Annual Report & Financial Statements 2016

WESTMINSTER
GROUP PLC

# Worldwide World Class Protection

Managed Services | Security Technology

The Westminster Group is a specialist security and services group operating worldwide via an extensive international network of agents and offices in over 50 countries.

The Group's operating companies are structured into two vertically integrated operating divisions, **Managed Services** and **Technology** and the Group's principal activity is the design, supply and ongoing support of advanced technology security solutions and the provision of long term managed services, consultancy and training services;

*primarily to*

Governments & Government Agencies,
Non Governmental Organisations
& Blue Chip Commercial Organisations Worldwide

*with a focus on Africa, Asia, the Middle East & the Americas*

## Highlights

### OPERATIONAL

- Received Letter of Intent on potential major long term aviation security opportunity in the Middle East with annual initial revenues of circa £35m and significant work undertaken in the year in negotiating and developing the opportunity and in setting up the appropriate supply chain and infrastructure;
- Substantial incremental business potential relating to the above Middle East airport opportunity developed;
- Further interest and growing awareness in long term airport managed services business in Emerging Markets;
- Three more long term airport security MoU's signed in 2016 and numerous other opportunities being progressed;
- Strong recovery in West Africa passenger numbers following end of Ebola crisis in H1 boosting 2016 revenues;
- Sovereign Ferries commenced initial operations in December 2016 and major capital expenditure now largely over;
- Technology Division delivered a wide range of sales and solutions around the world, signed border security project MoU in Middle East and launched new and extensive website improving enquiry rates;
- Continued to expand international presence including establishing subsidiary companies and an operational office in Germany to provide strategic support to the Group;
- Westminster's ex-pat team in Sierra Leone awarded Ebola Medals for Service in West Africa during the Ebola crisis.

### FINANCIAL

- Revenues up by 31% to £4.4m (2015: £3.4m);
- Gross margin increased to 71 % (2015: 58 %);
- Adjusted EBITDA profit £25k (2015: Loss £360k);
- Raised £3m in year to support business development and working capital;
- £1.2m of debt converted into equity in the year;
- Loss per share reduced by 29% to 2.5p (2015: 3.5p).

### POST PERIOD END

- Substantial progress achieved towards finalising contract negotiations on the Middle East airport project opportunity;
- Recovery in West Africa airport passenger numbers continues;
- Darwin Capital Limited debt now converted into equity and eliminated;
- £0.6m new equity raised in February 2017 and a further £1m raised in April 2017;
- CTAC claim award finalised and property assets transferred from vendors to Westminster. Any sale of these assets will benefit 2017;

*"Our vision is to build a global business with strong brand recognition delivering niche security solutions and long term managed services to high growth and emerging markets around the world with a particular focus on long term recurring revenues business."*

**Peter Fowler**
**Chief Executive Officer**

## Contents

# Managed Services Division

## Managed services contracts and the provision of manned services

Our Managed Services Division is focussed on providing long term recurring revenue, managed services contracts and the provision of manned services, consultancy, training and other similar supporting services. The division comprises primarily of Westminster Aviation Security Services Ltd., Westminster Facilities Management Ltd., Sovereign Ferries Ltd. and Longmoor Security Ltd.

We believe that this division represents a very significant growth opportunity for Westminster. We provide long term services typically to governmental bodies in our target markets under Build Operate Transfer and/or concession arrangements. Under these contracts we use our expertise in the provision of personnel and technology solutions to take over, invest and operate the service and/or infrastructure at key sites such as an airport or a port, and bring the operation up to internationally acceptable standards. In addition our expertise in the sector enables us to advise on the correct processes, procedures and documentation required by international bodies and our comprehensive in-house training services means all local staff involved in these operations remain properly trained and certificated.

We enter into these contracts on a long term basis (typically 15-25 years) and are remunerated by a per user fee which is paid directly by the user of the facility to Westminster. For example this would mean that for an airport a security fee would be added to the passenger ticket via the IATA (International Air Transport Association) mechanism and this fee is then settled with Westminster directly providing strong cash dynamics. Once a contract is signed and is in place then the data rich nature of the aviation industry (with visibility as to schedules, load factors etc.) and the long term nature of the contract provides strong forward revenue visibility.

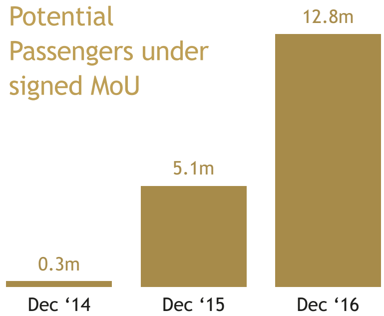
Westminster may pay a concession fee (based on cash collections from fees) to the port or airport authority, and this, in conjunction with our absorption of their capital and operating cost obligations, provides a strong customer advantage turning cash outflow into cash inflow.

The Managed Services Division is generating considerable interest from governments around the world particularly regarding airport security solutions and is experiencing a rapidly expanding prospect pipeline (potential projects which are in active discussions and which are at various stages of development). The division is currently at various stage discussions with a growing number of airports in a wide range of countries a number of which have now advanced to signed Memorandum of Understanding (MoU) stage. A measure of the increasing momentum of the opportunities can be seen in the table below. The relevance of these numbers is the fact that the division will receive long term revenues directly proportional to the number of embarking passengers.

Whilst not all the opportunities under discussion will result in final contracts, with each contract being potentially worth several hundred million USD of sales value over the life of the contract and further expansion of the prospect pipeline expected, the potential for substantial growth from this division over the next few years is obvious.

The division is also actively pursuing other managed services opportunities such as ferry services, port security and other infrastructure security solutions and is developing expanded service offerings at airports.

Potential Passengers under signed MoU

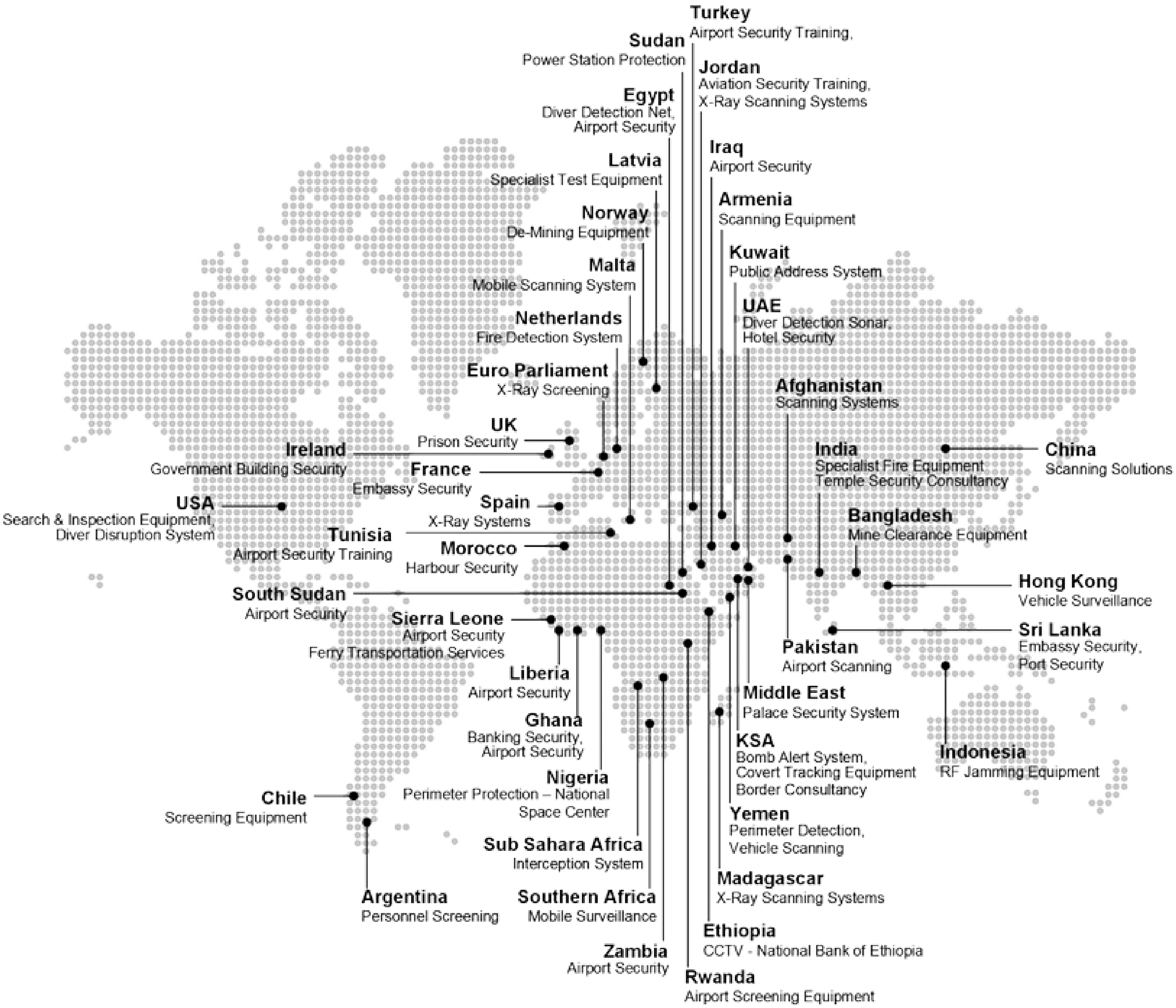



PORT I AIRPORT I UTILITIES I INFRASTRUCTURE




# Example Worldwide Projects

Small sample of completed projects worldwide



# Technology Division

## Providing advanced technology led security solutions

The Technology Division is focussed on providing advanced technology led security solutions encompassing a wide range of surveillance, detection, tracking and interception technologies to governments and private organisations across the world. It has an in-depth knowledge of the security technologies available which allows it to design innovative solutions using niche technologies. The division comprises primarily of Westminster International Ltd and has a long track record of providing security services and technology to a broad range of blue chip clients worldwide.

We are not a manufacturer and are product agnostic, able to promote and deliver the best solution for any given application. Indeed a key strength of Westminster's Technology division is its extensive knowledge of the security market place and manufacturers of effective but often niche security equipment together with its ability to identify and design solutions for clients' diverse requirements. In fact, due to Westminster's extensive international network and market reach, niche security manufacturers regularly contact Westminster as a means of promoting their technologies to the market.

Sales are driven by growth in international security markets and the division has a large and healthy enquiry bank many of which arise from its agent network and comprehensive website (Westminster International has one of the largest security equipment and services websites in the world). The division has a large prospect pipeline (potential projects which are in active discussions and which are at various stages of development). The division is currently at various stage discussions with a growing number of project opportunities in a wide range of countries. A number of these potential projects are multimillion USD in value with several valued in the tens of million USD although such projects can take a long time, in some cases years, to negotiate and as always timing and outcome remain uncertain.

The division is successfully securing contracts for equipment and services creating a regular monthly run rate of business from clients worldwide with the added and increasing potential of large multimillion USD contracts being secured from time to time creating significant peaks in revenue.

There is a key vertical integration synergy with this division's expertise in consultancy and equipment being used to underpin the major growth opportunity in our managed services division as its worldwide reputation and market reach provides a platform from which the managed services division can deliver opportunities and in addition it reduces capital spend by eliminating 3rd party margins which would otherwise incur further cash spend.

### Vertical Integration Model

**Technology Customers**
Products & Services

**Managed Services Projects**
Airports / Ports etc.

The "in house" Technology Division expertise provides the vital infrastructure for the provision of complex technology solutions for both its own sales and the delivery of managed services long term contracts. Having it in house reduces supplier exposure and cost and increases purchasing power.

# Chairman's Statement

*" I am pleased to report that Group continued to expand its operations and presence around the world particularly in terms of its Managed Services business which is now a key focus for the Group"*

**Lt. Col Sir Malcolm Ross GCVO, OBE**
Chairman

## Overview

I am pleased to present the Final Results for Westminster Group plc for the year ended 31 December 2016.

As we continue to recover from the challenges of the West Africa Ebola crisis, the Group has delivered a much improved financial performance both at the revenue and adjusted EBITDA levels, with revenues up by 31% to £4.4m (2015: £3.4m), resulting in a small £25k profit at EBITDA level (2015: £360k EBITDA loss). During the year the Group raised £2.7m net from the issue of equity (£1.3m) and convertible unsecured loan notes (£1.4m) to support working capital requirements and business development costs.

The Group continued to expand its operations, opportunities and presence around the world, notably in the Managed Services business which is now a key focus for the Group. More detail on the strategic developments, projects and opportunities we are undertaking is covered under the CEO's Strategic Report.

We continue to work closely with and receive excellent support from the Foreign Office and UK Diplomatic Missions around the world and I am very grateful for the support these and other governmental departments provide our teams and our operations in the various countries we are active in.

## Corporate Conduct

We operate worldwide with a focus on emerging markets and in a sector where discretion, professionalism and confidentiality are essential. It is vitally important that we maintain the highest standards of corporate conduct. The Corporate Governance Report sets out all of the detailed steps that we undertake to ensure that our standards, and those of our agents, can stand any scrutiny by Government or other official bodies.

## Social Responsibility

As a Group, we take our corporate social responsibilities very seriously, particularly as we operate in emerging markets and in some cases in areas of poverty and deprivation. I am proud not only of the support and assistance we as a company provide in many of the regions in which we operate but also the support and interaction our staff provide. I am also proud of our charitable support to various bodies and organisations not least our own registered charity the Westminster Group Foundation.

## Employees and Board

After 10 years with the Group, a period I have thoroughly enjoyed, I have decided it is now time for me to step aside as Chairman, although I will continue to remain involved with the Group. As our Group is now anticipating significant potential growth, and due to my other commitments, I feel I am no longer able to devote the time required to chair the Group. Accordingly, I propose to stand down at the AGM and our Deputy Chairman, Sir Tony Baldry, will take over the chair. I will continue as Deputy Chairman.

Ian Selby, who has been the Group CFO since July 2011, will be stepping down from the Board at the AGM in June to concentrate on his other ventures. Ian has been a valued part of our team and has helped us achieve many of our successes and helped steer us through difficult times. On behalf of the Company and the Board I wish to thank Ian for all his efforts. I am pleased to say however that Ian will remain a consultant to the Company providing assistance where required.

I am delighted to welcome Martin Boden as our new CFO who will join the Board on 29 June 2017, the date of this year's AGM. Martin has considerable experience with high growth businesses and sales into international markets. He has worked with both AIM and FTSE 250 listed companies as well as Private Equity owned organisations, having most recently been CFO at Genus plc and JDR, a privately owned energy services business. Martin has worked closely with both UKTI and UK Export Finance on overseas projects. I believe Martin's experience of international transactions and financial management of high growth businesses brings additional strength to our Board.

In November 2016 we announced that James Sutcliffe had joined the Board as a Non-Executive Director and Chair of the Audit Committee. James has considerable experience delivering major international projects particularly in the infrastructure, ports and marine sector. He is a former Chairman of UKTI (Ports & Marine 2006-2013) promoting UK business in Emerging Markets in the Far East, India, Eastern Europe and Mediterranean countries. I am pleased to say James has become a valued addition to our team.

As a service based business, our employees are key to delivering success. I believe we have an exceptional workforce and I would like to take this opportunity to express my appreciation to all our employees, both in the UK and our ever expanding overseas workforce, who have worked extremely hard during the year.

I would also like to pay tribute to our employees and the various individuals and organisations for their generous support and contributions to our registered charity the Westminster Group Foundation. We work with local partners and other established charities to provide goods or services for the relief of poverty or advancement of education or healthcare making a difference to the lives of the local communities in which we operate. For more information or to make a donation please visit www.wg-foundation.org

I would finally like to extend our appreciation to all our investors for their continued support and also to our strategic investors who are bringing their expertise to help deliver value for all.

***Lt. Col. Sir Malcolm Ross GCVO, OBE***
Chairman

5 June 2017

# Chief Executive Officer's Strategic Report

*"Our business is facing unprecedented growth prospects, particularly with our airport security operations"*

**Peter Fowler**
Chief Executive Officer

## Business Description

Our vision is to build a global business with strong brand recognition delivering niche security solutions and long term managed services to high growth and emerging markets around the world with a particular focus on long term recurring revenue business.

Our target customer base is primarily governments and governmental agencies, critical infrastructure (airports, ports & harbours, borders, power plants etc.) and large scale commercial organisations worldwide.

As depicted in The Journey timeline below our business has evolved from a traditional UK focused security business to what can be described today as a truly international business. Furthermore, our evolution continues as we expand our operations into new areas and new territories creating additional opportunities around the world in the provision of long term security and managed services.

We deliver our wide range of solutions and services through a number of operating companies which are currently structured into two operating divisions; Managed Services and Technology; both primarily focused on international business as follows:

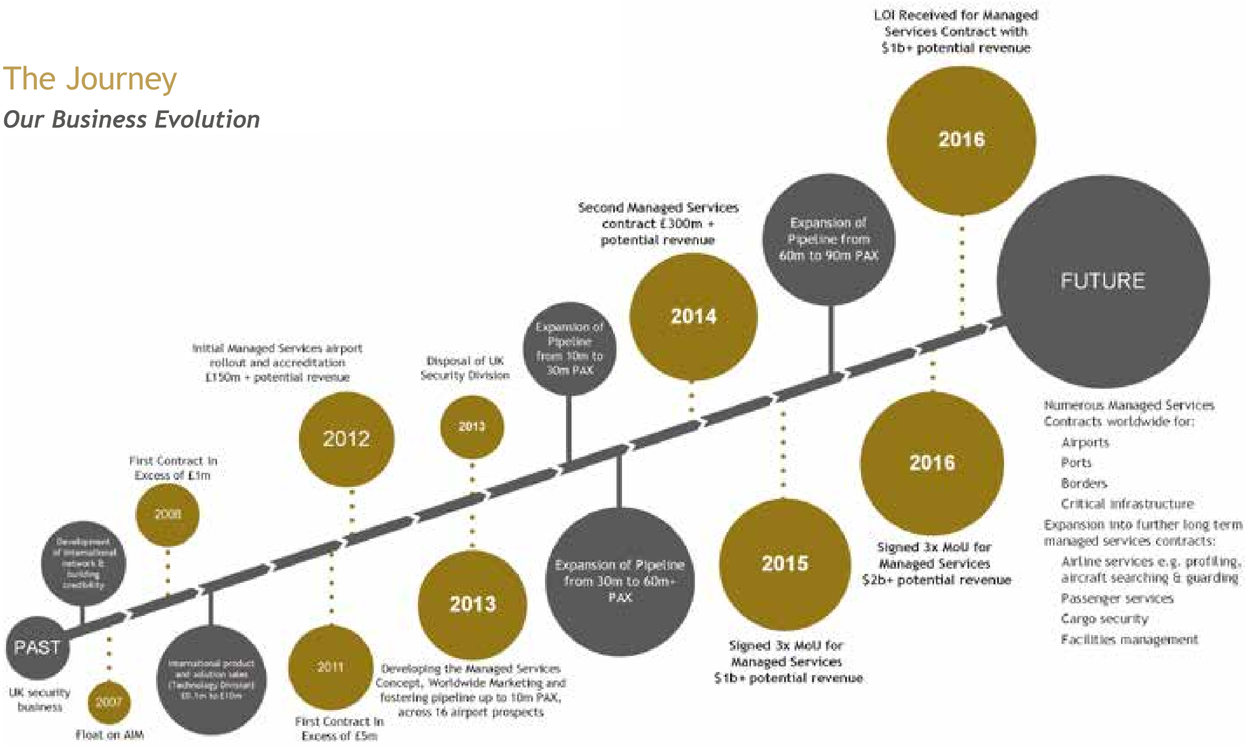
Managed Services division:
Focusing on long term (typically 10 – 25 years) recurring revenue managed services contracts such as the management and operation of security solutions in airports, ports and other such facilities, together with the provision of ferry services, manpower, and consultancy and training services.

Technology division:
Focussing on providing advanced technology led security solutions encompassing a wide range of surveillance, detection, tracking, screening and interception technologies to governments and organisations worldwide.

In addition to providing our business with a broad range of opportunities, these two divisions offer cost effective dynamics and vertical integration with the Technology Division providing vital infrastructure and complex technology solutions and expertise to the Managed Services Division, thereby reducing supplier exposure and cost and increasing purchasing power. Our Managed Services Division provides a long term business platform to deliver other cost effective incremental services from the Group.

## The Journey

***Our Business Evolution***



We continue to deliver a wide range of solutions to governments and blue chip organisations around the world as can be seen from page 3 above, and our reputation grows with each new contract delivered. This in turn underpins our strong brand and provides a platform from which we can expand our Managed Services business which is now a key focus for the Group with its growth prospects in Emerging Markets and the resulting significant recurring revenue stream potential.

## Business Review

As highlighted in the Chairman's Statement, and elsewhere in this document, we have delivered a much improved performance in 2016.

Operationally we have delivered a wide range of security products and solutions around the world and continue to expand our international presence including the establishment of subsidiaries and an operational office in Germany which will provide strategic support to our projected growth.

Enquiry levels remain healthy and levels of interest in the Group's services remains high across both operating divisions. However, whilst our Technology Division provides the technological resources and platform to expand our operations around the world it is our Managed Services Division, with its potential for delivering large scale, long term, recurring revenue and transformational growth, which is increasingly our core focus, particularly within the aviation security sector.

## Managed Services Division

The Group's Managed Services Division continues to make progress on a number of fronts.

Airport Security:
Our airport security operations in West Africa are experiencing strong recovery from the Ebola crisis that devastated the region and which finally came to an end in March 2016. Whilst airline traffic has not yet fully recovered to pre-Ebola levels, we have seen steady growth with flight schedules increasing and new airlines such as KLM commencing services. In 2016 our embarking passenger numbers grew by 52% to 97k (2015: 64k). We anticipate the recovery towards pre-Ebola levels will continue and are encouraged to have seen a further increase of 27% in embarking passengers in Q1 2017 to 28k (Q1 2016: 22k - albeit this was before the region was declared Ebola free). This together with the cost reduction measures we have taken has resulted in the operations once again making a worthwhile contribution.

In addition, cargo screening operations commenced in West Africa during 2016, following the cargo operations and security screening service achieving the coveted RA3 status. The new cargo sheds currently have far greater capacity than current utilisation and the authorities are looking to build on this and create a regional hub for cargo services.

Westminster's international reputation and expertise in the field of aviation security continues to grow, evidenced by both the number of new training and support contracts secured for airports around the world and the ever growing pipeline of opportunities for aviation security projects.

In this respect, we have invested considerable time, effort, and expense in progressing several large scale long term potential opportunities. Amongst such opportunities in progress are those for which we have previously announced the signing of a Memorandum of Understanding (MoU) and others that are approaching that stage, including our previously announced major long term airport security project opportunity within the Middle East for which the Company received a letter of intent in May 2016. Substantial progress has been achieved towards closing this opportunity which is expected to result in annual revenues in excess of £35m.

With regard to the Middle East project opportunity, the Company has been actively preparing the required support structures and infrastructure necessary to deliver the projects, including organising a complex supply chain and other required resources.

Contracts of this size and nature are not only time-consuming but involve complex negotiations with numerous commercial and political bodies. Discussions can ebb and flow over many months with periods of intense activity which can be followed by long periods of inactivity. No two opportunities are the same. By way of example, two of the previously announced MoUs, the Asia MoU signed in February 2015 and the MoU announced on 12 October 2015, are now considered longer term opportunities due to current political issues within the countries concerned. In contrast, the East African airport opportunity announced in November 2012 and which has taken far longer than anticipated due to the government's own internal processes and various political issues unrelated to our project, is now once again quite active. All other announced MoU's are in various stages of development and continue to be progressed.

Whilst there is never certainty in relation to either the outcome or timing of such negotiations, the considerable progress made to date with the Middle East and other opportunities and the ongoing support received from UK governmental departments and overseas missions is extremely encouraging.

Airport security solutions and our experience in the sector represent a significant growth opportunity for our Managed Services Division, however this is certainly not the only area of expansion. We are also in discussions with port operators on similar long term managed services solutions as well as continuing to look at managed services and recurring revenue opportunities beyond security.

Ferry Project:
In November 2014, we signed a 21 year contract for the operation and management of ferry terminals and the provision of a professional ferry service in Sierra Leone across the estuary between the capital Freetown and the International Airport on the Lungi peninsula.

The background to this project is that passengers travelling to and from the airport to the capital, Freetown, either have to cross the estuary or spend several hours driving on difficult roads. With over 200,000 passengers a year and growing passing through the airport, the vast majority of which will need to cross the estuary, there is a captive market and a strong need for a professional ferry service. The previous ferry services were largely unsuitable and at times unable to cope with volumes of passengers and it could take over an hour to transport passengers to and from the airport. This was a potential limitation on the future growth of the airport and in turn our revenues and one of the reasons this was considered a good opportunity for the Group's expansion.

Our ferry services, under the branding Sovereign Ferries, provide a much needed professional service with well-trained uniformed staff, air conditioned transit coaches, well equipped terminals and fast, safe and internationally compliant vessels.

Over the past two years we have not only built the required infrastructure and upgraded the ferry terminals but have had to deal with a number of challenges including prolonged vessel repairs to our flagship vessel the Sierra Queen. I am pleased to report therefore that this long-awaited service finally commenced with a soft start in mid-December 2016 and with formal services commencing in January 2017.

The current addressable ferry market is estimated to be worth around £4 million per annum in revenues. As we now move from a period of major capital expenditure to an operational phase, our focus for the business over the next 12 months is to grow our market share. It is pleasing that we have already secured 3% of the market and we believe that, given the size of the captive market, the superior quality of our service, our vessel safety and the numerous local marketing initiatives we are pursuing we will continue to grow volumes to well beyond a 14% share (the level at which we anticipate the operation will be providing a positive contribution).

In addition, we are looking at new markets and revenue streams by the provision of new services such as a coastal taxi service around Freetown, for which we believe there is a strong and untapped demand together with new regional routes.

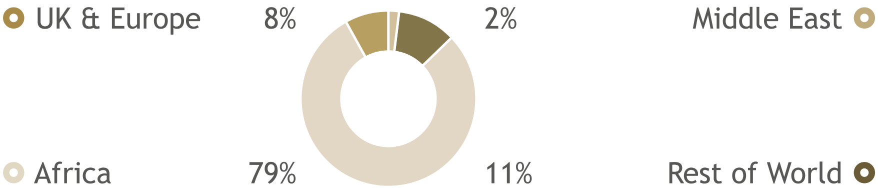
The current service is focussed on the Sierra Princess, which will shortly be joined by the Sierra Duchess, which we have acquired on a favourable lease basis, to further provide additional flexibility to our inshore and water taxi services. Both vessels are impressive inshore fast ferry craft specifically fitted out to transport passengers and their luggage safely and in comfort. These craft can carry up to 45 passengers and their luggage in comfort. Our flagship sea going vessel, the larger 200 seat Sierra Queen, is now operational and subject to a routine engine service and will be brought into service in due course as demand and operations dictate and for longer distance regional routes currently being planned.

## Technology Division

During the year, the Technology Division secured contracts for a wide range of products and services delivered to clients from around the world. By way of example of the diversity of our deliverables, we provided equipment for a nuclear facility in North America; advanced screening solutions in West Africa; security solutions for a North African postal service; secured a museum in Egypt; equipped various prisons and supplied a South African forensic police service facility with specialist equipment. In 2016 we had clients in Aruba, Australia, Azerbaijan, Bahamas, Bulgaria, China, Croatia, UAE, Egypt, Gambia, Germany, Greece, Hong Kong, India, Indonesia, Iraq, Italy, Jamaica, Jordan, Kenya, Korea, Netherlands, Nigeria, Portugal, Qatar, Romania, Rwanda, Saudi Arabia, Senegal, Somalia, South Africa, Tanzania, Thailand and Vietnam.

## 2016 Geographical Revenue Analysis

The Group's international business is conducted on a global scale.




In addition, the Division has provided various equipment and technology support services to the Managed Services Division.

The Technology Division continues to build its recurring revenue base of maintenance and service contracts both in the UK and overseas and now has recurring revenue maintenance contracts with governmental and corporate clients valued at over £180,000 per annum. These contracts help underpin the cost base of the Division and is an area of the business we expect to grow further.

The ongoing world-wide slump in oil prices continues to impact previously announced projects such as the Americas consultancy and pipeline projects due to government cut backs on capital spending. As the oil price is expected to remain an issue for some time and whilst we continue to investigate alternative funding solutions, these projects along with the US Bridge project no longer form part of the Group's internal forecasts as we concentrate on the rest of the business and, in particular, our major managed services project opportunities.

### Strategic Review

Last year I announced we were undertaking a wide ranging strategic review of our operations to ensure we are well positioned to maximise opportunities going forward and successfully take the business to a new level. As part of that review we have made a number of changes to our management structure, broadening the level of experience and expertise to assist our expansion, creating a PLC Board responsible for overall performance and strategy of the Group, an Operations Board responsible for day to day management of the Group's business and established an International Advisory Board to advise the Group on international issues including governmental and client liaison, cultural, ethnic and religious sensitivities, compliance with legal issues, financing and general business development.

This review is ongoing and we continue to review our operations, structure, management and advisors. Our business is facing unprecedented growth prospects, particularly with our airport security operations, and it is essential we have the right leadership, management and strategies in place to successfully deliver such growth. Accordingly, the changes we have made and intend to make in the near future, to strengthen our management and broaden our range of experience and expertise, together with the strategies we are putting in place, will, I believe, serve the Company well and greatly assist our planned growth.

### Performance Indicators

The Key Performance Indicators by which we measure performance of our business are set out in the Chief Financial Officer's Report on pages 12 and 13.

### Financial Review

The financial review for the year ended 31 December 2016 is set out in the Chief Financial Officer's Report on page 10.

### Principal Risks and Uncertainties

These are referenced along with key mitigation strategies on pages 16 and 17.

### Business Outlook

Our business is now in a better position than it has been for some time. The challenges and trials of the last few years dealing with the effects of Ebola are now largely behind us and our West African airport operations, in particular, are now producing a healthy and growing contribution. Our ferry service is at last operational and should also be making a contribution by the end of 2017 as the service expands. Our Technology Division continues to deliver a wide range of products and solutions around the world to destinations which, so far in 2017, include countries as widespread as Bangladesh, Belgium, UAE, Ethiopia, Indonesia, Guyana, Italy, Lithuania, Nigeria, Tanzania and the UK. We continue to grow our recurring revenue base with maintenance and service contracts both within the UK and overseas. Our Managed Services Division continues to make progress on a number of fronts. We are securing an increasing number of contracts to assist airport authorities around the world with their equipment and training needs and this further enhances our endeavours and prospects for our large scale, long term airport opportunities.

Over the next few months and years we have an opportunity to achieve unprecedented growth from the prospects we are pursuing, such as the Middle East airport opportunity, any one of which could be transformational for the Group. The Board and I remain committed to delivering on this potential.

***P.D. Fowler***
Chief Executive Officer
5 June 2017

FIRE I SAFETY I SECURITY I DEFENCE

# Chief Financial Officer's Report

*"Revenues in 2016 were up 31% to £4.4m (2015: £3.4m) as Managed Services revenues recovered from 2015 due to the end of the Ebola crisis in West Africa."*

**Ian Selby**
Chief Financial Officer

### Revenue

Revenues were £4.4m (2015: £3.4m). The Technology Division recorded revenues of £1.6m (2015: £1.7m) and the Managed Services Division £2.8m (2015: £1.7m). Managed Services revenues recovered from 2015 due to the abatement and end of the Ebola crisis in West Africa and the consequent growth in passenger volumes and security fees. Technology Division revenues were broadly similar to 2015. Revenues from the West African ferry service commenced in December 2016 following soft launch but were immaterial during the financial year 2016.

### Gross Margin

Gross margin rose to 71% (2015: 58%) due to both the increased revenue contribution from the Managed Services division and its higher margin and also from improving performance in the Technology Division.

### Operating Cost Base

Our total operating and administrative costs were £4.5m (2015: £3.6m). Within these results an IFRS share option expense of £0.1m (2015: £0.1m) was recorded, a depreciation and amortisation charge of £0.2m (2015: £0.1m), non-capitalisation of certain ferry setup costs of £0.6m and specific uncapitalised costs related to progression of the Middle East Airport opportunity of £0.2m (2015: £nil).

### Operational EBITDA

Our loss from operations was £1.4m (2015: £1.6m). When adjusted for the exceptional and non-cash items set out below and depreciation and amortisation, the Group recorded an adjusted EBITDA profit of £25k as compared to a loss of £0.4m in the prior year. The estimated impact of Ebola on Managed Services margins was approximately £0.3m (2015: £1.1m). In context, this crisis produced an adverse financial effect on the Groups EBITDA in excess of £1.9m between 2014 and 2016.

| Reconciliation to adjusted EBTIDA £'000 | 2016 | 2015 |
|---|---|---|
| Operating Loss | (1,389) | (1,650) |
| Depreciation and Amortisation | 234 | 171 |
| Reported EBITDA | (1,155) | (1,479) |
| Share Option Expense | 103 | 76 |
| Impact of Ebola | 272 | 1,120 |
| CTAC settlement receipt | - | (77) |
| Middle East Airport Opportunity Costs | 220 | - |
| Ferry pre-launch costs | 585 | - |
| Adjusted EBTIDA profit / (loss) | 25 | (360) |

The ferry pre-launch costs primarily relate to costs of preparing the Sierra Queen vessel for commercial service.

### Financing Charges

Total financing charges of £0.6m (2015: £0.3m) were higher than the prior year due to an increased average debt compared to 2015. Senior Secured Convertible Notes (10% coupon) generated an underlying cash charge of £0.2m (2015: £0.1m) reflecting the £1.0m issued in October 2015. The remaining £0.2m (2015: £0.2m) of finance charges were non-cash based and related to IFRS valuations of the convertible loan.

### Result for the Year

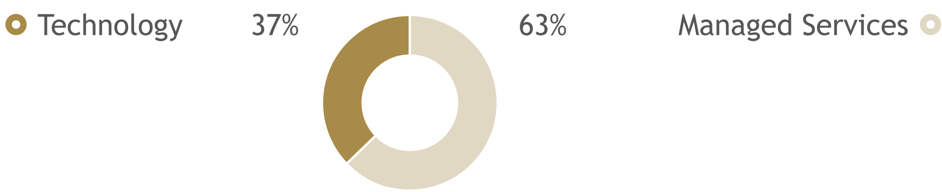
Our loss before taxation was £2.0m (2015: £2.0m) and the loss per share was 2.5p (2015: 3.5p).

### Statement of Financial Position

The Group made a significant investment in plant and equipment during the year in support of the Sovereign Ferries ferry opportunity in West Africa. This went into initial operations in December 2016. At the balance sheet date approximately £2.7m (2015: £2.2m) was recorded as an asset. This represents the cost of the Sierra Queen and setup costs around the leased infrastructure. A further £0.6m of expenditure was not capitalised in the period and is recorded as an exceptional item in note 4 to these financial statements as these were incurred as a result of delays in the launch of the ferry service.

## 2016 Divisional Analysis

The divisions through which the group operates are represented as follows.




Our debtor balance as of the end of December 2016 was £0.9m (2015: £0.5m). £0.2m of the increase arose from amounts recoverable on customer contracts and billed in 2017, and the remainder from debtors which were collected early in the New Year. Average days sales outstanding at the year-end were 32 (2015: 48), Certain technology division orders for the UK government were won in the fourth quarter of the year and required supply chain mobilisation payments and therefore amounts held in inventory increased to £0.2m (2015: £0.1m). These were shipped and paid for in full early in 2017.

Trade payables were £1.0m (2015: £1.1m) and average creditor days were 35 (2015: 32) The Group had no deferred payment schemes with HMRC at the end of 2016 with all amounts having been paid in the year.

### Convertible Loan Notes (CLN) and Convertible Unsecured Loan Notes (CULN)

The Company issued £1.7m (gross) of Convertible Unsecured Loan Notes("CULN") to Darwin Capital Limited ("Darwin") during the year. £0.5m was raised in February 2016 and a further £1.2m was raised in November 2016. The February 2016 loan was fully converted in the year as was the outstanding balance at the start of the year of £0.7m relating to the loan drawn down in April 2015. At the year-end a nominal value of £1.2m was outstanding all of which related to the November 2016 loan. The group received approximately 85% of these monies net of commissions and redemption premiums and the net proceeds supported the capital investment in the West African ferry operation and general corporate purposes. These loans were structured to make repayment of any amount at any point without penalty, and also allowed for a lower dilution impact with a potentially higher conversion price than an equivalent equity issue which would have in all likelihood been discounted.

| Summary of movements in loan notes at principle value £'000 | CULN | CLN | Total |
|---|---|---|---|
| At 1 January 2016 | 750 | 2,245 | 2,995 |
| New Issue in the year | 1,675 | - | 1,675 |
| Conversions in the year | (1,247) | - | (1,247) |
| Financing Charge (equity settled) in the year | 22 | - | 22 |
| At 31 December 2016 | 1,200 | 2,245 | 3,445 |
| Converted February/April 2017 | (1,200) | - | (1,200) |
| Outstanding at 5 June 2017 | - | 2,245 | 2,245 |

The secured CLN carries a coupon of 10% payable quarterly in arrears, has a conversion price of 35p and matures on 18 June 2018.

Summary of Non-Employee Share Options & Warrants at 31 December 2016

| Number | Holder and Description | Strike Price (p) | Life (years) | Vesting Criteria |
|---|---|---|---|---|
| 1,100,000 | Darwin, April 2015, (lapsed April 2017) | 39 | 2 | At grant:- detachable |
| 589,330 | Darwin, February 2016 | 20.15 | 3 | At grant:- detachable |
| 1,100,000 | Darwin, November 2016 | 28 | 3 | At grant:- detachable |
| 5,000,000 | Hargreave Hale, June 2016 | 12 | 3 | At grant:- detachable |
| 1,700,000 | Business development partner, July 2012 | 40 | 5 | 0.7m @ £5m revenue generated by them, further 1m @ £30m revenue |
| 500,000 | Business development partner, March 2014 (lapsed March 2017) | 85 | 3 | £8m new managed services revenues. |
| 300,000 | Business development partner, July 2014 | 85 | 3 | £5m new managed services revenues in three years from date of issue |

This decision was based on the Company's then view as to expected business performance progress.

## Equity Issues

On 3 June 2016 the Company issued 13 million ordinary shares of 10p at nominal value. Of these 10 million were issued to Hargreave Hale who also received 5 million detachable and transferrable warrants over 10p ordinary shares. These have a life of three years from the date of issue and have an exercise price of 12p per share warrant ("Warrant") valid for three years from the date of issue. A further 10,653,365 ordinary 10p shares were issued during the year at an average price of 11.71p per share on conversion of £1.2m CULN.

Shareholders' funds at 31 December stood at £2.3m (2015: £1.7m).

## Cash Flow Statement

During the year the Group had an operating cash outflow of £1.7m (2015: £1.1m) which arose from trading losses. The Group reported an adverse working capital movement of £0.6m (2015: £0.2m positive movement) which largely arose from short term timing issues around increased inventory levels and amounts recoverable on contracts as well as a lower level of outstanding payroll taxes at the balance sheet date. Debtors were higher due to greater business volumes and there were no material overdue items. The Group's final stages of the set up costs of the Sovereign Ferries project in West Africa continued into 2016 and required a further £1.1m of spend (2015: £2.3m). A further £0.1m was spent on upgraded IT infrastructure.

During the year the Group raised £2.7m net by the issue of equity and CULN. During the year the Group was provided with overdraft support by its bankers HSBC and at present has a small but unused overdraft facility.

| Reconciliation from adjusted EBITDA to normalised operating cash flow £'000 | 2016 | 2015 |
|---|---|---|
| Adjusted EBITDA | 25 | (360) |
| Loss on asset disposal | 13 | 4 |
| Net changes in working capital | (638) | 209 |
| Equity settlement payment | - | 60 |
| Net Cash used in underlying operating activities | (600) | (96) |

Net Cash used in underlying operating activities is presented excluding exceptional items, share options expense, and depreciation and amortisation.

## Events after the Reporting Period

- On 1 February 2017, 2,228,367 ordinary shares of 10p each were issued at a price of 13.462773 pence each pursuant to a conversion of £0.3m of CULN
- On 28 February 2017, the Company raised £0.6m (gross) of new monies by subscription at a price of 11.625 pence per ordinary 10 pence share and consequently issued 5,161,290 new ordinary 10 pence shares. On the same day Darwin Capital Limited exercised a conversion of £0.4m of CULN at 11.625 pence per share resulting in the issuance of 3,440,860 new ordinary shares
- On 4 April 2017, employees exercised 55,000 share options which were originally granted on 5 April 2007 and had an exercise price of 10p each
- On 18 April 2017, 10 million new ordinary shares were issued at 10p each raising £1m gross to support the development of the Company. On the same day Beaufort Securities Limited were appointed as joint broker and their annual fee of £25,000 was settled by the issue of 250,000 new ordinary shares and the issue of 100,000 detachable warrants with an exercise price of 25p and a life of five years. As part of the placing commissions, Beaufort were issued with a further 0.5 million warrants with an exercise price of 10p and a life of five years. On the same day the final £0.5m of convertible loan notes issued to Darwin were converted at a price of 10p. A condition of the placing was that Westminster agreed with Beaufort not to enter into arrangement for similar loan notes for six months from the date of this placing
- As part of the settlement with the vendors of CTAC Limited announced in July 2015, Westminster has now received certain property assets from the vendors and any sale will benefit 2017

## Key Performance Indicators

The Group constantly monitors various key performance indicators for factors affecting the overall performance. At Group level the revenues and gross margin are monitored to give a constant view of the Group's operational performance. As employment costs are the single largest cost base for the Group the number of employees and employee costs are also monitored to ensure best use of resources. Days Sales Outstanding is a measure as to the cash conversion of revenue and identifies debtor ageing issues.

The Managed Services Division derives its revenues and cash flows based on the number of passengers using a facility such as an airport; therefore the number of passengers served is monitored along with the future potential of the division with reference to the number of potential airports and passengers in the divisional pipeline.

The Technology Division measures its sales activity by reference to the value of quotes issued against sales enquiries and therefore monitors the average enquiries received per month and the potential value of those enquiries. Additionally the conversion rate by quantity is monitored to counter the effects of large scale enquiries which can distort value comparisons. Finally the number of countries and number of return customers are monitored to give a view on the performance of the division both pre and post sales.


Key Performance Indicators

| Group | 2016 | 2015 |
|---|---|---|
| Revenue (£'m) | 4.4 | 3.4 |
| Gross Margin | 71% | 58% |
| Days Sales Outstanding | 32 | 48 |
| Number of Employees | 240 | 218 |
| Average Employee Cost Per Head | £9,450 | £10,250 |

| Managed Services | | |
|---|---|---|
| Passengers Served ('000) in the last 12 months | 97 | 64 |
| Signed MoUs | 7 | 4 |
| Signed MoUs Annual Potential Passengers (m) | 12.8 | 5.1 |

| Technology Division | | |
|---|---|---|
| Average Enquiries Per Month | 117 | 99 |
| Average Value of Monthly Enquiries | £11,224 | £12,553 |
| Number of Countries Supplied | 39 | 33 |
| Number of Return Customers | 150 | 142 |

# Board of Directors

### Lieutenant Colonel Sir Malcolm Ross GCVO, OBE - Non-Executive Chairman

Lieutenant Colonel Sir Malcolm Ross GCVO, OBE, was a member of the Royal Household of the Sovereign of the United Kingdom from 1987 and, from 2006 to 2008, Master of the Household of the Prince of Wales. Sir Malcolm was educated at Eton and Sandhurst. He served in the Scots Guards, holding the posts of Adjutant at the Royal Military Academy Sandhurst, and reached the rank of Lieutenant Colonel in 1982.

Sir Malcolm joined the Royal Household in 1987 as Assistant Comptroller of the Lord Chamberlain's Office and Management Auditor. From 1989 to 1990 he was Secretary of the Central Chancery of the Orders of Knighthood. He was Comptroller of the Lord Chamberlain's Office 1991-2005 and became Master of the Household to the Prince of Wales in 2006. Since 1988 he has been an Extra Equerry to The Queen.

### Rt. Hon. Sir Tony Baldry - Non-Executive Deputy Chairman

Sir Tony, has had a long a prestigious Parliamentary career. He was Personal Aide to Margaret Thatcher in the 1974 General Election and subsequently remained in her private office when she became Leader of the Opposition.

Sir Tony served as MP for North Oxfordshire from 1983 to 2015. He held various ministerial posts during the 1990s, serving as Minister of State in the Ministry of Agriculture, Fisheries and Food and as Parliamentary Under Secretary of State in the Foreign and Commonwealth Office, with a range of responsibilities including South Asia, Africa, North America and the West Indies.

Sir Tony, a practicing barrister, was awarded the Robert Schumann Silver Medal for contribution to European politics in 1975. He takes a keen interest in foreign affairs and was a Governor of the Commonwealth Institute and a member of the Overseas Development Institute. Tony was Chairman of the House of Commons Select Committee on International Development in the 2010 Parliament.

### James Sutcliffe - Non-Executive Director

James Sutcliffe has gained a broad range of experience managing private and Listed businesses over the last 25 years as Chairman, CEO or Director in small companies as well as an Executive Director of large, LSE listed public companies. This included the £475m acquisition of PD Ports plc in 2003 and the development of a new 500,000 TEU container terminal in 2005-7 from a beach at Gdansk in Poland. He Chaired UKTI "Ports & Marine" from 2006-2012 representing the whole of the UK ports and maritime sector internationally, working with senior UK Ministers and VIP's promoting the UK to Emerging Market countries and Governments around the world.

His track record of enhancing ports and logistics businesses, creating new value and his entrepreneurial leadership, in what is often a traditional business model, has been complemented by a solid background in corporate governance and strategic thinking.

Ports and airports are frontiers to any country and so his experience in border security and international markets is highly relevant to Westminster Groups activities.

### Peter Fowler - Chief Executive Officer

Peter has over 40 years' experience operating within the security industry, with particular reference to the electronic protection sector. Peter started his career in the security industry in 1970, quickly progressing into senior management roles and has a long history of running successful companies having built and sold two security businesses, successfully carried out acquisitions and disposals and has held several senior positions in listed companies.

Peter joined Westminster as Managing Director in 1996, carried out an MBO of the business in 1998 and led the IPO on AIM in 2007. He is widely travelled and has developed an extensive network of contacts around the world, having met numerous senior governmental and military personnel in many of the countries in which Westminster operate.

### Ian Selby - Chief Financial Officer

Ian is a Chartered Accountant with significant board level experience working with private and listed SME's. He was previously Group Finance Director of Zenith Hygiene Group plc, where he was instrumental in executing a successful trade sale. Previously, he was the CFO of Corero plc, a software company. He has extensive experience including M&A, fundraising, working capital improvements, debt renegotiation and operational finance management.

Earlier in his career he held international finance roles, including emerging markets in Halliburton Inc, Sybase Inc and Micro Focus plc. He qualified as a Chartered Accountant with Coopers & Lybrand Deloitte and holds a degree in Physics from the University of Birmingham.

### Stuart Fowler BEng (Hons) - Operations Director

Stuart has many years' experience of the security industry and has been particularly involved in many of the more complex integrated security systems.

Stuart studied computing and business studies at university obtaining a Bachelor of Engineering Honours degree in 1996. After university Stuart successfully implemented several software development projects for listed companies before joining Westminster in 1998. Since that time Stuart has been instrumental in the design and implementation of many larger complex systems installed by Westminster and is now responsible for the Group's operations and technical implementation worldwide.

# Directors Report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2016.

## Principal activities

The Westminster Group plc is a specialist security and services group operating worldwide via an extensive international network of agents and offices in over 50 countries.

Westminster's principal activity is the design, supply and ongoing support of advanced technology security solutions, encompassing a wide range of surveillance, detection, tracking and interception technologies and the provision of long-term managed services contracts such as the management and running of complete security services and solutions in airports, ports and other such facilities together with the provision of ferry services, manpower, consultancy and training services. The majority of its customer base, by value, comprises governments and government agencies, non-governmental organisations (NGO's) and blue chip commercial organisations.

## Review of business, future developments and key performance indicators

A full review of the business and future development, incorporating key performance indicators, is set out in the Chief Executive Officer's Strategic Report and the Chief Financial Officer's statements on pages 6 to 13.

The Directors who held office during the year were as follows

| Executive Directors | Non-Executive Directors |
|---|---|
| Peter Fowler | Lt Col Sir Malcolm Ross GCVO OBE |
| Stuart Fowler | Sir Michael Pakenham (retired 30 June 2016) |
| Roger Worrall (retired 30 June 2016) | Sir Tony Baldry (appointed 30 June 2016) |
| Ian Selby | Mr James Sutcliffe (appointed 1 December 2016) |

## Risk management objectives and strategy

The Group's corporate governance objective is to build a risk management framework across the Group. Local operations prepare relevant local risk registers which are then reviewed by a committee of executive Group management who then in turn report to the main Board. Clear channels of communication exist to ensure that risk management objectives are communicated across the Company and that risks are reported up to the Board and relevant management. External auditors are used where necessary and the Group will consider the need to establish an internal audit process as the Group expands. This may include operational reviews (such as compliance with aviation security standards) as well as the traditional financial and compliance aspects.

## Risk Committee

The purpose of the Risk Committee (the "Committee") is to perform centralised oversight and policy setting of risk management activities and to provide communication to the Board of Directors (the Board) of the Westminster Group (the Company) regarding important risks and related risk management activities. The Committee's key areas of responsibility are

- Oversight of risk;
- Adherence to internal risk management policies and procedures;
- Compliance with risk-related regulatory requirements; and
- External risk assessments in relation to the Company's international business.

The risk committee is chaired by James Sutcliffe and its members are Sir Tony Baldry (non-executive), Peter Fowler (CEO) and Ian Selby (CFO).

The Board of Directors has identified the Principal Risks and Uncertainties facing the Group and these are shown below, together with how we manage or mitigate them:

### Macro-economic outlook

**Risk and potential impact**
Current global economic, political and financial market conditions may materially and adversely affect the Group's operational performance. A downturn may affect customers, suppliers and other parties we do business with. The Group operates in emerging and frontier markets and therefore is exposed to the political, geographic and economic risks of such territories. With the UK committed to leaving the European Union, we will see uncertainty in the UK, Eurozone and elsewhere as the economic and political relationship between the UK and EU is determined. The Board considers that the current level of market risk is higher than normal given the level of geo-political unrest.

**Mitigation**
The Directors are seeking to ensure that the Group's activities are not significantly concentrated in any one individual customer or territory, so as to mitigate the exposure of any downturn in activity levels. In the event of a downturn the business could reduce investment plans and downscale its cost base in line with a deterioration in forecasted sales in any one particular market. The Group regularly reviews the relevant insurance requirements.

**Probability**
Possible

**Potential financial impact**
Major

### Financial risks

**Risk and potential impact**
The main financial risks faced by the Group are credit risk, foreign currency risk, interest rate risk and liquidity risk.

**Mitigation**
The Directors regularly review and agree policies for managing these risks. Credit risk is managed by monitoring limits and payment performance of counterparties. Where a customer is deemed to represent an unacceptable level of credit risk, terms of trade are modified to limit the Group's exposure. Foreign currency risk is managed by matching payments and receipts in foreign currency to minimise exposure. This is regularly reviewed as the Group wins new business in foreign currency and we continue to monitor the business impact of macro-economic factors, which could affect the value of sterling and in turn have an impact on supply chain costs. If required, surplus currency will be protected through forward foreign exchange contracts. Liquidity risk is managed by the close control of cash and frequent cash flow forecasting, together with modest overdraft facilities and additional financing to provide short-term flexibility. Interest rate risk is low with all Group borrowings having fixed rates of interest. The Group's capital raising ability can be affected by movements in capital markets.

**Probability**
Possible

**Potential financial impact**
Moderate

### Legislation and regulations

**Risk and potential impact**
There is a risk that the Group may not always be in complete compliance with local laws and regulations in overseas territories. For example, the risk to the Group's reputation of failure to comply with ethical and environmental regulations arising in the countries in which it operates. An example of this could be inappropriate business ethics in one of the territories from which Westminster Group operates.

**Mitigation**
The Directors have taken steps to ensure that all the Group's global operations are conducted to the highest ethical and environmental standards. Westminster Group maintains a strict anti-bribery policy with both Agents and employees given training through a series of webinars. The Group appoints relevant advisors to ensure regulatory requirements are complied with. Counterparties are vetted in order to minimise the risk of the Group being associated with a company that commits a significant breach of the regulations.

**Probability**
Unlikely

**Potential financial impact**
Moderate

### Information technology

**Risk and potential impact**
The Group's systems and data are subject to security and availability risks, particularly in some of the territories the Group operates in. The Group is dependent on these systems for the day-to-day management of the Company. Any disruption to the Group's information systems could have a significant impact on the business.

**Mitigation**
To mitigate these risks the Group ensures a regular full backup of our systems and data in case of an event. Disaster recovery plans are in place and are reviewed by senior management for suitability. Only current and fully supported systems are used to minimise the risk of cyber-attacks on Group systems. The Group uses external consultants to test the relevant systems vulnerability from time to time. Data backups are held in multiple locations to minimise recovery periods.

**Probability**
Possible

**Potential financial impact**
Moderate

### Contractual liabilities

**Risk and potential impact**
Failure to deliver a contract in a timely manner, according to an agreed specification could lead to higher costs, penalties and reputational damage.

**Mitigation**
The Group mitigates this risk by ensuring adequate project management is in place and any issues identified are dealt with in a timely and efficient manner. Warranties are sought from equipment suppliers where appropriate. Material contracts are reviewed by the Board on a regular basis to ensure that contractual liabilities are met.

**Probability**
Possible

**Potential financial impact**
Major

### Talent succession planning

**Risk and potential impact**
The loss of key personnel or the failure to have an adequate succession plan could have an impact on the Group's overall performance. Recruiting and retaining skilled personnel at board and operational levels, particularly overseas, is a continual challenge and competition is fierce in certain territories the Group operates in. Without the necessary talent recruited and embedded into the business this could adversely affect the Group's growth plans resulting in a loss of market share and the inability to compete and deliver in its chosen markets.

**Mitigation**
The risk is mitigated by ensuring development plans are in place, salary packages are competitive and talent is sourced where necessary. The Chief Executive reviews all the senior managers' performance and competencies in the organisation and identifies critical retention employees, reporting the findings to the Board of Directors.

**Probability**
Possible

**Potential financial impact**
Moderate

## Results and dividends

The Group's results for the financial year are set out in the consolidated statement of comprehensive income.

The Directors do not recommend the payment of a dividend (2015: £nil).

## Directors' interests in share capital and share options

Details of the Directors' interests in share capital and share options are contained in the Remuneration Committee report.

## Other significant interests in the Company

At 5 June 2017, those shareholders, other than Directors, who had disclosed to the Company an interest of more than 3 per cent of the issued share capital, are set out as follows.

| Name of shareholder or nominee | No of shares | Holding % |
|---|---|---|
| Hargreave Hale | 13,133,333 | 11.6 |
| Mr Hamed Al Jamal | 4,000,000 | 3.53 |

## Policy on payments to suppliers

It is a policy of the Group in respect of all suppliers, where reasonably practical, to agree the terms of payment with those suppliers when agreeing the terms of each transaction and to abide by them.

The ratio of amounts owed by the Group to trade creditors at the year-end represented 32 days (2015: 32 days).

## Share price

During 2016 the Company's share price ranged from 5.5p to 32p and the share price at 31 December 2016 was 21p (2015: 25.9p).

## Directors' and officers' liability insurance

The Company, as permitted by sections 234 and 235 of the Companies Act 2006, maintains insurance cover on behalf of the Directors and Company Secretary indemnifying them against certain liabilities which may be incurred by them in relation to the Company.

## Post balance sheet events

These are detailed in the CFO report and in note 28 to the financial statements.

## Going Concern

The financial statements are prepared on a going concern basis. In assessing whether the going concern assumption is appropriate, management have taken into account all relevant available information about the future. As part of its assessment, management have taken into account the profit and cash forecasts, the continued support of the shareholders and bondholders and Directors and management ability to affect costs and revenues. Management regularly forecast results, financial position and cash flows for the Group.

The Group has prepared both a Growth Scenario and a Pessimistic Scenario (for contingency planning) for assessing the Group's cash requirements over the next 12 months from the date of these financial statements.

- Growth Scenario. The Group has several large opportunities such as the £35m per annum Middle Eastern contract under negotiation. Whilst these opportunities will have an inherent need for significant additional capital to mobilise the project, it is envisaged that certain initial costs could be met from organic resources depending on the timing of the contract closure. The Directors believe that based on the strong financial dynamics of incremental Managed Services contracts that they should be able to secure financing and are already in discussions with various debt and equity providers. Based on previous experience operational cash flow from these projects can support capital expenditure within the project plan. This scenario includes a rapid ramp up in ferry passenger numbers and full achievement of solution sales targets as well as the usual run rate of product sales.
- Pessimistic Scenario. A pessimistic forecast for the 12 months following the date of these financial statements has been prepared for the purpose of stress testing the Group's cash flows. This includes revenues from the run rate of smaller contracts, a much-reduced expectation from sales of solutions in the technology division, no large new managed services contracts, and the continuation of major existing contracts such as the West African airport contract as well as an expected net cash outflow from the Sierra Leone ferry operation as it builds towards critical mass, it is targeted to become cash flow positive at the end of 2017. Should these cash flows not happen as expected certain contingency measures have been identified by the Board as part of its routine planning process. These options include cost reductions, restructuring operations and asset disposals to preserve cash resources, although additional funding may be required as these measures take effect.

The Group's convertible secured loan notes have a principal value of £2.245m and a conversion price of 35p maturing on 18 June 2018. Whilst not repayable in the 12 months from the date of these financial statements, the Board believes that the pipeline of potential Managed Services contracts could either give the Company the capability of repayments from cash flow, or that the bondholders could convert to equity. As part of a routine planning process the Board has identified options for resolution or restructuring, with potential variations to the instrument around conversion price, coupon and term. The Group has an asset base which could be used to support any changes.

Based upon these projections the Group has adequate working capital for the 12 months following the date of signing these financial statements. For this reason they continue to adopt the going concern basis in preparing the financial statements.

## Auditor

A resolution to reappoint Moore Stephens LLP as auditor will be proposed at the Annual General Meeting to be held on 29 June 2017.

In so far as each of the directors is aware

- There is no relevant audit information which the Group's auditor is unaware, 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 auditor is aware of that information.

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

On behalf of the Board

| | |
|---|---|
| P D Fowler | I Selby |
| Director | Director |
| 5 June 2017 | |

# Remuneration Committee Report

## Introduction

As an AIM listed company, the preparation of a Remuneration Committee report is not an obligation. The Group has, however, sought to provide information that is appropriate to its size and organisation.

### Unaudited

The Remuneration Committee of the Board was established on admission of the Company to AIM in June 2007 and consists solely of the following Non-Executive Directors:

Lt. Col. Sir Malcolm Ross (Chairman)
Sir Tony Baldry
James Sutcliffe

The Remuneration Committee is responsible for establishing a formal and transparent procedure for developing policy on executive remuneration and to set the remuneration packages of individual Directors. This includes agreeing with the Board the framework for remuneration of the Chief Executive, all other Executive Directors and such other members of the executive management of the Company as it is designated to consider. It is furthermore responsible for determining the total individual remuneration packages of each Director, including, where appropriate, bonuses, incentive payments and share options.

The Committee's policy is to provide a remuneration package which will attract and retain Directors and management with the ability and experience required to manage the Group and to provide superior long-term performance. It is the aim of the Committee to reward Directors competitively and on the broad principle that their remuneration should be in line with the remuneration paid to senior management of comparable companies. There are four main elements of the remuneration package for Executive Directors: base salary, share options, benefits and annual bonus. Notice periods for Executive Directors are 12 months.

- Base salary is reviewed annually and in setting salary levels the Remuneration Committee considers the experience and responsibilities of the Executive Directors and their personal performance during the previous year. The Committee also takes account of external market data, as well as the rates of increases for other employees within the Group.
- Share options are granted having regard to an individual's seniority within the business and are designed to give Directors an interest in the increase in the value of the Group.
- Benefits primarily comprise the provision of company cars, health insurance and participation in the Group life assurance scheme.
- All Executive Directors and executive management participate in the Group's annual bonus scheme, which is based upon the assessment of individual performance, subject to the Group achieving profitability commensurate with its revenues and capital employed.

## Meetings

The Remuneration Committee met once during the year.

## Options

The Group considers it important to incentivise employees and Directors through share incentive arrangements. The Group adopted the Share Option Scheme in April 2007, under which it granted EMI options and unapproved options to certain employees and Directors over its ordinary shares. An option grant was made to the Directors in December 2014, the details of which are set out on page 22 of these financial statements. In order for the Directors to benefit from this scheme a demanding share price target of 60p before vesting must be achieved.

In context this threshold represents a premium of 140 per cent. to the placing price of the £1 million fundraising announced on 10 December 2014 and a premium of 66 per cent. to the average equity issue price between July 2011 and December 2014. The Group believes that such schemes (as well as Long Term Incentive Plans) align executives with long term shareholder value.

## Non-Executive Directors' remuneration

Non-Executive Directors' remuneration is determined by the Board as a whole, each refraining from determining his own remuneration. The fees paid to Non-Executive Directors are set at a level intended to attract individuals with the necessary experience and ability to make a significant contribution to the Group. The service contracts of the Non-Executive Directors specify the following:

| Non-Executive Directors | Severance | Notice | Contractual Fees |
|---|---|---|---|
| | | | £ |
| Lt. Col. Sir Malcolm Ross | None | 3 months | 18,000 |
| Sir Tony Baldry | None | 3 months | 40,000 |
| James Sutcliffe | None | 3 months | 24,000 |

Sir Tony Baldry was appointed to the board on 30 June 2016 and Sir Michael Pakenham stood down on that day. Mr James Sutcliffe joined the board on 1 December 2016.

## Executive and Non-Executive Directors' remuneration package and interest in share capital

Details of the Executive and Non-Executive Directors' remuneration and interest in share capital for the year ended 31 December 2016 are as follows:

Audited

| Executive Directors | Basic salary/ fee £'000 | Benefits in kind £'000 | Group national insurance cost £'000 | Share Based Payment cost £'000 | Total cost of employment £'000 | Total 2015 £'000 |
|---|---|---|---|---|---|---|
| Peter Fowler | 157 | - | 22 | 13 | 192 | 192 |
| Stuart Fowler | 104 | - | 14 | 10 | 128 | 132 |
| Roger Worrall (retired 30 June 2016) | 41 | 1 | 6 | 10 | 58 | 104 |
| Ian Selby | 88 | 1 | 12 | 10 | 111 | 115 |
| Total Executive Remuneration | 390 | 2 | 54 | 43 | 489 | 543 |
| **Non-Executive Directors** | | | | | | |
| Lt. Col. Sir Malcolm Ross | 18 | - | - | 5 | 23 | 20 |
| Sir Tony Baldry (joined 30 June 2016) | 20 | - | - | - | 20 | - |
| James Sutcliffe (joined 1 December 2016) | 2 | - | - | - | 2 | - |
| Sir Michael Pakenham (resigned 30 June 2016) | 6 | - | - | 1 | 7 | 14 |
| Matthew Wood (resigned 31 August 2015) | - | - | - | - | - | 16 |
| Total Non-Executive Remuneration | 46 | - | - | 6 | 52 | 51 |
| Total Board Remuneration | 436 | 2 | 54 | 49 | 541 | 594 |

Roger Worrall retired from the PLC Board on 30 June 2016, but remains a member of the Operations Board.

No options were exercised during the year and no cash benefit was therefore received by the directors and the share based payment expense relates to a non-cash value. Matthew Wood is a director of CMS Corporate Consultants Limited ("CMS") which formerly provided corporate advisory services to the Company, and he resigned from the board on 31 August 2015.

The Executive and Non-Executive Directors who held office during the year had no interests in the shares in, or debentures or loan stock of, the Company or any of its subsidiaries except for the following holdings of ordinary shares in the Company:

| Executive Directors and Non-Executive Directors | Interest at start and end of year |
|---|---|
| Lt. Col. Sir Malcolm Ross | 140,884 |
| Peter Fowler and Mrs P J Fowler | 6,361,794 |
| Stuart Fowler | 541,618 |
| Ian Selby | 166,667 |
| Sir Tony Baldry (Joined 30 June 2016) | - |
| James Sutcliffe (Joined 01 December 2016) | - |

In addition to the interests disclosed above, certain Executive and Non-Executive Directors have options to acquire ordinary shares in the Company granted under the Share Option Plan. Full details are as follows:

Number of options over ordinary shares of 10p each in the Company:

| Directors | At 1 January 2016 and 31 Dec 2016 | Grant price | Market price at date of grant | Date from which exercisable |
|---|---|---|---|---|
| Lt. Col. Sir Malcolm Ross | 67,862 | 67.5p | 67.5p | 21 June 2009 |
| Stuart Fowler | 48,000 | 10.0p | 5.7p | 05 April 2009 |
| Sir Michael Pakenham | 15,000 | 52.5p | 52.5p | 21 April 2010 |
| Stuart Fowler | 15,000 | 34.5p | 34.5p | 25 September 2011 |
| Roger Worrall | 5,000 | 34.5p | 34.5p | 25 September 2011 |
| Sir Michael Pakenham | 2,000 | 34.5p | 34.5p | 25 September 2011 |
| Sir Michael Pakenham | 93,750 | 28.5p | 25.5p | 10 June 2016* |
| Lt. Col. Sir Malcolm Ross | 93,750 | 28.5p | 25.5p | 10 June 2016* |
| Peter Fowler | 781,250 | 28.5p | 25.5p | 10 June 2016* |
| Ian Selby | 625,000 | 28.5p | 25.5p | 10 June 2016* |
| Roger Worrall | 625,000 | 28.5p | 25.5p | 10 June 2016* |
| Stuart Fowler | 625,000 | 28.5p | 25.5p | 10 June 2016* |

The market price of the shares at 31 December 2016 was 21p and the range during the year was 5.5 p to 32 p. Sir Michael Pakenham and Roger Worrall retired from the board on 30 June 2016.

* These options were granted to the Directors at a price of 28.5 pence under the existing EMI Scheme. Executive Directors are issued share options under the EMI Scheme and Non-Executive Directors under an unapproved scheme, which has the same rules as the EMI Scheme but without the relevant tax concessions. The EMI Scheme has been amended from a straight forward time based vesting model to a performance based vesting model. Save for a change of control in the Company, Share Options granted to Directors will only vest if the Company's share price has reached 60 pence at any time and became exercisable from 10 June 2016. All share options have an exercise period of 10 years from grant under the rules of the EMI Scheme. The vesting price threshold of 60p represented a 140% premium to the price of the equity issued on the same day.

No directors exercised options during the year and no further options were granted.

On behalf of the Board

Lt. Col. Sir Malcolm Ross

Chairman of the Remuneration Committee

5 June 2017

# Corporate Governance Report

The Directors are committed to delivering high standards of corporate governance to the Group's shareholders and other stakeholders including employees, suppliers and the wider community. As an AIM listed company, full compliance with the UK Corporate Governance Code 2014 ("the Code") or the Corporate Governance Code for Small and Mid-Sized Quoted Companies 2013, as published by the Quoted Companies Alliance, is not a formal obligation. The Directors recognise the importance of sound corporate governance and the Group has sought to adopt the provisions of the Code that are appropriate to its size and organisation and establish frameworks for the achievement of this objective. The Board of Directors operates within the framework described below.

## The Board

The Board sets the Group's strategic aims and ensures that necessary resources are in place in order for the Group to meet its objectives. All members of the Board take collective responsibility for the performance of the Group and all decisions are taken in the interests of the Group. Whilst the Board has delegated the normal operational management of the Group to the Executive Directors and other senior management, there are detailed specific matters subject to decision by the Board of Directors. These include acquisitions and disposals, joint ventures and investments, projects of a capital nature and all significant contracts. The Non-Executive Directors have a particular responsibility to challenge constructively the strategy proposed by the Executive Directors; to scrutinise and challenge performance; to ensure appropriate remuneration and that succession planning arrangements are in place in relation to Executive Directors and other senior members of the management team. The senior executives enjoy open access to the Non-Executive Directors.

The Chairman is responsible for leadership of the Board and ensuring its effectiveness on all aspects of its role. The Chairman sets the Board's agenda and ensures that adequate time is available for discussion of all agenda items, in particular strategic issues. The Chairman promotes a culture of openness and debate by facilitating the effective contribution of Non-Executive Directors in particular and ensuring constructive relations between Executive and Non-Executive Directors. The Chairman is also responsible for ensuring that the Directors receive accurate, timely and clear information. The Chairman ensures effective communication with shareholders.

All Directors are able to allocate sufficient time to the Group to discharge their duties. There is a formal, rigorous and transparent procedure for the appointment of new Directors to the Board. The search for Board candidates is conducted, and appointments made, on merit, against objective criteria and with due regard for the benefits of diversity on the Board.

The Board is responsible for ensuring that a sound system of internal control exists to safeguard shareholders' interests and the Group's assets. It is responsible for the regular review of the effectiveness of the systems of internal control. Internal controls are designed to manage rather than eliminate risk and therefore even the most effective system cannot provide assurance that each and every risk, present and future, has been addressed. The key features of the system that operated during the year are described below.

## Organisational structure and control environment

The Board of Directors meets at least six times a year to review the performance of the Group. It seeks to foster a strong ethical culture across the Group. There are clearly defined lines of responsibility and delegation of authority from the Board to the operating subsidiaries. The Directors of each trading subsidiary meet on a regular basis with normally at least two members of the Group Board in attendance.

## Internal control

The key procedures which the Directors have established with a view to providing effective internal control are as follows:

- Regular Board meetings to consider the schedule of matters reserved for Directors' consideration;
- A risk management process;
- An established organisational structure with clearly defined lines of responsibility and delegation of authority;
- Appointment of staff of the necessary calibre to fulfil their allotted responsibilities; Comprehensive budgets, forecasts and business plans approved by the Board, reviewed on a regular basis, with performance monitored against them and explanations obtained for material variances; and
- An Audit Committee of the Board, comprising Non-Executive Directors, which considers significant financial control matters as appropriate.

## Risk management

The Board has the primary responsibility for identifying the major risks facing the Group. The Board has adopted a schedule of matters which are required to be brought to it for decision, thus ensuring that it maintains full and effective control over appropriate strategic, financial, organisational and compliance issues. The Board has identified a number of key areas which are subject to regular reporting to the Board. The policies include defined procedures for seeking and obtaining approval for major transactions and organisational changes. The Group has a dedicated Risk Committee as detailed on page 15 to these financial statements.

Risk reviews are carried out by each subsidiary and reviewed annually as part of an ongoing risk assessment process. The focus of the reviews is to identify the circumstances, both internally and externally, where risks might affect the Group's ability to achieve its business objectives. The management of each subsidiary periodically reports to the Board any new risks.

In addition to risk assessment, the Board believes that the management structure within the Group facilitates free and rapid communication across the subsidiaries and between the Group Board and those subsidiaries and consequently allows a consistent approach to managing risks. Certain key functions are centralised, enabling the Group to address risks to the business present in those functions quickly and efficiently. The key risks and mitigation strategies of the business are set out on pages 16 and 17 of this report.

## Audit Committee

This committee was set up with Terms of Reference agreed in February 2017. It oversees and reviews the Company's financial reporting and internal control processes, its relationship with external auditors and the conduct of the audit process together with its process for ensuring compliance with laws, regulations and corporate governance. It is composed entirely of non-executive directors but other individuals such as the Company's CFO and CEO, representatives of the finance team may be invited to attend all or any part of any meeting when deemed appropriate. The Company's external auditors will be invited to attend meetings of the Committee on a regular basis

There is currently no internal audit function in view of the size of the Group, although this is kept under annual review.

The audit committee comprises;

James Sutcliffe - Chairman
Lt. Col. Sir Malcolm Ross
Sir Tony Baldry

## Nomination Committee

This committee was set up with Terms of Reference agreed in February 2017. It leads the process for Board Appointments and to make recommendations to the Board on the constitution of the Board in view of the needs of the group. The majority of members are non-executive directors and it comprises;

Sir Tony Baldry – Chairman
Lt. Col. Sir Malcolm Ross
James Sutcliffe
Peter Fowler

Other individuals may be invited to attend all or part of any meeting of the Committee when deemed appropriate.

## Disclosure Committee

This committee was set up with Terms of Reference agreed in February 2017. It oversees and regulates the Company's disclosure obligations and to ensure compliance with Market Abuse Regulations (MAR) and London Stock Exchange rules and it comprises;

Sir Tony Baldry – Chairman
James Sutcliffe
Peter Fowler
Roger Worrall (Secretary)

## Corporate responsibility

The Board is very aware of the importance of its corporate responsibilities, particularly in terms of ensuring that high standards of behaviour are maintained wherever the Group is operating. The following principles and processes have been established for that purpose:

- Only supply goods and services that improve people's safety and security – no offensive activities;
- Protecting the health and safety of all employees is paramount;
- ISO 9001:2008 certified;
- ISO 14001:2004 environmental management system certification;
- Members of ADS Aerospace, Defence & Security Association;
- Operate a strict ethical policy with both employees and agents within the principles of CIS (Common Industry Standard) produced by the Aerospace and Defence Organisation of Europe;
- Comply with UK and International Export Controls criteria – key employees have attended required courses;
- Providing valuable employment and investment opportunities in third world areas;
- Promoting environmental solutions – e.g. solar street lighting, oil leak detection etc;
- Providing speakers at conferences & seminars, referenced by press & media;
- Supporting and assisting local and international charities; and
- The Group maintains a stringent anti-bribery policy and complies with both UK and local statutes

### Financial planning, budgeting and monitoring

The Group operates a planning and budgeting system with an annual budget approved by the Board. There is a financial reporting system which compares results with the budget and the previous year on a monthly basis to identify any variances from approved plans. Frequent rolling cash flow forecasts form part of the reporting system. The Group remains alert to react to other business opportunities as they arise.

### Capital management policies and procedures

The Group's capital management objectives are:

- To ensure the Group's ability to continue as a going concern; and
- To provide an adequate return to shareholders.

The Group monitors capital on the basis of the carrying amount of equity plus its convertible loan, less cash and cash equivalents as presented on the face of the statement of financial position.

The Group sets the amount of capital in proportion to its overall financing structure, i.e. equity and financial liabilities other than its convertible loan. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

There is no requirement for the Group to maintain a strong capital base for each of its UK subsidiaries and therefore each subsidiary is financed by inter-company debt from the Company. These policies have not changed in the year. The Directors believe that they have been able to meet their objectives in managing the capital of the Group.

### Non-Executive Directors

The Non-Executive Directors are considered by the Board to be independent in character and judgement and there are not considered to be any circumstances that are likely to affect their judgement as Directors of the Group. Their interests in the share capital of the Company are not considered to be likely to affect their judgement as Directors of the Group.

### Annual report

The Directors consider the annual report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

# Statement of Directors' Responsibilities

## Directors' responsibilities statement

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

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that 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 Alternative Investment Market.

In preparing these financial statements, the Directors are required to

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether applicable IFRS have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and 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 Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## Website publication

The Directors are responsible for ensuring that the Annual Report and financial statements are made available on a website. Financial statements are published on the Company'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 maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

On behalf of the Board

| | |
|---|---|
| P D Fowler | I Selby |
| Director | Director |
| 5 June 2017 | |

# Independent Auditor’s Report to the Members of Westminster Group Plc

We have audited the financial statements of Westminster Group Plc for the year ended 31 December 2016 which are set out on pages 28 to 59. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

## Respective responsibilities of directors and auditor

As explained more fully in the Directors’ Responsibilities Statement set out on page 26, 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 (APB’s) Ethical Standards for Auditors.

## Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council’s web-site at www.frc.org.uk/auditscopeukprivate.

## Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group’s and the parent company’s affairs as at Year End and of the group’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.

## Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the Strategic Report and the Directors’ Report for the financial year for which the group financial statements are prepared is consistent with the group financial statements; and
- the Strategic Report and the Directors’ Report have been prepared in accordance with applicable legal requirements.

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

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

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

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

PAUL FENNER

Senior Statutory Auditor

For and on behalf of Moore Stephens LLP

150 Aldersgate Street

London

EC1A 4AB

5 June 2017

# Westminster Group PLC
# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016

| | Note | 2016 £'000 | 2015 £'000 |
|---|---|---|---|
| REVENUE | 3 | 4,406 | 3,359 |
| Cost of sales | | (1,296) | (1,403) |
| GROSS PROFIT | | 3,110 | 1,956 |
| Administrative expenses | | (4,499) | (3,606) |
| LOSS FROM OPERATIONS | 6 | (1,389) | (1,650) |
| Analysis of operating loss | | | |
| Loss from operations | | (1,389) | (1,650) |
| Add back amortisation | 11 | 7 | 4 |
| Add back depreciation | 12 | 227 | 167 |
| Add back share option expense | | 103 | 76 |
| Add back exceptional items | 4 | 1,077 | 1,043 |
| EBITDA Profit/(loss) from underlying operations | | 25 | (360) |
| Finance Costs | 5 | (566) | (338) |
| LOSS BEFORE TAXATION | | (1,955) | (1,988) |
| Taxation | 7 | 46 | (7) |
| LOSS ATTRIBUTABLE TO EQUITY SHAREHOLDERS | | (1,909) | (1,995) |
| TOTAL COMPREHENSIVE EXPENSE FOR THE YEAR ATTRIBUTABLE TO EQUITY SHAREHOLDERS | | (1,909) | (1,995) |
| LOSS PER SHARE | 9 | (2.46p) | (3.49p) |

The accompanying notes form part of these financial statements.

All activities derive from continuing operations.

# Westminster Group PLC
# Consolidated and Company Statements of Financial Position

As at 31 December 2016

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | 2016 £'000 | 2015 £'000 | 2016 £'000 | 2015 £'000 |
| Goodwill | 10 | 397 | 397 | - | - |
| Other intangible assets | 11 | 132 | 34 | 103 | 2 |
| Property, plant and equipment | 12 | 4,635 | 4,343 | 1,031 | 1,046 |
| Investment in subsidiaries | 14 | - | - | 12,683 | 9,979 |
| TOTAL NON-CURRENT ASSETS | | 5,164 | 4,774 | 13,817 | 11,027 |
| Inventories | 18 | 198 | 57 | - | - |
| Trade and other receivables | 19 | 894 | 484 | 108 | 126 |
| Cash and cash equivalents | 20 | 152 | 150 | 21 | 2 |
| TOTAL CURRENT ASSETS | | 1,244 | 691 | 129 | 128 |
| TOTAL ASSETS | | 6,408 | 5,465 | 13,946 | 11,155 |
| Called up share capital | 21 | 8,711 | 6,345 | 8,711 | 6,345 |
| Share premium account | | 9,169 | 9,170 | 9,169 | 9,170 |
| Merger relief reserve | | 299 | 299 | 299 | 299 |
| Share based payment reserve | | 569 | 258 | 569 | 258 |
| Equity reserve on convertible loan note | | 186 | 219 | - | 33 |
| Revaluation reserve | | 134 | 134 | 134 | 134 |
| Retained earnings: | | | | | |
| At 1 January | | (14,739) | (12,757) | (6,071) | (6,062) |
| (Loss)/profit for the year | | (1,909) | (1,995) | 60 | (22) |
| Other changes in retained earnings | | (124) | 13 | (124) | 13 |
| At 31 December | | (16,772) | (14,739) | (6,135) | (6,071) |
| TOTAL SHAREHOLDERS' EQUITY | | 2,296 | 1,686 | 12,747 | 10,168 |
| Borrowings | 23 | 3,059 | 2,587 | 988 | 615 |
| Deferred tax liabilities | 17 | - | 53 | - | 53 |
| TOTAL NON-CURRENT LIABILITIES | | 3,059 | 2,640 | 988 | 668 |
| Deferred Income | 24 | 27 | - | - | - |
| Trade and other payables | 24 | 1,026 | 1,139 | 211 | 319 |
| TOTAL CURRENT LIABILITIES | | 1,053 | 1,139 | 211 | 319 |
| TOTAL LIABILITIES | | 4,112 | 3,779 | 1,199 | 987 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | 6,408 | 5,465 | 13,946 | 11,155 |

The accompanying notes form part of these financial statements. The Group and Company financial statements were approved by the Board and authorised for issue on 5 June 2017 and signed on its behalf by:

Peter Fowler
Director

Ian Selby
Director

# Westminster Group Plc
# Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

| | Called up share capital £'000 | Share premium account £'000 | Merger relief reserve £'000 | Share based payment reserve £'000 | Revaluation reserve £'000 | Equity Reserve on Convertible Loan Note £'000 | Retained earnings £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|---|
| AS OF 1 JANUARY 2016 | 6,345 | 9,170 | 299 | 258 | 134 | 219 | (14,739) | 1,686 |
| Shares issued for cash | 1,300 | - | - | - | - | - | - | 1,300 |
| Share based payment charge | - | - | - | 103 | - | - | - | 103 |
| Exercise of share options | - | - | - | - | - | - | - | - |
| Lapse of share options | - | - | - | (37) | - | - | 37 | - |
| Warrants issued with loan notes | - | - | - | 245 | - | - | (150) | 95 |
| Adjustment in respect of CLN conversions near par | - | - | - | - | - | - | - | - |
| CLN conversion | 1,066 | - | - | - | - | (33) | (11) | 1,022 |
| Loan notes issued | - | (1) | - | - | - | - | - | (1) |
| TRANSACTIONS WITH OWNERS | 2,366 | (1) | - | 311 | - | (33) | (124) | 2,519 |
| Total comprehensive expense for the year | - | - | - | - | - | - | (1,909) | (1,909) |
| AS AT 31 DECEMBER 2016 | 8,711 | 9,169 | 299 | 569 | 134 | 186 | (16,772) | 2,296 |

| | Called up share capital £'000 | Share premium account £'000 | Merger relief reserve £'000 | Share based payment reserve £'000 | Revaluation reserve £'000 | Equity Reserve on Convertible Loan Note £'000 | Retained earnings £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|---|
| AS OF 1 JANUARY 2015 | 5,515 | 9,039 | 299 | 141 | 134 | 47 | (12,757) | 2,418 |
| Shares issued for cash | 40 | 20 | - | - | - | | - | 60 |
| Share based payment charge | - | - | - | 76 | - | - | - | 76 |
| Exercise of share options | 1 | - | - | (1) | - | - | - | - |
| Lapse of share options | - | - | - | (13) | - | - | 13 | - |
| Warrants issued with loan notes | - | - | - | 55 | - | - | - | 55 |
| Bonus Issue | 114 | (114) | - | - | - | - | - | - |
| CLN conversion | 675 | 225 | - | - | - | (39) | - | 861 |
| Loan notes issued | - | - | - | - | - | 211 | - | 211 |
| TRANSACTIONS WITH OWNERS | 830 | 131 | - | 117 | - | 172 | 13 | 1,263 |
| Total comprehensive expense for the year | - | - | - | - | - | - | (1,995) | (1,995) |
| AS AT 31 DECEMBER 2013 | 6,345 | 9,170 | 299 | 258 | 134 | 219 | (14,739) | 1,686 |

# Westminster Group Plc
# Company Statement of Changes in Equity

For the year ended 31 December 2016

| | Share capital £'000 | Share premium £'000 | Merger relief reserve £'000 | Share based payment reserve £'000 | Revaluation reserve £'000 | Equity Reserve on convertible loan note £'000 | Retained earnings £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|---|
| AS OF 1 JANUARY 2016 | 6,345 | 9,170 | 299 | 258 | 134 | 33 | (6,071) | 10,168 |
| Shares issued for cash | 1,300 | - | - | - | - | - | - | 1,300 |
| Share based payment charge | - | - | - | 103 | - | - | - | 103 |
| Lapse of share options | - | - | - | (37) | - | - | 37 | - |
| Warrants issued with loan notes | - | - | - | 245 | - | - | (150) | 95 |
| Adjustment in respect of CLN conversions near par | - | - | - | - | - | - | - | - |
| CLN conversion | 1,066 | - | - | - | - | (33) | (11) | 1,022 |
| Loan notes issued | - | (1) | - | - | - | - | - | (1) |
| TRANSACTIONS WITH OWNERS | 2,366 | (1) | - | 311 | - | **(33)** | (124) | 2,519 |
| Total comprehensive income for the year | - | - | - | - | - | | 60 | 60 |
| AS AT 31 DECEMBER 2016 | 8,711 | 9,169 | 299 | 569 | 134 | - | (6,135) | 12,747 |
| AS OF 1 JANUARY 2015 | 5,515 | 9,039 | 299 | 141 | 134 | - | (6,062) | 9,066 |
| Shares issued for cash | 40 | 20 | - | - | - | - | - | 60 |
| Share based payment charge | - | - | - | 76 | - | - | - | 76 |
| Exercise of share options | 1 | - | - | (1) | - | - | - | - |
| Lapse of share options | - | - | - | (13) | - | - | 13 | - |
| Warrants issued with loan notes | - | - | - | 55 | - | - | - | 55 |
| Bonus Issue | 114 | (114) | - | - | - | - | - | - |
| CLN conversion | 675 | 225 | - | - | - | - | - | 900 |
| Loan notes issued | - | - | - | - | - | 33 | - | 33 |
| TRANSACTIONS WITH OWNERS | 830 | 131 | - | 117 | - | 33 | 13 | 1,124 |
| Total comprehensive expense for the year | - | - | - | - | - | | (22) | (22) |
| AS AT 31 DECEMBER 2015 | 6,345 | 9,170 | 299 | 258 | 134 | 33 | (6,071) | 10,168 |

# Westminster Group Plc
# Consolidated and Company Cash Flow Statements

For The Year Ended 31 December 2016

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | 2016 £'000 | 2015 £'000 | 2016 £'000 | 2015 £'000 |
| (LOSS) / PROFIT BEFORE TAXATION | | (1,955) | (1,988) | 8 | (22) |
| Non-cash adjustments | 25 | 916 | 589 | 597 | 261 |
| Net changes in working capital | 25 | (638) | 209 | (90) | 166 |
| Equity settlement payment | | - | 60 | - | 60 |
| NET CASH (USED IN) / FROM OPERATING ACTIVITIES | | (1,677) | (1,130) | 515 | 465 |
| | | | | | |
| INVESTING ACTIVITIES: | | | | | |
| Purchase of property, plant and equipment | | (531) | (2,642) | (2) | (20) |
| Purchase of intangible assets | | (105) | (27) | (105) | - |
| Proceeds from disposal of fixed assets | | - | 25 | - | - |
| Advances to subsidiaries | | - | - | (2,704) | (2,587) |
| CASH OUTFLOW FROM INVESTING ACTIVITIES | | (636) | (2,644) | (2,811) | (2,607) |
| | | | | | |
| CASHFLOWS FROM FINANCING ACTIVITIES: | | | | | |
| Gross proceeds from the issues of Ordinary shares | | 1,300 | - | 1,300 | - |
| Costs of share issues | | (45) | - | (45) | - |
| Gross proceeds from the issue of secured and unsecured convertible loan notes | | 1,675 | 3,155 | 1,675 | 1,346 |
| Costs associated with the issue of secured and unsecured convertible loan notes | | (272) | (280) | (272) | - |
| Interest paid | | (247) | (131) | (247) | - |
| Other loan repayments, including interest | | (96) | - | (96) | - |
| CASH INFLOW FROM FINANCING ACTIVITIES | | 2,315 | 2,744 | 2,315 | 1,346 |
| | | | | | |
| Net change in cash and cash equivalents | | 2 | (1,030) | 19 | (796) |
| CASH AND EQUIVALENTS AT BEGINNING OF YEAR | | 150 | 1,180 | 2 | 798 |
| CASH AND EQUIVALENTS AT END OF YEAR | | 152 | 150 | 21 | 2 |

The accompanying notes form part of these financial statements.

# Notes to the Financial Statements

## 1. General information and nature of operations

Westminster Group plc ("the Company") was incorporated on 7 April 2000 and is domiciled and incorporated in the United Kingdom and quoted on AIM. The Group's financial statements for the year ended 31 December 2016 consolidate the individual financial statements of the Company and its subsidiaries. The Group designs, supplies and provides on-going advanced technology solutions and services to governmental and non-governmental organisations on a global basis.

## 2. Summary of significant accounting policies

**Basis of preparation**

The Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. The Parent Company has elected to prepare its financial statements in accordance with IFRS.

The financial information is presented in the Company's functional currency, which is Great British Pounds ('GBP') since that is the currency in which the majority of the Group's transactions are denominated.

**Basis of measurement**

The financial statements have been prepared under the historical cost convention with the exception of certain items which are measured at fair value as disclosed in the accounting policies below.

**Consolidation**

(i) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries for the year ended 31 December 2016.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company 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 presently are exercisable or convertible are taken into account. Subsidiaries are fully consolidated using the purchase method of accounting from the date that control commences until the date that control ceases. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.

(iii) Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions are eliminated in preparing the consolidated financial statements.

(iv) Company financial statements

Investments in subsidiaries are carried at cost less provision for any impairment. Dividend income is recognised when the right to receive payment is established.

**Going concern**

The directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

**Business combinations**

The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition date fair values of assets transferred, liabilities incurred and the equity interests issued by the Group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred.

The Group recognises identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognised in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at their acquisition date fair values.

**Foreign currency**

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items at year-end exchange rates are recognised in profit or loss. Non-monetary items measured at historical cost are translated using the exchange rates at the date of the transaction and not subsequently retranslated.

Foreign exchange gains and losses are recognised in arriving at profit before interest and taxation (see Note 6).

**Segmental reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief decision-maker. The chief decision-maker has been identified as the Executive Board, at which level strategic decisions are made.

An operating segment is a component of the Group

- That engages in business activities from which it may earn revenues and incur expenses,
- Whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and
- For which discrete financial information is available.

**Revenue**

Revenue comprises the fair value of the consideration received or receivable for the sale of products and services, net of value added tax, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

(i) Supply of products

Revenue in respect of the supply of products is recognised when title effectively passes to the customer.

(ii) Supply and installation contracts and supply of services

Where the outcome can be estimated reliably in respect of long-term contracts and contracts for on-going services, revenue represents the value of work done in the period, including estimates of amounts not invoiced. Revenue in respect of long-term contracts and contracts for on-going services is recognised by reference to the stage of completion, where the stage of completion can be assessed with reasonable accuracy. This is assessed by reference to the estimated project costs incurred to date compared to the total estimated project costs. Revenue is calculated to reflect the substance of the contract, and is reviewed on a contract-by-contract basis, with revenues and costs at each divisible stage reflecting known inequalities of profitability. Where a contract is loss making, the full loss is recognised immediately. Managed Services income is recognised on the basis of the volume of passengers and freight.

(iii) Maintenance income

Revenues in respect of the supply of maintenance contracts are recognised on a straight line basis over the life of the contract. The unrecognised portion of maintenance income is included within trade and other payables as deferred income.

(iv) Training courses

Revenues in respect of training courses are recognised when the trainees attend the courses.

**Operating expenses**

Operating expenses are recognised in profit or loss upon utilisation of the service or at the date of their origin. Expenditure for warranties is recognised and charged against the associated provision when the related revenue is recognised. Certain items have been disclosed as operating exceptional due to their size and their separate disclosure should enable better understanding of the financial dynamics.

**Interest income and expenses**

Interest income and expenses are reported on an accrual basis using the effective interest method.

**Goodwill**

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of a) fair value of consideration transferred, and b) the recognised amount of any non-controlling interest in the acquiree and c) acquisition date fair value of any existing equity interest in the acquiree, over the acquisition date fair value of identifiable net assets. If the fair value of identifiable net assets exceed the sum calculated above, the excess amount (i.e. gain on a bargain purchase) is recognised in profit or loss immediately. Goodwill is carried at cost less accumulated impairment losses.

### Other intangible assets

Acquired intangibles that are as a result of a business combination are recorded at fair value and are amortised on a straight line over the expected useful lives.

Other intangible assets comprise website costs and licences. Website costs are capitalised and amortised on a straight line basis over five years, the expected economic life of the asset. This amortisation is charged to administrative expenses.

### Property, plant and equipment

Land and buildings held for use are held at their revalued amounts, being the fair value on the date of revaluation, less any subsequent accumulated depreciation. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on the revaluation of such land and buildings is recognised in other comprehensive income, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is credited to the profit or loss to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of land and buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to the statement of comprehensive income.

Plant and equipment, office equipment, fixtures and fittings and motor vehicles are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is charged so as to write off the cost or valuation of assets to their residual value over their estimated useful lives, using the straight-line method, typically at the following rates. Where certain assets are specific for a long term contract and the customer has an obligation to purchase the asset at the end of the contract they are depreciated in accordance with the expected disposal / residual value.

| | Rate |
|---|---|
| Freehold buildings | 2% |
| Plant and equipment | 7% to 25% |
| Office equipment, fixtures & fittings | 20% to 33% |
| Ferries | Depreciated over 21 years |
| Motor vehicles | 20% |

### 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.

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised.

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

### Impairment on non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-current 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 in order to determine the extent of the impairment loss (if any). The recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, 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 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 in prior years.

**Financial instruments**

Financial assets

The Group's financial assets include cash and cash equivalents and loans and other receivables. All financial assets are recognised when the Group becomes party to the contractual provisions of the instrument. All financial assets are initially recognised at fair value, plus transaction costs. They are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Any changes in value are recognised in the Statement of Comprehensive Income. Interest and other cash flows resulting from holding financial assets are recognised in the Statement of Comprehensive Income when received, regardless of how the related carrying amount of financial assets is measured.

Loans and other receivables are provided against when objective evidence is received that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

Cash and cash equivalents comprise cash at bank and deposits and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities unless a legally enforceable right to offset exists.

Financial liabilities

The Group's financial liabilities comprise trade and other payables and borrowings. All financial liabilities are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method. Financial liabilities are derecognised when they are extinguished, discharged, cancelled or expire.

Convertible loan notes with an option that leads to a potentially variable number of shares, have been accounted for as a host debt with an embedded derivative. The embedded derivative is accounted for at fair value through profit and loss at each reporting date. The host debt is recognised initially at fair value, and subsequently measured at amortised cost using the effective interest method.

Convertible loan notes that can be converted to share capital at the option of the holder, and where the number of shares to be issued does not vary with changes in fair value, are considered to be a compound instrument.

The liability component of a compound instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound instrument and fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components.

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities are set out above and below.

Other financial liabilities

Other financial liabilities include other payables and bank loans and are recognised initially at fair value and subsequently measured at amortised cost, using the effective interest method.

Financial liabilities are recognised when the Group becomes a party to the contractual agreements of the instrument. All interest related charges are recognised as an expense in "finance cost" in the Statement of Comprehensive Income. Trade and other payables are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Costs of ordinarily interchangeable items are assigned using the first in, first out cost formula. Costs principally comprise of materials and bringing them to their present location.

Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

**Taxation**

The tax expense represents the sum of the tax currently payable and deferred tax. Current and deferred tax are recognised as an expense or income in profit or loss, except in respect of items dealt with through equity, in which case the tax is also dealt with through equity.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the Statement of Comprehensive Income 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 by using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on material differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are 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 which affects neither the tax profit not the accounting profit.

**Cash and cash equivalents**

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are offset against cash balances and a net cash balance is presented.

**Equity, reserves and dividend payments**

Share capital represents the nominal value of shares that have been issued.

Share premium includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium, net of any related income tax benefits.

Merger relief reserve includes any premiums on issue of share capital as part or all of the consideration in a business combination.

The share based payment reserve represents equity-settled share-based employee remuneration until such share options are exercised or lapse.

The revaluation reserve within equity comprises gains and losses due to the revaluation of property, plant and equipment.

Retained earnings include all current and prior period retained profits and losses.

Dividend distributions payable to equity shareholders are included in liabilities when the dividends have been approved in a general meeting prior to the reporting date.

**Defined contribution pension scheme**

The Group operates a defined contribution pension scheme for employees in the UK and is operating under auto enrolment. Local labour in Africa benefit from a termination payment on leaving employment. The expected value of this is accrued on a monthly basis.

**Shared-based compensation (Employee Based Benefits)**

The Group operates an equity-settled share-based compensation plan. The fair value of the employee services received in exchange for the grant of options is recognised as an expense over the vesting period, based on the Group's estimate of awards that will eventually vest, with a corresponding increase in equity as a share based payment reserve. For plans that include market based vesting conditions, the fair value at the date of grant reflects these conditions and are not subsequently revisited.

Fair value is determined using Black-Scholes option pricing models. Non-market based vesting conditions are included in assumptions about the number of options that are expected to vest. At each reporting date, the number of options that are expected to vest is estimated. The impact of any revision of original estimates, if any, is recognised in profit or loss, with a corresponding adjustment to equity, over the remaining vesting period.

The proceeds received when vested options are exercised, net of any directly attributable transaction costs, are credited to share capital (nominal value) and share premium.

**Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event which it is probable will result in an outflow of economic benefits that can be reliably estimated.

**Significant Management Judgements in Applying Accounting Policies**

The following are significant management judgements in applying the accounting policies of the Group that have the most significant effect on the financial statements.

Revenue recognition

Recognition of income is considered appropriate when all significant risks and rewards of ownership are transferred to third parties. In respect of long-term contracts and contracts for on-going services, turnover represents the value of work done in the year, including estimates of amounts not invoiced. Turnover in respect of long-term contracts and contracts for on-going services is recognised by reference to the stage of completion, where the stage of completion can be assessed with reasonable accuracy. In this process management make significant judgements about milestones, actual work performed and the estimated costs to complete the work. Revenue is calculated to reflect the substance of the contract, and is reviewed on a contract-by-contract basis, with revenues and costs at each divisible stage reflecting known inequalities of profitability.

Estimation uncertainty

When preparing the financial statements management undertakes a number of judgements, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. The actual results are likely to differ from the judgements, estimates and assumptions made by management, and will seldom equal the estimated results. Information about the significant judgements, estimates and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses are discussed below.

Impairment review of Sierra Leone Ferry Operations

At the balance sheet date the Group recorded an asset of approximately £2.7m relating to the purchase of the Sierra Queen and set up costs of the ferry operation in West Africa. Of this c£1.1m relates to the vessel purchase, and the remainder relates to costs incurred before the commencement of service operations in early December 2016.

- Market Background

  Westminster has 19 years remaining of its 21 year contract to operate the terminals and ferry service concession between the airport and capital. The airport has in excess of 200,000 passengers (annualised) passing through it now, which is a substantial improvement following the end of the Ebola crisis. A significant portion of these passengers use ferry services to reach the mainland and capital more quickly than the road option. The ferry service has historically been serviced by smaller craft which do not have the ruggedness and safety characteristics of the Westminster fleet, which is seagoing. The existing ferry services do not offer our luxury and safely maintained bus fleet either. Other potential coastal services offer additional revenue opportunities from serving regional destinations, including non-airport related traffic passing between the airport and capital city, and new markets such as a proposed water taxi service around Freetown. Charters and Airport traffic has grown over the last 12 months and is now broadly back at the levels of 2013 which was before the onset of Ebola.

- Project Status

  Our period of major capital spend on this project is now completed. Noting that this business is a start-up in 2016 in terms of passenger handling, it is pleasing that we have already secured 3% of the market share in only three months. We believe that, given the size of the captive market at 200,000 passengers per annum, the superior quality of our service, our vessel safety and the numerous local marketing initiatives we are pursuing we will continue to grow volumes. We expect the ferry operation to become cash positive in the financial year to 31 December 2017 and continue to grow thereafter.

- Impairment Testing

  With the planned infrastructure and ferry operations in place there are significant operational opportunities for revenue growth, increased margins and improved cash flows. The Group has conducted a discounted cash flow exercise which looks at key assumptions including adoption rates and ticket volumes, ongoing expected costs, available ferry capacity, future airport passenger levels and the average net revenue per ticket. A discount rate of 10% has been used in this exercise. The scenario indicates that the net present value of future cash flows is in excess of the current carrying value of the asset and therefore the Board believes that no impairment is required. The Company will continue to monitor and review traffic levels monthly against targets to assess the ongoing financial performance. Should these modest passenger targets not be achieved and the operation not show a clear path to adequate cash generation, then the carrying value of this asset could be subject to a future impairment charge.

Impairment Review Longmoor Goodwill

This asset is carried at approximately £0.4m at the balance sheet date. There are several opportunities for the delivery of Longmoor's training and protection services which are aligned with potential large scale opportunities in managed services. An impairment loss is recognised for the amount by which an asset's or cash generating unit's carrying amount exceeds its recoverable amount. To determine the recoverable amount, management estimates expected future cash flows from each asset or cash-generating unit and determines a suitable discount rate in order to calculate the present value of those cash flows. In the process of measuring expected future cash flows management makes assumptions about future gross profits. These assumptions relate to future events and circumstances. The actual results may vary, and may cause significant adjustments to the Group's assets within the next financial year in most cases, determining the applicable discount rate involves estimating the appropriate adjustment to market risk and the appropriate adjustment to asset-specific risk factors.

Revalued freehold property

The freehold property is stated at fair value. A full revaluation exercise was carried out in May 2017. The fair value is based on market value, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Consolidation of entities in which the Group holds less than 50% of the voting rights.

Management considers that the Group has de facto control of Westminster Sierra Leone Limited even though it has less than 50% of the voting rights. Management does not recognise the non-controlling interest as it does not consider it to be material, for this or other partially owned subsidiaries (see note 15).

**Standards in issue not yet effective**

**New standards, amendments and interpretations**

No new standards, amendments or interpretations effective for the first time in the financial year beginning on or after January 2016 have had a material impact on the Group or parent Company.

At the date of authorisation of these financial statements, the following amendments and interpretations to existing accounting standards have been published but are not yet effective:

- IFRS 9 Financial Instruments (effective date 1 January 2018)
- IFRS 15 Revenue from Contracts with Customers (effective date 1 January 2017)
- IFRS 16 Leases (effective date 1 January 2019, but yet to be endorsed by the EU)

Management anticipate that the above pronouncements will be adopted in the Group's accounting policies for the first period after the effective date, but will have no material impact on the Group.

IFRS 9 'Financial Instruments'; effective for periods beginning on or after January 1, 2018. The standard removed multiple classification and measurement models for financial assets requirement by IAS 39 and introduces a model that has only two classification categories: fair value and amortised cost. Classification is driven by the business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The accounting and presentation for financial liabilities and for derecognising financial instruments is relocated from IAS 39 without any significant changes. IFRS 9 introduces additional changes relating to financial liabilities. IFRS 9 adds new requirements to address the impairment of financial assets and hedge accounting.

IFRS 15 'Revenue from contracts with customers'; effective for periods beginning on or after January 1, 2018. The standard establishes a new five-step model that will apply to revenue arising from contracts with customers. Revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. This is a converged standard on revenue recognition which replaces IAS 18 'Revenue', IAS 11 'Construction contracts' and related interpretations. The Group is currently assessing the impact of the new standard. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue.

IFRS 16 'Leases'; effective for periods beginning on or after January 1, 2019. Under IFRS 16, a contract is, or contains a lease if the contact conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The new standard eliminates the classification of leases by lessees as either finance leases or operating leases and instead introduces an integrated lessee accounting model. Applying this model, lessees are required to recognise a lease liability reflecting the obligation to make future lease payments and a 'right-of-use' asset for virtually all lease contracts.

IFRS 16 includes an optional exemption for certain short-term leases and leases of low-value assets. The Group is currently assessing the impact of the new standard.

## 3. Segment reporting

**Operating segments**

The Board considers the Group on a Business Unit basis. Reports by Business Unit are used by the chief decision-maker in the Group. The Business Units operating during the year are the four operating companies Westminster Aviation, Westminster International, Sovereign Ferries and Longmoor Security. This split of business segments is based on the products and services each offer.

| 2016 | Managed Services Aviation £'000 | Technology £'000 | Group and Central £'000 | Managed Services Sovereign Ferries £'000 | Managed Services Longmoor £'000 | Group Total £'000 |
|---|---|---|---|---|---|---|
| Supply of products | - | 1,778 | - | - | - | 1,778 |
| Supply and installation contracts | - | 177 | - | - | 157 | 334 |
| Maintenance and Services | 2,758 | 160 | - | - | 3 | 2,921 |
| Training courses | 16 | - | - | - | - | 16 |
| Ferry ticket sales | - | - | - | 6 | - | 6 |
| Intragroup sales | - | (492) | - | - | (157) | (649) |
| Revenue | 2,774 | 1,623 | - | 6 | 3 | 4,406 |
| Segmental underlying EBITDA | 1,280 | 273 | (1,418) | (163) | 53 | 25 |
| Share option expense | - | - | (103) | - | - | (103) |
| Exceptional items (note 4) | (492) | - | - | (585) | - | (1,077) |
| Depreciation & amortisation | (79) | (16) | (22) | (107) | (10) | (234) |
| Apportionment of central overheads | (1,140) | (946) | 2,116 | - | (30) | - |
| Segment Operating result | (431) | (689) | 573 | (855) | 13 | (1,389) |
| Finance cost | - | - | (566) | - | - | (566) |
| Taxation charge | (7) | - | 53 | - | - | 46 |
| Profit/(Loss) for the financial year | (438) | (689) | 60 | (855) | 13 | (1,909) |
| Segment assets | 1,593 | 641 | 1,523 | 2,618 | 33 | 6,408 |
| Segment liabilities | 311 | 448 | 3,268 | 85 | - | 4,112 |
| Capital expenditure | 79 | 42 | 107 | 408 | - | 636 |

| 2015 | Managed Services Aviation £'000 | Technology £'000 | Group and Central £'000 | Managed Services Sovereign Ferries £'000 | Managed Services Longmoor £'000 | Group Total £'000 |
|---|---|---|---|---|---|---|
| Supply of products | - | 795 | - | - | - | 795 |
| Supply and installation contracts | - | 1,546 | - | - | 96 | 1,642 |
| Maintenance and Services | 2,450 | 168 | - | - | 4 | 2,622 |
| Training courses | 11 | 1 | - | - | - | 12 |
| Intragroup sales | (812) | (804) | - | - | (96) | (1,712) |
| Revenue | 1,649 | 1,706 | - | - | 4 | 3,359 |
| Segmental underlying EBITDA | 1,264 | (140) | (1,540) | 37 | 19 | (360) |
| Exceptional items (note 4) | (1,120) | - | 77 | - | - | (1,043) |
| Depreciation & Amortisation | (94) | (10) | (22) | (37) | (8) | (171) |
| Share option expense | - | - | (76) | - | - | (76) |
| Apportionment of central overheads | (948) | (837) | 1,878 | - | (93) | - |
| Segment Operating result | (898) | (987) | 317 | - | (82) | (1,650) |
| Finance cost | - | - | (339) | - | 1 | (338) |
| Taxation charge | (7) | - | - | - | - | (7) |
| Loss for the financial year | (905) | (987) | (22) | - | (81) | (1,995) |
| | | | | | | |
| Segment assets | 1,272 | 149 | 1,565 | 2,454 | 25 | 5,465 |
| Segment liabilities | 343 | 434 | 2,962 | 38 | 2 | 3,779 |
| Capital expenditure | 186 | - | 20 | 2,430 | 33 | 2,669 |

**Geographical areas**

The Group's international business is conducted on a global scale, with agents present in all major continents. The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods/services.

| | Group | |
|---|---|---|
| | 2016 £'000 | 2015 £'000 |
| United Kingdom & Europe | 369 | 439 |
| Africa | 3,458 | 2,341 |
| Middle East | 104 | 204 |
| Rest of the World | 475 | 375 |
| | 4,406 | 3,359 |

Some of the Group's assets are located outside the United Kingdom where they are being put to operational use on specific contracts. At 31 December 2016 fixed assets with a net book value of £3,591,000 (2015: £2,992,000) were located in Africa.

**Major customers who contributed greater than 10% of total Group revenue**

In 2016 no single customer contributed more than 10% of the Group revenue (in 2015 no customers contributed 10% of the Group's revenue). Approximately 60% of the Group's revenues are derived from the contract with a West African airport operator.

## 4. Exceptional Items

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Loss of margin arising from fall in passenger numbers due to Ebola crisis | 272 | 1,120 |
| Middle East airport pre-contract costs | 220 | - |
| Ferry pre-launch costs | 585 | - |
| Receipt from vendors of CTAC (dispute on acquisition consideration price) | - | (77) |
| | 1,077 | 1,043 |

The ferry pre-launch costs primarily relate to costs of preparing the Sierra Queen vessel for commercial service.

## 5. Finance costs

| | Group | |
|---|---|---|
| | 2016 £'000 | 2015 £'000 |
| Interest payable on bank and other borrowings | (30) | (1) |
| Cash interest expenses on convertible loan notes (CLN 2016) | (224) | (121) |
| | (254) | (122) |
| Non cash amortised finance cost & other charges on convertible loan notes | (312) | (216) |
| Total finance costs | (566) | (338) |

## 6. Loss from operations

The following items have been included in arriving at the loss for the financial year

| | Group | |
|---|---|---|
| | 2016 £'000 | 2015 £'000 |
| Employee costs (see Note 8) | 2,267 | 2,236 |
| Depreciation of property, plant and equipment | 227 | 167 |
| Amortisation of intangible assets | 7 | 4 |
| Operating lease rentals payable: | | |
| - Property | 112 | 101 |
| - Plant and machinery | 3 | 3 |
| - Other | 42 | 60 |
| Foreign exchange gain | (22) | (89) |

**Auditor's remuneration**

Amounts payable in both years relate to Moore Stephens LLP in respect of audit and other services. Local audits in Sierra Leone were £15,000 (2015: £12,000)

Audit services

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Statutory audit of parent and consolidated financial statements and review of interims results | 22 | 23 |
| Statutory audit of subsidiaries of the company pursuant to legislation | 31 | 21 |
| Taxation services including research and development tax credits | 7 | 7 |
| Local audit in Sierra Leone | 15 | 12 |
| Total fees | 75 | 63 |

## 7. Taxation

| Analysis of charge in year | Group | |
|---|---|---|
| | 2016 £'000 | 2015 £'000 |
| Current year | | |
| UK Corporation tax on profits in the year | - | - |
| Potential foreign corporation tax on profits in the year | 7 | - |
| | 7 | - |
| Reconciliation of effective tax rate | | |
| Loss on ordinary activities before tax | (1,955) | (1,988) |
| Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 20% (2015: 20%) | (391) | (398) |
| Effects of: | | |
| (Income)/expenses not deductible for tax purposes | 88 | 77 |
| Capital allowances less than depreciation | (203) | (72) |
| Other short term timing differences | 1 | 3 |
| Recognised/unrecognised losses carried forward | 512 | 390 |
| Adjustment in respect of prior years | (53) | - |
| Potential Charge in Overseas Subsidiary | - | 7 |
| Total tax - (credit)/charge | (46) | 7 |

Tax losses available for carry forward (subject to HMRC agreement) were £11m (2015: £10m).

Changes to the UK corporation tax rates were substantively enacted as part of the Finance Bill 2015 (on 26 October 2015) and Finance Bill 2016 (on 7 September 2016). These include reductions to the main rate to reduce to 19% from 1 April 2017 and to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

## 8. Employee costs

Employee costs for the Group during the year

| | Group | |
|---|---|---|
| | 2016 £'000 | 2015 £'000 |
| Wages and salaries | 2,007 | 1,999 |
| Social security costs | 157 | 165 |
| | **2,164** | **2,164** |
| Share based payments | 103 | 72 |
| | **2,267** | **2,236** |

The Group operates a stakeholder pension scheme. The Group made pension contributions totalling £10,000 during the year (2015: £7,000), and pension contributions totalling £1,000 were outstanding at the year-end (2015: £1,000)

Details of the Directors' remuneration are included in the Remuneration Committee Report. Key management within the business are considered to be the Board of Directors.

Average monthly number of people (including Executive Directors) employed

| | Group | |
|---|---|---|
| | 2016 Number | 2015 Number |
| By function | | |
| Sales | 3 | 3 |
| Production | 209 | 189 |
| Administration | 22 | 20 |
| Management | 6 | 6 |
| | 240 | 218 |

## 9. Loss per share

Earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

For diluted earnings per share the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. Only those outstanding options that have an exercise price below the average market share price in the year have been included.

The weighted average number of ordinary shares is calculated as follows:

| | Group | |
|---|---|---|
| | 2016 £'000 | 2015 £'000 |
| Issued ordinary shares | | |
| Start of year | 63,455 | 55,145 |
| Effect of shares issued during the year | 14,261 | 2,029 |
| Weighted average basic and diluted number of shares for year | 77,716 | 57,174 |

For the year ended 31 December 2016 and 2015 the issue of additional shares on exercise of outstanding share options, convertible loans and warrants would decrease the basic loss per share and there is therefore no dilutive effect. Loss per share was 2.46p (2015: 3.49p)

## 10. Goodwill

| Group | 2016<br>£'000 | 2015<br>£'000 |
|---|---|---|
| | £'000 | £'000 |
| Gross carrying amount at 1 January and 31 December | 1,160 | 1,160 |
| Accumulated impairment at 1 January and 31 December | (763) | (763) |
| Carrying amount at 31 December | 397 | 397 |

Goodwill on the acquisition of Longmoor is reviewed at the end of each financial period for impairment. The entire balance relates to Longmoor Security Limited. Longmoor no longer has a fixed cost base and provides services to customers principally overseas for manned guarding. The asset has not been impaired on the basis that the expected net present value of its cash flows, when evaluated with a discount rate of 10%, is in excess of the current carrying value.

## 11. Other intangible assets

| | Group Website and Software<br>£'000 | Company Website and Software<br>£'000 |
|---|---|---|
| 2016 | | |
| Cost | | |
| At 1 January 2016 | 107 | 63 |
| Additions | 105 | 105 |
| At 31 December 2016 | 212 | 168 |
| | | |
| Accumulated amortisation | | |
| At 1 January 2016 | 73 | 61 |
| Charge for the year | 7 | 4 |
| At 31 December 2016 | 80 | 65 |
| | | |
| Net book value at 31 December 2016 | 132 | 103 |
| | | |
| 2015 | | |
| Cost | | |
| At 1 January 2015 | 80 | 63 |
| Additions | 27 | - |
| At 31 December 2015 | 107 | 63 |
| | | |
| Accumulated amortisation | | |
| At 1 January 2015 | 69 | 60 |
| Charge for the year | 4 | 1 |
| At 31 December 2015 | 73 | 61 |
| | | |
| Net book value at 31 December 2015 | 34 | 2 |

## 12. Property, plant and equipment

| Group | Freehold property £'000 | Plant and equipment £'000 | Office equipment, fixtures and fittings £'000 | Motor vehicles £'000 | Total £'000 |
|---|---|---|---|---|---|
| 2016 | | | | | |
| Cost or valuation | | | | | |
| At 1 January 2016 | 1,014 | 3,032 | 1,270 | 118 | 5,434 |
| Additions | - | 378 | 154 | - | 532 |
| Disposals | - | (3) | - | (19) | (22) |
| At 31 December 2016 | 1,014 | 3,407 | 1,424 | 99 | 5,944 |
| Accumulated depreciation | | | | | |
| At 1 January 2016 | - | 438 | 610 | 43 | 1,091 |
| Charge for the year | - | 143 | 57 | 27 | 227 |
| Disposals | - | (2) | - | (7) | (9) |
| At 31 December 2016 | - | 579 | 667 | 63 | 1,309 |
| Net book value at 31 December 2016 | 1,014 | 2,828 | 757 | 36 | 4,635 |
| 2015 | | | | | |
| Cost or valuation | | | | | |
| At 1 January 2015 | 1,003 | 605 | 1,181 | 43 | 2,832 |
| Additions | 11 | 2,436 | 93 | 102 | 2,642 |
| Disposals | - | (9) | (4) | (27) | (40) |
| At 31 December 2015 | 1,014 | 3,032 | 1,270 | 118 | 5,434 |
| Accumulated depreciation | | | | | |
| At 1 January 2015 | - | 334 | 569 | 31 | 934 |
| Charge for the year | - | 104 | 45 | 18 | 167 |
| Disposals | - | - | (4) | (6) | (10) |
| At 31 December 2015 | - | 438 | 610 | 43 | 1,091 |
| Net book value at 31 December 2015 | 1,014 | 2,594 | 660 | 75 | 4,343 |

Included within Plant and Equipment are ferry setup costs of £1.47m. Depreciation commenced when the ferry became operational in late 2016.

| Company | Freehold property £'000 | Plant and equipment £'000 | Office equipment fixtures and fittings £'000 | Total £'000 |
|---|---|---|---|---|
| 2016 | | | | |
| Cost or valuation | | | | |
| At 1 January 2016 | 1,014 | 20 | 245 | 1,279 |
| Additions | - | - | 2 | 2 |
| Disposals | - | - | - | - |
| At 31 December 2016 | 1,014 | 20 | 247 | 1,281 |
| Accumulated depreciation | | | | |
| At 1 January 2016 | - | 15 | 218 | 233 |
| Charge for the year | - | 2 | 15 | 17 |
| Disposals | - | - | - | - |
| At 31 December 2016 | - | 17 | 233 | 250 |
| Net book value at 31 December 2016 | 1,014 | 3 | 14 | 1,031 |
| 2015 | | | | |
| Cost or valuation | | | | |
| At 1 January 2015 | 1,003 | 20 | 238 | 1,261 |
| Additions | 11 | - | 9 | 20 |
| Disposals | - | - | (2) | (2) |
| At 31 December 2015 | 1,014 | 20 | 245 | 1,279 |
| Accumulated depreciation | | | | |
| At 1 January 2015 | - | 12 | 200 | 212 |
| Charge for the year | - | 3 | 19 | 22 |
| Disposals | - | - | (1) | (1) |
| At 31 December 2015 | - | 15 | 218 | 233 |
| Net book value at 31 December 2015 | 1,014 | 5 | 27 | 1,046 |

The freehold property was valued professionally by Brown and Co Chartered Surveyors, on 16 May 2017 The valuation was made on the basis of recent market transactions on arm's length terms and on an alternative use basis. The Revaluation Reserve is not available for distribution to shareholders. The directors are of the opinion that the valuation has not moved materially since the last valuation was performed. The valuation was not materially different to the value of the asset recorded at the balance sheet date.

The freehold property is stated at valuation, the comparable historic cost and depreciation values are as follows:

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Historical cost | 697 | 697 |
| Accumulated depreciation | | |
| At 1 January | 66 | 63 |
| Charge for the year | 3 | 3 |
| At 31 December | 69 | 63 |
| Net book value at 31 December | 628 | 631 |

The Group's land and buildings have been pledged as security for contingent liabilities incurred as part of the normal trading of Westminster International, see note 26.

## 13. Operating lease commitments

The Group and the Company lease various office equipment and motor vehicles under non-cancellable operating lease agreements. The total commitments under these leases can be analysed as follows:

| | Group Property £'000 | Group Other £'000 | Group Total £'000 | Company Other £'000 |
|---|---|---|---|---|
| As at 31 December 2016 | | | | |
| Within one year | 51 | 91 | 142 | 14 |
| In the second to fifth years inclusive | 84 | 27 | 111 | 4 |
| Total | 135 | 118 | 253 | 18 |
| As at 31 December 2015 | | | | |
| Within one year | 60 | 57 | 117 | 30 |
| In the second to fifth years inclusive | 107 | 38 | 145 | 12 |
| Total | 167 | 173 | 262 | 42 |

Remaining lease terms range from four months to four years.

| | Group £'000 | Company £'000 |
|---|---|---|
| Minimum lease payments under operating leases recognised as an expense in the year | 158 | 22 |

## 14. Investment in subsidiaries

| Company | 2016 £'000 | 2015 £'000 |
|---|---|---|
| At start and end of period | 357 | 357 |
| Amounts due from subsidiaries net of provisions | 12,326 | 9,622 |
| | 12,683 | 9,979 |

The expected net present values of cash flows arising from these subsidiaries is expected to be in excess of the carrying value of these investments.

## 15. Subsidiary undertakings

The subsidiary undertakings at 31 December 2016 were as follows:

| Name | Country of incorporation | Principal activity | % of nominal ordinary share capital and voting rights held |
|---|---|---|---|
| Westminster International Limited | England | Advanced security technology, (Technology Division) | 100 |
| Longmoor Security Limited | England | Close protection training and provision of security services (Managed Services) | 100 |
| Westminster Aviation Security Services Limited | England | Managed services of airport security under long term contracts. Managed Services Division | 100 |
| Sovereign Ferries Limited | England | Marine Transport West Africa | 100 |
| Westminster Operating Limited | England | Special purpose vehicle which exists solely for listing the 2013 CLN on the CISX. Year end 31 October. Only transactions are intra group | 100 |
| Sovereign Ferries SL Ltd | Sierra Leone | Ferry operations | 100 |
| Longmoor (SL) Ltd | Sierra Leone | Security and terminal guarding | 100 |
| Facilities Operations Management Ltd | Sierra Leone | Ferry and other infrastructure management | 90 |
| Westminster Sierra Leone Ltd | Sierra Leone | Local infrastructure for airport operations | 49 |
| Westminster Group GMBH | Germany | Dormant | 100 |
| Westminster Sicherheit GMBH | Germany | Managed Services infrastructure | 85 |
| Westminster JV Holdings Ltd | England | Dormant | 100 |
| Westminster Facilities Management Limited | England | Dormant | 100 |
| CTAC Limited | England | Dormant | 100 |
| Westminster Aviation Security Services (ME) Ltd | England | Dormant | 100 |
| Travel Safety and Security Ltd | England | Dormant | 100 |

Subsidiary company registered addresses:
England - Westminster House, Blacklocks Hill, Banbury, Oxfordshire, OX17 2BS, United Kingdom.
Sierra Leone - 5th Floor, 18/20 Walpole Street, PMB 84, Freetown, Sierra Leone.
Germany - Bernauer Strasse 16, 83209 Prien am Chiensee, Germany.

## 16. Financial instruments and liabilities

Categories of financial instruments and liabilities

The carrying amounts presented in the Consolidated and Company statement of financial position relate to the following categories of assets and liabilities:

| | Group | | Company | |
|---|---|---|---|---|
| | 2016 £'000 | 2015 £'000 | 2016 £'000 | 2015 £'000 |
| Financial assets | | | | |
| Loans and receivables | | | | |
| - Amount owed by subsidiary undertakings (note 14) | - | - | 12,326 | 9,622 |
| - Trade and other receivables (note 19) | 814 | 403 | 87 | 101 |
| - Cash and cash equivalents (note 20) | 152 | 150 | 21 | 2 |
| | 966 | 553 | 12,434 | 9,725 |
| Financial liabilities | | | | |
| Financial liabilities measured at amortised cost | | | | |
| - Borrowings (note 23) | 3,059 | 2,587 | 988 | 615 |
| - Trade and other payables (note 24) | 951 | 981 | 182 | 239 |
| | 4,010 | 3,568 | 1,170 | 854 |

See note 2 for a description of the accounting policies for each category of financial instruments. The fair values are presented in the related notes. A description of the Group's risk management and objectives for financial instruments is given in note 27.

**Convertible Loan Notes**

The group had the following convertible loan notes outstanding during the year the key details of which are set out below:

| | Secured Convertible Loan Notes ("CLN") | Convertible Unsecured Loan Notes ("CULN") |
|---|---|---|
| Amount | £2.245m | £1.2m outstanding 31 December 2016 The £0.75m outstanding at the start of the year and the £0.475m issued in the year were fully converted during the year. The outstanding balance was fully converted by April 2017. |
| Conversion Price | 35p | Variable see below |
| Security | Secured fixed and floating subordinate to HSBC | Unsecured |
| Redemption Date | 19 June 2018 | Conversions allowed within certain market driven parameters |
| Management Fee | £25,000 per annum | nil |
| Coupon | 10% paid quarterly in arrears. Listed on the CISX | nil |
| Conversion Detail | Company can force conversion if the share price is > 65p for 15 working days after 19 June 2016. Company can make repayment without penalty if the share price is > 42p for 15 working days after 19 June 2016 | The conversion price for these loan notes is calculated as the lesser of i) 65 pence and ii) 90% of the arithmetic average of the five lowest daily volume weighted average share price calculations per ordinary share out of the ten trading days prior to conversion. |

On initial recognition the conversion option in relation to the convertible unsecured loan notes (CULN) leads to a potentially variable number of shares, therefore the CULN is accounted for as a host debt, (recorded initially at fair value, net of transaction costs and subsequently valued at amortised cost) with an embedded derivative (recorded at fair value through profit and loss and fair valued at each reporting date).

| | 2016 CULN £'000 | 2016 CLN £'000 | 2016 Total £'000 | 2015 CULN £'000 | 2015 CLN £'000 | 2015 Total £'000 |
|---|---|---|---|---|---|---|
| At 1 January | 520 | 1,972 | 2,492 | - | 538 | 538 |
| Fair value of new loans issued | 1,408 | - | 1,408 | 1,218 | 1,391 | 2,609 |
| Fair value of warrants included in the issue (note 22) | (112) | - | (112) | - | - | - |
| Amortised Finance Cost | 116 | 324 | 440 | 162 | 175 | 337 |
| Interest paid | - | (225) | (225) | - | (132) | (132) |
| Converted in the year | (980) | - | (980) | (860) | - | (860) |
| Closing Balance | 952 | 2,071 | 3,023 | 520 | 1,972 | 2,492 |

Analysis of movement in debt at principal value (excluding IFRS impacts), memorandum only

| | 2016 CULN £'000 | 2016 CLN £'000 | 2016 Total £'000 | 2015 CULN £'000 | 2015 CLN £'000 | 2015 Total £'000 |
|---|---|---|---|---|---|---|
| At 1 January | 750 | 2,245 | 2,995 | - | 575 | 575 |
| New Issue | 1,675 | - | 1,675 | 1,650 | 1,670 | 3,320 |
| Conversion | (1,247) | - | (1,247) | (900) | - | (900) |
| Financing Charge (equity settled) | 22 | - | 22 | - | - | - |
| Closing Balance | 1,200 | 2,245 | 3,445 | 750 | 2,245 | 2,995 |

| Reconciliation on Conversion | | |
|---|---|---|
| Group & Company | 2016 £'000 | 2015 £'000 |
| Amortisation of Loan Note Interest Cost Element | (86) | (40) |
| Carrying Value at Conversion | 1,066 | 900 |
| Total | 980 | 860 |

The Convertible Loan Notes have been separated into two components, the Host Debt Instrument and the Embedded Derivative on initial recognition. The value of the Host Debt Instrument will increase to the principal sum amount by the date of maturity. The effective interest cost of the Notes is the sum of that increasing value in the period and the interest paid to Noteholders. The Derivative element will vary in value according to the market price of the underlying Ordinary Shares and the period remaining for conversion amongst other factors. The value of the embedded derivative was not material at inception and at the end of the year and is included in the fair value of the overall instrument for disclosure.

Secured convertible loan notes (CLN) are compound financial instruments that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in fair value.

Unlike convertible unsecured loan notes (CULN), this instrument is determined to have a liability and equity component. The liability component is initially recognised at fair value of a similar liability without a conversion option. The equity component is recognised initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. It is not subsequently remeasured. The liability component is measured at amortised cost using the effective interest method.

## 17. Deferred tax assets and liabilities

Deferred tax assets and liabilities have been calculated using the expected future tax rate of 18% (2015: 18%). Any changes in the future would affect these amounts proportionately. The movements in deferred tax assets and liabilities during the year are shown below.

| Group & Company | | |
|---|---|---|
| At 1 January and 31 December | 2016 £'000 | 2015 £'000 |
| Non current assets | | |
| Property, plant & equipment | - | (53) |
| | - | (53) |
| Recognised as | | |
| **Deferred tax liability** | - | (53) |

## 18. Inventories

| | Group 2016 £'000 | Group 2015 £'000 | Company 2016 £'000 | Company 2015 £'000 |
|---|---|---|---|---|
| Finished goods | 198 | 57 | - | - |
| | 198 | 57 | - | - |

The cost of inventories recognised as an expense within cost of sales amounted to £1,371,000 (2015: £1,361,000). No reversal of previous write-downs was recognised as a reduction of expense in 2016 or 2015.

## 19. Trade and other receivables

| | Group | | Company | |
|---|---|---|---|---|
| | 2016 £'000 | 2015 £'000 | 2016 £'000 | 2015 £'000 |
| Amounts falling due within one year: | | | | |
| Trade receivables, gross | 564 | 294 | - | - |
| Allowance for credit losses | (75) | (69) | - | - |
| **Trade receivables** | **489** | 225 | - | - |
| Amounts recoverable on contracts | 199 | 4 | - | - |
| Other receivables | 126 | 174 | 87 | 101 |
| **Financial assets** | **814** | 403 | **87** | 101 |
| Prepayments | 80 | 81 | 21 | 25 |
| Non-financial assets | 80 | 81 | 21 | 25 |
| **Trade and other receivables** | **894** | 484 | **108** | 126 |

The average credit period taken on sale of goods in 2016 was 32 days (2015: 48 days). An allowance has been made for estimated irrecoverable amounts from the sale of £75,000 (2015: £69,000). This allowance has been based on the knowledge of the financial circumstances of individual receivables at the reporting date. During the previous year previously provided for items were written off against the relevant provision. The provision made in the year related to debts from Arik Air, a Nigerian airline which entered administration in 2017 and these debts were not older than three months.

The following table provides an analysis of trade and other receivables that were past due at 31 December, but not impaired. The Group believes that the balances are ultimately recoverable based upon a review of past payment history and the current financial status of the customers.

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Current | 342 | 170 |
| Not more than 3 months | 222 | 47 |
| More than 3 months but less than 6 months | - | 7 |
| More than 6 months but not more than 1 year | - | 70 |
| | 564 | 294 |
| | | |
| Allowances for Credit Losses | | |
| Opening balance at 1 January | 69 | 44 |
| Net amounts written off | (45) | (8) |
| Impairment loss | 51 | 33 |
| Closing balance at 31 December | 75 | 69 |

There are no significant credit risks from financial assets that are neither past due nor impaired. At 31 December 2016 £353,000 (2015: £232,000) of trade receivables were denominated in US dollars and £51,000 (2015: £nil) in euros, and £160,000 (2015: £62,000) in sterling. The directors consider that the carrying amount of trade and other receivables approximates to their fair value.

## 20. Cash and cash equivalents

| | Group | | Company | |
|---|---|---|---|---|
| | 2016 £'000 | 2015 £'000 | 2016 £'000 | 2015 £'000 |
| Cash at bank and in hand | 181 | 203 | 21 | 2 |
| Bank overdraft | (29) | (53) | - | - |
| Cash and cash equivalents | 152 | 150 | 21 | 2 |

All the bank accounts of the Group are set against each other where a right of offset exists in establishing the cash position of the Group. The bank overdrafts do not therefore represent bank borrowings, which is why they are presented as above for the purposes of the cash flow statement.

## 21. Called up share capital

Group and Company

The total amount of issued and fully paid shares is as follows:

| Ordinary Share Capital | 2016 | | 2015 | |
|---|---|---|---|---|
| | Number | £'000 | Number | £'000 |
| At 1 January | 63,454,538 | 6,345 | 55,145,412 | 5,515 |
| Arising on conversion of Convertible Loan Notes | 10,653,365 | 1,066 | 6,753,270 | 675 |
| Arising on exercise of Share Options and Warrants | - | - | 13,000 | 1 |
| Other Issues for Cash | 13,000,000 | 1,300 | 400,000 | 40 |
| Bond issue | - | - | 1,142,856 | 114 |
| At 31 December | 87,107,903 | 8,711 | 63,454,538 | 6,345 |

The Group removed the historic authorised share capital limit at the Annual General Meeting held on 30 June 2016.

During the year the following equity issues took place

| Date | Comment | Shares Issued | Issue price (£) |
|---|---|---|---|
| 25 January 2016 | Darwin loan note conversion | 966,978 | 0.15512238 |
| 15 March 2016 | Darwin loan note conversion | 1,590,836 | 0.12572010 |
| 4 April 2016 | Darwin loan note conversion | 1,601,753 | 0.10925532 |
| 18 April 2016 | Darwin loan note conversion | 2,000,000 | 0.10000000 |
| 19 May 2016 | Darwin loan note conversion | 500,000 | 0.10000000 |
| 03 June 2016 | Equity placing and subscription | 9,885,895 | 0.10000000 |
| 30 June 2016 | Equity placing | 3,114,105 | 0.10000000 |
| 07 July 2016 | Darwin loan note conversion | 2,375,550 | 0.11050073 |
| 14 July 2016 | Darwin loan note conversion | 1,618,248 | 0.12977000 |

## 22. Share Options

The Company adopted the Share Option Scheme on 3 April 2007 that provides for the granting of both Enterprise Management Incentives (EMI) and unapproved share options (Westminster Group Individual Share Option Agreements). The main terms of the option scheme are as follows:

- Although no special conditions apply to the options granted in 2007, the model form agreement allows the Company to adopt special conditions to tailor an option for any particular employee.
- The scheme is open to all full time employees and Directors except those who have a material interest in the Company.
- For the purposes of this definition, a material interest is either beneficial ownership of, or the ability to control directly, or indirectly, more than 30% of the ordinary share capital of the Company.
- The Board determines the exercise price of options before they are granted. It is provided in the scheme rules that options must be granted at the prevailing market price in the case of EMI options and must not be granted at an exercise price that is less than the nominal value of a share.
- There is a limit that options over unissued shares granted under the scheme and any discretionary share option scheme or other option agreement adopted or entered into by the Company must not exceed 10% of the issued share capital.
- Options can be exercised on the second anniversary of the date of grant and may be exercised up to the 10th anniversary of granting. Options will remain exercisable for a period of 40 days if the participant is a "good leaver".

Options have subsequently been granted on this basis.

**Business Development Options**

Westminster has granted share options to business partners to incentivise them to generate business and cash flow. These options vest on achievement of revenue and cash milestones. None have been achieved as of the balance sheet date.

In July 2012 a business development partner was appointed to assist in the development of Asian, African and Middle Eastern business. As part of the remuneration agreement they were incentivised to generate direct incremental revenue for Westminster with a grant of 2m options over 2m 10p ordinary shares. These options have an exercise price of 30p each. 0.3m options vested on granting and were exercised before 31December 2013. The remainder vest on achievement of incremental revenue performance milestones. 0.7m options vest on achievement of £5m of revenue directly generated by that entity within five years and a further 1.0m vest on delivery of £30m revenue directly generated by them within the same period.

In March 2014 an existing investor was appointed as a business development partner to the Group and was granted 0.5m options over 10p ordinary shares in Westminster. They have a strike price of 85p each and vest on achievement of incremental recurring revenue performance arising from incremental business in our Managed Services division. 0.3m options vest on achievement of £5m of new Managed Services revenues directly generated by the business development partner within three years and a further 0.2m vesting on delivery of an aggregate of £8m new recurring revenue directly generated by them within the same period. The options have a life of 8 years from date of grant, but will lapse after three years if the above revenue criteria are not achieved.

A further 0.3m options with a strike price of 85p were granted to another business development partner on 1 July 2014. They vest on achievement of £5m of new Managed Services revenues which are directly delivered by that partner within three years of issue.

A condition of all of these agreements is that revenue is defined in accordance with the Group's standard revenue recognition policies and that it has also been paid in full. Westminster will be involved at all stages in client negotiations and product specifications and will have ultimate sanction over contractual terms.

These options are valued by the use of the Black-Scholes model using a volatility of 50% and a life of eight years (being the point at which they lapse). The number of options vesting is based on forecast new business from that partner.

The company has the following share options outstanding to its employees (including those on good leaver terms).

The weighted average share price at the reporting date was 30.7p (2015: 31.6p). The average life of the unexpired share options was 7.1 years (2015: 8.1 years).

| Analysis of share options outstanding | | 31 December 2016 | | 31 December 2015 | |
|---|---|---|---|---|---|
| Grant Date | Exercise Price | Number Outstanding | Average Life Outstanding Years | Number outstanding | Average Life Outstanding Years |
| 05 April 2007 | £0.1000 | 176,000 | 0.3 | 194,000 | 1.3 |
| 21 June 2007 | £0.6750 | 67,862 | 0.5 | 67,862 | 1.5 |
| 21 April 2008 | £0.5250 | 15,000 | 1.3 | 15,000 | 2.3 |
| 25 September 2009 | £0.3450 | 56,000 | 2.7 | 60,000 | 3.7 |
| 27 May 2010 | £0.3275 | 15,000 | 3.4 | 15,000 | 4.4 |
| 28 June 2012 | £0.3650 | 395,000 | 5.5 | 420,000 | 6.5 |
| 10 September 2013 | £0.7100 | - | 6.7 | 50,000 | 7.7 |
| 26 February 2013 | £0.3400 | - | 6.2 | 60,000 | 7.2 |
| 1 July 2014 | £0.5100 | 320,000 | 7.5 | 430,000 | 8.5 |
| 10 December 2014 | £0.2800 | 3,000,000 | 7.9 | 3,093,750 | 8.9 |
| | | 4,044,862 | 7.1 | 4,405,612 | 8.1 |

During the year, no employee options were granted, none were exercised, and 365,750 lapsed.

The Black-Scholes option-pricing model is used to determine the fair value of share options at grant date. The assumptions used to determine the fair values of share options at grant dates were as follows:

For share options granted post IPO the expected share price volatility was determined taking account of the historic daily share price movements. Since 2009, the standard deviation of the share price over the year has been used to calculate volatility. As the Company was not listed the dates of granting of the share options before the IPO on 21 June 2007, the calculation of the expected volatility of the shares was estimated by comparisons of the historic volatility of a sample of securities of companies of a similar size to the Company, quoted on AIM, as well as the volatility of other listed companies in similar industries.

The average expected term to exercise used in the models is based on management's best estimate for the effects of non-transferability, exercise restrictions and behavioural conditions, forfeiture and historical experience. The risk-free rate has been determined from market yields for government gilts with outstanding terms equal to the average expected term to exercise for each relevant grant.

The amount recognised in profit or loss in respect of employee share-based payments was £103,000 (2015: £76,000).

**Warrants**

The Company has issued the following warrants to Darwin Securities Limited alongside issues of convertible loan notes.

- On 22 April 2015 (£1.65m CULN) Darwin were issued with 1.1m detachable warrants over 10p ordinary shares. They have a strike price of 39p, a life of 2 years and were exercisable with immediate effect. These lapsed in April 2017.
- On 22 February 2016 (£0.475m CULN), 589,330 warrants with a life of three years and an exercise price of 20.15p per share
- On 22 November 2016 (£1.2m CULN), 1.1m warrants, exercise price of 28.0p with a life of three years

On 3 June 2016 the Company announced a placing of 10,000,000 Ordinary Shares to Hargreave Hale. For every two shares one detachable warrant was issued to Hargreave, each warrant having a life of three years and an exercise price of 12p per share. Darwin and Hargreave warrants are valued by the use of the Black-Scholes model, using volatility based on the previous three years varying between 50-70% and a relevant risk-free rate as noted above. Warrants are recorded at fair value at inception and are not remeasured.

## 23. Borrowings

| | Group | | Company | |
|---|---|---|---|---|
| All non-current | 2016 £'000 | 2015 £'000 | 2016 £'000 | 2015 £'000 |
| Convertible loan note (note 16) | 2,071 | 1,972 | - | - |
| Convertible unsecured loan note (note 16) | 952 | 520 | 952 | 520 |
| Other | 36 | 95 | 36 | 95 |
| Total borrowings | 3,059 | 2,587 | 988 | 615 |

## 24. Trade and other payables

| Current | Group | | Company | |
|---|---|---|---|---|
| | 2016 £'000 | 2015 £'000 | 2016 £'000 | 2015 £'000 |
| Trade payables | 398 | 366 | 89 | 123 |
| Accruals and other creditors | 553 | 615 | 93 | 116 |
| Financial liabilities | 951 | 981 | 182 | 239 |
| Other taxes and social security payable | 75 | 158 | 29 | 80 |
| Deferred income | 27 | - | - | - |
| Non-financial liabilities | 102 | 158 | 29 | 80 |
| Total current trade and other payables | 1,053 | 1,139 | 211 | 319 |

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs, as well as payments received in advance on contracts. The average credit period taken for trade purchases in 2016 was 35 days (2015: 32 days). The directors consider that the carrying value of trade payables approximates to their fair value.

Deferred income relates to amounts received from customers at year-end but not yet earned.

At 31 December 2016 £72,000 (2015: £91,000) of payables were denominated in US dollars, £56,000 (2015: £nil) in euros and £270,000 (2015: £275,000) in sterling.

## 25. Cash flow adjustments and changes in working capital

The following non-cash flow adjustments and adjustments for changes in working capital have been made to loss before taxation to arrive at operating cash flow:

| | Group | | Company | |
|---|---|---|---|---|
| | 2016 £'000 | 2015 £'000 | 2016 £'000 | 2015 £'000 |
| Adjustments: | | | | |
| Depreciation, amortisation and impairment of non-financial assets | 234 | 171 | 21 | 23 |
| Finance costs | 566 | 338 | 473 | 162 |
| Loss on disposal of non-financial assets | 13 | 4 | - | - |
| Share-based payment expenses | 103 | 76 | 103 | 76 |
| Total adjustments | 916 | 589 | 597 | 261 |
| | | | | |
| Net changes in working capital: | | | | |
| (Increase)/decrease in inventories | (141) | 15 | - | - |
| Decrease/(increase) in trade and other receivables | (410) | 1,625 | 18 | (21) |
| (Decrease)/increase in trade and other payables | (87) | (1,431) | (108) | 187 |
| Total changes in working capital | (638) | 209 | (90) | 166 |

## 26. Contingent assets and contingent liabilities

Westminster International has, in the normal course of business, given guarantees and entered into counter-indemnities in respect of bonds relating to its contracts, which are cross guaranteed by the other Group companies. The total amount outstanding at 31 December 2016 was £40,000 (2015: £40,000) and this potential liability lapsed in March 2017.

As part of the settlement with the vendors of CTAC Limited which was announced in July 2015 a first payment of approximately $123,000 was received. The final transfer of assets has now been received and their fair value will be reflected in the results for 2017.

The Company is party to a multilateral guarantee in respect of bank overdrafts of all companies within the Group. At 31 December 2016, these borrowings amounted to £6,000 (2015: £50,000).

## 27. Financial risk management

The Group is exposed to various risks in relation to financial assets and liabilities. The main types of risk are foreign currency risk, interest rate risk, credit risk and liquidity risk.

The Group's risk management is closely controlled by the Board and focuses on actively securing the Group's short to medium term cash flows by minimising the exposure to financial markets. The Group does not actively trade in financial assets for speculative purposes nor does it write options. The most significant financial risks are currency risk, interest rate risk and certain price risks.

**Foreign currency sensitivity**

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the euro and US dollar. The Group's policy is to match the currency of the order with the principal currency of the supply of the equipment. Where it is not possible to match those foreign currencies, the Group might consider hedging exchange risk through a variety of hedging instruments such as forward rate agreements, although no such transactions have ever been entered into.

Foreign currency denominated financial assets and liabilities, translated into GBP at the closing rate, are as follows. Euro assets and liabilities are not material.

| Group | Short-term exposure USD £'000 |
|---|---|
| 31 December 2016 | |
| Financial assets | 356 |
| Financial liabilities | (72) |
| Total exposure | 284 |
| 31 December 2015 | |
| Financial assets | 232 |
| Financial liabilities | (91) |
| Total exposure | 141 |

If the US dollar were to depreciate by 10% relative to its year end rate, this would cause a loss of profits in 2016 of £27,000 (2015: £14,000). Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Group's exposure to currency risk. Foreign currency denominated financial assets and liabilities are immaterial for the Company.

**Interest rate sensitivity**

The main borrowings of the Group are the convertible loans and bank overdraft and are detailed in note 16. All have fixed interest rates. Interest on the cash holdings of the Group and "other" loans noted in note 23 is not material and therefore no calculations of interest rate sensitivity have been undertaken.

**Credit risk analysis**

The Group has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. In the case of material sales transactions, the Group usually demands an initial deposit from customers and generally seeks to ensure that the balance of funds is secured by way of a letter of credit or similar instruments.

None of the Group's financial assets are secured by collateral or other credit enhancements.

Details of allowance for credit losses are shown in note 19 of these financial statements.

**Liquidity risk analysis**

The Group manages its liquidity needs by monitoring scheduled debt repayments for long term financial liabilities as well as forecast cash flows due in day to day business. Net cash requirements are compared to borrowing facilities in order to determine headroom or any shortfalls. This analysis shows if available borrowing facilities are expected to be sufficient over the lookout period.

As at 31 December 2016, the Group's financial liabilities have contractual maturities (including interest payments where applicable) as summarised below:

Convertible loans held by the Company and Group do not include the CULN which is expected by the directors to convert into equity. This compares to the Group's financial liabilities in the previous reporting period as follows:

| Group | Current (within 6 months) | 6 to 12 months | Non Current (1-5 years) |
|---|---|---|---|
| 31 December 2016 | | | |
| Convertible Loans | 112 | 113 | 2,357 |
| Other Loans | 41 | - | - |
| Trade and Other Payables | 1,026 | - | - |
| Total | 1,179 | 113 | 2,357 |

| Company | Current (within 6 months) | 6 to 12 months | Non Current (1-5 years) |
|---|---|---|---|
| 31 December 2016 | | | |
| Other Loans | 41 | - | - |
| Trade and Other Payables | 211 | - | - |
| Total | 252 | - | - |

| Group | Current (within 6 months) | 6 to 12 months | Non Current (1-5 years) |
|---|---|---|---|
| 31 December 2015 | | | |
| Convertible Loans | 114 | 114 | 2,582 |
| Trade and Other Payables | 961 | - | - |
| Total | 1,075 | 114 | 2,582 |

| Company | Current (within 6 months) | 6 to 12 months | Non Current (1-5 years) |
|---|---|---|---|
| 31 December 2015 | | | |
| Convertible Loans | - | - | - |
| Trade and Other Payables | 239 | - | - |
| Total | 239 | - | - |

## 28. Post balance sheet events

On 1 February 2017 2,228,367 ordinary shares of 10p each were issued at a price of 13.462773 pence each pursuant to a conversion of £0.3m of CULN

On 28 February 2017 the Company has raised £0.6m (gross) of new monies by subscription at a price of 11.625 pence per ordinary 10 pence share and consequently issued 5,161,290 new ordinary 10 pence shares. On the same day Darwin exercised a conversion of £0.4m of CULN at 11.625 pence per share resulting in the issuance of 3,440,860 new ordinary shares.

On 4 April 2017 employees exercised 55,000 share options which were originally granted on 5 April 2007 and had an exercise price of 10p each.

On 18 April 2017 10m new ordinary shares were issued raising £1m gross to support the development of the Company. On the same day Beaufort Securities Ltd were appointed as joint broker and their annual fee of £25,000 was settled by the issue of 250,000 new ordinary shares and the issue of 100,000 detachable warrants with an exercise price of 25p and a life of five years. As part of the placing commissions Beaufort were issued with a further 0.5m warrants with an exercise price of 10p and a life of five years. On the same day the final £0.5m of convertible loan notes issued to Darwin Capital Limited were converted at a price of 10p. A condition of the placing was that Westminster agreed with Beaufort not to enter into such an arrangement for six months from the date of this placing.

# Company Information

## Directors

| Executive | Non-Executives |
|---|---|
| Peter Fowler | Lt Col Sir Malcolm Ross (Chairman) |
| Stuart Fowler | Sir Tony Baldry |
| Ian Selby | James Sutcliffe |

## Secretary

Ian Selby

## Registered office

Westminster House
Blacklocks Hill
Banbury
Oxfordshire
OX17 2BS

## Principal bankers

HSBC Bank Plc
17 Market Place
Banbury
Oxfordshire
OX16 5ED

## Registrars

Capita Corporate Registrars plc
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

## Nominated adviser & Stockbroker

SP Angel Corporate Finance LLP
Prince Frederick House
35-39 Maddox Street
London
W1S 2PP

## Joint Broker

Beaufort Securities Ltd
63 St Mary Axe
London
EC3A 8AA

## Financial public relations

Wallbrook PR
4 Lombard Street
London
EC3V 9HD

## Solicitors

Ashfords LLP
1 New Fetter Lane
London
EC4A 1AN

Bird & Bird LLP
12 New Fetter Lane
London
EC4A 1JP

## Auditor

Moore Stephens LLP
150 Aldersgate Street
London
EC1A 4AB

## Westminster Group Plc

P +44 (0) 1295 756300 F +44 (0) 1295 756302 E info@wg-plc.com

## Westminster International Limited

P +44 (0) 1295 756300 F +44 (0) 1295 756302 E info@wi-ltd.com

## Longmoor Security Limited

P +44 (0) 1295 756380 F +44 (0) 1295 756381 E info@longmoor-security.com

## Westminster Aviation Security Services Limited

P +44 (0) 1295 756300 F +44 (0) 1295 756302 E info@wass-plc.com E info@wg-plc.com

**Westminster Group plc**
Westminster House
Blacklocks Hill
Banbury
Oxfordshire
OX17 2BS
United Kingdom

www.wsg-corporate.com