

Kromek Group plc
Annual report and financial statements
for the year ended 30 April 2016

Registered number: 08661469



Directors, Secretary & Advisors

DIRECTORS

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Mr D Bulmer
Sir Peter Williams
Mr L H N Kinet
Dr G K Speirs
Mr J H Whittingham

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Financial & Operational Highlights

Financial Highlights

- Revenue increased to £8.3m (2014/15: £8.1m)
- Underlying revenue* increased 11% to £8.3m (2014/15: £7.5m*)
- Product sales accounted for 65% of total revenues (2014/15: 46%), a growth year-on-year of 41%
- Gross margin was 53% (2014/15: 69%), due to product mix and non-recurring exclusivity payment of £0.6m**
- Administration costs and operating expenses were £8.3m (2014/15: £8.5m)
- Adjusted EBITDA*** was £2.4m loss (2014/15: £1.6m loss), following further investment of £3.2m (2014/15: £2.7m) of research costs expensed in preparation for the expected demand regarding D3S and SPECT
- Loss for the year from continuing operations was £2.15m (2014/15: £2.15m loss)
- Loss per share was 1.5p (2014/15: 2.0p loss)
- Cash and cash equivalents, net of loans and overdrafts, at 30 April 2016 were £3.9m (31 October 2015: £6.5m; 30 April 2015: £0.2m). Post year end, the Group has received £2.7m from year end debtors

*Underlying revenue reflects the absence of a \$1m (£0.6m) payment received last year from a top four OEM in the CT market, which represented the second of two payments made for a two-year fixed exclusivity term.

**The above noted £0.6m exclusivity payment was also substantially responsible for the high gross margin reported in 2014/15. As with prior periods, gross margin is calculated before labour and overhead recovery.

***Adjusted EBITDA eliminates non-recurring other income and share-based payment expenses. See the Financial Review below for a reconciliation of adjusted EBITDA.

Operational Highlights

- New contracts totalling over \$30m signed during the year, with Medical Imaging contracts representing the largest contribution, accounting for over 63%
- Revenue growth driven by higher product sales which saw year-on-year growth of over 41%
- Nuclear Detection segment experienced significant growth and represented the largest segment by revenue
 - Awarded sole supplier contract by DARPA, an agency of the U.S. Department of Defense, to supply the Group's D3S personal radiation detectors in support of DARPA's SIGMA programme, worth approximately \$6.0m
 - Entered into two agreements with CANBERRA Industries, Inc. ("CANBERRA"), a worldwide provider of nuclear measurement solutions, for product distribution and R&D collaboration
- Medical Imaging segment represented the second largest contributor to revenues and the Group won multiple contracts
 - Secured a five-year contract totalling \$12.6m and two contracts worth \$1.33m with two long-standing OEM customers in the bone mineral densitometry ("BMD") diagnostics industry
 - Secured two new contracts, totalling \$530,000, from existing customers
 - The first contract is a repeat order for the supply of Kromek's cadmium zinc telluride ("CZT") detectors to a long-standing OEM customer in the Single Photon Emission Computed Tomography ("SPECT") market
 - The second order is for the delivery of Kromek's ASIC, based on unique intellectual property, to a global player in the medical imaging market
 - Launched eVance™, a new generation of CZT SPECT Cameras that OEMs can configure into virtually any SPECT imaging system being sold
- 44 new patents were granted and 16 new patent applications were filed
- Appointed Sir Peter Williams CBE as Chairman

Chairman's Statement

I am delighted to present our Annual Report for the year ended 30 April 2016, following my appointment to the role of Chairman in October last year, in succession to Lawrence Kinet, our erstwhile interim Chairman. I want to give my warm thanks to him on behalf of the Board for the excellent service he continues to provide Kromek.

I am very pleased to have joined Kromek at this exciting juncture in its development and I hope to be able to make a significant contribution to the Company, based on my sector experience. Kromek is at the forefront in developing cutting edge radiation detection solutions for competitive markets and I remain impressed by the management team and the scale of the Company's operations.

Our goals for this year were to focus on the markets in which we can secure traction – nuclear detection, SPECT, bone mineral densitometry ("BMD") and the continued development of CT. On pages 5-7, Arnab Basu, our Chief Executive Officer, provides details on operational achievements for the year. During the year, I am proud to say we were awarded contracts totalling just over \$30m. This not only gives us greater visibility of revenues going forward but it also indicates the potential market size in our chosen sectors. Kromek has been able to demonstrate this year that it has the right technology and products to capture a meaningful share of these target markets.

Our continued commitment to R&D and to extending our Intellectual Property portfolio was recently recognised by the IP100 Intellectual Property League where Kromek topped the table for award-winning IP solutions. During the year we also completed a cross licensing deal with a leading, global, medical imaging company which further validates the relevance of our IP portfolio.

Improving yields and lowering cost of production

Following the acquisition of EV products in February 2013 I am particularly pleased about how quickly the replication of their CZT manufacturing process occurred in the UK. It was essential that we developed this capability in the UK to add scale to our business and enhance security of supply. We are encouraged by the subsequent improvement in efficiencies in production in both the UK and USA, which supports our efforts to enhance the commercial competitiveness of our CZT-based detectors. That Kromek is making significant progress in driving down costs through improving yield levels indicates that we are well-positioned to benefit from the shift towards mass adoption of CZT-based detectors in multiple markets.

Visibility of revenues

In 2014 our full year revenues were £5.9m, so this year's reported figure of £8.3m represents a growth of over 40% in two years. Over the past three years, dealing with government agencies and major international OEMs had made it difficult to predict the exact timing and magnitude of some contracts. However, this year we are pleased that our revenues were in line with market expectations. Recent contract wins and a strong pipeline provide improved visibility going forward, with significant order cover already in hand for projected revenues in 2016/2017.

Significant contracts

The most significant breakthrough this year was our sole source supply contract with the U.S. Defense Advanced Research Projects Agency (DARPA) to supply spectroscopic personal radiation detectors (D3S) in support of DARPA's SIGMA programme. At a value of \$6.0m, this brought our total contracts awarded from DARPA over the last two years to just over \$11.1m and we believe that the product we have developed continues to represent a significant opportunity for Kromek in the wider market. Government agencies around the world are increasingly concerned by the threat of a "dirty bomb" placement and the SIGMA approach provides the most advanced capability to provide early warning and monitoring.

In our other key target areas of nuclear medical imaging with SPECT and BMD, we also gained increasing traction and are commencing commercial-scale delivery of our products. In particular, towards the end of the period we were awarded a new \$12.6m contract with a current OEM customer, a worldwide producer and exporter of BMD diagnostics systems, for developing and supplying detectors to be incorporated into the

customer's new generation systems. The contract is expected to start during the second half of the financial year to 30 April 2017 and to be delivered over a five-year period.

The contract wins through the period represent a healthy conversion of our pipeline into orders given our long-term sales cycles. We have achieved significant milestones in commercialising our opportunities in our core markets and we remain confident of furthering our strategy of becoming the preferred component supplier to major OEMs through existing and new relationships.

Board Changes

Since my arrival, there has been a significant change in board governance to create a more agile and responsive structure, more appropriate to a high growth emerging technology business. Four members of the Board have stood down and I would like to thank Charlotta Ginman and Peter Bains for their valuable contributions to the Company. I am delighted to report that Max Robinson and Brian Tanner, who also stood down, became inaugural members of Kromek's new Science Advisory Committee under the chairmanship of Sir John Pethica, former Vice President of the Royal Society. We look forward to constructive and helpful guidance from this new body as the Company encounters technological challenges in the future.

Employees and Partners

As we look to the future, I would also like to express gratitude to all those who have enabled us to reach this point. In particular, on behalf of the Board, I would like to thank all of our staff and shareholders for their ongoing support. With the strengthening of Kromek's position and long-term growth drivers showing no sign of abating, we look forward to leveraging our technical expertise and ability to innovate to grow our business and deliver shareholder value. The forthcoming years will be exciting as we deliver on the promise offered by these strong foundations.

Sir Peter Williams CBE

Chairman

18 July 2016

Chief Executive Officer's Review

Kromek made good progress during the period securing over \$30m of new orders and delivered revenue in line with expectations. The Group continued to maintain its strong market position as a key supplier of CZT detection systems both to commercial and government customers globally. It won significant contracts from multiple OEMs across its different key target markets, in particular in the largest growth opportunities of Nuclear Detection and Medical Imaging.

The year was characterised by the award of two of the largest contracts in the Group's history in its key growth markets. Firstly, in Nuclear Detection, Kromek was selected as the sole source supplier by the U.S. Department of Defense agency, DARPA, to supply its D3S radiation detectors as part of the SIGMA programme in an agreement worth \$6.0m. Secondly, in the Medical Imaging sector, Kromek secured a five-year contract totalling \$12.6m with a long-standing OEM customer in the BMD sector.

These two landmark agreements, supplemented by multiple new contracts won through the year with new and current customers, demonstrate a step change in the Group's commercial activities, strength of order book and revenue visibility.

For the full year 2015/16, revenue increased to £8.3m (2014/15: £8.1m). However, underlying revenue grew 11%, more than offsetting the absence of a \$1m contribution (during the previous year) from a top four OEM in the computed tomography ("CT") market, made as part of a two-year exclusivity arrangement. Gross margin was at 53% (2014/15: 69%) reflecting the absence of the payment for exclusivity as well as the impact of changing revenue mix. Product sales grew year-on-year by over 41% and now represent 65% of total revenue.

Operational Review

Medical Imaging

Kromek made good progress in the Medical Imaging sector securing several new contracts. This included a five-year contract totalling \$12.6m, the largest contract in the Group's history, with a long-standing OEM customer that is a worldwide producer and exporter of BMD diagnostics systems. Also in the BMD segment, Kromek won two new contracts totalling \$1.33m with two long-standing customers. Kromek's detector modules, which are incorporated into the customers' systems, produce some of the most accurate imaging to diagnose the strength and health of bones, allowing clinicians to accurately detect, monitor and treat osteoporosis in patients.

In addition, the Group won further contracts during the period, including a repeat order for the supply of its CZT detectors to a long-standing OEM customer in the SPECT market and another contract for the delivery of Kromek's ASIC, based on unique intellectual property, to a global player in the medical imaging market.

Kromek also launched eVance™, a new family of CZT SPECT Cameras that can be configured into virtually any OEM SPECT imaging system. This enables OEMs to integrate turn-key CZT cameras into existing nuclear medical imaging systems, for the diagnosis of cancer and other conditions based on the detection of radiation emitting from radiopharmaceutical agents injected into the patient's body. Kromek has continued to make good progress in the delivery of a SPECT product to an OEM in Asia with which it signed a long-term contract in 2015. Significant internal product development has been undertaken during the year to supply a CZT-based full body SPECT camera to this customer and the wider market.

Kromek has continued to develop its CZT detectors for the multispectral CT market working closely with a number of organisations in this sector. Developments based on Kromek's CZT technology by its partners and customers through the year have been encouraging and full commercialisation of multispectral CT remains a high-value medium-term opportunity.

Nuclear Detection

In Nuclear Detection Kromek continued to grow sales and win multiple contracts to supply innovative nuclear detection products for civil nuclear and safeguarding applications following the increased threat of “dirty bombs”.

The Group strengthened its relationship with DARPA, winning multiple contracts worth a total of \$7.0m in 2015/16. In a significant breakthrough, Kromek was selected as sole source supplier of spectroscopic personal radiation detectors (SPRDs) in support of DARPA’s SIGMA programme. Under the contract, worth \$6.0m, Kromek will deliver its D3S detectors before the end of the 2016/17 fiscal year and will also supply up to 12,000 inductive charging packs.

DARPA’s SIGMA programme is aimed at developing automated cloud augmented wide area radiation detection networks combining fixed and portable sensors, that will continuously monitor radiation in U.S. cities, and that can learn and adapt in real-time to provide significant defensive capability against the threat of nuclear terrorism and so-called “dirty bombs”.

To date, Kromek has been awarded a total of \$11.1m in contracted revenues under the SIGMA programme since it commenced in August 2014. The Group’s outstanding performance under this programme has enabled DARPA to accelerate their programme expectations.

Kromek secured two contracts from new US-based OEM customers, worth a total of \$452,000, to provide a portfolio of patented nuclear detectors to enhance their radiation detection capabilities for security applications. The majority of the orders for both contracts are expected to be completed and delivered in the current fiscal year.

The Group also entered into two agreements with CANBERRA for product distribution and R&D collaboration. CANBERRA will be the exclusive global distributor for four product families from Kromek’s nuclear portfolio (excluding a limited number of territories where Kromek has pre-existing distributor networks). As an established provider and market leader in nuclear instrumentation, CANBERRA has a wide range of products, strong customer relationships and extensive channels to market that Kromek expects to leverage. Kromek also entered into a three-year, collaborative R&D programme with CANBERRA. The programme, which is expected to be worth at least \$900,000 over the life of the contract, will see the two organisations work closely together on new product development and customisation of existing products by utilising Kromek’s expertise and IP. The contract progressed well and as planned during the year.

Security Screening

Kromek continues to work with global security groups for the supply of OEM components for a baggage screening product for aviation security and entered into new projects. During the year, one of Kromek’s OEM customers achieved TSA certification for their screening system, which provides good opportunity in this market in the near future. Kromek is also now developing a service revenue from the current installed base of the Group’s bottle scanner product. Kromek’s bottle scanners are installed in 46 airports in 10 countries in Asia, Europe and Australia. The Group continued its marketing efforts for further sales of bottle scanners as Europe is gearing up for further procurement during the 2016 calendar year driven by the European regulatory requirements.

R&D and Doubling of Manufacturing Capacity

Kromek continued to invest in R&D to maintain its position as a leader in the provision of innovative and high performance radiation detection solutions with regards to both technology and cost.

In the year, 44 new patents were granted and 16 new patent applications were filed.

In November 2015, the Group announced that it had signed a cross licensing agreement with one of the world’s leading manufacturers of medical equipment. Under the terms of the agreement, Kromek was granted

a licence to use three patents of the leading manufacturer and in return it granted them a licence to three of its patents. This was a significant step to validate the relevance and strength of the Group's IP portfolio.

Kromek continued to benefit from the investment it had made in its manufacturing capacity during the year to 30 April 2015 when it successfully replicated in the UK the manufacturing processes that had previously been utilised in the US. This effectively enabled a doubling of the Group's then production capacity. The manufacturing processes have provided improvements in efficiency and yield, and have enabled Kromek to scale up manufacturing in more than one site with the further benefit of significantly reducing the supply chain risk for its customers.

Outlook

Kromek has entered the new fiscal year with increased momentum as it has the right technology and the right products at the right price points to capture the large market opportunities in its three key target areas of CT, SPECT and portable advanced radiation detectors where its proprietary technologies bring important and differentiated performance advantages.

The Group is making good progress on the \$30m of new orders won in the year giving it revenue visibility of the majority of the market expectations for full year 2016/17.

The Group is delivering on its DARPA contract to supply D3S radiation detectors. 3,500 units have already been shipped with the remaining to be delivered in the current fiscal year. The Group is collaborating with its partners in the SIGMA programme and making arrangements to commence full-scale deployment in cities across the US and Europe over the coming years.

Kromek continues to make advancements in the delivery of its SPECT contract with an OEM in Asia. The commercial opportunity in this market is significant and the management team consider it to be realisable in the near term.

Overall, the Group's products continue to gain traction across the globe as Kromek deepens its relationships with long-term customers and expands its reach. With a strengthened order book in place and improved revenue visibility, the Board looks to the future with confidence.

Dr Arnab Basu MBE

CEO

18 July 2016

Chief Financial Officer's Review

The Group experienced underlying revenue growth of 11% year-on-year, after adjusting for the \$1m exclusivity payment received in the prior year from a global CT partner that did not recur in the current year. Revenue growth has been driven by higher product sales at £5.4m (2014/15: £3.8m), accounting for 65% of total revenue (2014/15: 47%). This represents growth in product sales year-on-year of over 41% and reflects particular traction with the D3S and SPECT products.

Gross margin (calculated before labour and overhead recovery) has moved to 53% (2014/15: 69%). This is primarily due to a higher proportion of product sales compared with government contracts and development projects as well as the impact of the aforementioned, pure profit, exclusivity payments of \$1m in the prior year.

Administration costs and operating expenses at £8.3m (2014/15: £8.5m) have fallen by 2% compared with the prior year as the business continued to maintain effective cost controls. This reduction has been achieved despite an increase in internal R&D expenditure expensed to the income statement of £3.2m (2014/15: £2.7m).

Summary of Results

As a result of increased product sales and the anticipated movement in gross margin in the year, the adjusted EBITDA result was a loss of £2.4m (2014/15: £1.6m loss), as set out in the table below:

	2015/16	2014/15
	£'000	£'000
Revenue	8,342	8,101
Gross margin (%)	53%	69%
LBT	(4,143)	(3,135)
EBITDA Adjustments:		
Net interest	83	71
Depreciation	709	673
Amortisation	828	711
EBITDA	(2,523)	(1,680)
Share-based payments	166	181
Other income	(19)	(60)
Adjusted EBITDA	(2,376)	(1,559)

The Group has sought to bring forward product revenue opportunities through investment in R&D and has seen strong adoption of a number of products including the D3S and for SPECT applications. As the volume of product sales increases in key revenue categories, the Group will seek, through production and yield processes together with purchasing efficiencies, to grow the margin realised on sales and optimise the operating leverage of the relatively fixed cost base.

Loss for the year from continuing operations was £2.15m (2014/15: £2.15m loss).

Cash and cash equivalents, net of loans and overdrafts, was £3.9m at 30 April 2016 (31 October 2015: £6.5m; 30 April 2015: £0.2m). This follows the successful placing and open offer in August 2015 of £10.3m (net), offset by the loss for the period, further investment in product development in the year of £2.8m and working capital expansion in debtors and inventory of £1.8m. Strong debtor receipts of £2.7m have been seen by the Group post year end, with inventory increases enabling timely delivery of product sales.

The Group also repaid £1m previously drawn down against the £3m revolving credit facility with HSBC during the period.

Tax

The Group continues to benefit from the UK Research and Development Tax Credit resulting from the investment in developments of technology and recorded a credit of £0.8m for the year (2014/15: £1.0m). The Group deferred tax provision saw a movement of a credit of £1.2m (2014/15: £nil) as a result of the distribution of losses between the UK and US operations. These two elements led to an overall tax credit to the income statement for the Group of £2.0m (2014/15: £1.0m).

Earnings per Share ("EPS")

EPS is recorded in the year on a basic and diluted basis producing a loss of 1.5p per share (2014/15: 2.0p loss per share). Due to the Group having losses in each of the two years, the diluted EPS for disclosure purposes is the same as the basic EPS.

R&D

The Group invested £2.8m in the year (2014/15: £1.8m) in near-term product developments which were capitalised on the balance sheet. A further £3.2m (2014/15: £2.7m) has been incurred in the research and development of the core technology platform and manufacturing capabilities and expensed through the income statement in the period.

The Group continues to undertake this investment in order to advance its commercial advantage. This has been manifest in the period in D3S and SPECT sales and opportunities and developments in relations with key nuclear product partners. This investment is considered critical and ongoing as the Group commercialises the opportunities that the technology provides and expands capabilities in the number of different applications, and also to drive efficiencies in yield and manufacturing processes.

During the period the Group undertook expenditure on patents and trademarks of £0.3m (2014/15: £0.4m) and was awarded 44 new patents and filed 16 new patent applications. The Group also announced in November 2015 that it had signed a cross licensing agreement with one of the world's leading manufacturers of medical equipment. Under the terms of the agreement, Kromek was granted a licence to use three patents of the leading manufacturer and in return granted them a licence to three of its patents.

Capital Expenditure

Capital expenditure in the year amounted to £0.4m (2014/15: £2.6m) to largely upgrade the IT network along with some modest manufacturing projects. The prior year had seen significant investment in the expansion of furnace capacity in the UK that has been successfully commissioned and operated during the year to 30 April 2016.

Monitoring Principal Risks and Uncertainties

The Directors of Kromek Group plc confirm that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.

The Chairman's Statement draws out what the Directors believe to be the Group's most significant risk which is the visibility of revenues, including their timing and extent. The Group's recent contract wins and strong pipeline have enhanced this visibility in the current year. The time that may occur between initially engaging with potential customers and receiving orders requires strict management of the overhead base to ensure that the Group can maximise its opportunities and has capacity for future sales growth, and to focus the Group's spend appropriately. As noted above, whilst growing both revenue and order book, the Group has reduced operating costs year-on-year.

The Group continues in its commitment to Research and Development to both advance the technology and opportunities to be taken therefrom. This helps to ensure that the Group maintains a strong competitive position relative to competitor developments and changes in the markets in which it operates, whether these be regulatory changes or general changes in appetite in the markets which the Group targets.

Derek Bulmer
CFO
18 July 2016

Directors' Biographies

Sir Peter Williams, Chairman

Sir Peter Williams, CBE, FREng, FRS, Chairman, and chairman of the Audit Committee. He completed his degree and PhD at Cambridge, and then taught at Selwyn College. His PhD thesis was in "Defect structure and luminescent properties of semiconductors". He then moved into industry, working at VG Instruments where he became Deputy Chief Executive and at Oxford Instruments, the first spin out from Oxford University, he held the positions of Chief Executive Officer and Chairman. He also was Chairman of Isis Innovation Ltd, the technology transfer arm of Oxford University. Other PLC experience includes serving as non-executive director of GKN plc and of WS Atkins plc. He received a CBE in 1992 and was knighted in the Queen's Birthday Honours list of 1998. He is currently Chairman of the National Physical Laboratory, and Vice President and Treasurer of the Royal Society since 2005.

Arnab Basu, Chief Executive Officer

Dr. Basu has a PhD in physics from Durham University, specialising in semiconducting sensor materials. Arnab held senior management positions in his family business, which manufactured materials for the electronics industry serving over 250 major telecommunications and consumer electronics manufacturers, including Siemens and GEC. He worked in commercial product development for Elmwood Sensors Ltd (Honeywell Group, UK). A prominent figure within the business community, he was awarded Ernst and Young 'Entrepreneur of the Year' (2009) and received an MBE for services to regional development and international trade (2014).

Derek Bulmer, Chief Financial Officer & In-House Counsel

A qualified Chartered Accountant and Barrister, Mr. Bulmer has worked with KPMG and undertaken a number of senior management roles with blue chip plc's including Bass plc, AWG plc and Ibstock plc. Additionally, and more recently, a number of roles as Finance Director of privately owned groups in both the IT and oil and gas industries have provided a wealth of experience in executing and managing business acquisitions plus significant aspects of the commercial and legal disciplines of corporate management.

Lawrence Kinet, Non-Executive Director

Mr. Kinet has 40 years' experience in the medical device and bio-pharmaceutical industry in leadership positions, most recently as Group Chief Executive of LMA International NV and President of Smiths Medical, London. Lawrence has raised more than \$100m in funding for early stage companies, taking one through an IPO, and made over \$1bn worth of acquisitions. His career began at Baxter International, running a number of overseas operations eventually becoming President of Baxter's International Division. He holds a BSc from the University of Birmingham (UK) and an MBA from the University of Chicago.

Graeme Speirs, Non-Executive Director

Dr. Speirs is an experienced entrepreneur and owner of the Polymer Holdings Group and Polymer N2, an investment company focused on UK start-ups in the technology, life sciences and energy sectors. Graeme graduated with first class honours in chemistry and a PhD in molecular physics from Aberdeen University, and holds a masters degree in Technology and Economics from Birmingham University. Involved in the oil and gas industry, Graeme is an expert in the design and manufacture of polymer composite products.

Jerel Whittingham, Non-Executive Director & Remuneration Committee Chair

Mr. Whittingham has extensive experience in investor, operational and strategy roles with technology rich companies including Incuvest LLC, Generics Group plc, Durlacher plc, Amphion Innovations plc, INMARSAT and a number of start-ups. He was appointed to the Board of Kromek Group plc in September 2013 and also served on the Board of DSC Ltd, a predecessor company of the group. Currently he combines NED and operational roles in technology growth companies. He also served as CEO and later Executive chairman of Myconostica Ltd, a medical technology company spun out from a leading UK university.

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 April 2016.

Principal activities

Kromek Group plc is the leading developer of radiation detectors based on cadmium zinc telluride, providing improved detection and characterisation capabilities within the medical imaging, nuclear detection and security screening markets.

Business and strategic review

The information that fulfils the requirements of the strategic report and business review, including details of the results for the year ended 30 April 2016, principal risks and uncertainties, research and development, financial KPIs and the outlook for future years, are set out in the Chairman's and Chief Executive Officer's Statements and the Business and Financial Review, on pages 2-10.

Future development

Our development objectives for 2016–17 are disclosed in the Overview on pages 3-7.

Capital structure

The capital structure is intended to ensure and maintain strong credit ratings and healthy capital ratios in order to support the Group's business and maximise shareholder value. It includes the monitoring of cash balances, available bank facilities and cash flows.

No changes were made to these objectives, policies or processes during the year ended 30 April 2016.

Results and dividends

The consolidated income statement is set out on page 22.

The Group's loss after taxation amounted to £2.15m (2015: £2.15m).

The Directors do not recommend the payment of a dividend for the year ended 30 April 2016.

During the year ended 30 April 2016, the Group made political donations of £nil (2015: £nil) and charitable donations of £nil (2015: £nil).

Directors

The Directors of the Group are shown on page 11. All of the Directors were Directors for the whole of the year, with the exception of Sir Peter Williams who was appointed on 28 September 2015. In addition, the following served as Directors for part of the year as noted:

- Mr Peter Bains (resigned 16 December 2015)
- Ms Charlotta Ginman (resigned 16 December 2015)
- Professor Max Robinson (resigned 16 December 2015)
- Professor Brian Tanner (resigned 16 December 2015)

The emoluments and interests of the Directors in the shares of the Group are set out in the Remuneration report. Details of significant events since the balance sheet date are contained in note 15 to the Parent Company financial statements.

Information about the use of financial instruments by the Group and its subsidiaries is given in note 35 to the financial statements.

The Directors, who served throughout the year except as noted, were as follows:

Dr A Basu MBE

Mr D Bulmer

Sir Peter Williams (appointed 28 September 2015)

Mr L Kinet

Dr G K Speirs

Mr J H Whittingham

Directors' indemnities

The Group has made qualifying third party indemnity provisions for the benefit of its Directors, which were made during the year and remain in force at the date of this report.

Statement of Directors' responsibilities in respect of the Directors' report and the financial statements

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations. Group law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare Group and parent company financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

Under Group law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the parent company and of the profit or loss of the Group and the parent company for the period. The Directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the AIM. In preparing these financial statements, the Directors are required to:

- present fairly the financial position, financial performance and cashflows of the Group;
- select suitable accounting policies in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and 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 the annual report and the financial statements are made available on the corporate website. Financial statements are published on the Group's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website.

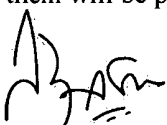
Auditors

Each of the persons who is a Director at the date of approval of this annual report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Group's auditors are unaware; and
- the Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.



By order of the Board
Dr Arnab Basu MBE

Corporate Governance Report

As an AIM listed company, Kromek Group plc is not obliged to comply with the UK Corporate Governance Code published in September 2012 (the “Code”). However, the Board follows, as far as practicable, the recommendations on corporate governance of the Quoted Companies Alliance for companies with shares traded on AIM.

The Board

The Board normally meets at least four times per year in person and four times per year telephonically. Its direct responsibilities include setting annual budgets, reviewing trading performance, approving significant capital expenditure, ensuring adequate funding, setting and monitoring strategy and reporting to shareholders. The Non-Executive Directors have a particular responsibility to ensure that the strategies proposed by the Executive Directors are fully considered.

Audit committee

The audit committee is chaired by Sir Peter Williams, an Independent Non-Executive Director. The other members are Lawrence Kinet and Jerel Whittingham, both Independent Non-Executive Directors, and Graeme Speirs, a large shareholder and Director of the Board. The committee meets at least four times a year.

The audit committee is responsible for reviewing the half-year and annual financial statements, interim management statements, preliminary results announcements and any other formal announcement or presentation relating to the Group’s financial performance. The audit committee also reviews significant financial returns to regulators and any financial information covered in certain other documents such as announcements of a price sensitive nature.

The audit committee advises the Board on the appointment of external auditors and on their remuneration (both for audit and non-audit work) and discusses the nature, scope and results of the audit with the auditors. The audit committee reviews the extent of the non-audit services provided by the auditors and reviews with them their independence and objectivity. The Chairman of the audit committee reports the outcome of audit committee meetings to the Board and the Board receives minutes of the meetings.

Remuneration committee

The remuneration committee is chaired by Jerel Whittingham, an Independent Non-Executive Director. The other members are Lawrence Kinet, an Independent Non-Executive Director, and Graeme Speirs, a large shareholder and Director of the Board. The committee is responsible for making recommendations to the Board, within agreed terms of reference, on the Group’s framework of executive remuneration and its cost. The committee determines the contract terms, remuneration and other benefits for each of the Executive Directors, including performance related bonus schemes and pension rights. Further details of the Group’s policies on remuneration and service contracts are given in the Directors’ remuneration report on pages 16-19.

Relations with shareholders

Communication with shareholders is given high priority. There is regular dialogue with major and institutional shareholders including presentations after the Group’s announcements of the half-year and full-year results. Presentations are also made to analysts at those times to present the Group’s results and report on developments. This assists with the promotion of knowledge of the Group in the investment marketplace and with shareholders. The Board uses both the annual report and financial statements and the Annual General Meeting to communicate directly with private and institutional investors and welcomes their participation.

The Chairman aims to ensure that the Chairs of the audit and remuneration committees are available at the Annual General Meeting to answer questions.

Internal control

The Board is responsible for establishing and maintaining the Group’s system of internal control and for reviewing its effectiveness. The system is designed to manage rather than eliminate the risk of failure to achieve the Group’s strategic objectives and can only provide reasonable and not absolute assurance against material

misstatement or loss. As an AIM listed company, the Group does not need to comply with Code provision C2.1 regarding the Directors giving a summary of the process applied by the Board in reviewing the effectiveness of the system of internal control. Instead, the Directors have set out below some of the key aspects of the Group's internal control procedures.

An ongoing process has been established for identifying, evaluating and managing the significant risks faced by the Group. The process has been in place for the full year under review and up to the date of approval of the annual report and financial statements. The Board regularly reviews this process as part of its review of such risks within its meetings. Where any weaknesses are identified, an action plan is prepared to address the issues and is then implemented.

Each year the Board approves the annual budget. Key risk areas are identified, reviewed and monitored. Performance is monitored against budget, relevant action is taken throughout the year and updated forecasts are prepared as appropriate.

Capital and development expenditure is regulated by a budgetary process and authorisation levels. For expenditure beyond specified levels, detailed written proposals have to be submitted to the Board for approval. Reviews are carried out after the purchase is complete. The Board requires management to explain any major deviations from authorised capital proposals and to seek further sanction from the Board.

The Board has reviewed the need for an internal audit function and concluded that this is not currently necessary in view of the small size of the Group and the close supervision by the senior leadership team of its day-to-day operations. The Board will continue to keep this under review.

The Group has a whistle-blowing policy and procedures to encourage staff to contact the audit committee if they need to raise matters of concerns other than via the Executive Directors and senior leadership team.

Going concern

As at 30 April 2016, the Group had net assets of £24.7m (2015: £16.2m) as set out in the consolidated statement of financial position. The Directors have prepared detailed forecasts of the Group's financial performance over the next 5 years. As a result of this review, which incorporated sensitivities and risk analysis, the Directors believe that the Group has sufficient resources and working capital to meet their present and foreseeable obligations for a period of at least twelve months from approval of these financial statements. Accordingly, they continue to adopt the going concern basis in preparing the Group financial statements.

Directors' Remuneration Report

As the Group is AIM listed, the Directors are not required, under Section 420(1) of the Companies Act 2006, to prepare a Directors' remuneration report for each financial year of the Group and so Kromek Group plc makes the following disclosures voluntarily, which are not intended to, and indeed do not, comply with the requirements of the Companies Act 2006.

The remuneration committee is responsible for recommending the remuneration and other terms of employment for the Executive Directors of Kromek Group plc.

In determining remuneration for the year, the committee has given consideration to the requirements of the UK Corporate Governance Code.

Remuneration policy

The remuneration of Executive Directors is determined by the committee and the remuneration of Non-Executive Directors is approved by the full Board of Directors. The remuneration of the Chairman is determined by the Independent Non-Executive Directors.

The remuneration packages of Executive Directors comprise the following elements:

Basic salary and benefits

Basic salaries for Executive Directors are reviewed annually having regard to individual performance and market practice. In most cases benefits provided to Executive Directors comprise the provision of a Group car, or appropriate allowance, health insurance and contributions to a Group personal pension scheme.

Annual bonus

A bonus may be awarded at the end of each financial year, at the discretion of the Board, having considered the recommendations of the remuneration committee. The maximum bonus currently ranges from between 25%–75% of basic salary to reward for Executives' contribution to the growth in revenue, and specific targeted or strategic objectives.

Long-Term Incentive Plan ("LTIP")

The Group believes that share ownership by Executive Directors and employees strengthens the link between their personal interests and those of the Group and the shareholders.

The Group has executive share option and incentive schemes, which are designed to promote long-term improvement in the performance of the Group, sustained increase in shareholder value and clear linkage between executive reward and the Group's performance.

The LTIP is based on total shareholder return ("TSR") relative to an AIM peer group. Any awards made vest only after three years.

Service contracts

Arnab Basu and Derek Bulmer have service contracts with notice periods (to the Company) of nine and six months respectively.

The committee considers the Directors' notice periods to be appropriate as they are in line with the market and take account of the Directors' knowledge and experience.

Non-Executive Directors

The fees of the Non-Executive Directors are determined by the full Board within the limits set out in the Memorandum and Articles of Association. The Non-Executive Directors are not eligible for bonuses, pension benefits or share options.

Directors' emoluments

Emoluments of the Directors for the year ended 30 April 2016 are shown below.

Pension contributions

During the year, the Group made annual pension contributions for Arnab Basu and Derek Bulmer to a personal pension scheme (i.e. a defined contribution scheme). Neither benefits in kind nor bonuses are pensionable.

Details of contributions payable by the Group are:

Director	30 April 2016 £'000	30 April 2015 £'000
Arnab Basu	16	16
Derek Bulmer	30	10

Directors' shareholdings

Beneficial interests of the Directors in the shares of the Group are shown below:

	30 April 2016		30 April 2015	
	Number	%	Number	%
Arnab Basu	2,072,000	1.4	2,000,000	1.8
Derek Bulmer	40,000	-	-	-
Peter Williams	30,000	-	-	-
Charlotta Ginman**	37,527	-	37,527	-
Lawrence Kinet	150,000	-	30,000	-
Max Robinson**	9,560,000	6.3	9,500,000	8.8
Graeme Speirs*	16,268,415	10.7	14,792,730	13.7
Brian Tanner**	800,000	-	750,000	0.7
Jerel Whittingham	110,450	-	110,450	0.1

* Graeme Speirs is interested in Kromek Group plc through Polymer Holdings Ltd which owns 12,773,475 (2015: 11,377,790) ordinary shares amounting to 8.39% (10.5%) of the issued share capital.

** Charlotta Ginman, Professor Max Robinson and Professor Brian Tanner resigned from the Board on 16 December 2015.

Directors' emoluments for the year ended 30 April 2016

	Salary £'000	Fees £'000	Benefits £'000	Bonus £'000	Pension contributions £'000	Total emoluments 2016 £'000	Total emoluments 2015 £'000
Non-executive Chairman							
Sir Peter Williams	-	42	-	-	-	42	-
Richard Morgan*	-	-	-	-	-	-	64
Executive							
Arnab Basu	165	-	7	36	16	224	188
Derek Bulmer	137	-	6	33	30	206	127
Non-executive							
Peter Bains**	-	29	-	-	-	29	33
Charlotta Ginman**	-	32	-	-	-	32	36
Lawrence Kinet	-	47	-	-	-	47	35
Max Robinson**	-	25	-	-	-	25	30
Graeme Speirs	-	39	-	-	-	39	33
Brian Tanner**	-	27	-	-	-	27	33
Jerel Whittingham	-	42	-	-	-	42	36

*Richard Morgan resigned from the Board on 27 March 2015.

** Peter Bains, Charlotta Ginman, Professor Max Robinson and Professor Brian Tanner resigned from the Board on 16 December 2015.

Payments for loss of office

Charlotta Ginman and Peter Bains left the Company on 16 December 2015. On cessation of their employment, they were entitled to receive the value of their fees which would have accrued during the three months' notice period. These amounts totalled £9k and £8k respectively.

Professor Max Robinson and Professor Brian Tanner also left the Company in their capacity as Directors on 16 December 2015 and waived their right to a payment for loss of office.

Executive Directors' share incentive scheme

Share incentive scheme for Arnab Basu, Chief Executive Officer, and Derek Bulmer, Chief Financial Officer

The remuneration committee agreed, in October 2015, an incentive award scheme for Arnab Basu and Derek Bulmer, to offer them shares up to 544,263 and 271,140 respectively, at a price of 1p per share to vest based on specified performance criteria.

The remuneration committee agreed, in June 2014, an incentive award scheme for Arnab Basu and Derek Bulmer, to offer them shares up to 425,859 and 181,182 respectively, at a price of 1p per share to vest based on specified performance criteria.

In October 2013, an incentive award scheme was made to Arnab Basu and Derek Bulmer, to offer them shares up to 372,057 and 158,292 respectively, at a price of 1p per share to vest based on specified performance criteria. These share incentives noted above are measured by a TSR condition, calculated as the average total return in comparison to a peer group. The Board receives specialist advice from the Group's auditors.

As at 30 April 2016 only the shares issued in the October 2013 award had vested with the 2014 and 2015 issues remaining unvested. At 30 April 2015, no shares had vested under these incentive schemes.

Share price during the year

During the year to 30 April 2016, the highest share price was 49p (2015: 55.5p) and the lowest share price was 25.5p (2015: 32.5p). The market price of the shares at 30 April 2016 was 32.8p (2015: 37.0p).

Directors' interests in material contracts

No Director was materially interested either at the year end or during the year in any contract of significance to the Group other than their employment or service contract.

Executive Directors' share options

Director	Date of grant	Exercise price p	2015 number	Awarded during the year	Exercised during the year	At 30 April 2016 number	Expiry date
Arnab Basu	22 September 2006	1.5	800,000	-	-	800,000	22 September 2016
Arnab Basu	15 May 2007	1.5	80,000	-	-	80,000	15 May 2017
Arnab Basu	20 November 2011	20.0	1,000,000	-	-	1,000,000	20 September 2021
Derek Bulmer	13 September 2010	20.0	500,000	-	-	500,000	13 September 2020
Derek Bulmer	15 October 2012	20.0	125,000	-	-	125,000	15 October 2022
Derek Bulmer	31 May 2013	20.0	250,000	-	-	250,000	31 May 2023

Independent Auditor's Report To The Members of Kromek Group plc

We have audited the financial statements of Kromek Group plc for the year ended 30 April 2016 which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated and Parent Company statements of financial position, the Consolidated and Parent Company statement of changes in equity, the Consolidated and Parent Company statements of cash flows and the related notes 1 to 36 and 1 to 16. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 30 April 2016 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or

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

Matthew Hughes

Matthew Hughes BSc (Hons) ACA
(Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Newcastle upon Tyne, United Kingdom

18 July 2016

Kromek Group plc
Consolidated income statement
For the year ended 30 April 2016

	Note	2016 £'000	2015 £'000
Continuing operations			
Revenue	5	8,342	8,101
Cost of sales		(3,913)	(2,475)
Gross profit		<u>4,429</u>	<u>5,626</u>
Other operating income	5	19	60
Distribution costs		(181)	(226)
Administrative expenses (including operating expenses)		(8,327)	(8,524)
Operating loss		<u>(4,060)</u>	<u>(3,064)</u>
Finance income	10	1	31
Finance costs	11	(84)	(102)
Loss before tax		<u>(4,143)</u>	<u>(3,135)</u>
Tax	12	1,992	989
Loss for the year from continuing operations		<u>(2,151)</u>	<u>(2,146)</u>
Loss per share	14		
-basic and diluted (p)		(1.5p)	(2.0p)

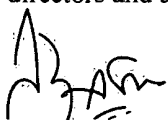
Kromek Group plc
Consolidated statement of comprehensive income
For the year ended 30 April 2016

	2016 £'000	2015 £'000
Loss for the year	<u>(2,151)</u>	<u>(2,146)</u>
<i>Items that are or may be reclassified to profit or loss:</i>		
Exchange differences on translation of foreign operations	156	398
Total comprehensive loss for the year	<u><u>(1,995)</u></u>	<u><u>(1,748)</u></u>

Kromek Group plc
Consolidated statement of financial position
As at the year ended 30 April 2016

	Note	2016 £'000	2015 £'000
Non-current assets			
Goodwill	15	1,275	1,275
Other intangible assets	16	11,222	8,725
Property, plant and equipment	17	3,974	4,147
		<u>16,471</u>	<u>14,147</u>
Current assets			
Inventories	19	2,810	2,103
Trade and other receivables	21	5,159	4,089
Current tax assets	21	811	1,002
Cash and bank balances		3,857	1,183
		<u>12,637</u>	<u>8,377</u>
Total assets		<u>29,108</u>	<u>22,524</u>
Current liabilities			
Trade and other payables	24	(4,445)	(4,143)
Finance lease liabilities	22	(9)	(19)
Borrowings	25	-	(1,003)
		<u>(4,454)</u>	<u>(5,165)</u>
Net current assets		<u>8,183</u>	<u>3,212</u>
Non-current liabilities			
Finance lease liabilities		-	(10)
Deferred tax liabilities	23	-	(1,147)
Total liabilities		<u>(4,454)</u>	<u>(6,322)</u>
Net assets		<u>24,654</u>	<u>16,202</u>
Equity			
Share capital	27	1,522	1,082
Share premium account	28	44,484	34,643
Capital redemption reserve		1,175	1,175
Translation reserve	29	72	(84)
Accumulated losses	30	(22,599)	(20,614)
Total equity		<u>24,654</u>	<u>16,202</u>

The financial statements of Kromek Group plc (registered number 08661469) were approved by the board of directors and authorised for issue on 18 July 2016. They were signed on its behalf by:



Dr Arnab Basu MBE
Chief Executive Officer

Kromek Group plc
Consolidated statement of changes in equity
For the year ended 30 April 2016

Equity attributable to equity holders of the Company

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Translation reserve £'000	Accumulated losses £'000	Total equity £'000
Balance at 1 May 2014	1,080	34,612	1,175	(482)	(18,649)	17,736
Loss for the year	-	-	-	-	(2,146)	(2,146)
Exchange difference on translation of foreign operations	-	-	-	398	-	398
Total comprehensive losses for the year	-	-	-	398	(2,146)	(1,748)
Issue of share capital net of expenses	2	31	-	-	-	33
Credit to equity for equity-settled share based payments	-	-	-	-	181	181
Balance at 30 April 2015	1,082	34,643	1,175	(84)	(20,614)	16,202
Loss for the year	-	-	-	-	(2,151)	(2,151)
Exchange difference on translation of foreign operations	-	-	-	156	-	156
Total comprehensive losses for the year	-	-	-	156	(2,151)	(1,995)
Issue of share capital net of expenses	440	9,841	-	-	-	10,281
Credit to equity for equity-settled share based payments	-	-	-	-	166	166
Balance at 30 April 2016	1,522	44,484	1,175	72	(22,599)	24,654

Kromek Group plc
Consolidated statement of cash flows
For the year ended 30 April 2016

	Note	2016 £'000	2015 £'000
Net cash used in operating activities	31	(2,845)	(2,361)
Investing activities			
Interest received		1	31
Purchases of property, plant and equipment		(444)	(2,558)
Purchases of patents and trademarks		(320)	(368)
Capitalisation of development costs		(2,819)	(1,812)
Net cash used in investing activities		(3,582)	(4,707)
Financing activities			
Loans paid		(1,003)	-
Revolving credit facility		-	1,000
Government grants		-	857
Proceeds on issue of shares		10,281	33
Payment of finance lease liabilities		(9)	(12)
Interest paid		(84)	(102)
Net cash generated from financing activities		9,185	1,776
Net increase/(decrease) in cash and cash equivalents		2,758	(5,292)
Cash and cash equivalents at beginning of year		1,183	6,563
Effect of foreign exchange rate changes		(84)	(88)
Cash and cash equivalents at end of year		3,857	1,183

Kromek Group plc
Notes to the consolidated financial statements
For the year ended 30 April 2016

1. General information

Kromek Group plc is a company incorporated and domiciled in the United Kingdom under the Companies Act. The address of the registered office is given on page 1. The nature of the Group's operations and its principal activities are set out in the business review on pages 2-10.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policies set out in note 3.

2. Adoption of new and revised Standards

The following new standards and amendments to standards are mandatory for the financial year beginning on 1 May 2015:

- *IFRS 13 "Impairment of Assets"*
- *IFRS 10 "Consolidated Financial Statements"*
- *IAS 27 "Consolidated and Separate Financial Statements",*
- *IAS 36 "Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets"*
- *IFRS 12 "Disclosure of Interests in Other Entities".*
- *Amendments to IAS 32 "Financial Instruments: Presentation"*
- *Amendments to IAS 36 "Impairment of Assets"*
- *Amendments to IAS 39 "Financial Instruments: Recognition and Measurement"*
- *IFRS 10, IFRS 11, IFRS 12 Transition Guidance*

These standards and amendments to standards have not had a material impact on the consolidated financial statements.

Standards not affecting the reported results nor the financial position

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- *IFRS 9 Financial Instruments*
- *IFRS 11 Joint arrangements*
- *IFRS 13 Fair Value Measurement*
- *IFRW 14 Regulatory deferral accounts*
- *IFRS 15 Revenue from Contracts with Customers*
- *IFRS 16 Leases*
- *IAS 7 Statement on cash flows*
- *IAS 12 Income taxes*
- *IAS 16 Property, plant and equipment and IAS 38 intangible assets*
- *IAS21 Presentation of financial statements*
- *IAS 27 Separate financial statements*
- *Annual Improvements to IFRSs 2012-2014 Cycle*

The Directors do not expect that the adoption of these Standards and Interpretations in future periods will have a material impact on the financial statements of the Group, however they are currently considering the future impacts of IFRS 15.

3. Significant accounting policies

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (“IFRSs”) and IFRIC interpretations. Therefore the Group financial statements comply with Article 4 of the EU IAS Regulation.

The financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for the assets. The principal accounting policies adopted are set out below.

Basis of consolidation

The consolidated financial statements incorporate the results and net assets of the Group and entities controlled by the Group (its subsidiaries) made up to 30 April each year. Control is achieved where the Group has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to results of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-group transactions, balances, income and expenses, and profits are eliminated on consolidation.

Going concern

As at 30 April 2016, the Group had net assets of £24.7m (2015: £16.2m) as set out in the consolidated statement of financial position. The Directors have prepared detailed forecasts of the Group’s financial performance over the next 5 years. As a result of this review, which incorporated sensitivities and risk analysis, the Directors believe that the Group has sufficient resources and working capital to meet their present and foreseeable obligations for a period of at least twelve months from approval of these financial statements. Accordingly, they continue to adopt the going concern basis in preparing the Group financial statements.

Business combinations

The Group financial statements consolidate those of the company and its subsidiary undertakings. Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The financial information of subsidiaries is included from the date that control commences until the date that control ceases. Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial information.

Acquisitions on or after 1 May 2010

For acquisitions on or after 1 May 2010, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, the negative goodwill is recognised immediately in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer’s previously held equity interest (if any) in the entity over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

3. Significant accounting policies (continued)

If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes and comprises:

i) Sale of goods and services

The Group's income derives from the sale of goods and from the research and development contracts which are typically with government agencies. Revenue on product sales is recognised when the risk and reward of ownership pass to the customer. The terms of sale are agreed with each customer on an individual basis, which are generally under FCA INCOTERMS. Revenue from research and development contracts is recognised as revenue in the accounting period in which the milestones are achieved.

ii) Revenue from grants

Revenue from grants is recognised when the costs relating to the project activity have been incurred, the customer is in agreement with the expenses which are being claimed as grant revenue, and subsequent invoices have been issued to the customers.

iii) Long-term contracts

The Group accounts for long-term contracts under IAS 11, and reflects revenue by reference to the stage of completion of the contract activity at the statement of financial position date. Revenue and profits are determined by estimating the outcome of the contract and determining the costs and profit attributable to the stage of completion. Any expected contract loss is recognised immediately.

iv) Exclusivity contracts

The Group reflects exclusivity payments as revenue at the point that it contractually agrees to become exclusive. Where terms of exclusivity require performance the Group reflects the revenue as performance is delivered.

v) Interest revenue

Interest income is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

3. Significant accounting policies (continued)

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other payables. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate of interest costs charged to the income statement on the outstanding balance.

Foreign currencies

The individual results of each group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each group company are expressed in pound sterling, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the results of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each statement of financial position date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the statement of financial position date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity.

On consolidation, the results of overseas operations are translated into Sterling at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations, including goodwill arising on the acquisition of those operations, are translated at the rate ruling at the statement of financial position date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised directly in other comprehensive income and are credited/(debited) to the retranslation reserve.

3. Significant accounting policies (continued)

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants towards job creation and growth (RGF) costs are recognised as income over the periods necessary to match them with the related costs of creating those jobs.

Government grants towards job creation (GBI) costs are recognised as income over the periods necessary to match them with the related costs and are deducted in reporting the related expense.

Government grants relating to research and development (GRD) costs are treated as deferred income and released to profit or loss over the expected useful lives of the assets concerned.

Operating result

Operating loss is stated as loss before tax, finance income and costs and other gains and losses.

Retirement benefit costs

The Group operates a defined contribution pension scheme for employees.

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. For these schemes the assets of the schemes are held separately from those of the Group in independently administered funds. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity

i) Current tax

The tax credit is based on taxable loss for the year. Taxable loss differs from net loss as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the statement of financial position date.

ii) Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the HFI and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

3. Significant accounting policies (continued)

Taxation (continued)

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the statement of financial position date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Property, plant and equipment

Fixtures and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is recognised so as to write off the cost or valuation of assets (other than land and properties under construction) less their residual values over their useful lives, using the straight-line method, on the following bases:

Plant and machinery	6% to 25%
Fixtures, fittings and equipment	15%
Computer equipment	25%

The gain or loss arising on the disposal or scrapping of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the Group's product development is recognised only if all of the following conditions are met:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- its intention to complete the intangible asset and use or sell it;
- its ability to use or sell the intangible asset; and
- how the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.

Research expenditure is written off as incurred. Development expenditure is also written off, except where the Directors are satisfied as to the technical, commercial and financial viability of individual projects. In such cases, the identifiable expenditure is deferred and amortised over the period during which the Group is expected to benefit. This period normally equates to the life of the products the development expenditure relates to. Where expenditure relates to developments for use rather than direct sales of product the cost is amortised straight line over a 15-year period. Provision is made for any impairment.

Amortisation of the intangible assets recognised on the acquisitions of Nova R&D, Inc. and eV Products, Inc. are recognised in the income statement on a straight-line basis over their estimated useful lives of between five and fifteen years.

Patents and trademarks

Patents and trademarks are measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful lives.

3. Significant accounting policies (continued)

Impairment of tangible and intangible assets excluding goodwill

At each statement of financial position date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the CGU to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

An intangible asset with an indefinite useful life is tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or CGU) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs comprise direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated in the statement of financial position at standard cost, which approximates to historical cost determined on a first in, first out basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Work in progress costs are taken as production costs, which include an appropriate proportion of attributable overheads.

Provision is made for obsolete, slow moving or defective items where appropriate. Items which have not shown activity for between 12-18 months will be provided for at a rate of 50%, and those which have not shown activity in 18 months or longer will be provided for at a rate of 100% after consideration is given to the full or residual value where appropriate. Given the nature of the products and the gestation period of the technology, commercial rationale necessitates that this provision is reviewed on a case by case basis.

3. Significant accounting policies (continued)

Financial instruments

Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

i) Financial assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified category: 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. The Group held no fair value through profit and loss ("FVTPL"), available for sale ("AFS") or held-to-maturity ("HTM") financial assets during the period.

ii) Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

The Group interacts with other technology-based companies to obtain market penetration for its products. These arrangements initially require funding to allow for marketing of the Group's products, with longer lead times for sale. As a consequence, the terms with these customers are not always on normal payment terms (30 to 60 days), and management confirm that it could take longer before recoverability of the cash on these sales.

iii) Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each statement of financial position date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

iv) Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

3. Significant accounting policies (continued)

v) Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

vi) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

vii) Financial liabilities

Financial liabilities are classified as 'other financial liabilities'. The Group held no financial liabilities that would be classified as FVTPL.

viii) Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

ix) Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date and spread over the period during which the employees become unconditionally entitled to the options, which is based on a period of employment of 3 years from grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 33.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. The vesting date is determined based on the date an employee is granted options, usually 3 years from date of grant. At each statement of financial position date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserves.

Cash

Cash, for the purposes of the statement of cash flows, comprises cash in hand and deposits repayable on demand, less overdrafts repayable on demand.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 3, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the Group's accounting policies

The following are the critical judgements that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Development costs

As described in note 3, the Group expenditure on development activities is capitalised if it meets the criteria as per IAS 38.

These capitalised assets are amortised over the period during which the Group is expected to benefit. This period normally equates to the life of the products the development expenditure relates to. Where expenditure relates to developments for use rather than direct sales of product the cost is amortised over a 15-year period. Provision is made for any impairment. Where no internally-generated intangible asset can be recognised, development expenditure is expensed in the period in which it is incurred.

Contract revenue

As described in note 3 revenue and profits are determined by estimating the outcome of a contract, by determining the costs to complete the contract, in order to assess the stage of completion and whether it is profitable.

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment as at the transition date and thereafter for all non-financial assets at each reporting date. Goodwill is tested for impairment annually and at other times when such indicators exist, such as negative cash flows and operating losses of subsidiaries. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Valuation of acquired intangible assets

Acquisitions may result in identifiable intangible assets such as customer relationships, supplier relationships, licences and technology being recognised. These are valued by professional valuation firms, using discounted cash flow methods which require the application of certain key judgments and estimates are required to be made in respect of discount rates and future cash flows.

Recoverability of receivables

As disclosed in note 3, in order to obtain market penetration through technology-based customers, the Group recognises that normal payment terms from these customers may not be adhered to when assessing recoverability of receivables. This is as a result of the necessary marketing support that customers may require in promoting the products. Management have reassessed the recoverability at the balance sheet date and provided where appropriate.

4. Critical accounting judgements and key sources of estimation uncertainty (continued)

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the statement of financial position 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.

i) Development costs

Development costs are capitalised in accordance with the accounting policy noted above. Initial capitalisation of costs is based on management's judgement that technological and economic feasibility is assessed, usually when a product development project has reached a defined milestone.

ii) Impairment of goodwill

The Group determines whether goodwill is impaired on at least an annual basis or more frequently when there are indications of possible impairment. The impairment review requires a value in use calculation of the cash-generating units to which the goodwill is allocated. In estimating the value in use, management is required to make an estimate of the expected future cash flows attributable to the cash-generating unit and to choose an appropriate discount rate to calculate the present value of those cash flows. The carrying amount of goodwill at 30 April 2016 was £1,275k (2015: £1,275k). Further details are given in note 15.

5. Revenue

An analysis of the Group's revenue is as follows:

	2016 £'000	2015 £'000 (Restated)
Continuing operations		
Sales of goods and other services	6,015	5,879
Revenue from grants	227	307
Revenue from contract customers	2,100	1,915
Total revenue	8,342	8,101
Grant income	15	4
Other income	4	56
Total income	8,361	8,161

Prior year restatement

In the prior year 30 April 2015 financial statements, income generated totalling £606k was classified as revenue from contract customers. It is management's opinion that this relates to revenue generated from contract customers and so has been reclassified in the note above to provide fairer presentation. This has not impacted the total revenue generated by the Group in 2015 or 2016.

6. Operating segments

Products and services from which reportable segments derive their revenues

For management purposes, the Group is organised into two business units (USA and UK) and it is on these operating segments that the Group is providing disclosure.

The chief operating decision maker is the Board of Directors who assess performance of the segments using the following key performances indicators; revenues, gross profit and operating profit. The amounts provided to the Board with respect to assets and liabilities are measured in a way consistent with the Financial Statements.

The turnover, profit on ordinary activities and net assets of the Group are attributable to one business segment, i.e. the development of digital colour x-ray imaging enabling direct materials identification, as well as developing a number of detection products in the industrial and consumer markets.

Analysis by geographical area

A geographical analysis of the Group's revenue by destination is as follows:

	2016 £'000	2015 £'000
United Kingdom	688	387
North America	5,468	5,681
South America	-	11
Middle East	-	18
Asia	1,940	1,899
Europe	246	66
Australasia	-	39
Total revenue	<u>8,342</u>	<u>8,101</u>

6. Operating segments (continued)

A geographical analysis of the Group's revenue by origin is as follows:

Year ended 30 April 2016

	UK Operations £'000	US Operations £'000	Total for Group £'000
Revenue from sales			
Revenue by segment:			
-Sale of goods and services	3,993	2,974	6,967
-Revenue from grants	227	-	227
-Revenue from contract customers	568	1,532	2,100
Total sales by segment	4,788	4,506	9,294
Removal of inter-segment sales	(393)	(559)	(952)
Total external sales	4,395	3,947	8,342
Segment result – operating loss	(2,174)	(1,886)	(4,060)
Interest received	1	-	1
Interest expense	(81)	(3)	(84)
Loss before tax	(2,254)	(1,889)	(4,143)
Tax credit	856	1,136	1,992
Loss for the year	(1,398)	(753)	(2,151)
Reconciliation to adjusted EBITDA:			
Net interest	80	3	83
Tax	(856)	(1,136)	(1,992)
Depreciation of PPE	314	395	709
Amortisation	449	379	828
Non-recurring other income	(19)	-	(19)
Share-based payment charge	166	-	166
Adjusted EBITDA	(1,264)	(1,112)	(2,376)
Other segment information			
Property, plant and equipment additions	314	130	444
Depreciation of PPE	(314)	(395)	(709)
Intangible asset additions	1,447	1,692	3,139
Amortisation of intangible assets	(449)	(379)	(828)
Statement of financial position			
Total assets	19,240	9,869	29,109
Total liabilities	(4,163)	(292)	(4,455)

6. Operating segments (continued)

Year ended 30 April 2015

	UK Operations £'000	US Operations £'000	Total for Group £'000
Revenue from sales			
Revenue by segment:			
-Sale of goods and services	2,584	4,795	7,379
-Revenue from grants	218	-	218
-Revenue from contract customers	480	1,524	2,004
-Other revenue	-	638	638
Total sales by segment	3,282	6,957	10,239
Removal of inter-segment sales	(376)	(1,762)	(2,138)
Total external sales	2,906	5,195	8,101
Segment result – operating loss	(2,972)	(92)	(3,064)
Interest received	31	-	31
Interest expense	(95)	(7)	(102)
Loss before tax	(3,036)	(99)	(3,135)
Tax credit	989	-	989
Loss for the year	(2,047)	(99)	(2,146)
Reconciliation to adjusted EBITDA:			
Net interest	64	7	71
Tax	(989)	-	(989)
Depreciation of PPE	300	373	673
Amortisation	333	378	711
Non-recurring other income	-	(58)	(58)
Share-based payment charge	181	-	181
Adjusted EBITDA	(2,158)	601	(1,557)
Other segment information			
Property, plant and equipment additions	2,021	338	2,359
Depreciation of PPE	300	373	673
Intangible asset additions	1,244	1,013	2,257
Amortisation of intangible assets	333	378	711
Statement of financial position			
Total assets	11,500	11,024	22,524
Total liabilities	(2,829)	(3,493)	(6,322)

6. Operating segments (continued)

Inter-segment sales are charged on an arms-length basis.

No other additions of non-current assets have been recognised during the year other than property, plant and equipment, and intangible assets.

No impairment losses were recognised in respect of property, plant and equipment and intangibles assets including goodwill.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment (loss) represents the (loss) earned by each segment. This is the measure reported to the Group's Chief Executive for the purpose of resource allocation and assessment of segment performance.

Revenues from major products and services

The Group's revenues from its major products and services were as follows:

	2016 £'000	2015 £'000
Product revenue	5,432	3,841
Research and development revenue	2,910	4,260
Consolidated revenue	<u>8,342</u>	<u>8,101</u>

Information about major customers

Included in revenues arising from USA operations are revenues of approximately £1,227k (2015: £1,224k) which arose from a major customer. Included in revenues arising from UK operations are revenues of approximately £3,047k (2015: £1,203k) which arose from the Group's largest customer.

7. Loss for the year

Loss for the year has been arrived at after (crediting)/charging:

	2016 £'000	2015 £'000
Net foreign exchange (gains)/losses	(304)	226
Research and development costs recognised as an expense	3,178	2,669
Depreciation of property, plant and equipment	709	673
Amortisation of internally-generated intangible assets	828	711
Cost of inventories recognised as expense	3,780	1,266
Staff costs (see note 9)	<u>5,773</u>	<u>5,620</u>

8. Auditor's remuneration

The analysis of the auditor's remuneration is as follows:

	2016 £'000	2015 £'000
Fees payable to the Company's auditor and their associates for other services to the Group		
- The audit of the Company and its subsidiaries	52	25
<i>Total audit fees</i>	52	25
- Audit-related assurance services	10	10
- Taxation compliance services	14	11
<i>Total non-audit fees</i>	24	21

9. Staff costs

The average monthly number of employees (excluding non-executive directors) was:

	2016 Number	2015 Number
Directors (executive)	2	2
Research and development, production	86	83
Sales and marketing	10	8
Administration	13	14
	111	107

9. Staff costs (continued)

Their aggregate remuneration comprised:

	2016 £'000	2015 £'000
Wages and salaries	4,690	4,667
Social security costs	451	423
Pension scheme contributions	466	349
Share based payments	166	181
	<u>5,773</u>	<u>5,620</u>

The total Directors' emoluments (including non-executive directors) was £713k (2015: £615k). The aggregate value of contributions paid to money purchase pension schemes was £46k (2015: £26k) in respect of two directors (2015: two directors).

The highest paid director received emoluments of £224k (2015: £188k) and amounts paid to money purchase pension schemes was £16k (2015: £16k).

Key management compensation:

	2016 £'000	2015 £'000
Wages and salaries and other short-term benefits	1,177	834
Social security costs	205	81
Pension scheme contributions	92	64
Share based payment expense	149	110
	<u>1,623</u>	<u>1,089</u>

Key management comprise the Executive Directors and senior operational staff.

10. Finance income

	2016 £'000	2015 £'000
Bank deposits	1	31
Total finance income	1	31

11. Finance costs

	2016 £'000	2015 £'000
Interest on bank overdrafts, loans and borrowings	84	100
Interest expense on financial liabilities measured at amortised cost	-	2
Total interest expense	84	102

12. Tax

Recognised in the income statement

	2016 £'000	2015 £'000
Current tax credit:		
UK corporation tax on losses in the year	811	1,002
Adjustment in respect of previous periods	45	-
Foreign taxes paid	(11)	-
Total current tax	845	1,002
Deferred tax:		
Origination and reversal of timing differences	1,298	(13)
Adjustment in respect of previous periods	(151)	-
Total deferred tax	1,147	(13)
Total tax credit in income statement	1,992	989

Corporation tax is calculated at 20% (2015: 20.92%) of estimated taxable loss for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Reconciliation of tax credit

The charge for the year can be reconciled to the profit in the income statement as follows:

	2016 £'000	2015 £'000
Loss before tax	4,143	3,135
Tax at the UK corporation tax rate of 20% (2015: 20.92%)	829	656
Expenses not deductible for tax purposes	(40)	(97)
Effect of R&D	1,049	804
Rate differences effect of R&D	(307)	(444)
Income not taxable	2	146
Unrecognised movement on deferred tax	(156)	80
Effects of other tax rates/credits	722	-
Effects of overseas tax rates	11	(156)
Adjustment in respect of previous periods	(118)	-
Total tax credit for the year	1,992	989

Further details of deferred tax are given in note 23. There are no tax items charged to other comprehensive income.

The Finance Act 2013 enacted a rate reduction in the main rate of corporation tax to 21% from 1 April 2014 and to 20% from 1 April 2015.

The Finance Act No2 2015, which was substantively enacted on 26 October 2015, includes further provisions to reduce the corporation tax to 19% with effect from 1 April 2017 and 18% with effect from 1 April 2020. The

12. Tax (continued)

deferred tax liabilities and assets of the Group are likely to realise at rates of 18% meaning a rate of 18% has been applied when calculating deferred tax assets and liabilities as at 30 April 2016.

In addition on 16 March 2016 the Government announced in the 2016 Budget Report that there would be a further reduction in the main rate of corporation tax from 18% to 17% from 1 April 2020. This has not been substantively enacted at the balance sheet date.

There is a potential deferred tax asset on excess tax deductions arising from share-based payments on exercise of share options of £1,259k (2015: £1,366k). The asset has not been recognised as it is not considered probable that there will be future profits available.

13. Dividends

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

14. Losses per share

The calculation of the basic and diluted earnings per share is based on the following data:

Losses

	2016 £'000	2015 £'000
Losses for the purposes of basic and diluted losses per share being net losses attributable to owners of the Group	(2,151)	(2,146)
Number of shares	2016 Number	2015 Number
Weighted average number of ordinary shares for the purposes of basic losses per share	141,337,174	107,818,329
Effect of dilutive potential ordinary shares:		
Share options	6,249,111	6,223,395
Weighted average number of ordinary shares for the purposes of diluted losses per share	147,586,285	114,041,724
	2016	2015
Basic and diluted (p)	(1.5)	(2.0)

Due to the Group having losses in each of the years, the fully diluted loss per share for disclosure purposes, as shown in the income statement, is the same as for the basic loss per share.

15. Goodwill

	£'000
Cost	
At 1 May 2015	1,275
At 30 April 2016	1,275
Accumulated impairment losses	
At 1 May 2015	-
At 30 April 2016	-
Carrying amount	
At 30 April 2016	1,275
At 30 April 2015	1,275

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. Before recognition of impairment losses, the carrying amount of goodwill had been allocated as follows:

	2016 £'000	2015 £'000
US operations	1,275	1,275

The goodwill arose on the acquisition of Nova R&D, Inc in 2010, and represents the excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired.

Goodwill has been allocated to Kromek USA (a combination of eV Products and Nova R&D inc.) as a cash generating unit (CGU). This is reported in note 6 within the segmental analysis of the US operations.

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired, by comparing the net book value of the goodwill and non-current assets for the CGU to its value in use on a discounted cash flow basis.

The recoverable amount has been determined on a value in use basis on each cash-generating unit using the management approved 5 year forecasts for each cash-generating unit. The base 5 year projection is year-on-year growth over the next 5 years, with overheads remaining relatively stable. The growth rate of the CGU is expected to remain flat in Year 1 as a result of the CGU continuing to develop its technical capabilities in the forthcoming year. Growth is then expected to increase to 128% in Year 2, 17% in Year 3, 62% in Year 4 and 37% in Year 5. These cash flows are then discounted at the Company's weighted average cost of capital of 15% (2015: 15%).

Based on the results of the current year impairment review, no impairment charges have been recognised by the Group in the year ended 30 April 2016 (2015: £nil). Management have considered various sensitivity analyses in order to appropriately evaluate the carrying value of goodwill.

Having assessed the anticipated future cash flows the Directors do not consider there to be any reasonably possible changes in assumptions that would lead to such an impairment charge in the year ended 30 April

15. Goodwill (continued)

2016. For illustrative purposes, a compound reduction in revenue of 10% in each of years 1-5 whilst holding overheads constant would not affect the conclusion of the review.

The Directors have reviewed the recoverable amount of the CGU and do not consider there to be any indication of impairment in 2016 or 2015.

16. Other intangible assets

	Development costs £'000	Patents, trademarks & other intangibles £'000	Total £'000
Cost			
At 1 May 2015	5,457	5,193	10,650
Additions	2,819	320	3,139
Exchange differences	101	147	248
At 30 April 2016	8,377	5,660	14,037
Amortisation			
At 1 May 2015	240	1,685	1,925
Charge for the year	238	590	828
Exchange differences	7	55	62
At 30 April 2016	485	2,330	2,815
Carrying amount			
At 30 April 2016	7,892	3,330	11,222
At 30 April 2015	5,217	3,508	8,725

The amortisation period for development costs incurred on the Group's product development is over the period during which the Company is expected to benefit and the amortisation will be based on the number of units sold over the expected product lifetime.

Patents and trademarks are amortised over their estimated useful lives, which is on average 10 years.

Other intangible assets with indefinite useful lives arose as part of the acquisitions of Nova R&D, Inc. in June 2010 and eV Products, Inc. in February 2013. The recoverable amounts of these assets have been calculated on a value in use basis at both 30 April 2016 and 30 April 2015. These calculations use cash flow projections based on financial forecasts and appropriate long-term growth rates. To prepare value in use calculations, the cash flow forecasts are discounted back to present value using a pre-tax discount rate of 15% (2015: 15%) and a flat terminal value growth from 2021. The Directors have reviewed the recoverable amount of these indefinite useful life assets and do not consider there to be any indication of impairment.

The carrying amounts of the acquired intangible assets arising on the acquisitions of Nova R&D, Inc. and eV Products, Inc. as at the 30 April 2016 was £1,681k (2015: £1,858k), with amortisation to be charged over the remaining useful lives of these assets which is between 3 and 13 years.

The amortisation charge on intangible assets is included in administrative expenses in the consolidated income statement.

17. Property, plant and equipment

	Computer Equipment £'000	Plant and machinery £'000	Fixtures and fittings £'000	Total £'000
Cost or valuation				
At 1 May 2015	630	6,940	167	7,737
Additions	128	288	28	444
Disposals	-	(4)	-	(4)
Exchange differences	7	134	3	144
At 30 April 2016	765	7,358	198	8,321
Accumulated depreciation and impairment				
At 1 May 2015	475	2,999	116	3,590
Charge for the year	71	616	22	709
Eliminated on disposals	-	(3)	-	(3)
Exchange differences	2	48	1	51
At 30 April 2016	548	3,660	139	4,347
Carrying amount				
At 30 April 2016	217	3,698	59	3,974
At 30 April 2015	155	3,941	51	4,147

Assets held under finance leases with a net book value of £39k (2015: £39k) are included in the above table within plant and machinery.

18. Subsidiaries

A list of the subsidiaries, including the name, country of incorporation, and proportion of ownership interest is given in note 3 to the Company's separate financial statements.

19. Inventories

	2016 £'000	2015 £'000
Raw materials	1,208	596
Work-in-progress	1,142	1,010
Finished goods	460	497
	2,810	2,103

The cost of inventories recognised as an expense during the year in respect of continuing operations was £3,780k (2015: £1,266k).

The write-down of inventories to net realisable value amounted to £17k (2015: £43k). The reversal of write-downs amounted to £138k (2015: £30k). The partial release of the write-downs was because of a revised estimate of the net realisable value of certain inventory lines based upon actual sales made of the inventory during the period.

20. Amounts recoverable on contracts

	2016 £'000	2015 £'000
Contracts in progress at the balance sheet date:		
Amounts due from contract customers included in trade and other receivables	1,240	281
	<u>1,240</u>	<u>281</u>
Contract costs incurred plus recognised profits less recognised losses to date	1,907	1,915
Less: progress billings	(667)	(1,634)
	<u>1,240</u>	<u>281</u>

21. Trade and other receivables

	2016 £'000	2015 £'000
Amount receivable for the sale of goods	3,386	3,458
Amounts recoverable on contracts (see note 20)	1,240	281
Other receivables	275	288
Prepayments	258	62
Current tax assets	811	1,016
	<u>5,970</u>	<u>5,105</u>

Trade receivables

Trade receivables disclosed above are classified as loans and receivables and are therefore measured at amortised cost.

The average credit period taken on sales of goods is 47 days. The Group initially recognises an allowance for doubtful debts of 100% against receivables over 120 days. However, this is subject to management override where there is evidence of recoverability, most notably, where specific support is being provided to strategic partners in the marketing of new products.

Before accepting any new customer, the Group uses an external credit scoring system to assess the potential customer's credit quality and defines credit limits by customer.

The Group does not hold any collateral or other credit enhancements over any of its trade receivables.

At 30 April 2016, trade receivables are shown net of an allowance for bad debts of £408k (2015: £252k) arising from the ordinary course of business, as follows:

	2016 £'000	2015 £'000
Balance at 1 May 2015	252	-
Provided during the year	156	252
	<u>408</u>	<u>252</u>

The bad debt provision records impairment losses unless the Group is satisfied that no recovery of the amount owing is possible, at which point the amounts considered irrecoverable are written off against the trade receivables directly.

21. Trade and other receivables (continued)

Ageing of past due but not impaired receivables at the statement of financial position date was:

	2016	2015
	£'000	£'000
31-60 days	75	363
61-90 days	102	56
91-120 days	33	159
121+ days	737	593
Total	<u>947</u>	<u>1,171</u>

In determining the recoverability of a trade receivable the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date.

Of the £737k 121+ days ageing, all of the cash has been received post year end.

The Directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value.

Ageing of impaired receivables at the statement of financial position date was:

	2016	2015
	£'000	£'000
31-60 days	-	90
61-90 days	-	-
91-120 days	-	-
121+ days	793	376
Total	<u>793</u>	<u>466</u>

Of the £793k of debtors at 121+ days a cumulative provision totalling £408k for doubtful debts has been made at 30 April 2016 as noted above.

22. Finance lease liabilities

Finance lease liabilities are payable as follows:

	Minimum lease payments	
	2016	2015
	£'000	£'000
Amounts payable under finance leases:		
Within one year	9	21
In the second to fifth years inclusive	-	11
	9	32
Less: future finance charges	-	(3)
Present value of lease obligations	9	29
Analysed as:		
Amounts due for settlement within 12 months (shown under current liabilities)	9	19
Amounts due for settlement after 12 months	-	10
	9	29

It is the Group's policy to lease certain of its fixtures and equipment under finance leases. The average lease term is 2 years. For the year ended 30 April 2016, the average effective borrowing rate was 0.82% (2015: 0.82%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

All lease obligations are denominated in sterling.

The fair value of the Group's lease obligations is approximately equal to their carrying amount.

23. Deferred tax liabilities

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting period.

	Revaluation of intangibles	Accelerated capital allowances	Short term timing differences	Tax losses	Total
	£'000	£'000	£'000	£'000	£000
At 1 May 2015	1,417	573	(5)	(838)	1,147
(Credit)/charge to profit or loss	(197)	107	(12)	(1,045)	(1,147)
At 30 April 2016					
	1,220	680	(17)	(1,883)	-

23. Deferred tax liabilities (continued)

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2016 £'000	2015 £'000
Deferred tax liabilities	1,897	1,990
Deferred tax assets	(1,897)	(843)
	<u>-</u>	<u>1,147</u>

At the statement of financial position date, the Group has unused tax losses of £15,722k (2015: £13,418k) available for offset against future profits. A deferred tax asset has been recognised in respect of £6,717k (2015: £3,368k) of such losses. The asset is considered recoverable because it can be offset to reduce future tax liabilities arising in the Group. No deferred tax asset has been recognised in respect of the remaining £9,005k (2015: £10,050k) as it is not considered probable that there will be future taxable profits available. All losses may be carried forward indefinitely subject to a significant change in the nature of the Group's trade with US losses having a maximum life of 20 years.

24. Trade and other payables

	2016 £'000	2015 £'000
Trade payables and accruals	3,582	3,359
Deferred income	863	784
	<u>4,445</u>	<u>4,143</u>

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 59 days. For all suppliers no interest is charged on the trade payables. The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

Deferred income relates to government grants received which have been deferred until the conditions attached to the grants are met.

The Directors consider that the carrying amount of trade payables approximates to their fair value.

25. Borrowings

	2016 £'000	2015 £'000
Secured borrowing at amortised cost		
Revolving credit facility	-	1,003
Finance lease liabilities (see note 22)	9	29
	<u>9</u>	<u>1,032</u>
Total borrowings		
Amount due for settlement within 12 months	9	1,022
	<u>9</u>	<u>1,022</u>
Amount due for settlement after 12 months	-	10
	<u>-</u>	<u>10</u>

In February 2015 the Group agreed a 24-month facility with its bank for a £3m revolving credit facility. This facility is secured by a debenture and a composite guarantee across the Group. The terms of the revolving credit facility are a nominal interest rate of LIBOR+2.5% and a repayment term of 6 months from date of drawdown. The fair value equates to the carrying value.

Finance lease liabilities are secured by the assets leased. The borrowings are at a fixed interest rate with repayment periods not exceeding five years.

The weighted average interest rates paid during the year were as follows:

	2016 %	2015 %
Revolving credit facility	3.10	3.10
Finance lease liabilities	0.82	0.82

26. Derivatives financial instruments and hedge accounting

At 30 April 2016 and 30 April 2015 the Group had no derivatives in place for cash flow hedging purposes.

27. Share capital

	2016 £'000	2015 £'000
Authorised, allotted, called up and fully paid:		
108,173,290 (2015: 108,173,290) Ordinary shares of £0.01 each	1,082	1,082
44,037,792 (2015: nil) Ordinary shares issued at £0.01 each	440	-
	<u>1,522</u>	<u>1,082</u>

During the year 567,200 shares (2015: 1,024,806) were allotted under EMI share option schemes.

28. Share premium account

	£'000
Balance at 1 May 2015	34,643
Premium arising on issue of equity shares	10,563
Expenses on issue of equity shares	(722)
Balance at 30 April 2016	44,484

29. Translation reserve

	£'000
Balance at 1 May 2015	(84)
Exchange differences on translating the net assets of foreign operations	156
Balance at 30 April 2016	72

Exchange differences relating to the translation of the net assets of the Group's foreign operations, which relate to subsidiaries only, from their functional currency into the parent's functional currency, being Sterling, are recognised directly in the translation reserve.

30. Accumulated losses

	£'000
Balance at 1 May 2015	(20,614)
Net loss for the year	(2,151)
Effect of share-based payment credit	166
Balance at 30 April 2016	<u>(22,599)</u>

31. Notes to the cash flow statement

	2016 £'000	2015 £'000
Loss for the year	(2,151)	(2,146)
Adjustments for:		
Finance income	(1)	(31)
Finance costs	84	102
Income tax credit	(1,992)	(989)
Government grants credit	(15)	(4)
Depreciation of property, plant and equipment	709	673
Amortisation of intangible assets	828	711
Share-based payment expense	166	181
Operating cash flows before movements in working capital	<u>(2,372)</u>	<u>(1,503)</u>
(Increase)/decrease in inventories	(707)	183
Increase in receivables	(1,070)	(2,099)
Increase in payables	302	354
Cash used in operations	<u>(3,847)</u>	<u>(3,065)</u>
Income taxes received	1,002	704
Net cash used in operating activities	<u>(2,845)</u>	<u>(2,361)</u>

Cash and cash equivalents

	2016 £'000	2015 £'000
Cash and bank balances	<u>3,857</u>	<u>1,183</u>

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less, net of outstanding bank overdrafts. The carrying amount of these assets is approximately equal to their fair value.

32. Operating lease arrangements

The group as lessee

	2016	2015
	£'000	£'000
Lease payments under operating leases recognised as an expense in the year	516	392

At the statement of financial position date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2016	2015
	£'000	£'000
Within one year	509	561
In the second to fifth years inclusive	595	1,182
	1,104	1,743

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of 5 years.

At 30 April 2016 and 2015, the Group had no capital commitments or contingencies.

33. Share based payments

Equity-settled share option scheme

The Company has a share option scheme (EMI scheme) for all employees of the Group. Options are exercisable at a price equal to the average quoted market price of the Company's shares on the date of grant. The average vesting period is three years. If the options remain unexercised after a period of ten years from the date of grant the options expire. Options are forfeited if the employee leaves the Group before the options vest.

Details of the share options outstanding during the year are as follows.

	2016		2015	
	Number of share options	Weighted average exercise price (£)	Number of share options	Weighted average exercise price (£)
Outstanding at beginning of the year	12,788,016	0.16	12,065,710	0.16
Granted during the year	567,200	0.28	1,024,806	0.42
Exercised during the year	(25,000)	0.015	(162,500)	0.20
Forfeited during the year	(825,206)	0.26	(140,000)	0.20
Outstanding at the end of the year	12,505,010	0.16	12,788,016	0.16
Exercisable at the end of the year	11,412,010	0.16	8,725,990	0.16

The weighted average share price at the date of exercise for share options exercised during the year was £0.31 (2015: £0.49). The options outstanding at 30 April 2016 had a weighted average exercise price of £0.16 (2015: £0.16) and a weighted average remaining contractual life of six years (2015: seven years). The range of exercise prices for outstanding share options at 30 April 2016 was 1.5p to 79p (2015: 1.5p to 79p). In 2016, the aggregate of the estimated fair values of the options granted is £38k (2015: £107k). The inputs into the Black-Scholes model are as follows:

33. Share based payments (continued)

	2016	2015
Weighted average share price	32p	30p
Weighted average exercise price	12p	19p
Expected volatility	35.56%	35.56%
Expected life	6 years	6 years
Risk-free rate	0.44	0.44
Expected dividend yields	0%	0%

Expected volatility was determined by calculating the historical volatility of similar listed businesses over the previous 3 years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

The Group recognised total expenses of £166k (2015: £181k) related to equity-settled share-based payment transactions.

The Kromek Group Plc 2013 Long Term Incentive Plan

On 10 October 2013 a new Long Term Incentive Plan was adopted. Under the plan, awards will be made annually to key employees. Subject to the satisfaction of the required TSR performance criteria, these grants will vest evenly over a 3 year reporting period, with the first having ended on 30 April 2014, and the remainder on subsequent year end dates.

On 15 October 2015 1,703,354 options were granted under the 2013 LTIP to a number of key employees, including two executive directors of the Group. The fair value of these options granted was £140k (2015: £125k). The amounts recognised as a share-based payment expense for the year ended 30 April 2016 was £140k (2015: £110k).

The 2013 Long Term Incentive Plan award was valued using the Monte Carlo pricing model. The inputs into the Monte Carlo pricing model are as follows:

	2016	2015
Weighted average share price	35p	47p
Weighted average exercise price	1p	1p
Expected volatility	35.12%	38.76%
Expected life	3 years	3 years
Risk-free rate	0.32	0.32
Expected dividend yields	0%	0%

34. Retirement benefit schemes

Defined contribution schemes

The Group operates defined contribution retirement benefit schemes for all employees. Where there are employees who leave the schemes prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

The employees of the Group's subsidiaries in the United States of America are members of a state-managed retirement benefit scheme operated by the government of the United States of America. The subsidiaries are required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund

34. Retirement benefit schemes (continued)

the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The total cost charged to income of £466k (2015: £349k) represents contributions payable to these schemes by the Group at rates specified in the rules of the schemes. As at 30 April 2016, contributions of £30k (2015: £29k) due in respect of the current reporting period had not been paid over to the scheme.

35. Financial Instruments

Financial Instruments

The Group's principal financial instruments are cash and trade receivables.

The Group has exposure to the following risks from its operations:

Capital risk

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy has remained unchanged between 2015 and 2016.

The capital structure of the Group consists of net debt, which includes the borrowings disclosed in note 25 after deducting cash and cash equivalents, and equity attributable to equity holders of the Company, comprising issued capital, reserves and accumulated losses as disclosed in notes 27 to 30.

The Group is not subject to any externally imposed capital requirements.

The Group's primary source of capital is equity. By pricing products and services commensurately with the level of risk and focusing on the effective collection of cash from customers, the Group aims to maximise revenues and operating cash flows.

Cash flow is further controlled by ongoing justification, monitoring and reporting of capital investment expenditures and regular monitoring and reporting of operating costs. Working capital fluctuations are managed through employing the revolving credit facility available, which at the year end was £nil (2015: £nil). Details of the revolving credit facility have been included in note 25.

The Group considers that the current capital structure will provide sufficient flexibility to ensure that appropriate investment can be made, if required, to implement and achieve the longer term growth strategy of the Group.

Market risk

The Group may be affected by general market trends, which are unrelated to the performance of the Group itself. The Group's success will depend on market acceptance of the Group's products and there can be no guarantee that this acceptance will be forthcoming.

Market opportunities targeted by the Group may change and this could lead to an adverse effect upon its revenue and earnings.

Foreign currency risk

The Group's operations are split between the UK and the US, and as a result the Group incurs costs in currencies other than its presentational currency of pounds sterling. The Group also holds cash and cash equivalents in non-sterling denominated bank accounts.

The following table shows the denomination of the year end cash and cash equivalents balance:

35. Financial Instruments (continued)

	2016 £'000	2015 £'000
£ sterling	4,180	1,751
US\$ sterling equivalent	(657)	(903)
€ sterling equivalent	333	335

Had the foreign exchange rate between sterling, US\$ and € changed by 5%, this would affect the loss for the year and net assets of the Group by £16k (2015: £28k). 5% is considered a reasonable assessment of foreign exchange movement as this has been the movement noted between 2015 and 2016.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group only transacts with entities that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available, and if not available, the Group uses other publicly available financial information and its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

Trade receivables consist of a small number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

The Group's standard credit terms are 30 to 60 days from date of invoice. Invoices greater than 60 days old are assessed as overdue. The maximum exposure to credit risk is the carrying value of each financial asset included on the statement of financial position as summarised in note 21.

The Group's management considers that all the above financial assets that are not impaired or past due for each of the reporting dates under review are of good quality.

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has established an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. The contractual maturity is based on the earliest date on which the Group may be required to pay.

35. Financial Instruments (continued)

	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	5+ years	Total
	%	£'000	£'000	£'000	£'000	£'000	£'000
1 May 2015	3.1	-	-	1,003	-	-	1,003
Revolving credit facility	-	-	-	(1,003)	-	-	(1,003)
30 April 2016	-	-	-	-	-	-	-

Significant accounting policies

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the basis of measurement and the bases for recognition of income and expenses) for each class of financial asset, financial liability and equity instrument are disclosed in note 3.

Categories of financial instruments

	2016 £'000	2015 £'000
Financial assets		
Cash and bank balances	3,587	1,183
Loans and receivables	4,901	4,027
Financial liabilities		
Amortised cost	(4,455)	(5,165)

36. Related party transactions

Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its related parties are disclosed below.

During the prior year, AIPOLAS Limited, a company under the control of Jerel Whittingham, a non-executive director, charged the Group £nil (2015: £15k) in relation to consultancy charges. At the year end the Group owed AIPOLAS Limited £nil (2015: £nil).

Director's transactions

During the year Professor M Robinson, a Director, charged the Group £72k (2015: £72k) for consultancy fees. At the year end the Group owed Professor M Robinson £7k (2015: £7k). This amount was included within trade payables.

There have been no other transactions with related parties other than what has been disclosed within this note.

Kromek Group plc
Company statement of financial position
As at the year ended 30 April 2016

		2016 £'000	2015 £'000
Non-current assets			
Investment in subsidiaries	3	-	-
		-	-
Current assets			
Trade and other receivables	4	16,747	14,795
Cash and cash equivalents		8,036	1,028
		24,783	15,823
Total assets		24,783	15,823
Current liabilities			
Trade and other payables	5	(129)	(33)
Borrowings	6	-	(1,003)
Total liabilities		(129)	(1,036)
Net assets		24,654	14,787
Equity			
Share capital	10	1,522	1,082
Share premium account	11	23,806	13,965
Accumulated losses	12	(674)	(260)
Total Equity		24,654	14,787

The financial statements of Kromek Group plc (registered number 08661469) were approved by the Board of Directors and authorised for issue on 18 July 2016. They were signed on its behalf by:



Dr Arnab Basu MBE
Chief Executive Officer

Kromek Group plc
Company statement of changes in equity
For the year ended 30 April 2016

Equity attributable to equity holders of the Company

	Share capital £'000	Share premium account £'000	Accumulated losses £'000	Total equity £'000
Balance at 1 May 2014	1,080	13,934	(58)	14,956
Total comprehensive losses for the year	-	-	(202)	(202)
Share reorganisation				
Issue of ordinary shares	2	31	-	33
IPO costs recognised in equity				
Balance at 30 April 2015	1,082	13,965	(260)	14,787
Total comprehensive loss for the year	-	-	(414)	(414)
Issue of share capital net of expenses	440	9,841	-	10,281
Balance at 30 April 2016	1,522	23,806	(674)	24,654

Kromek Group plc
Company statement of cash flows
For the year ended 30 April 2016

		2016 £'000	2015 £'000
Net cash used in operating activities	9	(586)	(259)
Financing activities			
Proceeds from issue of share capital		10,281	33
Loans made to group companies		(1,649)	-
Revolving credit facility		(1,003)	1,000
Net interest paid		(35)	(3)
Net cash from financing activities		7,593	1,030
Net increase in cash and cash equivalents		7,008	771
Cash and cash equivalents at beginning of year		1,028	257
Cash and cash equivalents at end of year		8,036	1,028

1. Significant accounting policies

The separate financial statements of the company are presented as required by the Companies Act 2006. As permitted by that Act, the separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) adopted by the European Union.

The financial statements have been prepared on the historical cost basis except for the remeasurement of certain financial instruments to fair value. The principal accounting policies adopted are the same as those set out in note 3 to the consolidated financial statements except as noted below.

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

The Company's financial statements are included in the consolidated financial statements of Kromek Group plc. Accordingly, the Company has taken advantage of the exemption from publishing an income statement, and the losses for the Company are shown within the Company Statement Changes of Equity, being equal to the total comprehensive losses for the year.

2. Auditor's remuneration

The auditor's remuneration for audit and other services is disclosed in note 8 to the consolidated financial statements.

3. Subsidiaries

Details of the Company's direct and indirect subsidiaries as at 30 April 2016 are as follows:

Name	Place of incorporation (or registration) and operation	Class of shares held	Proportion of ownership interest%	Activity %
Kromek Limited	United Kingdom	Ordinary	100	Scientific research and development
Kromek Germany Limited	United Kingdom	Ordinary	100	Sales and marketing
Kromek, Inc	United States of America	Ordinary	100	Scientific research and development
Nova R&D, Inc	United States of America	Ordinary	100	Holding company
eV Products, Inc	United States of America	Ordinary	100	Scientific research and development
Durham Scientific Crystals Limited	United Kingdom	Ordinary	100	Dormant company

The investments in subsidiaries are all stated at cost.

4. Trade and other receivables

	2016 £'000	2015 £'000
Amounts due from subsidiary undertakings	16,729	14,749
Prepayments	12	10
Other receivables	6	36
	<u>16,747</u>	<u>14,795</u>

Amounts due from subsidiary undertakings are due in more than 1 year.

5. Trade and other payables

	2016 £'000	2015 £'000
Trade payables and accruals	113	33
Social security and other taxation	16	-
	<u>129</u>	<u>33</u>

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 30 days. For all suppliers no interest is charged on the trade payables. The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

The Directors consider that the carrying amount of trade payables approximates to their fair value.

6. Borrowings

Details regarding the borrowings of the Company are disclosed in note 25 to the consolidated financial statements.

7. Financial assets

Intercompany balances

The carrying amount of these assets approximates their fair value. There are no past due or impaired receivable balances.

Cash and cash equivalents

These comprise cash held by the Company and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

8. Financial liabilities

Trade and other payables

Trade payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 30 days.

The carrying amount of trade payables approximates to their fair value.

9. Notes to the statement of cash flows

	2016 £'000	2015 £'000
Loss for the year	(414)	(202)
Adjustments for:		
Finance costs	36	3
Operating cash flows before movements in working capital	(378)	(199)
(Increase)/decrease in receivables	(304)	6
Increase/(decrease) in payables	96	(66)
Net cash from operating activities	(586)	(259)

10. Share capital

	2016 £'000	2015 £'000
Allotted, called up and fully paid:		
108,173,290 Ordinary shares of £0.01 each	1,082	1,082
44,037,792 Ordinary shares issued at £0.01	440	
	1,522	1,082

11. Share premium account

	2016 £'000
Balance at 1 May 2015	13,965
Premium arising on issue of equity shares	10,563
Expenses arising on issue of equity shares	(722)
Balance at 30 April 2016	23,806

12. Accumulated losses

	£'000
Balance at 1 May 2015	(260)
Net loss for the year	(414)
Balance at 30 April 2016	(674)

13. Financial instruments

The Company's principal financial instruments are cash and trade receivables.

The Company has exposure to the following risks from its operations:

Capital risk

The Company manages its capital to ensure that entities in the Company will be able to continue as going concerns while maximising the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of the Company consists of equity attributable to equity holders of the Company, comprising issued capital, reserves and accumulated losses as disclosed in notes 27 to 30 to the consolidated financial statements.

The Company is not subject to any externally imposed capital requirements.

Cash flow is controlled by ongoing justification, monitoring and reporting of capital investment expenditures and regular monitoring and reporting of operating costs.

The Company considers that the current capital structure will provide sufficient flexibility to ensure that appropriate investment can be made, if required, to implement and achieve the longer term growth strategy of the Company.

Market risk

The Company may be affected by general market trends, which are unrelated to the performance of the Company itself. The Company's success will depend on market acceptance of the Company's products and there can be no guarantee that this acceptance will be forthcoming.

Market opportunities targeted by the Company may change and this could lead to an adverse effect upon its revenue and earnings.

Foreign currency risk

The Company currently does not undertake transactions denominated in foreign currencies.

Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company only transacts with entities that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available, and if not available, the Company uses other publicly available financial information and its own trading records to rate its major customers. The Company's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

The Company's management considers that all the above financial assets that are not impaired or past due for each of the reporting dates under review are of good quality.

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has established an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining

13. Financial instruments (continued)

adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

The following table details the Company's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. The contractual maturity is based on the earliest date on which the Group may be required to pay.

	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	5+ years	Total
	%	£'000	£'000	£'000	£'000	£'000	£'000
1 May 2015	3.1	-	-	1,003	-	-	1,003
Revolving credit facility	2.5	-	-	(1,003)	-	-	(1,003)
30 April 2016	-	-	-	-	-	-	-

14. Ultimate Controlling parent and party

In the opinion of the Directors, there is no ultimate controlling parent or party.

15. Events after the balance sheet date

There have been no events after the reporting date that require disclosure in line with IAS10 events after the reporting period.

16. Related party transactions

No transactions have been noted with Directors during the period ended 30 April 2016.

No dividends were paid in the period in respect of ordinary shares held by the Company's Directors.

Kromek Limited
Annual report and financial statements
for the year ended 30 April 2016

Registered number: 04728565

Kromek Limited
Annual report and financial statements
for the year ended 30 April 2016
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Kromek Limited Officers and professional advisers

DIRECTORS

Dr A Basu

Mr D Bulmer

Mr J H Whittingham

Dr G K Speirs

COMPANY SECRETARY

Mr D Bulmer

REGISTERED OFFICE

Netpark

Thomas Wright Way

Sedgefield

TS21 3FD

BANKERS

HSBC Bank Plc

1 Saddler Street

Durham

County Durham

DH1 3NR

AUDITOR

Deloitte LLP

Chartered Accountants and Statutory Auditor

Newcastle upon Tyne

United Kingdom

NE1 2HF

LEGAL ADVISOR

Eversheds LLP

Bridgewater Place

Water Lane

Leeds

LS11 5DR

Kromek Limited

Strategic report

BUSINESS REVIEW AND PRINCIPAL ACTIVITIES

The Company is the leading developer of radiation detectors based on cadmium zinc telluride ("CZT"), providing improved detection and characterisation capabilities within the medical imaging, nuclear detection and security screening markets.

The year was characterised by the Company being awarded the sole supplier contract by the U.S. Department of Defense agency, DARPA to supply its D3S radiation detectors as part of the SIGMA programme in an agreement worth \$6.0m. The relationship has strengthened in the year and further R&D contracts have been won totalling \$1.0m.

During the financial year to 30 April 2016 the Company made good progress with the \$6.0m DARPA contract and achieved significant revenue growth of 47%. The D3S will continue to be delivered to the end of 2016/17 fiscal year and the Company will also supply up to 12,000 inductive charging packs.

DARPA's SIGMA programme is aimed at developing an automated cloud augmented wide area radiation detection network combining fixed and portable sensors. This will continuously monitor radiation in U.S. cities, and will learn and adapt in real-time to provide significant defensive capability against the threat of nuclear terrorism and so-called 'dirty bombs'.

It is increasingly evident that CZT-based detectors are set to replace the well-established scintillator-based detectors. CZT is a semiconductor that directly converts x-ray or gamma-ray photons into electrons, at room temperature, creating a spectroscopic resolution that clearly outperforms any commercially-available scintillator. This unique combination of spectroscopy and very high-count rate capability at room temperature renders CZT an ideal detector solution for medical, industrial and homeland security applications – the markets that Kromek focuses on. The key breakthrough that Kromek has achieved is to produce CZT into a stable material in economically viable quantities.

The market is moving towards mass adoption of CZT-based detectors as customers are demanding the extra functionality and economics from CZT products. As such, whilst CZT will remain more expensive than scintillators in the short term, the growing demand for colour and digital detection of x-rays and gamma rays is driving the utilisation of CZT. Kromek is making significant progress in driving down the cost, through improving yield levels, increasing the competitiveness of our offering and thus ensuring that the Company is well positioned to benefit from the trend towards mass adoption of CZT-based detectors.

The Company also continues to develop its portfolio of end-use products whilst advancing the longer-term strategy of becoming the preferred component supplier of network sensors in nuclear markets through existing and new relationships.

RESULTS AND DIVIDENDS

The results for 2016 show revenue of £4.8m (2015: £3.3m) and a loss before tax of £1.8m (2015: loss of £3.3m). Gross profit margin has improved to 50% (2015: 46%) down to improvements in purchasing economies of scale associated with manufacturing products on a larger scale. The adjusted EBITDA (adjusted EBITDA excludes share-based payments and non-recurring other income) loss for the year was £0.8m (2015: loss of £2.5m). The positive movement in adjusted EBITDA is down to the £0.9m improvement in gross profit and a managed reduction in operating costs of £0.5m.

The growth in sales resulted from contract wins with DARPA and other US based government agencies.

The Company continues to invest in the development of products and its technology platform in order to advance its commercial advantage. During the year the Company undertook expenditure on research and development of £2.4m (2015: £3.2m) which included the key product of the D3S. Of the £2.4m research and development cost incurred in 2016, £1.4m (2015: £0.9m) was capitalised on the balance sheet reflecting the near term product development nature of the expenditure, with the balance expensed to the income statement.

The Company benefits from the UK Research and Development Tax Credit and recorded a credit for current tax of £0.9m for the year (2015: £1.0m) to the statement of comprehensive income.

Kromek Limited

Strategic report (continued)

PRINCIPAL RISKS AND UNCERTAINTIES

- The Company's performance can be affected by competition from alternative technology and changes in the regulatory environment. The Company manages these risks through patent protection, continued spending on research and development and having a number of products in different sectors.
- Liquidity risk is managed through detailed cash flow forecasting; this risk being reduced following secured funding by external shareholders. This includes a successful placement of new shares by Kromek Group plc (the parent company) which raised £11m gross proceeds during August 2015.
- Foreign exchange risk affects the Company through the global nature of its customers and dealing with currencies other than sterling. This risk is managed through holding non-sterling denominated foreign currency bank accounts.
- Credit risk exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

Signed on behalf of the Board of Directors



Dr A Basu MBE

Director

3 August 2016

Kromek Limited Directors' report

The Directors are pleased to present their annual report on the affairs of the Company, together with the audited financial statements and auditor's report for the year ended 30 April 2016. The principal activities have been included within the Strategic Report and page 3.

FUTURE DEVELOPMENTS

The doubling in manufacturing capacity, increased customer base, and significant progress with new OEMs and the U.S. Department of Defence, provides a strong base for growing the business over the medium to long term. We believe that Kromek has the market-leading technology, products and personnel that will enable us to win further contracts across the three transformational market opportunities of CT, SPECT and portable advanced radiation detectors.

The Company have entered the new financial year with a strong order book. The Company is continuing to make progress and receive increasing interest across all three of its segments. In Security Screening, the Company have a number of revenue opportunities from the sale of bottle scanners in Europe and RoW. In Medical Imaging and Nuclear Detection, the Company is especially excited about the increasing traction, with both new and existing customers, it is making in the three key growth opportunities of CT, SPECT and portable advanced radiation detection.

The Company is making significant progress with our projects with the U.S. Department of Defence, and continue to penetrate civil nuclear markets with Kromek-branded products and through white labelling channels. Kromek's management team is committed to maintaining tight cost control (as evident from the 11.9% reduction in operating costs noted in 2016) whilst continuing to invest in sales & marketing and targeted product development. As a result, the Board is confident in the prospects of the business and delivering significant shareholder value.

RESEARCH AND DEVELOPMENT

The Company continues to invest in the development of products and its technology platform to advance its commercial advantage and increase margin on sales. Total expenditure on research and development was £2.4m (2015: £3.2m). The £1.4m (2015: £0.9m) expenditure on commercial near-term product development, which has been capitalised on the balance sheet, resulted in new and further development of existing products. This provides further short and medium-term sales opportunities, and reflects Kromek's ability to draw from its technology platform to rapidly develop bespoke and need-specific products. The investment in Kromek's core materials technology, platform developments and improved manufacturing and engineering processes, was partly expensed through the income statement. This provides a strong and enhanced basis for efficiency and profitability in future years, and strengthens the market position of Kromek's technology.

During the period, Kromek was awarded 44 new patents and filed 16 new patent applications.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Details of the Company's financial risk management objectives and policies are contained in note 26 to the financial statements.

EVENTS AFTER THE BALANCE SHEET DATE

There have been no events after the reporting that require disclosure under IAS 10.

GOING CONCERN

Despite the net liabilities position of the Company, it will continue to be supported by the parent company, Kromek Group plc for the foreseeable future, and the Directors believe that the Company will have sufficient support for working capital to meet their present and future obligations over the next twelve months. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

DIRECTORS' INDEMNITIES

The Company has made qualifying third party indemnity provisions for the benefit of its Directors, which were in force throughout the year and remain in force at the date of this report.

Kromek Limited

Directors' report (continued)

DIRECTORS

The Directors who served during the year were as follows:

Dr A Basu MBE
Mr D Bulmer
Professor M Robinson (Resigned 15 December 2015)
Professor B K Tanner (Resigned 15 December 2015)
Mr J H Whittingham
Dr G K Speirs

The Company does not propose a dividend for the year ended 30 April 2016 (2015: £nil).

AUDITOR

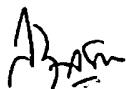
Each of the persons who is a Director at the date of approval of this annual report confirms that:

- so far as the Directors are aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Directors have taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor are aware of that information.

This information is given and should be interpreted in accordance with the provision of s418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

By order of the Board



Dr A Basu MBE

Director

3 August 2016

Kromek Limited

Directors' responsibilities statement

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 such financial statements for each financial year. Under that law the Directors are required to prepare the Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 Company and of the profit or loss of the Company for that period.

In preparing these financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

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

Independent Auditor's Report to the members of Kromek Limited

We have audited the financial statements of Kromek Limited for the year ended 30 April 2016 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 29. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Company's affairs as at 30 April 2016 and of the Company'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.

Opinion on other matters prescribed by the Companies Act 2006

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

Independent auditor's report to the members of Kromek Limited (continued)

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.



Matthew Hughes BSc (Hons) ACA (Senior Statutory Auditor)

For and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor

Newcastle upon Tyne, United Kingdom

8 August 2016

Kromek Limited
Statement of comprehensive income
For the year ended 30 April 2016

	Note	2016 £'000	2015 £'000
Continuing operations			
Revenue	5	4,824	3,282
Cost of sales		(2,422)	(1,762)
Gross profit		2,402	1,520
Other operating income	5	15	4
Distribution costs		(136)	(120)
Administrative expenses		(4,042)	(4,621)
Operating loss		(1,761)	(3,217)
Finance income	9	1	31
Finance costs	10	(44)	(92)
Loss before tax		(1,804)	(3,278)
Tax	11	855	1,045
Loss for the year		(949)	(2,233)

All activities are derived from continuing operations.

There are no recognised gains or losses for either year other than the loss for that year.

Kromek Limited
Statement of financial position
As at 30 April 2016

	Note	2016 £'000	2015 £'000
Non-current assets			
Investment in subsidiaries	13	-	-
Intangible assets	14	6,887	5,515
Property, plant and equipment	15	2,444	2,444
		<u>9,331</u>	<u>7,959</u>
Current assets			
Inventories	16	1,372	904
Trade and other receivables	18	11,661	6,796
Current tax assets	18	811	1,045
Cash and bank balances		-	17
		<u>13,844</u>	<u>8,762</u>
Total assets		<u>23,175</u>	<u>16,721</u>
Current liabilities			
Trade and other payables	19	(18,673)	(16,085)
Bank loans and overdrafts		(4,649)	-
		<u>(23,322)</u>	<u>(16,085)</u>
Total liabilities		<u>(23,322)</u>	<u>(16,085)</u>
Net current liabilities		<u>(9,478)</u>	<u>(7,323)</u>
Net (liabilities)/assets		<u>(147)</u>	<u>636</u>
Equity			
Share capital	21	-	-
Share premium account		22,378	22,378
Capital redemption reserve		1,175	1,175
Accumulated losses		(23,700)	(22,917)
Total shareholder's (deficit)/funds		<u>(147)</u>	<u>636</u>

The financial statements of Kromek Limited (registered number 04728565) were approved by the Board of Directors and authorised for issue on 3 August 2016. They were signed on its behalf by:



Chief Executive Officer
Dr Arnab Basu MBE

Kromek Limited
Statement of changes in equity
As at 30 April 2016

	Equity attributable to equity holders of the Company				
	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Accumulated losses £'000	Total equity £'000
Balance at 1 May 2014	-	22,378	1,175	(20,801)	2,752
Loss for the year	-	-	-	(2,233)	(2,233)
Credit to equity for equity- settled share based payments	-	-	-	117	117
Balance at 30 April 2015	-	22,378	1,175	(22,917)	636
Loss for the year	-	-	-	(949)	(949)
Credit to equity for equity- settled share based payments	-	-	-	166	166
Balance at 30 April 2016	-	22,378	1,175	(23,700)	(147)

Kromek Limited
Statement of cash flows
For the year ended 30 April 2016

	Note	2016 £'000	2015 £'000
Net cash from operating activities	22	(2,896)	(3,241)
Investing activities			
Interest received		1	31
Purchases of property, plant and equipment		(314)	(2,193)
Purchases of patents and trademarks		(292)	(363)
Capitalisation of development costs		(1,447)	(881)
Net cash used in investing activities		(2,052)	(3,406)
Financing activities			
Government grants		-	857
Interest paid		(44)	(92)
Net cash used in financing activities		(44)	765
Net decrease in cash and cash equivalents		(4,992)	(5,882)
Cash and cash equivalents at beginning of year		17	6,107
Effect of foreign exchange rate changes		326	(208)
Cash and cash equivalents at end of year		(4,649)	17

1. General information

Kromek Limited is a Company incorporated and domiciled in the United Kingdom under the Companies Act. The address of the registered office is given on page 2. The nature of the Company's operations and its principal activities are set out in the Strategic report on page 3.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Company operates.

Kromek Limited is a subsidiary undertaking of Kromek Group plc, a company incorporated in the United Kingdom and as such is exempt from the requirements to prepare consolidated financial statements by virtue of s400 of the Companies Act 2006. These financial statements therefore present information about the company as an individual undertaking and not about its group.

2. Adoption of new and revised Standards

The following new standards and amendments to standards are mandatory for the financial year beginning on 1 May 2015

- *IFRS 13 "Impairment of Assets"*
- *IFRS 10 "Consolidated Financial Statements"*
- *IAS 27 "Consolidated and Separate Financial Statements"*
- *IAS 36 "Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets"*
- *IFRS 12 "Disclosure of Interests in Other Entities"*
- *Amendments to IAS 32 "Financial Instruments: Presentation"*
- *Amendments to IAS 36 "Impairment of Assets"*
- *Amendments to IAS 39 "Financial Instruments: Recognition and Measurement"*
- *IFRS 10, IFRS 11, IFRS 12 Transition Guidance*

These standards and amendments to standards have not had a material impact on the financial statements.

Standards not affecting the reported results nor the financial position

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- *IFRS 9 Financial Instruments*
- *IFRS 11 Joint arrangements*
- *IFRS 13 Fair Value Measurement*
- *IFRW 14 Regulatory deferral accounts*
- *IFRS 15 Revenue from Contracts with Customers*
- *IFRS 16 Leases*
- *IAS 7 Statement on cash flows*
- *IAS 12 Income taxes*
- *IAS 16 Property, plant and equipment and IAS 38 intangible assets*
- *IAS21 Presentation of financial statements*
- *IAS 27 Separate financial statements*
- *Annual Improvements to IFRSs 2012-2014 Cycle*

The Directors do not expect that the adoption of these Standards and Interpretations in future periods will have a material impact on the financial statements of the Group, however they are currently considering the future impacts of IFRS 15.

3. Significant accounting policies

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRSs") and IFRIC interpretations. Therefore the Company financial statements comply with Article 4 of the EU IAS Regulation.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain properties and financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for the assets. The principal accounting policies adopted are set out below.

Going concern

Despite the net liabilities position of the Company, it will continue to be supported by the parent company, Kromek Group plc for the foreseeable future, and the Directors believe that the Company will have sufficient support for working capital to meet their present and future obligations over the next twelve months. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes and comprises:

i) Sale of goods and services

The Company's income derives from the sale of goods and from the research and development contracts which are typically with government agencies. Revenue on product sales is recognised when the risk and reward of ownership pass to the customer. The terms of sale are agreed with each customer on an individual basis, which are generally under FCA INCOTERMS. Revenue from research and development contracts is recognised as revenue in the accounting period in which the milestones are achieved.

ii) Revenue from grants

Revenue from grants is recognised when the costs relating to the project activity have been incurred, the customer is in agreement with the expenses which are being claimed as grant revenue, and subsequent invoices have been issued to the customers.

iii) Long-term contracts

The Company accounts for long-term contracts under IAS 11, and reflects revenue by reference to the stage of completion of the contract activity at the statement of financial position date. Revenue and profits are determined by estimating the outcome of the contract and determining the costs and profit attributable to the stage of completion. Any expected contract loss is recognised immediately.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Company as lessee

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3. Significant accounting policies (continued)

Foreign currencies

Exchange differences are recognised in profit or loss in the period in which they arise. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used.

Government grants

Government grants are not recognised until there is reasonable assurance that the Company will comply with the conditions attaching to them and that the grants will be received.

Government grants towards job creation and growth (RGF) costs are recognised as income over the periods necessary to match them with the related costs of creating those jobs.

Government grants towards job creation (GBI) costs are recognised as income over the periods necessary to match them with the related costs and are deducted in reporting the related expense.

Government grants relating to research and development (GRD) costs are treated as deferred income and released to profit or loss over the expected useful lives of the assets concerned.

Operating loss

Operating loss is stated as loss before tax, finance income and costs and other gains and losses.

Retirement benefit costs

The Company operates a defined contribution pension scheme for employees.

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. For these schemes the assets of the schemes are held separately from those of the Company in independently administered funds. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Company's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

Taxation

Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity

i) Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the statement of financial position date.

ii) Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the HFI and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

3. Significant accounting policies (continued)

Taxation (continued)

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the statement of financial position date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Property, plant and equipment

Fixtures and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is recognised so as to write off the cost or valuation of assets (other than land and properties under construction) less their residual values over their useful lives, using the straight-line method, on the following bases:

Plant and machinery	6% to 25%
Fixtures, fittings and equipment	15%
Computer equipment	25%

The gain or loss arising on the disposal or scrappage of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the Company's product development is recognised only if all of the following conditions are met:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale; and
- its intention to complete the intangible asset and use or sell it; and
- its ability to use or sell the intangible asset; and
- how the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.

Research expenditure is written off as incurred. Development expenditure is also written off, except where the Directors are satisfied as to the technical, commercial and financial viability of individual projects. In such cases, the identifiable expenditure is deferred and amortised over the year during which the Company is expected to benefit. This period normally equates to the life of the products the development expenditure relates to. Where expenditure relates to developments for use rather than direct sales of product the cost is amortised straight line over a 15 year period. Provision is made for any impairment.

Patents and trademarks

Patents and trademarks are measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful lives which is usually 10 years.

Impairment of tangible and intangible assets

At each balance sheet date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest Company of cash-generating units for which a reasonable and consistent allocation basis can be identified.

An intangible asset with an indefinite useful life is tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

3. Significant accounting policies (continued)

Impairment of tangible and intangible assets (continued)

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs comprise direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated in the statement of financial position at standard cost, which approximates to historical cost determined on a first in, first out basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Work in progress costs are taken as production costs, which include an appropriate proportion of attributable overheads.

Provision is made for obsolete, slow moving or defective items where appropriate. Items which have not shown activity for between 12–18 months will be provided for at a rate of 50%, and those which have not shown activity in 18 months or longer will be provided for at a rate of 100%. Given the nature of the products and the gestation period of the technology, commercial rationale necessitates that this provision is reviewed on a case by case basis.

Financial instruments

Financial assets and financial liabilities are recognised in the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

i) Financial assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified category: 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. The Company held no fair value through profit and loss ("FVTPL"), available for sale ("AFS") or held-to-maturity ("HTM") financial assets during the HFI period.

3. Significant accounting policies (continued)

Financial instruments (continued)

ii) Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

The Company interacts with other technology based companies to obtain market penetration for its products. These arrangements initially require funding to allow for marketing of our products, with longer lead times for sale. As a consequence, the terms with these customers are not always on normal payment terms (30 to 60 days), and management confirm that it could take longer before recoverability of the cash on these sales.

iii) Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each statement of financial position date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

iv) Derecognition of financial assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

v) Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

vi) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

vii) Financial liabilities

Financial liabilities are classified as 'other financial liabilities'. The Company held no financial liabilities that would be classified as FVTPL.

viii) Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

3. Significant accounting policies (continued)

Financial instruments (continued)

ix) Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date and spread over the period during which the employees become unconditionally entitled to the options, which is based on a period of employment of 3 years from grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 28.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of equity instruments that will eventually vest. The vesting date is determined based on the date an employee is granted options, usually 3 years from date of grant. At each balance sheet date, the Company revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserves.

Cash

Cash, for the purposes of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts repayable on demand.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 3, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future years.

The key assumptions concerning the future, and other key sources of estimation uncertainty at the statement of financial position 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.

Critical judgements in applying the Company's accounting policies

The following are the critical judgements that the Directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Development costs

As described in note 3, the Group expenditure on development activities is capitalised if it meets the criteria as per IAS 38. Initial capitalisation of costs is based on management's judgement that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone.

These capitalised assets are amortised over the period during which the Group is expected to benefit. This period normally equates to the life of the products the development expenditure relates to. Where expenditure relates to developments for use rather than direct sales of product the cost is amortised over a 15-year period. Provision is made for any impairment. Where no internally-generated intangible asset can be recognised, development expenditure is expensed in the period in which it is incurred.

4. Critical accounting judgements and key sources of estimation uncertainty (continued)

Contract revenue

As described in note 3 revenue and profits are determined by estimating the outcome of a contract, by determining the costs to complete the contract, in order to assess the stage of completion and whether it is profitable.

Impairment of non-financial assets

The Company assesses whether there are any indicators of impairment as at the transition date and thereafter for all non-financial assets at each reporting date. Goodwill is tested for impairment annually and at other times when such indicators exist, such as negative cash flows and operating losses of subsidiaries. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Recoverability of receivables

As disclosed in note 3, in order to obtain market penetration through technology-based customers, the Group recognises that normal payment terms from these customers may not be adhered to when assessing recoverability of receivables. This is as a result of the necessary marketing support that customers may require in promoting the products. Management have reassessed the recoverability at the balance sheet date and provided where appropriate.

5. Revenue

An analysis of the Company's revenue is as follows:

	2016 £'000	2015 £'000
Continuing operations		
Sales of goods and other services	4,172	2,584
Revenue from grants	227	218
Revenue from contract customers	425	480
Total revenue	4,824	3,282
Grant income	15	4
Total income	4,839	3,286

Analysis by geographical area

A geographical analysis of the Company's revenue by destination is as follows:

	2016 £'000	2015 £'000
United Kingdom	660	387
North America	3,917	2,379
Asia	57	422
Europe	190	71
Australasia	-	23
Total revenue	4,824	3,282

5. Revenue (continued)

Revenues from major products and services

The Company's revenues from its major products and services were as follows:

	2016 £'000	2015 £'000
Product revenue	3,993	1,062
Research and development revenue	831	2,220
Total revenue	4,824	3,282

Information about major customers

Revenues of approximately £2,970k (2015: £1,203k) arose from sales to the Company's largest customer during the year. Revenues of approximately £2,970k (2015: £2,742k) arose from customers who, individually, represent more than 10% of total revenue for the year ended 30 April 2016.

Operating segments

For management purposes, the Company is organised into one business unit (UK) and it is on this operating segment that the Company provides disclosure. The chief operating decision maker is the Board of Directors who assess performance of the segment using the following key performances indicators; revenues, gross profit and operating profit. The amounts provided to the Board with respect to assets and liabilities are measured in a way consistent with the Financial Statements.

The turnover, profit on ordinary activities and net assets of the Company are attributable to one business segment, i.e. the development of digital colour x-ray imaging enabling direct materials identification, as well as developing a number of detection products in the industrial and consumer markets within the nuclear and security sectors.

6. Loss for the year

Loss for the year has been arrived at after (crediting)/charging:

	2016 £'000	2015 £'000
Net foreign exchange (gains)/losses	(304)	208
Research and development costs recognised as an expense	945	2,342
Depreciation of property, plant and equipment	314	301
Amortisation of internally-generated intangible assets	449	333
Cost of inventories recognised as an expense	2,411	1,003
Staff costs (see note 8)	3,134	2,862

Analysis of the impairment losses against trade receivables are included in note 18.

7. Auditor's remuneration

The analysis of the auditor's remuneration is as follows:

	2016 £'000	2015 £'000
Fees payable to the Company's auditor and their associates for other services to the Company		
–The audit of the Company	35	25
Total audit fees	35	25
–Taxation compliance services	14	11
Total non-audit fees	14	11

8. Staff costs

The average monthly number of employees (including Executive Directors) was:

	2016 number	2015 number
Directors	2	2
Research and development, production, Sales and marketing	40	39
Administration	7	6
	6	6
	55	53

Their aggregate remuneration comprised:

	2016 £'000	2015 £'000
Wages and salaries	2,340	2,186
Social security costs	282	251
Pension scheme contributions	346	308
Share based payments	166	117
	3,134	2,862

The total Directors' emoluments for the year was £430k (2015: £315k) and the emoluments of the highest paid Director was £224k (2015: £172k). No share options (2015: none) were exercised during the year by the highest paid Director. The aggregate value of contributions paid to money purchase pension schemes was £46k (2015: £26k) in respect of two Directors (2015: two Directors).

8. Staff costs (continued)

Key management compensation:

	2016 £'000	2015 £'000
Wages and salaries and other short-term benefits	600	656
Social security costs	63	70
Pension scheme contributions	41	59
Share based payment expense	144	93
	<u>848</u>	<u>878</u>

Key management comprise the Executive Directors and senior operational staff.

9. Finance income

	2016 £'000	2015 £'000
Bank deposits	<u>1</u>	<u>31</u>
Total finance income	<u>1</u>	<u>31</u>

Investment revenue earned on financial assets analysed by category of asset, is as follows:

	2016 £'000	2015 £'000
Loans and receivables (including cash and bank balances)	<u>1</u>	<u>31</u>
Total interest income for financial assets not designated FVTPL	<u>1</u>	<u>31</u>

10. Finance costs

	2016 £'000	2015 £'000
Interest on bank overdrafts and loans	<u>44</u>	<u>92</u>
Total interest expense	<u>44</u>	<u>92</u>

11. Tax

Recognised in the statement of comprehensive income

	2016 £'000	2015 £'000
Current tax credit:		
UK corporation tax on losses in the year	811	1,045
Adjustments in respect of previous periods	44	-
Total tax credit in the statement of comprehensive income	855	1,045

Corporation tax is calculated at 20% (2014: 20.92%) of estimated taxable loss for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Reconciliation of tax credit

The credit for the year can be reconciled to the loss in the statement of comprehensive income as follows:

	2016 £'000	2015 £'000
Loss before tax	(1,804)	(3,278)
Tax at the UK corporation tax rate of 20% (2015: 20.92%)	361	686
Expenses not deductible for tax purposes	(38)	(83)
Effect of R&D	770	847
Rate differences effect of R&D	(318)	(444)
Income not taxable	-	1
Unrecognised movement on deferred tax	(38)	38
Adjustment in respect of previous periods	44	-
Effects of other tax rates	74	-
Total tax credit for the year	855	1,045

11. Tax (continued)

There are no tax items charged to other comprehensive income.

The Finance Act 2013 enacted a rate reduction in the main rate of corporation tax to 21% from 1 April 2014 and to 20% from 1 April 2015.

The Finance Act No2 2015, which was substantively enacted on 26 October 2015, includes further provisions to reduce the corporation tax to 19% with effect from 1 April 2017 and 18% with effect from 1 April 2020. The deferred tax liabilities and assets of the Group are likely to realise at rates of 18% meaning a rate of 18% has been applied when calculating deferred tax assets and liabilities as at 30 April 2016.

In addition on 16 March 2016 the Government announced in the 2016 Budget Report that there would be a further reduction in the main rate of corporation tax from 18% to 17% from 1 April 2020. This has not been substantively enacted at the balance sheet date.

There is a potential deferred tax asset on excess tax deductions arising from share based payments on exercise of share options of £1,259k (2015: £1,366k). The asset has not been recognised as it is not considered probable that there will be future profits available.

12. Dividends

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

13. Subsidiaries

Details of the Company's subsidiaries as at 30 April 2016 are as follows:

Name	Place of incorporation (or registration) and operation	Class of shares held	Proportion of ownership interest %	Activity	Aggregate amount of capital and reserves £'000	Profit or loss for the year £'000
Kromek Germany Limited	United Kingdom	Ordinary	100	Sales and marketing	(155)	(49)
Kromek Inc	United States of America	Ordinary	100	Holding company	(78)	--
Durham Scientific Crystals Limited	United Kingdom	Ordinary	100	Dormant company	--	--

The investments in subsidiaries are all stated at a total cost of £160 at 30 April 2016 (2015: £160).

14. Intangible assets

	Development costs £'000	Patents, Trademarks & other intangibles £'000	Total £'000
Cost			
At 1 May 2015	4,068	2,415	6,483
Additions	1,447	292	1,739
Transfer from other group companies	82	-	82
At 30 April 2016	5,597	2,707	8,304
Amortisation			
At 1 May 2015	159	809	968
Charge for the year	191	258	449
At 30 April 2016	350	1,067	1,417
Carrying amount			
At 30 April 2016	5,247	1,640	6,887
At 1 May 2015	3,909	1,606	5,515

The amortisation period for development costs incurred on the Company's product development is over the period during which the Company is expected to benefit and the amortisation will be based on the number of units sold over the expected product lifetime.

Patents and trademarks are amortised over their estimated useful lives, which is on average 10 years.

15. Property, plant and equipment

	Computer Equipment £'000	Plant and machinery £'000	Fixtures and fittings £'000	Total £'000
Cost or valuation				
At 1 May 2015	489	4,584	119	5,192
Additions	123	168	23	314
At 30 April 2016	<u>612</u>	<u>4,752</u>	<u>142</u>	<u>5,506</u>
Accumulated depreciation and impairment				
At 1 May 2015	436	2,224	88	2,748
Charge for the year	48	252	14	314
At 30 April 2016	<u>484</u>	<u>2,476</u>	<u>102</u>	<u>3,062</u>
Carrying amount				
At 30 April 2016	<u>128</u>	<u>2,276</u>	<u>40</u>	<u>2,444</u>
At 1 May 2015	<u>53</u>	<u>2,360</u>	<u>31</u>	<u>2,444</u>

16. Inventories

	2016 £'000	2015 £'000
Raw materials	729	420
Work-in-progress	403	229
Finished goods	240	255
	<u>1,372</u>	<u>904</u>

17. Amounts recoverable on contracts

	2016 £'000	2015 £'000
Contracts in progress at the balance sheet date:		
Amounts due from contract customers included in trade and other receivables	87	82
	<u>87</u>	<u>82</u>
 Contract costs incurred plus recognised profits less recognised losses to date	947	480
Less: progress billings	(860)	(398)
	<u>87</u>	<u>82</u>

18. Trade and other receivables

	2016 £'000	2015 £'000
Amount receivable for the sale of goods	1,817	966
Amounts recoverable on contracts (see note 17)	87	82
Amounts due from subsidiary undertakings	9,369	5,360
Other receivables	290	335
Prepayments	98	53
	<u>11,661</u>	<u>6,796</u>
Current tax assets	811	1,045
	<u>12,472</u>	<u>7,841</u>

Trade receivables

Trade receivables disclosed above are classified as loans and receivables and are therefore measured at amortised cost.

The average credit period taken on sales of goods is 44 days. The Company initially recognises an allowance for doubtful debts of 100% against receivables over 120 days. However, this is subject to management override where there is evidence of recoverability, most notably, where specific support is being provided to strategic partners in the marketing of new products.

Before accepting any new customer, the Company uses an external credit scoring system to assess the potential customer's credit quality and defines credit limits by customer.

The Company does not hold any collateral or other credit enhancements over any of its trade receivables nor does it have a legal right of offset against any amounts owed by the Company to the counterparty other than in exceptional circumstances.

At 30 April 2016, trade receivables are shown net of an allowance for bad debts of £268k (2015: £144k) arising from the ordinary course of business, as follows:

	2016 £'000	2015 £'000
Balance at 1 May 2015	144	-
Provided during the year	124	144
	<u>268</u>	<u>144</u>
Balance at 30 April 2016		

18. Trade and other receivables (continued)

The bad debt provision records impairment losses unless the Company is satisfied that no recovery of the amount owing is possible, at which point the amounts considered irrecoverable are written off against the trade receivables directly.

Ageing of past due but not impaired receivables

	2016 £'000	2015 £'000
31-60 days	63	-
61-90 days	23	-
91-120 days	7	22
121+ days	60	490
Total	153	512

In determining the recoverability of a trade receivable the Company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is covered in note 26.

The Directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value.

Ageing of impaired receivables at the statement of financial position date was:

	2016 £'000	2015 £'000
31-60 days	-	-
61-90 days	-	-
91-120 days	-	-
121+ days	346	596
Total	346	596

19. Trade and other payables

	2016 £'000	2015 £'000
Trade payables and accruals	2,828	2,171
Taxation and social security	282	78
Deferred income	863	784
Amounts due to parent undertakings	14,700	13,052
	18,673	16,085

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 45 days. For all suppliers no interest is charged on the trade payables. The Company has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

Amounts due to parent undertakings are repayable on demand.

Deferred income relates to government grants received which have been deferred until the conditions attached to the grants are met.

The Directors consider that the carrying amount of trade payables approximates to their fair value.

20. Derivatives financial instruments and hedge accounting

At 30 April 2016 and 30 April 2015 the Company had no derivatives in place for cash flow hedging purposes.

21. Share capital

	Year ended 2016 £'000	Year ended 2015 £'000
Authorised, allotted, called up and fully paid: 7,794,557 Ordinary shares of £0.00004 each	-	-
	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>

Total share capital at 30 April 2016 totals £312 (2015: £312). This is not shown above due to rounding to the nearest thousand.

22. Notes to the cash flow statement

	2016 £'000	2015 £'000
Loss for the year	(949)	(2,233)
Adjustments for:		
Finance income	(1)	(31)
Finance costs	44	92
Income tax credit	(855)	(1,045)
Depreciation of property, plant and equipment	314	301
Amortisation of intangible assets	449	333
Government grants credit	(15)	(4)
Effect of foreign exchange rate (gains)/losses	(304)	208
Share-based payment expense	166	117
Operating cash flows before movements in working capital	(1,151)	(2,262)
(Increase)/Decrease in inventories	(468)	52
(Increase) in receivables	(4,865)	(1,514)
Increase/(Decrease) in payables	2,588	(221)
Cash generated by operations	(3,896)	(3,945)
Income taxes received	1,000	704
Net cash from operating activities	(2,896)	(3,241)
Cash and cash equivalents		
	2016 £'000	2015 £'000
Cash and bank balances	<u>(4,649)</u>	<u>17</u>

22. Notes to the cash flow statement (continued)

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less, net of outstanding bank overdrafts. The carrying amount of these assets is approximately equal to their fair value.

23. Operating lease arrangements

The Company as lessee

	2016 £'000	2015 £'000
Lease payments under operating leases recognised as an expense in the year	171	109

At the balance sheet date, the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2016 £'000	2015 £'000
Within one year	189	189
In the second to fifth years inclusive	605	788
	794	977

Operating lease payments represent rentals payable by the Company for certain of its office properties. Leases are negotiated for an average term of 5 years. At 30 April 2016 and 2015, the Company had no capital commitments or contingencies.

24. Share based payments

Equity-settled share option scheme

The Company has a share option scheme (EMI scheme) for all employees of the Company which grant the employee share options in the parent company (Kromek Group plc). Options are exercisable at a price equal to the average quoted market price of the Company's shares on the date of grant. The average vesting period is three years. If the options remain unexercised after a period of ten years from the date of grant the options expire. Options are forfeited if the employee leaves the Company before the options vest. Details of the share options outstanding during the year are as follows.

Details of the share options outstanding during the year are as follows.

	2016		2015	
	Number of share options	Weighted average exercise price (£)	Number of share options	Weighted average exercise price (£)
Outstanding at beginning of the year	9,809,716	0.16	9,527,410	0.16
Effect of share reorganisation	-	-	-	-
Granted during the year	387,200	0.28	489,806	0.42
Exercised during the year	(25,000)	0.015	(162,500)	0.20
Forfeited during the year	(175,206)	0.41	(45,000)	0.20
Outstanding at the end of the year	9,996,710	0.16	9,809,716	0.16
Exercisable at the end of the year	9,227,770	0.16	8,174,270	0.16

The weighted average share price at the date of exercise for share options exercised during the year was £0.31 (2015: £0.49). The options outstanding at 30 April 2016 had a weighted average exercise price of £0.16 (2015: £0.16) and a weighted average remaining contractual life of seven years (2015: seven years). The range of exercise prices for outstanding share options at 30 April 2015 was 1.5p to 79p (2015: 1.5p to 79p). In 2016, the aggregate of the estimated fair values of the options granted is £27k (2015: £107k). The inputs into the Black-Scholes model are as follows:

	2016	2015
Weighted average share price	32p	42p
Weighted average exercise price	32p	42p
Expected volatility	35.32%	37.75%
Expected life	7 years	7 years
Risk-free rate	0.44	0.37
Expected dividend yields	0	0

Expected volatility was determined by calculating the historical volatility of similar listed businesses over the previous 3 years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

The Company recognised total expenses of £166k (2015: £117k) related to equity-settled share-based payment transactions.

The Kromek Group Plc 2013 Long Term Incentive Plan

On 10 October 2013 a new Long Term Incentive Plan was adopted. Under the plan, awards will be made annually to key employees. Subject to the satisfaction of the required TSR performance criteria, these grants will vest evenly over a 3 year reporting period, with the first ending on 30 April 2014, and the remainder on subsequent year end dates.

On 15 October 2015 1,703,354 (2015: 911,073) options were granted under the 2013 LTIP to a number of key employees, including two executive directors of the Company. The fair value of these options granted was £140k (2015: £125k). The amounts recognised as a share-based payment expense for the year ended 30 April 2016 was £140k (2015: £110k).

The 2013 Long Term Incentive Plan award was valued using the Monte Carlo pricing model. The inputs into the Monte Carlo pricing model are as follows:

	2016	2015
Weighted average share price	35p	47p
Weighted average exercise price	1p	1p
Expected volatility	35.12%	38.76%
Expected life	3 years	3 years
Risk-free rate	0.32%	0.32%
Expected dividend yields	0%	0%

25. Retirement benefit schemes

Defined contribution schemes

The Company operates defined contribution retirement benefit schemes for all employees. Where there are employees who leave the schemes prior to vesting fully in the contributions, the contributions payable by the Company are reduced by the amount of forfeited contributions.

The employees of the Company's subsidiaries in the United States of America are members of a state-managed retirement benefit scheme operated by the government of the United States of America. The subsidiaries are required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits.

The only obligation of the Company with respect to the retirement benefit scheme is to make the specified contributions.

The total cost charged to income of £346k (2015: £308k) represents contributions payable to these schemes by the Company at rates specified in the rules of the schemes. As at 30 April 2016, contributions of £21k (2015: £29k) due in respect of the current reporting year had not been paid over to the scheme.

26. Financial Instruments

Financial Instruments

The Company's principal financial instruments are trade receivables.

The Company has exposure to the following risks from its operations:

Capital risk

The Company manages its capital to ensure that it will be able to continue as a going concern through the management of the debt and equity balance. The Company's overall strategy has remained unchanged between 2015 and 2016.

The capital structure of the Company consists of equity attributable to the equity holders of the Company, comprising issued capital, reserves and accumulated losses.

The Company is not subject to any externally imposed capital requirements.

The Company's primary source of capital is equity. By pricing products and services commensurately with the level of risk and focusing on the effective collection of cash from customers, the Company aims to maximise revenues and operating cash flows.

Cash flow is further controlled by ongoing justification, monitoring and reporting of capital investment expenditures and regular monitoring and reporting of operating costs.

The Company considers that the current capital structure will provide sufficient flexibility to ensure that appropriate investment can be made, if required, to implement and achieve the longer term growth strategy of the Company.

Market risk

The Company may be affected by general market trends, which are unrelated to the performance of the Company itself. The Company's success will depend on market acceptance of the Company's products and there can be no guarantee that this acceptance will be forthcoming.

Market opportunities targeted by the Company may change and this could lead to an adverse effect upon its revenue and earnings.

26. Financial Instruments (continued)

Foreign currency risk

The Company's operations are split between the UK and the US, and as a result the Company incurs costs in currencies other than its presentational currency of pounds sterling. The Company also holds cash and cash equivalents in non-sterling denominated bank accounts.

The following table shows the denomination of the year-end cash and cash equivalents balance:

	2016 £'000	2015 £'000
£ sterling	(3,854)	724
US\$ sterling equivalent	(1,128)	(1,042)
€ sterling equivalent	333	335
	<u>(4,649)</u>	<u>17</u>

Had the foreign exchange rate between sterling, US\$ and € changed by 5%, this would affect the loss for the year and net assets of the Group by £38k (2015: £34k).

Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company only transacts with entities that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available, and if not available, the Company uses other publicly available financial information and its own trading records to rate its major customers. The Company's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

Trade receivables consist of a small number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, credit guarantee insurance cover is purchased.

The Company's standard credit terms are 30 to 60 days from date of invoice. Invoices greater than 60 days old are assessed as overdue. The maximum exposure to credit risk is the carrying value of each financial asset included in the statement of financial position.

The Company's management considers that all the above financial assets that are not impaired or past due for each of the reporting dates under review are of good quality.

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has established an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

Significant accounting policies

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the basis of measurement and the bases for recognition of income and expenses) for each class of financial asset, financial liability and equity instrument are disclosed in note 3.

26. Financial Instruments (continued)

Categories of financial instruments

	2016 £'000	2015 £'000
Financial assets		
Cash and bank balances	-	17
Loans and receivables	<u>11,563</u>	<u>7,784</u>
Financial liabilities		
Amortised cost	<u>(18,673)</u>	<u>(16,028)</u>

27. Deferred Tax

The following are the major deferred tax liabilities and assets recognised by the company and movements thereon during the current and prior reporting period.

	Accelerated capital allowances £'000	Short term timing differences £'000	Tax losses £'000	Total £000
At 1 May 2015	549	7	(556)	-
Charge/(credit) to profit or loss	113	(12)	(101)	-
At 30 April 2016	<u>662</u>	<u>(5)</u>	<u>(657)</u>	<u>-</u>

27. Deferred tax liabilities (continued)

Deferred tax assets and liabilities are offset where the company has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2016	2015
	£'000	£'000
Deferred tax liabilities	662	556
Deferred tax assets	(662)	(556)

At the statement of financial position date, the Company has unused tax losses of £13,720k (2015: £13,672k) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses as it is not considered probable that there will be future taxable profits available. All losses may be carried forward indefinitely subject to a significant change in the nature of the Company's trade.

28. Related party transactions

Transactions between the Company and its related parties are disclosed below.

During the year, AIPOLAS Limited, a company under the control of Jerel Whittingham, a non-executive director, charged the Company nil (2015: £15k) in relation to consultancy charges. At the year end the Company owed AIPOLAS Limited £nil (2015: £nil).

Directors' transactions

During the year Professor M Robinson, a director, charged the Company £72k (2015: £72k) for consultancy fees. At the year end the Company owed Professor M Robinson £7k (2015: £7k). This amount was included within trade payables.

There have been no other transactions with related parties other than what has been disclosed within this note.

29. Ultimate controlling party

The ultimate controlling party and ultimate parent undertaking of Kromek Limited is Kromek Group plc.

Copies of the Group financial statements of Kromek Group plc, the smallest and largest group of which it is a member for which group financial statements are drawn up, can be obtained from the Company Secretary, Kromek Group plc, Netpark, Thomas Wright Way, Sedgefield, County Durham, TS21 3FD.