



# IT as a Service

**Adept4 delivers IT as a Service (“ITaaS”) to small and medium-sized businesses across the UK. ITaaS provides organisations with exactly the amount of technology and support they need in accordance with their business requirements, billed on a monthly basis, based on what is consumed.**

Critically, we underpin this delivery method with a 24/7 UK response team, strategic consulting, professional services and software development to provide exactly what organisations need from IT at any given time. Whether an infrastructure is based on legacy or emerging technologies we will ensure organisations have the flexibility, agility and cost efficiencies required to run their businesses effectively, all through a single trusted provider.

We are customer and people centric, an organisation you can grow with and focused entirely on becoming our customers’ trusted IT expert.

Adept4 is a public company quoted on the AIM market of the London Stock Exchange. The Company is headquartered in Warrington, with additional offices in Leeds.



Find out more online

**[Adept4.co.uk](https://www.adept4.co.uk)**

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# Chairman's statement

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## Overview

I am pleased to comment upon the results of the Group for the year ended 30 September 2018 ("FY18") and to provide the market with an update on our current performance and strategy. As outlined in the 2017 Annual Report, that year was one of consolidation for the Group, when we integrated the three companies previously acquired into one single operating platform. We also set out our key areas of strategic development for 2018 to enable us to build on those foundations: the strengthening of our senior operational management team; the development of our partnership with Microsoft and our other technology partners and the development of our IT security offering. We have made progress against each of these key objectives during FY18.

The year has, however, seen us face some significant challenges. The progress we have made in establishing a stronger management team (with the appointments of a Chief Technology Officer, Director of Operations and, towards the end of the financial year, a Sales Director) and the subsequent ground work we have laid to improve our technology, our delivery and our service levels has been tempered by both disappointing progress with our new-business sales in the year and also by a significant legal claim we were forced to bring against the vendors of one of the acquired businesses. This claim was brought against the vendors of the Adept4 MIT Limited ("MIT") business in respect of breach of warranties given by the vendors at the time of our acquisition of the MIT business. This was a necessary but expensive and distracting exercise, not only in terms of legal and professional fees incurred and management time expensed on the claim itself, but also in respect of M&A activities which were put on hold as a result of the issues which led to the legal action and which have subsequently been resolved. We are pleased that this issue is now behind us, with a successful settlement in the Company's favour of £1.6m (£0.6m cash received post-year end and £1.0m waiver of deferred consideration) before legal fees and other related costs.

In assessing the level of settlement of the warranty claim which would be acceptable to the Company, various issues were considered, including a historic licencing review of the acquired business being undertaken by Microsoft. The Company has, post-year end, reached agreement with Microsoft in relation to this review, and this will result in a payment of £0.4m to Microsoft post-year end. The liability in respect of this sum is provided for in these results.

This legal issue also had a direct impact on our sales function during the year, not least because it brought about the exit of the former MIT management team sooner than we had planned, creating an enforced change in sales leadership. It took us longer than planned to recruit a new sales director and therefore we spent much of the year without effective sales leadership in place. We have, towards the end of the financial year, made significant changes to the sales team, improving both its quality and experience; however we have yet to see the results of this in pipeline conversion and revenue growth post-year end.

Despite the challenges we faced during the year, revenue remained consistent year on year at £10.2m (FY17: £10.3m) with 70% of revenue coming from our recurring revenue base, demonstrating the strength of our existing customer relationships. As a result of the move of certain customers to Cloud based solutions, and as further explained in the Financial Review, our gross profit margins fell from 60% to 56%. The fall in margins contributed to a reduced Trading Group EBITDA\* for the year of £0.6m (FY17: £1.2m). After all costs and income, including, *inter alia*, the warranty settlement and related costs, the Microsoft settlement and an impairment charge of £2.6m in respect of the Group's goodwill in its acquired businesses (see Note 10), the operating loss for the year was £3.4m (FY17: nil) with a retained loss of £3.8m (FY17: loss of £0.6m).

## People

In March 2018, we announced that Ian Winn, Chief Financial Officer and M&A director, had stepped down from the Board to pursue other interests. At the same time, Nick Deman was appointed to the Board as Interim Finance Director for a six-month period to the end of the financial year. Jill Collighan, one of our existing directors, has assumed the role of CFO following Nick's departure. We would like to place on record our thanks to Nick for his efforts and support during the period.

Given the enormous change which has taken place within Adept4 in the past year, I would like to take this opportunity to thank our dedicated staff. There have been many examples of our people simply continuing to work very hard to produce great outcomes for our customers despite the significant challenges we have faced, and I would like to assure them of the Board's appreciation.

## Outlook

As detailed above, the past twelve months have been extremely challenging for the business. The investment made in the new sales team has not yet delivered the results we had hoped for, with progress further hindered by the general level of caution which is evident in our markets as the uncertainty surrounding Brexit continues to delay decisions and customer spend. The Board does not see this situation improving in the short-term.

Detailed work has already gone into right-sizing the Group's cost base, with a significant reduction in operating costs achieved towards the end of FY18. However, given the continued delay in new sales in the current financial year, the Group continues to see monthly Trading Group EBITDA and cash losses following the investment made in the sales and marketing functions. The Group's cash balance at 31 January 2019 was £0.9m.

## Chairman's statement (continued)

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Maintaining our strong relationships with existing customers, together with protecting the Group's cash balances and shareholder value are the key objectives of the Board. We have therefore taken the decision to focus on our existing customer base with less emphasis on new business acquisition, which has an upfront cost to the business and takes time to come through. This is designed to protect the cash reserves of the Group whilst the Board considers the strategic options open to the Company. This will lead to reduced revenue and gross profit but requires a significantly lower operating cost base, which should enable the Group to return to profitability and positive cash generation. To that end, further cost savings have been identified which are in the process of being implemented.

The Board will update the market as it continues to explore its strategic options.

**Simon Duckworth**

***Non-Executive Chairman***

*14 February 2019*

\*earnings before net finance costs, tax, depreciation, amortisation, plc costs, separately identifiable items and share-based payments (see calculation on page 24)

## Business overview

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### What we do

Adept4 delivers IT as a Service to small and medium-sized businesses across the UK. Through the provision of our modular managed services, customers can create a bespoke service to suit their requirements based on proven technologies from providers such as Microsoft, complemented by the Group's operational and technical teams, to provide guaranteed support with defined service levels. As a result of the flexible nature of our approach, our customers can start with any or all of the services available and can expand these as their needs and demands change.

As many of the technologies which underpin our product suite can be provided "as a service", we provide our clients with exactly what is required to support their needs in accordance with business demands, billed on a monthly basis, based on what is consumed. Effectively, we provide the UK small to medium enterprise ("SME") market with enterprise-level IT on a pay as you go ("PAYG") basis. Our 24/7 UK response team, together with our strategic consulting, professional services and software development teams provide exactly what businesses need from IT at any given time.

The revenue generated by Adept4 typically comes from three core areas of our business: contracted recurring managed services, professional services and the sale of associated hardware and other products.

### Our market

Adept4 predominantly sells services into the SME market. The Group's customer base spans all aspects of the SME market and the requirements for each can be quite different. We typically see small businesses more inclined to look for a single organisation to provide as many services as possible across IT, telephony and connectivity providing them with a "one stop shop" approach. As we move towards the medium enterprise clients, we typically see these look to a more specialist provider for different aspects of the services they require. These customers will generally start with a specific service from Adept4 which addresses a particular business need and will then engage in additional solution discussions once the initial service is being successfully delivered. With the depth and breadth of our technology offering, together with our specialist teams and our flexible service options, we are ideally placed to grow our existing medium enterprise accounts whilst continuing to service and support our overall base.

In addition to its SME customer base, the Group has a number of public sector clients and we have experienced an increase in requests to transact business through a recognised government procurement framework. We were therefore pleased that during FY18, we were successful in securing a place on the government's Digital Outcomes and Specialist 3 ("DOS3") framework which went live in October 2018. This further underpins our credentials for our core professional and managed services capabilities within the public sector arena. Further supporting our competencies in this area, during the year we were successful in winning a number of projects in the higher education sector including a £0.3m telephony upgrade for an existing customer ranked in the top 25 universities worldwide (QS World Rankings 2017/18).

### Our technology

As part of our drive to be recognised as "trusted advisors" to our customers, we have continued the development of our technical skills, our competencies and our engagement with key vendor partners across both our IT and telephony managed service sectors.

We utilise industry leading technology products and services from a number of vendor partners, including Microsoft, Mitel and Fortinet in delivering our managed service offering.

One of our core technology partners is Microsoft and during the year we have been awarded "Gold Cloud Platform" partner status, a certification that validates our high level of competency in cloud technologies, identity management, systems management, virtualisation, storage and networking. We have also secured the coveted Microsoft "P-Seller" status which is designed to create a deeper relationship between Microsoft partners and the Microsoft product teams, in order to provide highly-skilled solution specialists to Microsoft customers.

Telephony services continue to drive strong opportunities for the Group, in both the traditional telecoms market – where we sell, install and support systems from Mitel, a market leading voice technology company – and in new technologies, such as integrated solutions from Microsoft based on their Skype for Business technology, now branded as Microsoft Teams. We increasingly see customers looking to introduce the Microsoft voice and collaboration suite of products into their business, consolidating their technology to a single platform. We have added further functionality to our offering, with the introduction of a contact centre product called Anywhere365. This software application, which works directly with Microsoft Teams, provides additional multichannel communication functionality. With the Group's capability across the telephony market, we are ideally placed to continue to sell to and support clients requiring traditional infrastructure and also provide a migration strategy for those that want to move to the new collaboration platforms.

In relation to our security proposition, during the year we were granted exclusivity to sell the Nyotron security portfolio in the UK. Nyotron's next generation cybersecurity solution distinguishes between legitimate operating system behaviour of IT users versus threatening activities carried out by attackers. This provides real-time protection from any attack without foreknowledge of the exploit. We very quickly saw significant interest for this next-generation technology and we have identified a strong pipeline of opportunities for the product, with a number of pilot schemes being undertaken during the year. Whilst we have been disappointed with the speed at which the product has been adopted by the market as a whole, we remain confident that Nyotron could become a strong revenue stream for Adept4.

Additionally, in the cyber security market, during the year we started to sell a security and threat detection solution from Fortinet, a leading global provider of network security solutions. We have sold this as both a stand-alone solution and also as a managed service to, amongst others, a multi-site vehicle dealership in a security solution including a monthly reporting pack of key activity, both in terms of threats and usage. Given our sales success, we are now regarded as a key Fortinet development partner and have a healthy pipeline in this area.

## Business overview (continued)

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Our software development team continue to deliver strong revenues from our existing clients and we have also added new customer revenues for application redevelopment work and Power BI reporting during the year. This included a new £0.3 million contract for application development for a global provider of customer contact centres.

The need to interrogate data from multiple applications and information stores and bring this together to provide analytical intelligence is driving new conversations in our customer base and is expected to provide the Group with new revenue streams. We have a team of in-house developers and additionally, we have agreed a partnership with a "nearshore" development provider to supplement our own software development capabilities in a cost efficient and scalable manner to allow us to maximise revenue opportunities.

### Management team and operational development

A number of new key operational leadership appointments were made during the year, ultimately bringing about a new management team across the business. Our three key appointments were a new Sales Director, a Director of Operations and a new Chief Technology Officer. These appointments, together with our existing executives, provide us with an effective team to guide the business through its next phase of development and they have already effected some significant improvements within the business.

One of the biggest areas of improvement in the year has been in our technical operations and support teams, who provide the technical services and back end support to our customers. Through feedback from customers and members of the sales and services teams, we identified a series of operational changes that were required to improve how we dealt with support requests and also how we captured client sentiment and dealt with this.

Following a review by the newly appointed Director of Operations, it was clear that the business required a fresh approach to customer support and we identified a new Head of Service Operations to join the Group and run the service desk teams. Processes were improved which quickly reduced the number of outstanding support requests, improved the response times of the service desk teams, reduced the number of repeat inbound calls to the service desk and provided a platform to allow us to score every engagement that was made with the service desk. The current position is that we have a much faster ticket resolution process with more tickets closed on the first day than at any point in the previous three years, resulting in customers more willing to engage with discussions to acquire additional products and services from the Group.

Within our sales pipeline, we are also seeing an increase in our existing customers' appetite to understand how they can embrace digital transformation, i.e. how they can utilise cloud technology to drive business agility, improve time to market, understand and predict client behaviour and make better use of their business data. We are seeing a steady increase in these early discussions with customers on how to approach such a significant change in their business and how Adept4 can assist in doing so. As part of digital transformation, customers typically see a change in the profile of their IT spend with an increase in upfront professional services to make the journey from "traditional to cloud" but then a reduction in infrastructure hardware and monthly recurring spend as they have less infrastructure for us to support.

This model of PAYG cloud computing has also brought about some changes to the way managed services are delivered and priced. With the cloud infrastructure being hosted in a vendor's datacentre (Microsoft Azure / Amazon AWS), any hardware support is provided by the vendor as part of their service. This means that we no longer need to provide the support for this hardware but there is an additional cost from the vendor for the provision of these services. For this reason, and as detailed in the Financial Review, our gross profit margin has fallen during the year. We do however see the benefit of operational cost savings as under this model, our responsibility is focused on the operating systems support as well as the configuration and management of the virtual servers which is carried out by our desk based technical teams. We therefore have a reduced requirement for remote based or field workers with associated high travel and expense costs. Towards the end of the financial year, the Group's operating cost base was reduced accordingly; the impact of this will be seen in the new financial year. This will be supplemented by further cost reductions which have been identified and are in the process of being implemented.

### Summary and outlook

As detailed above, we have made progress against our key objectives during the year, but this was tempered by certain challenges faced by the Group. Going forward our priorities are to maintain our strong relationships with existing customers, and to protect the Group's cash balances and shareholder value. Our focus is therefore on continuing to deliver high levels of service to our existing customer base whilst placing less emphasis on new business acquisition which has an upfront cost to the business and takes time to come through. This is designed to safeguard the cash reserves of the Group whilst the Board considers the strategic options open to the Company.

## Financial review

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### Revenue and gross margin

Group revenue for the year to 30 September 2018 was in line with that generated in the previous financial year, at £10.2m (FY17: £10.3m). This produced a gross profit of £5.7m (FY17: £6.2m) representing a gross margin of 56% (FY17: 60%). The reduction in margin predominantly relates to the recurring services segment, as explained below.

We continue to see strong recurring revenue performance with 70% (FY17: 70%) of all revenues coming from ongoing contracts for services. The analysis of revenue and gross profit from each of our operating segments of recurring services, product sales and professional services is shown in Note 3 and is detailed below.

### Recurring services

Revenues from recurring services were £7.1m (FY17: £7.2m), generating a gross profit of £4.2m (FY17: £4.6m) and a gross margin of 60% (FY17: 64%). We continue to see a reduction in the gross profit from recurring services due to the migration of certain services from our infrastructure to that of a third party (such as Microsoft), in line with our asset-light strategy. Whilst initially resulting in some margin reduction, this strategy reduces risk and cost of ownership for us and allows us to provide customers with best-of-breed solutions with the ability to sell a wider range of services to the customer. This transition also means that we need fewer staff to support the in-house solutions, which has enabled us to undertake a cost rationalisation programme in the year to reduce our overhead base.

We continue to focus on generating recurring revenues by promoting our consumptive pricing and "pay-as-you-go" IT model. The proportion of our total revenue derived from recurring services was 70% (FY17: 70%), providing a strong and visible future revenue base.

### Product sales

Revenues from product sales were consistent with those in FY17 at £2.0m (FY17: £2.0m) generating a gross profit of £0.4m (FY17: £0.4m) and gross margin of 22% (FY17: 22%). Product revenue during the year included telephone system sales of £0.7m (FY17: £0.5m), with notable Mitel telephone system upgrades to universities and local government organisations totalling £0.5m.

### Professional services

Revenues from professional services were £1.1m (FY17: £1.2m) generating a gross profit of £1.0m (FY17: £1.2m) as permanent employee costs are included in overheads. Digital transformation projects were undertaken during the year for five key customers generating £0.5m of professional services revenues. In addition, over 540 new orders were placed during the financial year for chargeable professional services work, demonstrating the quality of our professional services offering.

### Operating performance, costs and EBITDA

Aside from revenue, gross profit and cash balances, one of our main financial key performance indicators is our Trading Group EBITDA\* – our operational trading performance before plc costs.

Excluding plc costs of £0.5m (FY17: £0.6m), our trading overheads during the year were £5.1m (FY17: £5.0m), of which staff costs comprised 88% (FY17: 81%). Given the level of gross profit generated from recurring revenue this meant that we achieved 83% (FY17: 91%) coverage of the trading overhead base from our recurring services. Our resultant Trading Group EBITDA\* for the year was £0.6m (FY17: £1.2m).

### Separately identifiable items

During the year we incurred certain costs and income which were not directly related to the generation of revenue and trading profits. Given their size and nature, they have been classified as separately identifiable items within the Consolidated Income Statement. These items totalled a net cost of £2.4m and can be summarised as follows:

- income of £1.6m in relation to the settlement of the warranty claim with the vendors of Adept4 Managed IT Limited ("MIT");
- costs in relation to the warranty claim and other M&A activities of £0.5m;
- settlement of a historic Microsoft licence review, cost of £0.4m;
- impairment charge in respect of goodwill of £2.6m;
- integration and reorganisation costs of £0.3m; and
- costs in relation to the disposal of Pinnacle CDT Limited of £0.2m.

During FY18, the Company brought a warranty claim against the vendors of the MIT business, The Company was successful with this claim and agreed a settlement in the sum of £1.6 million. £0.6m of the settlement was payable to the Company in cash post-year end, with the balance extinguishing the Company's liability to pay the MIT vendors deferred consideration of £1.0m. Costs of £0.5m were incurred by the Company in relation to the warranty dispute and also in respect of corporate activity which was put on hold as a result of certain matters which led to the legal action and which have subsequently been resolved.

In assessing the level of settlement of the warranty claim which would be acceptable to the Company, various issues were considered, including a historic licencing review of the acquired business being undertaken by Microsoft. The Company has, post year end, reached agreement with Microsoft in relation to this review, which resulted in a payment of £0.4m due to Microsoft. The liability in respect of this sum is provided for in these results.



## Financial review (continued)

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As a result of the warranty claim and current performance levels, the Board has assessed the carrying value of the Group's goodwill and an impairment charge of £2.6m (FY17: £0.2m) has been made against goodwill. Further details are provided in Note 10.

After the successful integration of the service-desk team into a single site in July 2017 and a number of efficiencies gained as a result of the investment in a single operating system, together with the migration of certain services from our own infrastructure to third party vendors, the Group was able to reduce the ongoing annualised cost base for the business by £0.6m by way of a restructure. The restructure incurred one-off costs in relation to redundancy, holiday pay and payments in lieu of notice. The cost reductions took place towards the end of the financial year and therefore the benefit of these will be seen in FY19 along with the benefit of the additional cost savings currently being implemented.

In addition, the Group incurred a charge of £0.2m in relation to the disposal in 2016 of the trade and assets of one of its subsidiary companies. Further details are provided in Note 4.

### Net finance expenses

During the year the Group incurred net finance costs of £0.6m (FY17: £0.8m). £0.4m of this was a cash cost in relation to the interest on the Business Growth Fund ("BGF") loan notes and £0.2m related to the release to the income statement of the fair value adjustments in respect of these loan notes.

### Loss for the period

The Group incurred non-cash costs including total amortisation and depreciation charges of £1.0m (FY17: £1.0m) and a share-based payments charge of £0.1m (2017: £0.2m).

After accounting for a deferred tax credit of £0.2m (2017: £0.2m) the reported loss for the year after tax was £3.8m (FY17: £0.6m).

### Statement of Financial Position and cash

Cash balances at 30 September 2018 were £1.4m (FY17: £2.9m) whilst net debt was £2.7m (FY17: £2.0m). Net debt comprises cash balances of £1.4m less the fair value of the BGF loan notes of £4.1m.

The main components of the Group's cash flows during the year were as follows:

- cash used in operating activities of £0.9m (after the payment of separately identifiable costs of £0.6m and plc costs of £0.5m);
- purchase of tangible fixed assets of £0.1m;
- £0.1m settlement of Chess dispute paid in October 2017; and
- financing interest payments of £0.4m.

Trade and other receivables at the period end were £2.9m (FY17: £2.3m). The increase in this category is primarily due to the £0.6m cash element of the warranty claim settlement which was received in November 2018.

Net assets at 30 September 2018 were £4.0m (FY17: £7.7m).

# Risks and risk management

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## **Principal risks and uncertainties**

The Group is affected by a number of risks and uncertainties, not all of which are wholly within its control as they relate to the wider macroeconomic and legislative environment within which the Group operates. In addition, we have seen caution evident in some of our target markets due to the uncertainty surrounding Brexit.

The Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. Responsibility for implementing sound and effective systems of internal control has been delegated by the Board to senior management. The purpose of the system of internal control is to manage and mitigate rather than entirely eliminate the risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The Directors have established an organisational structure with clear operating procedures, lines of responsibility and delegated authority. There are clear procedures for capital investment appraisal and approval, contract risk appraisal and financial reporting within a comprehensive financial planning and accounting framework.

The Group's risk register is reviewed on a quarterly basis for additions, changes and mitigation strategies. This review is overseen by the Company Secretary, who ensures the appropriate level of action and reports by exception to the Board.

Given the size of the Group it is not considered necessary to establish an internal audit function.

The key financial risks of the Group are detailed in Note 22 to the consolidated financial statements. The key non-financial risks that the Group faces are listed below.

## **Non-financial risks**

The key operational risk the Group faces is the general economic outlook. The Group has chosen to invest in a sector that has shown resilience through the economic cycle; however, there is no guarantee that this can continue and, should there be a reduction in demand in this sector, then revenues, margin, profitability and cash flow could all be affected adversely.

This following list highlights the key risks and uncertainties that the Group can seek to mitigate by a choice of appropriate strategies; however, this list is not intended to be exhaustive.

### **Reputational risk**

The nature of the Group's business is such that it provides a service which its customers depend upon and any significant or lengthy period of service disruption would materially affect its customers and adversely impact upon the Group's reputation in the market.

The Group constantly monitors performance and availability and responds quickly to any service outages. Wherever possible it ensures that there are no single points of failure in its service delivery infrastructure and where there are these are clearly reflected in service levels made available to customers.

### **Commercial risk**

We seek to mitigate commercial and operational risks through operating policies, credit control procedures and strong relationships with customers and suppliers built on mutual trust.

The Group does have reliance on a number of suppliers for specific IT technologies. However, in such cases it seeks, where possible, to have alternative resellers open to it to purchase from and it also seeks to add value through its development capability which should reduce the risk of supplier loss.

### **Technology risk**

The market in which the Group operates has the potential for significant technological change, which could undermine the Group's delivery capabilities.

The Group monitors technology developments through close links with suppliers and through a team with significant experience and expertise in this sector. This is augmented with the addition of product specialists, who are able to more readily identify new trends, products developments, etc. in their sphere of excellence, where deemed necessary.

### **Key resources**

Commensurate with an organisation of the Group's size is the dependence placed upon certain key personnel, including executive and senior management who have significant experience within the Group and IT sector and who would be difficult to replace.

The Group continues to seek to mitigate these risks through the continued strengthening of middle management in the key areas of finance, operations and technology and through the use of bonuses and employee options to incentivise and reward key staff.

## Risks and risk management (continued)

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### ***Contractual liabilities***

In instances where the Group's services or products fail to meet agreed timescales or standards there is a risk that the Group will be exposed to claims for contractual liabilities as a result of failure.

The Group seeks to mitigate these risks through the following methods:

- contractual reviews prior to execution by legal advisers where the contract is material and differs from the Group's standard terms and conditions;
- where products or services are being resold, the Group seeks to take no additional risk by simply seeking to back terms and conditions from its suppliers; and
- only accepting a level of contractual liability which is commensurate with insurance policies and the value of the contract.
- risks and risk management.

### ***Legacy liabilities***

As part of the acquisition process of any business, the Group ensures significant due diligence is undertaken on the target. This process includes both internal due diligence and due diligence carried out by external experts. There can be no guarantee that the due diligence performed will identify all issues existing within a target company at the point of acquisition. To mitigate this risk, the Board ensures that suitable warranties are given by vendors of the acquired businesses. There can be no guarantee, however, that such warranties will be sufficient to provide full recompense for any losses suffered by the Company as a result of such issues.

### ***Regulatory compliance***

The Group provides services, some of which are in regulated markets. The Group must maintain compliance with applicable regulations. Regulated services may also be affected by price changes. In both cases, there is risk of an adverse impact on the Group's business, financial and operational position.

The Group carefully monitors proposed or adopted regulatory changes to assess the impact that such changes have on its business operations or its customers.

### ***Malicious activity and data protection***

The Group operates in the technology sector and as a result has information assets that could be compromised, disrupted or lost as a result of malicious activity.

The Group operates protective equipment to defend against malicious attacks and has staff policies in place to enforce good practice on data security.

## Board of Directors

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### **Simon Duckworth**

#### ***Non-Executive Chairman***

Simon Duckworth OBE DL is Non-Executive Chairman. Simon holds a number of non-executive positions in the public and private sectors and is currently Chairman of Baring Targeted Return Fund and the Senior Non-Executive Board Member at the Serious Fraud Office (SFO). He was a Non-Executive Director of Fidelity's flagship European Investment Trust, Fidelity European Values plc, for a decade, and has sat on the boards of a number of AIM-quoted companies as a non-executive director, including Accumuli plc from 2010 until its sale to NCC plc in 2015.

A University of Cambridge graduate, Simon is a former Chairman of the City of London Police Authority and currently chairs the Economic Crime Board of the City of London Police. He worked closely with the Home Office as Chairman of the National Olympics Security Oversight Group and is a Non-Executive Director of the Association of Police and Crime Commissioners.

### **Dr Tom Black**

#### ***Non-Executive Director***

Tom Black is co-founder and Executive Chairman of Thruvision plc, an AIM-quoted business focused on the people-screening sector of the global homeland security market. Thruvision was previously named Digital Barriers and changed when it divested its video security business in 2017. Prior to setting up Digital Barriers in 2009, Tom was Chief Executive of Detica Group plc where he led the management buyout in 1997, the Group's flotation on the London Stock Exchange in April 2002 and, ultimately, the acquisition by BAE Systems in 2008. Tom is also a Non-Executive Director of Herald Investment Trust plc and a Trustee of the Black Family Charitable Trust.

### **Jill Collighan**

#### ***Chief Financial Officer***

Jill Collighan is an Executive Director assisting Adept4 with its continuing development and strategy implementation. A Chartered Certified Accountant, Jill has over 15 years of operational experience at plc board level specialising in finance, human resources, investor relations and corporate finance. As well as her role with Adept4, Jill is CFO of the Group's major shareholder MXC Capital Limited, the AIM-quoted technology-focused adviser and investor. From 2004 to 2014 Jill was Group Finance Director of the AIM-quoted mobile technology provider 2ergo Group plc.

# Corporate governance report

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Adept4 plc is committed to operating proper standards of good corporate governance and has established a corporate governance model based on the key principles of the Quoted Companies Alliance Corporate Governance Code (“QCA Code”). The following outlines how the Company addresses the ten broad governing principles defined in the QCA Code. The Non-Executive Chairman is responsible for corporate governance and the overall leadership of the Board and ensuring its effectiveness.

Adept4 plc operates a business model and growth strategy that promotes the generation of shareholder value through the growth and retention of recurring revenue streams. The company promotes professionalism, openness, honesty and integrity between its customers, staff, shareholders and suppliers.

## Principle 1 – Establish a strategy and business model which promote long-term value for shareholders.

### **Goals:**

As a public company we are focused on delivering value for both our shareholders and customers and have three goals that drive our business:

- Deliver shareholder value
- Provide high levels of customer satisfaction
- Differentiate our service through expertise, innovation and successful execution of solutions

### **Purpose:**

The purpose of the business is to generate shareholder value through the profitable delivery of IT as a Service (“ITaaS”) to business customers. ITaaS provides customers with exactly the right amount of technology and support that they need, ensuring that they only pay for what they receive.

### **Strategy:**

The company currently delivers ITaaS to business customers via a single operating platform established from the integration of several businesses. Our strategy is to:

- Transform the way our customers use and pay for IT
- Leverage our expertise to provide all customers with a corporate IT department experience
- Lead our customers on their journey from on-premise to the cloud
- Partner with the best public cloud and application providers
- Cross-sell IT and telephony services to customers
- Focus on growing our recurring revenues through organic growth
- Develop and expand an innovative portfolio of solutions
- Stay close to the customer, small enough to care and large enough to cope

## Principle 2 – Seek to understand and meet shareholder needs and expectations.

Adept4 is committed to open communication with all its shareholders. The Non-Executive Chairman is primarily responsible for investor relations.

The Company values the views of its shareholders and recognises their interest in the Group’s strategy and performance, Board membership and quality of management. The Company believes it is important to explain business developments and financial results to its shareholders, to understand shareholder concerns, and to ensure that suitable arrangements are in place to ensure a balanced understanding of the issues and concerns of major shareholders.

The principal method of communication with private investors is via the Company’s Annual Report and Accounts, Interim Reports, the Annual General Meeting and other relevant announcements that are maintained on the Group’s investor website, [www.adept4.co.uk](http://www.adept4.co.uk). As appropriate, business-related announcements may also be published there if the Group considers them to be of significant interest to shareholders.

Shareholders are given the opportunity to raise questions at the Annual General Meeting and the Directors are available both before and after the meeting for further discussion with shareholders. The Annual General Meeting is used to communicate with all shareholder and investor groups, and they are encouraged to participate. The Chairmen of the Audit and Remuneration Committees are available to answer questions. Separate resolutions are proposed on each issue so that they can be given proper consideration and there are resolutions to receive the Annual Report and Accounts and the report on Directors’ remuneration. The Company counts all proxy votes and will indicate the level of proxies lodged on each resolution, after it has been dealt with by a show of hands.

Meetings are offered to major institutional shareholders to discuss strategy, financial performance and investment activity immediately after the full year and interim results announcements. The Non-Executive Directors are available to meet with major shareholders if such meetings are required. Feedback from such meetings with shareholders is provided to the Board to ensure that the Directors have a balanced understanding of the issues and concerns of major shareholders.

## Corporate governance report (continued)

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The Board receives share register analysis reports to monitor the Company's shareholder base and help identify the types of investors on the register.

### Principle 3 – Take into account wider stakeholder and social responsibilities and their implications for long-term success.

The Company regards its shareholders, employees, customers, suppliers, advisors and others as the wider stakeholder group.

Management prioritises its relationships with customers and staff and effort is directed to ensuring they are managed appropriately. Regular reviews are undertaken to ensure any issues are addressed promptly.

The Company records and regularly reviews customer service levels. There is a feedback system in place for service levels and issues raised are addressed on a timely basis.

The Company's internal stakeholders are its employees. The Group is committed to employment policies which follow best practice, based on equal opportunities for all employees, irrespective of sex, gender reassignment, race, disability, sexual orientation, pregnancy and/or maternity, marital or civil partner status, religion or belief or age.

Employee involvement in the Group is encouraged, as achieving a common awareness on the part of all employees of the financial and economic factors affecting the Group plays a major role in maintaining good relations with them. Employees receive regular updates from the Managing Director on the Company's progress and new initiatives via monthly staff updates and regular town hall meetings, which offers an opportunity for them to raise queries or issues.

### Principle 4 – Embed effective risk management, considering both opportunities and threats, throughout the organisation.

The Board has established a risk register relating to the Company's business. At least twice a year, it meets to consider the appropriateness of the risks identified and the mitigating action taken by management on a risk by risk basis focusing on those deemed most critical.

For further details of the Company's approach to risk and its management, please refer to the Risk Management and Principal Risks section of the Strategic Report as set out above.

The Board has also set out a policy defining the Group's compliance, procedures and position regarding the prevention of the facilitation of tax evasion as defined by the Criminal Finances Act 2017.

### Principle 5 – Maintain the Board as a well-functioning, balanced team led by the Chair.

The size of the board is considered to be appropriate to the current size and character of the Group. The non-executive directors are independent of management and any business or other relationships which could interfere with the exercise of their independent judgement. Each non-executive director is expected to devote a maximum of one day per month to the Company's business, plus any additional time, which may be required to fulfil their duties.

The Board directs the Group's activities in an effective manner through regular monthly board meetings and monitors performance through timely and relevant reporting procedures which enable risks to be assessed and managed. Monthly Board meetings are attended by the Managing Director of the trading business, who provides updates on how the business is performing against the objectives set by the Board. During this financial year, 12 monthly board meetings were held with all Directors present in person or via conference call.

Operational management of the Group is delegated to the Managing Director of the trading business and the Senior Management Team, who meet regularly with the CFO to review current business performance, sales activity, operational projects, customer service, human resourcing matters and other day to day activities.

Detailed Board packs include information on all revenue streams and financial performance and are circulated ahead of Board meetings. Key issues are highlighted and explained, providing Board members with sufficient information to enable a relevant discussion in the Board meeting. The CFO attends the Company's senior management meetings and updates the Board accordingly on any issues and developments.

## Corporate governance report (continued)

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### Principle 6 – Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities.

The Board members and their relevant experience and skills are detailed on page 10. The Non-Executive Chairman believes that, as a whole, the Board has a suitable mix of skills and competencies covering all essential disciplines bringing a balanced perspective that is beneficial both strategically and operationally and will enable the Company to deliver its strategy.

The Board consists of one executive director and two non-executive directors, both of whom are independent. The nature of the Company's business requires the Directors to keep their skillset up to date. Updates to the Board on regulatory matters are given by Company's professional advisers when appropriate.

In addition to the support provided by the Company's retained professional advisers (Nominated Advisor, lawyers, auditor and M&A advisor), external consultants have been engaged to advise on a number of matters including tax planning and market research. External advisers attend Board meetings or committee meetings as invited by the Non-Executive Chairman to report and/or discuss specific matters relevant to the Company.

### Principle 7 – Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement.

#### **Board performance effectiveness process**

The Chairman is responsible for the regular evaluation of the Board's performance and that of its committees and individual Directors.

In 2017, the Directors took part in an independent Board Effectiveness exercise that gathered feedback and measured the performance and effectiveness of the Board across a number of parameters including:

- setting, guiding and monitoring group strategy;
- standard of internal reporting;
- channels of communication;
- support of management with appropriate challenge;
- structure and effectiveness of meetings;
- appropriate use of external advisors;
- quality debate and appropriate preparation;
- compliance with governance, legislation and regulation;
- focus on future vs past; and
- skills of board members.

The Board intend to carry out the next evaluation during 2019.

#### **Succession planning and Board appointments**

The Remuneration and Nomination Committee meets as and when necessary to consider the appointment of new executive and non-executive directors, although the Board as a whole takes responsibility for succession planning. Board members all have appropriate notice periods so that if a Board member indicates his/her intention to step down, there is sufficient time to appoint a replacement, whether internal or external.

Each director is required to offer themselves for re-election at least once every three years as per the Company's Articles of Association. Dr Tom Black is currently the longest serving Board member having been appointed in 2013.

Board appointments are made after consultation with advisers including the Nominated Advisor who undertakes due diligence on all new potential Board candidates.

### Principle 8 – Promote a corporate culture that is based on ethical values and behaviours.

The Board recognises that core values provide a framework which influences every level of the Group. Under guidance from the Board, the Managing Director of the trading business takes the lead in developing and promoting the corporate culture and ensures that employees understand the business values and behaviours required to ensure that we perform as one team with to deliver our business goals and maintain good employee relations.

The Company's environmental and health and safety policies are as follows:

#### **Environmental policy**

The Group acknowledges the importance of environmental matters and where possible uses environmentally friendly policies in its offices, such as recycling and energy-efficient practices.

#### **Health and safety**

The Group aims to provide and maintain a safe working environment for all colleagues and visitors to its premises, and to comply with all relevant UK health and safety legislation. Health and safety matters are delegated to representatives within the business, who can raise any issues arising via a number of means, including the corporate risk register whose highest rated risks are reviewed periodically by the Board.

## Corporate governance report (continued)

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### Principle 9 – Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board.

On behalf of the Board, the Managing Director of the trading business has overall responsibility for managing the day to day operations of the Company and the Board as a whole is responsible for monitoring performance against the Company's goals and objectives. The individual Board members' specific responsibilities, contributions and skills are set out on page 10.

The Board has established two standing Committees, the Audit Committee and the Remuneration Committee. Membership of both the Audit Committee and the Remuneration Committee during the year under review was exclusively Non-Executive.

A nominations committee would be established should it be required. Simon Duckworth is Chairman of the Remuneration Committee and Dr Tom Black is Chairman of the Audit Committee. Terms of reference for the Committees are available on the Company's website.

### Principle 10 – Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders.

The Company maintains a regular dialogue with key stakeholders including shareholders to enable interested parties to make informed decisions about the Group and its performance.

Historical annual reports and notices of general meetings can be found in the Financial Reports section of the Group's website.

The Board discloses the results of Annual General Meetings and these can be found in the Regulatory News section of the website. Historically, the Board has not disclosed proxy voting numbers to those attending the meetings, but in order to improve transparency, the Board has committed to announcing proxy voting results in future. In the event that a significant portion of voters have voted against a resolution, an explanation of what actions it intends to take to understand the reasons behind the vote will be included.

The Audit Committee meets at least twice a year, although the Company's Auditors or any member of the Audit Committee may request a meeting at any time, should they consider that one is necessary. The role of the Audit Committee is to make recommendations to the directors and shareholders, in relation to the appointment, re-appointment and removal of the Company's Auditors and to approve their remuneration and terms of engagement. Prior to the commencement of each annual or interim audit, the Audit Committee will discuss and agree the nature and scope of the audit with the Auditors and in discussion with them, will monitor the integrity of the financial statements of the Group and approve any formal announcements relating to the Company's financial performance.

The Audit Committee develops and implements policies on the engagement of the Auditors to supply non-audit services and will report to the Directors, identifying any matters where the Audit Committee considers that action or improvement is needed, making recommendations as to the steps to be taken.

The Audit Committee is authorised by the Board to investigate any activity within its terms of reference and may seek information it requires from any employee of the Company. The Audit Committee may seek outside professional advice at the cost of the Company, in order to secure any relevant experience or expertise it considers necessary to fulfil its duties.

The terms of reference of the Remuneration Committee and its report can be found below.



# Remuneration report

## Remuneration Committee

The Remuneration Committee determines, on behalf of the Board, the Group's policy for executive remuneration and the individual remuneration packages for the Executive Directors. In setting the Group's remuneration policy, the Remuneration Committee considers a number of factors, including the following:

- salaries and benefits available to Executive Directors of comparable companies;
- the need to attract and retain Executives of an appropriate calibre; and
- the need to ensure continued commitment of Executives to the Group's success through appropriate incentive schemes.

The Committee meets at least once a year.

## Remuneration of Executive Directors

The remuneration packages comprise the following components:

- **Base salary**  
The Remuneration Committee sets the base salary by reference to responsibilities and the skills, knowledge and experience of the individual.
- **Bonus scheme and other benefits**  
There is no annual bonus scheme or other benefits in place currently.
- **Share Incentive Schemes**  
Previous awards to Executive Directors under the Company's share incentive schemes lapsed on the resignation of the relevant Directors. No current Board members have any awards under the Group's share incentive schemes.
- **Other benefits**  
Prior to his resignation, Ian Winn received the benefit of private medical insurance and death in service and critical illness income protection.

## Remuneration of Non-Executive Directors

The fees paid to the Non-Executive Directors are determined by the Board. They are not entitled to receive any bonus or other benefits. Non-Executive Directors' letters of appointment are on a three-month rolling basis.

## Directors' remuneration

Details of individual Directors' emoluments for the year (excluding employer's National Insurance contributions) are as follows:

|   | Salary and<br>fees paid<br>or receivable<br>£'000 | Other<br>benefits<br>£'000 | 2018 total<br>£'000 | 2017 total<br>£'000 |
|---|---|----------------------------|---------------------|---------------------|
| <b>Non-Executive</b>  |   |                            |                     |                     |
| S Duckworth   | 36  | —                          | 36                  | 31                  |
| T Black   | 32  | —                          | 32                  | 31                  |
| <b>Executive</b>  |   |                            |                     |                     |
| J Collighan (appointed 1 July 2017) <sup>1</sup>              | 30  | —                          | 30                  | 6                   |
| N Deman (appointed 20 March 2018, resigned 30 September 2018) | 76  | —                          | 76                  | —                   |
| I Winn (resigned 20 March 2018) <sup>2</sup>                  | 70  | (29)                       | 41                  | 170                 |
| G Lyons (resigned 1 August 2017)                              | —   | —                          | —                   | 100                 |
| <b>Total</b>  | <b>244</b>  | <b>(29)</b>                | <b>215</b>          | <b>338</b>          |

1 Jill Collighan's services are secured under a secondment agreement with MXC Advisory Limited. All fees are paid to MXC Advisory Limited and the agreement contains a notice provision of 3 months.

2 Included in "Other benefits" are the costs of share options issued in accordance with IFRS 2 Share-based Payments as follows:

| Name of Director                | 2018<br>£'000 | 2017<br>£'000 |
|---------------------------------|---------------|---------------|
| I Winn (resigned 20 March 2018) | (30)          | 33            |

## Directors' interests in shares

The interests of the Directors in the Ordinary Shares of the Company at 30 September 2018 together with their interests as of 14 February 2019 were as follows:

| Name of Director | 14 February<br>2019<br>Number | 30 September<br>2018<br>Number |
|------------------|-------------------------------|--------------------------------|
| T Black          | 8,842,199                     | 8,842,199                      |
| S Duckworth      | 5,700,000                     | 5,700,000                      |

MXC Advisory Limited, who provides the services of Jill Collighan, is a wholly owned subsidiary of MXC Capital Limited, which has a 29.9% holding in the shares of the Company. MXC Capital Limited also hold warrants over 5% of the share capital of the Company, as detailed in Note 7.4.

## Remuneration report (continued)

### Directors' interests in share options

No Directors held options over the Ordinary Shares of the Company or any other share incentives at 30 September 2018. Two directors of the Company's subsidiaries have been granted options over the shares of the Company as follows:

|             | 1 October<br>2017 | Granted in<br>the year | Lapsed during<br>the year | 30 September<br>2018 | Exercise<br>price | Date when<br>Exercisable | Expiry date |
|-------------|-------------------|------------------------|---------------------------|----------------------|-------------------|--------------------------|-------------|
| D Griffiths | 3,800,000         | —                      | —                         | <b>3,800,000</b>     | 1.0p              | 31 Mar 20                | 31 Mar 27   |
| D Giddens   | 83,333            | —                      | —                         | <b>83,333</b>        | 30.0p             | 9 Jul 11                 | 9 Jul 19    |
| D Giddens   | 207,692           | —                      | —                         | <b>207,692</b>       | —                 | 24 Mar 18                | 24 Mar 25   |
| D Giddens   | 1,135,000         | —                      | —                         | <b>1,135,000</b>     | 9.0p              | 28 Sep 19                | 28 Sep 26   |

Of the total options above, 5,142,692 have been granted under the terms of the Company's approved EMI share option scheme, and 83,333 under the terms of the Company's unapproved share option scheme.

By order of the Board

**Simon Duckworth**

**Chairman, Remuneration Committee**

14 February 2019

## Directors' report

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The Directors present their Annual Report on the affairs of the Group, together with the financial statements and Auditor's report, for the year ended 30 September 2018.

### Principal activities

The principal activity of the Group is the provision of IT as a Service to small and medium-sized enterprises in the UK. Further information can be found in the Strategic Report on pages 2 to 9.

### Corporate governance

The statement on corporate governance on pages 11 to 14 is included in the Directors' Report by way of reference.

### Results and dividends

The Group's loss on ordinary activities after taxation was £3.8m (FY17: £0.6m). The audited financial statements of the Group are set out on pages 20 to 47. The Directors do not propose a dividend for the year ended 30 September 2018 (FY17: £nil).

### Strategic review

The information satisfying the strategic review requirements is set out in this report on pages 2 to 9.

### Going concern

The Group had cash balances of £1.4m at 30 September 2018, and total debt (comprising of asset finance agreements and loan notes at fair value) of £4.1m, of which only £0.1m was due within twelve months.

Maintaining strong relationships with existing customers, together with protecting the Group's cash balances and shareholder value are the key objectives of the Board. The Board has therefore taken the decision to focus on the existing customer base with less emphasis on new business acquisition, which has an upfront cost to the business and takes time to come through. This is designed to protect the cash reserves of the Group whilst the Board considers the strategic options open to the Company. This will lead to reduced revenue and gross profit but requires a significantly lower operating cost base, which should enable the Group to return to profitability and positive cash generation. To that end, further cost savings have been identified which are in the process of being implemented.

After reviewing the budgets and cash projections for the next twelve months and beyond the Directors believe that the Group and the Company have adequate resources to continue operations for the foreseeable future and for this reason they continue to adopt the going concern basis in preparing the financial statements.

### Directors

The present membership of the Board is as follows:

Simon Duckworth, Non-Executive Chairman  
Dr Tom Black, Non-Executive Director  
Jill Collighan, Chief Financial Officer

Ian Winn resigned from the Board on 20 March 2018 and Nick Deman was appointed to the Board as Interim CFO, from 20 March 2018 to 30 September 2018.

The names and biographical details of the current Directors of the Company are given on page 10. During the year under review, all Non-Executive Directors were considered to be independent of management and any business or other relationships which could interfere with the exercise of their independent judgement.

In accordance with the Company's Articles of Association, Dr Tom Black will offer himself for re-election at the forthcoming Annual General Meeting.

Details of Directors' interests in the Company's shares, service contracts and remuneration are set out in the Directors' Remuneration Report on pages 15 and 16.

Fees in relation to Jill Collighan are paid to MXC Advisory Limited a subsidiary of MXC Capital Limited which has a 29.9% holding in the shares of the Company. No other Director had a material interest in any significant contract with the Company or any of its subsidiaries during the year.

The Company maintains liability insurance for its Directors and Officers. The Directors and Officers have also been granted a qualifying third-party indemnity provision under the Companies Act 2006. That indemnity provision has been in force throughout the year and remains in force at the date of this report.

### Share warrant instruments

There were no new share warrants issued during the year. Details of the existing share warrants remaining in force can be found in Note 7 to the consolidated financial statements.

### Issue of shares

At the general meeting held on 29 March 2018, shareholders granted authority to the Board under the Articles and Section 551 of the Companies Act 2006 (the "Act") to exercise all powers of the Company to allot relevant securities up to an aggregate amount of up to one-third of the authorised share capital of the Company, up to the amount specified in the resolutions. At the same meeting shareholders granted authority to the Board under the Articles and Section 570 of the Act to exercise all powers of the Company to allot relevant securities wholly for cash up to an aggregate amount of up to 10% of the share capital, without application of the statutory pre-emption rights contained in Section 561(1) of the Act.

## Directors' report (continued)

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### **Post-balance sheet events**

Details of post-balance sheet events are given in Note 23.

### **Financial risk management and objectives**

Details of financial risk management and objectives are contained in Note 22 to the consolidated financial statements.

### **Awareness of relevant audit information**

Each of the Directors who held office at the date of approval of this Directors' Report confirms that, so far as they are aware:

- there is no relevant audit information of which the Auditor is unaware; and
- the Directors have taken all the steps 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.

### **Annual General Meeting**

The Annual General Meeting will be held in London on 25 March 2019 at 1:00PM.

Notice of the Annual General Meeting will be sent to shareholders on 26 February 2019.

### **Independent Auditor**

Nexia Smith & Williamson was appointed as Auditor to the Group on 29 October 2014. There are no contractual obligations in place that restrict our choice of statutory Auditor.

By order of the Board

**Darron Giddens**

**Company Secretary**

*14 February 2019*

## Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs). The Directors have elected to prepare the Company financial statements under UK Generally Accepted Accounting Practice (UK GAAP).

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 parent company and of the Group and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs and UK accounting standards 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 Company will continue in business.

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

The Directors are responsible for ensuring that the Directors' Report and the Strategic Report, in addition to any other information included in the Annual Report, is prepared in accordance with United Kingdom company law. They are also responsible for ensuring that the Annual Report includes information required by the AIM Rules.

Legislation in the United Kingdom governing the preparation and dissemination of the accounts and other information included in annual reports may differ from legislation in other jurisdictions.

# Independent Auditor's report to the members of Adept4 plc

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## Opinion

We have audited the Group financial statements of Adept4 plc and its subsidiaries (the 'Group') for the year ended 30 September 2018 which comprise the Consolidated Income Statement, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flow and the notes to the Group financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 30 September 2018 and of the Group's loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Basis for opinion

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

## Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the Group financial statements is not appropriate; or
- the Directors have not disclosed in the Group financial statements any identified material uncertainties that may cast significant doubt about the Group's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the Group financial statements are authorised for issue.

## Key audit matters

We identified the key audit matters described below as those which were of most significance in the audit of the financial statements of the current period. Key audit matters include the most significant assessed risks of material misstatement, including those risks that had the greatest effect on our overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the audit team.

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

## Independent Auditor's report to the members of Adept4 plc (continued)

| Key audit matter                            | Description of risk   | How the matter was addressed in the audit with respect to that risk  |
|---|---|--|
| <b>Revenue recognition</b><br>(See Note 2c) | Revenue growth is a key performance indicator of the Group. Revenue based targets may place pressure on management to distort revenue recognition. This may result in overstatement or deferral of revenues to assist in meeting current or future targets or expectations. | <p>The Group's revenue recognition policies are stated in Note 2c. In testing revenue recognition we have:</p> <ul style="list-style-type: none"> <li>gained an understanding of the design and implementation of the controls over revenue recognition which have been designed by the Group to prevent and detect fraud and errors in revenue recognition;</li> <li>recalculated the revenue recognised on a sample of contracts, corroborating the details to the underlying contracts. In respect of bundled contracts we tested the individual components of a sample of contracts to ensure that the revenue was appropriately allocated to the components and that the substance of the contract was appropriately accounted for;</li> <li>performed tests of detail of a sample of accrued revenue and deferred revenue items to ensure the items are accounted for in accordance with the revenue recognition policy;</li> <li>performed tests of detail on revenue cut-off to ensure that items are accounted for in the correct period;</li> <li>performed a review of credit notes to ensure that all sales made in the year relate to services provided during the year.</li> </ul> |
| <b>Going concern</b><br>(See Note 1.1)      | The Group recorded a loss for the year of £3.8m. The Company issued £5 million of unsecured loan notes to the BGF on 26 May 2016. The loan notes have regular interest payments with a maximum credit exposure at 30 September 2018 of £6.4m.                               | <p>We discussed the detailed cash flow forecasts prepared by management in their model. The main procedures performed on the model and areas where we challenged management were as follows:</p> <ul style="list-style-type: none"> <li>assessed the quality of management forecasting by comparing forecasts from prior periods to actual outcomes;</li> <li>the consistency of forecasts used in the going concern assessment with those used for impairment calculations;</li> <li>tested the appropriateness of the assumptions that had the most material impact. In challenging these assumptions we took account of actual results, revenue and costs growth projected and market conditions;</li> <li>test checked the arithmetic integrity of the calculations including those related to management's sensitivities;</li> <li>performed our own sensitivity calculations to test the adequacy of the available headroom; and</li> <li>reviewed the appropriateness of the disclosures made in the Group Financial Statements in respect of going concern.</li> </ul>   |

## Independent Auditor's report to the members of Adept4 plc (continued)

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### Carrying value of goodwill and intangibles (see Note 10)

The Group has significant intangible asset balances including customer bases, brands and goodwill derived from historic acquisitions. The assessment of the carrying value requires significant judgement in assessing forecast cash flows, growth rates and discount rates. The assessment of the carrying value of these balances and consequently any required impairment is sensitive to these assumptions. Litigation and the release of consideration previously accrued as a result of the trading targets for a major historic acquisition not being met, also gives rise to a high risk of impairment of relevant intangible assets acquired.

We challenged the assumptions used in the impairment model for goodwill, as described in note 10. These assumptions were also used in assessing the carrying value and impairment of other intangible assets. As part of our procedures we:

- examined management's assessment as to whether indicators of impairment have been identified and appropriately evaluated;
- assessed whether the cash generating unit (CGU), identified is at the lowest level at which management monitors goodwill;
- challenged the discounted cash flow model used to support the carrying values of intangibles and goodwill, including the appropriateness of the assumptions used in the forecasts such as projected growth, future capital expenditure, cash flows, cost projections, central overhead allocation and the discount rate;
- test checked arithmetic formulae within the model;
- compared the group's historical forecasting accuracy by comparing the previous year forecast for the year ending 30 September 2018 to the actual outturn;
- performed sensitivity analyses of the key assumptions used by management and assessed the adequacy of management's disclosures of sensitivity and key risks inherent in the calculation;
- compared the carrying values of the cash generating units in total against the Group's market capitalisation and challenged the shortfall; and
- compared actual trading results in relation to the contingent consideration trading target.

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### Materiality

The materiality for the Group financial statements as a whole was set at £205,000. This has been determined with reference to the benchmark of the Group's revenue, which we consider to be one of the principal considerations for members of the Parent Company in assessing the performance of the Group. Materiality represents 2% of revenue as presented on the face of the Consolidated Income Statement.

### An overview of the scope of our audit

Of the Group's six reporting components, three were subject by us to full scope audit procedures and three to specific audit procedures where the extent of our audit work was based on the significance of that component to the group.

The components within the scope of our work covered: 100% of Group revenue and 100% of Group net assets.

### Other information

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

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

We have nothing to report in this regard.



## Independent Auditor's report to the members of Adept4 plc (continued)

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

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

- the information given in the Strategic Report and the Directors' Report for the financial year for which the 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 Group 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:

- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

### Responsibilities of Directors

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

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

### Auditor's responsibilities for the audit of the Group financial statements

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

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

### Other matter

We have reported separately on the parent company's financial statements of Adept4 plc for the year ended 30 September 2018.

### Use of our report

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

**Andrew Bond**

*Senior Statutory Auditor,*

*for and on behalf of Nexia Smith & Williamson*

*Statutory Auditor, Chartered Accountants*

**25 Moorgate London EC2R 6AY**

14 February 2019

# Consolidated income statement

for the year ended 30 September 2018

|  | Note | 2018<br>£'000  | 2017<br>£'000 |
|--|------|----------------|---------------|
| <b>Continuing operations</b>   |      |                |               |
| <b>Revenue</b>   | 3    | <b>10,185</b>  | 10,301        |
| Cost of sales  |      | <b>(4,480)</b> | (4,137)       |
| <b>Gross profit</b>  | 3    | <b>5,705</b>   | 6,164         |
| Administrative expenses  |      | <b>(5,598)</b> | (5,575)       |
| Amortisation of intangible assets  | 10   | <b>(907)</b>   | (880)         |
| Depreciation   | 11   | <b>(136)</b>   | (162)         |
| Separately identifiable (costs)/income   | 4    | <b>(2,390)</b> | 626           |
| Share-based payments   | 7    | <b>(48)</b>    | (162)         |
| <b>Operating (loss)/profit</b>   | 5    | <b>(3,374)</b> | 11            |
| Interest receivable  | 6    | <b>7</b>       | —             |
| Interest payable   | 6    | <b>(609)</b>   | (842)         |
| <b>Net finance expense</b>   |      | <b>(602)</b>   | (842)         |
| <b>Loss before taxation</b>  |      | <b>(3,976)</b> | (831)         |
| Taxation   | 8    | <b>169</b>     | 248           |
| <b>Loss and total comprehensive loss for the year attributable to owners of the parent</b> |      | <b>(3,807)</b> | (583)         |
| <b>Loss per share</b>  |      |                |               |
| Basic and fully diluted  | 9    | <b>(1.68)p</b> | (0.26)p       |
| <b>Non-statutory measure: Trading Group EBITDA*</b>  |      |                |               |
| Operating (loss)/profit  |      | <b>(3,374)</b> | 11            |
| Plc costs  |      | <b>482</b>     | 570           |
| Amortisation of intangible assets  | 10   | <b>907</b>     | 880           |
| Depreciation   | 11   | <b>136</b>     | 162           |
| Separately identifiable costs/(income)   | 4    | <b>2,390</b>   | (626)         |
| Share-based payments   | 7    | <b>48</b>      | 162           |
| <b>Trading Group EBITDA*</b>   |      | <b>589</b>     | 1,159         |

\*earnings before net finance costs, tax, depreciation, amortisation, plc costs, separately identifiable items and share-based payments

The accompanying accounting policies and notes on pages 28 to 47 are an integral part of these consolidated financial statements.

# Consolidated statement of financial position

as at 30 September 2018

|                                       | Note | 30 September<br>2018<br>£'000 | 30 September<br>2017<br>£'000 |
|---------------------------------------|------|-------------------------------|-------------------------------|
| <b>Non-current assets</b>             |      |                               |                               |
| Intangible assets                     | 10   | 8,282                         | 11,804                        |
| Property, plant and equipment         | 11   | 146                           | 228                           |
| <b>Total non-current assets</b>       |      | <b>8,428</b>                  | 12,032                        |
| <b>Current assets</b>                 |      |                               |                               |
| Inventories                           | 13   | 26                            | 66                            |
| Trade and other receivables           | 14   | 2,900                         | 2,349                         |
| Cash and cash equivalents             | 15   | 1,427                         | 2,905                         |
| <b>Total current assets</b>           |      | <b>4,353</b>                  | 5,320                         |
| <b>Total assets</b>                   |      | <b>12,781</b>                 | 17,352                        |
| <b>Current liabilities</b>            |      |                               |                               |
| Short-term borrowings                 |      | (32)                          | (1,012)                       |
| Trade and other payables              |      | (1,102)                       | (1,203)                       |
| Other taxes and social security costs |      | (377)                         | (490)                         |
| Accruals and deferred income          |      | (1,937)                       | (1,590)                       |
| <b>Total current liabilities</b>      | 16   | <b>(3,448)</b>                | (4,295)                       |
| <b>Non-current liabilities</b>        |      |                               |                               |
| Long-term borrowings                  | 16   | (4,117)                       | (3,914)                       |
| Deferred tax liability                | 18   | (1,248)                       | (1,416)                       |
| <b>Total non-current liabilities</b>  |      | <b>(5,365)</b>                | (5,330)                       |
| <b>Total liabilities</b>              |      | <b>(8,813)</b>                | (9,625)                       |
| <b>Net assets</b>                     |      | <b>3,968</b>                  | 7,727                         |
| <b>Equity</b>                         |      |                               |                               |
| Share capital                         | 19   | 2,271                         | 2,271                         |
| Share premium account                 | 19   | 11,337                        | 11,337                        |
| Capital redemption reserve            | 19   | 6,489                         | 6,489                         |
| Merger reserve                        | 19   | 1,997                         | 1,997                         |
| Other reserve                         | 19   | 1,649                         | 1,601                         |
| Retained earnings                     | 19   | (19,775)                      | (15,968)                      |
| <b>Total equity</b>                   |      | <b>3,968</b>                  | 7,727                         |

These financial statements were approved and authorised for issue by the Board of Directors on 14 February 2019. Signed on behalf of the Board of Directors by

**Jill Collighan**  
*Director*

The accompanying accounting policies and notes on pages 28 to 47 form an integral part of these financial statements.

## Consolidated statement of changes in equity

for the year ended 30 September 2018

|  | Share capital<br>£'000 | Share premium<br>£'000 | Capital redemption reserve<br>£'000 | Merger reserve<br>£'000 | Other reserve<br>£'000 | Retained earnings<br>£'000 | Total<br>£'000 |
|--|------------------------|------------------------|-------------------------------------|-------------------------|------------------------|----------------------------|----------------|
| <b>At 1 October 2016</b>                         | 2,271                  | 11,337                 | 6,489                               | 1,997                   | 1,439                  | (15,385)                   | 8,148          |
| Loss and total comprehensive loss for the period | —                      | —                      | —                                   | —                       | —                      | (583)                      | (583)          |
| <b>Transactions with owners</b>                  |                        |                        |                                     |                         |                        |                            |                |
| Share-based payments                             | —                      | —                      | —                                   | —                       | 162                    | —                          | 162            |
| Total transactions with owners                   | —                      | —                      | —                                   | —                       | 162                    | —                          | 162            |
| Total movements                                  | —                      | —                      | —                                   | —                       | 162                    | (583)                      | (421)          |
| <b>Equity at 30 September 2017</b>               | <b>2,271</b>           | <b>11,337</b>          | <b>6,489</b>                        | <b>1,997</b>            | <b>1,601</b>           | <b>(15,968)</b>            | <b>7,727</b>   |

|  | Share capital<br>£'000 | Share premium<br>£'000 | Capital redemption reserve<br>£'000 | Merger reserve<br>£'000 | Other reserve<br>£'000 | Retained earnings<br>£'000 | Total<br>£'000 |
|--|------------------------|------------------------|-------------------------------------|-------------------------|------------------------|----------------------------|----------------|
| <b>At 1 October 2017</b>                         | 2,271                  | 11,337                 | 6,489                               | 1,997                   | 1,601                  | (15,968)                   | 7,727          |
| Loss and total comprehensive loss for the period | —                      | —                      | —                                   | —                       | —                      | (3,807)                    | (3,807)        |
| <b>Transactions with owners</b>                  |                        |                        |                                     |                         |                        |                            |                |
| Share-based payments                             | —                      | —                      | —                                   | —                       | 48                     | —                          | 48             |
| Total transactions with owners                   | —                      | —                      | —                                   | —                       | 48                     | —                          | 48             |
| Total movements                                  | —                      | —                      | —                                   | —                       | 48                     | (3,807)                    | (3,759)        |
| <b>Equity at 30 September 2018</b>               | <b>2,271</b>           | <b>11,337</b>          | <b>6,489</b>                        | <b>1,997</b>            | <b>1,649</b>           | <b>(19,775)</b>            | <b>3,968</b>   |

The accompanying accounting policies and notes on pages 28 to 47 form an integral part of these financial statements.

# Consolidated statement of cash flows

for the year ended 30 September 2018

|   | 2018<br>£'000  | 2017<br>£'000  |
|---|----------------|----------------|
| <b>Cash flows from operating activities</b>                     |                |                |
| Loss before taxation  | (3,976)        | (831)          |
| Adjustments for:  |                |                |
| Depreciation  | 136            | 162            |
| Amortisation  | 907            | 880            |
| Share-based payments  | 48             | 162            |
| Net finance expense   | 602            | 842            |
| Settlement of Warranty Claim                                    | (1,578)        | —              |
| Write back of contingent consideration                          | —              | (1,122)        |
| Impairment of goodwill  | 2,644          | 200            |
| Increase in trade and other receivables                         | 73             | (781)          |
| Decrease/(increase) in inventories                              | 40             | (44)           |
| Increase in trade payables, accruals and deferred income        | 195            | 480            |
| Net cash used in operating activities                           | (909)          | (52)           |
| <b>Cash flows from taxation</b>                                 | —              | (383)          |
| <b>Cash flows from investing activities</b>                     |                |                |
| Purchase of property, plant and equipment                       | (70)           | (248)          |
| Payment of deferred consideration                               | (8)            | —              |
| Interest received   | 7              | —              |
| Net cash used in investing activities                           | (71)           | (248)          |
| <b>Cash flows from financing activities</b>                     |                |                |
| Finance lease income received                                   | 56             | 16             |
| Payment of finance lease liabilities                            | (44)           | (30)           |
| Interest paid   | (410)          | (404)          |
| Net cash used in financing activities                           | (398)          | (418)          |
| <b>Cash flows from discontinued operations</b>                  |                |                |
| Acquisition of remaining shares in Accent Telecom North Limited | —              | (260)          |
| Settlement of dispute with Chess ICT Limited                    | (100)          | —              |
| Net cash used in discontinued operations                        | (100)          | (260)          |
| <b>Net decrease in cash</b>                                     | <b>(1,478)</b> | <b>(1,361)</b> |
| Cash at bank and in hand at beginning of period                 | 2,905          | 4,266          |
| <b>Cash at bank and in hand at end of period</b>                | <b>1,427</b>   | <b>2,905</b>   |
| Comprising:   |                |                |
| Cash at bank and in hand  | 1,427          | 2,905          |

# Notes to the consolidated financial statements

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## 1. General information

Adept4 plc is a public limited company incorporated in England and Wales under the Companies Act 2006. The address of the registered office is given on the back cover of this report. The principal activity of the Group is the provision of IT as a Service to small and medium-sized enterprises in the UK. The financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which each of the Group's subsidiaries operates.

### 1.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with applicable International Financial Reporting Standards (IFRSs) as adopted by the EU and in accordance with the Companies Act 2006. The measurement bases and principal accounting policies of the Group are set out below. These policies have been consistently applied to all years presented unless otherwise stated.

As detailed further in the Directors' Report, after reviewing the budgets and cash projections for the next twelve months and beyond, the Directors believe that the Group and the Company have adequate resources to continue operations for the foreseeable future and for this reason they have adopted a going concern basis in preparing these financial statements.

### 1.2 New standards and interpretations of existing standards that are not yet effective and have not been adopted early by the Group

There were no significant new financial reporting standards adopted in the year ended 30 September 2018. The following standards and interpretations, which are endorsed by the EU, have not been early adopted by the Group and will be adopted in future accounting periods:

- IFRS 15 Revenue from Contracts with Customers (effective 1 January 2018);
- IFRS 9 Financial Instruments (effective 1 January 2018); and
- IFRS 16 Leases (effective 1 February 2019).

IFRS 15 and IFRS 9 will be effective for the Group for the period starting 1 October 2018.

We have identified areas of difference between our current accounting policies and the future IFRS 15-based policies (as far as these have already been developed). The key areas of difference are as follows:

We do not generally capitalise the cost of obtaining a contract. Under IFRS 15 there is a broader definition of what is capitalisable as cost to obtain a contract. We expect to match the amortisation of capitalised costs to obtain a contract to the revenue recognised but will use the practical expedient of IFRS 15 to not capitalise costs that relate to revenue that will be recognised within twelve months.

As a practical expedient and as allowed under the standard we will apply the five-step approach under IFRS 15 to portfolios of contracts which have similar characteristics and where we expect that the financial statements would not differ materially had the standard been applied to the individual contracts within the portfolio.

IFRS 15 may have an impact on the timing and amount of revenue and costs being recognised; however, there will be no impact on cash flows with cash collections remaining in line with contractual terms. The quantitative impact of IFRS 15 on the 30 September 2019 financial statements is currently being assessed by the Directors. The Group will continue to assess the likely impact from adopting the standard, but is not yet in a position to state categorically whether the impact will be material to the Group's reported results or financial position.

IFRS 16, covering the accounting of leases, will replace IAS 17 and associated interpretations. It introduces a standard accounting model for lessees. As a result lessees are obliged to recognise assets and liabilities for all leases unless the term is less than twelve months or the underlying asset has a low value. The lessee recognises an asset reflecting its right to use the underlying leased object. It also recognises a lease liability reflecting its obligation to make lease payment. The impact of IFRS 16 on Adept4 is being assessed. The main impact is expected to be around property leases, of which the Group currently has two.

IFRS 9 is not expected to have a material impact on the results of the Group.

Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Group's financial statements.

## 2. Principal accounting policies

### a) Basis of consolidation

The Group financial statements consolidate those of the Company and all of its subsidiary undertakings drawn up to 30 September 2018. Subsidiaries are entities over which the Group has the power to control the financial and operating policies so as to obtain benefits from its activities. The Group obtains and exercises control through voting rights.

Unrealised gains on transactions between the Group and its subsidiaries or associates are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Acquisitions of subsidiaries are dealt with using the acquisition method. The acquisition method involves the recognition at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the Consolidated Statement of Financial Position at their fair values, which are also used as the cost bases for subsequent measurement in accordance with the Group accounting policies.

Goodwill is stated after separating out identifiable intangible assets. Goodwill represents the excess of acquisition costs over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition.

## Notes to the consolidated financial statements (continued)

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### **b) Goodwill**

Goodwill representing the excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is capitalised and reviewed annually for impairment. Goodwill is carried at cost less accumulated impairment losses. Refer to principal accounting policy (j) for a description of impairment testing procedures.

### **c) Revenue and revenue recognition**

Revenue arises from the sale of goods and the rendering of services. It is measured by reference to the fair value of consideration received or receivable, excluding valued added tax, rebates, trade discounts and other sales-related taxes.

The Group enters into sales transactions involving a range of the Group's products and services; for example, for the delivery of hardware, software, support services, managed services and professional services. The Group applies the revenue recognition criteria set out below to each separately identifiable component of the sale transaction. The consideration received from multiple-component transactions is allocated to each separately identifiable component in proportion to its relative fair value.

#### *Sale of goods (hardware and software)*

Sale of goods is recognised when the Group has transferred the significant risks and rewards of ownership to the buyer, generally when the customer has taken undisputed delivery of the goods. Revenue from the sale of software with no significant service obligation is recognised on delivery.

#### *Rendering of services*

The Group generates revenues from managed services, support services, maintenance, resale of telecommunications ("Recurring Services") and professional services. Consideration received for these services is initially deferred (when invoiced in advance), included in accruals and deferred income and recognised as revenue in the period when the service is performed.

In recognising Recurring Services revenues, the Group recognises revenue equally over the duration of the contractual term. Third-party costs (where relevant) relating to these services are, likewise, spread equally over the duration of the contractual term.

### **d) Foreign currencies**

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the statement of financial position date. All exchange differences are recognised in the Consolidated Income Statement.

### **e) Property, plant and equipment**

Property, plant and equipment are stated at cost, net of depreciation and any provision for impairment. The depreciation policy is contained in principal accounting policy (h).

### **f) Disposal of assets**

The gain or loss arising on the disposal of an asset is determined as the difference between the disposal proceeds and the carrying amount of the asset and is recognised in the Consolidated Income Statement on page 24.

### **g) Separately identifiable items**

Items which are material either because of their size or their nature, are highlighted separately on the face of the Consolidated Income Statement. The separate reporting of these items helps provide a better picture of the Group's underlying performance. Items which may be included within this category include, but are not limited to, acquisition costs, spend on the integration of significant acquisitions and other major restructuring or rationalisation programmes, significant goodwill or other asset impairments and other particularly significant or unusual items.

Separately identifiable items are excluded from the headline profit measures used by the Group and are highlighted separately in the Consolidated Income Statement as management believe that they need to be considered separately to gain an understanding of the underlying profitability of the trading businesses.

Note 4 contains more detail on separately identifiable items.

### **h) Depreciation**

Depreciation is calculated on a straight line basis so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

|   |   |                     |
|---|---|---------------------|
| IT equipment                                  | – | three to four years |
| Fixtures, fittings and leasehold improvements | – | three to four years |
| Plant, machinery and Motor vehicles           | – | three to four years |

Material residual value estimates are updated as required, but at least annually.

## Notes to the consolidated financial statements (continued)

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### ***i) Intangible assets***

Intangible assets mainly comprise the fair value of customer bases and other identifiable assets acquired which are not included on the balance sheets of the acquired companies. A fair value calculation is carried out based on evaluating the net recurring income stream from each type of intangible asset. Intangibles are initially recognised at fair value, and are subsequently carried at this fair value, less accumulated amortisation and impairment. The following items were identified as part of the acquisitions of entities by the Group and were still owned at 30 September 2018:

- maintenance contracts amortised over ten years;
- IT and billing systems amortised over three years (previously amortised over ten years);
- customer lists amortised over five to ten years; and
- brands amortised over ten years.

The allocation of fair values to the tangible assets and the identification and valuation of intangible assets affect the calculation of goodwill recognised in respect of an acquisition and as such represent a key source of estimation uncertainty. Refer to principal accounting policy (t).

### ***j) Impairment testing of goodwill, other intangible assets and property, plant and equipment***

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). As a result, some assets are tested individually for impairment and some are tested at cash generating unit ("CGU") level. Goodwill is allocated to those CGUs that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management monitors the related cash flows.

Impairment reviews are carried out using multi-year cash flow projections from the approved budgets of the Group. These are discounted using a weighted average cost of capital (WACC) specific to each CGU, based on the internal rate of return calculated over the useful economic life of the asset or ten years (whichever is the sooner). The internal rate of return for each CGU reflects the time value of money and the nature and risks of the CGU. Where the CGU contains a customer base, then this asset is discounted further using an annual customer retention ratio to reflect the assumed diminution of revenues from a customer base over time. The customer retention ratio used is measured separately by CGU and is calculated as the higher of the actual customer base retention ratio experienced or 80% per annum. Cash flows are estimated over a maximum of ten years. The term and customer retention ratio is attributed separately to each asset and is assessed by the Board at the time of acquisition.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow evaluation. Impairment losses are credited to the carrying amount of the relevant asset. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist.

### ***k) Leased assets***

In accordance with IAS 17, the economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is recognised at the time of inception of the lease at the fair value of the leased asset or, if lower, the present value of the minimum lease payments plus incidental payments, if any, to be borne by the lessee. A corresponding amount is recognised as a finance leasing liability.

The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the Consolidated Income Statement over the period of the lease. All other leases are regarded as operating leases and the payments made under them are charged to the Consolidated Income Statement on a straight line basis over the lease term. Lease incentives are spread over the term of the lease.

### ***l) Inventories and work in progress***

Inventories are stated at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items. The cost is calculated using the FIFO basis. Work in progress relates to costs incurred on part-completed work.

### ***m) Taxation***

Current tax is the tax currently payable based on taxable results for the year. Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit.

In addition, tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets. Deferred tax liabilities are provided in full, with no discounting. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Current and deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the reporting date.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the Consolidated Income Statement, except where they relate to items that are charged or credited directly to equity, in which case the related deferred tax is also charged or credited directly to equity.



## Notes to the consolidated financial statements (continued)

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### **n) Financial assets**

Financial assets are divided into categories as appropriate, although we currently only have a single category being loans and receivables. Financial assets are assigned to categories by management on initial recognition, depending on the purpose for which the investments were acquired.

All financial assets are recognised when the Group becomes a party to the contractual provisions of the instrument. All financial assets are initially recognised at fair value, plus transaction costs. Derecognition of financial assets occurs when the rights to receive cash flows from the instruments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. An assessment for impairment is undertaken, at least, at each reporting date.

Interest and other cash flows resulting from holding financial assets are recognised in the Consolidated Income Statement when receivable. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. Loans and receivables are subsequently measured at amortised cost using the effective interest rate method, less provision for impairment.

Any change in their value through impairment or reversal of impairment is recognised in the Consolidated Income Statement. A provision against trade receivables is made 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 those 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, discounted at the original effective interest rate.

### **o) Cash and cash equivalents**

Cash at bank and in hand comprises cash on hand and demand deposits.

### **p) Financial liabilities**

Financial liabilities are obligations to pay cash or other financial instruments and are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest-related charges are recognised as an expense in "finance costs" in the Consolidated Income Statement. Loan notes are raised for support of long-term funding of the Group's operations. The financial liability arising on the loan notes is carried at amortised cost.

Finance charges, including premiums payable on settlement or redemption, and direct issue costs are charged to the Consolidated Income Statement on an accruals basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

### **q) Equity**

Equity comprises the following:

- "Share capital" represents the nominal value of equity shares;
- "Share premium" represents the excess over nominal value of the fair value of consideration received for equity shares; net of expenses of the share issue;
- "Capital redemption reserve" represents the nominal value of cancelled Deferred Shares;
- "Merger reserve" represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue, in connection with acquisitions;
- "Other reserve" represents equity-settled share-based employee remuneration until such share options are exercised, and the equity element in the form of share warrants, contained in the financial instrument issued to the Business Growth Fund ("BGF") on 26 May 2016, until such share warrants are exercised;
- "Retained earnings reserve" represents retained profits and accumulated losses.

### **r) Employee benefits**

#### *Share-based payment – equity-settled*

All material share-based payment arrangements are recognised in the financial statements. All goods and services received in exchange for the grant of any share-based remuneration are measured at their fair values. Fair values of employee services are indirectly determined by reference to the fair value of the share options awarded. Their value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example, profitability and sales growth targets).

All share-based remuneration is ultimately recognised as an expense in the Consolidated Income Statement with a corresponding credit to "other reserve". If vesting periods or other non-market vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates.

Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

Upon exercise of share options, the proceeds received, net of attributable transaction costs, are credited to share capital and share premium.

## Notes to the consolidated financial statements (continued)

### s) Pension

The Group makes payments to defined contribution retirement benefit plans that are charged as an expense as they fall due. Payments are made on the basis of a percentage of qualifying salary for certain employees to personal pension schemes. The total charge to the Consolidated Income Statement for the period was £125,000 (2017: £142,000). There were £15,000 of pension contributions payable at the reporting date (2017: £16,000).

### t) Critical accounting judgements and key sources of estimation uncertainty

#### *Critical judgements in applying the Group's accounting policies*

The allocation of fair values to the tangible assets and the identification and valuation of intangible assets affect the goodwill and the assignment of that to each cash generating unit, recognised in respect of the acquisitions. The allocation of fair value between the loan note and share option elements of the financial instrument issued to the BGF on 26 May 2016 uses the Black Scholes pricing model to calculate the fair value of the share option element. The resulting fair value calculation of the share option element is then used to determine the implied effective borrowing rate of the loan notes. Note 17 contains more detail on the BGF financial instrument. Estimates and judgements around the allocation of fair values are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

#### *Key sources of estimation uncertainty*

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

#### *Intangible assets*

Intangible assets are non-physical assets which have been obtained as part of an acquisition and which have an identifiable future economic benefit to the Group at the point of acquisition. Customer bases are valued at acquisition by measuring the future discounted cash flows over a ten-year period from the date of acquisition, depending on class and date of acquisition and assuming a diminution for retention rate specific to each customer base, calculated using the average actual retention rate over the prior three or five-year period. All future cash flows are discounted using a WACC, based on the internal rate of return for each asset, calculated over its useful economic life.

Determining whether intangible assets, including goodwill, are impaired requires an estimate of whether there is an impairment indicator. The key estimate for the carrying value of intangible assets is the cash flows associated with the intangible assets and the WACC. Each of the intangible assets held by the Group is measured regularly to ensure that they generate discounted positive cash flows.

Where there is indication of impairment, the intangible asset is impaired by a charge to the Consolidated Income Statement. Further details on the impairment tests are shown in principal accounting policy (j) above and Note 10.

#### *Financial instrument*

Key estimates have been made to fair value the loan notes, and associated share options, to the BGF between equity and debt. The key assumptions used centre on the share price volatility associated with the Company's share price and the effective rate of interest inherent in the debt element of this instrument.

### 3. Segment reporting

The Chief Operating Decision Maker ("CODM") has been identified as the directors of the Company and its subsidiaries, who review the Group's internal reporting in order to assess performance and to allocate resources.

The CODM assess profit performance principally through adjusted profit measures consistent with those disclosed in the Annual Report and Accounts. The Board believes that the Group comprises a single reporting segment, being the provision of IT managed services to customers. Whilst the CODM reviews the revenue streams and related gross profits of three categories separately (Recurring Services, Product and Professional Services), the operating costs and operating asset base used to derive these revenue streams are the same for all three categories and are presented as such in the Group's internal reporting. Accordingly, the segmental analysis below is therefore shown at a revenue and gross profit level in line with the CODM's internal assessment based on the following reportable operating segments:

|                              |   |
|------------------------------|---|
| <b>Recurring Services</b>    | – This segment comprises the provision of continuing IT services which have an ongoing billing and support element.                     |
| <b>Product</b>               | – This segment comprises the resale of solutions (hardware and software) from leading technology vendors.                               |
| <b>Professional Services</b> | – This segment comprises the provision of highly skilled resource to consult, design, install, configure and integrate IT technologies. |

All revenues are derived from customers within the UK and no customer accounts for more than 10% of external revenues. Inter-segment transactions are accounted for using an arm's length commercial basis.

#### 3.1 Analysis of continuing results

The operating segments for 2017 have been restated to reflect the definitions used in 2018, in particular the Professional Services operating segment, which now includes all separable Professional Services revenues associated with Product and Recurring Services revenues, which have been unbundled to measure the contribution of our skilled technical resources. All revenues from continuing operations are derived from customers within the UK. This analysis is consistent with that used internally by the CODM and, in the opinion of the Board, better reflects the nature of the revenue.

## Notes to the consolidated financial statements (continued)

### 3.1.1 Revenue

|                       | 2018<br>£'000 | 2017<br>£'000 |
|-----------------------|---------------|---------------|
| Recurring Services    | 7,100         | 7,173         |
| Product               | 1,987         | 1,957         |
| Professional Services | 1,098         | 1,171         |
| <b>Total Revenue</b>  | <b>10,185</b> | <b>10,301</b> |

### 3.1.2 Gross Profit

|                           | 2018<br>£'000 | 2017<br>£'000 |
|---------------------------|---------------|---------------|
| Recurring Services        | 4,231         | 4,566         |
| Product                   | 439           | 433           |
| Professional Services     | 1,035         | 1,165         |
| <b>Total Gross Profit</b> | <b>5,705</b>  | <b>6,164</b>  |

### 4. Separately identifiable (costs)/income

Items which are material and non-routine in nature are presented as separately identifiable items in the Consolidated Income Statement.

|  | 2018<br>£'000  | 2017<br>£'000 |
|--|----------------|---------------|
| Settlement of warranty claim                                     | 1,578          | —             |
| Costs in relation to the warranty claim and other M&A activities | (481)          | —             |
| Settlement of historic Microsoft licence review                  | (376)          | —             |
| Impairment of goodwill (Note 10)                                 | (2,644)        | (200)         |
| Integration and restructure costs                                | (271)          | (121)         |
| Costs in relation to disposal of Pinnacle CDT Limited            | (196)          | (100)         |
| Write back of contingent consideration                           | —              | 1,122         |
| Termination payment  | —              | (75)          |
| <b>Separately identifiable (costs)/income</b>                    | <b>(2,390)</b> | <b>626</b>    |

The acquisition of Adept4 Managed IT Ltd (“MIT”) on 26 May 2016 was for a total consideration of up to £7m, including up to £1.5m of contingent consideration, based on the financial performance of the Group in the calendar year to December 2017 and payable in March 2018. The performance targets for the contingent consideration were not achieved and this element of the consideration, the fair value of which was £1.1m, was credited to the Consolidated Income Statement in FY17.

During FY18, the Company brought a warranty claim against the vendors of the MIT business. The Company was successful with this claim and agreed a settlement in the sum of £1.6 million, in addition to confirmation that the contingent consideration was not payable. £0.6m of the settlement was payable to the Company in cash post-year end, with the balance extinguishing the Company’s liability to pay the MIT vendors deferred consideration of £1.0m. Costs of £0.5m were incurred by the Company in relation to the warranty dispute and also in respect of corporate activity which was put on hold as a result of certain matters which led to the legal action and which have subsequently been resolved.

In assessing the level of settlement of the warranty claim which would be acceptable to the Company, various issues were considered, including a historic licencing review of the acquired business being undertaken by Microsoft. The Company has, post-year end, reached agreement with Microsoft in relation to this review, which resulted in a payment of £0.4m due to Microsoft in FY19. The liability in respect of this sum is provided for in these results.

Subsequent to the warranty claim and the non-achievement of the performance criteria in relation to the MIT earn out, the Board has assessed the carrying value of the Group’s goodwill. Following an assessment of current budgets and forecasts for the Group, an impairment charge of £2.6m (FY17: £0.2m) has been made.

After the successful integration of the service-desk team into a single site in July 2017 and a number of efficiencies gained as a result of our investment in a single operating system, we were able to reduce the ongoing annualised cost base for the business by £0.6m by way of a restructure. The restructure incurred one-off costs of £0.3m in relation to redundancy costs, holiday pay and payments in lieu of notice. The cost reductions took place towards the end of the financial year and therefore the benefit of these will be seen in FY19.

In 2017, the Company identified the need for a provision following a dispute which related to the recovery of an asset included in the sale of the trade and assets of Pinnacle CDT Limited, a subsidiary of Adept4, to Chess ICT Limited (“Chess”). We resolved this dispute in September 2017, and this resulted in a payment of £0.1m by the Company in October 2017. In accordance with the settlement agreement, as the asset in question was not recovered by 30 September 2018, a further £0.1m became payable to Chess in October 2018. This liability has been provided for in these financial statements. Under the terms of the settlement agreement, we continue to pursue the asset on behalf of Chess, but the Company has no further liability.

## Notes to the consolidated financial statements (continued)

### 5. Operating (loss)/profit

|   | 2018<br>£'000 | 2017<br>£'000 |
|---|---------------|---------------|
| Operating (loss)/profit is stated after charging: |               |               |
| Depreciation of owned assets                      | 136           | 162           |
| Amortisation of intangibles                       | 907           | 880           |
| Operating lease rentals:                          |               |               |
| – Buildings                                       | 105           | 114           |
| Auditor's remuneration:                           |               |               |
| – Audit of parent company                         | 20            | 14            |
| – Audit of subsidiary companies                   | 37            | 36            |
| – Audit costs relating to prior year              | 28            | —             |
| – Audit-related assurance services                | 6             | 5             |
| – Corporation tax services                        | 16            | 18            |

### 6. Finance income and finance costs

Finance cost includes all interest-related income and expenses. The following amounts have been included in the Consolidated Income Statement line for the reporting periods presented:

|  | 2018<br>£'000 | 2017<br>£'000 |
|--|---------------|---------------|
| Interest income resulting from short-term bank deposits                        | 7             | —             |
| Finance income   | 7             | —             |
| Interest expense resulting from:   |               |               |
| Finance leases   | 10            | 4             |
| BGF loan notes   | 400           | 400           |
| Effective interest on liability element of the BGF loan notes                  | 199           | 199           |
| Effective interest on deferred consideration relating to Adept4 Managed IT Ltd | —             | 239           |
| Finance costs  | 609           | 842           |

As detailed in Note 7, the company has a liability to the Business Growth Fund (“BGF”) in respect of loan notes and share options. In accordance with IAS 32, the BGF loan note and share option elements were linked and treated as a single financial instrument and shown at fair value. On initial recognition, the fair value of the loan amount was calculated at £3.6m using a discounted cash flow model over the seven-year term of the instrument and an effective borrowing rate of 15%. This was deemed to be an appropriate market rate, reflecting the 8% coupon interest payments and the capital repayment profile of the loan notes. The unwinding of the difference between the face value of the loan notes and their fair value on acquisition resulted in an effective interest charge on the BGF loan notes of £199,000 during the year (2017: £199,000).

### 7. Employee costs

#### 7.1 Directors and employees

At 30 September 2018, the Group employed 88 staff (2017: 105). The average number of staff employed by the Group during the financial year amounted to 102 (2017: 105) as follows:

|                   | 2018 | 2017 |
|-------------------|------|------|
| Management staff  | 15   | 15   |
| Operational staff | 87   | 90   |
| Total             | 102  | 105  |

Employee numbers are stated including Directors.

#### 7.2 Employee remuneration

|                       | 2018<br>£'000 | 2017<br>£'000 |
|-----------------------|---------------|---------------|
| Wages and salaries    | 3,990         | 3,612         |
| Pension contributions | 125           | 142           |
| Share-based payments  | (7)           | 108           |
| Social security costs | 391           | 349           |
| Total                 | 4,499         | 4,211         |

## Notes to the consolidated financial statements (continued)

### 7.3 Directors

Details of individual Directors' emoluments for the year (including employer's National Insurance ("NI") contributions) are as follows:

|  | Fees and salaries |               | Employer's NI contributions |               | Other benefits |               | Totals (including employer's NI) |               |
|--|-------------------|---------------|-----------------------------|---------------|----------------|---------------|----------------------------------|---------------|
|  | 2018<br>£'000     | 2017<br>£'000 | 2018<br>£'000               | 2017<br>£'000 | 2018<br>£'000  | 2017<br>£'000 | 2018<br>£'000                    | 2017<br>£'000 |
| <b>Non-Executive</b>                                   |                   |               |                             |               |                |               |                                  |               |
| S Duckworth  | 36                | 31            | 4                           | 4             | —              | —             | 40                               | 35            |
| T Black  | 32                | 31            | 3                           | 4             | —              | —             | 35                               | 35            |
| <b>Executive</b>                                       |                   |               |                             |               |                |               |                                  |               |
| J Collighan <sup>1</sup>                               | 30                | 6             | —                           | —             | —              | —             | 30                               | 6             |
| N Deman (in office 20 March 2018 to 30 September 2018) | 76                | —             | 1                           | —             | —              | —             | 77                               | —             |
| I Winn (resigned 20 March 2018)                        | 70                | 135           | 8                           | 17            | (29)           | 35            | 49                               | 187           |
| G Lyons (resigned 1 August 2017)                       | —                 | 100           | —                           | 8             | —              | —             | —                                | 108           |
| <b>Total</b>   | <b>244</b>        | <b>303</b>    | <b>16</b>                   | <b>33</b>     | <b>(29)</b>    | <b>35</b>     | <b>231</b>                       | <b>371</b>    |

1. fees in relation to J Collighan are paid to MXC Capital Advisory Limited (see Note 20).

The Managing Director and the Finance Director of the trading business are considered to be key management personnel and had aggregate emoluments during the year of £203,100 (2017: £127,000).

Benefits include the costs of share options issued in accordance with IFRS 2 Share-based Payments to the Directors of the Company as follows:

| Name of Director                | 2018<br>£'000 | 2017<br>£'000 |
|---------------------------------|---------------|---------------|
| I Winn (resigned 20 March 2018) | (30)          | 33            |

### 7.4 Share-based payments

#### (i) Share option plans for employees

The Company has an HMRC-approved EMI share option scheme for certain staff and senior management. There is also an unapproved share option scheme in place which is used where the individuals do not fall under the rules of the approved scheme.

The unapproved scheme has no set term and the current arrangements continue until further notice. In both schemes, upon vesting, each option allows the holder to purchase one Ordinary Share at the pre-agreed option price. All share-based employee remuneration will be settled in equity. The Group has no legal or other obligation to repurchase or settle the options.

|                                    | 2018<br>Number   | 2018<br>Weighted<br>average<br>exercise price | 2017<br>Number    | 2017<br>Weighted<br>average<br>exercise price |
|------------------------------------|------------------|---|-------------------|---|
| Outstanding at 1 October           | 15,597,691       | 6.82p   | 11,797,691        | 8.69p   |
| Granted                            | —                | —   | 3,800,000         | 1.00p   |
| Lapsed                             | (5,748,333)      | 8.09p   | —                 | —   |
| <b>Outstanding at 30 September</b> | <b>9,849,358</b> | <b>6.08p</b>                                  | <b>15,597,691</b> | <b>6.82p</b>                                  |

During the year no share options were granted (2017: 3,800,000) and 5,748,333 share options lapsed in accordance with the share issue documents. At 30 September 2018, Adept4 plc had granted the following outstanding share options:

| Date granted      | Balance<br>2018  | Movement<br>during the year | Balance<br>2017   | Exercise<br>price | Dates exercisable                   | Remaining<br>contractual life<br>(months) |
|-------------------|------------------|-----------------------------|-------------------|-------------------|-------------------------------------|---|
| 1 June 2008       | —                | (100,000)                   | 100,000           | 13.75p            | 1 July 2010–1 July 2018             | —   |
| 9 July 2009       | 166,666          | —                           | 166,666           | 30.00p            | 9 July 2011–9 July 2019             | 9   |
| 25 March 2015     | 207,692          | —                           | 207,692           | —                 | 25 March 2018–25 March 2025         | 78  |
| 8 February 2016   | —                | (1,190,000)                 | 1,190,000         | 4.20p             | 8 February 2019–8 February 2026     | 89  |
| 28 September 2016 | 5,675,000        | (4,458,333)                 | 10,133,333        | 9.00p             | 28 September 2019–28 September 2026 | 96  |
| 31 March 2017     | 3,800,000        | —                           | 3,800,000         | 1.00p             | 1 April 2022–31 March 2027          | 102                                       |
| <b>Total</b>      | <b>9,849,358</b> | <b>(5,748,333)</b>          | <b>15,597,691</b> | <b>6.73p</b>      |                                     |   |

## Notes to the consolidated financial statements (continued)

### 7.4 Share-based payments (continued)

#### (ii) Non-employee share options and warrants

In consideration of the issue of £5m loan notes on 26 May 2016 by the BGF, they were granted an option to subscribe for 50,000,000 Ordinary Shares of 1p each in the capital of the Company at a price of 6p per Ordinary Share. The option can be exercised any time before 26 May 2031. The fair value of these options is linked to the treatment of the loan notes and valued in accordance with Notes 7 and 11.

In consideration of its agreement to partially underwrite the placing of £0.86m on 14 May 2015, MXC Capital Limited was granted warrants over 5% of the share capital of the Company. The warrant instrument provides that the number of warrants created under the terms of this instrument shall at all times be equal to 5% of the issued share capital of the Company. This figure of 5% will be reduced pro rata by any allotment and issue of new Ordinary Shares pursuant to any partial exercise of warrants during the seven-year exercise period.

The warrants are exercisable at the price of 6.50p and shall be exercisable over a seven-year period from 28 April 2015 on the following terms:

- (i) the warrants vest a third per annum over the first three years; and
- (ii) 50% of the warrants that vest in any year (one-third of the total) become exercisable immediately and the remaining 50% of the warrants only become exercisable subject to a 12% per annum compound growth in the Company's share price above 6.50p.

Certain provisions are contained in the warrant instrument to provide for the entire award being exercisable on a takeover of the Company.

The total non-employee share options and warrants in issue are:

| Date granted  | Balance<br>2018   | Movement<br>during the year | Balance<br>2017 | Exercise<br>price | Dates exercisable           | Remaining<br>contractual<br>life<br>(months) |
|---------------|-------------------|-----------------------------|-----------------|-------------------|-----------------------------|--|
| 28 April 2015 | <b>13,853,255</b> | —                           | 13,853,255      | 6.50p             | 28 April 2018–28 April 2022 | 43   |
| 26 May 2016   | <b>50,000,000</b> | —                           | 50,000,000      | 6.00p             | 26 May 2016–26 May 2031     | 152  |
| <b>Total</b>  | <b>63,853,255</b> | —                           | 63,853,255      | 6.11p             |                             |  |

The total share-based payments expense included in the Consolidated Income Statement is:

|                | 2018<br>£'000 | 2017<br>£'000 |
|----------------|---------------|---------------|
| Share options  | <b>(7)</b>    | 108           |
| Share warrants | <b>55</b>     | 54            |
| <b>Total</b>   | <b>48</b>     | 162           |

## Notes to the consolidated financial statements (continued)

### 8. Income tax

|  | 2018<br>£'000 | 2017<br>£'000 |
|--|---------------|---------------|
| <b>Current tax</b>                                   |               |               |
| UK corporation tax for the period at 19% (2017: 20%) | —             | —             |
| <b>Deferred tax</b>                                  |               |               |
| Deferred tax credit on intangible assets             | (169)         | (248)         |
| <b>Total tax credit for the year</b>                 | <b>(169)</b>  | <b>(248)</b>  |

The relationship between expected tax expense based on the effective tax rate of Adept4 of 19% (2017: 20%) and the tax expense actually recognised in the Consolidated Income Statement can be reconciled as follows:

|  | 2018<br>£'000 | 2017<br>£'000 |
|--|---------------|---------------|
| Loss for the year before tax:                          | (3,976)       | (831)         |
| Tax rate   | 19%           | 20%           |
| Expected tax credit                                    | (755)         | (166)         |
| Adjusted for:  |               |               |
| Credits not chargeable to tax                          | (300)         | (225)         |
| Non-deductible expenses                                | 908           | 186           |
| Movement in unprovided deferred tax relating to losses | 5             | 60            |
| Change in tax rates                                    | 24            | (92)          |
| Short-term timing differences                          | 287           | (11)          |
|  | <b>169</b>    | <b>(248)</b>  |

The Group has unrecognised deferred tax assets in respect of tax losses carried forward totalling £1,577,000 (2017: £1,582,000).

### 9. Loss per share

|  | 2018<br>£'000 | 2017<br>£'000 |
|--|---------------|---------------|
| Loss attributable to ordinary shareholders                             | (3,807)       | (583)         |
|  | Number        | Number        |
| Weighted average number of Ordinary Shares in issue, basic and diluted | 227,065,100   | 227,065,100   |
| Basic and diluted loss per share                                       | (1.68)p       | (0.26)p       |

The weighted average number of ordinary shares for the purpose of calculating the basic and diluted measures is the same. This is because the outstanding share incentives, details of which are given in Note 7, would have the effect of reducing the loss per ordinary share and therefore would be anti-dilutive under the terms of IAS 33.

## Notes to the consolidated financial statements (continued)

### 10. Intangible assets

Intangible assets are non-physical assets which have been obtained as part of an acquisition or research and development activities, such as innovations, introduction and improvement of products and procedures to improve existing or new products. All intangible assets have an identifiable future economic benefit to the Group at the point the costs are incurred. The Group's policy is to amortise IT and billing and website systems over 3 years. Customer lists and brands are amortised over a maximum period of ten years from the date of acquisition.

| Intangible assets                            | Goodwill<br>£'000 | IT, billing and<br>website<br>systems<br>£'000 | Brand<br>£'000   | Customer<br>lists<br>£'000 | Total<br>£'000   |
|--|-------------------|--|------------------|----------------------------|------------------|
| <b>Cost</b>                                  |                   |  |                  |                            |                  |
| At 1 October 2016                            | 4,312             | —  | 1,157            | 7,580                      | 13,049           |
| Additions                                    | —                 | 113  | —                | —                          | 113              |
| Adjustments to provisional fair values       | 135               | —  | —                | —                          | 135              |
| At 1 October 2017                            | 4,447             | 113  | 1,157            | 7,580                      | 13,297           |
| Additions                                    | —                 | 29   | —                | —                          | 29               |
| <b>At 30 September 2018</b>                  | <b>4,447</b>      | <b>142</b>                                     | <b>1,157</b>     | <b>7,580</b>               | <b>13,326</b>    |
| <b>Accumulated amortisation</b>              |                   |  |                  |                            |                  |
| At 1 October 2016                            | —                 | —  | (35)             | (378)                      | (413)            |
| Charge for the year                          | —                 | (7)  | (115)            | (758)                      | (880)            |
| At 1 October 2017                            | —                 | (7)  | (150)            | (1,136)                    | (1,293)          |
| Charge for the year                          | —                 | (20)   | (115)            | (772)                      | (907)            |
| <b>At 30 September 2018</b>                  | <b>—</b>          | <b>(27)</b>                                    | <b>(265)</b>     | <b>(1,908)</b>             | <b>(2,200)</b>   |
| <b>Impairment</b>                            |                   |  |                  |                            |                  |
| At 1 October 2016                            | —                 | —  | —                | —                          | —                |
| Charge in the year                           | (200)             | —  | —                | —                          | (200)            |
| At 1 October 2017                            | (200)             | —  | —                | —                          | (200)            |
| Charge in the year                           | (2,644)           | —  | —                | —                          | (2,644)          |
| <b>At 30 September 2018</b>                  | <b>(2,844)</b>    | <b>—</b>                                       | <b>—</b>         | <b>—</b>                   | <b>(2,844)</b>   |
| <b>Carrying amount</b>                       |                   |  |                  |                            |                  |
| <b>At 30 September 2018</b>                  | <b>1,603</b>      | <b>115</b>                                     | <b>892</b>       | <b>5,672</b>               | <b>8,282</b>     |
| At 30 September 2017                         | 4,247             | 106  | 1,007            | 6,444                      | 11,804           |
| <b>Average remaining amortisation period</b> |                   | <b>2.8 years</b>                               | <b>6.6 years</b> | <b>6.6 years</b>           | <b>6.6 years</b> |

Intangible assets require three conditions to be fulfilled:

- i. identifiable – either separable or arising from a contractual or other legal right;
- ii. can be controlled; and
- iii. future economic benefits exist.

On acquisition, cash flows from customer assets, which are not subject to a defined contract term and can be cancelled by serving notice, are subject to an attrition analysis using projected growth rates for the first three years and 5% growth per annum thereafter, and the actual retention rates for each customer base acquired. The resulting cash flows are modelled over an extended number of years until all of the expected future cash flows are identified. The discount rates used in the cash flow projections were calculated using a weighted average cost of capital (WACC) specific to each asset acquired and ranged from 10.2% to 17.3% across the acquisitions.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Goodwill is allocated to those assets that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management monitors the related cash flows. Each year, management compares the resulting cash flow projections by CGU to the carrying value of goodwill. Any material variance in this calculation results in an impairment charge to the Consolidated Income Statement.



## Notes to the consolidated financial statements (continued)

### 10. Intangible assets (continued)

The calculations used to compute cash flows at CGU level are based on the Group's budget, growth rates, WACC and other known variables. The calculations are sensitive to movements in both WACC, the effective unsecured borrowing rate of the Group and the customer retention ratio. The current effective unsecured borrowing rate is calculated at 15% per annum. Sensitivities have been run on cash flow forecasts for all CGUs. Management is satisfied that the key assumptions of revenue and EBITDA growth rates are achievable and that reasonably possible changes to those key assumptions would not lead to the carrying amount of the relevant CGU exceeding the recoverable amount. Sensitivity analyses have been performed and the table below summarises the effects of changing certain key assumptions and the resultant excess (or shortfall) of discounted cash flows against the aggregate of goodwill and intangible assets.

#### Sensitivity analysis

| Sensitivity analysis  | Adept4 Managed<br>IT Limited<br>£'000 |
|---|---------------------------------------|
| Base case fair value of intangible assets by CGU (including goodwill) | 8,282                                 |
| Excess of fair value over carrying value:                             |                                       |
| Base case   | 94                                    |
| Discount rate increased to 16%  | (558)                                 |
| Revenues reduced by 5% per annum                                      | (1,097)                               |

Base case calculations demonstrate an adequate level of headroom whilst highlighting that the impairment review is sensitive to the discount rate and growth rate. Given the Group's value proposition is centred around generating monthly recurring fees for IT as a Service, the Directors are satisfied that the Group's objectives are to maximise the cash flows generated through the sales of Recurring Services.

In determining whether intangible assets including goodwill were impaired, the directors estimated the discounted future cash flows associated with the intangible assets over a ten year period, using at a discount rate equivalent to the WACC. The directors also considered the release of the contingent consideration, the impact of the issues underlying the warranty claim and the reduction in Trading EBITDA\* during the year as indicators that the intangible assets were impaired. The goodwill was impaired by £2.6m during the year.

At 30 September 2018, the Company had the following subsidiaries:

#### Active companies

| Subsidiary company        | Holding | Country of<br>incorporation | Shares   | Nature of business |
|---------------------------|---------|-----------------------------|----------|--------------------|
| Adept4 Holdings Limited   | 100%    | Scotland                    | Ordinary | Holding company    |
| Adept4 Managed IT Limited | 100%    | England and Wales           | Ordinary | ITaaS              |

#### Dormant companies

| Subsidiary company   | Holding | Country of<br>incorporation | Shares   | Nature of business |
|--|---------|-----------------------------|----------|--------------------|
| Pinnacle CDT Limited   | 100%    | England and Wales           | Ordinary | Dormant            |
| Adept4 Cloud Services Limited                                | 100%    | England and Wales           | Ordinary | Dormant            |
| Ancar-B Technologies Limited                                 | 100%    | England and Wales           | Ordinary | Dormant            |
| Weston Communications Limited<br>(dissolved 30 October 2018) | 100%    | England and Wales           | Ordinary | Dormant            |

For the year ending 30 September 2018 the following subsidiaries of the Company were entitled to exemption from audit under s479A of the Companies Act 2006 relating to subsidiary companies.

| Subsidiary Name                                       | Companies House Registration Number |
|---|-------------------------------------|
| Pinnacle CDT Limited                                  | 04613699                            |
| Ancar-B Technologies Ltd                              | 03347248                            |
| Weston Communications Ltd (dissolved 30 October 2018) | 04490578                            |

## Notes to the consolidated financial statements (continued)

### 11. Property, plant and equipment

|                             | IT equipment<br>£'000 | Fixtures,<br>fittings and<br>leasehold<br>improvements<br>£'000 | Plant,<br>machinery<br>and motor<br>vehicles<br>£'000 | Total<br>£'000 |
|-----------------------------|-----------------------|---|---|----------------|
| <b>Cost of assets</b>       |                       |   |   |                |
| At 1 October 2016           | 188                   | 127   | 14  | 329            |
| Additions                   | 114                   | 21  | —   | 135            |
| Disposals                   | —                     | —   | (14)  | (14)           |
| At 30 September 2017        | 302                   | 148   | —   | 450            |
| Additions                   | 70                    | —   | —   | 70             |
| Disposals                   | (16)                  | —   | —   | (16)           |
| <b>At 30 September 2018</b> | <b>356</b>            | <b>148</b>  | <b>—</b>  | <b>504</b>     |
| <b>Depreciation</b>         |                       |   |   |                |
| At 1 October 2016           | 41                    | 22  | 11  | 74             |
| Charge for the year         | 111                   | 48  | 3   | 162            |
| Disposal                    | —                     | —   | (14)  | (14)           |
| At 30 September 2017        | 152                   | 70  | —   | 222            |
| Charge for the year         | 79                    | 57  | —   | 136            |
| <b>At 30 September 2018</b> | <b>231</b>            | <b>127</b>  | <b>—</b>  | <b>358</b>     |
| <b>Net book value</b>       |                       |   |   |                |
| <b>At 30 September 2018</b> | <b>125</b>            | <b>21</b>   | <b>—</b>  | <b>146</b>     |
| At 30 September 2017        | 150                   | 78  | —   | 228            |

### 12. Leases

#### 12.1 Operating leases

The Group's minimum operating lease payments relate to motor vehicles and land and buildings as follows:

##### 12.1.1 Land and Buildings

|                             | Within 1 year<br>£'000 | 1 to 5 years<br>£'000 | Total<br>£'000 |
|-----------------------------|------------------------|-----------------------|----------------|
| <b>At 30 September 2018</b> | <b>70</b>              | <b>177</b>            | <b>247</b>     |
| At 30 September 2017        | 90                     | 240                   | 330            |

Lease payments recognised as an expense during the year amounted to £105,000 (2017: £104,000). No sublease income is expected as all assets held under lease agreements are used exclusively by the Group. The terms left on the non-cancellable leases can be summarised as follows:

| Property  | Non-cancellable term left |
|---|---------------------------|
| 7750 Daresbury Business Park, Warrington                  | 48 months                 |
| Victoria Spring Business Park, Liversedge, West Yorkshire | 3 months                  |

Operating leases do not contain any contingent rent clauses. None of the operating lease agreements contain renewal of purchase options or escalation clauses or any restrictions regarding dividends, further leasing or additional debt. No provisions have been made for dilapidations at this time but will be considered on a lease by lease basis based on the Group's best estimate of the likely committed cash outflow in the last 36 months of expected occupancy as the lease comes to an end.

##### 12.1.2 Motor Vehicles

|                             | Within 1 year<br>£'000 | 1 to 5 years<br>£'000 | Total<br>£'000 |
|-----------------------------|------------------------|-----------------------|----------------|
| <b>At 30 September 2018</b> | <b>37</b>              | <b>10</b>             | <b>47</b>      |
| At 30 September 2017        | 28                     | 40                    | 68             |

## Notes to the consolidated financial statements (continued)

### 12.2 Finance leases

Adept4 has finance leases which relate to assets used within the Group. The net carrying amount of the assets held under the leases is £32,000 (2017: £48,000). The assets are included under IT equipment and leasehold improvements. The amounts held under finance leases are secured on the assets concerned. Future minimum lease payments as at 30 September 2018 are:

|  | IT<br>equipment<br>£'000 | Leasehold<br>improvements<br>£'000 | Total<br>£'000 |
|--|--------------------------|------------------------------------|----------------|
| Payments due within 1 year                         | 26                       | 13                                 | 39             |
| Payments due between 1 and 5 years                 | 35                       | 22                                 | 57             |
| <b>Future minimum lease payments</b>               | <b>61</b>                | <b>35</b>                          | <b>96</b>      |
| Less interest due in payments                      | (12)                     | (6)                                | (18)           |
| Capital sum due                                    | 49                       | 29                                 | 78             |
| <b>Short-term obligations under finance leases</b> | <b>21</b>                | <b>11</b>                          | <b>32</b>      |
| <b>Long-term obligations under finance leases</b>  | <b>28</b>                | <b>18</b>                          | <b>46</b>      |

### 13. Inventories

|                  | 2018<br>£'000 | 2017<br>£'000 |
|------------------|---------------|---------------|
| Consumables      | 12            | 32            |
| Work in progress | 14            | 34            |
| Inventories      | 26            | 66            |

### 14. Trade and other receivables

|                                  | 2018<br>£'000 | 2017<br>£'000 |
|----------------------------------|---------------|---------------|
| Trade receivables                | 1,343         | 1,476         |
| Warranty settlement (see Note 4) | 600           | —             |
| Other Debtors                    | 36            | 209           |
| Prepayments and accrued income   | 921           | 664           |
| Trade and other receivables      | 2,900         | 2,349         |

Trade receivables at the reporting date comprise amounts receivable from the provision of the Group's products and services. The average credit period taken on the provision of these services is 47 days (2017: 44 days). Trade receivables are stated net of an impairment for estimated irrecoverable amounts of £147,000 (2017: £52,000). This impairment has been determined by reference to known issues. Write-offs are made when the irrecoverable amount becomes certain. The value of trade and other receivables approximates to their fair value. The bad debt provision as at 1 October 2017 was £52,000. During the year £28,000 of bad debt was written off against the provision, and a further net provision of £123,000 was made, resulting in a bad debt provision of £147,000 at 30 September 2018. Of this amount, £74,000 relates to balances invoiced in advance that have been adjusted in Deferred Income.

At 30 September 2018 trade receivables amounting to £206,000 (2017: £250,000) were past due but not impaired.

The age of trade receivables not impaired is as follows:

|                   | 2018<br>£'000 | 2017<br>£'000 |
|-------------------|---------------|---------------|
| Less than 30 days | 686           | 859           |
| 30–59 days        | 451           | 367           |
| 60–89 days        | 93            | 147           |
| 90–119 days       | 50            | 103           |
| 120+ days         | 63            | —             |
|                   | <b>1,343</b>  | <b>1,476</b>  |

### Credit risk

The Group's main risk relates to trade receivables which are stated net of the provisions above. No collateral is held as security against these debtors and the carrying value represents the fair value. The Group does not identify specific concentrations of credit risk with regards to trade and other receivables, as the amounts recognised represent a large number of receivables from various customers, including some government authorities.

## Notes to the consolidated financial statements (continued)

### 15. Cash and cash equivalents

|                          | 2018<br>£'000 | 2017<br>£'000 |
|--------------------------|---------------|---------------|
| Cash at bank and in hand | 1,427         | 2,905         |

Cash balances are held with a small number of counterparties. There were no borrowing facilities in place at 30 September 2018 other than the loan notes issued to the BGF (Note 17).

### 16. Trade and other payables

#### 16.1 Current

|  | 2018<br>£'000 | 2017<br>£'000 |
|--|---------------|---------------|
| Trade payables                                 | 1,102         | 1,203         |
| Accruals and deferred income                   | 1,937         | 1,590         |
| Finance leasing liability – short-term element | 32            | 25            |
| Other taxes and social security costs          | 377           | 490           |
| Deferred consideration                         | —             | 987           |
| Total current liabilities                      | 3,448         | 4,295         |

#### 16.2 Non-current

|   | 2018<br>£'000 | 2017<br>£'000 |
|---|---------------|---------------|
| BGF loan notes repayable to the BGF between three and seven years | 5,000         | 5,000         |
| Less fair value adjustment relating to the BGF loan notes         | (929)         | (1,128)       |
| Fair value of BGF loan notes                                      | 4,071         | 3,872         |
| Finance leasing liability – long-term element                     | 46            | 42            |
| Total non-current liabilities                                     | 4,117         | 3,914         |

Note 17 contains more detail on the loan notes repayable to the BGF.

Note 12 contains further information on the finance lease liability.

## Notes to the consolidated financial statements (continued)

### 17. Financial instrument

On 26 May 2016, the Company issued £5m unsecured loan notes ("Loan Notes") to the BGF with a seven-year term (although redemption is permissible from the third anniversary) with repayment between the fifth and seventh anniversaries in equal semi-annual repayments that carry interest at 8% per annum ("Coupon"). Assuming that the Loan Notes were held for seven years and not redeemed early, the maximum credit exposure at 30 September 2018, including interest, is £6.4m (FY17: £6.8m), of which £1.4m (FY17: £1.8m) relates to interest. As previously described, the Company also agreed to grant the BGF an option to subscribe for 50,000,000 Ordinary Shares of 1p at a subscription price of 6p any time before 26 May 2031. As the Loan Notes are unsecured, no collateral was offered to the BGF as security. The Loan Notes are not exposed to market interest rate increases over the term.

In accordance with IAS 32, the Loan Notes and share warrant elements were linked and treated as a single financial instrument and shown at fair value.

The fair value of the share options at 26 May 2016 (date of grant) has been calculated using the Black Scholes pricing model incorporating the following key assumptions:

- share price volatility of 40%;
- spot price of 6p per share;
- risk-free rate of 0.9%; and
- option period, aligned with the maximum amount of time the loan can remain outstanding.

Based on the assumptions above, the Black Scholes pricing model provided a fair value for the share option of 2.89p per share, which implied a total fair value for the share option of £1.4m. Based on the expected Coupon payments and repayment profile under the loan notes, this implies an effective borrowing rate of 15%. This resulted in a fair value of the loan amount at 26 May 2016 of £3.6m. The difference between the Coupon rate and the effective interest charge at 15% is charged through the Consolidated Income Statement over the life of the loan notes, and increases the outstanding loan note balance over time to match actual Coupon and capital cash repayments relating to the Loan Notes.

|   | Loan Note balance<br>£'000 | Carrying value<br>Loan Notes<br>£'000 | 8% interest payable<br>£'000 |
|---|----------------------------|---------------------------------------|------------------------------|
| Cash received from the BGF on 26 May 2016 for Loan Notes at 8% per annum interest | 5,000                      | —                                     | —                            |
| At 30 September 2017  | 5,000                      | 3,872                                 | —                            |
| Interest on Loan Notes at 8% per annum for the year to 30 September 2018          | —                          | —                                     | 400                          |
| Notional interest on liability element of the BGF Loan Notes to 30 September 2018 | —                          | 199                                   | —                            |
| <b>At 30 September 2018</b>   | <b>5,000</b>               | <b>4,071</b>                          | <b>400</b>                   |

### 18. Deferred tax liabilities

|   | Deferred tax on acquired intangibles<br>£'000 |
|---|---|
| Deferred tax liability at 30 September 2016                   | 1,664   |
| Credited to income statement – on intangibles                 | (166)   |
| Credited to income statement – for change in future tax rates | (82)  |
| Deferred tax liability at 30 September 2017                   | <b>1,416</b>                                  |
| Credited to income statement – on intangibles                 | (168)   |
| <b>Deferred tax liability at 30 September 2018</b>            | <b>1,248</b>                                  |

## Notes to the consolidated financial statements (continued)

### 19. Share capital and reserves

#### 19.1 Share capital

Shares issued and fully paid

|                              | 2018<br>£'000 | 2017<br>£'000 |
|------------------------------|---------------|---------------|
| Beginning of year            | 2,271         | 2,271         |
| Issued during year           | —             | —             |
| Shares issued and fully paid | 2,271         | 2,271         |

Share capital allotted, called up and fully paid

|   | Ordinary<br>Shares |
|---|--------------------|
| Ordinary shares of £0.01p each                    |                    |
| <b>At 30 September 2017 and 30 September 2018</b> | <b>227,065,100</b> |

#### 19.2 Capital redemption reserve

At the Company's Annual General Meeting on 27 March 2015, the Company was authorised to enter into a contract for the off-market purchase of all of the Deferred Shares of £0.009 each in its capital for cancellation. A single new Ordinary Share of £0.01 was issued by the Company on that date to finance the off-market purchase. In accordance with Section 733 of the Companies Act 2006, this cancellation of shares created a capital redemption reserve. Article 3 of the Companies (Reduction of Share Capital) Order 2008 (SI 2008/1915) allows such reduction to be treated as a realised profit and it therefore may be used to distribute to shareholders or used to buy back shares.

#### 19.3 Merger reserve

The merger reserve represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue, in connection with acquisitions.

#### 19.4 Other reserve

Other reserves comprise:

- fair value of equity-settled share-based payments;
- fair value of MXC Capital warrants; and
- fair value adjustment relating to share option element of the BGF Loan Notes.

### 20. Related party transactions

Details of Directors' interests in the Company's shares, service contracts and remuneration are set out in the report of the Board to the members on Directors' remuneration on pages 15 and 16.

Jill Collighan, a Director of the Company, is an employee of the MXC Capital Limited group ("MXC"). MXC has a 29.9% holding in the shares of the Company and also holds share warrants, as disclosed in Note 7, and is considered to have a significant influence over the Group. No other Director had a material interest in any significant contract with the Company or any of its subsidiaries during the year save for those disclosed in the accounts.

Fees invoiced by MXC include £30,000 for Jill Collighan's services as an Executive Director, included as directors' emoluments in Note 7.3. Additionally, corporate finance advisory and transaction services were purchased from MXC as financial adviser to the Company. The Group purchased services totalling £70,000 (2017: £140,000) from MXC and at 30 September 2018 owed £21,000 to MXC (2017: £19,000).

Nick Deman, a director of the Company during the year, is also a director of Clanden Limited. During the year, the Group purchased various consultancy services from Clanden Limited totalling £66,000, which has been included as directors' emoluments in Note 7.3.

### 21. Contingent liabilities

There are no contingent liabilities at 30 September 2018 (2017: nil).

## Notes to the consolidated financial statements (continued)

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### **22. Risk management**

The Group finances its activities through equity, loan notes and bank funds. No speculative treasury transactions are undertaken and during the last two years no derivative contracts were entered into. Financial assets and liabilities include those assets and liabilities of a financial nature, namely cash and borrowings. The Group is exposed to a variety of financial risks arising from its operating activities, which are monitored by the Directors and are reported in the principal risks and uncertainties contained within the Strategic Report on pages 8 and 9.

#### **22.1 Cash and liquidity risk**

The Group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. The Group policy throughout the year has been to ensure continuity of funding by a combination of loan note funding, available bank facilities and the issue of equity.

#### **22.2 Interest rate risk**

The interest rate on the Group's cash at bank is determined by reference to the bank rate. The Group has available credit card facilities with HSBC of up to £10,000 (2017: £10,000). The interest rate charged on finance leases and commercial loans is a fixed rate agreed at the time of signing the agreement.

#### **22.3 Capital risk management**

The Group's policy on capital structure is to maintain a level of gross cash available, which the Board considers to be adequate to fund a range of potential EBITDA movements, taken from a series of business projections and scenarios. Based on these business projections, the Board believes it has sufficient cash resources at its disposal to pursue its chosen strategy of maximising shareholder returns from the customer base with a high proportion of contracted recurring revenues.

The Group manages its capital to ensure that trading entities in the Group will be able to continue as going concerns, while maximising the returns to shareholders through the organisation of cash, debt and equity balances. The capital structure of the Group consists of cash at bank and in hand, debt and equity attributable to equity holders of the parent, comprising issued share capital, reserves and retained earnings as disclosed in the Consolidated Statement of Changes in Equity on page 26.

The Directors seek to promote recurring revenues to a wide range of business customers, to reduce the risks associated with fluctuations in the UK economy and to increase the long-term value to customers and shareholders. If required, the Group will subsidise one-off connection fees in order to generate contracted recurring revenues and secure longer-term business relationships with customers.

The declaration and payment by the Group of any future dividends on the Ordinary Shares and the amount will depend on the results of the Group's operations, its financial condition, cash requirements, future prospects, profits available for distribution and other factors deemed to be relevant at the time.

Given the Group's stage of development, the Directors do not envisage that the Group will pay dividends in the foreseeable future and intend to reinvest surplus funds in the development of the Group's business. The Board will regularly review the appropriateness of its dividend policy.

In order to maintain or adjust the capital structure, the Group may adjust the amount of any pay-outs to the shareholders, return capital to the shareholders, issue new shares, make borrowings or sell assets to reduce debt.

#### **22.4 Credit risk**

The Group's policy is to monitor trade and other receivables and avoid significant concentrations of credit risk. The principal credit risk arises from trade receivables. Aged receivables reports are reviewed monthly as a minimum. The credit control function follows a policy of sending reminder letters that start once an invoice is over 30 days overdue. These culminate in a legal letter with the threat of legal action. In a limited number of cases, legal action has been pursued. An aged analysis of receivables is shown in Note 14 to the financial statements.

## Notes to the consolidated financial statements (continued)

### 22.5 Risk management analysis

The information below provides an analysis of the financial assets and liabilities within the scope of IAS 39 Financial Instruments: Recognition and Measurement, required by IFRS 7 Financial Instruments: Disclosure. An analysis of the principal sums, relevant to an analysis of risk management, is as follows:

| 2018                        | Loans and receivables<br>£'000 | Non-financial assets<br>£'000 | Total<br>£'000 |
|-----------------------------|--------------------------------|-------------------------------|----------------|
| Trade and other receivables | 1,356                          | —                             | 1,356          |
| Other current assets        | 600                            | 26                            | 626            |
| Cash at bank and in hand    | 1,427                          | —                             | 1,427          |
|                             | <b>3,383</b>                   | <b>26</b>                     | <b>3,409</b>   |

| 2017                        | Loans and receivables<br>£'000 | Non-financial assets<br>£'000 | Total<br>£'000 |
|-----------------------------|--------------------------------|-------------------------------|----------------|
| Trade and other receivables | 1,476                          | —                             | 1,476          |
| Other current assets        | —                              | 66                            | 66             |
| Cash at bank and in hand    | 2,905                          | —                             | 2,905          |
|                             | <b>4,381</b>                   | <b>66</b>                     | <b>4,447</b>   |

| 2018                                  | Other financial liabilities at amortised cost<br>£'000 | Other liabilities not within scope of IAS 39<br>£'000 | Balance sheet total<br>£'000 |
|---------------------------------------|--|---|------------------------------|
| Trade and other payables              | 3,448  | —   | 3,448                        |
| Finance lease liability – current     | —  | 32  | 32                           |
| Finance lease liability – non-current | —  | 46  | 46                           |
| Commercial loans – non-current        | 5,000  | —   | 5,000                        |
|                                       | <b>8,448</b>   | <b>78</b>   | <b>8,526</b>                 |

| 2017                                  | Other financial liabilities at amortised cost<br>£'000 | Other liabilities not within scope of IAS 39<br>£'000 | Balance sheet total<br>£'000 |
|---------------------------------------|--|---|------------------------------|
| Trade and other payables              | 3,283  | —   | 3,283                        |
| Finance lease liability – current     | —  | 25  | 25                           |
| Deferred consideration – current      | 1,000  | —   | 1,000                        |
| Finance lease liability – non-current | —  | 42  | 42                           |
| Commercial loans – non-current        | 5,000  | —   | 5,000                        |
|                                       | <b>9,283</b>   | <b>67</b>   | <b>9,350</b>                 |

| 2018                      | 0 to 60 days<br>£'000 | 61 days to 6 months<br>£'000 | 6 to 12 months<br>£'000 | 12 months to 2 years<br>£'000 | 2 to 5 years<br>£'000 | Over 5 years<br>£'000 | Total<br>£'000 |
|---------------------------|-----------------------|------------------------------|-------------------------|-------------------------------|-----------------------|-----------------------|----------------|
| Trade payables            | 691                   | 411                          | —                       | —                             | —                     | —                     | 1,102          |
| Long-term borrowings      | —                     | —                            | —                       | —                             | 5,000                 | —                     | 5,000          |
| Finance lease liabilities | 5                     | 11                           | 16                      | 32                            | 14                    | —                     | 78             |
|                           | <b>696</b>            | <b>422</b>                   | <b>16</b>               | <b>32</b>                     | <b>5,014</b>          | <b>—</b>              | <b>6,180</b>   |

| 2017                      | 0 to 60 days<br>£'000 | 61 days to 6 months<br>£'000 | 6 to 12 months<br>£'000 | 12 months to 2 years<br>£'000 | 2 to 5 years<br>£'000 | Over 5 years<br>£'000 | Total<br>£'000 |
|---------------------------|-----------------------|------------------------------|-------------------------|-------------------------------|-----------------------|-----------------------|----------------|
| Trade payables            | 1,108                 | 95                           | —                       | —                             | —                     | —                     | 1,203          |
| Long-term borrowings      | —                     | 1,000                        | —                       | —                             | 3,750                 | 1,250                 | 6,000          |
| Finance lease liabilities | 4                     | 8                            | 13                      | 19                            | 23                    | —                     | 67             |
|                           | <b>1,112</b>          | <b>1,103</b>                 | <b>13</b>               | <b>19</b>                     | <b>3,773</b>          | <b>1,250</b>          | <b>7,270</b>   |



## Notes to the consolidated financial statements (continued)

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### **23. Post-balance sheet events**

Maintaining strong relationships with existing customers, together with protecting the Group's cash balances and shareholder value are the key objectives of the Board. The Board has therefore taken the decision to focus on the existing customer base with less emphasis on new business acquisition, which has an upfront cost to the business and takes time to come through. This is designed to protect the cash reserves of the Group whilst the Board considers the strategic options open to the Company. This will lead to reduced revenue and gross profit but requires a significantly lower operating cost base, which should enable the Group to return to profitability and positive cash generation. To that end, post year end, further cost savings have been identified which are in the process of being implemented.

### **24. Ultimate controlling party**

There is no ultimate controlling party.

# Independent Auditor's report to the members of Adept4 plc

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## Opinion

We have audited the financial statements of Adept4 plc (the 'Parent Company') for the year ended 30 September 2018 which comprise the Statement of Financial Position (Parent Company), the Statement of Changes in Equity (Parent Company) and the notes to the financial statements (Parent Company), including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and the Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the Parent Company financial statements:

- give a true and fair view of the state of the Parent Company's affairs as at 30 September 2018;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Basis for opinion

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

## Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the Parent Company's financial statements is not appropriate; or
- the Directors have not disclosed in the Parent Company financial statements any identified material uncertainties that may cast significant doubt about the Parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the Parent Company financial statements are authorised for issue.

## Key audit matters

We identified the key audit matters described below as those which were of most significance in the audit of the Parent Company financial statements of the current period. Key audit matters include the most significant assessed risks of material misstatement, including those risks that had the greatest effect on our overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the audit team.

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

## Independent Auditor's report to the members of Adept4 plc (continued)

| Key audit matter  | Description of risk   | How the matter was addressed in the audit with respect to that risk  |
|---|---|--|
| <b>Carrying value of amounts owed by subsidiary undertakings (See Note 5)</b> | The Parent Company has significant receivable balances due from group companies. The carrying value of the receivables is underpinned by the future financial viability of the relevant subsidiaries. | <p>We reviewed management's assessment of the recoverability of receivables due from group companies. As part of our procedures we:</p> <ul style="list-style-type: none"><li>• examined management's assessment as to whether indicators of impairment have been identified and appropriately evaluated;</li><li>• challenged the discounted cash flow model also used in the group audit to support the carrying values of intangibles and goodwill, including the appropriateness of the assumptions used in the forecasts such as projected growth, future capital expenditure, cash flows, cost projections, central overhead allocation and the discount rate;</li><li>• test checked arithmetic formulae within the model;</li><li>• compared management's historical forecasting accuracy by comparing the previous year forecast for the year ending 30 September 2018 to the actual outturn; and</li><li>• performed sensitivity analyses of the key assumptions used by management.</li></ul> |

### Materiality

The materiality for the Parent Company financial statements as a whole was set at £153,750. This has been determined with reference to the benchmark of the Parent Company's total assets, which we consider to be an appropriate measure as the Parent Company exists only as a holding company for the Group and carries on no trade in its own right. Materiality represents 2% of total assets as presented on the face of the Parent Company's Statement of Financial Position.

### An overview of the scope of our audit

The Parent Company was subject to a full scope audit.

### Other information

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

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

We have nothing to report in this regard.

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

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

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

## Independent Auditor's report to the members of Adept4 plc (continued)

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### **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.

### **Responsibilities of Directors**

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

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

### **Auditor's responsibilities for the audit of the Parent Company's financial statements**

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

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

### **Other matter**

We have reported separately on the group financial statements of Adept4 plc for the year ended 30 September 2018.

### **Use of our report**

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

**Andrew Bond**

*Senior Statutory Auditor,*

*for and on behalf of Nexia Smith & Williamson*

*Statutory Auditor, Chartered Accountants*

*25 Moorgate, London, EC2R 6AY*

*14 February 2019*

# Statement of financial position (parent company)

as at 30 September 2018

|   | Note | 30 September<br>2018<br>£'000 | 30 September<br>2017<br>£'000 |
|---|------|-------------------------------|-------------------------------|
| <b>Fixed assets</b>   |      |                               |                               |
| Intangible assets   | 3    | 33                            | 53                            |
| Fixed asset investments                                     | 4    | 1                             | 1                             |
| <b>Total fixed assets</b>                                   |      | <b>34</b>                     | <b>54</b>                     |
| <b>Current assets</b>                                       |      |                               |                               |
| Debtors   | 5    | 7,609                         | 8,783                         |
| Cash at bank and in hand                                    |      | 1,050                         | 1,897                         |
| <b>Total current assets</b>                                 |      | <b>8,659</b>                  | <b>10,680</b>                 |
| <b>Creditors: amounts falling due within one year</b>       | 6    | <b>(571)</b>                  | <b>(1,423)</b>                |
| <b>Net current assets</b>                                   |      | <b>8,088</b>                  | <b>9,257</b>                  |
| <b>Total assets less current liabilities</b>                |      | <b>8,122</b>                  | <b>9,311</b>                  |
| <b>Creditors: amounts falling due in more than one year</b> | 7    | <b>(4,071)</b>                | <b>(3,872)</b>                |
| <b>Net assets</b>   |      | <b>4,051</b>                  | <b>5,439</b>                  |
| <b>Capital and reserves</b>                                 |      |                               |                               |
| Called up share capital                                     | 9    | 2,271                         | 2,271                         |
| Share premium account                                       |      | 11,337                        | 11,337                        |
| Capital redemption reserve                                  | 9    | 6,489                         | 6,489                         |
| Merger reserve  | 9    | 1,997                         | 1,997                         |
| Other reserve   | 10   | 1,649                         | 1,601                         |
| Retained earnings   |      | (19,692)                      | (18,256)                      |
| <b>Shareholders' funds</b>                                  |      | <b>4,051</b>                  | <b>5,439</b>                  |

The parent company has taken advantage of Section 408 of the Companies Act 2006 and has not included its own profit and loss account in the financial statements. The parent company's loss for the year was £1,436,000 (2017: £2,797,000).

Approved by the Board and authorised for issue on 14 February 2019.

**Jill Collighan**  
*Director*

The accompanying accounting policies and notes form part of these financial statements.

**Company number: 05259846**

## Statement of changes in equity (parent company)

for the year ended 30 September 2018

|  | Share capital<br>£'000 | Share premium<br>£'000 | Capital redemption reserve<br>£'000 | Merger reserve<br>£'000 | Other reserve<br>£'000 | Retained earnings<br>£'000 | Total<br>£'000 |
|--|------------------------|------------------------|-------------------------------------|-------------------------|------------------------|----------------------------|----------------|
| <b>At 1 October 2016</b>                         | 2,271                  | 11,337                 | 6,489                               | 1,997                   | 1,439                  | (15,459)                   | 8,074          |
| Loss and total comprehensive loss for the period | —                      | —                      | —                                   | —                       | —                      | (2,797)                    | (2,797)        |
| <b>Transactions with owners</b>                  |                        |                        |                                     |                         |                        |                            |                |
| Share-based payments                             | —                      | —                      | —                                   | —                       | 162                    | —                          | 162            |
| Total transactions with owners                   | —                      | —                      | —                                   | —                       | 162                    | —                          | 162            |
| Total movements                                  | —                      | —                      | —                                   | —                       | 162                    | (2,797)                    | (2,635)        |
| <b>Equity at 30 September 2017</b>               | <b>2,271</b>           | <b>11,337</b>          | <b>6,489</b>                        | <b>1,997</b>            | <b>1,601</b>           | <b>(18,256)</b>            | <b>5,439</b>   |
|  |                        |                        |                                     |                         |                        |                            |                |
|  | Share capital<br>£'000 | Share premium<br>£'000 | Capital redemption reserve<br>£'000 | Merger reserve<br>£'000 | Other reserve<br>£'000 | Retained earnings<br>£'000 | Total<br>£'000 |
| <b>At 1 October 2017</b>                         | 2,271                  | 11,337                 | 6,489                               | 1,997                   | 1,601                  | (18,256)                   | 5,439          |
| Loss and total comprehensive loss for the period | —                      | —                      | —                                   | —                       | —                      | (1,436)                    | (1,436)        |
| <b>Transactions with owners</b>                  |                        |                        |                                     |                         |                        |                            |                |
| Share-based payments                             | —                      | —                      | —                                   | —                       | 48                     | —                          | 48             |
| Total transactions with owners                   | —                      | —                      | —                                   | —                       | 48                     | —                          | 48             |
| Total movements                                  | —                      | —                      | —                                   | —                       | 48                     | (1,436)                    | (1,388)        |
| <b>Equity at 30 September 2018</b>               | <b>2,271</b>           | <b>11,337</b>          | <b>6,489</b>                        | <b>1,997</b>            | <b>1,649</b>           | <b>(19,692)</b>            | <b>4,051</b>   |

The accompanying accounting policies and notes form an integral part of these financial statements.

# Notes to the parent company financial statements

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## 1. Accounting policies

### 1.1 Accounting convention

The financial statements are prepared under the historical cost convention basis.

These financial statements have been prepared in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard 102 – The Financial Reporting Standard Applicable in the United Kingdom and Republic of Ireland (FRS 102), and with the Companies Act 2006.

After reviewing the budgets and cash projections for the next twelve months and beyond the Directors believe that the Group and Company have adequate resources to continue operations for the foreseeable future and for this reason they have adopted a going concern basis when preparing these financial statements.

### 1.2 Compliance with accounting standards

The parent company has taken advantage of the reduced disclosure framework and has the following exemptions available to it:

- the exemption from preparing a statement of cash flows;
- the exemption from providing a reconciliation on the number of shares outstanding; and
- the exemption from disclosing key management personnel compensation.

### 1.3 Intangible fixed assets

Intangible fixed assets, comprising the cost of the Company and Group website, is valued at cost less amortisation. Amortisation is provided at rates calculated to write off the cost over its estimated useful life, estimated to be three years.

### 1.4 Investments

Fixed asset investments are stated at cost less provision for diminution in value.

### 1.5 Pensions

The Company does not currently offer a pension scheme for the benefit of its employees.

### 1.6 Deferred taxation

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in different periods from those in which they are included in the accounts.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

### 1.7 Share-based remuneration

The Company issues equity-settled share-based payments to certain employees. The fair value of the shares granted is recharged to the Company's subsidiaries and is calculated at the grant date, based on an estimate of the shares that will ultimately vest, using the Black Scholes model and in accordance with FRS 102.

### 1.8 Critical accounting judgements and key sources of estimation uncertainty

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

#### *Key sources of estimation uncertainty*

Where there is indication of impairment, the debtors balance is impaired by a charge to the Company's Income Statement. The debtors' balance of £7.6m is recorded in the Company's Balance Sheet, of which £6.9m relates to amounts owed by subsidiary undertakings after impairment. A full line-by-line review of the debtors is carried out at the end of each period. Whilst every attempt is made to ensure that the bad debt provision is as accurate as possible, there remains a risk that the provisions do not match the level of debts which ultimately prove to be uncollectable.

Key estimates have been made to fair value the Loan Notes, and associated share options, to the BGF between equity and debt. The key assumptions used centre on the share price volatility associated with the Company's share price and the effective rate of interest inherent in the debt element of this instrument.

### 1.9 Financial liabilities

Financial liabilities are obligations to pay cash or other financial instruments and are recognised when the Company becomes a party to the contractual provisions of the instrument. All interest-related charges are recognised as an expense in "finance costs" in the Income Statement. Loan Notes are raised for support of long-term funding of the Company's operations. The financial liability arising on the Loan Notes is carried at fair value.

Finance charges, including premiums payable on settlement or redemption, and direct issue costs are charged to the Company's Income Statement on an accruals basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

## Notes to the parent company financial statements (continued)

### 2. Auditor remuneration

Fees payable to the Company's Auditor for the audit of the parent company's annual accounts were £20,000 (2017: £14,000).

### 3. Intangible fixed assets

|                             | £'000     |
|-----------------------------|-----------|
| <b>Cost</b>                 |           |
| At 1 October 2017           | 60        |
| Additions during the year   | —         |
| <b>At 30 September 2018</b> | <b>60</b> |
| <b>Depreciation</b>         |           |
| At 1 October 2017           | 7         |
| Charge for the year         | 20        |
| <b>At 30 September 2018</b> | <b>27</b> |
| <b>Net book value</b>       |           |
| <b>At 30 September 2018</b> | <b>33</b> |
| At 30 September 2017        | 53        |

### 4. Fixed asset investments

|  | £'000    |
|--|----------|
| <b>Cost and net book value</b>                 |          |
| <b>At 1 October 2017 and 30 September 2018</b> | <b>1</b> |

At 30 September 2018 the Company had two subsidiary undertakings.

| Company   | Country of registration or incorporation | Class of shares held | %   |
|---|--|----------------------|-----|
| <b>Subsidiary undertakings</b>                              |  |                      |     |
| Adept4 Holdings Limited                                     | Scotland                                 | Ordinary             | 100 |
| Adept4 Cloud Services Limited (incorporated 07 August 2018) | England and Wales                        | Ordinary             | 100 |

The aggregate amount of capital and reserves and the results of the subsidiary undertakings for the last relevant financial year was:

| Company                       | Principal activity           | Net assets<br>£'000 | Loss for<br>the year<br>£'000 |
|-------------------------------|------------------------------|---------------------|-------------------------------|
| Adept4 Holdings Limited       | Intermediate holding company | (6,457,523)         | (3,000,866)                   |
| Adept4 Cloud Services Limited | Dormant                      | 1,000               | —                             |

The complete list of subsidiaries of Adept4 Holdings Limited is disclosed in Note 10 to the Group accounts.

### 5. Debtors

|  | 2018<br>£'000 | 2017<br>£'000 |
|--|---------------|---------------|
| Amounts owed by subsidiary undertakings after impairment | 6,910         | 8,698         |
| Prepayments and accrued income                           | 641           | 29            |
| Other taxes and social security costs                    | 58            | 55            |
| Other debtors  | —             | 1             |
|  | <b>7,609</b>  | <b>8,783</b>  |

### 6. Creditors: amounts falling due within one year

|                                       | 2018<br>£'000 | 2017<br>£'000 |
|---------------------------------------|---------------|---------------|
| Trade creditors                       | 347           | 149           |
| Other taxes and social security costs | 4             | 2             |
| Deferred consideration                | —             | 987           |
| Accruals and deferred income          | 220           | 285           |
|                                       | <b>571</b>    | <b>1,423</b>  |

### 7. Creditors: amounts falling due in more than one year

|   | 2018<br>£'000 | 2017<br>£'000 |
|---|---------------|---------------|
| Loan notes repayable to the BGF between three and seven years | 5,000         | 5,000         |
| Less fair value adjustment relating to the BGF loan notes     | (929)         | (1,128)       |
|   | <b>4,071</b>  | <b>3,872</b>  |



## Notes to the parent company financial statements (continued)

### 7.1 Financial instrument

On 26 May 2016, the Company issued £5m unsecured loan notes ("Loan Notes") to the BGF with a seven-year term (although redemption is permissible from the third anniversary) with repayment between the fifth and seventh anniversaries in equal semi-annual repayments that carry interest at 8% per annum ("Coupon"). Assuming that the Loan Notes were held for seven years and not redeemed early, the maximum credit exposure at 30 September 2018, including interest, is £6.4m (2017: £6.8m), of which £1.4m (2017: £1.8m) relates to interest. As previously described, the Company also agreed to grant the BGF an option to subscribe for 50,000,000 Ordinary Shares of 1p at a subscription price of 6p any time before 26 May 2031. As the Loan Notes are unsecured, no collateral was offered to the BGF as security. The Loan Notes are not exposed to market interest rate increases over the term.

The Loan Notes and share warrant elements were linked and treated as a single financial instrument and shown at fair value.

The fair value of the share options at 26 May 2016 (date of grant) has been calculated using the Black Scholes pricing model incorporating the following key assumptions:

- share price volatility of 40%;
- spot price of 6p per share;
- risk-free rate of 0.9%; and
- option period, aligned with the maximum amount of time the loan can remain outstanding.

Based on the assumptions above, the Black Scholes pricing model provided a fair value for the share option of 2.89p per share, which implied a total fair value for the share option of £1.4m. Based on the expected Coupon payments and repayment profile under the Loan Notes, this implies an effective borrowing rate of 15%. This resulted in a fair value of the loan amount at 26 May 2016 of £3.6m. The difference between the Coupon rate and the effective interest charge at 15% is charged through the Income Statement over the life of the Loan Notes, and increases the outstanding loan note balance over time to match actual Coupon and capital cash repayments relating to the Loan Notes.

|   | Loan Note balance<br>£'000 | Carrying value<br>Loan Notes<br>£'000 | 8% interest payable<br>£'000 |
|---|----------------------------|---------------------------------------|------------------------------|
| At 30 September 2017  | 5,000                      | (3,872)                               | (400)                        |
| Interest on Loan Notes at 8% per annum for the year to 30 September 2018          | —                          | —                                     | (400)                        |
| Notional interest on liability element of the BGF Loan Notes to 30 September 2018 | —                          | (199)                                 | —                            |
| <b>At 30 September 2018</b>   | <b>5,000</b>               | <b>(4,071)</b>                        | <b>(400)</b>                 |

### 8. Pension and other post-retirement benefit commitments

No contributions to Company pension schemes were made during the year (2017: £nil).

### 9. Share capital

#### 9.1 Share capital

Shares issued and fully paid

|                              | 2018<br>£'000 | 2017<br>£'000 |
|------------------------------|---------------|---------------|
| Beginning of year            | 2,271         | 2,271         |
| Issued during year           | —             | —             |
| Shares issued and fully paid | 2,271         | 2,271         |

Share capital allotted, called up and fully paid

|   | Ordinary Shares    |
|---|--------------------|
| Ordinary shares of £0.01p each                    |                    |
| <b>At 30 September 2017 and 30 September 2018</b> | <b>227,065,100</b> |

#### 9.2 Capital redemption reserve

At the Company's Annual General Meeting on 27 March 2015, the Company was authorised to enter into a contract for the off-market purchase of all of the Deferred Shares of £0.009 each in its capital for cancellation. A single new Ordinary Share of £0.01 was issued by the Company on that date to finance the off-market purchase. In accordance with Section 733 of the Companies Act 2006, this cancellation of shares created a capital redemption reserve. Article 3 of the Companies (Reduction of Share Capital) Order 2008 (SI 2008/1915) allows such reduction to be treated as a realised profit and it therefore may be used to distribute to shareholders or used to buy back shares.

#### 9.3 Merger reserve

The merger reserve represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue, in connection with acquisitions.

## Notes to the parent company financial statements (continued)

### 10. Other reserve

The Company has an HMRC-approved EMI share option scheme as part of the remuneration of senior management. There is also an unapproved share option scheme in place which is used where the individuals do not fall under the rules of the approved scheme.

The unapproved scheme has no set term and the current arrangements continue until further notice. In both schemes, upon vesting, each option allows the holder to purchase one Ordinary Share at the pre-agreed option price. All share-based employee remuneration will be settled in equity. The Group has no legal or other obligation to repurchase or settle the options.

|                             | 2018<br>Number | 2018<br>Weighted<br>average<br>exercise price | 2017<br>Number | 2017<br>Weighted<br>average<br>exercise price |
|-----------------------------|----------------|---|----------------|---|
| Outstanding at 1 October    | 15,597,691     | 6.82p   | 11,797,691     | 8.69p   |
| Granted                     | —              | —   | 3,800,000      | 1.00p   |
| Lapsed                      | (5,748,333)    | 8.09p   | —              | —   |
| Outstanding at 30 September | 9,849,358      | 6.08p   | 15,597,691     | 6.82p   |

During the year, no options were granted (2017: 3,800,000) and 5,748,333 share options lapsed in accordance with the share issue documents. At 30 September 2018, Adept4 plc had granted the following outstanding share options:

| Date granted      | Balance<br>2018 | Movement<br>during the year | Balance<br>2017 | Exercise<br>price | Dates exercisable                   | Remaining<br>contractual life<br>(months) |
|-------------------|-----------------|-----------------------------|-----------------|-------------------|-------------------------------------|---|
| 1 June 2008       | —               | (100,000)                   | 100,000         | 13.75p            | 1 July 2010–1 July 2018             | —   |
| 9 July 2009       | 166,666         | —                           | 166,666         | 30.00p            | 9 July 2011–9 July 2019             | 9   |
| 25 March 2015     | 207,692         | —                           | 207,692         | —                 | 25 March 2018–25 March 2025         | 78  |
| 8 February 2016   | —               | (1,190,000)                 | 1,190,000       | 4.20p             | 8 February 2019–8 February 2026     | 89  |
| 28 September 2016 | 5,675,000       | (4,458,333)                 | 10,133,333      | 9.00p             | 28 September 2019–28 September 2026 | 96  |
| 31 March 2017     | 3,800,000       | —                           | 3,800,000       | 1.00p             | 1 April 2022–31 March 2027          | 102                                       |
| Total             | 9,849,358       | (5,748,333)                 | 15,597,691      | 6.73p             |                                     |   |

In total £48,000 of share-based expense has been included in the Company Income Statement for 2018 (2017: expense of £162,000).

|                | 2018<br>£'000 | 2017<br>£'000 |
|----------------|---------------|---------------|
| Share options  | (7)           | 108           |
| Share warrants | 55            | 54            |
| Total          | 48            | 162           |

#### 10.1 Share warrant instrument

In consideration of the issue of £5m Loan Notes on 26 May 2016 by the Business Growth Fund (BGF), the BGF was granted an option to subscribe for 50,000,000 Ordinary Shares of 1p each in the capital of the Company at a price of 6p per Ordinary Share. The option can be exercised any time before 26 May 2031. The fair value of these options is linked to the treatment of the Loan Notes and valued in accordance with Notes 5 and 10.

In consideration of its agreement to partially underwrite the placing of £0.86m on 14 May 2015, MXC was granted warrants over 5% of the share capital of the Group. The warrant instrument provides that the number of warrants created under the terms of this instrument shall at all times be equal to 5% of the issued share capital of the Company. This figure of 5% will be reduced pro rata by any allotment and issue of new Ordinary Shares pursuant to any partial exercise of warrants during the seven-year exercise period.

The warrants are exercisable at the price of 6.50p and shall be exercisable over a seven-year period from 28 April 2015 on the following terms:

- (i) the warrants vest a third per annum over the first three years; and
- (ii) 50% of the warrants that vest in any year (one-third of the total) become exercisable immediately and the remaining 50% of the warrants only become exercisable subject to a 12% per annum compound growth in the Company's share price above 6.50p.

Certain provisions are contained in the warrant instrument to provide for the entire award being exercisable on a takeover of the Company.

| Date granted  | Balance<br>2018 | Movement<br>during the year | Balance<br>2017 | Exercise<br>price | Dates exercisable           | Remaining<br>contractual life<br>(months) |
|---------------|-----------------|-----------------------------|-----------------|-------------------|-----------------------------|---|
| 28 April 2015 | 13,853,255      | —                           | 13,853,255      | 6.50p             | 28 April 2018–28 April 2022 | 43  |
| 26 May 2016   | 50,000,000      | —                           | 50,000,000      | 6.00p             | 26 May 2016–26 May 2031     | 152                                       |
| Total         | 63,853,255      | —                           | 63,853,255      | 6.11p             |                             |   |

## Notes to the parent company financial statements (continued)

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### **11. Related party transactions**

Details of Directors' interests in the Company's shares, service contracts and remuneration are set out in the report of the Board to the members on Directors' remuneration on pages 15 and 16.

Jill Collighan, a Director of the Company, is an employee of the MXC Capital Limited group ("MXC"). MXC has a 25% holding in the shares of the Company and also holds share warrants, as disclosed in Note 10.1, and is considered to have a significant influence over the Group. No other Director had a material interest in any significant contract with the Company or any of its subsidiaries during the year save for those disclosed in the accounts.

Fees invoiced by MXC include £30,000 for Jill Collighan's services as an Executive Director, included as directors' emoluments. Additionally, corporate finance advisory and transaction services were purchased from MXC as financial adviser to the Company. The Group purchased services totalling £70,000 (2017: £140,000) from MXC and at 30 September 2018 owed £21,000 to MXC (2017: £19,000).

### **12. Employee costs**

The average number of staff employed by the Company during the year was 3 (2017: 2). These were all Directors. The costs for the year were £160,000 (2017: £67,000).

## Notes

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## Notes

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## Notes

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# Directors, Secretary and advisers

## Directors

**Simon Duckworth OBE DL**  
Non-Executive Chairman

**Dr Tom Black**  
Non-Executive Director

**Jill Collighan**  
Chief Financial Officer

## Secretary

**Darron Giddens**

## Company number

**05259846**

## Registered office

5 Fleet Place  
London  
EC4M 7RD

## Nominated adviser and broker

**N+1 Singer Advisory LLP**  
1 Bartholomew Lane  
London  
EC2A 2AX

## Solicitors

**DAC Beachcroft LLP**  
100 Fetter Lane  
London  
EC4A 1BN

## Registered Auditor

**Nexia Smith & Williamson**  
25 Moorgate  
London  
EC2R 6AY

## Bankers

**HSBC Bank PLC**  
London Corporate Banking Centre  
71 Queen Victoria Street  
London  
EC4V 4AY

## Registrars

**Computershare Investor Services PLC**  
The Pavilions  
Bridgwater Road  
Bristol  
BS13 8AE

## Main operating locations

**Warrington office**  
7750 Daresbury Business Park  
Daresbury Office Village  
Warrington  
WA4 4BS

## Leeds office

Victoria Spring Business Park  
Liversedge  
West Yorkshire  
WF15 6BE



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