ADEPT4

IT AS A SERVICE

Adept4 Plc Annual Report 2016

IT as a Service

Adept4 delivers IT as a Service (ITaaS) to small and medium-sized businesses across the UK. 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 24/7 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, focused entirely on becoming our customers' trusted local IT expert.

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.

Highlights for the year

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.

INNOVATION IN...

Throughout the Strategic Report we have provided real examples of how we have demonstrated our innovation to ITaaS in certain industry verticals and customers.

Find out more online

Adept4.co.uk

Adept4 delivers IT as a Service to small and medium-sized businesses across the UK

ITaaS provides customers with exactly the amount of technology and support they need in accordance with business requirements, billed monthly, based on what is consumed.

There are three critical components of our overall offering:

1 the service offerings we are able to provide;

2 our technology portfolio; and

3 how we commercially bill for the combination of the two items above.

INNOVATION IN...

Retail

We assisted a business which provides transactional services to the retail sector in the UK to architect a cloud based hybrid service which moved the business away from costly traditional ISDN technologies to a SIP based protocol. The move reduced the cost of line rental by 70% and provided unlimited scalability.

The architecture and management reporting, developed in-house by our software team, ensured the business could fulfil and demonstrate its patching and firmware contractual obligations and significantly reduced downtime and outages.

Our portfolio of service offerings

Adept4 underpins its ITaaS 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.

Strategic consulting

Assisting directors and business leaders to develop their IT strategy, systems and team to better support their overall business goals.

Software development

Creating bespoke software, customising existing applications and assisting with system migrations through automating data transfer and validation and the creation of reporting tools and dashboards.

Professional services

Experts to assist in the deployment of assets, backfill resources or provide updates to complex systems.

Service desk

All our managed services are run through our 24/7/365 ITIL service desks in Warrington and Leeds, offering a full range of support services which reduces the onsite requirements for management, resource and capability.

Our technology portfolio

Adept4, through its detailed knowledge and experience of the market, can source and select the technologies that best fit its customers' requirements.

Apps
Able to provide licensing for key applications on a pay-as-you-go basis which factors up or down dependent upon operational requirements.

Telephony
Able to offer both centralised hosted and on-premise telephony. With over 20 years of experience in this area we are able to assist with contact centre solutions, call recording, unified communications and mobility.

Network
Able to provide expertise on design and deployment of both internal and external networks together with leading-edge Wi-Fi technologies.

Devices
Able to source, configure, secure and protect the desk, mobile and tablet devices you require.

Data and storage
Able to manage data, improve performance and quality, cut costs and gather intelligence around the status of data and storage (understanding what is there, when it was last accessed and where it is duplicated).

Infrastructure
As a Tier 1 Microsoft Cloud Partner, and with presence in datacentres worldwide, we are able to provide customers with infrastructure in the cloud, on-premise or as a hybrid of the two.

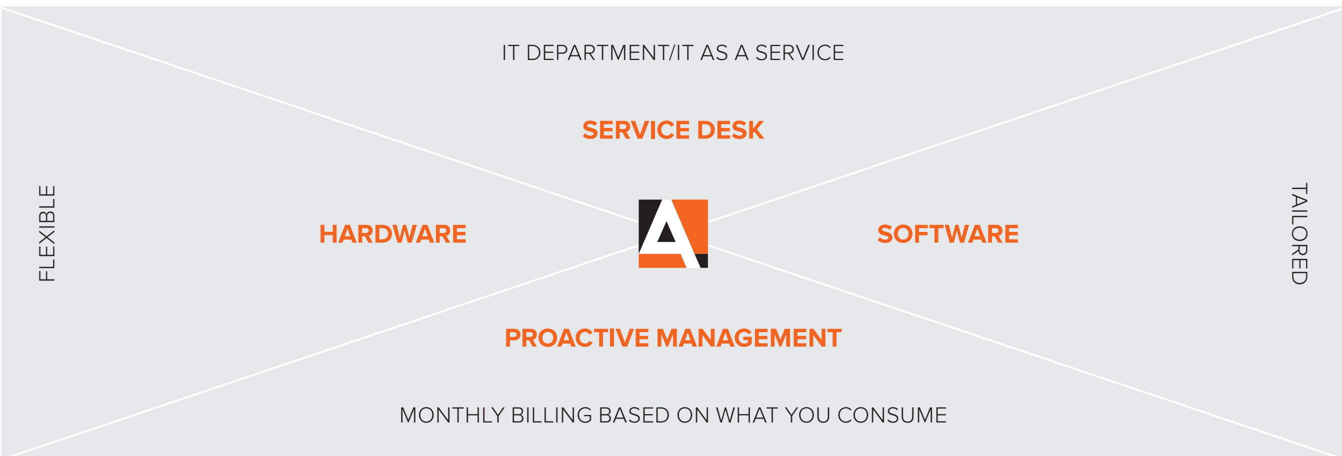
Cloud
Able to offer cloud readiness assessments which assist in the migration to the cloud, together with high performance managed cloud based solutions encompassing XaaS (Anything as a Service).

Our commercial offering

Support and technology can be uniquely bundled as the following commercial offering to our customers:

We bring together all our services "inside the envelope" to provide a corporate IT department to our customers on a tailored, flexible basis which can be billed monthly and stepped up or down dependent upon the "amount" consumed by our customer.

Defining IT as a Service



A period of significant change

"We have fundamentally changed the shape of the business through a series of acquisitions, disposals and fundraisings and consequently exit the year with a business in a substantially improved operating position."

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. A timeline of the activity undertaken is provided on page 5 and this really does emphasise the sheer volume of tasks and activities that were undertaken in the financial year to transform the business.

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
11 January 2017

Business transformation: timeline of recent events

DECEMBER 2015	• Gavin Lyons appointed as Executive Chairman
JANUARY 2016	• Announced EBITDA losses for FY2015 of £0.6m • Announced placing and open offer of £4.8m and acquisitions of Weston and Ancar-B
FEBRUARY 2016	• Ian Winn appointed as Finance Director and COO • Acquisitions of Weston and Ancar-B completed for net consideration of £5.0m
MARCH 2016	• Sold stake in Stripe 21 for £0.4m deferred consideration • Bought two of our JVs for consideration of £0.7m (£0.3m of which was deferred) • Pinnacle Technology legacy businesses hived up into a single legal entity and Group structure "tidied up" (Pinnacle CDT Limited)
APRIL 2016	• Commenced the process to dispose of legacy Pinnacle businesses • Commenced due diligence (DD) on Adept4 Limited
MAY 2016	• Disposed of RMS Managed IT Security Limited for £1 • Disposed of the trade and assets (including the right to receive the deferred consideration on Stripe 21) of Pinnacle CDT Limited for £2.8m • Acquired Adept4 Limited for net cash consideration of £5.5m (£1.0m deferred) and contingent consideration of up to £1.5m dependent upon financial performance for year ended December 2017 • Raised £5.0m funding through the issue of loan notes with coupon of 8% to the Business Growth Fund
JUNE 2016	• Pinnacle Technology Group plc renamed Adept4 Plc
JULY 2016	• Announced customer contract extension for ten years, worth over £6m in revenue, demonstrating our ability to grow long-term, valuable relationships with our customers • Ancar-B and Weston businesses merged onto a single site in Leeds
SEPTEMBER 2016	• Senior appointments made in sales and operations to supplement management team
OCTOBER 2016	• Single operational structure rolled out across the Group
NOVEMBER 2016	• Single brand adopted
DECEMBER 2016	• Roll-out of Autotask across the Group (ticketing, service desk, scheduling and CRM system)

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 on page 7.

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.

INNOVATION IN...

Oil and gas

We have worked with several businesses in the oil and gas sector in Scotland to leverage cloud based services and our own expertise to deliver global solutions for their operational requirements focused around some of the following use cases, all of which have brought real bottom-line benefits:

- introduction of worldwide health and safety quality tracking services, through our software team, to facilitate whistleblowing and risk mitigation;
- telemetry data capture of assets and information required to support oil rig positioning and mooring; and
- collection and collation of plant machinery and power outputs for control room analysis.

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

1 Stabilise

2 Leverage

3 Transform

4 Innovate

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.

INNOVATION IN...

Transport

We have worked with a longstanding ITaaS customer which operates globally in the freight and logistics sector to utilise a combination of existing and cloud based technologies to improve efficiency, cost and asset control and safety for its employees.

Using existing radio-frequency identification (RFID), combined with the collation and analysis of data in the cloud, we have been able to allow the customer to track its assets across the globe and enable actions to be taken based on the data collated. In a non-cloud based environment the timeliness and collation of this data would simply not happen quickly enough for real-time decisions to be taken. By embracing the benefits of cloud computing we have been able to speed up the collection and analysis of data and enable decisions to be made which have a real bottom-line benefit.

However, there are also real benefits in the area of employee safety where we have assisted with "networking" control units in the customer's fleet, which will allow, in certain circumstances, the driver to be overridden in life-threatening situations.

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 and articulated on page 3. 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

“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.”

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.

INNOVATION IN...

Healthcare

A longstanding customer and supplier of medical equipment delivery to NHS patients who are infirm or housebound receives its orders from 12,000 fax machines within its customers’ network. Through our assistance we have helped them refine, develop and support the IT systems which convert these orders into emails and jobs for completion by their engineers, generating significant operational savings.

The medical equipment now being delivered is SIM enabled, which provides the ability to report both patient and machine metrics to clinicians who could then monitor, diagnose and prescribe remotely. Historically cloud services adoption has been limited by a number of factors in the NHS supply chain including data sovereignty. Recent changes in our key vendors’ datacentre footprints mean we are looking to build out hosted services in this area, which we believe could provide further significant patient and cost benefits.

Disaster recovery (DR) and business continuity is absolutely critical for this customer and we provide a fully fledged business continuity suite of products which assists them in achieving ISO 27001 compliance, which is a prerequisite for them operating in this market. The most recent business continuity and DR test exercise was completed in November 2016, when our services were fully tested and signed off.

INNOVATION IN...

Software

We have built a pioneering business management tool that gives visibility on real-time performance and supports high performing teams for one of our larger customers. The software delivers meaningful performance management in a non-traditional way that recognises and supports people’s skills and competencies by focusing on future performance rather than looking at the past – and is based on the strengths based approach advocated by Peter Drucker (Management Guru) and Steve Jobs, amongst others. It also provides a user interface to capture real-time information on employee satisfaction levels and hence is able to provide a gauge of employee engagement at any time – a real advantage for large, geographically dispersed organisations.

New Adept4 business

"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%."

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).

Financial review continued

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 11 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 £1,871,000 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
11 January 2017

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

Principal risks and uncertainties

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.

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.

A committee of key employees and management looks to meet once a quarter to review the Group's risk register for additions, changes and mitigation strategies. This is overseen by the Company's Director of Corporate and Commercial Services who ensures the appropriate level of action is taken and reports by exception to the Finance Director and COO, who in turn feeds back to the Board.

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

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 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 our 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.

Integration risk

The Group has been and intends to be active in acquiring other businesses, which could be disruptive as new businesses are integrated, both for the operational performance of existing business and new business.

In making an acquisition the Board makes full use of professional advisers to assist it in the process of legal, financial and commercial due diligence. Post-acquisition, the process of integration and performance of acquisitions is implemented by a team with experience in this area and monitored closely by the Board.

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.

Risks and risk management continued

Risks continued

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 responsible for a narrower aspect of our technology footprint and so 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 continued strengthening of middle management in key areas of finance, operations and technology and through the use of bonuses and employee options to incentivise and reward key staff.

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 or onerous 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 accept a level of contractual liability which is commensurate with insurance policies and the value of the contract.

Regulatory compliance

The Group provides services, some of which are in regulated markets. The Group must maintain compliance to 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.

Taxation risk

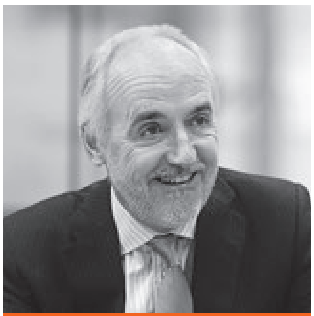
The Group complies with all applicable tax laws, rules, regulations and disclosure requirements in every territory in which it operates.

The Group manages its tax affairs with a view to enhancing shareholder value and the wider reputation of the Group.

Board of Directors

Gavin Lyons

Ian Winn



Dr Tom Black

Simon Duckworth

Gavin Lyons

Executive Chairman

Gavin Lyons, Executive Chairman, is responsible for the planning, setting and execution of the Company's strategy as well as identifying acquisition opportunities. Gavin is an Operating Partner of MXC Capital plc, a London based, AIM-listed technology-focused merchant bank and Executive Chairman of Tax Systems plc. Gavin has had a distinguished career in the TMT sector, completing close to 20 corporate transactions (including three major exits) totalling more than £200m, prior to MXC Capital plc. Until 2015, Gavin was CEO of Accumuli plc, a successful buy and build in the IT security sector sold to NCC Group plc for £55m in 2015. Prior to Accumuli plc, Gavin was Head of Telecoms & Utilities UK&I at SAP, the global market and technology leader in business management software. Prior to SAP, Gavin had considerable executive-level experience derived from his role as Vice President of Sales and Alliances with Identum and three subsequent director positions with Trend Micro. Identum was a venture capitalist-backed email encryption business that was successfully sold to IT security giant Trend Micro in 2008, for a multimillion-dollar sum.

Gavin has also worked at Xerox, Compuware and The Caudwell Group. Gavin holds an MBA from Henley Management College, awarded in 2005.

Ian Winn

Finance Director and COO

Ian Winn is Finance Director and COO. Ian joined on 1 February 2016 from Mobica Limited, a software development and integration services company where he was Finance Director. From 2006 to 2015, Ian worked at Accumuli plc, one of the UK's leading independent providers of IT security and risk management, which was successfully sold to NCC Group plc for £55m. Prior to this he held a number of senior financial board positions in a number of successful high growth service and finance-related businesses. Ian is a Chartered Accountant qualifying with KPMG LLP in 1993.

Dr Tom Black

Non-Executive Director

Tom Black is co-founder and Non-Executive Chairman of Digital Barriers plc, an AIM-listed business focused on the surveillance sector and which operates in the global homeland security market. Prior to setting up Digital Barriers in 2009, Tom spent over 20 years with Detica Group plc, following his studies at the Universities of Strathclyde and Oxford. He joined the business in 1984 and was appointed Chief Executive in 1995.

Tom then led the £12m management buyout of Detica in 1997 and the Group's flotation on the London Stock Exchange in April 2002. He then oversaw the acquisition of Detica by BAE Systems in 2008 for £538m. Tom is also a Non-Executive Director of Herald Investment Trust plc and a Trustee of the Black Family Charitable Trust.

Simon Duckworth

Non-Executive Director

Simon Duckworth, OBE DL, holds a number of non-executive positions in the public and private sectors and is currently Chairman of Barings 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-listed companies as a non-executive director. Simon was a Non-Executive Director of 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.

Corporate governance report

The Board is committed to ensuring that proper standards of corporate governance operate. As an AIM-listed company Adept4 is not required to comply with the principles and provisions of the UK Corporate Governance Code published by the Financial Reporting Council in September 2015; however, the Board of the Company is committed to the principles of good corporate governance and complies where practicable with the provisions of the Quoted Companies Alliance's Corporate Governance Code for Small and Mid-Size Quoted Companies.

The Board

The Board is responsible for setting the overall strategy of the business, reviewing management performance and ensuring the Group has sufficient financial and human resources to meet its objectives. It directs the Group's activities in an effective manner through general Board meetings and monitors performance through timely and relevant reporting procedures. Where it deems necessary, the Board requests reports on specific areas outside the normal reporting regime.

The Chairman is responsible for the leadership of the Board and ensuring its effectiveness. The Board at present comprises two Executives (the Executive Chairman and the Finance Director and COO) and two Non-Executive Directors. 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.

Operational management during the year under review was delegated to the Chief Executive Officer (CEO) until January 2016, and thereafter to the Finance Director and COO and the senior management team, who met regularly to review current business performance, sales activity, operational projects, customer service, human resourcing matters and other day to day activities.

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. Dr Tom Black is Chairman of the Remuneration Committee and Simon Duckworth is Chairman of the Audit Committee. Terms of reference for the committees are available on the Company's website.

A separate report on Directors' remuneration is set out on pages 18 to 19. This is to be approved by the shareholders at the Annual General Meeting.

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

Accountability and audit

The Board considers that the Annual Report presents a balanced and understandable assessment of the Group's performance and prospects. The Audit Committee has written terms of reference setting out its authority and duties and has meetings at least once a year with the external Auditor. The Audit Committee reviews the independence and objectivity of the external Auditor. The Committee reviews the nature and amount of the non-audit work undertaken by the Auditor to satisfy itself that there is no effect on its independence. The Committee is satisfied that Nexia Smith & Williamson is independent.

Internal financial control

The Group has established policies covering the key areas of internal financial control and the appropriate procedures, controls, authority levels and reporting requirements which must be applied throughout the Group. The key procedures that have been established in respect of internal financial control are as follows:

- financial reporting – there is in place a comprehensive system of financial reporting based on the annual budget, which the Board approves. The results for the Group as a whole and each business segment are reported monthly, along with an analysis of key variances. Year-end forecasts are updated on a regular basis; and
- investment appraisal – applications for capital expenditure are made in a format which places emphasis on the commercial and strategic as well as the financial justification. All significant projects require specific Board approval.

No system can provide absolute assurance against material misstatement or loss but the Group's systems are designed to provide reasonable assurance as to the reliability of financial information, ensuring proper control over income and expenditure, assets and liabilities.

Relations with shareholders

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 development 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 AGM and other relevant announcements that are maintained on the Group's investor website, www.adept4plc.co.uk. As appropriate, business-related announcements may also be published there if the Group considers them to be of significant interest to 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.

The Executive Chairman and the Finance Director and COO are primarily responsible for investor relations.

Meetings are offered to major institutional shareholders to discuss strategy, financial performance and investment activity immediately after the full year and interim results announcements. All 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.

Board appointments

As reported elsewhere in this report Gavin Lyons was appointed Executive Chairman on 7 December 2015 and Ian Winn was appointed Finance Director and COO on 1 February 2016.

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. The cost of the Executive Chairman, who is an operating partner of MXC Capital plc (MXC) (and which has a 25% holding in the shares of the Company), is charged by MXC Advisory Limited, his employer, to the Company.
- **Bonus scheme**
  There is no bonus scheme in place for the Executive Chairman. The Finance Director and COO waived the right to an annual bonus for 2016 in lieu of share options issued on 8 February 2016.
- **Car allowance**
  No car allowances are paid.
- **Pensions**
  Only provisions required by law are made available.
- **Long Term Incentive Plan (LTIP)**
  The Executives were entitled to participate in the LTIP, which was intended to be implemented by the Company. This was in line with the stated policy of sharing 10% of the increase in shareholder value, subject to a 40% hurdle above the placing price of 4.2p per Ordinary Share on 10 February 2016. At 30 September 2016 the LTIP was yet to be fully implemented.
- **Other benefits**
  The Finance Director and COO receives the benefit of private medical insurance and death in service and critical illness income protection. The Executive Chairman receives no benefits.

The Finance Director and COO is engaged under a service contract which requires a notice period of six months. The Executive Chairman's services are secured under an engagement letter with MXC Advisory Limited, which contains a notice provision of one month.

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 fees paid or receivable £'000	Bonus paid or receivable £'000	Pension contributions £'000	Other benefits £'000	**2016 total £'000**	2015 total £'000
Non-Executive						
T Black	30	—	—	—	**30**	30
J Dodd (resigned 23 March 2016)	21	—	—	—	**21**	42
S Duckworth	30	—	—	—	**30**	8
Executive						
G Lyons (appointed 7 December 2015)	167	—	—	—	**167**	—
I Winn (appointed 1 February 2016)	90	—	—	5	**95**	—
N Scallan (resigned 23 March 2016)	117	—	—	(17)	**100**	132
A Bonner (resigned 26 March 2014)	—	—	—	—	**—**	51
Total	455	—	—	(12)	**443**	263

Notes: Included in "Other benefits" in the table of Directors' remuneration above are the costs of share options issued in accordance with IFRS 2 Share Based Payments to the Directors as follows:

Name of Director	**2016 £'000**	2015 £'000
I Winn (appointed 1 February 2016)	**2**	—
N Scallan (resigned 23 March 2016)	**(17)**	12

Directors' interests in shares

The interests of the Directors in the Ordinary Shares of the Company at 30 September 2016 together with their interests as of 11 January 2017 were as follows:

Name of Director	11 January 2017 Number	30 September 2016 Number
T Black	8,842,199	8,842,199
S Duckworth	5,050,000	5,050,000
G Lyons	4,000,000	4,000,000
I Winn	1,428,571	1,428,571

Directors' interests in share options

The interests of the Directors in options over the Ordinary Shares of the Company at 30 September 2016 together with their interests at 1 October 2015 (or date of appointment if later) were as follows:

	1 October 2015	Granted in the year	Lapsed during the year	**30 September 2016**	Exercise price	Date when exercisable	Expiry date
I Winn	—	1,190,000	—	**1,190,000**	4.2p	8 Feb 19	8 Feb 26
I Winn	—	1,620,833	—	**1,620,833**	9.0p	28 Sep 19	28 Sep 26

Options granted on 8 February 2016 were issued at the placing price, which represented a discount of 50% to the closing mid-market price. Options granted on 28 September 2016 were issued at the closing mid-market price on that day.

One Director of the Company's subsidiaries has been granted options over the shares of the Company as follows:

	1 October 2015	Granted in the year	Lapsed during the year	**30 September 2016**	Exercise price	Date when exercisable	Expiry date
D Giddens	83,333	—	—	**83,333**	30.0p	9 Jul 11	9 Jul 19
D Giddens	207,692	—	—	**207,692**	—	24 Mar 18	24 Mar 25
D Giddens	—	1,135,000	—	**1,135,000**	9.0p	28 Sep 19	28 Sep 26

Of the total options granted to Directors, 4,153,525 options over the Ordinary Shares in the Company have been granted to Ian Winn and Darron Giddens under the terms of the Company's approved EMI share option scheme, and options over 83,333 Ordinary Shares in the Company have been granted to Darron Giddens under the terms of the Company's unapproved share option scheme.

No other Directors have been granted share options in the shares of the Company or other Group companies.

By order of the Board

Dr Tom Black
Chairman, Remuneration Committee
11 January 2017

Directors' report

Darron Giddens, Company Secretary

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 2016.

Principal activities

The principal activity of the Group is the provision of IT as a Service to the small and medium-sized enterprises in the UK. Further information can be found in the Strategic Report on pages 2 to 14.

Corporate governance

The statement on corporate governance on pages 16 and 17 is included in the Directors' Report by way of reference.

Results and dividends

The Group's loss on ordinary activities after taxation was £599,000 (2015: £1,252,000). The audited financial statements of the Group are set out on pages 24 to 55. The Directors do not propose a dividend for the year ended 30 September 2016 (2015: £nil).

Strategic review

The information satisfying the strategic review requirements is set out in this report on pages 2 to 14.

Going concern

The Group had cash balances of £4.3m at 30 September 2016, and total debt (comprising deferred consideration and loan notes) of £5,885,000, of which only £298,000 was due within twelve months.

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. Further details are disclosed within the Group accounting policies.

Change of name

On 13 June 2016, the Company changed its name from Pinnacle Technology Group plc to Adept4 Plc.

Directors

The present membership of the Board is as follows:

Gavin Lyons, Executive Chairman
Ian Winn, Finance Director and COO
Dr Tom Black, Non-Executive Director
Simon Duckworth, Non-Executive Director

The names and biographical details of the current Directors of the Company are given on page 15. 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.

Gavin Lyons was appointed to the Board on 7 December 2015 and Ian Winn on 1 February 2016.

Nicholas Scallan and Dr James Dodd resigned from the Board on 23 March 2016.

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 18 to 19. In addition to his role as Executive Chairman of the Company, Gavin Lyons is also a Partner and shareholder in MXC Capital plc (MXC). MXC has a 25% holding in the shares of the Company and also holds share warrants, as disclosed in Note 6.5. 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 capital

The share capital during the year and the number of Ordinary Shares reserved for issue are shown in Note 18 to the consolidated financial statements.

On 10 February 2016, following a placing and open offer, 114,311,113 Ordinary Shares were issued for 4.2p, raising £4,801,000.

On 10 February 2016, 53,571,429 Ordinary Shares were issued as partial consideration for the acquisition of Ancar-B and Weston.

As at the date of this report, 227,065,100 Ordinary Shares of 1p each were in issue and fully paid with an aggregate nominal value of £2,270,651.

The holders of Ordinary Shares are entitled to receive the Company's reports and accounts, to attend and speak at general meetings of the Company, to appoint proxies and to exercise voting rights. To be effective, electronic and paper proxy appointments and voting instructions must be received at the Company's registered office or such other place in the United Kingdom specified in the relevant Notice of Meeting, not later than 48 hours before a general meeting.

Subject to applicable statutes, there are no restrictions on transfer or limitations on the holding of Ordinary Shares and no requirements for prior approval of any transfers other than:

- certain restrictions may from time to time be imposed by laws and regulations (for example insider trading laws); and
- pursuant to the Company's share dealing code whereby the Directors and certain senior employees of the Company require approval to deal in the Company's shares.

None of the shares carry any special rights with regard to control of the Company. There are no known arrangements under which financial rights are held by a person other than the holder of the shares and no known agreements on restrictions on share transfers or on voting rights with the exception of the shares issued to the sellers of Ancar-B and Weston which are subject to a "lock in" for twelve months from the transaction date, and to certain restrictions on sale for a further twelve months thereafter.

A provision of the Company's share options and awards, granted to employees under such schemes, allow for any non-lapsed share options to vest on a change of control of the Company.

Share warrant instruments

In consideration of a £5m unsecured loan to the Group 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 6.0p per Ordinary Share. The option can be exercised any time before 26 May 2031.

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 6.5p and shall be exercisable over a seven-year period from 28 April 2015 on the following terms:

(i) the warrants vesting one-third per annum over the first three years; and

(ii) 50% of the warrants vesting in any year (one-third) becoming exercisable immediately and the remaining 50% of the warrants only becoming exercisable subject to a 12% per annum compound growth in the Company's share price above 6.5p. Certain provisions are contained in the warrant instrument to provide for the entire award being exercisable on a takeover of the Company.

Issue of shares

At the general meeting held on 23 March 2016, 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.

Post-balance sheet events

There were no post-balance sheet events.

Employees

As at the date of this report, the Group employed 101 people in the United Kingdom.

The Group's policy is to consult and discuss with employees matters likely to affect employees' interests. Information on matters of concern to employees is given through information bulletins and reports, which seek to achieve a common awareness on the part of all employees of the regular and frequent financial and economic factors affecting the Group's performance.

The Board is committed to ensuring that a culture free from discrimination and harassment remains embedded within the business and discrimination of any sort is not tolerated. Proper consideration is given to applications for employment from disabled people who are employed whenever suitable vacancies arise. Wherever practicable, colleagues who become disabled during employment are retained.

The Group practises equality of opportunities for all employees, irrespective of ethnic origin, religion, political opinion, gender, marital status, disability, age or sexual orientation.

Financial risk management and objectives

Details of financial risk management and objectives are contained in Note 24 to the consolidated financial statements.

Environmental policy

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

The Group has rolled out IT tools to colleagues' desktops that enable greater collaboration and conferencing facilities to minimise unnecessary travel between Company offices and to embrace the wider cultural and integration benefits that arise from the use of such tools.

Directors' report continued

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.

Charitable and political donations

The Group has made no political donations in the year (2015: £nil). Charitable donations were £nil (2015: £nil).

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 he is 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

Notice of the Annual General Meeting will be sent to shareholders in due course.

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
11 January 2017

Statement of Directors' responsibilities

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

We have audited the Group financial statements of Adept4 Plc for the year ended 30 September 2016 which comprise the Consolidated Income Statement, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and the related notes 1 to 28. 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.

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

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 22, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

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 2016 and of its 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.

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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.

Other matter

We have reported separately on the parent company financial statements of Adept4 Plc for the year ended 30 September 2016.

Andrew Bond
Senior Statutory Auditor
for and on behalf of Nexia Smith & Williamson
Statutory Auditor, Chartered Accountants
25 Moorgate London EC2R 6AY
11 January 2017

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	8	**(413)**	—
Depreciation	11	**(74)**	—
Separately identifiable costs	4	**(615)**	—
Share based payments	6	**(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	19	**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	7	**(0.80)p**	(0.95)p
– Basic and fully diluted – discontinued operations	7	**0.44p**	(1.56)p
– Basic and fully diluted	7	**(0.36)p**	(2.51)p

All losses are attributable to continuing operations. The accompanying accounting policies and notes on pages 28 to 55 are an integral part of these consolidated financial statements.

Consolidated statement of financial position

as at 30 September 2016

	Note	30 September 2016 £'000	30 September 2015 £'000
Non-current assets			
Intangible assets	8	**12,636**	491
Investments in associates	9	**—**	100
Property, plant and equipment	11	**255**	126
Total non-current assets		**12,891**	717
Current assets			
Inventories	14	**22**	7
Trade and other receivables	15	**1,568**	1,461
Cash and cash equivalents	16	**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	17	**(3,348)**	(2,316)
Non-current liabilities			
Long-term borrowings	17	**(5,587)**	(10)
Deferred tax liability	12	**(1,664)**	(98)
Total non-current liabilities		**(7,251)**	(108)
Total liabilities		**(10,599)**	(2,424)
Net assets		**8,148**	402
Equity			
Share capital	18	**2,271**	592
Share premium account		**11,337**	7,840
Capital redemption reserve	18	**6,489**	6,489
Merger reserve	18	**1,997**	283
Other reserve	18	**1,439**	51
Fair value adjustment		**—**	(1,064)
Retained earnings	18	**(15,385)**	(13,789)
Total equity		**8,148**	402

These financial statements were approved and authorised for issue by the Board of Directors on 11 January 2017. Signed on behalf of the Board of Directors by Ian Winn, Finance Director and COO.

The accompanying accounting policies and notes on pages 28 to 55 form an integral part of these financial statements.

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**

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

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 statements

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 given on the inside 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 pound 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.

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

At the date of authorisation of these financial statements, the following new standards, amendments and interpretations are currently in issue but are not effective except for accounting periods commencing after 30 September 2016. The Group has not adopted these standards early.

IFRS 15 presents new requirements for the recognition of revenue, replacing IAS 18 Revenue, IAS 11 Construction Contracts and several revenue-related interpretations. The new standard establishes a control based revenue recognition model and provides additional guidance in many areas not covered in detail under existing IFRSs, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options and other common complexities. The Directors have not yet assessed what impact this standard will have on the Group's revenue recognition policies, as the standard was still being amended as recently as April 2016. Combined with the fact that it is yet to be endorsed by the EU, the Directors are not in a position to make a reliable estimate of the impact this revised standard will have on the Group's accounting policies. The standard is expected to be applicable to the Group for the period beginning 1 October 2018.

IFRS 16 presents new requirements for the recognition, measurement, presentation and disclosure of leases. The standard provides that lessees will be required to recognise assets and liabilities for all leases unless the lease term is twelve months or less or the underlying asset has a low value. The standard was issued in January 2016 and applies to annual reporting periods beginning on or after 1 January 2019 but is yet to be endorsed by the EU. The Directors have not yet assessed the impact that this standard will have on the Group's net asset position and are therefore not in a position to make a reliable estimate of the impact this revised standard will have on the Group's accounting policies. The standard is expected to be applicable to the Group for the period beginning 1 October 2019.

In addition, the following new amendments and interpretations of existing standards that are not yet effective and have not been adopted early by the Group are not expected to have any material impact on the Group's consolidated financial statements:

- Amendments to IAS 1 Presentation of Financial Statements (applicable for the period beginning 1 October 2017)
- IFRS 9 Financial Instruments (applicable for the period beginning 1 October 2018)
- IFRS 2 Classification and measurement of share-based payments (applicable for the period beginning 1 October 2018)

The financial statements for the year ended 30 September 2016 were approved by the Board of Directors on 11 January 2017.

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 2016. 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.

2. Principal accounting policies continued

a) Basis of consolidation continued

Associates are those entities over which the Group has significant influence but which are neither subsidiaries nor interests in joint ventures. Investments in associates are recognised initially at cost and subsequently accounted for using the equity method and are reviewed for impairment annually. Acquired investments in associates are also subject to purchase method accounting. However, any goodwill or fair value adjustment attributable to the share in the associate is included in the amount recognised as investment in associates.

All subsequent changes to the share of interest in the equity of the associate are recognised in the Group's carrying amount of the investment. Changes resulting from the profit or loss generated by the associate are reported in "share of profits of associates" in the Consolidated Income Statement and therefore affect net results of the Group.

These changes include subsequent depreciation, amortisation or impairment of the fair value adjustments of assets and liabilities.

Items that have been recognised directly in the associate's equity are recognised in the consolidated equity of the Group. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the investor resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

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

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 to the buyer the significant risks and rewards of ownership, generally when the customer has taken undisputed delivery of the goods.

Revenue from the sale of goods 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, which include motor vehicles, 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 Statement of Financial Position on page 25.

2. Principal accounting policies continued

g) 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. Items that may give rise to classification as separately identifiable items include, but are not limited to, significant Group restructuring and rationalisation programmes, asset impairments, profits or losses on the disposal of businesses, negative goodwill, transaction fees on the acquisition of businesses and remeasurements of contingent consideration. Note 4 contains more detail on separately identifiable costs.

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:

Plant and equipment	–	three to five years
IT equipment	–	three to four years
Fixtures, fittings and leasehold improvements	–	three to four years
Motor vehicles	–	three to four years
Software development	–	five years

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

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 2016:

- maintenance contracts amortised over ten years;
- IT and billing systems amortised over ten years;
- customer lists to be 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 return on assets (WARA) 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 estimated over a maximum of ten years, as opposed to the previous policy of a maximum of five 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.

2. Principal accounting policies continued

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.

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 the 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. Bank overdraft facilities, to the extent that they are utilised, are not offset against cash at bank and in hand and are shown in short-term liabilities in the Consolidated Statement of Financial Position.

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.

2. Principal accounting policies continued

q) Equity continued

- "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 on 26 May 2016, until such share warrants are exercised.
- "Fair value adjustment" represents the difference between the market value at the date of issue of shares to satisfy acquisitions and the value agreed with the vendors relating to these acquisitions.
- "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.

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 £36,000 (2015: £5,000). There were £8,000 of pension contributions payable at the reporting date (2015: £nil).

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 acquisition. 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 10 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 WARA, based on the internal rate of return for each asset, calculated over its useful economic life.

Determining whether intangible assets are impaired requires the judgement of whether there is an impairment indicator. The key judgement for the carrying value of intangible assets is the cash flows associated with the intangible assets and the WARA. 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 8.

Financial instrument

Key judgements and 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 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.

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

All revenues from continuing operations derived from customers within the UK.

There are no assets held outside the UK (2015: none).

3. Segment reporting continued

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)

4. Operating loss continued

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. Employee costs

6.1 Directors and employees

The average number of staff employed by the Group during the financial year amounted to 77 (2015: 35). At 30 September 2016, the Group employed 101 staff (2015: 42) as follows:

	2016	2015
Number of management staff – continuing operations	15	1
Number of operational staff – continuing operations	86	—
Number of management staff – discontinued operations	—	10
Number of operational staff – discontinued operations	—	31
Total	101	42

Employee numbers are stated including Directors.

6. Employee costs continued

6.2 Employee remuneration

	2016 £'000	2015 £'000
Wages and salaries	**1,921**	1,460
Pension contributions	**33**	5
Share option costs	**3**	10
Social security costs	**197**	155
Total	**2,154**	1,630

6.3 Share based payments

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.

	2016 Number	2016 Weighted average exercise price	2015 Number	2015 Weighted average exercise price
Outstanding at 1 October	**2,343,280**	**10.50p**	1,313,333	19.04p
Granted	**11,323,333**	**8.50p**	1,036,614	2.76p
Lapsed	**(1,868,922)**	**9.81p**	(6,667)	300.00p
Outstanding at 30 September	**11,797,691**	**8.69p**	2,343,280	11.04p

During the year, 11,323,333 share options were granted and 1,868,922 share options lapsed in accordance with the share issue documents. At 30 September 2016, Adept4 Plc had granted the following outstanding share options:

Date granted	Balance 2016	Movement during the year	Balance 2015	Exercise price	Dates exercisable	Remaining contractual life (months)
1 June 2008	**100,000**	—	100,000	13.75p	1 July 2010–1 July 2018	21
9 July 2009	**166,666**	(40,000)	206,667	30.00p	9 July 2011–9 July 2019	33
26 March 2014	**—**	(1,000,000)	1,000,000	15.60p	26 March 2017–26 March 2024	90
25 March 2015	**—**	(367,384)	367,384	7.80p	25 March 2018–25 March 2025	102
25 March 2015	**207,692**	(461,538)	669,230	—	25 March 2018–25 March 2025	102
8 February 2016	**1,190,000**	1,190,000	—	4.20p	8 February 2019–8 February 2026	113
28 September 2016	**10,133,333**	10,133,333	—	9.00p	28 September 2019–28 September 2026	120

In total £61,000 of share based expense has been included in the Consolidated Income Statement for 2016 (2015: expense of £19,000).

	Note	2016 £'000	2015 £'000
Share options	6.3	**(8)**	10
Share warrants	6.5	**69**	9
Total		**61**	19

6. Employee costs continued

6.3 Share based payments continued

The fair value of options granted was calculated using the Black Scholes option pricing model, incorporating the following key assumptions:

2016

Number of options	**10,133,333**	**1,190,000**
Volatility	**75%**	**75%**
Exercise price	**9.00p**	**4.20p**
Spot price	**8.00p**	**8.00p**
Interest rate	**2.50%**	**2.50%**
Dividend yield	**—**	**—**
Vesting period (years)	**3**	**3**
Option value weighted average exercise price	**8.7p**	**6.9p**
Option value weighted average spot price	**7.9p**	**5.6p**

2015

Number of options	669,230	367,384	1,000,000	206,667	100,000
Volatility	75%	75%	75%	75%	75%
Exercise price	—	7.80p	15.60p	30.00p	13.75p
Spot price	6.75p	6.75p	13.00p	23.50p	11.00p
Interest rate	2.50%	2.50%	2.50%	4.50%	4.50%
Dividend yield	—	—	—	—	—
Vesting period (years)	3	3	3	2	3
Option value weighted average exercise price	11.1p	15.6p	17.7p	24.7p	13.8p
Option value weighted average spot price	10.1p	12.6p	16.8p	19.4p	11.0p

6.4 Directors

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

	Fees and salaries		Bonus		Employer's NI contributions		Other benefits		Totals (including employer's NI)	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000	**2016 £'000**	2015 £'000	**2016 £'000**	2015 £'000	**2016 £'000**	2016 £'000
Non-Executive										
S Duckworth	**30**	8	**—**	—	**3**	—	**—**	—	**33**	8
T Black	**30**	30	**—**	—	**3**	3	**—**	—	**33**	33
J Dodd (resigned 23 March 2016)	**21**	42	**—**	—	**3**	5	**—**	—	**24**	47
Executive										
A Bonner (resigned 26 March 2014)	**—**	51	**—**	—	**—**	7	**—**	—	**—**	58
N Scallan (resigned 23 March 2016)	**117**	120	**—**	—	**11**	15	**(17)**	11	**111**	146
G Lyons (appointed 7 December 2015)	**167**	—	**—**	—	**—**	—	**—**	—	**167**	—
I Winn (appointed 1 February 2016)	**90**	—	**—**	—	**12**	—	**5**	—	**107**	—
Total	**455**	251	**—**	—	**32**	30	**(12)**	11	**475**	292

No non-directors are considered to be key management personnel.

6. Employee costs continued

6.4 Directors continued

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	2016 £'000	2015 £'000
N Scallan (resigned 23 March 2016)	(17)	11
I Winn (appointed 1 February 2016)	2	—

6.5 Share warrant instrument

In consideration of the issue of £5m loan notes on 26 May 2016 by the Business Growth Fund (the BGF), the BGF 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 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 2016	Movement during the year	Balance 2015	Exercise price	Dates exercisable	Remaining contractual life (months)
28 April 2015	13,853,255	10,894,127	2,959,128	6.50p	28 April 2018–28 April 2022	67
26 May 2016	50,000,000	50,000,000	—	6.00p	26 May 2016–26 May 2031	176
Total	63,853,255	60,894,127	2,959,128	6.11p		

The fair value of MXC Capital share warrants was calculated using the Black Scholes option pricing model, incorporating the following key assumptions:

	2015
Number of options	13,853,255
Volatility	75%
Spot price	6.50p
Interest rate	2.50%
Dividend yield	—
Vesting period (years)	7
Warrant value weighted average exercise price	6.50p

7. 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)

7. Total and continuing loss per share continued

	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.

8. Intangible assets

Fair value at acquisition	Date of acquisition	2016 £'000	2015 £'000
Acquisitions made prior to 2012		**4,867**	4,867
Weston Communications Limited – customer base	10 February 2016	**1,159**	—
Weston Communications Limited – brand	10 February 2016	**167**	—
Weston Communications Limited – goodwill	10 February 2016	**342**	—
Additions relating to Weston Communications Limited		**1,668**	—
Ancar-B Technologies Limited – customer base	10 February 2016	**2,178**	—
Ancar-B Technologies Limited – brand	10 February 2016	**231**	—
Ancar-B Technologies Limited – goodwill	10 February 2016	**1,770**	—
Additions relating to Ancar-B Technologies Limited		**4,179**	—
Adept4 Managed IT Limited – customer base	26 May 2016	**4,243**	—
Adept4 Managed IT Limited – brand	26 May 2016	**759**	—
Adept4 Managed IT Limited – goodwill	26 May 2016	**2,200**	—
Additions relating to Adept4 Managed IT Limited		**7,202**	—
Accent Telecom North Limited – customer base	11 March 2016	**586**	—
		18,502	4,867
Disposals	Date of disposal		
Acquisitions made prior to 2012	13 May 2016	**(4,867)**	—
Accent Telecom North Limited	13 May 2016	**(586)**	—
		13,049	4,867
Amortisation to date			
Acquisitions made prior to 2012		**(4,440)**	(4,376)
Weston Communications Limited – customer base		**(79)**	—
Weston Communications Limited – brand		**(9)**	—
Ancar-B Technologies Limited – customer base		**(150)**	—
Ancar-B Technologies Limited – brand		**(9)**	—
Adept4 Managed IT Limited – customer base		**(149)**	—
Adept4 Managed IT Limited – brand		**(17)**	—
Accent Telecom North Limited – customer base		**(7)**	—
		(4,860)	(4,376)
Disposals	Date of disposal		
Acquisitions made prior to 2012	13 May 2016	**4,440**	—
Accent Telecom North Limited	13 May 2016	**7**	—
		(413)	(4,376)

8. Intangible assets continued

Intangible assets	2016 £'000	2015 £'000
Net intangible assets at 1 October 2015 and 1 October 2014 respectively	491	992
Additions in the period	13,635	—
Disposals in the period	(1,006)	—
Impairment of intangible assets	—	(191)
Amortisation in period – discontinued operations	(71)	—
Amortisation in period – continuing operations	(413)	(310)
Net intangible assets at 30 September 2016 and 30 September 2015 respectively	12,636	491

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. The Group's policy is to amortise maintenance contracts, IT and billing system, customer bases and brand over a maximum of ten years from the date of acquisition.

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)**
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. Intangible assets continued

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.

Where cash flows from customer assets are not subject to a defined contract term and can be cancelled by serving notice, an attrition analysis is performed, 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 are calculated using a weighted average return on assets (WARA) specific to each asset acquired and range 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). 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 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. As a result, where there is an impairment indicator in accordance with IAS 36, some assets are tested individually for impairment and some are tested at cash generating unit level. 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.

Customer bases are assessed annually for impairment but on an individual basis by measuring the actual post-acquisition cash flows of individual customers purchased from the date of acquisition and projecting these cash flows forward over time, using a WARA and a customer retention ratio specific to each customer base.

The Group compares the projected cash flows to the actual cash flows generated from the acquired customer bases in order to identify any impairment of the asset. The calculations are sensitive to movements in both WARA, 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 analysis has 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	Product	Recurring Services	Professional Services
Base case fair value of Intangible assets by CGU (including Goodwill)	2,141	9,499	2,536
Excess of fair value over carrying value:			
Base case	246	1,035	262
Discount rate increased to 17%	106	344	98
Growth rate reduced to 0% for years five to ten	108	334	102

All sensitivity calculations demonstrate an adequate level of headroom whilst highlighting that the impairment review is most sensitive to the discount rate. Given the Group's value proposition is centred around generating monthly recurring fees for IT as a Service, therefore the Directors are satisfied that the Group's objectives are to maximise the cash flows generated through the sales of Recurring Services as a CGU and that a reasonable increase in the key assumptions would not lead to the carrying amount of the relevant CGU exceeding the recoverable amount.

In performing calculations for the customer bases as at 30 September 2016, an impairment provision of £nil (2015: £191,000) was considered necessary. The provision at 30 September 2015 related to assets disposed of during May 2016.

Active companies

Subsidiary company	Holding	Country of incorporation	Shares	Nature of business
Adept4 Holdings Limited*	100%	Scotland	Ordinary	Holding company
Adept4 Managed IT Limited	100%	England and Wales	Ordinary	Recurring services/PS
Ancar-B Technologies Limited	100%	England and Wales	Ordinary	Recurring services/product
Weston Communications Limited	100%	England and Wales	Ordinary	Recurring services/product

* Formerly Pinnacle Cloud Solutions Limited.

8. Intangible assets continued

Dormant companies

Subsidiary company	Holding	Country of incorporation	Shares	Nature of business
Pinnacle CDT Limited*	100%	England and Wales	Ordinary	Dormant
Pinnacle Telecom Limited**	100%	England and Wales	Ordinary	Dormant
Sipswitch Limited	100%	England and Wales	Ordinary	Dormant

* Formerly Accent Telecom UK Limited.

** Formerly Pinnacle Telecom Plc.

9. Associate company

In accordance with IAS 28 an associate company is defined as an entity over which the investor has significant influence, which can be defined as an entity holding directly or indirectly (e.g. through subsidiaries) 20% or more of the voting power of the investee. In 2015 the Group held a number of minority investments in trading companies outside of the Group structure and the Directors carefully considered each investment annually, to ascertain whether the investment and business relationship with each investment company demonstrated a significant influence.

The existence of significant influence is usually evidenced in one or more of the following ways:

(a) representation on the Board of Directors or equivalent governing body of the investee;

(b) participation in policy-making processes, including participation in decisions about dividends or other distributions;

(c) material transactions between the entity and its investee;

(d) interchange of managerial personnel; or

(e) provision of essential technical information.

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

As part of the acquisition of Pinnacle CDT Limited in 2009, the Group acquired a 40% investment in the Ordinary Share capital of Stripe21 Limited, a company registered in England and Wales. The investment in Stripe21 carried a board position and the Ordinary Shares ranked for dividend alongside all other ordinary shareholders. Accordingly, the Directors considered the investment in Stripe21 to be an associate company.

Historically, the investment in Stripe21 had been accounted for using the equity method, where the investment was initially recognised at cost and had its carrying amount adjusted annually to recognise the Group's share of the profit or loss of Stripe21. The accounting reference date of Stripe21 is 30 June and so the Group's share of profits or losses to 30 September was recognised using a weighted average performance using two financial reporting periods.

On 30 September 2015, the Group performed a fair value calculation of its investment in Stripe21 and agreed to impair this investment by £65,000, recognising that the Stripe21 business may not be in a position to pay a cash dividend in the foreseeable future and the goodwill inherent in the underlying investment was impaired.

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

During the year, Pinnacle CDT Limited purchased services from Stripe21 Limited totalling £210,000 (2015: £283,000), which were included in profit/(loss) from discontinued operations.

9. Associate company continued

9.1 Business partner arrangements

As part of the acquisition of Pinnacle CDT Limited in 2009, the Group acquired a 30% investment in each of two companies registered in England and Wales, Accent Telecom North Limited and Accent Telecom South Limited. The trading relationship between these entities and the Group was governed by a Business Partner Agreement, signed between the Group, the entity and their Directors, prior to acquisition by the Group. The investment in each company was in Ordinary B Shares, which carried Board representation and 30% of the voting rights, but which were not entitled to dividend payments. In each case, the Ordinary A Shares were held by the Directors of the entities, who had majority voting rights and rights to dividend payments. Given the Group's inability to share in the profits or dividends generated in the Business Partner entities, the Directors determined that the investments should not be accounted for as associate companies.

The Business Partner Agreements granted the entities non-exclusive rights to sell all products and services of the Group, on an open-book basis, with each entity being entitled to a share, ranging from 50% to 80% of the gross profit on any sales introduced to the Group. These costs are shown as operating expenses of the Group in discontinued operations.

In determining whether these investments should be held as associates, the Directors also considered whether a principal or agent arrangement was applicable to either Business Partner entity. Whilst, in some cases, the end-user agreement was held between the Business Partner entity and the end user, the Business Partner Agreement delegated all responsibility for invoicing, collection, servicing and performance of the agreement to the Group. During the year, gross profit of £961,000 was recorded in the discontinued operations, in respect of sales to end-user customers where the end-user agreements were in the name of the Business Partners.

In all cases, in accordance with the terms of the Business Partner Agreements, the Group accounted for sales as the principal and recognised both the revenue and cost of sales through discontinued operations in the Consolidated Statement of Comprehensive Income. In all cases, Accent Telecom North Limited and Accent Telecom South Limited accounted for these sales as agent in their own annual accounts. The Directors considered the provisions of IAS 18 and judged that this was the most appropriate accounting treatment under the Business Partner Agreements.

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.

10. 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.

Notes to the consolidated financial statements continued

10. Financial instrument continued

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)

11. Property, plant and equipment

	IT equipment £'000	Fixtures and fittings and leasehold improvements £'000	Plant, machinery and motor vehicles £'000	Software and VOIP platform £'000	Total £'000
Cost of assets					
At 1 October 2015	361	53	49	484	947
Acquired by acquisition	142	57	14	—	213
Additions	46	70	—	—	116
Disposals	(361)	(53)	(49)	(484)	(947)
At 30 September 2016	**188**	**127**	**14**	**—**	**329**

	IT equipment £'000	Fixtures and fittings and leasehold improvements £'000	Plant, machinery and motor vehicles £'000	Software and VOIP platform £'000	Total £'000
Cost of assets					
At 1 October 2014	964	204	99	504	1,771
Additions	78	1	—	40	119
Disposals	(681)	(152)	(50)	(60)	(943)
At 30 September 2015	361	53	49	484	947

	IT equipment £'000	Fixtures and fittings and leasehold improvements £'000	Plant, machinery and motor vehicles £'000	Software and VOIP platform £'000	Total £'000
Depreciation					
At 1 October 2015	296	12	29	484	821
Charge for the year	41	22	11	—	74
Disposals	(296)	(12)	(29)	(484)	(821)
At 30 September 2016	**41**	**22**	**11**	**—**	**74**

11. Property, plant and equipment continued

	IT equipment £'000	Fixtures and fittings and leasehold improvements £'000	Plant, machinery and motor vehicles £'000	Software and VOIP platform £'000	Total £'000
Depreciation					
At 1 October 2014	905	128	66	443	1,542
Charge for the year	78	6	13	101	198
Disposal	(687)	(122)	(50)	(60)	(919)
At 30 September 2015	296	12	29	484	821
Net book value					
At 30 September 2016	**147**	**105**	**3**	**—**	**255**
Net book value					
At 30 September 2015	65	41	20	—	126
Net book value					
At 30 September 2014	59	76	33	61	229

12. Deferred tax assets and liabilities

	Deferred tax on acquired intangibles £'000	Total £'000
Deferred tax liability credited at 30 September 2014	208	208
Adjustments in relation to changes in tax rate	—	—
Credited to income statement	(110)	(110)
Deferred tax liability at 30 September 2015	98	98
Deferred tax on intangible asset additions	1,747	1,747
Credited to income statement – continuing operations	(83)	(83)
Credited to income statement – discontinued operations	(14)	(14)
Disposal of intangible assets – discontinued operations	(84)	(84)
Deferred tax liability at 30 September 2016	**1,664**	**1,664**

13. Leases

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

Land and buildings	Within 1 year £'000	1 to 5 years £'000	More than 5 years £'000	Total £'000
At 30 September 2016	**138**	**32**	**—**	**170**
At 30 September 2015	25	2	—	27

Lease payments recognised as an expense during the year amounted to £81,000 (2015: £82,000). 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	12 months
Victoria Spring Business Park, Liversedge, West Yorkshire	22 months

13. Leases continued

13.1 Finance leases

Adept4 Plc has finance leases which relate to assets used within the Group. The net carrying amount of the assets held under the leases is £81,000 (2015: £22,000). The assets are included under IT equipment and tenants' improvements. The amounts held under hire purchase agreements are secured on the assets concerned. Future minimum lease payments as at 30 September 2016:

	Within 1 year £'000	1 to 5 years £'000	More than 5 years £'000	Total £'000
Finance lease payments due on IT equipment	28	4	—	32
Finance lease payments due on tenants' improvements	10	37	2	49
Total finance lease payments due	38	41	2	81

Gross finance lease payments, including interest due over the term, equate to £90,000. Of this amount, £43,000 is due within one year, and £47,000 in one to five years.

13.2 Operating leases

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.

14. Inventories

	2016 £'000	2015 £'000
Consumables	**5**	6
Work in progress	**17**	1
Inventories	**22**	7

15. Trade and other receivables

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

Trade receivables at the reporting date comprise amounts receivable from the provision of IT as a Service. The average credit period taken on the provision of these services is 35 days (2015: 26 days). Trade receivables are stated net of an impairment for estimated irrecoverable amounts of £53,000 (2015: £78,000). This impairment has been determined by reference to known issues. Write-offs are made when the irrecoverable amount becomes certain. The carrying value of trade and other receivables approximates to their fair value. The bad debt provision as at 1 October 2015 was £78,000. During the year £1,000 of bad debt was written off against the provision, and a further net provision of £52,000 was made, resulting in a carrying bad debt provision of £53,000 as at 30 September 2016.

At 30 September 2016 trade receivables amounting to £70,000 (2015: £172,000) were past due but not impaired.

The past due balance is calculated by reference to specific terms agreed with each customer. The age of trade receivables not impaired is as follows:

	2016 £'000	2015 £'000
Not past due (less than 30 days)	**624**	378
30–59 days	**432**	150
60–89 days	**53**	61
90–119 days	**11**	46
120+ days	**7**	51
	1,127	686

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 and public authorities.

16. Cash and cash equivalents

	2016 £'000	2015 £'000
Cash at bank and in hand	4,266	641
Bank overdraft facilities	—	(48)
Cash and cash equivalents	4,266	593

Cash balances are held with a small number of counterparties. There were no borrowing facilities in place at 30 September 2016 other than the Loan Notes issued to the Business Growth Fund (Note 10).

17. Trade and other payables

17.1 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

Note 13 contains further information on the finance lease liability.

Note 9.1 contains further information on deferred consideration payable which relates to the acquisition of Accent Telecom North Limited.

Note 5 contains further information on deferred and contingent consideration payable relating to the acquisition of Adept4 Managed IT Limited.

Note 10 contains more detail on the Loan Notes repayable to the BGF.

17.2 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	—

Note 5 contains further information on deferred consideration payable which relates to the acquisition of Adept4 Limited.

Note 10 contains more detail on the Loan Notes repayable to the BGF.

Notes to the consolidated financial statements continued

18. Share capital and reserves

18.1 Share capital

Shares issued and fully paid

	2016 £'000	2015 £'000
Beginning of year	**592**	6,862
Issued during year	**1,679**	219
Cancelled – see capital redemption reserve	**—**	(6,489)
Shares issued and fully paid	**2,271**	592

Share capital allotted, called up and fully paid

	Ordinary Shares £'000	Deferred Shares £'000	Total Shares £'000
At 30 September 2014	373	6,489	6,862
8,684,147 Ordinary Shares of £0.01 each issued 20 November 2014	87	—	87
Deferred shares converted to 1 Ordinary Share of £0.01 issued on 27 March 2015	—	(6,489)	(6,489)
13,164,122 Ordinary Shares of £0.01 each issued 14 May 2015	132	—	132
At 30 September 2015	592	—	592
114,311,113 Ordinary Shares of £0.01 each issued 10 February 2016 through a placing and open offer	1,143	—	1,143
53,571,429 Ordinary Shares of £0.01 each issued as consideration for acquisitions of Weston Communications Limited and Ancar-B Technologies Limited	536	—	536
At 30 September 2016	**2,271**	**—**	**2,271**

18.2 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 creates 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.

18.3 Retained earnings reserve

	2016 £'000	2015 £'000
Retained earnings reserve at 1 October	**(13,789)**	(12,537)
Effective interest on equity element of the BGF Loan Notes	**67**	—
Fair value adjustment reserve written off on disposal of trade	**(1,064)**	—
Loss for the year	**(599)**	(1,252)
Retained earnings reserve at 30 September	**(15,385)**	(13,789)

18.4 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. During the year, shares were issued at 4.20p per share to the vendors of Weston Communications Limited totalling £1.5m and the vendors of Ancar-B Technologies Limited totalling £0.75m, and in both cases the 3.2p per share premium, over the 1p nominal value of the shares, was recognised in the merger reserve.

	2016 £'000	2015 £'000
Opening merger reserve at 1 October	**283**	283
3.20p premium on shares issued as part of the acquisition of Ancar-B Technologies Limited	**571**	—
3.20p premium on shares issued as part of the acquisition of Weston Communications Limited	**1,143**	—
Closing merger reserve at 30 September	**1,997**	283

18. Share capital and reserves continued

18.5 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 options element of the BGF Loan Notes.

	2016 £'000	2015 £'000
Other reserve at 1 October	51	32
Share based payments in the period	61	19
Fair value adjustment relating to deferred and contingent consideration on acquisition	1,394	—
Effective interest relating to deferred and contingent consideration in the period	(67)	—
Other reserve at 30 September	1,439	51

18.6 Fair value adjustment

In the past, with the exception of Solwise Telephony Limited, the fair value adjustment reserve was created when there was a difference between the fair value of the shares issued as per the Sale and Purchase Agreement and the market value of the shares on completion of acquisition. This reserve relates to the discontinued trade sold to Chess ICT Limited on 16 May 2016 and consequently has been transferred to retained reserves during the year to 30 September 2016.

19. Income tax

	2016 £'000	2015 £'000
Current tax		
UK corporation tax for the period at 20% on discontinued operations	197	—
Deferred tax		
Deferred tax on intangible assets from continuing operations	(83)	—
Deferred tax on intangible assets from discontinued operations	(98)	(110)
	(181)	(110)
Tax on loss from continuing operations	(83)	—
Tax on profit/(loss) from discontinued operations	99	(110)
	16	(110)

The relationship between expected tax expense based on the effective tax rate of Adept4 of 20% (2015: 20.5%) and the tax expense actually recognised in the Consolidated Income Statement can be reconciled as follows:

	2016 £'000	2015 £'000
Result for the year before tax:		
Continuing operations	(1,407)	(477)
Discontinued operations	824	(885)
	(583)	(1,362)
Tax rate	20.0%	20.5%
Expected tax	(117)	(279)
Adjusted for:		
Non-deductible expenses	81	2
Movement in unprovided deferred tax relating to fixed assets	2	19
Movement in unprovided deferred tax relating to losses	56	154
Deduction for R&D expenditure	(7)	—
Change in tax rates	—	(10)
Adjustments on consolidation	1	4
	16	(110)

The Group has unrecognised deferred tax assets in respect of tax losses carried forward totalling £1,522,000 (2015: £1,573,000).

20. Acquisition of subsidiaries during the financial year

20.1 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.

20. Acquisition of subsidiaries during the financial year continued

20.2 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.

20. Acquisition of subsidiaries during the financial year continued

20.3 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.

21. Related party transactions

As part of the acquisition of Pinnacle CDT Limited, the Group acquired a 40% share of the equity of an associated company, Stripe21 Limited, although as disclosed in Note 9 this was disposed of on 14 March 2016. During the year, Pinnacle CDT Limited purchased services totalling £210,000 (2015: £283,000) from Stripe21 Limited, recorded as cost of sales within discontinued operations in the Consolidated Income Statement. Stripe21 made no purchases from Pinnacle CDT Limited (2015: none) during the year. The transactions between Pinnacle CDT and Accent Telecom North Limited and Accent Telecom South Limited have been described more fully in Note 9.1.

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 18 and 19.

In addition to his role as Executive Chairman of the Company, Gavin Lyons is also a partner and shareholder in MXC. MXC has a 25% holding in the shares of the Company and also holds share warrants, as disclosed in Note 6.5, 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.

The fees for Gavin Lyons' services as Chairman are invoiced by MXC Advisory Limited. Additionally corporate finance advisory and transaction services were purchased from it as financial adviser to the Company; the Group purchased services totalling £523,000 (2015: £13,000) which reflected the significant and substantial work required to restructure and reorganise the Group.

22. Contingent liabilities

As part of its sale of shares in Stripe21 Limited, Adept4 Plc agreed to defer receipt of the consideration of £385,000 until 31 March 2017. The buyer, a director of Stripe21 Limited, signed personal guarantees in favour of Adept4 Plc for this amount. The benefit of this deferred receipt was subsequently transferred to Chess ICT Limited in May 2016, as part of the consideration received for the sale and assets of Pinnacle CDT Limited. Under the terms of the agreement with Chess ICT Limited, if the £385,000 payment is not received by Adept4 Plc from the buyer on 31 March 2017, then Adept4 Plc is required to make this payment to Chess ICT Limited in any case and pursue the buyer for the amount through the personal guarantees.

23. Capital commitments

There were no capital commitments at 30 September 2016 or 30 September 2015.

24. 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 13 and 14.

24.1 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.

24.2 Interest rate risk

The interest rate on the Group's cash at bank is determined by reference to the bank rate. The Group has no agreed bank overdraft but does have credit card facilities with HSBC of up to £10,000 (2015: £89,000). The interest rate charged on finance leases and commercial loans is a fixed rate agreed at the time of signing the agreement.

24.3 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 that allow the Group to invest in areas that may deliver future benefit to investors, fund its existing operations and consider future acquisition targets. Following the disposal of the trade and assets of Pinnacle CDT Limited and RMS IT Security Limited, the acquisition of Adept4 Managed IT Limited and the Loan Note issue to the BGF the Group currently has no other loan facilities in place. It has significant cash resources at its disposal, as evidenced by the year-end cash position, and will ensure this, together with future use of secured borrowing, is utilised with the aim of maximising rewards for shareholders.

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.

24. Risk management continued

24.3 Capital risk management continued

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.

24.4 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. 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 15 to the financial statements.

24.5 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:

2016	Loans and receivables £'000	Non-financial assets £'000	Total £'000
Trade and other receivables	1,127	—	1,127
Other current assets	—	22	22
Cash at bank and in hand	4,266	—	4,266
	5,393	22	5,415

2015	Loans and receivables £'000	Non-financial assets £'000	Total £'000
Trade and other receivables	686	—	686
Other current assets	—	7	7
Cash at bank and in hand	641	—	641
	1,327	7	1,334

2016	Other financial liabilities at amortised cost £'000	Other liabilities not within scope of IAS 39 £'000	Balance sheet total £'000
Trade and other payables	3,025	—	3,025
Invoice finance liability – current	—	—	—
Finance lease liability – current	—	38	38
Deferred consideration – current	260	—	260
Commercial loans – current	1	—	1
Finance lease liability – non-current	—	43	43
Deferred consideration – non-current	2,500	—	2,500
Commercial loans – non-current	5,000	—	5,000
	10,786	81	10,867

24. Risk management continued
24.5 Risk management analysis continued

2015	Other financial liabilities at amortised cost £'000	Other liabilities not within scope of IAS 39 £'000	Balance sheet total £'000
Trade and other payables	2,222	—	2,222
Invoice finance liability – current	76	—	76
Finance lease liability – current	—	18	18
Commercial loans – current	4	—	4
Finance lease liability – non-current	—	10	10
Commercial loans – non-current	2	—	2
	2,304	28	2,332

2016	0 to 60 days £'000	61 days to 6 months £'000	6 to 12 months £'000	12 months to 2 years £'000	2 to 5 years £'000	Over 5 years £'000	Total £'000
Trade payables	**677**	**116**	**69**	**—**	**—**	**—**	**862**
Long-term borrowings	**67**	**133**	**460**	**1,400**	**3,925**	**4,000**	**9,985**
Finance lease liabilities	**8**	**13**	**17**	**13**	**30**	**—**	**81**
	752	**262**	**546**	**1,413**	**3,955**	**4,000**	**10,928**

2015	0 to 60 days £'000	61 days to 6 months £'000	6 to 12 months £'000	12 months to 2 years £'000	2 to 5 years £'000	Over 5 years £'000	Total £'000
Trade payables	726	554	94	113	—	—	1,487
Long-term borrowings	1	1	2	2	—	—	6
Finance lease liabilities	2	5	7	8	—	—	22
	729	560	103	123	—	—	1,515

25. Post-balance sheet events
There were no post-balance sheet events.

26. Ultimate controlling party
There is no ultimate controlling party.

27. Change of name
On 14 June 2016, the Company's name changed to Adept4 Plc by special resolution and as agreed at a general meeting.

28. Transition to IFRS
The Group has adopted IFRS accounting standards for the year ended 2016 and has reviewed the comparatives for the prior year in accordance with this reporting standard and no adjustments were required.

Independent Auditor's report

to the members of Adept4 Plc (parent company)

We have audited the parent company financial statements of Adept4 Plc for the year ended 30 September 2016 which comprise the parent company Balance Sheet, the parent company Statement of Changes in Equity and the related notes 1 to 16. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

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

Respective responsibilities of the Directors and the auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 22, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

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 2016;
- 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.

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following 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.

Other matter

We have reported separately on the Group financial statements of Adept4 Plc for the year ended 30 September 2016.

Andrew Bond
Senior Statutory Auditor
for and on behalf of Nexia Smith & Williamson
Statutory Auditor, Chartered Accountants
25 Moorgate, London, EC2R 6AY
11 January 2017

Balance sheet (parent company)
as at 30 September 2016

	Note	30 September 2016 £'000	30 September 2015 £'000
Fixed assets			
Intangible assets	3	—	—
Tangible assets	4	—	—
Fixed asset investments	5	1	110
Total fixed assets		1	110
Current assets			
Debtors	6	11,548	72
Cash at bank and in hand		1,029	543
Total current assets		12,577	615
Creditors: amounts falling due within one year	7	(831)	(225)
Net current assets		11,746	390
Total assets less current liabilities		11,747	500
Creditors: amounts falling due in more than one year	8	(3,673)	—
Net assets		8,074	500
Capital and reserves			
Called up share capital	10	2,271	592
Share premium account		11,337	7,840
Capital redemption reserve	12	6,489	6,489
Merger reserve	13	1,997	283
Other reserve	11	1,439	51
Retained reserve	14	(15,459)	(14,755)
Shareholders' funds		8,074	500

Approved by the Board and authorised for issue on 11 January 2017.

Ian Winn
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 2016

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Merger reserve £'000	Other reserve £'000	Retained earnings £'000	Total £'000
At 1 October 2014	6,862	6,775	—	283	32	(13,392)	560
Loss and total comprehensive loss for the period	—	—	—	—	—	(1,363)	(1,363)
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	(1,363)	(60)
Equity at 30 September 2015	592	7,840	6,489	283	51	(14,755)	500

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Merger reserve £'000	Other reserve £'000	Retained earnings £'000	Total £'000
At 1 October 2015	592	7,840	6,489	283	51	(14,755)	500
Loss and total comprehensive loss for the period	—	—	—	—	—	(771)	(771)
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	—	—	—	—	—	—	—
Expenses on share issue	—	(160)	—	—	—	—	(160)
Total transactions with owners	1,679	3,497	—	1,714	1,388	67	8,345
Total movements	1,679	3,497	—	1,714	1,388	(704)	7,746
Equity at 30 September 2016	**2,271**	**11,337**	**6,489**	**1,997**	**1,439**	**(15,459)**	**8,074**

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

1. Accounting policies

1.1 Accounting convention

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

1.2 Profit and loss account

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 £771,000 (2015: £1,363,000).

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. The financial statements have been prepared on the historical cost basis. This is the first year in which the financial statements have been prepared under FRS 102. Refer to Note 17 for an explanation of the transition.

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.

The accounting policies that have been applied in the opening balance sheet have also been applied throughout all periods presented in these financial statements.

1.3 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.

1.4 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Computer equipment – straight line over three years.

1.5 Investments

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

1.6 Pensions

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

1.7 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.

1.8 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.

1.9 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 intangible asset is impaired by a charge to the Consolidated Income Statement. The debtors' balance of £11.5m is recorded in the Company's Balance Sheet, of which £11.4m 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 judgements and 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.

Notes to the financial statements (parent company) continued

1. Accounting policies continued

1.10 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 Consolidated 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 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.

2. Auditor remuneration

Fees payable to the Company's Auditor for the audit of the parent company's annual accounts were £14,000 (2015: £16,500).

3. Intangible assets

On 1 August 2011, as part of the acquisition of the business and assets of MacLellan IT Limited, the Group purchased goodwill of £602,791 in relation to the customer base, which has been accounted for in accordance with FRS 102. This was being amortised to the profit and loss account of the parent company over ten years on a straight line basis. However, following the wilful misconduct of employees and previously associated parties, the decision was made to fully expense the remaining balance to the profit and loss account.

Intangible assets	2016 £'000	2015 £'000
Cost	**603**	603
Amortisation		
Brought forward	**603**	603
Charge for the year	**—**	—
At 30 September	**603**	603
Net book value		
At 30 September	**—**	—

4. Tangible fixed assets

	£'000
Cost	
At 1 October 2015	6
Disposals during the year	(6)
At 30 September 2016	**—**
Depreciation	
At 1 October 2015	6
Disposals during the year	(6)
Charge for the year	—
At 30 September 2016	**—**
Net book value	
At 30 September 2015 and 30 September 2016	**—**

5. Fixed asset investments

	£'000
Cost	
At 1 October 2015	6,866
Disposals during the year	(6,865)
At 30 September 2016	**1**
Provisions for diminution in value	
At 1 October 2015	(6,756)
Disposals during the year	6,756
At 30 September 2016	**—**
Net book value	
At 30 September 2016	**1**
At 30 September 2015	110

The Company undertook an overhaul of its Group structure which included the striking off of a number of its non-trading subsidiaries. As a consequence at 30 September 2016 the Company had three subsidiary undertakings.

Company	Country of registration or incorporation	Class of shares held	%
Subsidiary undertakings			
Adept4 Holdings Limited	Scotland	Ordinary	100
IG Software Limited	England and Wales	Ordinary	100
MacLellan IT Limited	Scotland	Ordinary	100

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

Company	Principal activity	Net assets £'000	Loss for the year £'000
Adept4 Holdings Limited	Intermediate holding company	808	(722)
IG Software Limited	Dormant	(18)	—
MacLellan IT Limited	Dormant	1	—

6. Debtors

	2016 £'000	2015 £'000
Amounts owed by subsidiary undertakings after impairment	**11,411**	—
Prepayments and accrued income	**55**	72
Other taxes and social security costs	**79**	—
Other debtors	**3**	—
	11,548	72

Notes to the financial statements (parent company) continued

7. Creditors: amounts falling due within one year

	2016 £'000	2015 £'000
Trade creditors	**225**	122
Other taxes and social security costs	**199**	18
Accruals and deferred income	**407**	85
	831	225

8. Creditors: amounts falling due in more than one year

	2016 £'000	2015 £'000
Loan Notes repayable to the BGF between three and seven years	**5,000**	—
Less fair value adjustment relating to the BGF loan notes	**(1,327)**	—
	3,673	—

8.1 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 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 FRS 102, the BGF Loan Notes 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 2016 of £3.6m.

The difference between the Coupon rate and the effective interest charge of 15% is charged to 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 the Coupon rate and the effective interest charge is transferred from other reserves to retained earnings in the Consolidated Statement of Changes in Equity.

8. Creditors: amounts falling due in more than one year continued

8.1 Financial instrument continued

	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)**

9. Pension and other post-retirement benefit commitments

No contributions to Company pension schemes were made during the year (2015: £nil).

10. Share capital

Shares issued and fully paid

	2016 £'000	2015 £'000
Beginning of year	**592**	6,862
Issued during year	**1,679**	219
Cancelled – see capital redemption reserve	**—**	(6,489)
Shares issued and fully paid	**2,271**	592

Share capital allotted, called up and fully paid

	Ordinary Shares £'000	Deferred Shares £'000	Total equity £'000
At 30 September 2014	373	6,489	6,862
8,684,147 Ordinary Shares of £0.01 each issued 20 November 2014	87	—	87
1 Ordinary Share of £0.01 issued 27 March 2015	—	(6,489)	(6,489)
13,164,122 Ordinary Shares of £0.01 each issued 14 May 2015	132	—	132
At 30 September 2015	592	—	592
114,311,113 Ordinary Shares of £0.01 each issued 10 February 2016 through a placing and open offer	1,143	—	1,143
53,571,429 Ordinary Shares of £0.01 each issued as consideration for acquisitions of Weston Communications Limited and Ancar-B Technologies Limited	536	—	536
At 30 September 2016	**2,271**	**—**	**2,271**

Notes to the financial statements (parent company) continued

11. 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 terms 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.

	2016 Number	2016 Weighted average exercise price	2015 Number	2015 Weighted average exercise price
Outstanding at 1 October	**2,343,280**	**10.50p**	1,313,333	19.04p
Granted	**11,323,333**	**8.50p**	1,036,614	2.76p
Lapsed	**(1,868,922)**	**9.81p**	(6,667)	300.00p
Outstanding at 30 September	**11,797,691**	**8.69p**	2,343,280	11.04p

During the year 11,323,333 share options were granted and 1,868,922 share options granted prior to the year lapsed in accordance with the share issue documents. At 30 September 2016, Adept4 Plc had granted the following outstanding share options:

Date granted	Balance 2016	Movement during the year	Balance 2015	Exercise price	Dates exercisable	Remaining contractual life (months)
1 June 2008	**100,000**	—	100,000	13.75p	1 July 2010–1 July 2018	21
9 July 2009	**166,666**	(40,000)	206,667	30.00p	9 July 2011–9 July 2019	33
26 March 2014	**—**	(1,000,000)	1,000,000	15.60p	26 March 2017–26 March 2024	90
25 March 2015	**—**	(367,384)	367,384	7.80p	25 March 2018–25 March 2025	102
25 March 2015	**207,692**	(461,538)	669,230	—	25 March 2018–25 March 2025	102
8 February 2016	**1,190,000**	1,190,000	—	4.20p	8 February 2019–8 February 2026	113
28 September 2016	**10,133,333**	10,133,333	—	9.00p	28 September 2019–28 September 2026	120

In total, £61,000 of share based payment expense has been expensed during the year (2015: expense of £19,000).

	Note	2016 £'000	2015 £'000
Share options		**(8)**	10
Share warrants	11.2	**69**	9
Total		**61**	19

The fair value of options granted was calculated using the Black Scholes option pricing model, incorporating the following key assumptions:

2016		
Number of options	**10,133,333**	**1,190,000**
Volatility	**75%**	**75%**
Exercise price	**9.00p**	**4.20p**
Spot price	**8.00p**	**8.00p**
Interest rate	**2.50%**	**2.50%**
Dividend yield	**—**	**—**
Vesting period (years)	**3**	**3**
Option value weighted average exercise price	**8.7p**	**6.9p**
Option value weighted average spot price	**7.9p**	**5.6p**

11. Other reserve continued

2015

Number of options	669,230	367,384	1,000,000	206,667	100,000
Volatility	75%	75%	75%	75%	75%
Exercise price	—	7.80p	15.60p	30.00p	13.75p
Spot price	6.75p	6.75p	13.00p	23.50p	11.00p
Interest rate	2.50%	2.50%	2.50%	4.50%	4.50%
Dividend yield	—	—	—	—	—
Vesting period (years)	3	3	3	2	3
Option value weighted average exercise price	11.1p	15.6p	17.7p	24.7p	13.8p
Option value weighted average spot price	10.1p	12.6p	16.8p	19.4p	11.0p

11.1 Directors

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

	Fees and salaries		Bonus		Employer's NI contributions		Other benefits		Total (including employer's NI)	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000	**2016 £'000**	2015 £'000	**2016 £'000**	2015 £'000	**2016 £'000**	2015 £'000
Non-Executive										
S Duckworth	**30**	8	**—**	—	**3**	—	**—**	—	**33**	8
T Black	**30**	30	**—**	—	**3**	3	**—**	—	**33**	33
J Dodd (resigned 23 March 2016)	**21**	42	**—**	—	**3**	5	**—**	—	**24**	47
Executive										
A Bonner (resigned 26 March 2014)	**—**	51	**—**	—	**—**	7	**—**	—	**—**	58
N Scallan (resigned 23 March 2016)	**117**	120	**—**	—	**11**	15	**(17)**	11	**111**	146
G Lyons (appointed 7 December 2015)	**167**	—	**—**	—	**—**	—	**—**	—	**167**	—
I Winn (appointed 1 February 2016)	**90**	—	**—**	—	**12**	—	**5**	—	**107**	—
Total	**455**	251	**—**	—	**32**	30	**(12)**	11	**475**	292

Benefits include the costs of share options issued in accordance with FRS 102 to the Directors of the Company as follows:

Name of Director	**2016 £'000**	2015 £'000
N Scallan (resigned 23 March 2016)	**(17)**	11
I Winn (appointed 1 February 2016)	**2**	—

11. Other reserve continued

11.2 Share warrant instrument

In consideration of the issue of £5.0m loan notes on 26 May 2016, the BGF 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 6.0p 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 Note 8.

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 2016	Movement during the year	Balance 2015	Exercise price p	Dates exercisable	Remaining contractual life (months)
28 April 2015	**13,853,255**	10,894,127	2,959,128	6.50p	28 Apr 2018–28 Apr 2022	67
26 May 2016	**50,000,000**	50,000,000	—	6.00p	26 May 2016–26 May 2031	176
Total	**63,853,255**	60,894,127	2,959,128	6.11p		

The fair value of MXC Capital share warrants was calculated using the Black Scholes option pricing model, incorporating the following key assumptions:

	2015
Number of options	13,853,255
Volatility	75%
Spot price	6.50p
Interest rate	2.50%
Dividend yield	—
Vesting period (years)	7
Warrant value weighted average exercise price	6.50p

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 IFRS 2.

	2016 £'000	2015 £'000
Other reserve at 1 October	**51**	32
Share based payments in the period	**61**	19
Fair value adjustment relating to deferred and contingent consideration on acquisition	**1,394**	—
Effective interest relating to deferred and contingent consideration in the period	**(67)**	—
Other reserve at 30 September	**1,439**	51

12. 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 creates 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 buy back shares.

13. 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. During the year, shares were issued at 4.2p per share to the vendors of Weston Communications Limited totalling £1.5m and the vendors of Ancar-B Technologies Limited totalling £0.75m, and in both cases the 3.2p per share premium, over the 1p nominal value of the shares, was recognised in the merger reserve.

	2016 £	2015 £
Opening merger reserve at 1 October	283	283
3.2p premium on shares issued as part of the acquisition of Ancar-B Technologies Limited	571	—
3.2p premium on shares issued as part of the acquisition of Weston Communications Limited	1,143	—
Closing merger reserve at 30 September	1,997	283

14. Retained reserves

	2016 £'000	2015 £'000
Retained earnings reserve at 1 October	(14,755)	(13,392)
Effective interest on equity element of BGF Loan Notes	67	—
Loss for the year	(771)	(1,363)
Retained earnings reserve at 30 September	(15,459)	(14,755)

15. 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 18 and 19.

In addition to his role as Executive Chairman of the Company, Gavin Lyons is also a partner and shareholder in MXC. MXC has a 25% holding in the shares of the Company and also hold share warrants, as disclosed in Note 11.2 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.

The fees for Gavin Lyons' services as Chairman are invoiced by MXC Advisory Limited. Additionally, corporate finance advisory and transaction services were purchased from it as financial adviser to the Company; the Group purchased services totalling £523,000 (2015: £13,000) which reflected the significant and substantial work required to restructure and reorganise the Group.

The parent company is exempt from disclosing transactions between Group companies due to the subsidiaries being wholly owned by the parent company.

16. Transition to FRS 102

The parent company has adopted FRS 102 for the year ended 30 September 2016 and has reviewed the comparatives for the prior year, which were originally prepared under UK GAAP.

The policies applied under the entity's previous accounting framework are not materially different to FRS 102 and have not impacted on equity profit or loss.

Directors, Secretary and advisers

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Dr Tom Black
Non-Executive Director

Simon Duckworth, OBE DL
Non-Executive Director

Ian Winn
Finance Director and COO

Secretary

Darron Giddens

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