12 January 2017

Adept4 plc
(“Adept4”, the “Company” or the “Group”)

Preliminary results for the year ended 30 September 2016

Adept4 plc (AD4) the AIM quoted provider of IT as a Service is pleased to announce preliminary results for the year ended 30 September 2016.

Highlights

Financial

- Revenues from continuing operations of £4.9m, including only part-year contributions from companies acquired during the year, of which 66% are recurring[1]
- Gross profit margin of 62%
- Recurring gross profit covers 96% of trading overheads
- Trading Group EBITDA[2] of £0.9m from continuing operations
- Profit from the legacy operations of Pinnacle (treated as discontinued operations) was £0.7m[3]
- Loss for the period of £0.6m (2015: £1.3m)
- Total of £9.8m new capital raised during the year for acquisitions, working capital and future growth:
  - £4.8m from a placing and open offer in February 2016; and
  - £5.0m from the issue of loan notes to the Business Growth Fund.
- £4.3m cash at bank at 30 September 2016 (2015: £0.6m)

Operational

- Transformational period with the disposal of legacy loss-making businesses and acquisition of three profitable businesses
- Established a seasoned and incentivised management team
- Integration of acquisitions going well:
  - single operating structure implemented;
  - consolidated into two main offices: Warrington and Leeds;
  - roll-out of consolidated systems including a single service desk, accounting, CRM and scheduling system almost complete; and
  - integration plans have also included a focus on consolidated policies and processes
- New single value proposition and brand well advanced and widely adopted
- Over 100 full-time employees (FTEs) in the business of whom 70% are in a technical customer-facing role
- In less than six months established a scalable platform for delivering IT as a Service

1 Recurring refers to revenues and gross profit from the provision of continuing IT services which have an ongoing billing and support element.
2 Trading Group EBITDA represents earnings before interest, tax, depreciation and amortisation, share based payment costs, separately identifiable costs and head office costs of £0.8m.
3 Profit from the legacy operations of Pinnacle includes the consideration of £2.8m received for the trade and assets of this business, trading losses in the period from this source prior to disposal and costs associated with reorganising and selling this business.

Gavin Lyons, Executive Chairman of Adept4, commented:

“Over the last 12 months we have fundamentally changed the shape of the business through a series of acquisitions, disposals and fundraisings. We exit the year with the turnaround activity complete and a solid platform to continue to build on. We have substantially improved our operating position, have high levels of recurring revenue, cash in the bank and a team of people that have worked incredibly hard and diligently to deliver against our plans. I would like to thank everyone for their contribution during the period and look forward to building on our solid foundations to ultimately deliver further shareholder value.”

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About Adept4

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

Critically we underpin this delivery method with a 24 x 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 business effectively, all through a single trusted provider.

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

Chairman's Statement

Introduction
I am pleased to report upon my first, and the Group's first, set of annual results as Adept4 Plc. It would be something of an understatement to describe the last twelve months as one of considerable change. We have fundamentally transformed the shape of the business through a series of acquisitions, disposals and fundraisings and consequently exited the year with the business in a substantially improved operating position with potential for further development.

Throughout a period of such significant change it would be remiss of me not to once again acknowledge the service of the former employees of the business who, because of the disposals, are no longer with the Group. Their efforts in the face of challenging circumstances were very much appreciated and ensured that we managed to effect these changes with minimal impact.

Results
For the period under review the legacy operations of Pinnacle have been treated as discontinued and therefore the results for the year contain the following:

- Ancar-B Technologies Limited ("Ancar-B") and Weston Communications Limited ("Weston") results from February 2016 (eight months' contribution);
- Adept4 Limited results from June 2016 (four months' contribution); and
- Plc costs for the whole of the financial year – albeit with an increase in costs since December following the changes in composition of the Board and the level of activity undertaken.

Our key performance indicators for the year under review do not provide complete clarity due to the significant changes undertaken in the year. However, these will remain the same moving forward and therefore they do provide a useful summary of performance:

- recurring revenues of £3.2m, which represent 66% of Group revenues. We are targeting this to be in excess of 65% in the future as it is imperative that our business has good visibility of future revenues and is not hugely dependent upon one-off sales (whether they be Product or Professional Services), which can be more unpredictable;
- gross profit margin of 62%. We are targeting this to be in excess of 60% as we need to focus on providing added value through our value proposition, which in turn generates longer-term profitable relationships;
- recurring gross profit of £2.0m, which represents 67% of Group gross profit. We are targeting this to be over 65% of Group gross profit;
- trading Group EBITDA of £0.9m. We believe trading Group EBITDA is a more appropriate measure of the success of the business in the early years. At this stage we recognise Plc costs are not aligned with the size of our trading business, but whilst we establish scale this is required for our continued M&A activities and building brand presence; and
- cash balances at 30 September 2016 of £4.3m.

Summary and outlook
My first hope is that the next twelve months, whilst subject to change, will not produce anything like the same level of upheaval we have experienced in the last financial year.

As I have explained, we now have a sound platform created through the hard work and diligence of our people, who remain our biggest asset. We have a clear strategy for delivering success which I have articulated.

I look forward to building on these foundations and delivering against our plans in the current financial year and beyond to deliver shareholder value.

Gavin Lyons
Executive Chairman
12 January 2017

Business overview

Our customers

What is our customers' problem?
Fundamentally, every customer we deal with has the same problem – they are dependent on IT to run their business but do not have the time, specialist knowledge or in-house skills to do so effectively or efficiently. Every customer wants to focus on their core business rather than IT and therefore turns to a specialist and trusted adviser to help them.

Although the main customer problem is the same, the customer "use cases" that we see are different as it depends on the customer's approach to and desires from IT. We have therefore developed four strategies to deal with the IT issues faced by our customers, depending upon an assessment of their IT maturity. We believe that being a single provider able to address four distinct phases of our customers' development is something which differentiates us from our competitors. This is explained more fully in "Our Approach" below.

What are the market dynamics?
Provision of IT as a Service to small and medium-sized enterprises (SMEs) in the UK is a sizeable market characterised by both large and small providers. Even allowing for the large providers it is a fragmented and regionalised but nonetheless sizeable market which has been estimated at £53bn per annum in recent research by Santander, with Gartner predicting that the pace of growth of IT spend of SMEs in 2016 will outpace that of the Enterprise sector.

There are also many structural changes afoot, a key one being the growth and move to the cloud, all of which drive the need for a "trusted partner". This is evidenced by the growth in Microsoft Azure and Office 365 revenues, which have been growing at over 70% quarter on quarter. A recent survey by a leading IT service provider (Daisy Group) in the UK provides further clear evidence of this shift, reporting that 48% of SMEs would be increasing their use of cloud computing and over 10% of SMEs now use cloud computing for more than 25% of their IT requirements.

Likewise, the market for managed services is also growing, with the same survey indicating that by 2020 over a third of UK businesses aim to have outsourced the management of their IT environment, with the most likely services to be outsourced being application management, service desk and network management.

Clearly with an appropriate "go-to-market strategy" there continue to exist opportunities to build a successful and growing business in this sector.

Who are our target customers?
We have focused, in identifying the market opportunity, on looking at the dynamics of the SME sector (typically organisations employing up to 250 employees). However, our target customer base is a little broader in that we focus on two groups: small/medium businesses (SMB) which are organisations with up to 150 employees; and medium-sized businesses, which are ones with between 150 and 1,000 employees (Enterprise).

We have no real vertical market concentrations. Our customers are UK based and, certainly within the SMB group, more likely to be located within a 40-mile radius of our offices. However, we do provide services to organisations which sit outside of this geographical range; these are more likely to be within our Enterprise customers.

A typical SMB customer may take up to four or five products from us, ranging from telephony, hardware support, connectivity, hosting and software. A typical contract value will range from £600 to £12,000 per annum of recurring revenues.

Our Enterprise customers will take more services from us, as typically they are looking for a fuller service and will take more of our range of services – particularly consulting services, transition services and Service Desk and Disaster Recovery as a Service. The typical contract value will range from £50,000 to £500,000 per annum, depending upon the number of employees and range of services taken.

Our approach

Our approach to our customers' needs can be broken down into 4 key components.

Stabilise
This is all about putting out some of the "fires", making good the IT environment and de-risking IT and can involve, amongst other things:

- remedial patch management;
- licence "normalisation" (i.e. ensuring that customers are fully compliant with software licensing requirements);
- fixing security risks to the IT environment;
- provision of service desk/support to complement or replace existing capabilities; and
- implementation of a first disaster recovery (DR) plan.

Leverage
This is all about "sweating" the IT assets the customer has, and naturally follows on once the customer has an element of control over their environment and is in a steady state. It typically involves identifying opportunities for streamlining and efficiencies, mitigating risk and establishing good governance.

Transform
This is all about aligning the customers' IT strategy and their business strategy to ensure that they can scale for growth. We help customers select the right technologies at the right time, which ensures they achieve their business objectives and drive value.

Innovate
This is all about adding extra value. By using our knowledge of the current technology landscape and our customers' businesses we believe we can deliver an innovative approach to using and consuming technology.

We can adopt these approaches with confidence as over 70% of our employees are engaged in technical roles within our business. Within this group we have a dedicated team of experienced, well qualified consultants who have been advising businesses for many years – in many cases acting as proxy IT directors. In fact, we are currently providing one of our senior managers as an interim IT Director for an Enterprise customer in the healthcare sector.

Our commercial proposition is very clear to our customers. In very simple terms we want to provide ITaaS on a consumptive basis – we can charge customers for exactly the quantity of IT they consume and this can be turned up or down depending upon their needs.

Our businesses

Organic growth
In bringing the three businesses together (Ancar-B, Weston and Adept4 Limited), we have created in a short time a business which has over 800 customer relationships. We are currently able to offer 15 discrete service and solutions lines and our average penetration of services into these customers is a little over two services per customer. A key priority for our sales and account management teams is therefore to increase the level of customer penetration. We have already enjoyed some success in cross-selling telephony services into our customer base and we expect this to continue.

As indicated earlier we do not have any significant market vertical concentrations; however, there are industry sectors and services which we believe we have a developing capability in. This is evidenced by the willingness of such customers to allow us to use them as case studies or references. We will therefore look to utilise these strengths and connections to sell into similar businesses. Areas in which we believe we possess such qualities include: hosted accounting system provider, telephony (including Skype for Business) expertise for the further education sector and Disaster Recovery as a Service (DRaaS).

We have 16 people currently focused on these activities, which represents 16% of our employee base. We have recently put the sales team through an extensive training programme which has educated and informed them on our value proposition and "whiteboard" selling tactics (a proven strategy for improving sales performance). We believe that we will begin to see the benefits of this in the coming financial year.

Keeping our portfolio of solutions current
Our operating model is a balance of reselling other companies' technology products and our own service wrapper. We need to remain relevant in terms of technology and therefore it is vital that we continue to keep up to date with technology developments. In the business, we have a dedicated team of experienced professionals, headed up by our Chief Technology Officer, who are responsible for constantly monitoring our value proposition and the technologies which underpin its delivery. We are an asset-light IT service provider (to enable the

consumptive commercial model for our customers) and therefore it is important that this mindset is maintained and we do not get drawn into large capital expenditure plans. It is also important to remain “leading edge” not “bleeding edge”.

We are currently further building out our cloud capabilities as a Microsoft Azure reseller, particularly around the areas of DRaaS and Office 365/Skype for Business and the Enterprise Mobility Suite. We also understand the ever-increasing demands for IT Security in any business, whether larger or small, and therefore we are significantly enhancing our security offering as we believe that this is a clear growth area.

Acquisitions

During the last year, we have been clear that there remain substantial opportunities for us to acquire businesses that complement our overall value proposition and can be integrated easily for added financial, intellectual and customer value. We have discussed earlier how this remains a fragmented industry with ample opportunity for consolidation at all levels. However, we need to remain focused on ensuring we make the appropriate acquisitions. Our selection criteria are as follows:

- clear strategic fit with our overall value proposition, which is aligned to our customer-focused IT service proposition;
- healthy gross profit margins of 50% plus;
- a high level of recurring revenues – usually in excess of 60%;
- access to complementary skill sets or people;
- complementary customer base for cross-selling opportunities;
- service delivery model which lends itself to being centralised on the existing primary locations of Warrington and Leeds; and
- culture and values alignment.

We acknowledge that there are inherent execution risks in any acquisition activity; the legacy businesses disposed of during the year are evidence of those risks. However, these can be significantly mitigated if you start from a stable platform. Since the summer we have been engaged in a significant project to fully integrate the three businesses we acquired this year. This has focused on the following areas:

- consolidation onto two main sites: Leeds and Warrington;
- alignment of employee terms and conditions across the business;
- introduction of a single management and operating structure focused on four main disciplines – customer value proposition, sales, operations and corporate and commercial services;
- adoption of a single brand and value proposition;
- a single operational and accounting system (including ticketing, CRM, expense and time sheets and scheduling); and
- adoption of a single set of values and cultures.

We have substantially completed these tasks and the speed with which we have been able to execute these is a testament to the engagement and dedication of the employees on the project teams. We believe this leaves us well positioned to execute on our strategy and ready for the task of integrating the next acquisition.

Our people

We are a service based business which is heavily reliant upon its people to deliver its service and retain its customers. In the acquired businesses over 10% of the people have over ten years’ service, and our average staff tenure is over five years, demonstrating the wealth of experience available to us and the relative stability in the employee base.

We fully acknowledge and understand that any period of significant change, such as the one we have just gone through, is likely to create uncertainty, speculation and concerns, with possible knock-on effects to productivity and staff retention. We are therefore extremely thankful that our people have borne with us through the integration process and have dealt with this change in a very positive way. In return for this we have taken additional steps to engage and return this commitment, which has included a staff away day in October at which we presented our business plan and invited questions, the roll-out of a new set of values and Company culture and the implementation of new commission plans and bonus arrangements for rewarding shared success. We have also increased our spending on training and restated our commitment to promoting from within – which is now eminently more achievable given our varied service portfolio and headcount in excess of one hundred.

We will never become complacent about our need to continually engage, develop and provide a positive working environment for our people to work in.

Financial review

As already flagged the year under review has been one of considerable change and therefore for clarity I have split my report into three sections: “new” Adept4 business, legacy business and Plc and reorganisation costs.

New Adept4 business
As previously discussed this business comprises the results of Weston and Ancar-B for the eight-month period ended 30 September 2016 and the results of Adept4 Limited for the four-month period ended 30 September 2016.

As a consequence of this we have taken the opportunity to reassess our reporting segments to more closely align with the way in which we manage the business.

This means we have reported the results under three reporting segments:

- Product – resale of hardware and software IT solutions from leading technology vendors across our product portfolio;
- Recurring Services – provision of ongoing, recurring ITaaS across our range of solutions under a contractual commitment or repeating monthly billing; and
- Professional Services – provision of highly skilled consultants and project managers to consult, design, install, configure and integrate IT technologies and service desk provision. This will also include an element of software development.

Revenue and gross margin
Group revenue for the new Adept4 business was £4,939,000 with Group gross profit of £3,042,000, representing a healthy blended gross profit margin of 62%. Importantly the revenue from Recurring Services was £3,236,000, representing 66% of Group revenues and gross profit of £2,041,000, representing 67% of Group gross profit.

The business is primarily focused on gross profit and trading group EBITDA, rather than revenue, so whilst revenue is a “performance indicator” it is not viewed as a key performance indicator.

There is limited seasonality in the business model due to the spread and nature of the customer bases and the split of revenues. Due to differing year ends and the fact that one of the acquisitions, Ancar-B, did not produce monthly management accounts it is more difficult to accurately measure the organic growth in the business. However, looking at the periods consolidated for each of the businesses against the comparative period in the previous years this shows the following organic growth rates in gross profit: Ancar-B – 18%; Adept4 Limited – 12%; and Weston – 3% (which is more sensitive to Product sales), with a blended growth rate of 11%.

More importantly the monthly recurring gross profit (from the new Adept4 business) grew from a monthly run rate of £391,000 in February 2016 to £409,000 in September 2016.

Segment highlights
Product
Gross profit from this source was £456,000, representing a gross margin of 40%. Key deals or significant pieces of business delivered in the period included:

- a telephony upgrade for a large southern based university; and
- investment in infrastructure for a manufacturer and distributor of durable medical products following its acquisition of a competitor.

Recurring Services
Gross profit from this source was £2,041,000, representing a gross margin of 63%. Key deals or significant pieces of business delivered in the period included:

- on-boarding of a large IT service contract for a technology based privately owned group worth £200,000 per year in service revenues;
- re-contracted with an existing customer for a ten-year service contract worth a minimum of £6m; and
- continued expansion of the services provided to a motor group in the North – increasing sites covered by 21% and annual recurring revenue by 60%.

Professional Services
Gross profit from this source was £545,000, representing a gross margin of 97% (as permanent employee costs are included in overheads). Key deals or significant pieces of business delivered in the period included:

- on-boarding of a large IT service contract for a technology based privately owned group worth over £100,000

in set-up fees;

- development of an HR system for a customer's specific needs, worth £25,000. The customer is currently looking at the potential commercial exploitation of this software; and
- provision of an interim IT Director to a customer to assist them in establishing and rolling out a new IT strategy across their organisation and to kick-start a large system deployment.

Operating results – costs and EBITDA
Overheads for the trading Group were £2,124,000.

Staff costs represented 78% of these costs demonstrating our dependence upon people. At the year end we employed 101 FTEs in the trading business spread across two main sites and two secondary satellite offices.

During the financial period, we consolidated Ancar-B and Weston onto a single site, and we will enjoy the savings from this during the current financial year. However, in the main we have focused on bringing the operations together as a single operating structure. Whilst this has generated some small cost savings these were more than outweighed by equalising employee terms and conditions to a common base.

As we exit our financial year, our annual trading overhead run rate (excluding head office costs) was £382,000 per month, which includes the addition of a senior sales professional to add capability and experience for our Enterprise customers.

As we operate across a common operating system during the current financial year we expect to be able to make better resource judgements and allocate our people more effectively.

Trading Group EBITDA for the period was £918,000.

One of our key targets as a business is to ensure that our trading Group overhead base is covered by Recurring Services gross profit – in the financial period we achieved coverage of 96%.

Legacy business
The legacy business represents the business of the Group on 1 October 2015 and comprised the resale of IT Security solutions (RMS Managed ICT Security Limited (RMS)) and the resale of data, telecommunications and fixed line services (Pinnacle CDT Limited (CDT)).

Following a strategic review a decision was taken to divest the Group of these assets. There were a number of factors which drove this decision: lack of scale, mix of revenues and margin, lack of unique selling point or real differentiation and the unprofitability of the business. At an operating level the business generated a loss in the year of £264,000 (2015: £878,000).

In order to make these businesses more saleable, considerable restructuring work was required to deal with legacy structure issues which had not previously been addressed. These included the following:

- agreement with two of the legacy business' joint ventures to acquire 100% of the rights to the gross profit originated by them. The initial cash cost of this was £400,000 with a further £260,000 payable in March 2017;
- disposal of a 40% investment in Stripe 21 Limited, a VOIP software provider, for £385,000 payable in March 2017; and
- "hive up" of the trade and assets from a number of Group operating companies into Pinnacle CDT Limited on 31 March 2016 to ensure this trade was being carried out under the banner of one legal entity, an essential prerequisite for any sale of this business.

We disposed of RMS on 3 May 2016 for a nominal £1; however, the business at this point had net liabilities of £45,000 and, immediately prior to sale, intercompany indebtedness of £2,150,000.

We disposed of the trade and assets of CDT (including the right to receive the deferred consideration for Stripe 21 Limited, subject to successful assignment of this debt) on 16 May 2016 to Chess ICT Limited for £2,800,000.

After the final write off of intangibles associated with these businesses, legal, professional and reorganisation costs and taxation the net profit from discontinued operations is £725,000 (2015: £775,000 loss).

Plc and separately identifiable costs
We believe it is important to separate the costs associated with the trading business and those that result as a consequence of the wider investment strategy of the Group in acquiring and disposing of businesses and in choosing an AIM-listed Plc as the vehicle for doing this.

Plc costs in the year were £804,000 (2015: £451,000). The increase during the period is attributable to the following factors: changes in the composition and remuneration of the Board following the appointment of an Executive Chairman to effect a turnaround of the business; marketing costs due to investing in the creation of a new brand and value proposition; and higher audit and professional costs because of the activities undertaken.

We also separately identify costs relating to the acquisition activity and subsequent integration costs which have been incurred. The main components of these balances are:

- legal and professional fees on acquisitions of Ancar-B and Weston of £161,000;
- legal and professional fees on acquisition of Adept4 Limited and raising of funding with the Business Growth Fund of £214,000;
- deal fees in the year of £263,000;
- integration costs, including reorganisation costs and one-off audit and accounting costs associated with acquisitions, of £194,000; and
- legal and professional fees on share schemes and Group structure of £42,000.

Loss for the year
Loss for the year from continuing operations was £1,324,000, which produces a diluted and undiluted loss per share of 0.80p (2015: 0.95p).

Loss for the year after continuing and discontinued activities was £599,000 (2015: £1,252,000).

Statement of Financial Position and cash
On 10 February 2016, we acquired the entire share capital of Ancar-B and Weston for gross consideration of £5,000,000 and £1,500,000, and £3,374,000 and £1,325,000 net of cash in the businesses at completion respectively. The Weston consideration was settled entirely in the issue of new Ordinary Shares, whilst £750,000 of the Ancar-B consideration was settled in Ordinary Shares with the remainder settled in cash.

Therefore, on 10 February 2016, following the acquisition of Ancar-B and Weston, we issued 53,571,429 new Ordinary Shares, at a price of 4.2p, to the sellers of these businesses.

The provisional fair value of these acquisitions was £4,388,000, which included £3,735,000 of intangible assets recognised as a fair value adjustment. This resulted in the recognition of goodwill of £2,112,000.

On 10 February 2016, following a successful placing and open offer, we issued 114,311,113 new Ordinary Shares at 4.2p per share, which raised £4,640,000 net of costs.

On 26 May 2016, we acquired the entire share capital of Adept4 Limited for £5,999,000 gross cash consideration (£5,450,000 net of cash in the business at completion), of which £1,000,000 was deferred and payable in January 2018. Further contingent consideration of up to £1,500,000 in cash is payable in March 2018, subject to performance criteria for the year ended 31 December 2017. The fair value of deferred and contingent consideration was assessed as £1,725,000.

The provisional fair value of this acquisition was £4,524,000, which included £4,924,000 of intangible assets recognised as a fair value adjustment. This resulted in the recognition of goodwill of £2,200,000.

In order to fund the acquisition of Adept4 Limited the Company issued £5,000,000 loan notes to the Business Growth Fund in May 2016, with an associated £3,000,000 option to subscribe for shares in the Company at 6.0p. The loan notes have a seven-year term and carry an 8% coupon, with redemption permissible from the third anniversary and required from the fifth anniversary.

As the investment by the Business Growth Fund comprises both a loan and equity element the fair value of each component has been assessed. This has resulted in the recognition of long-term borrowings of £3,673,000 and equity of £1,327,000.

During the year 11,323,333 share options were granted and 1,868,922 lapsed. At 30 September 2016 we had 11,797,691 shares under option in both approved and unapproved schemes, of which 1,397,692 were actually in the money at 12 January 2017. Share options have been recognised in accordance with IFRS 2 Share Based Payments.

At the year end we had £4,266,000 in cash and cash equivalents. Total debt at 30 September 2016 was £5,885,000, which comprised £3,673,000 to the Business Growth Fund and £2,131,000 in deferred consideration payable on acquisitions made in the year. Trading operations[1] generated a positive cash inflow of £1,006,000 representing a trading EBITDA to cash conversion ratio of 110%. The other main components of the Group's cash flow were:

- cash outflow from head office and separately identifiable costs and expenses of £1,419,000;
- cash inflow from share issues net of costs of £4,640,000;
- cash cost of acquisitions of £6,892,000;
- cash proceeds from disposal (including trading) of £1,641,000;
- cash inflow from the BGF loan notes of £5,000,000;
- corporation tax paid of £151,000; and
- interest expense of £147,000.

Ian Winn
Finance Director and COO
12 January 2017

1 Measured as cashflow from operating activities before Plc costs, separately identifiable costs and taxation.

Consolidated income statement

for the year ended 30 September 2016

	Note	**2016 £'000**	2015 £'000
Revenue	3	**4,939**	—
Cost of sales		**(1,897)**	—
Gross profit		**3,042**	—
Other operating expenses		**(2,928)**	(451)
Profit/(loss) from continuing operations before amortisation, depreciation, share based payment costs and separately identifiable costs		**114**	(451)
Amortisation of intangible assets	7	**(413)**	—
Depreciation		**(74)**	—
Separately identifiable costs	4	**(615)**	—
Share based payments		**(61)**	(19)
Operating loss from continuing operations		**(1,049)**	(470)
Interest receivable		**2**	—
Interest payable		**(360)**	(7)
Net finance expense	5	**(358)**	(7)
Loss before tax		**(1,407)**	(477)
Taxation		**83**	—
Loss for the period and total comprehensive loss from continuing operations attributable to the equity holders of the parent		**(1,324)**	(477)
Discontinued operations			
Profit/(loss) for the period from discontinued operations	3	**725**	(775)
Loss for the period		**(599)**	(1,252)
Loss per share			
– Basic and fully diluted – continuing operations	6	**(0.80)p**	(0.95)p
– Basic and fully diluted – discontinued operations	6	**0.44p**	(1.56)p
– Basic and fully diluted	6	**(0.36)p**	(2.51)p

Consolidated statement of financial position

as at 30 September 2016

	Note	**30 September 2016 £'000**	30 September 2015 £'000
Non-current assets			
Intangible assets	7	**12,636**	491
Investments in associates	8	**—**	100
Property, plant and equipment		**255**	126
Total non-current assets		**12,891**	717
Current assets			
Inventories		**22**	7
Trade and other receivables	10	**1,568**	1,461
Cash and cash equivalents		**4,266**	641
Total current assets		**5,856**	2,109
Total assets		**18,747**	2,826
Current liabilities			
Short-term borrowings		**(298)**	(66)
Trade and other payables		**(862)**	(1,486)
Other taxes and social security costs		**(649)**	(159)
Accruals and deferred income		**(1,539)**	(605)
Total current liabilities	11	**(3,348)**	(2,316)
Non-current liabilities			
Long-term borrowings	11	**(5,587)**	(10)
Deferred tax liability		**(1,664)**	(98)
Total non-current liabilities		**(7,251)**	(108)
Total liabilities		**(10,599)**	(2,424)
Net assets		**8,148**	402
Equity			
Share capital		**2,271**	592
Share premium account		**11,337**	7,840
Capital redemption reserve		**6,489**	6,489
Merger reserve		**1,997**	283
Other reserve		**1,439**	51
Fair value adjustment		**—**	(1,064)
Retained earnings		**(15,385)**	(13,789)
Total equity		**8,148**	402

Consolidated statement of changes in equity
for the year ended 30 September 2016

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Merger reserve £'000	Other reserve £'000	Fair value adjustment £'000	Retained earnings £'000	Total £'000
At 1 October 2014	6,862	6,775	—	283	32	(1,064)	(12,537)	351
Loss and total comprehensive loss for the period	—	—	—	—	—	—	(1,252)	(1,252)
Transactions with owners								
Share issue	219	1,202	—	—	—	—	—	1,421
Cancellation of Deferred Shares	(6,489)	—	6,489	—	—	—	—	—
Share based payments	—	—	—	—	19	—	—	19
Expenses on share issue	—	(137)	—	—	—	—	—	(137)
Total transactions with owners	(6,270)	1,065	6,489	—	19	—	—	1,303
Total movements	(6,270)	1,065	6,489	—	19	—	(1,252)	51
Equity at 30 September 2015	592	7,840	6,489	283	51	(1,064)	(13,789)	402

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Merger reserve £'000	Other reserve £'000	Fair value adjustment £'000	Retained earnings £'000	Total £'000
At 1 October 2015	592	7,840	6,489	283	51	(1,064)	(13,789)	402
Loss and total comprehensive loss for the period	—	—	—	—	—	—	(599)	(599)
Transactions with owners								
Share issue	1,679	3,657	—	1,714	—	—	—	7,050
Share based payments	—	—	—	—	61	—	—	61
Fair value of equity in the BGF loan	—	—	—	—	1,394	—	—	1,394
Fair value of interest in the BGF loan	—	—	—	—	(67)	—	67	—
Reclassification of reserves	—	—	—	—	—	1,064	(1,064)	—
Expenses on share issue	—	(160)	—	—	—	—	—	(160)
Total transactions with owners	1,679	3,497	—	1,714	1,388	1,064	(997)	8,345
Total movements	1,679	3,497	—	1,714	1,388	1,064	(1,596)	7,746
Equity at 30 September 2016	**2,271**	**11,337**	**6,489**	**1,997**	**1,439**	**—**	**(15,385)**	**8,148**

Consolidated statement of cash flows

for the year ended 30 September 2016

	2016 £'000	2015 £'000
Cash flows from operating activities		
Loss before taxation	**(1,407)**	(477)
Adjustments for:		
Depreciation	**74**	—
Amortisation	**413**	—
Impairment of intangible assets	**—**	—
Share option charge	**61**	19
Interest expense	**358**	—
(Increase)/decrease in trade and other receivables	**(98)**	37
Taxation	**(151)**	—
Decrease in inventories	**1**	—
Increase/(decrease) in trade payables, accruals and deferred income	**185**	(79)
Net cash used in operating activities	**(564)**	(500)
Cash flows from investing activities		
Purchase of property, plant and equipment	**(42)**	(120)
Acquisition of subsidiaries, net of cash acquired	**(6,892)**	—
Interest received	**2**	—
Net cash used in investing activities	**(6,932)**	(120)
Cash flows from financing activities		
Issue of shares	**4,801**	1,420
Receipt of loan funds	**5,000**	—
Receipt of invoice discount finance during the year	**—**	1,358
Repayment of invoice discount finance during the year	**—**	(1,400)
Receipt of finance lease	**51**	—
Repayment of bank loans	**—**	(5)
Payment of finance lease liabilities	**(16)**	(11)
Interest paid	**(147)**	(7)
Expenses paid in connection with share issue	**(161)**	(137)
Net cash from financing activities	**9,528**	1,218
Cash flows from discontinued operations		
Cash outflow from operations of disposal group	**(832)**	(62)
Sale of discontinued operations	**2,800**	—
Acquisition of remaining shares in Accent Telecom North Limited	**(327)**	—
Net cash flows from/(used in) discontinued operations	**1,641**	(62)
Net increase in cash	**3,673**	536
Cash at bank and in hand at beginning of period	**593**	57
Cash at bank and in hand at end of period	**4,266**	593
Comprising:		
Cash at bank and in hand	**4,266**	641
Bank overdrafts	**—**	(48)
	4,266	593

Notes to the consolidated financial information

1. General information

Adept4 plc is a company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is 5 Fleet Place, London, EC4M 7RD.

The Board of Directors approved this preliminary announcement on 12 January 2016. Whilst the financial information included in the preliminary announcement has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards ("IFRS") as endorsed by the European Union, this announcement does not itself contain sufficient information to comply with all the disclosure requirements of IFRS and does not constitute statutory accounts of the Company for the years ended September 2015 and September 2016.

The financial information set out in this preliminary announcement does not constitute the Group's financial statement for the periods ended 30 September 2015 and 2016. The financial information for the period ended 30 September 2015 is derived from the statutory accounts for that year which have been delivered to the Registrar of Companies. The statutory accounts for the year ended 30 September 2016 will be delivered to the Registrar of Companies following the Company's annual general meeting. The auditors have reported on those accounts; their reports were unqualified and did not contain a statement under s498(2) or s498(3) of the Companies Act 2006.

2. Basis of Preparation

This financial information has been prepared in accordance with the principles of International Financial Reporting Standards ("IFRS") as adopted by the European Union and International Financial Reporting Interpretations Committee ("IFRIC") recommendations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. For the purposes of the preparation of the consolidated financial information, the Group has applied all standards and interpretations that are effective for accounting periods beginning on or after 1 October 2015. There have been no changes in accounting policies during the year. The financial information has been prepared under the historical cost convention unless otherwise stated

3. Segment reporting

The chief operating decision maker has been identified as the Executive Chairman of the Company, who reviews the Group's internal reporting in order to assess performance and to allocate resources. Following the restructure of the business in 2016, the reportable operating segments were assessed and amended to reflect the key products and services that unite to deliver "IT as a Service". The Directors present below the results for 2016 and 2015 comparisons, based on these revised reportable operating segments, which have changed from the prior year.

Segment		Description
Product	–	This segment comprises the resale of solutions (hardware and software) from leading technology vendors.
Recurring Services ("Service")	–	This segment comprises the provision of continuing IT services which have an ongoing billing and support element.
Professional Services ("PS")	–	This segment comprises the provision of highly skilled resource to consult, design, install, configure and integrate IT technologies.
Plc costs ("PLC")	–	This comprises the costs of running the Plc, incorporating the cost of the Board, listing costs and other professional service costs such as audit, tax, legal and Group insurance.

Information regarding the operation of the reportable segments is included below. Performance of the operating segments is assessed based on revenue and a measure of earnings before interest, depreciation and amortisation (EBITDA) before any allocation of Group overheads or charges for share based payments. Segments are measured below on this basis.

The Group's EBITDA for the year has been calculated after deducting Group overheads from the EBITDA of the three segments as reported internally. The Group overheads include the cost of the Board, the costs of maintaining a listing on AIM, legal and professional fees, and the costs of shareholder communications including the costs of retaining a nominated adviser and a broker. The segment information is prepared using accounting policies consistent with those of the Group as a whole. The performance of the Group is reviewed by the Executive Chairman on a segmental basis as has been disclosed. All segments are continuing operations. No customer accounts for more than 10% of external revenues. Inter-segment transactions are accounted for using an arm's length commercial basis.

The majority of assets and liabilities of the Group are pooled centrally and are shared across all operating segments as required, based on demand over time. For this reason, apportionment of assets and liabilities cannot be measured accurately across segments and is therefore not disclosed.

3.1 Analysis of revenue

By operating segment

	2016					2015				
	Product £'000	**Service £'000**	**PS £'000**	**PLC £'000**	**Total £'000**	Product £'000	Service £'000	PS £'000	PLC £'000	Total £'000
Total segment revenue	**1,143**	**3,245**	**560**	**—**	**4,948**	—	—	—	—	—
Inter-segment revenue	**—**	**(9)**	**—**	**—**	**(9)**	—	—	—	—	—
External revenue from continuing operations	**1,143**	**3,236**	**560**	**—**	**4,939**	—	—	—	—	—
Total segment gross profit from continuing operations	**456**	**2,041**	**545**	**—**	**3,042**	—	—	—	—	—
Trading Group EBITDA from continuing operations	**138**	**616**	**164**	**—**	**918**	—	—	—	—	—
Plc costs	**—**	**—**	**—**	**(804)**	**(804)**	—	—	—	(451)	(451)
Amortisation	**(61)**	**(277)**	**(75)**	**—**	**(413)**	—	—	—	—	—
Depreciation	**(12)**	**(48)**	**(14)**	**—**	**(74)**	—	—	—	—	—
Share based payment costs	**—**	**—**	**—**	**(61)**	**(61)**	—	—	—	(19)	(19)
Operating profit/(loss) from continuing operations before separately identifiable costs/(income)	**65**	**291**	**75**	**(865)**	**(434)**	—	—	—	(470)	(470)
Separately identifiable costs	**—**	**—**	**—**	**(615)**	**(615)**	—	—	—	—	—
Operating profit/(loss) from continuing operations	**65**	**291**	**75**	**(1,480)**	**(1,049)**	—	—	—	(470)	(470)
Interest receivable	**—**	**—**	**—**	**2**	**2**	—	—	—	—	—
Interest payable	**—**	**—**	**—**	**(360)**	**(360)**	—	—	—	(7)	(7)
Profit/(loss) before tax from continuing operations	**65**	**291**	**75**	**(1,838)**	**(1,407)**	—	—	—	(477)	(477)
Net assets	**669**	**1,800**	**252**	**5,427**	**8,148**	—	—	—	402	402

3.2 The following table analyses the profit from discontinued operations

On 30 April 2016, the Group disposed of the entire share capital of RMS Managed ICT Security Limited (and its dormant subsidiary Aware Distribution Limited) to Intronovo Limited, for a consideration of £1. On 13 May 2016, the Group also sold the entire trade and assets of Pinnacle CDT Limited to Chess ICT Limited for £2,800,000 in cash.

These transactions allowed the Group to exit the highly competitive IT security reseller and fixed line markets and as such represent an exit from these major business lines.

The decision and process to dispose of these businesses were initiated prior to 31 March 2016 and, in accordance with IFRS 5, all trade and assets relating to these disposals have been classified as discontinued operations in the Consolidated Income Statement of the Group.

	2016 £'000	2015 £'000
Revenue	**4,427**	7,884
Gross profit	**1,409**	2,318
Administrative expenses	**(1,486)**	(2,432)
Amortisation and impairment of intangible assets	**(71)**	(501)
Depreciation	**(34)**	(198)
Separately identifiable costs	**(82)**	(65)
Operating expenses	**(1,673)**	(3,196)
Operating loss from discontinued operations	**(264)**	(878)
Interest payable	**(3)**	(7)
Consideration received from acquirers of:		
RMS Managed ICT Security Limited	**—**	—
Pinnacle CDT Limited trade and assets	**2,800**	—
Legal, professional and reorganisation costs	**(283)**	—
Net consideration received from acquirers after fees	**2,517**	—
Unamortised intangible assets:		
RMS Managed ICT Security Limited	**(60)**	—
Pinnacle CDT Limited trade and assets	**(945)**	—
Net book value of trade and assets of Pinnacle CDT Limited disposed of	**(420)**	—
Taxation	**(99)**	110
Net profit from discontinued operations	**725**	(775)

4. Operating loss

	2016 £'000	2015 £'000
Loss from continuing operations is stated after charging:		
Depreciation of owned assets	**(74)**	—
Amortisation to intangibles	**(413)**	—
Research and development costs recognised as expense	**(22)**	—
Other operating lease rentals:		
– Buildings	**(81)**	—
Auditor's remuneration:		
– Audit of parent company	**(14)**	(17)
– Audit of subsidiary companies	**(45)**	(48)
– Non-audit-related services	**(23)**	(2)

Separately identifiable costs

Items that are material and non-recurring in nature are presented as separately identifiable costs in the Consolidated Income Statement, within the relevant account heading.

	2016 £'000	2015 £'000
Gain on sale of share in associate company (Stripe 21 Limited)	**259**	—
Professional fees, broker fees and due diligence costs relating to acquisitions	**(677)**	—
Restructure costs relating to head office and acquisitions	**(197)**	—
Separately identifiable costs	**(615)**	—

5. 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:

	2016 £'000	2015 £'000
Interest income resulting from short-term bank deposits	**2**	—
Finance income	**2**	—
Interest expense resulting from:		
Finance leases	**2**	4
Bank overdrafts	**—**	3
The BGF loans	**145**	—
Effective interest on equity element of the BGF loan notes	**67**	—
Effective interest on deferred consideration relating to Adept4 Managed IT Ltd	**146**	—
Finance costs	**360**	7

In accordance with IAS 32, the BGF loan note and share option elements are linked and are treated as a single financial instrument and shown at fair value. 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%,deemed to be an appropriate market rate, reflecting the 8% coupon interest payments and the capital repayment profile of the loan notes. This resulted in an additional effective interest charge on the BGF loan notes of £67,000 during the year (2015: £nil).

In accordance with IFRS 3, business combinations are accounted for using the acquisition method, which requires assets acquired and liabilities assumed to be measured at their fair values at the acquisition date. The acquisition of Adept4 Managed IT Ltd on 26 May 2016, for a total consideration of up to £7m, contains £1m of deferred consideration payable in January 2018 and £1.5m of contingent consideration payable in March 2018, based on the financial performance of the Group in the calendar year to December 2017. The fair value of the deferred and contingent consideration calculated at acquisition, using a discount rate of 16%, was £1.73m. During the year, £145,000 (2015: £nil) of effective interest was charged to the income statement resulting in a fair value of the deferred and contingent consideration payable at 30 September 2016 of £1.87m.

6. Total and continuing loss per share

	2016 £'000	2015 £'000
Loss on continuing operations	**(1,324)**	(477)
Profit/(loss) on discontinued operations	**725**	(775)
Loss attributable to ordinary shareholders	**(599)**	(1,252)

	Number	Number
Weighted average number of Ordinary Shares in issue, basic and diluted	**165,891,459**	49,924,907
Basic and fully diluted loss per share – continuing operations	**(0.80)p**	(0.95)p
Basic and fully diluted profit/(loss) per share – discontinued operations	**0.44p**	(1.56)p
Basic and diluted loss per share	**(0.36)p**	(2.51)p

Both the basic and diluted earnings per share have been calculated using the net profit/(loss) after taxation attributable to the shareholders of Adept4 Plc as the numerator.

7. Intangible assets

Intangible assets	Goodwill £'000	Maintenance contracts £'000	IT and billing systems £'000	Brand £'000	Customer lists £'000	Total £'000
Cost						
At 1 October 2014	206	100	280	—	4,281	4,867
Additions	—	—	—	—	—	—
At 1 October 2015	206	100	280	—	4,281	4,867
Additions	4,312	—	—	1,157	8,166	13,635
Disposals	(206)	(100)	(280)	—	(4,867)	(5,453)
At 30 September 2016	**4,312**	**—**	**—**	**1,157**	**7,580**	**13,049**
Accumulated amortisation						
At 1 October 2014	—	(100)	(219)	—	(1,992)	(2,311)
Charge for the year	—	—	(13)	—	(297)	(310)
At 1 October 2015	—	(100)	(232)	—	(2,289)	(2,621)
Disposals	—	100	232	—	2,360	2,692
Charge for the year – discontinued operations	—	—	—	—	(71)	(71)
Charge for the year – continuing operations	—	—	—	(35)	(378)	(413)
At 30 September 2016	**—**	**—**	**—**	**(35)**	**(378)**	**(413)**
Impairment						
At 1 October 2014	(206)	—	—	—	(1,358)	(1,564)
Charge for the year	—	—	(48)	—	(143)	(191)
At 1 October 2015	(206)	—	(48)	—	(1,501)	(1,755)
Disposals	206	—	48	—	1,501	1,755
At 30 September 2016	**—**	**—**	**—**	**—**	**—**	**—**
Impairment						
Carrying amount						
At 30 September 2015	—	—	—	—	491	491
At 30 September 2016	**4,312**	**—**	**—**	**1,122**	**7,202**	**12,636**
Average remaining amortisation period	**—**	**—**	**—**	**9.8 years**	**9.8 years**	**9.8 years**

8. Associate company

At 30 September 2016, the Group had no associate companies.

On 14 March 2016, the Group sold its stake in Stripe21 to its largest shareholder for £385,000 payable on 31 March 2017 ("Stripe21 Consideration"). The deferred consideration is secured by way of personal guarantee from the buyer. On 16 May 2016 the Group disposed of the trade and assets of Pinnacle CDT Limited to Chess ICT Limited for £2,800,000. The assets disposed of included the right to receive the Stripe21 Consideration.

	2016 £'000	2015 £'000
Fair value of investment in associated company – Stripe21 Limited	**100**	165
Impairment of investment in associated company – Stripe21 Limited	**—**	(65)
Sale of shares in Stripe21 Limited	**(100)**	—
Investment in associated company at 30 September	**—**	100

8.1 Business partner arrangements
On 14 March 2016 the Group acquired the entire Ordinary A Shares of Accent Telecom North Limited for gross consideration of £586,000, £326,000 was paid on completion (£66,000 of this relating to accrued commission not yet paid) and £260,000 is payable on 1 March 2017. This was done to enable a disposal of the trade and assets of Pinnacle CDT Limited. The fair value of assets acquired was zero as the material transactions for Accent Telecom North had already been recorded in the accounts of the Group. As previously explained the Group acted as principal to Accent Telecom North's customers and it also believed that in practice the value of the contract relationship was already held by the Group, with Accent Telecom North simply acting in a sales management capacity. Therefore the entire consideration was treated as goodwill required to buy out the future right to the commission stream – and recoverable through the subsequent sale to Chess ICT Limited.

9. 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 are held for seven years and are not redeemed early, the maximum credit exposure at 30 September 2016, including interest, is £7.2m of which £2.2m relates to interest. The Directors are satisfied that the capital and loan repayments over the seven-year period will be covered by working capital and profits from trading performance over the term. 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 Group did not have any financial instruments at 30 September 2015.

In accordance with IAS 32, the BGF Loan Note and share warrant elements are linked and are 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 provides a fair value for the share option of 2.89p per share, which implies 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 results in a fair value of the loan amount at 26 May of £3.6m. The difference between the Coupon rate and the effective interest charge at 15% is charged through the Consolidated Statement of Financial Position 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.

The fair value of the share option is credited to other reserves and an amount equal and opposite to the difference between Coupon rate and effective interest rate is transferred from other reserves to retained earnings in the Consolidated Statement of Change in Equity.

	Loan Note balance	8% interest payable	Fair value Loan Notes	Fair value options
Cash received from the BGF on 26 May 2016 for Loan Notes at 8% per annum interest	5,000	—	—	—
Fair value of £5,000,000 Loan Notes repayable over seven years from 26 May 2016	—	—	(3,606)	—
Fair value of 50,000,000 share options at 6p per share issued on 26 May 2016	—	—	—	(1,394)
Interest on Loan Notes at 8% per annum from 26 May 2016 to 20 September 2016	—	(133)	—	—
Effective interest on equity element of the BGF Loan Notes to 30 September 2016	—	—	(67)	67
Fair value of the BGF financial instrument at 30 September 2016			(3,673)	(1,327)

10. Trade and other receivables

	2016 £'000	2015 £'000
Trade receivables	**1,127**	686
Prepayments and accrued income	**441**	775
	1,568	1,461

11. Trade and other payables

11.1 Current

	2016 £'000	2015 £'000
Bank overdrafts	**—**	48
BGF loan notes repayable to the BGF between three and seven years	**5,000**	6
Deferred consideration for Accent Telecom North Limited – payable March 2017	**260**	—
Deferred consideration for Adept4 Managed IT Limited – payable January 2018	**1,000**	—
Contingent consideration for Adept4 Managed IT Limited – payable March 2018	**1,500**	—
Finance lease liability	**81**	22
	7,841	76
Less fair value adjustment relating to the BGF loan notes	**(1,326)**	—
Less fair value adjustment relating to deferred and contingent consideration above	**(630)**	—
Less non-current portion of liabilities	**(5,587)**	(10)
Short-term borrowings	**298**	66
Trade payables	**862**	1,486
Invoice finance	**—**	76
Accruals and deferred income	**1,539**	529
Other taxes and social security costs	**649**	159
Total current liabilities	**3,348**	2,316

11.2 Non-current

	2016 £'000	2015 £'000
Finance leasing liability – long-term element	**43**	8
Commercial loan – long-term element	**—**	2
Unsecured loan from the BGF	**3,673**	—
Long-term financial liabilities	**—**	10
Deferred and contingent consideration payable on acquisitions	**1,871**	—

12. Acquisition of subsidiaries during the financial year

12.1 Ancar-B Technologies Limited ("Ancar-B")

On 10 February 2016 the Group acquired the entire issued share capital of Ancar-B for a total consideration of £5.0m, which includes a cash for cash payment of £1.5m. The consideration was satisfied as to £2.75m in cash and £0.75m in new Ordinary Shares at 4.2p per share.

The provisional fair values and calculation of goodwill for the acquisition of Ancar-B are detailed below:

	Book value £'000	Fair value adjustment £'000	Fair value £'000
Non-current assets			
Intangible assets	—	2,409	2,409
Property, plant and equipment	154	(116)	38
Investments	35	(35)	—
Total non-current assets	189	2,258	2,447
Current assets			
Inventories	9	(9)	—
Trade and other receivables	326	(12)	314
Cash at bank	1,626	—	1,626
Total current assets	1,961	(21)	1,940
Total assets	**2,150**	**2,237**	**4,387**
Current liabilities			
Trade and other payables	(191)	—	(191)
Other taxes and social security costs	(227)	—	(227)
Deferred income and accruals	(274)	31	(243)
Total current liabilities	(692)	31	(661)
Non-current liabilities			
Long-term borrowings	(14)	—	(14)
Deferred tax liability	—	(482)	(482)
Total non-current liabilities	(14)	(482)	(496)
Total liabilities	**(706)**	**(451)**	**(1,157)**
Net assets	**1,444**	**1,786**	**3,230**
Satisfied by:			
– Consideration in cash			(4,250)
– Consideration in shares			(750)
Fair value of cost of acquisition			**(5,000)**
Goodwill			**1,770**

The goodwill arising on this acquisition is attributable to cross-selling opportunities that are expected to be achieved from marketing Adept4's portfolio of solutions and services across Ancar-B's existing customer base.

Direct acquisition costs amounting to £161,000 have been written off to the income statement within separately identifiable costs.

Subsidiary trading
Ancar-B contributed £1.8m revenue, £0.5m EBITDA and £0.4m profit after tax during the year.

If Ancar-B had been acquired on 1 October 2015, revenue of the Group would have been £5.8m, and the loss for the year would have been £0.2m lower.

These numbers exclude the amortisation charge associated with the intangible assets identified at acquisition.

12.2 Weston Communications Limited ("Weston")
On 10 February 2016, the Group acquired the entire issued share capital of Weston for a total consideration of £1.5m satisfied by the issue of 35,714,285 new Ordinary Shares at 4.2p per share.

The provisional fair values and calculation of goodwill for the acquisition of Weston are detailed below:

	Book value £'000	Fair value adjustment £'000	Fair value £'000
Non-current assets			
Intangible assets	4	1,322	1,326
Property, plant and equipment	49	(35)	14
Total non-current assets	53	1,287	1,340
Current assets			
Inventories	51	(29)	22
Trade and other receivables	250	(8)	242
Cash at bank	175	—	175
Total current assets	476	(37)	439
Total assets	**529**	**1,250**	**1,779**
Current liabilities			
Trade and other payables	(134)	—	(134)
Other taxes and social security costs	(33)	—	(33)
Deferred income and accruals	(165)	(24)	(189)
Total current liabilities	(332)	(24)	(356)
Non-current liabilities			
Deferred tax liability	—	(265)	(265)
Total non-liabilities	—	(265)	(265)
Total liabilities	**(332)**	**(289)**	**(621)**
Net assets	**197**	**961**	**1,158**
Satisfied by:			
– Consideration in shares			(1,500)
Fair value of cost of acquisition			**(1,500)**
Goodwill			**342**

The goodwill arising on this acquisition is attributable to cross-selling opportunities that are expected to be achieved from marketing Adept4's portfolio of solutions and services across Weston's existing customer base.

Direct acquisition costs amounting to £125,000 have been written off to the income statement within separately identifiable costs.

Subsidiary trading
Weston contributed £1.5m revenue, £0.1m EBITDA and £0.1m profit after tax during the year.

If Weston had been acquired on 1 October 2015, revenue of the Group would have been £5.7m, and the loss for the year would have been £0.1m lower.

These numbers exclude the amortisation charge associated with the intangible assets identified at acquisition.

12.3 Adept4 Managed IT Limited ("Adept4")

On 26 May 2016 the Group acquired the entire issued share capital of Adept4 Managed IT Limited ("Adept4") for initial consideration of £4.99m satisfied in cash (including a cash for cash payment of £499,000) plus deferred consideration of £1m in cash, payable in January 2018. Further contingent consideration of up to £1.5m in cash is payable in March 2018, subject to achievement of performance criteria for the year to 31 December 2017.

In accordance with IFRS 3, business combinations are accounted for using the "acquisition method", which requires assets acquired and liabilities assumed to be measured at their fair values at the acquisition date. The range of possible outcomes for contingent consideration are £nil for results below a threshold finance performance at between £1.1m and £1.5m once the threshold has been achieved. The fair value of the deferred and contingent consideration calculated at acquisition and using a discount rate of 16% was £1.73m.

The provisional fair values and calculation of goodwill for the acquisition of Adept4 Managed IT Limited are detailed below:

	Book value £'000	Fair value adjustment £'000	Fair value £'000
Non-current assets			
Intangible assets	78	4,924	5,002
Property, plant and equipment	161	—	161
Total non-current assets	239	4,924	5,163
Current assets			
Trade and other receivables	511	—	511
Cash at bank	549	—	549
Total current assets	1,060	—	1,060
Total assets	**1,299**	**4,924**	**6,223**
Current liabilities			
Trade and other payables	(354)	—	(354)
Other taxes and social security costs	(220)	—	(220)
Deferred income and accruals	(169)	44	(125)
Total current liabilities	(743)	44	(699)
Non-current liabilities			
Deferred tax liability	(6)	(994)	(1,000)
Total non-current liabilities	(6)	(994)	(1,000)
Total liabilities	**(749)**	**(950)**	**(1,699)**
Net assets	**550**	**3,974**	**4,524**
Satisfied by:			
– Initial cash consideration paid			4,999
– Fair value of deferred cash consideration payable January 2018			690
– Fair value of contingent cash consideration payable March 2018			1,035
Fair value of cost of acquisition			6,724
Goodwill			**2,200**

The goodwill arising on this acquisition is attributable to cross-selling opportunities that are expected to be achieved from marketing the Group's portfolio of solutions and services across Adept4's existing customer base.

Direct acquisition costs amounting to £314,000 have been written off to the income statement within separately identifiable costs.

Subsidiary trading

Adept4 contributed £1.7m revenue, £0.3m EBITDA and £0.2m profit after tax during the year.

If Adept4 had been acquired on 1 October 2015, revenue of the Group would have been £8.3m, and the loss for the year would have been £0.5m lower.

These numbers exclude the amortisation charge associated with the intangible assets identified at acquisition.