



A D E P T 4

IT AS A SERVICE



THURSDAY



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COMPANIES HOUSE

Highlights for the year

Financial

- Revenues of £10.3m (FY16: £4.9m¹)
- Gross profit margin of 60% (FY16: 62%)
- Recurring revenues of £7.3m (FY16: £3.2m), representing 71% of total revenues (FY16: 65%)
- Recurring gross profit covers 96% of trading overheads²
- Adjusted trading Group EBITDA³ of £1.5m (FY16: £0.9m¹)
- Trading Group EBITDA⁴ of £1.2m (FY16: £0.9m)
- Group EBITDA of £0.6m (FY16: £0.1m)
- Loss before tax for the year of £0.8m (FY16: £1.4m)
- £2.9m cash at bank at 30 September 2017 (FY16: £4.3m) resulting in net debt of £2.0m⁵ (FY16: £1.6m)

Operational

- Creation of single operating platform: one system, one operational structure, one brand, one website and one business
- Significant revenue growth in key Microsoft areas of Azure and Office 365
- Increased offering of complementary solutions, building on our Microsoft and telephony legacy through successful reseller partnerships, yielding results

Post-year-end highlights

- Addition of further complementary solutions to the portfolio to enhance our IT Security offering as part of ITaaS
- Further management changes to strengthen the day to day operational management of the business and enhance credibility in cloud services

- 1 From continuing operations.
- 2 Other operating expenses before head office and plc costs.
- 3 Adjusted trading Group EBITDA represents earnings before interest, tax, depreciation and amortisation, share-based costs, separately identifiable costs and head office and plc costs of £0.9m (FY16: £0.8m).
- 4 Trading Group EBITDA represents earnings before interest, tax, depreciation and amortisation, share-based costs, separately identifiable costs and plc costs of £0.6m (FY16: £0.8m).
- 5 Net debt represents cash and cash equivalents of £2.9m (FY16: £4.3m) and short-term and long-term borrowings of £4.9m (FY16: £5.9m).

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Find out more online
Adept4.co.uk

At a glance

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:

<p>1</p> <p>Our technology portfolio</p>	<p>2</p> <p>The service offerings we are able to provide</p>	<p>3</p> <p>How we commercially bill for the combination of service and technology</p>
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1

Our technology portfolio

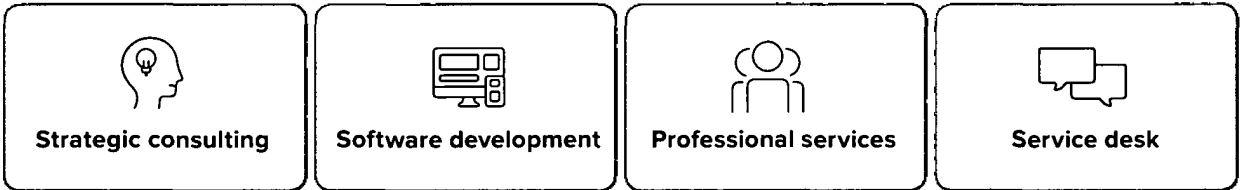
Adept4, through its detailed knowledge and experience of the market, can source and select the technologies that best fit its customers' requirements.

 <p>Apps Able to provide licensing for key applications on a pay-as-you-go basis which factors up or down dependent upon operational requirements.</p>	 <p>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.</p>	 <p>Network Able to provide expertise on design and deployment of both internal and external networks together with leading-edge Wi-Fi technologies.</p>	 <p>Devices Able to source, configure, secure and protect the desk, mobile and tablet devices you require.</p>
 <p>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).</p>	 <p>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.</p>	 <p>Cloud Able to offer cloud readiness assessments which assist in the migration to the cloud, together with high performance managed cloud-based solutions encompassing Anything as a Service (XaaS).</p>	

2

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.

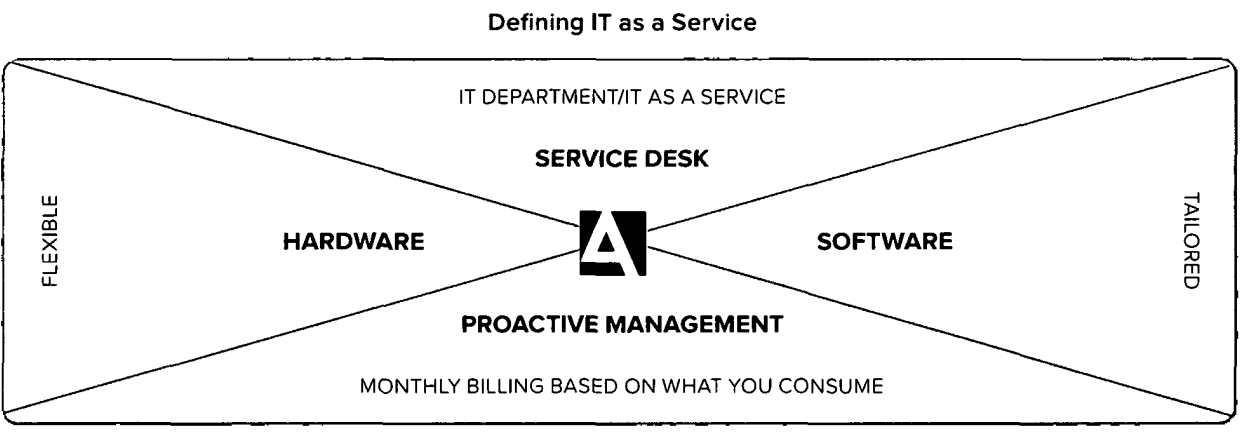


3

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.



What are the challenges currently facing SMEs and how does Adept4 tackle these?

<p>GDPR Businesses are struggling to understand how GDPR will affect them, how they can start to implement an action plan and what tools are available. Adept4 is providing organisations with consultancy, so they can understand how much data they have and where it is stored, how to become compliant and how to provide tools and licences to help with compliancy.</p>	<p>Ransomware Having an adequately structured security system in place to protect its business from any major ransomware attacks, Adept4 is able to provide a layered security approach that secures the multiple access points that an organisation may have, whilst giving confidence that data and information are safe.</p>	<p>Skype/telephony With unified communication and collaboration, businesses are finding this approach radical and are struggling to understand how it works and how it would integrate into their business. Adept4 is utilising cloud-based communication tools that can aid a business in communicating better internally and to their customers, regardless of the channel.</p>	<p>Productivity With a plethora of applications available, claiming to provide businesses with improved productivity, customers are confused as to which tool is best for them and how Office 365 can differ from their current processes. Adept4 can advise on the best possible Office 365/ Microsoft 365 solution, licences and additional training all due to its Direct CSP status with Microsoft.</p>
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Chairman's statement

A period of integration, consolidation and rationalisation

Introduction

I am pleased to comment upon this year's annual results, my first as Non-Executive Chairman, having stepped up to this role in August 2017.

If the year to 30 September 2016 ("FY16") was a period of significant and substantial M&A activity, then the year to September 2017 ("FY17") was a period of integration, consolidation and rationalisation.

The creation of a single operating platform for future growth and acquisitions has been at the heart of everything that we have sought to do in the year. The successful establishment of an integrated business with a single brand, proposition, structure and platform was imperative, and I am pleased to report our success in achieving this objective.

Results

Our results for the period have demonstrated progress in a number of areas:

- revenue for the period was £10.3m (FY16: £4.9m), an increase of 7% on a like for like basis;
- recurring revenues were £7.3m (FY16: £3.2m), an increase of 9% on a like for like basis, and represented 71% of total revenues;
- we increased spend and customers with Microsoft's Cloud offering (under our Cloud Solution Partner relationship) by 168% and 313% respectively (on a like for like basis), demonstrating the success of this reseller arrangement and the potential for future growth;
- our telephony business (which was formerly the Weston Communications Limited business) increased its revenues by 9% (on a like for like basis), demonstrating the important role of telephony in our solution set for our customer base;
- adjusted trading Group EBITDA was £1.5m (FY16: £0.9m);
- Group EBITDA was £0.6m (FY16: £0.1m); and
- loss for the period was £0.6m (FY16 £0.6m).

We finished the year with cash balances of £2.9m. Additionally, the performance criteria for achievement of the earn out relating to Adept4 Managed IT Limited were not achieved by the vendors of the business and therefore the full value of the contingent consideration accrued (of £1.1m) has been written back.

People

We remain a service-based business and our people are the key to our success. We understand that in reshaping a number of businesses into one business the change process can be painful. I would therefore particularly like to thank our staff for their endeavours through the year and for their dedication to creating the single operating platform we now have. At times it has not been easy but we are now just beginning to reap the rewards. The benefits of a larger integrated group also open up opportunities for our staff to progress in terms of skills and seniority. It has been particularly gratifying that a significant number of our staff have grasped these opportunities and we have seen a number of internal promotions during the year.

Board

There have also been changes at Board level during the year. Gavin Lyons stepped down from the Board as Executive Chairman on 1 August 2017 at which point I assumed the role of Non-Executive Chairman. Jill Collighan was appointed to the Board as Executive Director on 20 July 2017 to assist with the Group's continuing development and strategy implementation.

Strategy

Our strategy, which is articulated more fully in the Strategic Review, remains very straightforward. We aim to provide IT as a Service to our customers on a pay-as-you-go basis, based on consumption of the service and utilising an asset-light delivery model (reducing our investment and leveraging public Cloud providers' investments, particularly those of Microsoft). To succeed we need to "delight" our customers and we need to sufficiently differentiate ourselves from the competition.

As we have moved from consolidation and rationalisation of our operating platform we have been able to fully focus on "delighting" the customer. We operate in an industry where things will go wrong no matter how good the service is, and "delighting" the customer is not just about recovery and rescue from these situations but is also about dealing with customers with honesty and integrity. We have rolled out an "emoji" feedback mechanism with our ticketing system which provides real-time insight into levels of customer satisfaction – and the feedback we are receiving is indicating that we are getting this right.

We also continue to invest time and resource into the solution set we offer, identifying new technologies and solutions which fulfil our customers' needs. We have had some real success in this area with Anywhere 365, a Skype-native contact centre solution, and a number of other emerging technologies which address our customers' needs – particularly IT Security. This aspect of our development is a crucial part of ensuring we have a differentiator from the competition.

We also make no excuse for being very firmly a Microsoft Cloud Solution Partner and we regard this as an integral part of our strategy. We will continue to seek to align ourselves with Microsoft's go-to-market strategy and to make ourselves as relevant as possible to Microsoft. This is evidenced by the recent appointment in our business of a former Microsoft Partner Technology Strategist as Chief Technical Officer and our continued investment in further Microsoft accreditation.

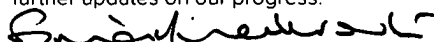
Outlook

A continued shift to the Cloud, consumptive pricing for IT ("pay as you go") and increasing focus on security will remain the defining growth factors in our market.

We have confidence that our business model is addressing these issues, and our continued success will be dependent upon our ability to execute effectively.

We also remain vigilant in looking at acquisition opportunities that provide the appropriate mix of skills, capability and contribution at the right price, and which will enhance growth in our business and increase shareholder value.

I look forward to increased success in the future and to providing further updates on our progress.



Simon Duckworth
Non-Executive Chairman

16 January 2018

Business overview

Our progress has positioned us well for future growth

Overview

It is worth remembering that whilst the three businesses that came together in FY16 to form the Group were ostensibly providing similar and aligned services they were doing this with very different operating models and, just as importantly, with fundamentally different cultures.

In last year's accounts we outlined the value proposition, markets and culture we intended to pursue and our strategy for doing this. The focus throughout the year under review, for management and staff alike, was to be one of integration and consolidation and we are satisfied with our progress in this area.

Significantly, during the year, we have:

- created a single operating platform established from the integration activities;
- pursued a Microsoft-focused, ITaaS-led strategy;
- cross-sold telephony (the Weston skillset) into the rest of the base;
- grown recurring revenues;
- created wider opportunities for staff and hence reduced staff attrition; and
- developed and expanded our solutions portfolio to continue to make ourselves relevant to our customers.

Our progress during the period, and the lessons learned from the integration, have positioned us well for future growth.

Market developments and our target market place

The factors that have driven growth in the macro ITaaS market show no signs of abating. Increasing complexity, budgetary pressures, flexibility, high-profile security breaches and resource scarcity all remain relevant and are the key drivers of growth in the market.

More importantly customers are now fully aware of the benefits that can evolve from cloud computing, and the cultural and historical issues and sensitivities around not owning the infrastructure on which a business' data and systems reside are largely being consigned to history.

Culturally businesses are also embracing the use of IT as a tool to improve competitiveness and capability rather than simply just a cost of doing business. This cultural shift is moving down the business chain with smaller businesses just as likely to be receptive to this as larger businesses. The recent evolution of Microsoft's Office 365 Cloud offering is a clear indicator of this with its emphasis on teamwork, collaboration, analytics and machine learning being delivered as standard to businesses big and small.

The UK SME market for ITaaS, with one or two notable sectors, remains relatively strong and growing. The providers to that market remain fragmented and regionalised, and with the move to asset-light delivery models (relying upon Amazon, Microsoft and Google's infrastructure, to name but a few) the barriers to entry are remarkably low. Capability, customer service and price are the key buying criteria.

With the establishment of a clear operating base in the North of England during the last twelve months, putting us close to our customers, we remain ideally placed to service the fast-growing SME base in the Manchester, Liverpool and Leeds areas (M62 corridor) as well as the wider region.

Our "sweet" spot in terms of customers remains the 50 to 250-seat organisation where we can add the greatest value and bring to bear the broad spectrum of capabilities that we are able to offer – including access to a dedicated software team with substantial development experience.

We are proud to be a Microsoft reseller. We continue to maintain our Tier 1 status as a Cloud Solution Partner. Microsoft's Cloud-based offering continues to resonate with customers as evidenced by its continuing quarterly growth in revenues in excess of 90% and it is now a \$20bn run rate business per quarter. The scale and size of this market is driving its own ecosystem which provides further opportunities for us.

What do we do and how do we deliver?

Four-stage approach to our customers and the provision of a corporate IT department

In bringing together the Group under one proposition last year we were clear that our approach to our customers was built around a four-stage method: stabilise, leverage, transform and innovate (SLTI). This approach leverages the expertise we have in the business, acts as a differentiator to competitors and allows us to continue to build value from customers by adding additional services as we deepen the relationship with the customer beyond the initial engagement. We can only do this by having experienced technical resource engaging with our customers regularly and understanding their business, acting, in essence, as consultant CTOs or equivalent. In providing this level of service we also see great value in our software team, which is able to deliver bespoke systems. Clearly there is an increased cost of delivery with such an approach but, ultimately, we believe it cultivates customer relationships which endure.

A recent example of this approach working in practice concerns our largest customer, where through strategic input from us we have been able to streamline and drive efficiencies for it in its contact centre by utilising technology to address its payment card (PCI) needs whilst leveraging its existing assets.

Close to the customer, small enough to care and large enough to cope

In integrating the businesses, we have been careful to retain the reasons why customers historically dealt with us.

Our larger customers interact with us primarily through our account management, technical account managers and our 24/7/365 ITIL service desk. Our smaller customers interact with us through account managers and field service engineers.

During the year we have therefore consolidated our first line service desk into our Warrington office – this is primarily triage, basic fault resolution and non-urgent adds/move and changes. Our second line service desk and field service engineers have remained in the office local to the customer and are therefore on hand to provide that personal level of service.

Consumptive pricing

Our customers all wish to ensure that they only pay for what they receive. The days of fixed/inflexible costs are long gone. Our customers need to be able to flex services and pricing to suit their resource needs and allow them to budget more effectively. We understand this and seek to provide tailored, flexible solutions which are billed monthly and stepped up or down dependent upon the "amount" consumed.

Achievements

We highlighted earlier the integration of the combined businesses into a single operating platform – this undoubtedly has been the single largest achievement during the period.

We have also built revenues with existing customers through our SLTI approach and attracted new customers. Some of the highlights include the following:

- On the telephony front we have:
 - successfully completed a high-profile hardware refresh for a local council in the North of England worth £0.2m;
 - re-signed, for a further three years at 50% uplift, a maintenance agreement for a large, leading university. We believe further value will accrue as we leverage our Skype for Business skills to assist them with future migration to IP-based telephony; and
 - installed and deployed a Skype-native contact centre for an outsourcing provider in less than two weeks and closed a further three opportunities worth £0.3m.
- On the ITaaS front we have:

- secured a three-year contract for ITaaS covering a range of managed services, including IT helpdesk support, managed infrastructure services and transition consulting worth £0.8m;
- maintained customer retention at over 90% during a time of substantial change in the business; and
- expanded our security offering by selling a managed firewall and monitoring service to a number of our customers, including a professional services organisation and a business in the retail motor trade. We are monitoring for activity against a pre-determined number of "use cases" based on automated analysis of log activity. This, combined with the deployment of Microsoft SPE tools for two of our larger customers, is the start of building an IT Security offering beyond traditional anti-virus and anti-spam product resell.
- In respect of our Microsoft capability we have:
 - grown our revenues and customers with Microsoft by 168% and 313% respectively – which helps further cement our continuing relationship with them;
 - implemented a 600 plus user Office 365 deployment. We were chosen for our expertise and our insight into the emerging services associated with Office 365;
 - been acknowledged at the Microsoft Cloud and Hosting Summit 2017 for our use of Azure to provide a Disaster as a Recovery service; and
 - post the year end we have been delighted to welcome a former Partner Technology Strategist from Microsoft's Cloud and Hosting unit as our new Chief Technical Officer. We believe this is a great coup and will enable us to further develop our Microsoft-focused approach.

Developments

We continue to assess how we remain relevant and add value to our customers. Given our role as a proxy IT department to our customers this inevitably involves continuing to assess and determine technologies which will assist our customers but for which we have the capability, both financially and technically, and which align with our asset-light strategy. Our key areas of development in the next twelve months are as follows:

- May 2018 sees the introduction into UK legislation of General Data Protection Regulations. This, combined with recent high-profile ransomware attacks, has continued to push IT Security to the fore of most businesses' thoughts. As indicated above we have an emerging solution set for this area but recognise the need to continue to build out this capability;

The last twelve months has seen input prices rise for resold services – primarily software/hardware from US-based vendors – as a consequence of sterling's depreciation following the EU referendum. So far we have been able to pass through these price increases, but this is not something we can guarantee in the future.

Our people

Our people remain the most important component of our business. We strive to create, and remain committed to creating, a working environment in which all members of staff can grow and develop their skills. Our commitment to training and development will increase given our comments above on the need for us to improve and extend our accreditations. Through the year the integration into one business has provided opportunities for a number of employees to further their career ambitions through internal promotions and we seek to continue to achieve this. We also believe that establishing a shared culture and set of behaviours takes a little while when effecting the level of change we have seen during the last twelve months – so we continue to work at this.

We have continued to engage all employees half yearly with the progress of the business through a dedicated Company "away" day when we can bring all the teams together. We want to make the Group a fun and fulfilling place of work and, in that regard, we are only just at the start of the process.

Summary and outlook

In summary, the last twelve months has been a period of significant change and progress and we have made good headway with our strategy of growing a profitable, customer-focused ITaaS business, adopting an asset-light approach. We are now positioned to drive the business forward and we look forward to providing further updates through the current financial year.

Developments continued

- in recent months we have received an order intake of £0.3m for Anywhere 365, a Skype-native contact centre. We are seeing real traction in the interaction between PBX telephony and Skype for Business, and increasingly customers are looking to benefit from both the cost and flexibility of Skype. Given our joint heritage in both traditional PBX telephony and Skype we will be looking to build upon our existing base to secure further business; and

- following on from the year end we have further streamlined the management team responsible for the day to day operations of the business. We have brought in a Director of Operations from a large metropolitan police authority and a CTO from Microsoft as detailed above. These appointments, combined with our recently appointed Managing Director, David Griffiths, who has over 20 years of Managed IT experience, provide us with an effective team to guide the trading business through its next phase of development.

Challenges

In executing any business plan it is important to be prepared and mitigate against the obvious risks and challenges we face. Our risk management framework is described more fully on page 12. However, there are a number of key challenges which we will need to address through this current year.

Microsoft's significant growth in Cloud revenues and its recent refocus on partners means that we will need to work harder to remain relevant to it. In earlier years we have benefited from a close relationship with Microsoft through our CSP Tier 1 status and though our willingness to "early adopt" some of its Cloud technologies. Primarily we are going to need to improve and enhance our accreditations and also look within our customer base, where we can build vertical sector-based managed service solutions. The recent appointment of our CTO, who has spent his last six years in the very part of Microsoft we engage with, should uniquely position us to address this challenge.

We need to increase our level of training and accreditation in a number of technologies. Over the last year we have made use of apprenticeships to bring entry level staff into the business at first line support level – we now need to work with and encourage the development of these employees and others who wish to develop a career in IT through us. This is something we are actively targeting with both resource and budget.

Financial review

The business is now very firmly based around three segments

The year under review represents the first full year of trading for all three businesses acquired during the previous financial year. To provide some context of the progress made by the business in certain instances we have compared against the like for like performance of the business on a pro-forma basis for the year ended 30 September 2016 rather than the statutory numbers which incorporate eight months' trading for Ancar-B Technologies Limited ("Ancar") and Weston Communications Limited ("Weston") and four months' trading for Adept4 Managed IT Limited ("MIT") (see Note 3).

Revenue and gross margin

Group revenue for the year was £10.3m (FY16: £4.9m), which represented a 7% increase on a like for like basis. All acquired businesses produced top-line revenue growth on a like for like basis – with the telephony business of Weston generating the highest growth of 9% highlighting the continued importance of telephony sales to our ITaaS solutions portfolio.

This produced a gross profit of £6.2m (FY16: £3.0m) representing a very healthy gross margin of 60% (FY16: 62%). The slight reduction in margin from last year is primarily attributable to our sales mix, increased direct input costs and the migration of some services from our infrastructure to a third party (Microsoft) in line with our asset-light strategy. The latter point, whilst initially resulting in some margin reduction, will provide greater scope to increase average revenue per customer and will clearly reduce the future demand for capital expenditure.

The business is now very firmly based around three segments: product, professional services and recurring services, with the initial sale of product or professional services eventually leading to and driving the future sale of recurring services.

Segment highlights

Product

Revenues from product sales were £2.2m (FY16: £1.1m) generating a gross profit of £1.0m (FY16: £0.5m) and gross margin of 45% (FY16: 40%). We benefited from a significant contribution from both telephony and product sales to the smaller end of our customer base where we enjoy improved margins. Specific highlights in the year included:

- a hardware refresh for a large, local authority telephony system worth £0.2m;
- the sale of Anywhere 365 contact centre software to an international contact centre; and
- continued and repeat hardware refreshes at both an infrastructure and user level from a significant section of our customer base. This demonstrates the trust our customers place in us to look after their IT estate.

Recurring Services

Revenues from Recurring Services were £7.3m (FY16: £3.2m) generating a gross profit of £4.4m (FY16: £2.0m) and gross margin of 60% (FY16: 63%). Gross margin is marginally down from last year due to the migration of certain hosted services from in-house (predominantly hosted email and other hosting services) to Microsoft. Whilst there is some short-term margin erosion this strategy reduces risk and cost of ownership for us and allows for a more flexible basis to sell/upsell additional services to the customer.

On a like for like basis, revenues from Recurring Services increased by 9% demonstrating the success of our strategy to focus on this area through pushing consumptive pricing and "pay-as-you-go" IT. The proportion of our total revenue derived from Recurring Services is at 71% providing a strong and visible future revenue base.

Specific highlights in the year included:

- implementation and provision of a three-year contract for ITaaS covering a range of managed services, including IT helpdesk support and managed infrastructure services, worth up to £0.8m;
- provision of a number of managed security services utilising the Microsoft suite of security tools, third-party vendors and deployment of our own SIEM service; and
- renewal of a telephony maintenance support contract for a large leading university for a further three years against strong competition, worth £0.3m.

Professional Services

Revenues from Professional Services were £0.8m (FY16: £0.6m) generating a gross profit of £0.8m (FY16: £0.5m) as permanent employee costs are included in overheads. Whilst the "run rate" business from this source was in line with previous years we undertook a smaller number of large transition projects in the period. We were successful in securing two orders towards the end of the financial year for £0.3m for large transition projects, the majority of which falls to be delivered in the current financial year (year ended 30 September 2018).

Specific highlights in the year included:

- implementation consultancy for rolling out Office 365 across 600 plus users for an online retailer worth £0.1m; and
- transitional infrastructure consultancy involved in onboarding a number of managed service customers, including a housebuilder and a number of professional services organisations.

Financial review continued

Operating results – costs and EBITDA

In presenting the results for the Group last year and at the half-year, we focused on two key metrics: trading Group EBITDA and Group EBITDA.

Trading Group EBITDA was defined as Group profit before interest, tax, depreciation and amortisation, share-based payment costs, separately identifiable costs, plc costs and head office costs. This description was used in order to ensure meaningful comparison with the pro-forma results of the three businesses that came together to form the Group on a like for like basis. For transparency, and for reasons more fully detailed below, we have now reclassified this as adjusted trading Group EBITDA. In future periods we will no longer use this measure as a reportable metric.

Trading overheads were £4.6m (FY16: £2.1m), of which staff costs comprised 81% (FY16: 78%). Given the level of gross profit generated from recurring revenue this meant that we achieved 96% (FY16: 96%) coverage of the trading overhead base. Inevitably in a business which has integrated under a single operating platform there has been some upward pressure on salary costs through a combination of aligning roles and rates of pay. We have been able to partially mitigate against this by the consolidation of our first line service desk into a single location at the end of the financial year. The result of this is that the trading overheads entry monthly run rate flagged at the time of last year's results of £0.4m per month is broadly what we exited the year at, in spite of the higher activity levels.

Adjusted trading Group EBITDA for the year was £1.5m (FY16: £0.9m).

The presentation of adjusted trading EBITDA was done to provide a comparison with the underlying pro-forma results of the three acquired businesses. This has meant that certain costs in the year under review have not been categorised as trading as it was felt that their contribution in the year was to the integration of a single platform and these had also not previously been incurred by the three acquired businesses. These costs included consultancy and rebranding costs and amounted to £0.4m.

Trading Group EBITDA, after including these costs, was £1.2m (FY16: £0.9m).

Moving forward we have recruited a full-time Operations Director to run the operations of the business in steady state and as indicated earlier now have a full-time Managing Director fully responsible for running the trading business. Our marketing activities are now focused on tactical activities aligned with our sales plan and therefore likely to be directly income generating rather than simply creating

brand capital. It is therefore entirely appropriate to include these costs, running at £35,000 per month in the trading overhead base for the current year to 30 September 2018 onwards. The remaining annual head office costs of £0.6m relate entirely to the costs associated with running the plc and cover the costs of the Executive Chairman (left 1 August 2017), the Group CFO (who is now also responsible for M&A), the remainder of the Board and professional fees related to the Company's AIM listing and Group legal matters. Following the structural changes referred to above, the costs of running the plc are expected to reduce in 2018.

Group EBITDA for the year was £0.6m (FY16: £0.1m).

Loss for the period and separately identifiable income/costs

The year was one of integration, which necessitated further costs as follows:

- impairment of goodwill of £0.2m;
- integration and reorganisation costs of £0.1m;
- provision for dispute with Chess ICT Limited of £0.1m; and
- termination payment to Executive Chairman of £0.1m.

“Group revenue for the year was £10.3m (FY16: £4.9m), which represented a 7% increase on a like for like basis.”

At the interims we identified the need for a provision of £0.1m which related to a dispute arising from the sale of the trade and assets of Pinnacle CDT Limited ("CDT") to Chess ICT Limited ("Chess") in May 2016. The dispute related to the recovery of an asset included in this sale. We have now resolved this dispute and the £0.1m became payable on 2 October 2017. Conditional upon the recovery of this asset no further sums will be due; however, should this not be the case then a further payment of up to a maximum of £0.1m will be payable to Chess in September 2018. This amount has not been provided in the financial statements as recovery is considered likely.

The performance criteria for achievement of the earn out relating to the acquisition of MIT were not achieved by the vendors of that business and therefore the full value of the contingent consideration accrued (of £1.1m) has been written back. As a result of this we considered the impact specifically on the value of intangibles arising on the acquisition of MIT; based on current budgets and forecasts for the Group an impairment charge of £0.2m against goodwill was made.

Amortisation of intangible assets was £0.9m (FY16: £0.4m) representing a full-year charge for the acquisitions made during the last financial year.

Interest cost was £0.8m (FY16: £0.4m), of which £0.4m was cash cost and the remainder was the release to the income statement of the fair value adjustments to the deferred and earn out consideration relating to the acquisition of MIT and the Business Growth Fund (BGF) loan notes.

Loss for the year from continuing operations before tax was £0.8m (FY16: £1.4m).

Statement of Financial Position and cash

As referred to above, the performance criteria on the MIT earn out were not met and therefore no earn out consideration will be payable, and as a result the goodwill has been impaired by £0.2m.

Trade and other receivables at the period end were £2.3m (FY16: £1.6m). The increase in this category was primarily due to higher trade receivables (an increase of £0.3m) based on activity levels and a marginal deterioration in collections (see comment below on cash) and prepaid costs relating to three managed service contracts of £0.2m.

Cash balances at 30 September 2017 were £2.9m (FY16: £4.3m), which excludes two large payments of £0.3m in total which were due on the last day of the year but were received on 2 October 2017.

Net debt was £2.0m (FY16: £1.6m). This includes the deferred consideration of £1.0m payable to the sellers of MIT on 2 January 2018. There is currently an ongoing legal dispute with the vendors of MIT which has resulted in a delay in the payment of the deferred consideration. We continue to recognise the full amount of the deferred consideration due to the early stage of this dispute, which has no effect on current performance and does not relate to the performance of MIT since acquisition.

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

- cash used in operating activities of £0.1m (including separately identifiable costs of £0.3m and head office and Plc costs of £0.9m);
- payment of corporation tax on the acquired businesses and sale of CDT of £0.4m;
- cash interest costs of £0.4m;
- deferred consideration of £0.3m; and
- acquisition of fixed assets of £0.2m.



Ian Winn
Group CFO and M&A Director
16 January 2018

Risks and risk management

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 Secretary, who ensures the appropriate level of action and reports by exception to the Board.

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

Risks

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

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

Reputational risk

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

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

Integration and acquisition risk

The Group has been active in acquiring other businesses, which could be disruptive as new businesses are integrated, both on 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 overseen by a team with experience in this area and monitored closely by the Board.

Our stated growth strategy remains a combination of organic and acquisitive growth. The latter is dependent on our capability to acquire companies into the Group at advantageous valuations. However, there has recently been a noticeable firming up of vendor expectations in this respect. There is therefore no guarantee that we will continue to be able to acquire suitable businesses at attractive valuations, which may impact our ability to grow the business and consequently our ability to deliver good returns to shareholders.

Commercial risk

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

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

Technology risk

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

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

Key resources

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

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

Contractual liabilities

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

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

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

Regulatory compliance

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

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

Malicious activity and data protection

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

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

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

Simon Duckworth Non-Executive Chairman

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

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

Dr Tom Black Non-Executive Director

Tom Black is co-founder and Executive Chairman of Thruvision plc, an AIM-quoted business focused on the people-screening sector of the global homeland security market. Thruvision was previously named Digital Barriers and changed when it divested its video security business in 2017. Prior to setting up Digital Barriers in 2009, Tom spent over 20 years with Detica Group plc, following his studies at the Universities of Strathclyde and Oxford. He joined Detica in 1984 and was appointed Chief Executive in 1995.

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

Ian Winn Group CFO and M&A Director

Ian Winn is Group CFO and M&A Director. Ian joined Adept4 on 1 February 2016 from Mobica Limited, a software development and integration services company where he was Finance Director. From 2006 to 2015, Ian was CFO, and latterly COO at Accumuli plc, one of the UK's leading independent providers of IT Security and risk management, where he oversaw the successful sale 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.

Jill Collighan Executive Director

Jill Collighan is an Executive Director assisting Adept4 with its continuing development and strategy implementation. A Chartered Certified Accountant, Jill has over 13 years of operational experience at plc board level specialising in finance, human resources, investor relations and corporate finance. As well as her role with Adept4, Jill is Group Finance Director of MXC Capital Limited, the AIM-quoted technology-focused merchant bank. From 2004 to 2014 Jill was Group Finance Director of AIM-quoted mobile technology provider Zergo Group plc.

Corporate governance report

The Board is committed to ensuring proper standards

The Board is committed to ensuring that proper standards of corporate governance operate. As an AIM-quoted company, Adepra 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 Executive 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 Executive Directors 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. Simon Duckworth is Chairman of the Remuneration Committee and Dr Tom Black is Chairman of the Audit Committee. Terms of reference for the Committees are available on the Company's website.

A separate report on Directors' remuneration is set out on pages 17 and 18. This is to be approved by the shareholders at the Annual General Meeting.

In accordance with the Company's Articles of Association, Jill Collinghan will offer herself for 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.

STRATEGIC REPORT

CORPORATE GOVERNANCE

FINANCIAL STATEMENTS

Corporate governance report continued

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 developments and financial results to its shareholders, to understand shareholder concerns, and to ensure that suitable arrangements are in place to ensure a balanced understanding of the issues and concerns of major shareholders.

The principal method of communication with private investors is via the Company's Annual Report and Accounts, Interim Reports, the Annual General Meeting and other relevant announcements that are maintained on the Group's investor website, www.adept4.co.uk. 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 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 Non-Executive Chairman and Group CFO 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 Jill Collighan was appointed Executive Director on 20 July 2017. Gavin Lyons resigned as Executive Chairman on 1 August 2017, and Simon Duckworth stepped up to the role of Non-Executive Chairman on 1 August 2017.

Remuneration report

Remuneration Committee

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

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

The Committee meets at least once a year.

Remuneration of Executive Directors

The remuneration packages comprise the following components:

- **Base salary**
The Remuneration Committee sets the base salary by reference to responsibilities and the skills, knowledge and experience of the individual. The cost of Jill Collighan is charged to the Company by MXC Advisory Limited (a wholly owned subsidiary of MXC Capital Limited, which has a 25% holding in the shares of the Company).
- **Bonus scheme**
There is no annual bonus scheme in place for the Executive Directors. Ian Winn, CFO, waived the right to an annual bonus for 2017 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 LTIP, which was fully implemented during 2017, is 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. The LTIP was initially partially implemented through the use of EMI Options and a bonus scheme, which will only vest subject

to a minimum of a three to five-year qualifying employment period or a sale of the Company ("Exit"), whichever is shorter, and subject to shareholder returns exceeding 40%. The EMI options awarded to Ian Winn under this scheme were announced on 29 September 2016 and are subject to an exercise price of 9p.

On 16 February 2017, awards of 7.0% of shareholder return were made to Gavin Lyons (then Executive Chairman) (4.8%) and Ian Winn (2.2%) through the issue of A Ordinary Shares and B Ordinary Shares in Adept4 Holdings Limited (together the "LTIP Shares"), an intermediate holding company of the Company. The LTIP Shares had the right to be exchanged, at the discretion of the Company, for cash or for Ordinary Shares in the Company, upon an Exit or between three and five years from issue, subject in all cases to the vesting criteria (being a share price at vesting of greater than 9p) being met.

Upon the resignation of Gavin Lyons as the Executive Chairman on 1 August 2017 all entitlements to this LTIP lapsed for him.

- **Other benefits**

Ian Winn receives the benefit of private medical insurance and death in service and critical illness income protection. Gavin Lyons, during his tenure as Executive Chairman, and Jill Collighan receive no benefits.

Ian Winn is engaged under a service contract which requires a notice period of six months. Jill Collighan's services are secured under an engagement letter with MXC Advisory Limited, which contains a notice provision of three months.

Gavin Lyons received a non-contractual termination fee upon his resignation as Executive Chairman on 1 August 2017.

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	Termination fee £'000	Pension contributions £'000	Other benefits £'000	2017 total £'000	2016 total £'000
Non-Executive							
S Duckworth	31	—	—	—	—	31	30
T Black	31	—	—	—	—	31	30
J Dodd (resigned 23 March 2016)	—	—	—	—	—	—	21
Executive							
I Winn	135	—	—	—	35	170	95
J Collighan	6	—	—	—	—	6	—
G Lyons (resigned 1 August 2017)	25	—	75	—	—	100	167
N Scallan (resigned 23 March 2016)	—	—	—	—	—	—	100
Total	228	—	75	—	35	338	443

Remuneration report continued

Directors' remuneration continued

Notes: Included in "Other benefits" in the table of Directors' remuneration on page 17 are the costs of share options issued in accordance with IFRS 2 Share-based Payments to the Directors as follows:

Name of Director	2017 £'000	2016 £'000
I Winn	33	2
N Scallan (resigned 23 March 2016)	—	(17)

Directors' interests in shares

The interests of the Directors in the Ordinary Shares of the Company at 30 September 2017 together with their interests as of 16 January 2018 were as follows:

Name of Director	16 January 2018 Number	30 September 2017 Number
T Black	8,842,199	8,842,199
S Duckworth	5,700,000	5,050,000
I Winn	1,428,571	1,428,571

Ian Winn was issued 4,960 A Ordinary Shares and 290 B Ordinary Shares in Adept4 Holdings Limited (together the "LTIP Shares"), an intermediate holding company of the Company on 16 February 2017. The LTIP Shares have the right to be exchanged, at the discretion of the Company, for cash or for Ordinary Shares in the Company, upon an Exit or between three and five years from issue, subject in all cases to the vesting criteria (being a share price at vesting of greater than 9p) being met.

Directors' interests in share options

The interests of the Directors in options over the Ordinary Shares of the Company at 30 September 2017 together with their interests at 1 October 2016 (or date of appointment if later) were as follows:

	1 October 2016	Granted in the year	Lapsed during the year	30 September 2017	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

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

	1 October 2016	Granted in the year	Lapsed during the year	30 September 2017	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



Simon Duckworth
Chairman, Remuneration Committee
16 January 2018

Directors' report

The Directors present their Annual Report on the affairs of the Group, together with the financial statements and Auditor's Report, for the year ended 30 September 2017.

Principal activities

The principal activity of the Group is the provision of ITaaS to small and medium-sized enterprises in the UK. Further information can be found in the Strategic Report on pages 1 to 13.

Corporate governance

The statement on corporate governance on pages 15 and 16 is included in the Directors' Report by way of reference.

Results and dividends

The Group's loss on ordinary activities after taxation was £0.6m (FY16: £0.6m). The audited financial statements of the Group are set out on pages 26 to 53. The Directors do not propose a dividend for the year ended 30 September 2017 (FY16: £nil).

Strategic review

The information satisfying the strategic review requirements is set out in this report on pages 1 to 13.

Going concern

The Group had cash balances of £2.9m at 30 September 2017, and total debt (comprising deferred consideration and loan notes) of £4.9m, of which only £1.1m 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.

Directors

The present membership of the Board is as follows:

Simon Duckworth, Non-Executive Chairman

Dr Tom Black, Non-Executive Director

Jill Collighan, Executive Director

Ian Winn, Group CFO and M&A Director

The names and biographical details of the current Directors of the Company are given on page 14. 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.

Jill Collighan was appointed to the Board on 20 July 2017.

Gavin Lyons resigned from the Board on 1 August 2017 and Simon Duckworth stepped up to the role of Non-Executive Chairman on 1 August 2017.

In accordance with the Company's Articles of Association, Jill Collighan will offer herself for 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 17 and 18.

Whilst Gavin Lyons performed the role of Executive Chairman of the Company, he was also a Partner (until March 2017) and shareholder in MXC Capital Limited ("MXC"). MXC has a 25% holding in the shares of the Company and also holds share warrants, as disclosed in Note 21.

Jill Collighan is Group Finance Director of MXC and her costs are charged to the Company by MXC Advisory Limited (a wholly owned subsidiary of MXC).

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.

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.

Directors' report continued

Share capital continued

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.

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

There were no new share warrants issued during the year. Details of the existing share warrants remaining in force can be found in Note 18 to the consolidated financial statements.

Issue of shares

At the general meeting held on 29 March 2017, 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

The deferred consideration of £1.0m due on the acquisition of MIT was payable to the vendors on 2 January 2018. There is currently an ongoing legal dispute with the vendor of MIT which has resulted in a delay in the payment of the deferred consideration. We continue to recognise the full amount of the deferred consideration due to the early stage of this dispute, which has no effect on current performance and does not relate to the performance of MIT since acquisition.

Employees

As at the date of this report, the Group employed 105 (FY16: 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.

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 (2016: £nil). Charitable donations were £nil (2016: £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 they are aware:

- there is no relevant audit information of which the Auditor is unaware, and
- the Directors have taken all the steps they ought to have taken to make themselves aware of any relevant audit information and to establish that the Auditor is aware of that information.

Annual General Meeting

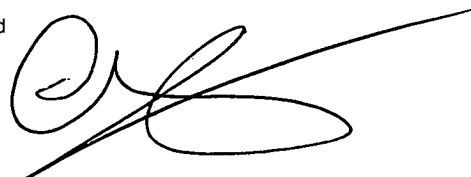
Notice of the Annual General Meeting will be sent to shareholders in due course.

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
16 January 2018



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

Opinion

We have audited the Group financial statements of Adept4 Plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 30 September 2017 which comprise the Consolidated Income Statement, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flow and the notes to the Group financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

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 2017 and of the Group's loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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

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

Key audit matters

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

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

Key audit matter	Description of risk	How the matter was addressed in the audit with respect to that risk
Revenue recognition (See Note 2c)	Revenue growth is a key performance indicator of the Group. Revenue based targets may place pressure on management to distort revenue recognition. This may result in overstatement or deferral of revenues to assist in meeting current or future targets or expectations.	<p>The Group's revenue recognition policies are stated in Note 2c. In testing revenue recognition we have:</p> <ul style="list-style-type: none"> gained an understanding of the design and implementation of the controls over revenue recognition which have been designed by the Group to prevent and detect fraud and errors in revenue recognition; recalculated the revenue recognised on a sample of contracts, corroborating the details to the underlying contracts. In respect of bundled contracts we tested the individual components of a sample of contracts to ensure that the revenue was appropriately allocated to the components and that the substance of the contract was appropriately accounted for; and performed tests of detail of a sample of accrued revenue and deferred revenue items to ensure the items are accounted for in accordance with the revenue recognition policy.
Going concern (See Note 1.1)	The Group recorded a loss for the year of £0.6m The Company issued £5m of unsecured loan notes to the BGF on 26 May 2016. The loan notes have regular interest payments with a maximum credit exposure at 30 September 2017 of £6.7m. The Group also has potential commitments relating to deferred and contingent consideration of up to £2.5m payable in 2018.	<p>We discussed the detailed cash flow forecasts prepared by management in their model. The main procedures performed on the model and areas where we challenged management were as follows:</p> <ul style="list-style-type: none"> assessed the quality of management forecasting by comparing forecasts from prior periods to actual outcomes; the consistency of forecasts used in the going concern assessment with those used for impairment calculations; tested the appropriateness of the assumptions that had the most material impact. In challenging these assumptions we took account of actual results, the likely amounts of deferred and contingent consideration that may be payable in the year ahead and market conditions; test checked the arithmetic integrity of the calculations including those related to management's sensitivities; performed our own sensitivity calculations to test the adequacy of the available headroom; and reviewed the appropriateness of the disclosures made in the Group Financial Statements in respect of going concern.

Independent Auditor's report continued

to the members of Adept4 Plc

Key audit matters continued

Key audit matter	Description of risk	How the matter was addressed in the audit with respect to that risk
Valuation of employee benefits (including long term incentive plan LTIP, ESS Scheme and share based payments (See Note 6))	The calculation of the Group's share based payment expense is subject to a number of assumptions in estimating the fair value of share awards granted in the year and the number of awards that are expected to vest. There is a risk that assumptions used may be significantly under or over stated, which could materially impact the Group's share-based payment expense.	<p>We focused on and challenged the assumptions used in the option pricing model for the EMI share options and LTIP awards granted in the year. As part of our procedures we:</p> <ul style="list-style-type: none"> • used our internal valuation specialists to review the models and set an independent expectation; • assessed expectation of vesting based on historical data; • agreed awards issued in the year to supporting documentation; • recalculated the amounts to be recognised in the financial statements; and • considered the adequacy of the disclosures in respect of the treatment of share-based payments in the financial statements.
Accounting for assets and liabilities arising from prior year acquisitions (including valuation of contingent consideration and carrying value of goodwill and intangibles) (See Note 8)	The Group has significant intangible asset balances including customer bases, brands and goodwill. The assessment of the carrying value requires significant judgement in assessing forecast cash flows, growth rates and discount rates. The assessment of the carrying value of these balances and consequently any required impairment is sensitive to these assumptions. The release of contingent consideration previously accrued as a result of the trading targets for a major prior year acquisition not being met, also gives rise to a high risk of impairment of relevant intangible assets acquired.	<p>We challenged the assumptions used in the impairment model for goodwill, as described in Note 8. These assumptions were also used in assessing the carrying value and impairment of other intangible assets. As part of our procedures we:</p> <ul style="list-style-type: none"> • examined management's assessment as to whether indicators of impairment have been identified and appropriately evaluated; • assessed whether the cash generating units (CGUs), identified at the lowest level at which management monitors goodwill; • challenged the discounted cash flow model used to support the carrying values of intangibles and goodwill, including the appropriateness of the assumptions used in the forecasts such as projected growth, future capital expenditure, cash flows, cost projections, central overhead allocation and the discount rate; • test checked arithmetic formulae within the model; • compared the group's historical forecasting accuracy by comparing the previous year forecast for the year ending 30 September 2017 to the actual outturn; • performed sensitivity analyses of the key assumptions used by management and assessed the adequacy of management's disclosures of sensitivity and key risks inherent in the calculation; • compared the carrying values of the cash generating units in total against the Group's market capitalisation; and • compared actual trading results in relation to the contingent consideration trading target.

Materiality

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

An overview of the scope of our audit

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

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

Other information

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

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

We have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' report.

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

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

Responsibilities of Directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 21, the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view, and for such internal controls as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Other matter

We have reported separately on the parent company's financial statements of Adept4 Plc for the year ended 30 September 2017.

Andrew Bond
Senior Statutory Auditor,
for and on behalf of Nexia Smith & Williamson
Statutory Auditor, Chartered Accountants
25 Moorgate London EC2R 6AY
16 January 2018

Consolidated income statement

for the year ended 30 September 2017

	Note	2017 £'000	2016 £'000
Revenue	3	10,301	4,939
Cost of sales		(4,137)	(1,897)
Gross profit		6,164	3,042
Other operating expenses excluding head office costs and plc costs		(4,627)	(2,124)
Adjusted trading Group EBITDA		1,537	918
Head office costs		(378)	—
Trading Group EBITDA		1,159	918
Plc costs		(570)	(804)
Total other operating expenses		(5,575)	(2,928)
Profit from continuing operations before amortisation, depreciation, share-based payment costs and separately identifiable costs		589	114
Amortisation of intangible assets	8	(880)	(413)
Depreciation	11	(162)	(74)
Separately identifiable income/(costs)	4	626	(615)
Share-based payments	6	(162)	(61)
Operating profit/(loss) from continuing operations		11	(1,049)
Interest receivable		—	2
Interest payable		(842)	(360)
Net finance expense	5	(842)	(358)
Loss before tax		(831)	(1,407)
Taxation	19	248	83
Loss for the period and total comprehensive loss from continuing operations attributable to the equity holders of the parent		(583)	(1,324)
Discontinued operations			
Profit for the period from discontinued operations	3	—	725
Loss for the period		(583)	(599)
Loss per share			
– Basic and fully diluted – continuing operations	7	(0.26)p	(0.80)p
– Basic and fully diluted – discontinued operations	7	—	0.44p
– Basic and fully diluted	7	(0.26)p	(0.36)p

The accompanying accounting policies and notes on pages 30 to 53 are an integral part of these consolidated financial statements.

Consolidated statement of financial position

as at 30 September 2017

	Note	30 September 2017 £'000	30 September 2016 £'000
Non-current assets			
Intangible assets	8	11,804	12,636
Property, plant and equipment	11	228	255
Total non-current assets		12,032	12,891
Current assets			
Inventories	14	66	22
Trade and other receivables	15	2,349	1,568
Cash and cash equivalents	16	2,905	4,266
Total current assets		5,320	5,856
Total assets		17,352	18,747
Current liabilities Short-term borrowings Trade and other payables			
		(1,012)	(298)
		(1,203)	(862)
Other taxes and social security costs		(490)	(649)
Accruals and deferred income		(1,590)	(1,539)
Total current liabilities	17	(4,295)	(3,348)
Non-current liabilities			
Long-term borrowings	17	(3,914)	(5,587)
Deferred tax liability	12	(1,416)	(1,664)
Total non-current liabilities		(5,330)	(7,251)
Total liabilities		(9,625)	(10,599)
Net assets		7,727	8,148
Equity			
Share capital	18	2,271	2,271
Share premium account		11,337	11,337
Capital redemption reserve	18	6,489	6,489
Merger reserve	18	1,997	1,997
Other reserve	18	1,601	1,439
Retained earnings	18	(15,968)	(15,385)
Total equity		7,727	8,148

These financial statements were approved and authorised for issue by the Board of Directors on 16 January 2018. Signed on behalf of the Board of Directors by Ian Winn, Group CFO and M&A Director.



The accompanying accounting policies and notes on pages 30 to 53 form an integral part of these financial statements.

Consolidated statement of changes in equity

for the year ended 30 September 2017

	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
	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 2016	2,271	11,337	6,489	1,997	1,439	—	(15,385)	8,148
Loss and total comprehensive loss for the period	—	—	—	—	—	—	(583)	(583)
Transactions with owners								
Share-based payments	—	—	—	—	162	—	—	162
Total transactions with owners	—	—	—	—	162	—	—	162
Total movements	—	—	—	—	162	—	(583)	(421)
Equity at 30 September 2017	2,271	11,337	6,489	1,997	1,601	—	(15,968)	7,727

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 2017

	2017 £'000	2016 £'000
Cash flows from operating activities		
Loss before taxation	(831)	(1,407)
Adjustments for:		
Depreciation	162	74
Amortisation	880	413
Share-based payments	162	61
Net finance expense	842	358
Write back of contingent consideration	(1,122)	—
Impairment of goodwill	200	—
Increase in trade and other receivables	(781)	(98)
Taxation	223	(151)
(Increase)/decrease in inventories	(44)	1
Increase in trade payables, accruals and deferred income	257	185
Net cash used in operating activities	(52)	(564)
Cash flows from taxation	(383)	—
Cash flows from investing activities		
Purchase of property, plant and equipment	(248)	(42)
Acquisition of subsidiaries, net of cash acquired	—	(6,892)
Interest received	—	2
Net cash used in investing activities	(248)	(6,932)
Cash flows from financing activities		
Issue of shares	—	4,801
Receipt of loan funds	—	5,000
Receipt of finance lease	16	51
Payment of finance lease liabilities	(30)	(16)
Interest paid	(404)	(147)
Expenses paid in connection with share issue	—	(161)
Net cash (used in)/from financing activities	(418)	9,528
Cash flows from discontinued operations		
Cash outflow from operations of disposal group	—	(832)
Sale of discontinued operations	—	2,800
Acquisition of remaining shares in Accent Telecom North Limited	(260)	(327)
Net cash flows (used in)/from discontinued operations	(260)	1,641
Net (decrease)/increase in cash	(1,361)	3,673
Cash at bank and in hand at beginning of period	4,266	593
Cash at bank and in hand at end of period	2,905	4,266
Comprising:		
Cash at bank and in hand	2,905	4,266

Notes to the consolidated financial statements

1. General information

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

1.1 Basis of preparation

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

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

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

There were no significant new financial reporting standards adopted in the year ended 30 September 2017. The following standards and interpretations, which are endorsed by the EU, have not been early adopted by the Group and will be adopted in future accounting periods:

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

IFRS 15 Revenue from Contracts with Customers will be effective for Adept4 Plc for the period starting 1 October 2018.

There are no plans to adopt IFRS 15 early.

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

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

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

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

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

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

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

2. Principal accounting policies

a) Basis of consolidation

The Group financial statements consolidate those of the Company and all of its subsidiary undertakings drawn up to 30 September 2017. 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

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 Income Statement on page 26.

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.

Notes to the consolidated financial statements continued

2. Principal accounting policies continued

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 2017:

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

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

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

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

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

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

k) Leased assets

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

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

l) Inventories and work in progress

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

2. Principal accounting policies continued

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.

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;

Notes to the consolidated financial statements continued

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 ("BGF") 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; and
- "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 £142,000 (2016: £33,000). There were £16,000 of pension contributions payable at the reporting date (2016: £8,000).

t) Critical accounting judgements and key sources of estimation uncertainty

Critical judgements in applying the Group's accounting policies

The allocation of fair values to the tangible assets and the identification and valuation of intangible assets affect the goodwill and the assignment of that to each cash generating unit, recognised in respect of the acquisitions. The allocation of fair value between the loan note and share option elements of the financial instrument issued to the BGF on 26 May 2016 uses the Black Scholes pricing model to calculate the fair value of the share option element. The resulting fair value calculation of the share option element is then used to determine the implied effective borrowing rate of the loan notes. Note 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 WACC, based on the internal rate of return for each asset, calculated over its useful economic life.

Determining whether intangible assets, including goodwill, are impaired requires 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 WACC. Each of the intangible assets held by the Group is measured regularly to ensure that they generate discounted positive cash flows.

Where there is indication of impairment, the intangible asset is impaired by a charge to the Consolidated Income Statement. Further details on the impairment tests are shown in principal accounting policy (j) above and Note 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 Directors of the Company, who review the Group's internal reporting in order to assess performance and to allocate resources. The Directors present below the results for 2017 and 2016 based on these reportable operating segments.

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 (this includes both head office and Plc costs) or charges for share-based payments. Segments are measured below on this basis.

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 Directors 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.

3.1 Analysis of continuing results

By operating segment

	2017					2016				
	Product £'000	Service £'000	PS £'000	PLC £'000	Total £'000	Product £'000	Service £'000	PS £'000	PLC £'000	Total £'000
Total segment revenue	2,232	7,316	753	—	10,301	1,143	3,245	560	—	4,948
Inter-segment revenue	—	—	—	—	—	—	(9)	—	—	(9)
External revenue from continuing operations	2,232	7,316	753	—	10,301	1,143	3,236	560	—	4,939
Total segment gross profit from continuing operations	1,000	4,414	750	—	6,164	456	2,041	545	—	3,042
Adjusted trading Group EBITDA from continuing operations	254	1,093	190	—	1,537	138	616	164	—	918
Trading Group EBITDA from continuing operations	193	822	144	—	1,159	138	616	164	—	918
Plc costs	—	—	—	(570)	(570)	—	—	—	(804)	(804)
Amortisation	(142)	(632)	(106)	—	(880)	(61)	(277)	(75)	—	(413)
Depreciation	(26)	(117)	(19)	—	(162)	(12)	(48)	(14)	—	(74)
Share-based payment costs	—	—	—	(162)	(162)	—	—	—	(61)	(61)
Operating profit/(loss) from continuing operations before separately identifiable costs/(income)	25	73	19	(732)	(615)	65	291	75	(865)	(434)
Separately identifiable income/(costs)	—	—	—	626	626	—	—	—	(615)	(615)
Operating profit/(loss) from continuing operations	25	73	19	(106)	11	65	291	75	(1,480)	(1,049)
Interest receivable	—	—	—	—	—	—	—	—	2	2
Interest payable	—	—	—	(842)	(842)	—	—	—	(360)	(360)
Profit/(loss) before tax from continuing operations	25	73	19	(948)	(831)	65	291	75	(1,838)	(1,407)
Net assets	1,103	4,663	827	1,134	7,727	669	1,800	252	5,427	8,148

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

There are no assets held outside the UK (2016: none).

3.2 Continuing results – like for like

	2017				2016			
	Weston £'000	Ancar £'000	MIT £'000	Total £'000	Weston £'000	Ancar £'000	MIT £'000	Total £'000
Revenue	2,419	2,556	5,326	10,301	2,224	2,461	4,925	9,610
Recurring revenues				7,316				6,679

Notes to the consolidated financial statements continued

3. Segment reporting continued**3.2 Continuing results – like for like continued**

The table on the previous page provides details of the performance for the twelve months ended 30 September 2017 and 2016 for the acquired businesses. The reported numbers for 2016 include results for months which predated acquisition by the Group. These numbers have been provided to report the performance of the Group on a like for like basis.

3.3 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.

	2017 £'000	2016 £'000
Revenue	—	4,427
Gross profit	—	1,409
Administrative expenses	—	(1,486)
Amortisation and impairment of intangible assets	—	(71)
Depreciation	—	(34)
Separately identifiable costs	—	(82)
Operating expenses	—	(1,673)
Operating loss from discontinued operations	—	(264)
Interest payable	—	(3)
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)
Net profit from discontinued operations	—	725

4. Operating profit/(loss) from continuing operations

	2017 £'000	2016 £'000
Loss from continuing operations is stated after charging:		
Depreciation of owned assets	(162)	(74)
Amortisation of intangibles	(880)	(413)
Research and development costs recognised as expense	—	(22)
Other operating lease rentals:		
– Buildings	(114)	(81)
Auditor's remuneration:		
– Audit of parent company	(14)	(14)
– Audit of subsidiary companies	(36)	(45)
– Audit-related assurance services	(5)	(5)
– Corporation tax services	(18)	(18)

4. Operating profit/(loss) from continuing operations continued

Separately identifiable income/(costs)

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

	2017 £'000	2016 £'000
Gain on sale of share in associate company (Stripe 21 Limited)	—	259
Write back of contingent consideration (Note 5)	1,122	—
Professional fees, broker fees and due diligence costs relating to acquisitions	—	(677)
Restructure costs relating to head office and acquisitions	(121)	(197)
Termination payment for G Lyons	(75)	—
Provision for dispute with Chess ICT Limited (Note 22)	(100)	—
Impairment of goodwill	(200)	—
Separately identifiable income/(costs)	626	(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:

	2017 £'000	2016 £'000
Interest income resulting from short-term bank deposits	—	2
Finance income	—	2
Interest expense resulting from:		
Finance leases	4	2
BGF loan notes	400	145
Effective interest on liability element of the BGF loan notes	199	67
Effective interest on deferred consideration relating to Adept4 Managed IT Ltd	239	146
Finance costs	842	360

In accordance with IAS 32, the BGF loan note and share option elements were linked and treated as a single financial instrument and shown at fair value. 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 £199,000 during the year (2016: £67,000).

In accordance with IFRS 3, business combinations were accounted for using the acquisition method, which required 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, contained £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 calculated at £1.73m.

During the year, £239,000 (2016: £146,000) of effective interest was charged to the income statement. The contingent consideration, which was based on the financial performance of the Group in the calendar year 2017, has now been reassessed and, based on the stretching targets set, no contingent consideration will now be paid.

This has resulted in £1,122,000 being written back to the Consolidated Income Statement and a fair value of the deferred and contingent consideration payable at 30 September 2017 of £987,000.

Notes to the consolidated financial statements continued

6. Employee costs**6.1 Directors and employees**

The average number of staff employed by the Group during the financial year amounted to 105 (2016: 77). At 30 September 2017, the Group employed 105 staff (2016: 101) as follows:

	2017	2016
Number of management staff – continuing operations	15	15
Number of operational staff – continuing operations	90	86
Total	105	101

Employee numbers are stated including Directors.

6.2 Employee remuneration

	2017 £'000	2016 £'000
Wages and salaries	3,612	1,921
Pension contributions	142	33
Share-based payments	108	3
Social security costs	349	197
Total	4,211	2,154

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.

	2017 Number	2017 Weighted average exercise price	2016 Number	2016 Weighted average exercise price
Outstanding at 1 October	11,797,691	8.69p	2,343,280	10.50p
Granted	3,800,000	1.00p	11,323,333	8.50p
Lapsed	—	—	(1,868,922)	9.81p
Outstanding at 30 September	15,597,691	6.82p	11,797,691	8.69p

During the year, 3,800,000 share options were granted and no share options lapsed in accordance with the share issue documents. At 30 September 2017, Adept4 Plc had granted the following outstanding share options:

Date granted	Balance 2017	Movement during the year	Balance 2016	Exercise price	Dates exercisable	Remaining contractual life (months)
1 June 2008	100,000	—	100,000	13.75p	1 July 2010–1 July 2018	9
9 July 2009	166,666	—	166,666	30.00p	9 July 2011–9 July 2019	21
25 March 2015	207,692	—	207,692	—	25 March 2018–25 March 2025	90
8 February 2016	1,190,000	—	1,190,000	4.20p	8 February 2019–8 February 2026	101
28 September 2016	10,133,333	—	10,133,333	9.00p	28 September 2019–28 September 2026	108
31 March 2017	3,800,000	3,800,000	—	1.00p	1 April 2022–31 March 2027	114

6. Employee costs continued**6.3 Share-based payments continued**

In total £162,000 of share-based expense has been included in the Consolidated Income Statement for 2017 (2016: expense of £61,000).

	Note	2017 £'000	2016 £'000
Share options	6.3	108	(8)
Share warrants	6.5	54	69
Total		162	61

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

2017

Number of options		3,800,000
Volatility		40%
Exercise price		1.00p
Spot price		5.62p
Interest rate		0.90%
Dividend yield		—
Vesting period (years)		5
Option value weighted average exercise price		6.8p
Option value weighted average spot price		7.9p

2016

Number of options	10,133,333	1,190,000
Volatility	40%	40%
Exercise price	9.00p	4.20p
Spot price	8.00p	8.00p
Interest rate	2.5%	2.5%
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

Notes to the consolidated financial statements continued

6. Employee costs continued

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		Employer's NI contributions		Other benefits		Totals (including employer's NI)	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Non-Executive								
S Duckworth	31	30	4	3	—	—	35	33
T Black	31	30	4	3	—	—	35	33
J Dodd (resigned 23 March 2016)	—	21	—	3	—	—	—	24
Executive								
N Scallan (resigned 23 March 2016)	—	117	—	11	—	(17)	—	111
G Lyons (appointed 7 December 2015, resigned 1 August 2017)	100	167	8	—	—	—	108	167
I Winn (appointed 1 February 2016)	135	90	17	12	35	5	187	107
J Collighan (appointed 20 July 2017)	6	—	—	—	—	—	6	—
Total	303	455	33	32	35	(12)	371	475

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

Lyons' fees and salaries include a termination payment of £75,000.

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

Name of Director	2017 £'000	2016 £'000
N Scallan (resigned 23 March 2016)	—	(17)
I Winn (appointed 1 February 2016)	33	2

6.5 Share warrant instrument

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

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

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

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

6. Employee costs continued**6.5 Share warrant instrument continued**

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 2017	Movement during the year	Balance 2016	Exercise price	Dates exercisable	Remaining contractual life (months)
28 April 2015	13,853,255	—	13,853,255	6.50p	28 April 2018–28 April 2022	55
26 May 2016	50,000,000	—	50,000,000	6.00p	26 May 2016–26 May 2031	164
Total	63,853,255	—	63,853,255	6.11p		

7. Total and continuing loss per share

	2017 £'000	2016 £'000
Loss on continuing operations	(583)	(1,324)
Profit on discontinued operations	—	725
Loss attributable to ordinary shareholders	(583)	(599)

	Number	Number
Weighted average number of Ordinary Shares in issue, basic and diluted	227,065,097	165,891,459
Basic and fully diluted loss per share – continuing operations	(0.26)p	(0.80)p
Basic and fully diluted profit per share – discontinued operations	—	0.44p
Basic and diluted loss per share	(0.26)p	(0.36)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.

Notes to the consolidated financial statements continued

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

Intangible assets	Goodwill £'000	Maintenance contracts £'000	IT, billing and website systems £'000	Brand £'000	Customer lists £'000	Total £'000
Cost						
At 1 October 2015	206	100	764	—	4,281	5,351
Additions	4,312	—	—	1,157	8,166	13,635
Disposals	(206)	(100)	(764)	—	(4,867)	(5,937)
At 1 October 2016	4,312	—	—	1,157	7,580	13,049
Additions	—	—	113	—	—	113
Adjustments to provisional fair values	135	—	—	—	—	135
At 30 September 2017	4,447	—	113	1,157	7,580	13,297
Accumulated amortisation						
At 1 October 2015	—	(100)	(716)	—	(2,289)	(3,105)
Disposals	—	100	716	—	2,360	3,176
Charge for the year – discontinued operations	—	—	—	—	(71)	(71)
Charge for the year – continuing operations	—	—	—	(35)	(378)	(413)
At 1 October 2016	—	—	—	(35)	(378)	(413)
Charge for the year – continuing operations	—	—	(7)	(115)	(758)	(880)
At 30 September 2017	—	—	(7)	(150)	(1,136)	(1,293)
Impairment						
At 1 October 2015	(206)	—	(48)	—	(1,501)	(1,755)
Disposals	206	—	48	—	1,501	1,755
At 1 October 2016	—	—	—	—	—	—
Impairment charge	(200)	—	—	—	—	(200)
At 30 September 2017	(200)	—	—	—	—	(200)
At 30 September 2016	4,312	—	—	1,122	7,202	12,636
At 30 September 2017	4,247	—	106	1,007	6,444	11,804
Average remaining amortisation period				8.8 years	8.8 years	8.8 years

The following adjustments have been made to the provisional fair values, which have resulted in an increase in the amount of goodwill:

Company	Unpaid share capital £'000	Corporation tax liabilities £'000	Contractual provision £'000	Total £'000
Ancar-B Technologies Limited	—	(4)	—	(4)
Adept4 Managed IT Limited	(52)	41	150	139
	(52)	37	150	135

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.

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

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

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

Sensitivity analysis

Sensitivity analysis	Product £'000	Recurring Services £'000	Professional Services £'000
Base case fair value of intangible assets by CGU (including goodwill)	1,612	8,059	2,287
Excess of fair value over carrying value:			
Base case	260	—	441
Discount rate increased to 16%	142	(500)	241
Growth rate reduced by 10%	113	(700)	200

Base case calculations demonstrate an adequate level of headroom whilst highlighting that the impairment review is sensitive to the discount rate and growth rate. Given the Group's value proposition is centred around generating monthly recurring fees for IT as a Service, the Directors are satisfied that the Group's objectives are to maximise the cash flows generated through the sales of Recurring Services as a CGU. The goodwill on the Recurring Services CGU was impaired by £0.2m during the year.

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

Dormant companies

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

For the year ending 30 September 2017 the following subsidiaries of the Company were entitled to exemption from audit under s479A of the Companies Act 2006 relating to subsidiary companies.

Subsidiary Name	Companies House Registration Number
Ancar-B Technologies Ltd	03347248
Weston Communications Ltd	04490578

Notes to the consolidated financial statements continued

9. Associate company

At 30 September 2017 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 was 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.

	2017 £'000	2016 £'000
Fair value of investment in associated company – Stripe21 Limited	—	100
Impairment of investment in associated company – Stripe21 Limited	—	—
Sale of shares in Stripe21 Limited	—	(100)
Investment in associated company at 30 September	—	—

During 2016 Pinnacle CDT Limited purchased services from Stripe21 Limited totalling £210,000, which were included in profit from discontinued operations.

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 were held for seven years and not redeemed early, the maximum credit exposure at 30 September 2017, including interest, is £6.8m, of which £1.8m relates to interest. The Directors are satisfied that the capital and loan repayments over the loan 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 were linked and treated as a single financial instrument and shown at fair value.

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

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

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

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 Changes in Equity.

	Loan Note balance £'000	Carrying value Loan Notes £'000	8% interest payable £'000
Cash received from the BGF on 26 May 2016 for Loan Notes at 8% per annum interest	5,000	—	—
At 30 September 2016	5,000	(3,673)	—
Interest on Loan Notes at 8% per annum for the year to 30 September 2017	—	—	(400)
Notional interest on liability element of the BGF Loan Notes to 30 September 2017	—	(199)	—
At 30 September 2017	5,000	(3,872)	(400)

11. Property, plant and equipment

	IT equipment £'000	Fixtures, fittings and leasehold improvements £'000	Plant, machinery and motor vehicles £'000	Total £'000
Cost of assets				
At 1 October 2016	188	127	14	329
Additions	114	21	—	135
Disposals	—	—	(14)	(14)
At 30 September 2017	302	148	—	450

	IT equipment £'000	Fixtures, fittings and leasehold improvements £'000	Plant, machinery and motor vehicles £'000	Total £'000
Cost of assets				
At 1 October 2015	361	53	49	463
Acquired by acquisition	142	57	14	213
Additions	46	70	—	116
Disposals	(361)	(53)	(49)	(463)
At 30 September 2016	188	127	14	329

	IT equipment £'000	Fixtures, fittings and leasehold improvements £'000	Plant, machinery and motor vehicles £'000	Total £'000
Depreciation				
At 1 October 2016	41	22	11	74
Charge for the year	111	48	3	162
Disposals	—	—	(14)	(14)
At 30 September 2017	152	70	—	222

Notes to the consolidated financial statements continued

11. Property, plant and equipment continued

	IT equipment £'000	Fixtures, fittings and leasehold improvements £'000	Plant, machinery and motor vehicles £'000	Total £'000
Depreciation				
At 1 October 2015	296	12	29	337
Charge for the year	41	22	11	74
Disposal	(296)	(12)	(29)	(337)
At 30 September 2016	41	22	11	74
Net book value				
At 30 September 2017	150	78	—	228
Net book value At 30 September 2016	147	105	3	255

12. Deferred tax assets and liabilities

	Deferred tax on acquired intangibles £'000	Total £'000
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
Credited to income statement – on intangibles	(166)	(166)
Credited to income statement – for change in future tax rates	(82)	(82)
Deferred tax liability at 30 September 2017	1,416	1,416

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 2017	90	240	—	330
At 30 September 2016	138	32	—	170

Lease payments recognised as an expense during the year amounted to £104,000 (2016: £81,000). 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	60 months
Victoria Spring Business Park, Liversedge, West Yorkshire	10 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 £48,000 (2016: £81,000). 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 2017:

	Within 1 year £'000	1 to 5 years £'000	More than 5 years £'000	Total £'000
Finance lease payments due on IT equipment	7	14	—	21
Finance lease payments due on tenants' improvements	16	41	—	57
Total finance lease payments due	23	55	—	78

Gross finance lease payments, including interest due over the term, equate to £78,000. Of this amount, £23,000 is due within one year, and £55,000 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

	2017 £'000	2016 £'000
Consumables	32	5
Work in progress	34	17
Inventories	66	22

15. Trade and other receivables

	2017 £'000	2016 £'000
Trade receivables	1,476	1,127
Prepayments and accrued income	873	441
	2,349	1,568

Trade receivables at the reporting date comprise amounts receivable from the provision of ITaaS. The average credit period taken on the provision of these services is 44 days (2016: 35 days). Trade receivables are stated net of an impairment for estimated irrecoverable amounts of £52,000 (2016: £53,000). 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 2016 was £53,000. During the year £1,000 of bad debt was written off against the provision, and a further net provision of £1,000 was made, resulting in a carrying bad debt provision of £52,000 as at 30 September 2017.

At 30 September 2017 trade receivables amounting to £250,000 (2016: £71,000) were past due but not impaired.

The age of trade receivables not impaired is as follows:

	2017 £'000	2016 £'000
Less than 30 days	859	624
30–59 days	367	432
60–89 days	147	53
90–119 days	103	11
120+ days	—	7
	1,476	1,127

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.

Notes to the consolidated financial statements continued

16. Cash and cash equivalents

	2017 £'000	2016 £'000
Cash at bank and in hand	2,905	4,266
Cash and cash equivalents	2,905	4,266

Cash balances are held with a small number of counterparties. There were no borrowing facilities in place at 30 September 2017 other than the Loan Notes issued to the BGF (Note 10).

17. Trade and other payables**17.1 Current**

	2017 £'000	2016 £'000
BGF Loan Notes repayable to the BGF between three and seven years	5,000	5,000
Deferred consideration for Accent Telecom North Limited – payable March 2017	—	260
Deferred consideration for Adept4 Managed IT Limited – payable January 2018	1,000	1,000
Contingent consideration for Adept4 Managed IT Limited – payable March 2018	—	1,500
Finance lease liability	67	81
	6,067	7,841
Less fair value adjustment relating to the BGF Loan Notes	(1,128)	(1,326)
Less fair value adjustment relating to deferred and contingent consideration above	(13)	(630)
Less non-current portion of liabilities	(3,914)	(5,587)
Short-term borrowings	1,012	298
Trade payables	1,203	862
Accruals and deferred income	1,590	1,539
Other taxes and social security costs	490	649
Total current liabilities	4,295	3,348

Note 13 contains further information on the finance lease liability.

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

	2017 £'000	2016 £'000
Finance leasing liability – long-term element	42	43
BGF Loan Notes	3,872	3,673
Deferred and contingent consideration payable on acquisitions	—	1,871
Total non-current liabilities	3,914	5,587

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

18. Share capital and reserves**18.1 Share capital**

Shares issued and fully paid

	2017 £'000	2016 £'000
Beginning of year	2,271	592
Issued during year	—	1,679
Shares issued and fully paid	2,271	2,271

Share capital allotted, called up and fully paid

	Ordinary Shares £'000
At 30 September 2015	592
114,311,113 Ordinary Shares of £0.01 each issued 10 February 2016 through a placing and open offer	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
At 30 September 2016 and 30 September 2017	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

	2017 £'000	2016 £'000
Retained earnings reserve at 1 October	(15,385)	(13,789)
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	(583)	(599)
Retained earnings reserve at 30 September	(15,968)	(15,385)

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.

	2017 £'000	2016 £'000
Opening merger reserve at 1 October	1,997	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	1,997

Notes to the consolidated financial statements continued

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 option element of the BGF Loan Notes.

	2017 £'000	2016 £'000
Other reserve at 1 October	1,439	51
Share-based payments in the period	162	61
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	1,601	1,439

19. Income tax

	2017 £'000	2016 £'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	(248)	(83)
Deferred tax on intangible assets from discontinued operations	—	(98)
	(248)	(181)
Tax on loss from continuing operations	(248)	(83)
Tax on profit from discontinued operations	—	99
	(248)	16

The relationship between expected tax expense based on the effective tax rate of Adept4 of 20% (2016: 20%) and the tax expense actually recognised in the Consolidated Income Statement can be reconciled as follows:

	2017 £'000	2016 £'000
(Loss)/profit for the year before tax:		
Continuing operations	(831)	(1,407)
Discontinued operations	—	824
	(831)	(583)
Tax rate	20%	20%
Expected tax	(166)	(117)
Adjusted for:		
Credits not chargeable to tax	(225)	—
Non-deductible expenses	186	81
Movement in unprovided deferred tax relating to fixed assets	—	2
Movement in unprovided deferred tax relating to losses	60	56
Deduction for R&D expenditure	—	(7)
Change in tax rates	(92)	—
Short-term timing differences	(11)	1
	(248)	16

The Group has unrecognised deferred tax assets in respect of tax losses carried forward totalling £1,582,000 (2016: £1,522,000).

20. Acquisition of subsidiaries

The following adjustments have been made to the provisional fair values used in computing goodwill for acquisitions made in the last financial year and which have resulted in an increase in the amount of goodwill as described below.

Company	Unpaid share capital £'000	Corporation tax liabilities £'000	Contractual provision £'000	Total £'000
Ancar-B Technologies Limited	—	(4)	—	(4)
Adept4 Managed IT Limited	(52)	41	150	139
	(52)	37	150	135

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 2016 Pinnacle CDT Limited purchased services totalling £210,000 from Stripe21 Limited, recorded as cost of sales within discontinued operations in the Consolidated Income Statement. Stripe21 made no purchases from Pinnacle CDT Limited during the same year.

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 17 and 18.

Both Gavin Lyons and Jill Collighan, who served as Directors during the period, were employees and shareholders 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.

Fees for Gavin Lyons' services as Executive Chairman and Jill Collighan's services as an Executive Director 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 £140,000 (2016: £523,000).

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. In the event of non-payment of this amount there was potential recourse back to Adept4 Plc if certain conditions had not been adhered to. A dispute arose with Chess ICT Limited as to whether these conditions had been satisfied. The matter was resolved by the payment to Chess ICT Limited of £0.1m on 2 October 2017, with a further £0.1m to follow in September 2018 if no further recoveries are made from Stripe21. We expect to make some recovery and therefore no further provision has been made at this time.

23. Capital commitments

There were no capital commitments at 30 September 2017 or 30 September 2016.

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 12 and 13.

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 (2016: £10,000). The interest rate charged on finance leases and commercial loans is a fixed rate agreed at the time of signing the agreement.

Notes to the consolidated financial statements continued

24. Risk management continued**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. It has sufficient 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 28.

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

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

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

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

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:

	Loans and receivables £'000	Non-financial assets £'000	Total £'000
2017			
Trade and other receivables	1,476	—	1,476
Other current assets	—	66	66
Cash at bank and in hand	2,905	—	2,905
	4,381	66	4,447
2016			
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

24. Risk management continued

24.5 Risk management analysis continued

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

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
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

2017	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	1,108	95	—	—	—	—	1,203
Long-term borrowings	—	1,000	—	—	3,750	1,250	6,000
Finance lease liabilities	4	8	13	19	23	—	67
	1,112	1,103	13	19	3,773	1,250	7,270

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

25. Post-balance sheet events

The deferred consideration, of £1.0m, due on the acquisition of MIT was payable to the vendors on 2 January 2018. There is currently an ongoing legal dispute with the vendors of MIT which has resulted in a delay in the payment of the deferred consideration. We continue to recognise the full amount of the deferred consideration due to the early stage of this dispute, which has no effect on current performance and does not relate to the performance of MIT since acquisition.

26. Ultimate controlling party

There is no ultimate controlling party.

Independent Auditor's report

to the members of Adept4 Plc (parent company)

Opinion

We have audited the financial statements of Adept4 Plc (the 'Parent Company') for the year ended 30 September 2017 which comprise the Parent Company Statement of Financial Position, the Parent Company Statement of Changes in Equity and the notes to the Parent financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and the Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

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

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 2017;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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

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

Key audit matters

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

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

Key audit matter	Description of risk	How the matter was addressed in the audit with respect to that risk
Valuation of employee benefits (including long term incentive plan LTIP, ESS Scheme and share-based payments, (See Note 10)	The calculation of the Parent's share-based payment expense is subject to a number of assumptions in estimating the fair value of share awards granted in the year and the number of awards that are expected to vest. There is a risk that assumptions used may be significantly under or over stated, which could materially impact the Parent's share-based payment expense.	<p>We focused on and challenged the assumptions used in the option pricing model for the EMI share options and LTIP awards granted in the year. As part of our procedures we:</p> <ul style="list-style-type: none"> • used our internal valuation specialists to review the models and set an independent expectation; • assessed expectation of vesting based on historical data; • agreed awards issued in the year to supporting documentation; • recalculated the amounts to be recognised in the financial statements; and • considered the adequacy of the disclosures in respect of the treatment of share-based payments in the financial statements.

Key audit matters continued

Key audit matter	Description of risk	How the matter was addressed in the audit with respect to that risk
Carrying value of amounts owed by subsidiary undertakings (See Note 5)	The Parent Company has significant receivable balances due from group companies. The carrying value of the receivables is underpinned by the future financial viability of the relevant subsidiaries.	<p>We reviewed management's assessment of the recoverability of receivables due from group companies. As part of our procedures we:</p> <ul style="list-style-type: none"> • examined management's assessment as to whether indicators of impairment have been identified and appropriately evaluated; • challenged the discounted cash flow model also used in the group audit to support the carrying values of intangibles and goodwill, including the appropriateness of the assumptions used in the forecasts such as projected growth, future capital expenditure, cash flows, cost projections, central overhead allocation and the discount rate; • test checked arithmetic formulae within the model; • compared management's historical forecasting accuracy by comparing the previous year forecast for the year ending 30 September 2017 to the actual outturn; and • performed sensitivity analyses of the key assumptions used by management and assessed the adequacy of management's disclosures of sensitivity and key risks inherent in the calculation.

Materiality

The materiality for the Parent Company financial statements as a whole was set at £153,750. This has been determined with reference to the benchmark of the Parent Company's total assets, which we consider to be an appropriate measure as the Parent Company exists only as a holding company for the Group and carries on no trade in its own right. Materiality represents 1% of total assets as presented on the face of the Parent Company's Statement of Financial Position.

An overview of the scope of our audit

The Parent Company was subject to a full scope audit.

Other information

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

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

We have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act 2006

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

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

Independent Auditor's report continued

to the members of Adept4 Plc (parent company)

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Parent Company and the environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' report.

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

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

Responsibilities of Directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 21, the Directors are responsible for the preparation of the Parent Company financial statements and for being satisfied that they give a true and fair view, and for such internal controls as the Directors determine is necessary to enable the preparation of Parent Company financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Other matter

We have reported separately on the group financial statements of Adept4 Plc for the year ended 30 September 2017.

Andrew Bond
Senior Statutory Auditor,
for and on behalf of Nexia Smith & Williamson
Statutory Auditor, Chartered Accountants
25 Moorgate, London, EC2R 6AY
16 January 2018

Statement of financial position (parent company)

as at 30 September 2017

	Note	30 September 2017 £'000	30 September 2016 £'000
Fixed assets			
Intangible assets	3	53	—
Fixed asset investments	4	1	1
Total fixed assets		54	1
Current assets			
Debtors	5	8,783	11,548
Cash at bank and in hand		1,897	1,029
Total current assets		10,680	12,577
Creditors: amounts falling due within one year	6	(1,423)	(831)
Net current assets		9,257	11,746
Total assets less current liabilities		9,311	11,747
Creditors: amounts falling due in more than one year	7	(3,872)	(3,673)
Net assets		5,439	8,074
Capital and reserves			
Called up share capital	9	2,271	2,271
Share premium account		11,337	11,337
Capital redemption reserve	11	6,489	6,489
Merger reserve	12	1,997	1,997
Other reserve	10	1,601	1,439
Retained reserve	13	(18,256)	(15,459)
Shareholders' funds		5,439	8,074

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 £2,797,000 (2016: £771,000).

Approved by the Board and authorised for issue on 16 January 2018.



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 2017

	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)	7,574
Equity at 30 September 2016	2,271	11,337	6,489	1,997	1,439	(15,459)	8,074
	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Merger reserve £'000	Other reserve £'000	Retained earnings £'000	Total £'000
At 1 October 2016	2,271	11,337	6,489	1,997	1,439	(15,459)	8,074
Loss and total comprehensive loss for the period	—	—	—	—	—	(2,797)	(2,797)
Transactions with owners							
Share-based payments	—	—	—	—	162	—	162
Total transactions with owners	—	—	—	—	162	—	162
Total movements	—	—	—	—	162	(2,797)	(2,635)
Equity at 30 September 2017	2,271	11,337	6,489	1,997	1,601	(18,256)	5,439

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

Notes to the financial statements (parent company)

1. Accounting policies

1.1 Accounting convention

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

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

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

1.2 Compliance with accounting standards

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

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

1.3 Intangible fixed assets

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

1.4 Investments

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

1.5 Pensions

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

1.6 Deferred taxation

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

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

1.7 Share-based remuneration

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

1.8 Critical accounting judgements and key sources of estimation uncertainty

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

Key sources of estimation uncertainty

Where there is indication of impairment, the debtors balance is impaired by a charge to the Consolidated Income Statement. The debtors' balance of £8.8m is recorded in the Company's Balance Sheet, of which £8.7m 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.

1.9 Financial liabilities

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

Finance charges, including premiums payable on settlement or redemption, and direct issue costs are charged to the 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 (2016: £14,000).

Notes to the financial statements (parent company) continued

3. Intangible fixed assets

£'000

Cost	
At 1 October 2016	—
Additions during the year	60
At 30 September 2017	60
Depreciation	
At 1 October 2016	—
Charge for the year	7
At 30 September 2017	7
Net book value	
At 30 September 2016	—
At 30 September 2017	53

4. Fixed asset investments

£'000

Cost and net book value	
At 1 October 2016 and 30 September 2017	1

At 30 September 2017 the Company had one subsidiary undertaking.

Company	Country of registration or incorporation	Class of shares held	%
Subsidiary undertakings			
Adept4 Holdings Limited	Scotland	Ordinary	100

On 27 December 2016, MacLellan IT Limited, a subsidiary of the Company, was dissolved. In addition, on 21 April 2017, IG Software Limited, another subsidiary of the Company, was dissolved.

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

Company	Principal activity	Net assets £'000	Loss for the year £'000
Adept4 Holdings Limited	Intermediate holding company	5,532	606

The complete list of subsidiaries of Adept4 Holdings Limited is disclosed in Note 8 to the Group accounts.

5. Debtors

	2017 £'000	2016 £'000
Amounts owed by subsidiary undertakings after impairment	8,698	11,411
Prepayments and accrued income	29	55
Other taxes and social security costs	55	79
Other debtors	1	3
	8,783	11,548

6. Creditors: amounts falling due within one year

	2017 £'000	2016 £'000
Trade creditors	149	225
Other taxes and social security costs	2	199
Deferred consideration	987	—
Accruals and deferred income	285	407
	1,423	831

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

	2017 £'000	2016 £'000
Loan Notes repayable to the BGF between three and seven years	5,000	5,000
Less fair value adjustment relating to the BGF Loan Notes	(1,128)	(1,327)
	3,872	3,673

7.1 Financial instrument

On 26 May 2016, the Company issued £5m unsecured loan notes ("Loan Notes") to the BGF with a seven-year term (although redemption is permissible from the third anniversary) with repayment between the fifth and seventh anniversaries in equal semi-annual repayments that carry interest at 8% per annum ("Coupon"). Assuming that the Loan Notes were held for seven years and not redeemed early, the maximum credit exposure at 30 September 2017, including interest, is £6.8m, of which £1.8m relates to interest. The Directors are satisfied that the capital and loan repayments over the loan 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.

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

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

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

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

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 Statement of Changes in Equity.

	Loan Note balance £'000	Carrying value Loan Notes £'000	8% interest payable £'000
Cash received from the BGF on 26 May 2016 for Loan Notes at 8% per annum interest	5,000	—	—
At 30 September 2016	5,000	(3,673)	—
Interest on Loan Notes at 8% per annum for the year to 30 September 2017	—	—	(400)
Notional interest on liability element of the BGF Loan Notes to 30 September 2017	—	(199)	—
At 30 September 2017	5,000	(3,872)	(400)

Notes to the financial statements (parent company) continued

8. Pension and other post-retirement benefit commitments

No contributions to Company pension schemes were made during the year (2016: £nil).

9. Share capital**Shares issued and fully paid**

	2017 £'000	2016 £'000
Beginning of year	2,271	592
Issued during year	—	1,679
Shares issued and fully paid	2,271	2,271

Share capital allotted, called up and fully paid

	Ordinary Shares £'000
At 30 September 2015	592
114,311,113 Ordinary Shares of £0.01 each issued 10 February 2016 through a placing and open offer	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
At 30 September 2016 and 30 September 2017	2,271

10. Other reserve

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

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

	2017 Number	2017 Weighted average exercise price	2016 Number	2016 Weighted average exercise price
Outstanding at 1 October	11,797,691	8.69p	2,343,280	10.50p
Granted	3,800,000	1.00p	11,323,333	8.50p
Lapsed	—	—	(1,868,922)	9.81p
Outstanding at 30 September	15,597,691	6.82p	11,797,691	8.69p

During the year, 3,800,000 share options were granted and no share options lapsed in accordance with the share issue documents.

At 30 September 2017, Adept4 Plc had granted the following outstanding share options:

Date granted	Balance 2017	Movement during the year	Balance 2016	Exercise price	Dates exercisable	Remaining contractual life (months)
1 June 2008	100,000	—	100,000	13.75p	1 July 2010–1 July 2018	9
9 July 2009	166,666	—	166,666	30.00p	9 July 2011–9 July 2019	21
25 March 2015	207,692	—	207,692	—	25 March 2018–25 March 2025	90
8 February 2016	1,190,000	—	1,190,000	4.20p	8 February 2019–8 February 2026	101
28 September 2016	10,133,333	—	10,133,333	9.00p	28 September 2019–28 September 2026	108
31 March 2017	3,800,000	3,800,000	—	1.00p	1 April 2022–31 March 2027	114

In total £162,000 of share-based expense has been included in the Company Income Statement for 2017 (2016: expense of £61,000).

	2017 £'000	2016 £'000
Share options	108	(8)
Share warrants	54	69
Total	162	61

10. Other reserve continued

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

2017

Number of options	3,800,000
Volatility	75%
Exercise price	1.00p
Spot price	5.62p
Interest rate	2.50%
Dividend yield	—
Vesting period (years)	5
Option value weighted average exercise price	6.8p
Option value weighted average spot price	7.9p

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

10.1 Share warrant instrument

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

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

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

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

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

Date granted	Balance 2017	Movement during the year	Balance 2016	Exercise price	Dates exercisable	Remaining contractual life (months)
28 April 2015	13,853,255	—	13,853,255	6.50p	28 April 2018–28 April 2022	55
26 May 2016	50,000,000	—	50,000,000	6.00p	26 May 2016–26 May 2031	164
Total	63,853,255	—	63,853,255	6.11p		

Notes to the financial statements (parent company) continued

11. 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.

12. 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.

	2017 £'000	2016 £'000
Opening merger reserve at 1 October	1,997	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	1,997

13. Retained reserves

	2017 £'000	2016 £'000
Retained earnings reserve at 1 October	(15,459)	(14,755)
Effective interest on equity element of BGF Loan Notes	—	67
Loss for the year	(2,797)	(771)
Retained earnings reserve at 30 September	(18,256)	(15,459)

14. 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.

Both Gavin Lyons and Jill Collighan, who served as Directors during the period, were employees and shareholders 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 Company. No other Director had a material interest in any significant contract with the Company or any of its subsidiaries during the year save for those disclosed in the accounts.

Fees for Gavin Lyons' services as Executive Chairman and Jill Collighan's services as an Executive Director are invoiced by MXC Advisory Limited. Additionally, corporate finance advisory and transaction services were purchased from it as financial adviser to the Company; the Company purchased services totalling £140,000 (2016: £523,000).

15. Employee costs

The average number of staff employed by the Company during the year was 2 (2016: 4). These were all Directors. The costs for the year were £67,000 (2016: £306,000).

Directors, Secretary and advisers

Directors

Simon Duckworth OBE DL
Non-Executive Chairman

Dr Tom Black
Non-Executive Director

Jill Collighan
Executive Director

Ian Winn
Group CFO and M&A Director

Secretary

Darron Giddens

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Registered Auditor

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Registrars

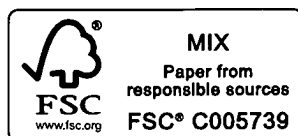
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