

19 July 2016

**Kromek Group plc**  
("Kromek" or the "Group")

**Final Results for the Year ended 30 April 2016**

Kromek (AIM: KMK), a radiation detection technology company focusing on the medical, security and nuclear markets, announces its final audited results for the year ended 30 April 2016.

**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

Dr Arnab Basu, CEO of Kromek, said: “We are pleased with the results for this year where we saw product sales accounting for more than half of total revenues for the first time in the history of the Group. The year was also significant because we were awarded over \$30m of contracts during the period – the largest value of contracts ever won in a year – and we strengthened our relationships with our current customers.

“We have entered the new fiscal year with increased momentum as we deliver on the contracts won in previous years. 3,500 units of the D3S radiation detectors have already been shipped to DARPA with the remainder of the contract to be delivered before the end of the year. Good progress has been made in the delivery of our CZT-based SPECT product to an OEM in Asia, which positions the Group well to capitalise on the significant commercial opportunity 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.”

*This announcement contains inside information*

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## About Kromek Group plc

Kromek Group plc is a UK technology company (global HQ in County Durham) and a leading developer of high performance radiation detection products based on cadmium zinc telluride (“CZT”). Using its core CZT technology, Kromek designs, develops and produces x-ray and gamma ray imaging and radiation detection products for the medical, security screening and nuclear markets.

The Group’s products provide high resolution information on material composition and structure and are used in multiple applications, ranging from the identification of cancerous tissues to hazardous materials, such as explosives, and the analysis of radioactive materials.

The Group’s business model provides a vertically integrated technology offering to customers, from the growth of CZT crystals to finished products or detectors, including software, electronics and application specific integrated circuits (“ASICs”).

The Group has operations in the UK and US (California and Pennsylvania), and is selling internationally through a combination of distributors and direct OEM sales.

Currently, the Group has over a hundred full-time employees across its global operations. Further information on Kromek Group plc is available at [www.kromek.com](http://www.kromek.com).

## Overview

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.

## Financial 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)
<b>EBITDA Adjustments:</b>		
Net interest	83	71
Depreciation	709	673
Amortisation	828	711
<b>EBITDA</b>	<b>(2,523)</b>	<b>(1,680)</b>
Share-based payments	166	181
Other income	(19)	(60)
<b>Adjusted EBITDA</b>	<b>(2,376)</b>	<b>(1,559)</b>

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.

## **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.

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

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

	<b>2016</b> <b>£'000</b>	<b>2015</b> <b>£'000</b>
<b>Loss for the year</b>	<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
<b>Total comprehensive loss for the year</b>	<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
<b>Non-current assets</b>			
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>
<b>Current assets</b>			
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>
<b>Total assets</b>		<u><u>29,108</u></u>	<u><u>22,524</u></u>
<b>Current liabilities</b>			
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>
<b>Net current assets</b>		<u><u>8,183</u></u>	<u><u>3,212</u></u>
<b>Non-current liabilities</b>			
Finance lease liabilities		-	(10)
Deferred tax liabilities	23	-	(1,147)
<b>Total liabilities</b>		<u><u>(4,454)</u></u>	<u><u>(6,322)</u></u>
<b>Net assets</b>		<u><u>24,654</u></u>	<u><u>16,202</u></u>
<b>Equity</b>			
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)
<b>Total equity</b>		<u><u>24,654</u></u>	<u><u>16,202</u></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**

	<b>Share capital £'000</b>	<b>Share premium account £'000</b>	<b>Capital redemption reserve £'000</b>	<b>Translation reserve £'000</b>	<b>Accumulated losses £'000</b>	<b>Total equity £'000</b>
<b>Balance at 1 May 2014</b>	<b>1,080</b>	<b>34,612</b>	<b>1,175</b>	<b>(482)</b>	<b>(18,649)</b>	<b>17,736</b>
Loss for the year	-	-	-	-	(2,146)	(2,146)
Exchange difference on translation of foreign operations	-	-	-	398	-	398
<b>Total comprehensive losses for the year</b>	-	-	-	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
<b>Balance at 30 April 2015</b>	<b>1,082</b>	<b>34,643</b>	<b>1,175</b>	<b>(84)</b>	<b>(20,614)</b>	<b>16,202</b>
Loss for the year	-	-	-	-	(2,151)	(2,151)
Exchange difference on translation of foreign operations	-	-	-	156	-	156
<b>Total comprehensive losses for the year</b>	-	-	-	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
<b>Balance at 30 April 2016</b>	<b>1,522</b>	<b>44,484</b>	<b>1,175</b>	<b>72</b>	<b>(22,599)</b>	<b>24,654</b>

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

	Note	2016 £'000	2015 £'000
<b>Net cash used in operating activities</b>	31	<b>(2,845)</b>	<b>(2,361)</b>
<b>Investing activities</b>			
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)
<b>Net cash used in investing activities</b>		<b>(3,582)</b>	<b>(4,707)</b>
<b>Financing activities</b>			
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)
<b>Net cash generated from financing activities</b>		<b>9,185</b>	<b>1,776</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>2,758</b>	<b>(5,292)</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>1,183</b>	<b>6,563</b>
Effect of foreign exchange rate changes		(84)	(88)
<b>Cash and cash equivalents at end of year</b>		<b>3,857</b>	<b>1,183</b>

**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. 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.

The Group's financial information has been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and on a basis consistent with that adopted in the previous year.

Whilst the financial information included in this Preliminary Results Announcement has been prepared in accordance with the recognition and measurement criteria of IFRS, this announcement does not itself contain sufficient information to comply with IFRS.

The Preliminary Results Announcement does not constitute the Company's statutory accounts for the years ended 30 April 2016 and 30 April 2015 within the meaning of Section 435 of the Companies Act 2006 but is derived from those statutory financial statements.

The Group's statutory financial statements for the year ended 30 April 2015 have been filed with the Registrar of Companies, and those for 2016 will be delivered following the Company's Annual General Meeting. The Auditor has reported on the statutory accounts for 2016 and 2015, and their reports, which included no matters to which the Auditor drew attention by way of emphasis, were unqualified and did not contain statements under Sections 498 (2) or 498 (3) of the Companies Act 2006 in relation to the financial statements.

## **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.

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.

### **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.

### **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.

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 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 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.

### **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.

### **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.

**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.

#### ***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)
<b>Continuing operations</b>		
Sales of goods and other services	6,015	5,879
Revenue from grants	227	307
Revenue from contract customers	2,100	1,915
	<u>8,342</u>	<u>8,101</u>
<b>Total revenue</b>	<b>8,342</b>	<b>8,101</b>
Grant income	15	4
Other income	4	56
	<u>8,361</u>	<u>8,161</u>
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
	<u>8,342</u>	<u>8,101</u>
Total revenue	8,342	8,101

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

**Year ended 30 April 2016**

	<b>UK Operations</b> <b>£'000</b>	<b>US Operations</b> <b>£'000</b>	<b>Total for Group</b> <b>£'000</b>
<b>Revenue from sales</b>			
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	<u>4,788</u>	<u>4,506</u>	<u>9,294</u>
Removal of inter-segment sales	<u>(393)</u>	<u>(559)</u>	<u>(952)</u>
<b>Total external sales</b>	<b><u>4,395</u></b>	<b><u>3,947</u></b>	<b><u>8,342</u></b>
<b>Segment result – operating loss</b>	(2,174)	(1,886)	(4,060)
Interest received	1	-	1
Interest expense	(81)	(3)	(84)
<b>Loss before tax</b>	<u>(2,254)</u>	<u>(1,889)</u>	<u>(4,143)</u>
Tax credit	856	1,136	1,992
<b>Loss for the year</b>	<b><u>(1,398)</u></b>	<b><u>(753)</u></b>	<b><u>(2,151)</u></b>
<i>Reconciliation to adjusted EBITDA:</i>			
<b>Net interest</b>	80	3	83
<b>Tax</b>	(856)	(1,136)	(1,992)
<b>Depreciation of PPE</b>	314	395	709
<b>Amortisation</b>	449	379	828
<b>Non-recurring other income</b>	(19)	-	(19)
<b>Share-based payment charge</b>	166	-	166
<b>Adjusted EBITDA</b>	<b><u>(1,264)</u></b>	<b><u>(1,112)</u></b>	<b><u>(2,376)</u></b>
<b>Other segment information</b>			
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	<u>(449)</u>	<u>(379)</u>	<u>(828)</u>
<b>Statement of financial position</b>			
Total assets	<u>19,240</u>	<u>9,869</u>	<u>29,109</u>
Total liabilities	<u>(4,163)</u>	<u>(292)</u>	<u>(4,455)</u>

Year ended 30 April 2015

	UK Operations £'000	US Operations £'000	Total for Group £'000
<b>Revenue from sales</b>			
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	<u>3,282</u>	<u>6,957</u>	<u>10,239</u>
Removal of inter-segment sales	<u>(376)</u>	<u>(1,762)</u>	<u>(2,138)</u>
<b>Total external sales</b>	<u><u>2,906</u></u>	<u><u>5,195</u></u>	<u><u>8,101</u></u>
<b>Segment result – operating loss</b>	(2,972)	(92)	(3,064)
Interest received	31	-	31
Interest expense	(95)	(7)	(102)
<b>Loss before tax</b>	<u>(3,036)</u>	<u>(99)</u>	<u>(3,135)</u>
Tax credit	989	-	989
<b>Loss for the year</b>	<u><u>(2,047)</u></u>	<u><u>(99)</u></u>	<u><u>(2,146)</u></u>
<b>Reconciliation to adjusted EBITDA:</b>			
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
<b>Adjusted EBITDA</b>	<u><u>(2,158)</u></u>	<u><u>601</u></u>	<u><u>(1,557)</u></u>
<b>Other segment information</b>			
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	<u>333</u>	<u>378</u>	<u>711</u>
<b>Statement of financial position</b>			
Total assets	<u>11,500</u>	<u>11,024</u>	<u>22,524</u>
Total liabilities	<u>(2,829)</u>	<u>(3,493)</u>	<u>(6,322)</u>

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:

	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>
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:

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

## 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
	<u>111</u>	<u>107</u>

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:

	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>
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**

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

#### **11. Finance costs**

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

## 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)	-
	<hr/>	<hr/>
Total current tax	845	1,002
Deferred tax:		
Origination and reversal of timing differences	1,298	(13)
Adjustment in respect of previous periods	(151)	-
	<hr/>	<hr/>
Total deferred tax	1,147	(13)
	<hr/>	<hr/>
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)	-
	<hr/>	<hr/>
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

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

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

	<b>£'000</b>
<b>Cost</b>	
At 1 May 2015	1,275
At 30 April 2016	1,275
<b>Accumulated impairment losses</b>	
At 1 May 2015	-
At 30 April 2016	-
<b>Carrying amount</b>	
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:

	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>
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 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

	<b>Development costs £'000</b>	<b>Patents, trademarks &amp; other intangibles £'000</b>	<b>Total £'000</b>
<b>Cost</b>			
At 1 May 2015	5,457	5,193	10,650
Additions	2,819	320	3,139
Exchange differences	101	147	248
	<hr/>	<hr/>	<hr/>
<b>At 30 April 2016</b>	<b>8,377</b>	<b>5,660</b>	<b>14,037</b>
<b>Amortisation</b>			
At 1 May 2015	240	1,685	1,925
Charge for the year	238	590	828
Exchange differences	7	55	62
	<hr/>	<hr/>	<hr/>
<b>At 30 April 2016</b>	<b>485</b>	<b>2,330</b>	<b>2,815</b>
<b>Carrying amount</b>			
<b>At 30 April 2016</b>	<b>7,892</b>	<b>3,330</b>	<b>11,222</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
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
<b>Cost or valuation</b>				
At 1 May 2015	630	6,940	167	7,737
Additions	128	288	28	444
Disposals	-	(4)	-	(4)
Exchange differences	7	134	3	144
<b>At 30 April 2016</b>	<b>765</b>	<b>7,358</b>	<b>198</b>	<b>8,321</b>
<b>Accumulated depreciation and impairment</b>				
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
<b>At 30 April 2016</b>	<b>548</b>	<b>3,660</b>	<b>139</b>	<b>4,347</b>
<b>Carrying amount</b>				
<b>At 30 April 2016</b>	<b>217</b>	<b>3,698</b>	<b>59</b>	<b>3,974</b>
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
	<b>2,810</b>	<b>2,103</b>

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
<b>Contracts in progress at the balance sheet date:</b>		
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.

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

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

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:

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

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:

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

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.

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

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:

	<b>2016</b> <b>£'000</b>	<b>2015</b> <b>£'000</b>
Deferred tax liabilities	<b>1,897</b>	1,990
Deferred tax assets	<b>(1,897)</b>	(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**

	<b>2016</b> <b>£'000</b>	<b>2015</b> <b>£'000</b>
Trade payables and accruals	<b>3,582</b>	3,359
Deferred income	<b>863</b>	784
	<u><b>4,445</b></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
<b>Secured borrowing at amortised cost</b>		
Revolving credit facility	-	1,003
Finance lease liabilities (see note 22)	9	29
	<u>9</u>	<u>1,032</u>
<b>Total borrowings</b>		
Amount due for settlement within 12 months	<u>9</u>	<u>1,022</u>
Amount due for settlement after 12 months	<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
<b>Authorised, allotted, called up and fully paid:</b>		
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

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

## 29. Translation reserve

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

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

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

### 31. Notes to the cash flow statement

	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>
Loss for the year	<b>(2,151)</b>	(2,146)
Adjustments for:		
Finance income	<b>(1)</b>	(31)
Finance costs	<b>84</b>	102
Income tax credit	<b>(1,992)</b>	(989)
Government grants credit	<b>(15)</b>	(4)
Depreciation of property, plant and equipment	<b>709</b>	673
Amortisation of intangible assets	<b>828</b>	711
Share-based payment expense	<b>166</b>	181
	<hr/>	<hr/>
Operating cash flows before movements in working capital	<b>(2,372)</b>	(1,503)
(Increase)/decrease in inventories	<b>(707)</b>	183
Increase in receivables	<b>(1,070)</b>	(2,099)
Increase in payables	<b>302</b>	354
	<hr/>	<hr/>
Cash used in operations	<b>(3,847)</b>	(3,065)
Income taxes received	<b>1,002</b>	704
	<hr/>	<hr/>
Net cash used in operating activities	<b>(2,845)</b>	(2,361)
	<hr/> <hr/>	<hr/> <hr/>
<b>Cash and cash equivalents</b>		
	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>
Cash and bank balances	<b>3,857</b>	1,183
	<hr/> <hr/>	<hr/> <hr/>

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

	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>
Lease payments under operating leases recognised as an expense in the year	<b>516</b>	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:

	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>
Within one year	<b>509</b>	561
In the second to fifth years inclusive	<b>595</b>	1,182
	<b>1,104</b>	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.

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

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

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

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

### 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
<b>Financial assets</b>		
Cash and bank balances		
Loans and receivables	<b>3,587</b>	1,183
	<b>4,901</b>	4,027
<b>Financial liabilities</b>		
Amortised cost		
	<b>(4,455)</b>	(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.