Regulatory Story

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React Group PLC - REAT Final Results
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REACT Group PLC

("REACT", "the Group" or "the Company)

FINAL RESULTS FOR THE YEAR ENDED 30 SEPTEMBER 2017

REACT (AIM: REAT) the specialist provider of rapid response deep cleaning and emergency decontamination services presents its final results for the year ended 30 September 2017.

Gill Leates, Executive Chairman of REACT commented:

"The last financial year has been one of significant change and challenges. Trading in the year under review was difficult as consolidation within the industry, as well as budget constraints within our public sector customer base, has resulted in profit margins being squeezed, particularly in the case of larger customers with a 24 hour service guarantee. However the strategy of targeting higher value contracts is starting to pay dividends as the Group has secured new business with a major London hospital, a regional retailer and a train operator which will increase our recurring revenue base and improve margins as the volumes increase.

Following the closure of the loss making EPUK environmental remediation business in December 2016 management are now focussed on the core specialist cleaning business. Our marketplace is shifting with many larger organisations outsourcing specialist cleaning services, however if we can work in conjunction with key Facilities Management companies, and continue to build on our solid reputation for quality and reliability to become the supplier of choice in our target markets, the outlook for the business is positive."

Financial Highlights

- Turnover up 8.8% to £2.6m (2016: £2.4m)
- Pre-tax loss for year £0.44m (2016: loss of £0.29m)
- Cash position at year end £0.63m (2016: £0.93m)

Operational Highlights

- Two major contracts won with a major London hospital, one for £200,000 in September 2017 and another for £206,000 in March 2018
- New work undertaken for a regional retailer and a railway operator
- More cash to be generated out of tighter working capital controls

REACT Group PLC Gill Leates: Chairman	07799 662642
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Executive Chairman's Statement
For the year ended 30 September 2017

The last financial year has been one of significant change and challenges. Trading in the year under review was difficult as consolidation within the industry, as well as budget constraints within our public sector customer base, has resulted in profit margins being squeezed, particularly in the case of larger customers with a 24 hour service guarantee. However the strategy of targeting higher value contracts is starting to pay dividends as the Group has secured new business with a major London hospital, a regional retailer and a train operator, which will increase our recurring revenue base and improve margins as the volumes increase.

Following the closure of the loss making EPUK environmental remediation business in December 2016 management are now focussed on the core specialist cleaning business. Our marketplace is shifting with many larger organisations outsourcing specialist cleaning services, however if we can work in conjunction with key Facilities Management (FM) companies, and continue to build on our solid reputation for quality and reliability to become the supplier of choice in our target markets, the outlook for the business is positive.

Financial Review

During the year ended 30 September 2017 turnover from continuing operations increased by 8.8% to £2.6m (2016: £2.4m) due primarily to new ad hoc work for a large London Hospital and additional work for a major FM company. Gross margin fell from 41.7% to 31.4% due to an increase in larger public sector business which offers a more secure revenue stream, albeit at a lower entry level margin due to the requirement to provide a 24/7 service guarantee, and the labour intensity necessary in the delivery of the service. After administrative expenses of £1,223,000 (2016: £1,159,000) the operating loss from continuing operations amounted to £393,000 (2016: £147,000).

After higher than expected costs of £45,000 (2016: £141,000) relating to the closure of our loss making subsidiary, EPUK Limited, the loss for the year was £438,000 (2016: £288,000).

The cash outflow from continuing operating activities amounted to £184,000 (2016: £592,000). After capital expenditure of £111,000 (2016: £210,000) the Group had cash balances of £631,000 at 30 September 2017 (2016: £931,000). Group debtors, which are equivalent to approximately 80 days (2016: 64 days) are higher than anticipated. Consequently additional resources have been directed at credit control in the current financial year to release additional cash from working capital.

Strategy

REACT is a specialist cleaner capable of dealing with diverse and extreme cleaning problems whose common factor is typically that they are beyond the "usual" cleaning tasks of facilities managers and other sub-contractors or in-house service providers. REACT's service offering typically supplements these cleaners for those tasks which require specialist capital equipment or clothing, are hard to reach, in hazardous or difficult locations or require operatives to have specialist health and safety training or specialist accreditations.

There have been a number of changes at Board level which have enabled the Company to start to focus its efforts on bidding for significant contracts in its core areas of expertise. The Company has also moved into new offices in Swadlincote so that it is now completely separate from Autoclenz and no longer relies on it for any administrative services. When bidding for new business we have to be competitive, but we believe there is value to be added from building a relationship with FMs and end users through the provision of additional services. Furthermore, the nature of the contracts will give us better visibility of future revenue streams, which will enable us to rationalise our cost base and improve margins without affecting the quality of our service.

Outlook

Although market conditions remain difficult current trading is encouraging but the Company is still going through a period of change and 2018 is expected to be a challenging year. As previously reported in September 2017, the Group secured its first large contract for £200,000 with a major London hospital, through a relationship with a major FM company, and an additional contract for £206,000 was awarded for the same end user in March 2018. In addition the Group has started to broaden its customer base with new business won in industries including transport and retail where our core expertise can be applied. Our cash balances currently stands at approximately £500,000, though we expect further cash to be extracted out of improved working capital management practices. We will continue to focus our efforts on the larger contracts to improve the quality of the customer base and to raise our profile in our target markets. There are still a number of challenges facing the business but we are optimistic the changes we are making will deliver value for shareholders in the future.

The Board greatly appreciates the efforts of all the staff and would like to thank them for their hard work during this period of change.

Gill Leates
Chairman
26 March 2018

REACT Group PLC

Consolidated Statement of Comprehensive Income
For the year ended 30 September 2017

	Notes	2017 £'000	2016 £'000
Continuing Operations			
Turnover		2,645	2,432
Cost of sales		(1,815)	(1,419)
Gross profit		830	1,013
Administrative expenses	5	(1,223)	(1,159)
Operating loss for the year before income tax		(393)	(146)
Income tax	6	-	(1)
Loss for the year from continuing operations		(393)	(147)
Loss for the year from discontinued operations	22	(45)	(141)
Loss for the year		(438)	(288)
Total comprehensive loss for the year attributable to the owners of the company		(438)	(288)
Basic and diluted loss per share - pence			
From continuing operations	7	0.14p	0.05p
From discontinuing operations	7	0.02p	0.05p

REACT Group PLC

Consolidated Statement of Financial Position
As at 30 September 2017

	Notes	2017 £'000	2016 £'000
ASSETS			
Non-current assets			
Intangible assets	9	1,400	1,444
Plant & equipment	10	232	252
		1,632	1,696
Current assets			
Trade and other receivables	12	760	788
Cash at bank and in hand	13	631	931
		1,391	1,719
TOTAL ASSETS		3,023	3,415
EQUITY			
Shareholders' Equity			
Called up share capital	14	689	689
Share premium		4,889	4,889
Reverse acquisition reserve		(5,726)	(5,726)
Capital redemption reserve		3,337	3,337
Merger relief reserve		1,328	1,328
Share based payments		22	22
Accumulated deficit		(1,935)	(1,497)
Total Equity		2,604	3,042
LIABILITIES			
Current liabilities			
Trade and other payables	15	398	352
Non - current Liabilities			
Deferred tax liability	16	21	21

TOTAL LIABILITIES	419	373
TOTAL EQUITY AND LIABILITIES	3,023	3,415

These financial statements were approved by the Board of Directors on 26 March 2018 and were signed on its behalf by:

GM Leates
Director

Company Registration no. 05454010

REACT Group PLC

Consolidated Statement of Changes in Equity
For the year ended 30 September 2017

	Share capital £'000	Share Premium £'000	Merger Relief Reserve £'000	Capital Redemption Reserve £'000	Reverse Acquisition Reserve £'000	Share based payments £'000	Accumulated deficit £'000	Total equity £'000
Balance at 1 October 2015	689	4,889	1,328	3,337	(5,726)	-	(1,209)	3,308
Share based payment charge	-	-	-	-	-	22	-	22
Loss for the period	-	-	-	-	-	-	(288)	(288)
Balance at 30 September 2016	689	4,889	1,328	3,337	(5,726)	22	(1,497)	3,042
Balance at 1 October 2016	689	4,889	1,328	3,337	(5,726)	22	(1,497)	3,042
Loss for the year	-	-	-	-	-	-	(438)	(438)
Balance at 30 September 2017	689	4,889	1,328	3,337	(5,726)	22	(1,935)	2,604

Share capital is the amount subscribed for shares at nominal value. Share premium represents amounts subscribed for share capital in excess of nominal value.

Merger relief reserve arises from the 100% acquisition of REACT SC Holdings Limited and REACT Specialist Cleaning Limited in August 2015 whereby the excess of the fair value of the issued ordinary share capital issued over the nominal value of these shares is transferred to this reserve in accordance with section 612 of the Companies Act 2006.

Accumulated deficit represents the cumulative losses of the Group attributable to the owners of the company.

Reverse acquisition reserve is the effect on equity of the reverse acquisition of REACT Specialist Cleaning Limited.

The capital redemption reserve represents the value of deferred shares cancelled as a result of a share buyback.

REACT Group PLC

Consolidated Statement of Cash Flows
For the year ended 30 September 2017

	Notes	2017 £'000	2016 £'000
Cash flows from operating activities			
Cash utilised in operations	1	(189)	(698)
Net cash outflow from operating activities		(189)	(698)
Cash flows from investing activities			
Capital expenditure		(111)	(210)
Net cash outflow from investing activities		(111)	(210)
Decrease in cash and cash equivalents		(300)	(908)
Cash and cash equivalents at beginning of period		931	1,839

Cash and cash equivalents at end of period	2	631	931

Notes to the Consolidated Statement of Cash Flows
For the period ended 30 September 2017

1. Reconciliation of loss before income tax to cash outflow from operations

	2017 £'000	2016 £'000
Loss before taxation	(438)	(288)
Decrease/(increase) in trade and other receivables	28	(24)
Increase/(decrease) in trade and other payables	51	(571)
Depreciation and amortisation charges	156	163
Loss on disposal of fixed assets	14	-
Share based payments charge	-	22
Net cash outflow from operations	(189)	(698)

2. Cash and cash equivalents

	2017 £'000	2016 £'000
Cash at bank and in hand	631	931

REACT Group PLC

Company Statement of Financial Position
As at 30 September 2017

	Notes	As at 30 September 2017 £'000	As at 30 September 2016 £'000
ASSETS			
Non-current assets			
Investments	11	1,560	1,560
Plant & equipment	10	1	1
		1,561	1,561
CURRENT ASSETS			
Trade and other receivables	12	860	628
Cash at bank and in hand	13	529	905
		1,389	1,533
TOTAL ASSETS		2,950	3,094
EQUITY			
Shareholders' Equity			
Called up share capital	14	689	689
Share premium		4,889	4,889
Merger relief reserve		1,328	1,328
Capital redemption reserve		3,337	3,337
Share based payments		22	22
Accumulated deficit		(7,471)	(7,264)
Total Equity		2,794	3,001
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	15	156	93
TOTAL LIABILITITES		156	93
TOTAL EQUITY AND LIABILITIES		2,950	3,094

These financial statements were approved and authorised for issue by the Board of Directors on 26 March 2018 and were signed on its behalf by:

G M Leates
Director

Company Registration no. 05454010

REACT Group PLC

Company Statement of Changes in Equity
For the year ended 30 September 2017

	Called up Share capital £'000	Share Premium £'000	Merger Relief Reserve £'000	Capital redemption reserve £'000	Share based payments £'000	Accumulated deficit £'000	Total equity £'000
Balance at 1 October 2015	689	4,889	1,328	3,337	-	(6,964)	3,279
Share based payments	-	-	-	-	22	-	22
Loss for the year	-	-	-	-	-	(300)	(300)
Balance at 30 September 2016	689	4,889	1,328	3,337	22	(7,264)	3,001
Balance at 1 October 2016	689	4,889	1,328	3,337	22	(7,264)	3,001
Loss for the year	-	-	-	-	-	(207)	(207)
Balance at 30 September 2017	689	4,889	1,328	3,337	22	(7,471)	2,794

Share capital is the amount subscribed for shares at nominal value. Share premium represents amounts subscribed for share capital in excess of nominal value.

Merger relief reserve arises from the 100% acquisition of REACT SC Holdings Limited and REACT Specialist Cleaning Limited in August 2015 whereby the excess of the fair value of the issued ordinary share capital issued over the nominal value of these shares is transferred to this reserve in accordance with section 612 of the Companies Act 2006.

Accumulated deficit represents the cumulative losses of the company attributable to the owners of the company.

The capital redemption reserve represents the value of deferred shares cancelled as a result of a share buyback.

REACT Group PLC

Company Statement of Cash Flows
For the year ended 30 September 2017

	Notes	Year ended 30 September 2017 £'000	Year ended 30 September 2016 £'000
Cash flows from operating activities			
Cash utilised from operations	**1**	(376)	(863)
Net cash outflow from operating activities		(376)	(863)
Cash flows from investing activities			
Purchase of subsidiary		-	(10)
Net cash outflow from investing activities		-	(10)
Decrease in cash and equivalents		(376)	(873)
Cash and cash equivalents at beginning of period		905	1,778
Cash and cash equivalents at end of period	**2**	529	905

Notes to the Company Statement of Cash Flows

1. Reconciliation of loss before income tax to cash generated from operations

	2017 £'000	2016 £'000

Operating loss	(207)	(300)
Increase in trade and other receivables	(232)	(388)
Increase/(decrease) in trade and other payables	63	(207)
Share based payments	-	22
Impairment of investment	-	10
Net cash outflow from operations	(376)	(863)

2. Cash and cash equivalents

	2017 £'000	2016 £'000
Cash at bank and in hand	529	905

REACT Group PLC

Notes to the Financial Statements
For the year ended 30 September 2017

1. General Information

Basis of preparation and consolidation

The Company is based in the United Kingdom and has been incorporated in England and Wales. Details of the registered office, the officers and advisors to the Company are presented on the Company Information page at the start of this report.

The consolidated financial statements present the results of the company and its subsidiaries ('the Group') as if they formed a single entity. Intercompany transactions and balances between Group companies are therefore eliminated in full. Where the company has control over an investee, it is classified as a subsidiary. The company controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns from the investee, and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

The equity structure appearing in the Group financial statements reflects the equity structure of the legal parent, REACT Group PLC, including the equity instruments issued in order to effect reverse acquisition accounting. The merger relief reserve represents a premium on the issue of the ordinary shares for the acquisition of subsidiary undertakings. The relief is only available to the issuing company securing at least a 90% equity holding in the acquired undertaking in pursuance of an arrangement providing for the allotment of equity shares in the issuing company on terms that the consideration for the shares allotted is to be provided by the issue of equity shares in the other company.

2. Accounting Policies

Statement of compliance
The consolidated financial statements of REACT Group PLC have been prepared in accordance with International Financial Reporting Standards (IFRSs), International Accounting Standards (IASs) and International Financial Reporting Interpretations Committee (IFRIC) interpretations (collectively 'IFRSs') as adopted for use in the European Union and as issued by the International Accounting Standards Board and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

Basis of preparation
The financial statements have been prepared under the historical cost convention. The principal accounting policies are summarised below. They have all been applied consistently throughout the period under review.

Going concern
Following its review of the Group's financial plans, the board has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

New and amended standards adopted by the Group
There are no IFRSs or IFRIC interpretations that are effective for the first time in this financial period that have had a material impact on the Group.

REACT Group PLC

Notes to the Financial Statements
For the year ended 30 September 2017

2. Accounting Policies (continued)

New Standards, amendments and interpretations issued but not effective

Reference	Title	Summary	Application date of standard (Periods commencing on or after)	Reference

Amendments to IFRS 1	First-time adoption of International Financial Reports Standards	Amendments resulting from Annual Improvements 2014-2016 Cycle (removing short-term exemptions)	1 October 2018	Amendments to IFRS 1
Amendments to IFRS 2	Share-based payments	Amendments to clarify the classification and measurement of share based payment transactions	1 October 2018	Amendments to IFRS 2
Amendment to IFRS 4	Insurance Contracts	Amendments regarding the interaction of IFRS 4 and IFRS 9	1 October 2018	Amendment to IFRS 4
IFRS 9	Financial Instruments	Requirements on the classification and measurement of financial assets and liabilities and includes an expected credit losses model which replaces the current loss impairment model. Also includes the hedging amendment that was issued in 2013	1 October 2018	IFRS 9
IFRS 15	Revenue from contracts with customers	Specifies how and when to recognize revenue from contracts as well as requiring more information and relevant disclosures.	1 October 2018	IFRS 15
IFRS 16	Leases	Introduces a single accounting model for leases with no distinction between operating and finance leases.	1 October 2019	IFRS 16
IFRS 17	Insurance Contracts	Establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued.	1 October 2021	IFRS 17
Amendments to IAS 28	Investments in Associates and Joint Ventures	Amendments resulting from Annual improvements 2014-2016 cycle (Clarifying certain fair value measurements	1 October 2018	Amendments to IAS 28
Amendments to IAS 39	Financial Instruments: Recognition and measurement	Amendments to permit entity to elect to continue to apply the hedge accounting requirements in IAS 39 for a fair value hedge of the interest rate exposure of a portion of a portfolio of financial assets or financial liabilities when IFRS 9 is applied and to extend the fair value option to certain contracts that meet the 'own use' scope exception	1 October 2018	Amendments to IAS 39
Amendments to IAS 40	Investment Property	Amendments to clarify transfers or property to or from investment property	1 October 2018	Amendments to IAS 40

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group. The Group does not intend to apply any of these pronouncements early.

REACT Group PLC

Notes to the Financial Statements
For the year ended 30 September 2017

2. Accounting Policies (continued)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods and services supplied, stated net of discounts, returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimate of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Rendering of services

The Group provides extreme cleaning services. For rendering of services, revenue is recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction and assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

(i) Current tax

Current taxes are based on the results shown in the financial statements and are calculated according to local tax rules using tax rates enacted or substantially enacted by the statement of financial position date. Income tax is recognised in the income statement or in equity if it relates to items that are recognised in the same or a different period, directly in equity. Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

(ii) Deferred tax

Deferred tax is provided, using the liability method, on temporary differences at the statement of financial position date between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differenced, and the carrying forward or unused tax assets and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on the tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

REACT Group PLC

Notes to the Financial Statements
For the year ended 30 September 2017

2. Accounting Policies (continued)

Investments
Investments in subsidiaries are held at cost less any impairment.

Financial instruments
Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

Trade and other receivables
Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to the initial recognition, trade and receivables are measured at amortised cost less impairment losses for bad and doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts. Impairment losses for bad and doubtful debts are measured as the difference between the carrying amount of financial asset and the estimated future cash flows, discounted where the effect of discounting is material.

Fair values
The carrying amounts of the financial assets and liabilities such as cash and cash equivalents, receivables and payables of the company at the statement of financial position date approximated their fair values, due to relatively short term nature of these financial instruments

Trade and other payables
Trade and other payables are initially recognised at fair value and thereafter stated in amortised cost, except where the payables are interest free loans made by related parties without any fixed repayment terms or the effect of discounting would be immaterial, in which case they are stated at cost.

Impairment of non-financial assets
At each statement of financial position date, the Group reviews the carrying amounts of its investments 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 in order 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 cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment 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 cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a re-valued amount, in which case the impairment loss is treated as a revaluation decrease.

REACT Group PLC

Notes to the Financial Statements
For the year ended 30 September 2017

2. Accounting Policies (continued)

Impairment of non-financial assets (continued)
Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior periods. A reversal of an impairment loss is recognised as income immediately, 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.

Capital management
Capital is made up of stated capital, premium and retained earnings. The objective of the Group's capital management is to ensure that it maintains strong credit ratings and capital ratios. This will ensure that the business is correctly supported and shareholder value is maximised.

The Group manages its capital structure through adjustments that are dependent on economic conditions. In order to maintain or adjust the capital structure, the company may choose to change or amend dividend payments to shareholders or issue new share capital to shareholders. There were no changes to the objectives, policies or processes during the year ended 30 September 2017.

Equity instruments
Equity instruments issued by the company are recorded at the proceeds received. Incremental costs directly attributable to the issuance of new ordinary shares are deducted against share capital.

Share-based compensation

The fair value of the employee and suppliers services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each statement of financial position date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

The fair value of share-based payments recognised in the income statement is measured by use of the Black Scholes model, which takes into account conditions attached to the vesting and exercise of the equity instruments. The expected life used in the model is adjusted; based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. The share price volatility percentage factor used in the calculation is based on management's best estimate of future share price behaviour and is selected based on past experience, future expectations and benchmarked against peer companies in the industry.

REACT Group PLC

Notes to the Financial Statements
For the year ended 30 September 2017

2. Accounting Policies (continued)

Property, plant and equipment
Property, plant and equipment are stated at historical cost less subsequent accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to write off their cost over their estimated useful lives at the following annual rates:

Computer hardware	20%
Computer software	33%
Motor vehicles	25%
Plant, machinery & equipment	20%

Useful lives and depreciation method are reviewed and adjusted if appropriate, at the end of each reporting period. During the year ended 30 September 2017 the depreciation rates used were reviewed and, based on this review, the estimated useful lives of motor vehicles and plant, machinery and equipment were extended to 4 years and 5 years respectively.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss in the period in which the asset is derecognised.

Intangibles
Purchased goodwill represents the excess of the cost of acquisition over the company's interest in the fair value of the identifiable assets and liabilities of a business acquired at the date of acquisition.

Purchased goodwill is recognized as an asset, reviewed for impairment at least annually and carried at cost less accumulated impairment losses. Any impairment is recognised immediately in profit or loss and is not subsequently reversed. Purchased goodwill is deemed to have an indefinite useful life due to the expectation of the acquired business to operate in perpetuity, so is not amortised.

Customer list represents the value placed on the retained customer list at the acquisition date. The value recognises that customers, although contracted to the company are not under an obligation to use the company services.

The customer list will be amortised over a period of 5 years. An impairment review will be conducted each year and will look at significant changes in the turnover received from major customers.

REACT Group PLC

Notes to the Financial Statements
For the year ended 30 September 2017

2. Accounting Policies (continued)

Critical accounting judgments and key sources of estimation uncertainty
The preparation of the financial statements requires management to make estimates and assumptions concerning the future that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods.

The resulting accounting estimates will, by definition, differ from the related actual results.

- **Share based payments**

The fair value of share based payments recognised in the income statement is measured by use of the Black Scholes model, which takes into account conditions attached to the vesting and exercise of the equity instruments. The expected life used in the model is adjusted; based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. The share price volatility percentage factor used in the calculation is based on management's best estimate of future share price behaviour and is selected based on past experience, future expectations and benchmarked against peer companies in the industry.

- **Amortisation**
  Management have estimated that the useful life of the fair value of the customer lists acquired on the acquisition to be 5 years. Although customers generally are on rolling annual contracts or projects management believe that a useful life of 5 years is a fairer representation based on the historical trading of the REACT division with its customers. The estimate will be reviewed annually and revised if the useful life is deemed to be lower or higher than 5 years based on the customer trading of existing clients of REACT division

- **Customer list valuation**
  Management undertake an impairment review annually of all intangible assets held. Management review goodwill by assigning it to a cash generating unit (CGU) and calculate a discounted cash flow forecast based on the assumptions outlined in Note 9. These assumptions are reviewed annually as the business changes. Customer lists are reviewed for impairment annually also using similar assumptions.

3. Segmental Reporting

In the opinion of the directors, the Group has one class of business, being that of specialist cleaning and decontamination services. The Group's primary reporting format is determined by the geographical segment according to the location of its establishments. There is currently only one geographic reporting segment, which is the UK. All costs are derived from the single segment.

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Notes to the Financial Statements
For the year ended 30 September 2017

4. Employees and directors

	2017 £'000	2016 £'000
Wages and salaries	1,028	1,009
Directors fees	89	76
Social security costs	100	122
Pension contributions	5	6
	1,222	1,213

The average monthly number of employees :

	No.	No.
Directors	4	4
Operators and administration staff	33	32
	37	36

Details of emoluments received by Directors of the Group for the year ended 30 September 2017 were as follows:

	Salaries £'000	Fees £'000	2017 £'000	2016 £'000
G Leates	30	-	30	30
S Metcalfe	-	14	14	-
G Rummery	-	43	43	30
S Woolley	-	7	7	8
M Collingbourne	-	25	25	30
S Foster	-	-	-	10
Total	30	89	119	108

5. Administrative expenses

	2017 £'000	2016 £'000
Auditor remuneration		
- audit fees (Company £4,000; 2016 : £4,000)	33	33
- other services	1	3
Staff costs (note 4)	1,222	1,213
Less staff costs included in cost of sales	(633)	(654)
Legal and professional fees (incl AIM related costs)	136	67
Travel expenses	96	74
Insurance	92	67
Advertising	25	46
Other expenses	153	141
Depreciation	112	119
Less depreciation included in cost of sales	(58)	(16)
Amortisation	44	44
Share based payments	-	22
	1,223	1,159

REACT Group PLC

Notes to the Financial Statements
For the year ended 30 September 2017

6. Income Tax

Analysis of tax expense:

Loss on ordinary activities before income tax	(438)	(288)
Loss on ordinary activities multiplied by the standard rate of corporation tax in UK of 19% (2016: 20%)	(83)	(58)
Effects of:		
Amortisation not deductible for tax	26	38
Expenses not deductible for tax purposes	-	-
Increase in net losses carried forward	57	20
Corporation tax charge	-	-

The Group has estimated excess management expenses of £1,124,000 (2016: 850,000). The tax losses have resulted in a deferred tax asset of approximately £217,000 (2016 : £132,000) which has not been recognised as it is uncertain whether future taxable profits will be sufficient to utilise the losses.

7. Loss per Share

Basic loss per share is calculated by dividing the earnings attributable shareholders by the weighted average number of ordinary shares outstanding during the period.

	Loss £'000	**Weighted average Number of shares**	**Loss per share**
Basic and diluted EPS			
Loss attributable to ordinary shareholders:			
Continuing operations	393	275,407,753	0.14p
Discontinued operations	45	275,407,753	0.02p

Basic and diluted earnings per share are the same, since where a loss is incurred the effect of outstanding share options and warrants is considered anti-dilutive and is ignored for the purpose of the loss per share calculation. As at 30 September 2017 there were 2,380,000 (2016: 2,380,000) outstanding share warrants and 16,524,464 (2016: 16,524,464) options which are potentially dilutive.

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Notes to the Financial Statements
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8. Company's result for the period

The company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the parent company income statement account. The result for the parent company for the period was a loss of £207,000 (2016: loss of £300,000).

9. Intangible assets

Group	**Goodwill £'000**	**Purchased goodwill £'000**	**Customer list acquired £'000**	**Total £'000**
Cost				
At 1 October 2016	25	1,280	220	1,525
On disposal	(25)	-	-	(25)
At 30 September 2017	-	1,280	220	1,500
Amortisation and impairment				
As at 1 October 2016	(25)	-	56	81
On disposal	(25)	-	-	(25)
Amortisation charge for the year	-	-	44	44
As at 30 September 2017	-	-	100	100
Carrying amount				
As at 30 September 2017	-	1,280	120	1,400

As at 30 September 2016	-	1,280	164	1,444

The purchased goodwill relates to intangible assets that do not qualify for separate recognition on the acquisition of the REACT specialist cleaning services business, an unincorporated division of Autoclenz Limited.

The Group assesses at each reporting date whether there is an indication that an asset may be impaired, by considering the net present value of discounted cash flow forecasts. Purchased goodwill has been allocated for impairment testing purposes to the individual businesses acquired which are also the cash-generating units ("CGU") identified. The recoverable amount of a CGU is determined based on value in use calculations using cash flow projections based on financial budgets approved by the Directors. The projections are based on the assumption that the company can realise projected sales. A prudent approach has been applied with no residual value being factored into these calculations. If the projected sales do not materialise there is a risk that the total value of the intangible assets shown above would be impaired. A pre-tax discount rate of 5% per annum has been applied to the cashflow projections, taking into consideration the expected rate of return and various risks relating to the CGU.

Goodwill is assessed annually for impairment. At the year-end based on these assumptions there was no indication of impairment of the value of goodwill.

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10. Plant and equipment

Group	**Vehicles £'000**	**Plant and machinery £'000**	**Total £'000**
Cost			
At 30 September 2016	307	90	397
Additions	85	26	111
Disposals	(57)	(6)	(63)
At 30 September 2017	335	110	445
Depreciation			
At 30 September 2016	123	22	145
Depreciation charge for the year	78	34	112
Disposals	(40)	(4)	(44)
At 30 September 2017	161	52	213
Net book value			
At 30 September 2017	174	58	232
At 30 September 2016	184	68	252

Company	**Fixtures, fittings & equipment £'000**	**Total £'000**
Cost		
At 30 September 2016	3	3
Additions	-	-
At 30 September 2017	3	3
Depreciation		
At 30 September 2016	2	2
Depreciation charge for the year	-	-
At 30 September 2017	2	2
Net book value		
At 30 September 2017	1	1
At 30 September 2016	1	1

REACT Group PLC

Notes to the Financial Statements
For the year ended 30 September 2017

11. Investment in subsidiary undertakings

Company

Cost	**£'000**

At 1 October 2016	1,570
Disposal of EPUK Limited	(10)
At 30 September 2017	1,560
Impairment	
At 1 October 2016	10
Disposal	(10)
At 30 September 2017	-
Carrying amount	
At 30 September 2017	1,560
At 30 September 2016	1,560

On 12 September 2017 EPUK Limited was put into voluntary liquidation and a Liquidator appointed. Although the company had met all its debts as they fell due since acquisition there remained some uncertainty about the quantum of liabilities that may have arisen under its previous ownership. Consequently, having taken advice, the directors believed that this was the most appropriate course of action to take in order to protect the interests of shareholders.

As at 30 September 2017, the company held the following subsidiaries:

Name of company	Principal activities	Country of incorporation and place of business	Proportion of equity interest of ordinary shares
REACT SC Holdings Limited	Holding company	United Kingdom	100%
REACT Specialist Cleaning Limited (held indirectly by REACT SC Holdings Limited)	Specialist cleaning & decontamination services to the public sector	United Kingdom	100%
REACT Occupational Health Services Limited	Remediation activities and other waste management services	United Kingdom	100%
REACT Environmental Services Limited	Treatment and disposal of non-hazardous waste	United Kingdom	100%

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For the year ended 30 September 2017

12. Trade and other receivables

Current

	Group 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'000
Trade receivables	672	513	-	-
Amounts owed by Group undertakings	-	-	834	618
Other receivables	-	143	15	7
Prepayments and accrued income	88	132	11	3
	760	788	860	628

13. Cash and cash equivalents

	Group 2017 £'000	Group 2016 £'000	Company 2016 £'000	Company 2016 £'000
Cash and bank balances	631	931	529	905

14. Called Up Share Capital

	2017 £'000	2016 £'000
Issued share capital comprises:		
275,407,753 Ordinary shares of 0.25p each	689	689

The ordinary shares are non-redeemable and provide holders with one vote per share on a vote at a company meeting. They also provide one equal right per share in any ordinary dividend declared and one equal right per share in the distribution of any surplus due to the ordinary shareholders on a winding up.

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For the year ended 30 September 2017

15. Trade and other payables

Current:

	Group 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'000
Trade payables	215	131	32	-
- Accrued expenses	161	142	124	93
Social security and other taxes	22	79	-	-
-				
	398	352	156	93

16 Deferred Tax

Deferred tax is provided, using the liability method, on temporary differences at the statement of financial position date between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 19%, the movement on the deferred tax liability is as shown below:

Group	2017 £'000	2016 £'000
At 1 October 2016	21	20
Deferred tax on capital allowance timing difference	-	1
At 30 September 2017	21	21

Deferred tax assets have not been recognised in respect of all tax losses and other temporary differences giving rise to deferred tax assets as the directors believe it is uncertain that these assets will not be recovered.

17. Related Party Disclosures

Group and company

During the period to 30 September 2017 the Group was charged £25,000 (2016: £30,000) by Morrison Kingsley Consultants Limited for director services provided by M Collingbourne. At the year end, the Group owed £nil (2016: £2,500) to Morrison Kingsley Consultant Limited, a company controlled by M Collingbourne. In addition the Group was charged £42,500 (2016: £30,000) by Autoclenz Limited for director services provided by G Rummery, £7,292 (2016: £8,333) by RSW advisory services LLP for director services provided by S Woolley and £13,556 (2016: £nil) by Metcalfe Consultancy for director services provided by S Melcalfe. There were no amounts outstanding in respect of these services at 30 September 2017 or 2016.

REACT Group PLC

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For the year ended 30 September 2017

18. Ultimate Controlling Party

No one shareholder has control of the company.

19. Warrants

On 17 August 2015 the company issued warrants to GM Leates to subscribe for 2,380,000 new ordinary shares in the company exercisable at a price of 1.68p per 0.25p ordinary share, exercisable after 12 months. The warrants have a 10 year exercise period ending on 17 August 2025, and lapse in the event that GM Leates ceases to be Chairman of the company. No warrants were exercised in the current or prior year.

The fair value of the share warrants issued on 17 August 2015 with an exercise price of 1.68p is £0.00 and was derived using the Black Scholes model. The following assumptions were used in the calculations:

Share price at grant date	1.68p
Risk-free rate	1.00%
Volatility	50%
Expected life	3.5 years

Expected volatility is based on a conservative estimate for the company. 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.

£Nil (2016: £11,875) has been recognised during the period for the share based payments over the vesting period.

REACT Group PLC

Notes to the Financial Statements
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20. Share options

The company had introduced a share option programme to grant share options as an incentive for employees. Each share option converts into one ordinary share of the company on exercise. No amounts are paid or payable by the recipient on receipt of the option and the company has no legal obligation to repurchase or settle the options in cash. The options carry neither rights to dividends nor voting rights prior to the date on which the options are exercised. Options may be exercised at any time from the date of vesting to the date of expiry.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

		Number of options		Average exercise price	
		2017	2016	2017	2016
		No.	No.	£	£
	Outstanding at the beginning of the period	16,524,564	-	0.0168	-
-	Granted during the year	-	16,524,564	-	0.0168
-					
-	Outstanding at the end of the period	16,524,564	16,524,564	0.0168	0.0168

The Options shall vest in full and be capable of exercise upon the average mid-market closing price per ordinary share of 0.25p each in the capital of the Company (as derived from the AIM Appendix of the Daily Official List and as certified in writing by the Company's stockbrokers) exceeding 2.5p for 30 consecutive business days. £nil (2016: £10,209) has been recognised during the period for the share based payments over the vesting period.

21. Financial Risk Management Objectives and Policies

The Group's financial instruments comprise cash balances and receivables and payables that arise directly from its operations. The main risks the Group faces are liquidity risk, capital risk and foreign currency risk.

The board regularly reviews and agrees policies for managing each of these risks. The Group's policies for managing these risks are summarised below and have been applied throughout the period. The numerical disclosures exclude short-term debtors and their carrying amount is considered to be a reasonable approximation of their fair value.

Interest risk
The Group is not exposed to significant interest rate risk as it has limited interest bearing liabilities at the period end.

Credit risk
The Group is exposed to credit risk as services are invoiced on completion. This risk is mitigated as most large customers have been customers for several years and have exemplary credit ratings. The board also ensure robust procedures are in place to ensure all services are invoiced promptly and all payments received in a timely manner.

21. Financial Risk Management Objectives and Policies (continued)

Liquidity risk
Liquidity risk is the risk that Group will encounter difficulty in meeting the obligations associated with financial liabilities.

The responsibility for liquidity risks management rest with the Board of Directors, which has established appropriate liquidity risk management framework for the management of the Group's short term and long-term funding risks management requirements.

During the period under review, the Group has not utilised any borrowing facilities. The Group manages liquidity risks by maintaining adequate reserves and reserve borrowing facilities by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

Capital risk
The Group's objectives when managing capital are to safeguard the ability to continue as a going concern in order to provide returns for shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

22. Discontinued operations

On 12 September 2017 EPUK Limited was put into voluntary liquidation and a Liquidator appointed. Although the company had met all its debts as they fell due since acquisition there remained some uncertainty about the quantum of liabilities that may have arisen under its previous ownership. Consequently, having taken advice, the directors believed that this was the most appropriate course of action to take in order to protect the interests of shareholders.

The trading results of the discontinued operations were as follows:

	2017 £'000	2016 £'000
Turnover	9	45
Expenses	(54)	(161)
Loss before and after tax of discontinued operations	(45)	(116)
Impairment of goodwill	-	(25)
	(45)	(141)
Operating cashflow	(5)	(106)

The accounts, which will be sent to shareholders, are available also from the Company Secretary at c/o International Registrars Limited, Finsgate, 5-7 Cranwood Street London EC1V 9EE and also on the Company's webste: www.reactplc.co.uk