
Unrecognised movement on deferred tax	(360)	(248)
Effects of overseas tax rates	323	60
Adjustments in respect of previous periods	—	46
Total tax credit for the year	1,106	1,013

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Notes to the consolidated financial statements continued

For the year ended 30 April 2014

12. Tax continued

Reconciliation of tax credit continued

Deferred tax liabilities of £1,329k (2013: £1,612k) arose on the acquisition of eV Products, Inc. during the year ended 30 April 2013. Further details of deferred tax are given in note 22. There are no tax items charged to other comprehensive income.

The Finance Act 2013 enacted a rate reduction in the main rate of corporation tax to 21% from 1 April 2014 and to 20% from 1 April 2015. As there is no UK deferred tax recognised there is no impact on the tax provisions reported in these accounts.

There is a potential deferred tax asset on excess tax deductions arising from share-based payments on exercise of share options of £1,147k (2013: £1,420k). The asset has not been recognised as it is not considered probable that there will be future profits available.

13. Dividends

The Directors do not recommend the payment of a dividend (2013: £nil).

14. Losses per share

The calculation of the basic and diluted earnings per share is based on the following data:

Losses

	Year ended 2014 £'000	Year ended 2013 £'000
Losses for the purposes of basic and diluted losses per share being net losses attributable to owners of the Group	(3,189)	(643)

Number of shares

	Year ended 2014 Number	Year ended 2013 Number
Weighted average number of ordinary shares for the purposes of basic losses per share	61,870,643	7,572,337
Effect of dilutive potential ordinary shares:		
– Share options	5,080,789	341,429
Weighted average number of ordinary shares for the purposes of diluted losses per share	66,951,432	7,913,766

	Year ended 2014 £	Year ended 2013 £
Basic and diluted	(0.05)	(0.08)
Adjusted basic and diluted	(0.05)	(0.40)

Due to the Group having losses in each of the years, the fully diluted loss per share for disclosure purposes, as shown in the income statement, is the same as for the basic loss per share.

15. Goodwill

	£'000
Cost	
At 1 May 2013	1,275
At 30 April 2014	**1,275**
Accumulated impairment losses	
At 1 May 2013	—
At 30 April 2014	**—**
Carrying amount	
At 30 April 2014	**1,275**
At 30 April 2013	1,275

15. Goodwill continued

Goodwill acquired in a business combination is allocated, at acquisition, to the CGUs that are expected to benefit from that business combination. Before recognition of impairment losses, the carrying amount of goodwill had been allocated as follows:

	Year ended 2014 £'000	Year ended 2013 £'000
US operations	**1,275**	1,275

The goodwill arose on the acquisition of NOVA R&D, Inc. in 2011 and represents the excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired.

Goodwill has been allocated to NOVA R&D, Inc. as a CGU and is reported in note 6 within the segmental analysis of the US operations. Negative goodwill arose on the acquisition of eV Products, Inc. which has been released to the income statement in 2013.

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired, by comparing the net book value of the goodwill and non-current assets for the CGU to its value in use on a discounted cash flow basis.

The recoverable amount has been determined on a value in use basis on each CGU using the management approved five year forecasts for each CGU. The base five year projection is year on year growth over the next five years, with overheads remaining relatively stable. The growth rate of the CGU is expected to increase to 50% in year two as a result of the CGU continuing to develop its technical capabilities in the forthcoming year. Growth is then expected to fall to 7% in year two, 38% in year three and 2% in year four as a result of the rapid growth in year two, and 10% in year five. These cash flows are then discounted at the Company's weighted average cost of capital of 16% (2013: 18%).

Based on the results of the current year impairment review, no impairment charges have been recognised by the Group in the year ended 30 April 2014 (2013: £nil). Management has considered various sensitivity analyses in order to appropriately evaluate the carrying value of goodwill.

Having assessed the anticipated future cash flows the Directors do not consider there to be any reasonably possible changes in assumptions that would lead to such an impairment charge in the year ended 30 April 2014. Purely for illustrative purposes, a compound reduction in revenue of 5% in each of years one to five whilst holding overheads constant would not affect the conclusion of the review.

The Directors have reviewed the recoverable amount of the CGU and do not consider there to be any indication of impairment in 2014 or 2013.

16. Other intangible assets

	Development costs £'000	Patents, trademarks and other intangibles £'000	Total £'000
Cost			
At 1 May 2013	2,477	4,296	6,773
Additions	1,061	567	1,628
Exchange differences	—	(278)	(278)
At 30 April 2014	**3,538**	**4,585**	**8,123**
Amortisation			
At 1 May 2013	—	636	636
Charge for the year	56	504	560
Exchange differences	—	(38)	(38)
At 30 April 2014	**56**	**1,102**	**1,158**
Carrying amount			
At 30 April 2014	**3,482**	**3,483**	**6,965**
At 30 April 2013	2,477	3,660	6,137

The amortisation period for development costs incurred on the Group's product development is over the period during which the Company is expected to benefit and the amortisation will be based on the number of units sold over the expected product lifetime.

Patents and trademarks are amortised over their estimated useful lives, which is on average 10 years.

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For the year ended 30 April 2014

17. Property, plant and equipment

	Computer equipment* £'000	Plant and machinery* £'000	Fixtures and fittings* £'000	Total £'000
Cost or valuation				
At 1 May 2013	520	4,529	144	5,193
Additions	71	112	4	187
Exchange differences	(5)	(215)	(4)	(224)
At 30 April 2014	**586**	**4,426**	**144**	**5,156**
Accumulated depreciation and impairment				
At 1 May 2013	272	1,859	57	2,188
Charge for the year	127	583	27	737
Exchange differences	(1)	(53)	—	(54)
At 30 April 2014	**398**	**2,389**	**84**	**2,871**
Carrying amount				
At 30 April 2014	**188**	**2,037**	**60**	**2,285**
At 30 April 2013	248	2,670	87	3,005

* The Directors have reviewed the property, plant and equipment in 2013, and have reclassified, at cost, £2,174k of computer equipment and £13k of fixtures and fittings into plant and machinery. Accumulated depreciation has also been reclassified in 2013, with £103k being reclassified from computer equipment into plant and machinery.

18. Subsidiaries

A list of the significant investments in subsidiaries, including the name, country of incorporation, and proportion of ownership interest, is given in note 39 to the Company's separate financial statements.

19. Inventories

	Year ended 2014 £'000	Year ended 2013 £'000
Raw materials	**465**	408
Work in progress	**1,391**	790
Finished goods	**533**	900
	2,389	2,098

The cost of inventories recognised as an expense during the year in respect of continuing operations was £1,911k (2013: £1,023k).

The Directors have reviewed the inventory in 2013 and have reclassified £790k of finished goods into work in progress to ensure the correct disclosure of inventory between the three components disclosed above.

20. Trade and other receivables

	Year ended 2014 £'000	Year ended 2013 £'000
Amount receivable for the sale of goods	**1,501**	1,161
Other receivables	**90**	324
Prepayments	**316**	94
	1,907	1,579

20. Trade and other receivables continued

Trade receivables

Trade receivables disclosed above are classified as loans and receivables and are therefore measured at amortised cost.

The average credit period taken on sales of goods is 60 days. No interest is charged on the receivables. The Group recognises an allowance for doubtful debts of 100% against all receivables over 120 days because historical experience has been that receivables that are past due beyond 120 days are not recoverable. Allowances against doubtful debts are recognised against trade receivables between 30 days and 120 days based on estimated irrecoverable amounts determined by reference to past default experience of the counterparty and an analysis of the counterparty's current financial position.

Before accepting any new customer, the Group uses an external credit scoring system to assess the potential customer's credit quality and defines credit limits by customer.

The Group does not hold any collateral or other credit enhancements over any of its trade receivables nor does it have a legal right of offset against any amounts owed by the Group to the counterparty.

Ageing of past due but not impaired receivables:

	Year ended 2014 £'000	Year ended 2013 £'000
31–60 days	**70**	111
61–90 days	**13**	26
91–120 days	**550**	109
Total	**633**	246

Included within receivables past due but not impaired of 91–120 days are amounts relating to a distributor for whom the Group is supporting during the commercialisation process.

In determining the recoverability of a trade receivable the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated.

The Directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value.

21. Borrowings

	Year ended 2014 £'000	Year ended 2013 £'000
Total borrowings		
Amount due for settlement within 12 months	**—**	2,449
Amount due for settlement after 12 months	**—**	—

Amounts included within loans and borrowings of £nil (2013: £1,060k) carry interest of nil% (2013: 5%) per month charged on the outstanding loan balances.

22. Deferred tax liabilities

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting period.

	Revaluation of intangibles £'000	Accelerated capital allowances £'000	Short-term timing differences £'000	Tax losses £'000	Total £'000
At 1 May 2013	1,765	441	(74)	(588)	1,544
Charge/(credit) to profit or loss	(307)	186	57	(346)	(410)
At 30 April 2014	**1,458**	**627**	**(17)**	**(934)**	**1,134**

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For the year ended 30 April 2014

22. Deferred tax liabilities continued

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	Year ended 2014 £'000	Year ended 2013 £'000
Deferred tax liabilities	2,085	2,206
Deferred tax assets	(951)	(662)
	1,134	1,544

At the statement of financial position date, the Group has unused tax losses of £12,075k (2013: £9,869k) available for offset against future profits. A deferred tax asset has been recognised in respect of £3,845k (2013: £2,220k) of such losses. No deferred tax asset has been recognised in respect of the remaining £8,230k (2013: £7,650k) as it is not considered probable that there will be future taxable profits available. All losses may be carried forward indefinitely subject to a significant change in the nature of the Group's trade with US losses having a maximum life of 20 years.

23. Trade and other payables

	Year ended 2014 £'000	Year ended 2013 £'000
Trade payables and accruals	3,210	3,149

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 175 days. For all suppliers no interest is charged on the trade payables. The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

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

24. Derivatives, financial instruments and hedge accounting

At 30 April 2014 and 30 April 2013 the Group had no derivatives in place for cash flow hedging purposes.

25. Share capital

	Year ended 2014 £'000	Year ended 2013 £'000
Allotted, called up and fully paid		
108,010,790 ordinary shares of £0.01 each	1,080	—
453,841 ordinary shares of £0.00004 each	—	—
950,000 A ordinary shares of £0.00004 each	—	—
600,000 B ordinary shares of £0.00004 each	—	—
550,000 C ordinary shares of £0.00004 each	—	—
174,962 D ordinary shares of £1 each	—	175
1,000,000 E ordinary shares of £0.00004 each	—	—
358,500 F ordinary shares of £0.00004 each	—	—
421,000 F preference shares of £0.00004 each	—	—
1,000,000 G ordinary shares of £0.99996 each	—	1,000
297,500 H ordinary shares of £0.00004 each	—	—
577,593 H preference shares of £0.00004 each	—	—
658,956 J ordinary shares of £0.00004 each	—	—
1,526,181 J preference shares of £0.00004 each	—	—
279,768 K ordinary shares of £0.00004 each	—	—
64,762 K preference shares of £0.00004 each	—	—
	1,080	1,175

25. Share capital continued

During the year, a capital restructure was undertaken as part of the IPO. The class D and G shares of total nominal value of £1.175m in Kromek Limited were acquired by the Group for £1 each and then cancelled, thus creating a capital redemption reserve.

The remaining ordinary share capital in Kromek Limited of 0.004p per share were merged into a single class of ordinary 1p shares and a bonus issue of 10% was also issued for the K ordinary and preference shares. The ordinary shares were then exchanged on a 10:1 basis for shares in Kromek Group plc. In addition, a further 29m shares were issued for a net consideration of £13.4m.

During the year 532,000 shares (2013: 2,619,000) were allotted under EMI share option schemes.

Unpaid share capital

At the year ended 30 April 2014, unpaid share capital amounted to £nil (2013: £241k).

26. Share premium account

	£'000
Balance at 1 May 2013	22,278
Premium arising on issue of equity shares	14,460
Transfer to capital redemption reserve	(779)
Expenses of issue of equity shares	(1,347)
Balance at 30 April 2014	**34,612**

27. Capital redemption reserve

During the year, a capital restructure was undertaken as a result of the IPO. The class D and G shares of total nominal value of £1.175m in Kromek Limited were acquired by the Group for £1 each and then cancelled, thus creating a capital redemption reserve.

28. Translation reserve

	£'000
Balance at 1 May 2013	159
Exchange differences on translating the net assets of foreign operations	(641)
Balance at 30 April 2014	**(482)**

Exchange differences relating to the translation of the net assets of the Group's foreign operations, which relate to subsidiaries only, from their functional currency into the parent's functional currency, being sterling, are recognised directly in the translation reserve.

29. Accumulated losses

	£'000
Balance at 1 May 2013	(15,585)
Net loss for the year	(3,189)
Effect of share-based payment credit	125
Balance at 30 April 2014	**(18,649)**

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Notes to the consolidated financial statements continued

For the year ended 30 April 2014

30. Notes to the cash flow statement

	Year ended 2014 £'000	Year ended 2013 £'000
Loss for the year	(3,189)	(643)
Adjustments for:		
– Finance income	(15)	—
– Finance costs	530	171
– Income tax credit	(1,106)	(1,013)
– Depreciation of property, plant and equipment	737	447
– Amortisation of intangible assets	560	264
– Negative goodwill released to income statement	—	(2,417)
– Share-based payment expense	125	122
Operating cash flows before movements in working capital	(2,358)	(3,069)
Increase in inventories	(291)	(284)
Increase in receivables	(386)	(625)
Increase in payables	120	1,374
Cash used in operations	(2,915)	(2,604)
Income taxes received	766	1,359
Net cash used in operating activities	(2,149)	(1,245)

Cash and cash equivalents

	Year ended 2014 £'000	Year ended 2013 £'000
Cash and bank balances	6,563	309

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less, net of outstanding bank overdrafts. The carrying amount of these assets is approximately equal to their fair value.

31. Operating lease arrangements

The Group as lessee

	Year ended 2014 £'000	Year ended 2013 £'000
Lease payments under operating leases recognised as an expense in the year	577	333

At the statement of financial position date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	Year ended 2014 £'000	Year ended 2013 £'000
Within one year	310	386
In the second to fifth years inclusive	68	391
	378	777

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of five years.

At 30 April 2014 and 2013, the Group had no capital commitments or contingencies.

32. Share-based payments

Equity-settled share option scheme

The Company has a share option scheme (EMI scheme) for all employees of the Group. Options are exercisable at a price equal to the average quoted market price of the Company's shares on the date of grant. The average vesting period is three years. If the options remain unexercised after a period of 10 years from the date of grant the options expire. Options are forfeited if the employee leaves the Group before the options vest.

Details of the share options outstanding during the year are as follows:

	2014		2013	
	Number of share options	Weighted average exercise price £	Number of share options	Weighted average exercise price £
Outstanding at beginning of the year	3,556,656	1.13	937,656	1.13
Effect of share reorganisation	8,146,754	1.13	—	—
Granted during the year	532,000	0.24	2,619,000	1.98
Exercised during the year	(522,500)	0.07	—	—
Outstanding at the end of the year	11,712,910	0.16	3,556,656	1.34
Exercisable at the end of the year	7,360,160	0.18	678,356	1.34

The weighted average share price at the date of exercise for share options exercised during the year was £0.20 (2013: £nil). The options outstanding at 30 April 2014 had a weighted average exercise price of £0.18 (2013: £0.13) and a weighted average remaining contractual life of six years. In 2014, the aggregate of the estimated fair values of the options granted is £37k (2013: £112k). The inputs into the Black-Scholes model are as follows:

	2014	2013
Weighted average share price	39p	20p
Weighted average exercise price	16p	4.9p
Expected volatility	55.33%	53.13%
Expected life	6 years	6 years
Risk-free rate	0.37%	0.42%
Expected dividend yields	0%	0%

Expected volatility was determined by calculating the historical volatility of similar listed businesses over the previous three years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The Group recognised total expenses of £117k (2013: £122k) related to equity-settled share-based payment transactions.

The Kromek Group plc 2013 LTIP

On 10 October 2013 a new LTIP was adopted. Under the plan, awards will be made annually to key employees. Subject to the satisfaction of the required TSR performance criteria, these grants will vest at the end of a three year reporting period with the first ending on 30 April 2016.

On 10 October 2013 735,093 (2013: nil) options were granted under the 2013 LTIP to a number of key employees, including two Executive Directors of the Group. The fair value of these options granted was £70k (2013: £nil), and the amount recognised as a share-based payment expense for the year ended 30 April 2014 was £8k (2013: £nil).

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Notes to the consolidated financial statements continued

For the year ended 30 April 2014

32. Share-based payments continued

The Kromek Group plc 2013 LTIP continued

The 2013 LTIP award was valued using the Monte Carlo pricing model. The inputs into the Monte Carlo pricing model are as follows:

	2014	2013
Weighted average share price	20p	—
Weighted average exercise price	1p	—
Expected volatility	53.13%	—
Expected life	3 years	—
Risk-free rate	0.42%	—
Expected dividend yields	0%	—

33. Retirement benefit schemes

Defined contribution schemes

The Group operates defined contribution retirement benefit schemes for all employees. Where there are employees who leave the schemes prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

The employees of the Group's subsidiaries in the US are members of a state-managed retirement benefit scheme operated by the Government of the US. The subsidiaries are required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The total cost charged to income of £363k (2013: £285k) represents contributions payable to these schemes by the Group at rates specified in the rules of the schemes. As at 30 April 2014, contributions of £27k (2013: £22k) due in respect of the current reporting period had not been paid over to the scheme.

34. Financial instruments

The Group's principal financial instruments are cash and trade receivables.

The Group has exposure to the following risks from its operations:

Capital risk

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy has remained unchanged between 2013 and 2014.

The capital structure of the Group consists of net debt, which includes the borrowings disclosed in note 21 after deducting cash and cash equivalents, and equity attributable to equity holders of the Company, comprising issued capital, reserves and accumulated losses as disclosed in notes 25 to 29.

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

The Group's primary source of capital is equity. By pricing products and services commensurately with the level of risk and focusing on the effective collection of cash from customers, the Group aims to maximise revenues and operating cash flows.

Cash flow is further controlled by ongoing justification, monitoring and reporting of capital investment expenditures and regular monitoring and reporting of operating costs. Working capital fluctuations are managed through employing the overdraft facility available, which at the year end was £nil (2013: £nil).

The Group considers that the current capital structure will provide sufficient flexibility to ensure that appropriate investment can be made, if required, to implement and achieve the longer-term growth strategy of the Group.

34. Financial instruments continued

Market risk

The Group may be affected by general market trends, which are unrelated to the performance of the Group itself. The Group's success will depend on market acceptance of the Group's products and there can be no guarantee that this acceptance will be forthcoming.

Market opportunities targeted by the Group may change and this could lead to an adverse effect upon its revenue and earnings.

Foreign currency risk

The Group's operations are split between the UK and the US, and as a result the Group incurs costs in currencies other than its presentational currency of pounds sterling. The Group also holds cash and cash equivalents in non-sterling denominated bank accounts.

The following table shows the denomination of the year-end cash and cash equivalents balance:

	Year ended 2014 £'000	Year ended 2013 £'000
Pounds sterling	6,342	249
US dollar sterling equivalent	200	60
Euro sterling equivalent	21	—

Had the foreign exchange rate between sterling, US dollar and euro changed by 5%, this would affect the loss for the year and net assets of the Group by £34k (2013: £23k).

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group only transacts with entities that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available, and if not available, the Group uses other publicly available financial information and its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continually monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

Trade receivables consist of a small number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, credit guarantee insurance cover is purchased.

The Group's standard credit terms are 30 to 60 days from date of invoice. Invoices greater than 60 days old are assessed as overdue. The maximum exposure to credit risk is the carrying value of each financial asset included on the statement of financial position as summarised in note 20.

The Group's management considers that all the above financial assets that are not impaired or past due for each of the reporting dates under review are of good quality.

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has established an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continually monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

The table overleaf details the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. The contractual maturity is based on the earliest date on which the Group may be required to pay.

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Notes to the consolidated financial statements continued

For the year ended 30 April 2014

34. Financial instruments continued

Liquidity risk continued

	Weighted average effective interest rate %	Less than 1 month £'000	1–3 months £'000	3 months to 1 year £'000	1–5 years £'000	5+ years £'000	Total £'000
1 May 2013	60	53	158	2,502	—	—	2,713
Repayments	—	(53)	(158)	(2,502)	—	—	(2,713)
30 April 2014	—	—	—	—	—	—	—

Significant accounting policies

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the basis of measurement and the bases for recognition of income and expenses) for each class of financial asset, financial liability and equity instrument are disclosed in note 3.

Categories of financial instruments

	Year ended 2014 £'000	Year ended 2013 £'000
Financial assets		
Cash and bank balances (including cash and bank balances in a disposal group held for sale)	6,563	309
Loans and receivables	1,907	1,579
Financial liabilities		
Amortised cost (including trade payables balance in a disposal group held for sale)	(3,210)	(5,599)

35. Events after the balance sheet date

Since the end of the financial year, the Directors are not aware of any other matter or circumstance not otherwise dealt within this report or the financial statements that has significantly or may significantly affect the operations of the Group.

36. Related party transactions

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

During the year, Amphion Innovations charged the Group £154k (2013: £20k) in relation to management fees. At the year end the Group owed Amphion Innovations £nil (2013: £nil).

Directors' transactions

During the year Professor M Robinson, a Director, charged the Group £72k (2013: £72k) for consultancy fees. At the year end the Group owed Professor M Robinson £7k (2013: £44k). This amount was included within trade payables.

Loans from related parties

	Year ended 2014 £'000	Year ended 2013 £'000
Michael McBraida (shareholder)	—	150
Russell Grant (shareholder)	—	445
Max Robinson (Director)	—	48
Roger Kendrick (shareholder)	—	300
Arnab Basu (Director)	—	146
Amphion Innovations (shareholder)	—	365
Polymer Holdings (shareholder)	—	830

There have been no other transactions with related parties other that what has been disclosed within this note.

Company statement of financial position

As at 30 April 2014

	Note	30 April 2014 £'000
Non-current assets		
Investment in subsidiaries	39	—
		—
Current assets		
Trade and other receivables	40	14,765
Cash and cash equivalents		257
		15,022
Total assets		15,022
Current liabilities		
Trade and other payables	41	(66)
		—
Total liabilities		(66)
Net assets		14,956
Equity		
Share capital	45	1,080
Share premium account	46	13,934
Accumulated losses	47	(58)
		14,956

The financial statements of Kromek Group plc (registered number 8661469) were approved by the Board of Directors and authorised for issue on 27 August 2014. They were signed on its behalf by:

Dr Arnab Basu MBE
Chief Executive Officer

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Company statement of changes in equity

For the period ended 30 April 2014

	Equity attributable to equity holders of the Company			
	Share capital £'000	Share premium account £'000	Accumulated losses £'000	Total equity £'000
Balance at 1 September 2013	—	—	—	—
Loss for the period	—	—	(58)	(58)
Other comprehensive income for the period	—	—	—	—
Total comprehensive losses for the period	—	—	(58)	(58)
Share reorganisation	779	—	—	779
Shares issued on IPO	294	14,706	—	15,000
Issue of ordinary shares	7	34	—	41
IPO costs recognised in equity	—	(806)	—	(806)
Balance at 30 April 2014	**1,080**	**13,934**	**(58)**	**14,956**

Company statement of cash flows

For the period ended 30 April 2014

	Note	Period ended 30 April 2014 £'000
Net cash used in operating activities	44	(14,743)
Financing activities		
Proceeds from issue of share capital		15,000
Net cash from financing activities		15,000
Net increase in cash and cash equivalents		257
Cash and cash equivalents at beginning of period		—
Cash and cash equivalents at end of period		257

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Notes to the Company financial statements

For the period ended 30 April 2014

37. Significant accounting policies

The separate financial statements of the Company are presented as required by the Companies Act 2006. As permitted by that Act, the separate financial statements have been prepared in accordance with IFRSs adopted by the European Union.

The financial statements have been prepared on the historical cost basis except for the remeasurement of certain financial instruments to fair value. The principal accounting policies adopted are the same as those set out in note 3 to the consolidated financial statements except as noted below.

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

38. Auditor's remuneration

The auditor's remuneration for audit and other services is disclosed in note 8 to the consolidated financial statements.

39. Subsidiaries

Details of the Company's direct and indirect subsidiaries as at 30 April 2014 are as follows:

Name	Place of incorporation (or registration) and operation	Proportion of ownership interest %	Proportion of voting power held %
Kromek Limited	United Kingdom	100	100
Kromek Germany Limited	United Kingdom	100	100
Kromek, Inc.	United States of America	100	100
NOVA R&D, Inc.	United States of America	100	100
eV Products, Inc.	United States of America	100	100

The investments in subsidiaries are all stated at cost.

40. Trade and other receivables

	Period ended 30 April 2014 £'000
Amount receivable for the sale of goods	—
Allowance for doubtful debts	—
	—
Amounts due from subsidiary undertakings	14,749
Prepayments	16
	14,765

Amounts due from subsidiary undertakings are due within one year.

41. Trade and other payables

	Period ended 30 April 2014 £'000
Trade payables and accruals	(66)

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 30 days. For all suppliers no interest is charged on the trade payables. The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

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

42. Financial assets

Inter-company balances

The carrying amount of these assets approximates their fair value. There are no past due or impaired receivable balances.

Cash and cash equivalents

These comprise cash held by the Company and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

43. Financial liabilities

Trade and other payables

Trade payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 30 days.

The carrying amount of trade payables approximates to their fair value.

44. Notes to the statement of cash flows

	Period ended 30 April 2014 £'000
Loss for the year	(58)
Adjustments for:	
– Increase in receivables	(14,751)
– Increase in payables	66
Net cash from operating activities	(14,743)

45. Share capital

	Period ended 30 April 2014 £'000
Allotted, called up and fully paid	
108,010,790 ordinary shares of £0.01 each	1,080
	1,080

46. Share premium account

	£'000
Balance at 1 October 2013	—
Premium arising on issue of equity shares	14,740
Expenses of issue of equity shares	(806)
Balance at 30 April 2014	**13,934**

47. Accumulated losses

	£'000
Balance at 1 October 2013	—
Net loss for the year	(58)
Balance at 30 April 2014	**(58)**

Financial statements

Notes to the Company financial statements continued

For the period ended 30 April 2014

48. Financial instruments

The Company's principal financial instruments are cash and trade receivables.

The Company has exposure to the following risks from its operations:

Capital risk

The Company manages its capital to ensure that entities in the Company will be able to continue as going concerns while maximising the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of the Company consists of equity attributable to equity holders of the Company, comprising issued capital, reserves and accumulated losses as disclosed in notes 25 to 29.

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

Cash flow is controlled by ongoing justification, monitoring and reporting of capital investment expenditures and regular monitoring and reporting of operating costs.

The Company considers that the current capital structure will provide sufficient flexibility to ensure that appropriate investment can be made, if required, to implement and achieve the longer-term growth strategy of the Company.

Market risk

The Company may be affected by general market trends, which are unrelated to the performance of the Company itself. The Company's success will depend on market acceptance of the Company's products and there can be no guarantee that this acceptance will be forthcoming.

Market opportunities targeted by the Company may change and this could lead to an adverse effect upon its revenue and earnings.

Foreign currency risk

The Company currently does not undertake transactions denominated in foreign currencies.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company only transacts with entities that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available, and if not available, the Company uses other publicly available financial information and its own trading records to rate its major customers. The Company's exposure and the credit ratings of its counterparties are continually monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

The Company's management considers that all the above financial assets that are not impaired or past due for each of the reporting dates under review are of good quality.

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has established an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continually monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

49. Ultimate controlling parent and party

In the opinion of the Directors, there is no ultimate controlling parent or party.

50. Events after the balance sheet date

Since the end of the financial year, the Directors are not aware of any other matter or circumstance not otherwise dealt within this report or the financial statements that has significantly or may significantly affect the operations of the Company.

51. Related party transactions

No transactions have been noted with Directors during the period ended 30 April 2014.

No dividends were paid in the period in respect of ordinary shares held by the Company's Directors.

Financial statements

Officers and professional advisors

Directors

Dr A Basu MBE
Mr D Bulmer
Mr R C E Morgan
Professor M Robinson
Professor B K Tanner
Mr J H Whittingham
Dr G K Speirs
Mr L Kinet
Mr P Bains
Ms C Ginman

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Mr D Bulmer

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