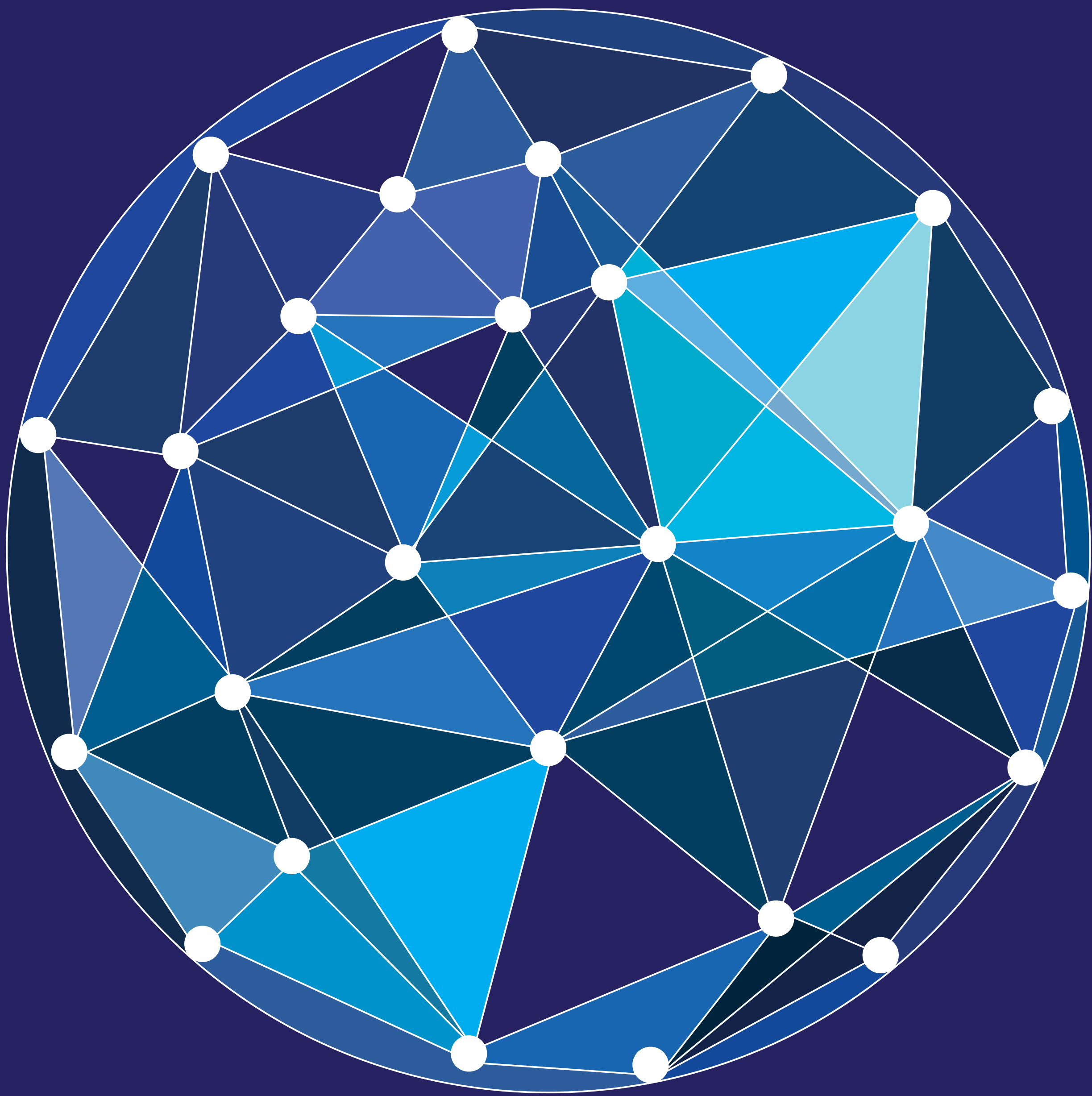
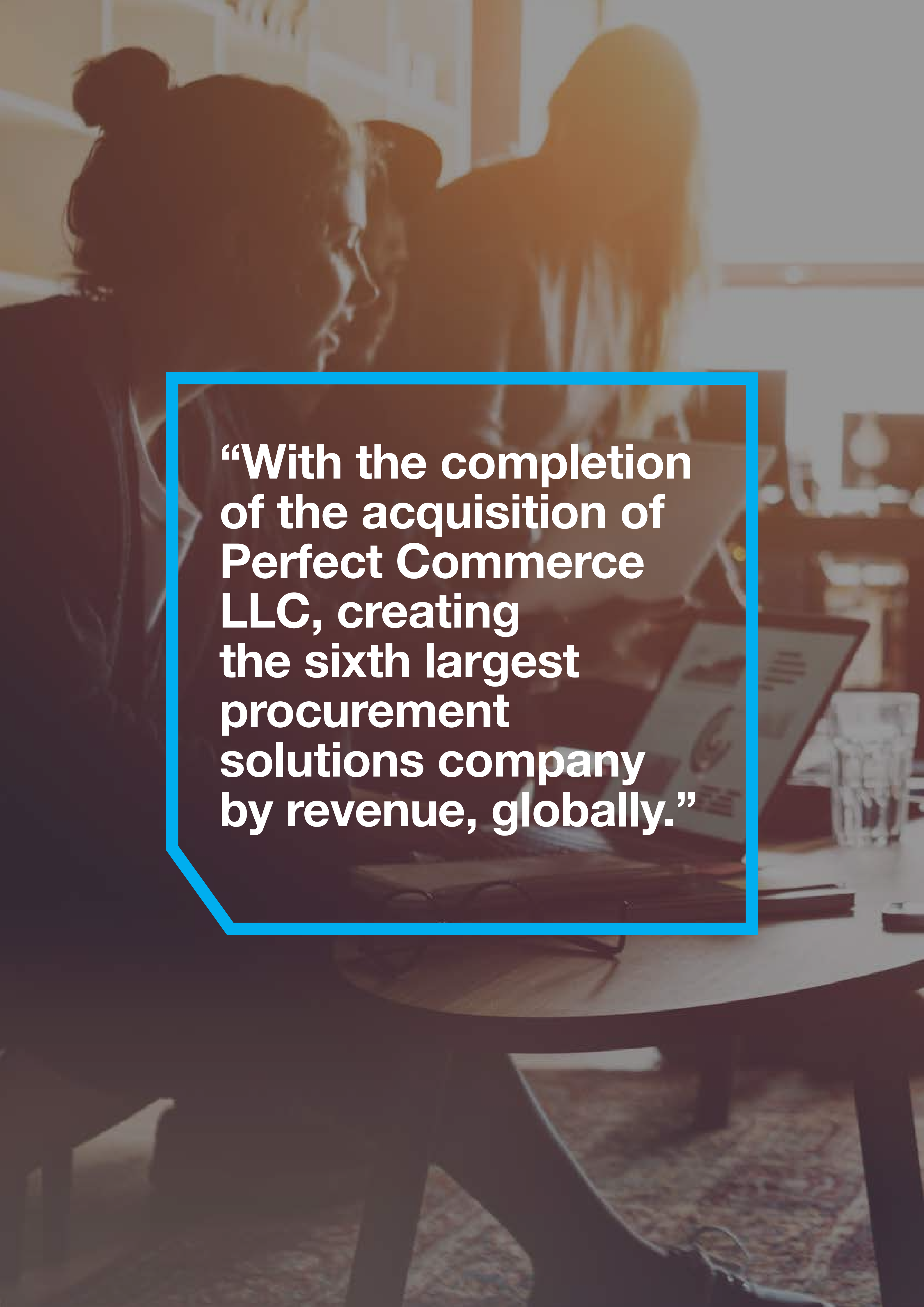
PROACTIS
The Spend Control Company



2017
Annual Report & Accounts



“With the completion of the acquisition of Perfect Commerce LLC, creating the sixth largest procurement solutions company by revenue, globally.”

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Financial Highlights

54
New deal intake

110
Inside selling deals

£22.6m
Annualised contracted revenues

£25.4m
Revenues

£4.3m
Gross cash at end of year

1.4p
Proposed dividend per share

“The Group continues to deliver on its ambitious strategy to boost its scale and growth rate whilst maintaining its strong performance on revenue visibility and profitability”

Business Performance

£25.4m

Reported revenue increased by 31%

(2016: £19.4m)

9%

Underlying organic growth

(2016: 7%)

£7.9m

Adjusted EBITDA increased by 49%

(2016: 5.3m)

9.0p

Adjusted earnings per share increased by 25%

(2016: 7.2p)

The Team

Sean McDonough

Chief Operating Officer

Mr McDonough joined the Group as Director of Professional Services during 2005 from Azolve Limited, which he co-founded. Previous roles include Director of Professional Services for CODA Group plc, UK Technical Director for BaaN, Head of Professional Services – Europe Silknet Limited and VP of Professional Services EMEA at Kana Communications.

Alan Aubrey

Non-Executive Chairman

Mr Aubrey is the Chief Executive Officer of IP Group plc, a FTSE 250 company that specialises in commercialising intellectual property. He is also a non-executive chairman of Ceres Power Holdings plc, a manufacturer of advanced solid oxide fuel cells, a non-executive director of Avacta Group plc, an AIM listed company that develops new detection and diagnostic devises for the bio-pharmaceutical markets and a non-executive director of Oxford Nanopore Technologies, currently developing a new generation of nanopore-based electronic systems for analysis of single molecules. From 2008 to 2014, he was also a Non-Executive Director of the Department for Business, Innovation & Skills (BIS). Mr Aubrey is a fellow of the Institute of Chartered Accountants of England and Wales. Mr Aubrey is a member of the Remuneration Committee and the Chair of the Audit Committee.

Rodney Potts

Non-Executive Director

Mr Potts was one of the founders and former Chief Executive of CODA Group plc, the global provider of accounting systems. Mr Potts is the Chair of the Remuneration Committee and a member of the Audit Committee.

Tim Sykes

Chief Financial Officer

Tim is a fellow of the Institute of Chartered Accountants of England and Wales. Over the last ten years, he has built up an expertise within the small cap AIM listed market with over 25 financial years' experience across 5-10 companies as consulting CFO, before joining PROACTIS on a full-time basis from January 2016. Prior to that, he held senior positions within corporate finance at KPMG and as Commercial Director at Mountain Warehouse.

Hamp Wall

Chief Executive Officer

Mr Wall was appointed Chief Executive Officer during August 2017, following the acquisition of Perfect Commerce LLC. He has more than 30 years of corporate management, business development and international M&A experience. He has been President and Chief Executive Officer of Perfect Commerce for 10 years and was previously President of CorMine LLC, a leading procurement services BPO company that acquired Perfect Commerce in 2007. Prior to CorMine LLC, he held various positions at Ferguson Enterprises and Wolseley PLC over 17 years, latterly as the President of the Corporate Sales Division.

Strategic Report

The Group continues to deliver on its ambitious long-term strategy of building a Group exhibiting the following characteristics:

- **High revenue growth rates;**
- **Security through absolute scale and high levels of recurring income;**
- **Profitability; and**
- **Yield through a dividend policy.**

2017 has been a transformational year during which the Group grew strongly year on year over the historic reporting period. This was achieved both through its organic performance and by way of its acquisition of Millstream Associates Limited ("Millstream").The Group's acquisition strategy was further delivered upon shortly after the end of the reporting period with the completion of the acquisition of Perfect Commerce LLC ("Perfect"), creating the sixth largest procurement solutions company by revenue, globally.

The Board believes that the acquisition of Perfect is an industry relevant transaction which enables the enlarged Group to service any procurement solution need of any customer in any of the main global markets. It has accelerated the Group's growth plans by several years and creates significant opportunities for revenue based synergies but also significant cost savings. The initial priority is on business integration and the Group is now deeply into the planning and execution phases of this work.

Growth strategy

The Group's growth strategy remains unchanged and is as follows:

- Drive growth in its businesses through the delivery of best in class procurement solutions for its customers. The rate of intake of new names remains high and the Group's continued commitment to investment in its solutions supports this;
- Retain existing customers through high levels of support and service offerings and, with an energetic approach to the cross-selling of the Group's widening range of solutions, an opportunity to create even broader and deeper customer relationships;
- Undertake selected M&A based activity with a focus on complementary customer bases, solutions and technology. The Group has completed the acquisition of Millstream during the financial year and Perfect shortly after the financial year end and, cumulatively, six acquisitions within the last four financial years. A very strong pipeline of further exciting opportunities exists but further progress on M&A must be balanced against delivery of the value opportunity resulting from the Millstream and Perfect acquisitions; and
- Open up a vast new opportunity by accessing and offering value added benefits and services to a new customer grouping, the customer supply chain. The Group is focussed on adopting the acquired networking technology and business models within Perfect to access this opportunity having made slower progress than it would have expected to with its own technology over the last twelve months.

"A sustained level of growth and momentum which the Group is looking to continue and accelerate even further."

"The Group's reported revenues increased by 31% to £25.4m (2016: £19.4m)"

Strategic Report (continued)

Business performance and strategy

The Group's reported revenues increased by 31% to £25.4m (2016: £19.4m) with the Group's acquisitions, Due North in the prior year and Millstream in this year, contributing a combined total of £5.4m (2016: Due North alone contributing £1.0m for the six months that it was part of the Group in the prior year). Organic revenue growth was 9%. The Group's longer term growth performance remains strong with a three year cumulative average growth rate in revenue of 36%.

In the year, the Group's ACR grew 28% and is now £22.6m (2016: £17.6m) and total forward contracted order book, to be delivered principally over the next five years, grew by 7% and now stands at £28.0m (2016: £26.1m).

The Group secured 54 new names (2016: 63) of which 44 (2016: 46) were subscription deals. The aggregate initial contract value sold was £4.1m (2016: £6.8m) of which £1.2m (2016: £2.2m) was recognised during the year. Average deal value reduced through a mix shift toward lower priced modules within the solution portfolio. The Board is satisfied with the level of new names during the year and expects the mix of modules sold to return to a more normalised mix going forward.

The number of upsell deals sold to existing customers increased encouragingly to 110 (2016: 95).

Whilst the satisfactory volume and value of new business and upsells are good indicators of market traction, the renewal of customer contracts sold in prior years remains of vital importance to the Group's strategy. Therefore, it is very encouraging that the Group has generally maintained its very high levels of renewal.

The Group's financial progress continues apace reporting Adjusted EBITDA (Note: definition below) of £7.9m (2016: £5.3m), in line with expectations. As described last year, the Group has realised operational and synergistic cost reductions from its post-acquisition integration plans to deliver improved profitability margins with the Adjusted EBITDA (Note: definition in Chief Financial Officer's report) margin increasing to 31% (2016: 27%).

The Group has incurred significant non-recurring administrative expenses of £6.8m during the year relating primarily to the acquisitions of Millstream and Perfect. Of this, £1.8m relates to a non-cash loss on a conditional forward foreign exchange contract entered into to give security over the rate at which the Group could purchase US dollars to fund the acquisition of Perfect. This has resulted in the Group reporting a statutory operating loss of £2.6m (2016: profit £1.9m).

Blended perpetual and subscription software licence and services models

The Group continues to offer the blended model of perpetual and subscription software licences, delivered on its Cloud technology platform, as well as associated services. It has strong momentum in the marketplace. Its global business partners are achieving sales momentum of both licence types and the Group is selling good traction in the United States.

Buyer Solutions

The Group's position as a leading "best in class" spend control and eProcurement solution provider has been further enhanced by the addition of major new modules, many new features and the introduction of mobile applications for large buying organisations. The solution suite is regularly recognised within the sector for its capability.

Ongoing investment has enabled the Group to move ahead of the competition by offering a truly "end-to-end" suite of software. The Group is in a very strong competitive position and will continue to invest to maintain that position.

Supplier solutions

Through the acquisition of Millstream (and, latterly, Perfect), the Group has acquired substantial reach into the supplier community. The Tenders Direct service was acquired with Millstream and the substantial business networking capability, The Business Network ("TBN"), was acquired with Perfect. The Board is focussed on realising the value from the commercial and technical opportunities of these specific capabilities in the enlarged Group.

Markets

The Group offers a true multi-company, multi-currency and multi-language capability and this remains an essential differentiator as the Group increases its presence across more sectors worldwide. During 2017 deals were sold to customers operating across several continents and many different sectors.

The Group competes on various levels; local vendors, Enterprise Resource Planning ("ERP") vendors and international procurement vendors and this mix makes for an extremely competitive environment. The "end-to-end" message and tight integration techniques mitigate this and positions PROACTIS as a cost effective solution against both big ticket, consultancy led ERP vendors, international procurement vendors' solutions and potential multi-vendor software led solutions.

M&A strategy and activity

The Group's M&A strategy is to acquire businesses that fit a strict selection criteria based around the following principles:

→ Consolidation of complementary customer bases and solutions - the procurement space is sufficiently fragmented to offer significant scope for this;

Strategic Report (continued)

- → Organisations with long term customer relationships, ideally contracted with a proven track record of retention and renewal;
- → Technology led solutions and service offerings that are complementary to the Group's existing offering; and
- → Technology that is compatible with the Group's existing technology.

Within this framework, the Group has made five acquisitions between February 2014 and November 2016 and all are integrated as products or services within the Group's solution portfolio and have compatible technologies.

As described above, the acquisition of Perfect was transformational due to its size and was much more substantial than previous transactions. With integration firmly in mind, the Group looks forward to reporting on the year ahead as the synergies between the two companies continue to be realised, creating a solid foundation for growth.

The Group has a healthy pipeline of acquisition opportunities which is currently under review, however the Board is heavily focussed on realising the value opportunity resulting from the Millstream and Perfect acquisitions in the short-term.

Millstream

The Group acquired Millstream, a provider of pre-award eProcurement solutions predominantly to suppliers, on 16 November 2016. Details of the transaction are included within the Chief Financial Officer's report.

Its post-acquisition performance has been encouraging with £3.5m revenue and £1.7m Adjusted EBITDA (Note: definition in Chief Financial Officer's report) during the 36 week period since completion. Millstream operates a subscription based revenue model and this contributed approximately £4.9m of recurring ACR. Whilst Millstream has a higher rate of churn in the supplier side of its business, it also has a substantial level of buyer side business which has low levels of churn. The blended churn rate is in line with that experienced by the Group.

As described at the time of the acquisition, the corporate integration of Millstream was deferred for a period in order to minimise disruption in the immediate post acquisition period, enabling Millstream to deliver the challenging performance targets that the Group had planned for. This has been achieved and closer integration will now start to move forward. The Board considers that this pragmatic approach to integration is testament to the Group's ability to identify, execute and integrate strategic and accretive acquisitions that generate shareholder value.

Perfect

The Group acquired Perfect, a provider of eProcurement solutions, on 4 August 2017. Accordingly, Perfect has not contributed to the performance of the Group during the financial year except for the non-recurring administrative expenses associated with the transaction itself, the committed element of which has been recognised.

This acquisition has positioned PROACTIS to leverage Perfect's extensive international capabilities which sees it serve approximately 150 customers (largely Tier 1), with over 1.3 million users across more than 80 countries, 20 languages and 100 currencies. Previous to this, PROACTIS was pre-dominantly UK based, with a limited US presence, and its

customers were Tier 2 businesses. However, now, the Board believes that the Group can become a leading provider of spend management solutions globally, from scaled operations in each of the main global markets of the United States, the United Kingdom and in mainland Europe.

This acquisition, which is expected to be earnings enhancing in first full financial year of ownership, has dramatically changed the Company's profile and has accelerated PROACTIS' strategy. Benefits include:

- An increased scale, geographic footprint, customer opportunity, and solution set
- Combined group delivering c.£55m of revenue, >85% recurring (based on historic financial information)
- Meaningful and multiple commercial and operational efficiencies
- Expected net annualised cost savings of approximately £5.0 million
- Significant cross-sell / up-sell opportunities; and
- Strengthened supplier commerce opportunity through The Business Network, its own proprietary supplier network which has approximately 970,000 suppliers connected to it. Those suppliers are able to use The Business Network to collaborate with and transact efficiently and electronically with their customers.

The enhanced solution set arising through the combination and the increased reach into the new territories to both Tier 1 and mid-market customer segments offers a solid platform to continue to execute the Group's growth strategy.

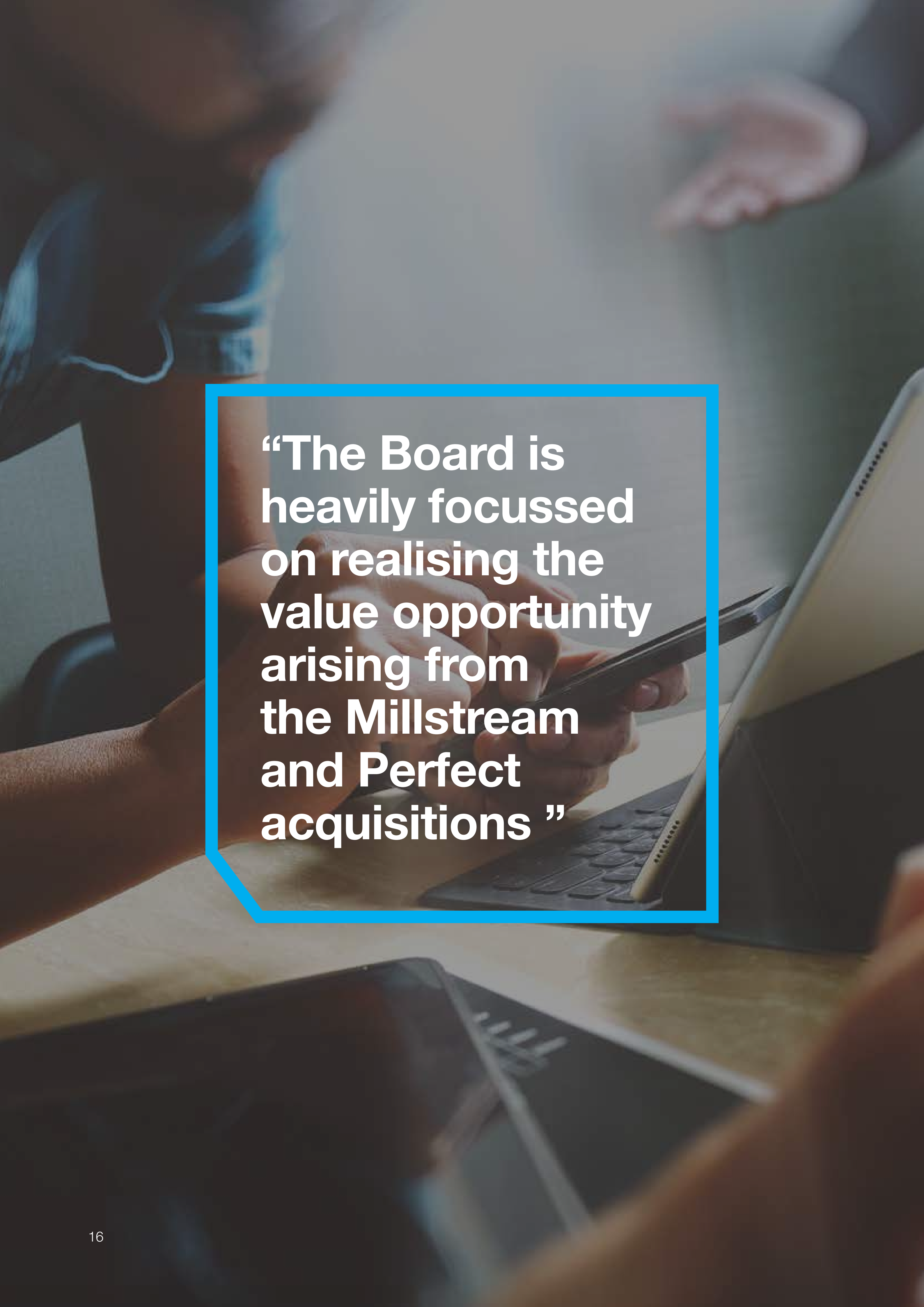
The supplier commerce opportunity

The Group has a strategic objective of accessing and providing value added services to a new customer group, being the suppliers of its 1,000 customers. The Group's focus is to create many mutual benefits that both the buyer and supplier can realise through the Group's networking technology, including:

- e-Procurement;
- Near paperless trading;
- Improvement of efficiencies in the administration of supplier records; and
- Transparency of the status of a purchase invoice in the approval and payment cycle,

with a view to, ultimately, providing accelerated payments to suppliers through an innovative application delivered over the networking technology. Additionally, this approach is expected to encourage electronic trading, which is currently poorly adopted, creating efficiencies within the buy/sell transaction process. These efficiencies will be realised by the suppliers through a greater level of convenience in the trading relationship with their customers and significantly reduced costs whilst also creating new commercial opportunities. These benefits and efficiencies will be charged through a non-tariff based, low cost software subscription.

The technology and commercial model acquired through the acquisition of Perfect is much more advanced than the Group's own equivalent technology and the Board believes that the realisation of the opportunity will be de-risked through the adoption of this technology and commercial model.



“The Board is heavily focussed on realising the value opportunity arising from the Millstream and Perfect acquisitions ”

Summary

The activities during the year have culminated in the transformation of PROACTIS into a truly global leader in the multi-billion-dollar eProcurement solution market. The Group has continued to execute its strategy and has grown substantially with a satisfactory rate of organic growth across reported revenue, ACR and order book. Plus the period under review saw it deliver further inorganic growth, which demonstrates our ability to successfully integrate and expand our offering, through its acquisition of Millstream, which has performed encouragingly post completion.

Client retention remains high and the Group's solutions are being deployed more deeply and widely within the customer base through an impressive rate of upsell activity, which bodes well for the year ahead. This revenue is being delivered efficiently and profitability is very strong with high operating margins.

Over the coming year, the Group will continue to drive organic growth whilst realising the value opportunities provided by the acquisitions of Millstream and Perfect, which are substantial both in respect of geographic reach and an enhanced solution set. Initial progress on cost savings related to the integration of the Group with Perfect are encouraging and the Group is on track to meet its objective of delivering annualised savings of £5.0m by 31 July 2018 with more than £2.5m being delivered at the date of this report.

The Group's opportunity to access and deliver value added services to a new customer grouping, the suppliers of its 1,000 customers, has moved more slowly than expected but the acquired technology and commercial acumen of Perfect gives the Board confidence that this opportunity can be realised in the short-medium term. The scope for growth in this part of the group's business is extremely exciting.

The Board is very pleased with the Group's sustained level of growth and momentum and is confident that the Group in a strong position to continue and accelerate even further.

Alan Aubrey Chairman
11 October 2017

Tim Sykes Chief Financial Officer
11 October 2017

Chief Financial Officer's Report

Results for the year and key performance indicators

Performance analysis

Execution of the Group's M&A strategy resulted in five completed acquisitions in the period from February 2014 to November 2016 and this has had a significant positive impact on the scale and growth rate of the Group's operations and financial performance. Three of the five have contributed to the Group's results for the whole of the current and previous financial year and are included within the 'Existing Group' in the table below. The fourth and the fifth acquisition, Due North and Millstream were acquired on 2 February 2016 and 16 November 2016 respectively and have contributed to the Group's result since those dates during the previous and this financial year. This performance can be analysed as follows:

	Revenue £000	[1]Organic growth %	[3]Adjusted EBITDA £000	[4]Adjusted EBITA £000
Existing Group	19,996	9%	5,506	3,207
Due North	1,872	(8%)	609	454
Millstream	3,536	-%	1,737	1,588
	25,404	[2]7%	7,852	5,249

Definitions:

Note 1: The Organic growth measure reported is calculated by reference to the revenue contributed for the year ended 31 July 2017 and the year ended 31 July 2016 (or six month period ended 31 July 2017 and 2016 in the case of Due North), unadjusted for currency fluctuations.

Note 2: Calculated as a weighted average.

Note 3: Adjusted EBITDA is statutory operating profit before depreciation, amortisation, share based payment charges and non-recurring administrative expenses (related principally to the Group's acquisition activities and consequent post-acquisition integration and re-organisation programmes). This measure is considered to be relevant because it allows industry comparison as an indicator of recurring cash profit before discretionary capital expenditure.

Note 4: Adjusted EBITA is statutory operating profit before amortisation of customer related intangible assets, share based payment charges and non-recurring administrative expenses (related principally to the Group's acquisition activities and consequent post-acquisition integration and re-organisation programmes).

Reported revenue

Revenue increased 31% to £25.4m from £19.4m last year. Organic revenue growth in the Existing Group was 9% (and 5% excluding the effect of foreign currency translation rates changes). Due North contributed £1.9m of revenue during the year (2016: £1.0m in the six month period since the date of completion in the prior period, 2 February 2016) and its organic growth was negative as a result of known customer losses at the date of acquisition. Millstream contributed £3.5m of revenue in the 36 week period since the date of completion, 16 November 2016.

The Group signed 54 new names (2016: 63) of which 44 (2016: 46) were under the subscription model. The aggregate initial contract value sold was £4.1m (2016: £6.8m) of which £1.2m (2016: £2.2m) was recognised during the year. Average deal value reduced through a mix shift toward lower priced modules within the solution portfolio. The Board is satisfied with the level of new names during the year and expects the mix of modules sold to return to a more normalised ratio going forward.

Revenue from recurring contracted subscriptions, managed service contracts, support and hosting was £22.1m (2016: £15.7m) including a contribution of £1.6m (2016: £0.8m in the six month period since completion) from Due North and including a contribution of £3.4m from Millstream in the 36 week period since completion. The organic growth of this revenue stream in the PROACTIS business was a healthy 15%.

Revenue from consultancy services reduced by £0.1m to £2.3m (2015: £2.4m) including a contribution of £0.2m (2016: £0.2m in the six month period since completion) from Due North and including a contribution of £0.1m in the 36 week period since completion from Millstream.

Revenue visibility

The total value of subscription, managed service, support and hosting revenue recognised in the year was £22.1m (2016: £15.7m). More importantly, at 31 July 2017, the ACR, being the run rate of subscription, managed service, support and hosting revenue, increased by 28% to £22.6m (2016: £17.6m) which equates to 89% (2016: 91%) of reported revenues.

At 31 July 2017, the total multi-year contracted order book that is to be recognised as revenue in future financial periods increased by 7% to £28.0m (2016: £26.1m).

Support and hosting revenue is generally renewed annually in advance, and the Group has had low cancellation rates in the past. Because of this, the Group includes these revenues within its ACR. Those revenues are, however, only “contracted” to the extent that each current annual contract remains unfulfilled.

Gross margin

The presentation of the Group’s reported results does not include the sub-total of gross profit to better reflect the reality of the Group’s operational performance. However, gross margin is a relevant measure of performance when considered as revenues less cost of goods and services.

The Group’s business partners and its own direct sales effort sold contracts under both the subscription and perpetual business models. Four of the five acquired businesses, including Due North and Millstream, sell entirely directly to their clients rather than through business partners and, accordingly, the revenue from those businesses delivers comparatively high gross margins, as defined above. Consequently, gross margins have continued to improve through the mix shift toward direct selling. The combined effect of these factors was that the Group reported an improved gross margin (as defined above) over all of 86% (2016: 82%).

Overheads

Overhead (defined as the aggregate of staff costs, other operating expenses but excluding depreciation of property, plant and equipment, amortisation of intangibles assets, share based payment charges and non-recurring administrative expenses) increased during the year to £14.0m (2016: £10.7m). Due North contributed £1.2m (2016: £0.6m in the six month period since completion in the prior year) and Millstream contributed £1.8m in the 36 week period since completion. Excluding these factors, overhead increased by £0.9m of which £0.7m related to a less favourable average exchange rate compared to the prior year.

Accordingly, the Group’s Adjusted EBITDA increased to £7.9m (2016: £5.3m) and the associated margin improved to 31% (2016: 27%). The equivalent Adjusted EBITA increased to £5.3m (2016: £3.2m) and the associated margin increased to 21% (2016: 17%).

The Group incurred significant non-recurring administrative expenses of £6.8m during the year relating primarily to the acquisitions of Millstream and Perfect which has resulted in the Group reporting a statutory operating loss of £2.6m (2016: profit £1.9m). Most of these expenses related to the acquisition of Perfect but are recognised in this financial year as they were committed.

Capitalised development costs and costs of software for own use were £2.8m (2016: £2.1m). The income statement includes a total charge for the amortisation of capitalised development costs and costs of software for own use of £2.4m (2016: £1.8m).

Acquisition of Millstream

The Group acquired Millstream on 16 November 2016 for net cash consideration of £14.3m. The gross cash consideration was £19.0m with Millstream having free cash or cash equivalents of £4.7m on its balance sheet at the date of acquisition.

The cash consideration for the acquisition was funded by the combination of a placing of new ordinary shares raising approximately £12.5 million and from a new (at the time) £15.2m debt facility provided by HSBC Bank plc (“HSBC”). This facility included a £4.2 million term loan, repayable over three years with a coupon rate of 1.95 per cent. over LIBOR, and an £11.0 million revolving credit facility, repayable after four years with a ratcheted coupon rate no lower than 1.75 per cent. over

CFO's Report (continued)

LIBOR and no higher than 2.5 per cent. over LIBOR (together the "Facilities"). The Facilities replaced the Company's three existing term loan facilities with HSBC, £3.35 million of which was drawn down in aggregate. The facility referred to in this paragraph, whilst in place at 31 July 2017, has now been replaced with a further new facility negotiated to support the acquisition of Perfect.

The annual revenue of the Millstream, for the year ended 30 June 2016 was £4.9m and EBITDA was £2.0m. The Group acquired net assets with a book value of £2.2m but, with adjustments of £3.8m to reflect the fair value of customer related intangible assets, the fair value of net assets acquired was approximately £6.0m and the Group recognised £13.0m of goodwill. The goodwill relates to the skilled labour force within Millstream. The value of the skilled labour force was not recognised as a separate intangible asset on the basis that it could not be separated from the value generated from the business as a whole. In addition, the goodwill relates to the future potential to realise cross-selling opportunities and operational cost synergies.

During the 36 week period since acquisition, Millstream has performed in line with expectations, contributing £3.5m revenue and £1.7m of EBITDA.

Acquisition of Perfect

The Group acquired Perfect on 4 August 2017 for consideration of $127.5m with an additional consideration of up to $5.0m depending on certain deliverables. The net consideration was $121.2m with Perfect having cash of $6.3m on its balance sheet at the date of acquisition.

The cash consideration for the acquisition was funded by the combination of a placing of new ordinary shares raising approximately £70.0 million, from debt of £28.0m to be drawn from a new £45m debt facility provided by HSBC Bank plc ("HSBC") and from and by the issue $5.0m of convertible loan notes to two members of continuing management. This new £45m debt facility includes a £15.0 million term loan, repayable over five years with a coupon rate of 1.95 per cent. over LIBOR, and a £30.0 million revolving credit facility, repayable after five years with a ratcheted coupon rate no lower than 1.75 per cent. over LIBOR and no higher than 2.5 per cent. over LIBOR (together the "Facilities").

The annual revenue of Perfect, for the year ended 31 December 2016 was approximately $39.7m and EBITDA was $6.4m. The Board considers that the run rate of EBITDA at acquisition was approximately $9.0m.

The Board will give further analysis of the acquisition of Perfect within its interim announcement for the six months ending 31 January 2018.

Cash flow

The Group remains in a strong financial position with cash balances of £4.3m at 31 July 2017 (2016: £3.6m). Gross debt at 31 July 2017 was £5.2m of which £1.4m was payable within one year. This position has now changed substantially following the acquisition of Perfect.

The Group generated cash from operating activities of £4.7m (2016: £5.2m) which is higher than the reported operating loss of the Group of £2.6m (2016: profit £1.9m), mainly due to the effect of non-recurring administrative expenses related to the acquisition of Perfect (that were unpaid at the year end) and also due to the amortisation of intangible assets. The Group invested £2.8m (2016: £2.5m) in capital related expenditure (including internal development costs and costs of software for own use) and £14.3m (net, and before costs) on the acquisition of Millstream (2016: £4.4m on the acquisition of Due North) which was supported by a further term loan from HSBC Bank plc of £4.2 million.

The Group had a cash outflow of £3.1m (2016: £0.9m) from the servicing of its debt finance and paid a cash dividend of £0.6m (2016: £0.5m) to its equity investors.

Taxation

The Group has reported a small net charge in its income statement of £0.02m (2016: net credit £0.7m).

The Group has recognised certain deferred tax assets related to tax losses in its operations that were not previously recognised of £0.5m (2016: £0.3m). This deferred tax credit has largely offset the current year corporation tax charge.The Group benefitted in the prior year from a change in the tax base in the Group's foreign operations. Profit earned during the current year in those foreign operations has utilised tax losses for which a deferred tax asset had been recognised and, accordingly, a normalised charge has been recognised during the current year.

Earnings per share

There have been a number of non-recurring administrative expenses and other non-cash expenses related principally to the Group's acquisition related activities. The Group presents an adjusted earnings per share measure, as described in note 10, to take account of these factors and reports 9.0p per share (2016: 7.2p per share). Basic loss per share was 5.9p (2016: earnings per share 6.3p).

Dividend policy

Subject to approval at the General Meeting of Shareholders to be held on 18 December 2017 and subject to the Company having sufficient distributable reserves at the time, a final dividend of 1.4p (2016: 1.3p) per Ordinary share is proposed and will be paid on 22 January 2018 to shareholders on the register at 29 December 2017. The Board considers, based on its budgets and forecasts, that the level of distributable reserves at the proposed date of payment of the proposed dividend will be adequate. The corresponding ex-dividend date is 28 December 2017.

Treasury

The Group continues to manage the cash position in a manner designed to maximise interest income, while at the same time minimising any risk to these funds. Surplus cash funds are deposited with commercial banks that meet credit criteria approved by the Board, for periods between one and twelve months.

Key risks

Although the directors seek to minimise the impact of risk factors, the Group is subject to a number of risks which are as follows:

- Loss of key personnel: Loss of key management could have adverse consequences for the Group. While the Group has entered into service agreements with each of its executive directors, the retention of their services or those of other key personnel cannot be guaranteed.
- Competition: Competitors may be able to develop products and services that are more attractive to customers than the Group's products and services. In order to be successful in the future, the Group will need to continue to finance research and development activities and continue to respond promptly and effectively to the challenges of technological change in the software industry and competitors' innovations. An inability to devote sufficient resources to product development activities in order to achieve this may lead to a material adverse effect on the Group's business. The Group continues to invest substantially in the development of its technology and other solutions to enable it to meet the challenge of fast changing market demand and ever increasing levels of technological advancement and is being successful through the rate of sale of new names and number of upsell transactions with existing customers.
- Acquisitions: The Group has stated that it will acquire suitable companies which fit certain criteria, and recognises that there is a risk of operational disturbance in course of integrating acquired companies into the Group's existing operations. The Group mitigates this risk by way of due diligence and detailed planning. Acquisitions may also be made where the desired synergy benefits may fail to materialise, may take longer than anticipated or may be lower than have been or where the targets results or cash flows may not match the Group's expectations.
- International operations: The Group may be subject to a variety of risks and challenges in managing an organisation operating in various countries, including those related to:
    - challenges caused by distance, language and cultural differences;
    - human resource processes and procedures;
    - general economic conditions in each country or region
    - fluctuations in currency exchange rates
    - frequent regulatory changes in legal systems
    - political unrest, terrorism and the potential for other hostilities
    - overlapping tax regimes
    - the Group's ability to repatriate funds held by its international subsidiaries at favourable tax rates or at all; and
    - difficulties in transferring funds to or from certain countries.

  If the Board and the Proposed Director are unable to manage the foregoing international aspects of the Group's business and ensure that global processes are sufficiently well developed and robust, its operating results and overall business will be significantly and adversely affected.
- Integration risk: The integration of Perfect will require significant time and effort on the part of the Group's management. If such integration difficulties are significant, this could adversely affect the business, financial condition, results of operations or prospects of the Group. The process of integrating operations could, amongst other things, divert management's attention away from the activities of one or more of the existing operations, as well as interrupt business momentum, and could result in a loss of key personnel. Although regulatory and operational decision making will often be undertaken by each of the businesses locally, coordinating its decision making across all of the businesses in the Group will present challenges within the Group's management team. There is a risk that the challenges associated with managing the Group will distract or overstretch the management team or that the integration of the underlying businesses is delayed or takes materially longer than management anticipate and that consequently the underlying businesses will not perform in line with management or Shareholder expectations. In addition, certain members of the senior management team of Perfect will be joining the Group on Completion. These employees are largely unproven in the UK Public markets arena and there is no guarantee that they will replicate their previous successes with the Enlarged Group
- Synergy benefit realisation: The value of an investment in the Group is dependent on the Group achieving its strategic aims. The Group is targeting significant synergies from the Acquisition and the Group's financial planning and funding strategies are based in part on realising the synergies. There is a risk that synergy benefits from the Acquisition may fail to materialise, may take longer than anticipated or may be lower than have been estimated. Sales staff may not be able to achieve the cross-selling and upselling opportunities that the Board and the Proposed Director have identified. In addition, the cost of funding these synergies may exceed expectations and such eventualities may have a material adverse effect on the financial position of the Group. As a result of taking some of the action required to achieve the desired synergies, some employees of the Group may choose to leave the Group.

CFO's Report (continued)

There is no guarantee that these employees will be able to be replaced with sufficiently experienced and skilful staff.

- Privacy or data protection failures: The Group's operations are subject to a number of laws relating to privacy and data protection, including the UK's Data Protection Act 1988 and the US-EU Privacy Shield Framework as well as other relevant data protection and privacy laws and regulations. Such laws and regulations govern the Group's ability to collect and use personal information. These data protection and privacy-related laws and regulations are becoming increasingly restrictive and complex and may result in greater regulatory oversight and increased levels of enforcement and sanctions. For example, the European Union's General Data Protection Regulation will come into force on 25 May 2018 and will be a major reform of the EU legal framework on the protection of personal data. This increasingly restrictive and complex legal framework has resulted in a greater compliance burden for businesses with customers in Europe, such as the Group's, and could further increase compliance costs for the Group going forward. In addition, evolving and changing definitions of personal data and personal information within the European Union, the United States, and elsewhere, especially relating to classification of Internet Protocol ("IP") addresses, machine identification, location data, and other information, may limit or inhibit the Group's ability to operate or expand its business, including limiting strategic partnerships that may involve the sharing of data. Even the perception of privacy concerns, whether or not valid, may harm the Group's reputation and inhibit adoption of the Group's products by current and future end customers.

  The Group will rely on third party contractors and its own employees to collect personal data and to maintain its databases and therefore the Group is exposed to the risk that such data could be wrongfully appropriated, lost or disclosed, damaged or processed in breach of data protection requirements.

  If the Group is found not to comply with the data protection laws and regulations, this may result in investigative or enforcement action (including criminal proceedings and significant pecuniary penalties) by the Information Commissioner's Office in the UK or similar regulatory authorities in other jurisdictions in which the Group operates. This in turn could damage its reputation, lead to negative publicity and result in the loss of the goodwill of its existing customers and deter new customers, all of which would have a material adverse effect on the Group's business, results of operations and financial condition.

- Government policy: There may be changes in future government policy in relation to eProcurement which may have a material adverse effect on the Group's business, such as Brexit, eGov, gCloud and legislation conflicts between the various jurisdictions that the Group will operate in following Completion.

Tim Sykes
Chief Financial Officer

10 October 2017

“Underlying earnings per share grew 25% to 9.0p”

Directors' Report

The Directors present their report and the audited financial statements for the year ended 31 July 2017.

Company activity and review

The principal activity of the Group is the development and sale of business software, installation and related services.

A review of the Group's operations and future prospects is covered in the Strategic Report and the Chief Financial Officer's Report. Specifically this includes sections on strategy and markets and the Chief Financial Officer's Report considers key risks and key performance indicators.

Financial results

Details of the Group's financial results and position are set out in the Consolidated Statement of Comprehensive Income, other primary statements and in the Notes to the Financial Statements on pages 44 to 74.

The directors have reviewed the results for the years ended 31 July 2017 and 31 July 2016, including the annual report and accounts, preliminary results statement and the report from the external auditor. In reviewing the statements and determining whether they were fair, balanced and understandable, the directors considered the work and recommendations of management as well as the report from the external auditor.

Enhanced business review

The Companies Act 2006 requires that the Directors present an enhanced business review. These enhancements are provided within the Strategic Report and the Chief Financial Officer's Report.

Dividend policy

Subject to approval at the General Meeting of Shareholders to be held on 18 December 2017 and subject to the Company having sufficient distributable reserves at the time, a final dividend of 1.4p (2016: 1.3p) per Ordinary share is proposed and will be paid on 22 January 2018 to shareholders on the register at 29 December 2017. The Board considers, based on its budgets and forecasts, that the level of distributable reserves at the proposed date of payment of the proposed dividend will be adequate. The corresponding ex-dividend date is 28 December 2017.

The payment of future dividends is subject to availability of distributable reserves whilst maintaining an appropriate level of dividend cover and having regard to the need to retain sufficient funds to finance the development of the Group's activities.

Directors

The Directors who served on the Board and on Board Committees as at the date of this report are set out on page 8. Rod Jones was also a director during the year and resigned on 6 July 2017.

Hampton Wall was appointed as a Director on 4 August 2017 and, in accordance with the Articles of Association, offers himself for re- appointment.

Under the Articles of Association of the Company, one third of the Directors are subject to retirement by rotation or, if their number is not three or a multiple of three, the number nearest to but not less than one third, shall retire. Each retiring director is eligible for re-election. Each Director must retire at the third Annual General Meeting following his last appointment or re-appointment. The Directors retiring by rotation at the forthcoming Annual General Meeting are Alan Aubrey and Tim Sykes. Both of these Directors, being eligible, offers themselves for re-appointment.

In relation to the re-appointment of each of Hampton Wall, Alan Aubrey and Tim Sykes, the Board is satisfied that each of these Directors continues to be effective and to demonstrate commitment to the Company.

Information on Directors' remuneration and share option rights is given in the Directors' Remuneration Report on pages 28 to 33.

Substantial shareholders

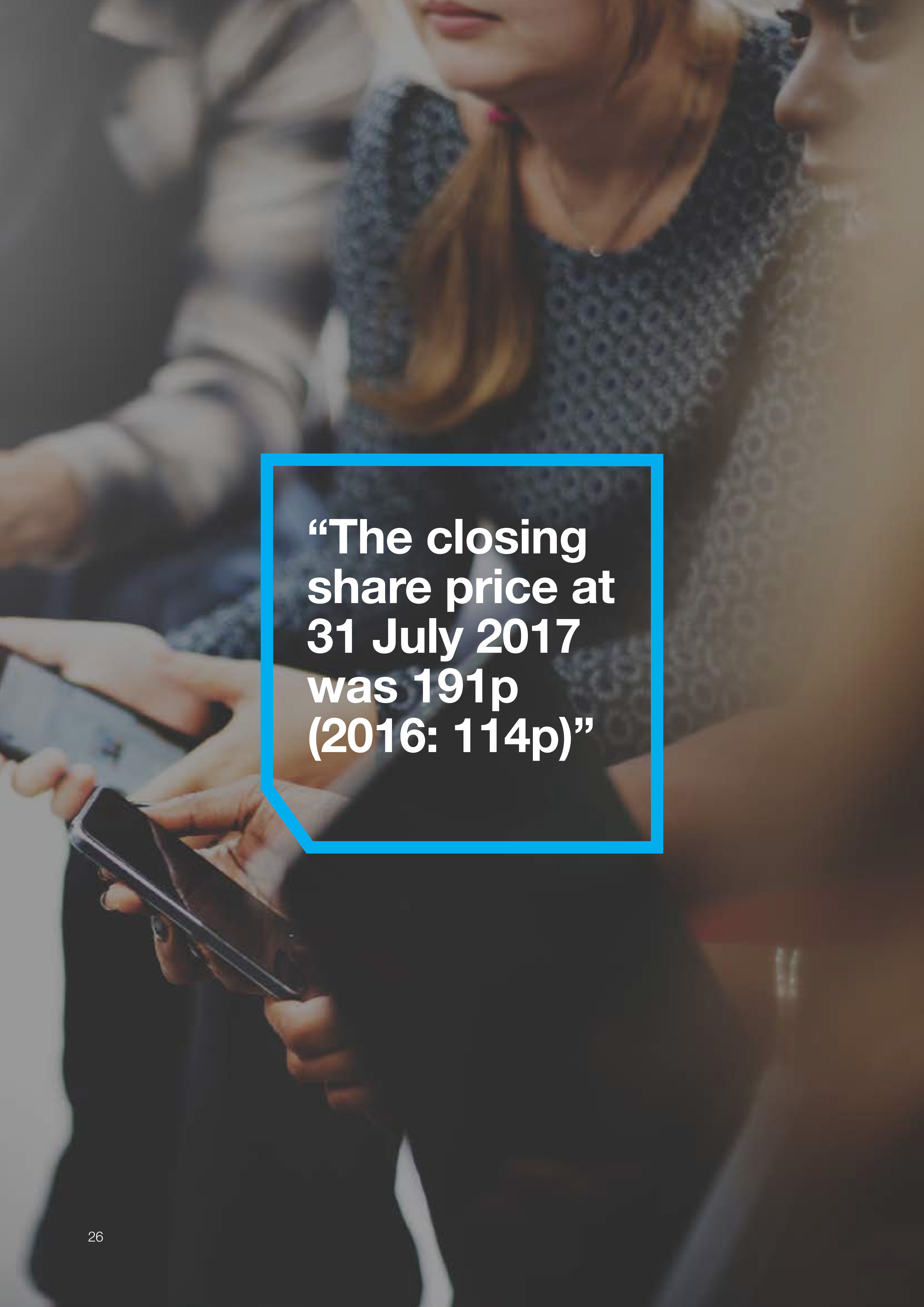
At 6 October 2017, shareholders with a beneficial holding of more than 3% of the Company's issued share capital were as follows:

	Number of shares	% of issued share capital
Rodney Potts	8,957,765	9.7%
Lombard Odier Asset Management (Europe) Limited	8,718,317	9.4%
Liontrust Investment Partners LLP	7,924,272	8.6%
Artemis Fund Managers Limited	5,766,226	6.2%
Investec Wealth & Investment Limited	4,919,719	5.3%
Miton Asset Management Limited	4,224,932	4.6%
Hargreave Hale Limited	3,717,764	4.0%
AXA Investment Managers (UK) Limited	3,635,388	3.9%
Old Mutual Global Investors Limited	2,993,611	3.2%

Directors' shareholdings

The beneficial interests of the Directors in the share capital of the Company at 31 July 2017 was as follows:

	Number of shares	% of issued share capital
Non-executive Directors		
Alan Aubrey	1,103,320	1.2%
Rodney Potts	8,957,765	9.7%
Executive Directors		
Sean McDonough	321,666	0.3%
Tim Sykes	224,235	0.2%



“The closing share price at 31 July 2017 was 191p (2016: 114p)”

Directors’ Report (continued)

None of the Directors had any interest in the share capital of any subsidiary company. Further details of options held by the Directors are set out in the Directors’ Remuneration Report on pages 28 to 33.

On 4 August 2017, Hampton Wall was appointed a Director of the Company. Hampton Wall has no interest in the share capital of the Company except that he is the beneficial holder of a convertible loan note of $3.75m which, at the rate of exchange ruling at 4 August 2017, would equate to an interest in 1,743,181 shares (1.9% of the issued share capital at that date).

At 6 October 2017, the respective holdings of the Directors had not changed from those at 31 July 2017 (or 4 August 2017 in the case of Hampton Wall).

The middle market price of the Company’s ordinary shares on 31 July 2017 was 191p and the range from 1 August 2016 to 31 July 2017 was 112p to 198p with an average price of 161p.

Research and development

The Group capitalised £2,764,000 during the year (2016: £2,075,000) on development of software products and on software for own use.

Donations

The charitable donations in the year were £5,466 (2016: £400). There were no political donations.

Post balance sheet event

On 4 August 2017, the Group acquired the entire members’ interest of Perfect Commerce LLC for an aggregate consideration of $127.5m with additional contingent consideration of $5.0m payable subject to certain performance criteria being met. The acquisition was funded by way of a combination of a placing of new ordinary shares to raise approximately £70.0m, new debt facilities provided by HSBC Bank plc and through the issue of $5.0m convertible loan notes to two key management personnel within Perfect Commerce LLC.

Employee involvement

It is the Group’s policy to involve employees in its progress, development and performance. Applications for employment by disabled persons are fully considered, bearing in mind the respective aptitudes and abilities of the applicants concerned. The Group is a committed equal opportunities employer and has engaged employees with broad backgrounds and skills. It is the policy of the Group that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who is fortunate enough not to suffer from a disability. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues.

Financial instruments

An indication of the financial risk management objectives and policies and the exposure of the group to price risk, credit risk, liquidity risk and cash flow risk is provided in Note 20 to the financial statements.

Qualifying third party indemnity

The Group has provided an indemnity for the benefit of its current Directors which is a qualifying third party indemnity provision for the purpose of the Companies Act 2006.

Supplier payment policy and practice

The Group does not operate a standard code in respect of payments to suppliers. The Group agrees terms of payment with suppliers at the start of business and then makes payments in accordance with contractual and other legal obligations.

The ratio, expressed in days, between the amount invoiced to the Group by its suppliers during the year to 31 July 2017 and the amount owed to its trade creditors at 31 July 2017, was 28 days (2016: 33 days).

Disclosure of information to auditor

The Directors who held office at the date of approval of this Directors’ report confirm that, so far as they are aware, there is no relevant audit information of which the Company’s auditor is unaware; and each Director has taken all the steps that he or she ought to have taken to make himself or herself aware of any relevant audit information and to establish that the Company’s auditor is aware of that information.

Re-appointment of auditors

A resolution for the re-appointment of KPMG LLP as auditors and the fixing of their remuneration will be put to the forthcoming Annual General Meeting to be held on 18 December 2017.

By order of the Board

Tim Sykes
Secretary

10 October 2017

Directors' Remuneration Report

General policy

The remuneration of the executive directors is determined by the Remuneration Committee ("the Committee") in accordance with the remuneration policy set by the Board upon recommendation from the Committee. The Committee, which consists solely of the non-executive directors of the Company (whose biographical details are given on page 1), determines the detailed terms of service of the executive directors, including basic salary, incentives and benefits and the terms upon which their service may be terminated. Non-executive directors have no personal financial interest in the Company, except the holding of shares or options over shares, no potential conflict of interest arising from cross directorships and no day-to-day involvement in the running of the Company. Details of shareholdings are given on page 25.

PROACTIS' remuneration policy for executive directors is designed to attract, retain and motivate executives of the highest calibre to ensure the Group is managed successfully to the benefit of shareholders. The policy is to pay base salary at median levels with a performance related bonus each year. Share ownership is encouraged and all of the executive directors are interested in the share capital or share options over the share capital of the Company. In setting remuneration levels the Committee takes into consideration remuneration within the Group and the remuneration practices in other companies of a similar size in the markets and locations in which PROACTIS operates. PROACTIS is a dynamic, growing company which operates in a specialised field and positions are benchmarked against comparable roles in AIM companies. AIM is considered to be the most appropriate market against which to benchmark executive pay given the business strategy of PROACTIS.

Executive Directors – Short term incentives

Basic salary

Basic salary is based on a number of factors including market rates together with the individual director's experience, responsibilities and performance. Individual salaries of directors are subject to review annually and the results of that review are effective from 1 October each year.

Benefits in kind

The Company provides benefits in kind comprising a car allowance, life assurance and private healthcare insurance.

Pensions

The Company makes payments into defined contribution Personal Pension Plans on behalf of the executive directors. These payments were at a rate of 5% of basic salary.

Performance related bonus

During the year, the Company operated an annual performance related bonus scheme for executive directors. The bonus scheme was discretionary dependent entirely upon the performance of the Group. On 4 August 2017, coincident with the acquisition of Perfect Commerce LLC, the Company established a Bonus Plan (the "Bonus Plan") and a Long-Term Incentive Plan (the "LTIP") under which the directors and employees of the Group may be granted rights to receive a bonus; a proportion of that bonus being satisfied through the issue of shares ("Bonus Awards"), or under the LTIP, a right to receive shares ("LTIP Awards"). The Bonus Plan and the LTIP are administered by the remuneration Committee).

The Bonus Plan and LTIP have features, as follows:

	Bonus Plans	LTIP
Eligibility	The Bonus Plan and LTIP are open to any employee or director of the Group regardless of the amount of time such employee or director devotes to the Group.	
Material interest	There are no restrictions on a person participating if he has an existing interest in Shares.	
Individual participation limits	There are no individual limits on any one participant in the Bonus Plan or LTIP. No Bonus Award or LTIP will be granted under the Bonus Plan or LTIP on any date if, as a result, the total number of shares issued or issuable pursuant to awards or options granted in the previous ten years under all share option schemes of the Company would exceed 10 per cent. of the shares in issue at that date.	
Award price	A participant under a Bonus Award or an LTIP Award will ordinarily be required to pay a nominal value per share.	
Lapse of awards	A Bonus Award and LTIP lapse if the participant leaves employment or the Bonus Award or LTIP fail to vest in accordance with the performance targets.	
Performance targets	The Remuneration Committee may impose conditions as to the performance of the Group which must normally be satisfied before Bonus Awards can vest. It is expected that any Bonus Awards to be granted following Admission will include a performance target linked to a combination of Share price performance and EBITDA. Having made Bonus Awards and set a performance target, the Remuneration Committee may vary the performance conditions provided that the Remuneration Committee reasonably considers that an event has occurred which means that it is appropriate to make the amendment and the altered performance condition is not materially less difficult to satisfy.	The Remuneration Committee are able to impose conditions as to the performance of the Group which must normally be satisfied before LTIP Awards can vest. It is expected that any LTIP Awards to be granted will include a performance condition linked to compound growth in the value of the shares measured over a period of three years. Having made LTIP Awards and set a performance target, the Remuneration Committee may vary the performance conditions provided that the Remuneration Committee reasonably considers that an event has occurred which means that it is appropriate to make the amendment and the altered performance condition is not materially less difficult to satisfy.
Income tax and national insurance contributions	The Bonus Plan and LTIP contain provisions that ensure that any income tax and employee's national insurance contributions that arise as a result of any Bonus Award or LTIP will be payable by the participant.	
Shares issued	Shares awarded under the Bonus Plan will rank pari passu with the Company's existing issued shares (save that they will not qualify for any dividends or other distributions by reference to a record date prior to the vesting of shares pursuant to a Bonus Award). Shares issued pursuant to a Bonus Award must be held by the participant for a minimum period of two years.	Shares awarded under the LTIP will rank pari passu with the Company's existing issued shares (save that they will not qualify for any dividends or other distributions by reference to a record date prior to the date of vesting of shares pursuant to an LTIP Award).

Directors' Remuneration Report (continued)

The Bonus Plan and LTIP have features, as follows: (Continued)

	Bonus Plans	LTIP
Takeovers	In the event of a takeover, any unvested Bonus Awards or LTIP Aards shall vest (but only to the extent determined by the Remuneration Committee) unless: (i) where the performance period related to the Bonus Awards or LYIP Awards have not yet expired, the Remuneration Committee exercises its discretion to determine that any participant is not a good leaver, Bonus Awards or LTIP Awards held by any such participant shall lapse as a result of a takeover; or (ii) the Remuneration Committee agrees with the acquiring company that a Bonus Award or LTIP Award should be replaced with an equivalent award over shares in the acquiring company.	
Variation of share capital	In the event of a variation of share capital or a demerger, rights issue or other similar event, then the number of shares subject to a subsisting Bonus Award or LTIP Award may be adjusted.	
Pension rights	None of the benefits which may be received under the Bonus Plan or LTIP shall be pensionable.	
Awards in respect of future periods	Bonus Awards have been granted based on a maximum of 125 per cent. of annual salary to the Proposed Chief Executive Officer and 100 per cent. of annual salary to the Chief Operating Officer and Chief Financial Officer. These Bonus Awards will be satisfied 50 per cent. in cash form and the remaining 50 per cent. in the form of shares. The Bonus Awards are subject to performance targets based on share price performance and EBITDA.	LTIP Awards have been granted based on a maximum value of 125 per cent. of annual salary to the Proposed Chief Executive Officer and 100 per cent. of annual salary to the Chief Operating Officer and Chief Financial Officer. These LTIP Awards are subject to performance targets linked to share price performance and measured over a three year performance period.

Executive Directors' service agreements

The Board's policy on setting notice periods for directors is that these should not exceed one year. All directors have service agreements for a fixed period of one year terminable on twelve months' notice.

The details of the service contracts of the executive directors are shown below.

	Date of service contract	Initial term of contract	Notice period following initial term
Hampton Wall	4 August 2017	None	1 year
Sean McDonough	26 May 2006	1 year	1 year
Tim Sykes	10 December 2015	None	1 year

Non-executive directors

The Board determines the fees paid to non-executive directors, the aggregate limit for which is laid down in the Articles of Association. The fees, which are reviewed annually, are set in line with prevailing market conditions and at a level which will attract individuals with the necessary experience and ability to make a significant contribution to the Group's affairs. Non-executive directors are not involved in any discussion or decision about their own remuneration. The same applies to the Chairman of the Board whose remuneration is determined by the Board on the recommendation of the Committee.

The non-executive directors do not participate in any of the Company's pension schemes or bonus arrangements nor do they have service agreements. They were all appointed for an initial term of one year by letter of appointment dated 26 May 2006 and are entitled to three months' notice following that initial term.

External appointments

The Committee recognises that its Directors may be invited to become executive or non-executive directors of other companies or to become involved in charitable or public service organisations. As the Committee believes that this can broaden the knowledge and experience of the Company's Directors to the benefit of the Group, it is the Company's policy to approve such appointments provided there is no conflict of interest and the commitment required is not excessive. The Director concerned can retain the fees relating to any such appointment.

Total remuneration (audited information)

The remuneration of each of the directors of the Company for the year ended 31 July 2017 is set out below. These values are included within the audited accounts.

	Basic salary £000	Fees received by 3rd parties for services £000	Performance related bonus £000	Pension £000	Severance £000	Benefits in kind £000	**Total 2017 £000**	Total 2016 £000
Alan Aubrey	30	-	-	-	-	-	**30**	30
Rodney Potts	-	30	-	-	-	-	**30**	30
Rod Jones	172	-	341	-	110	10	**633**	250
Sean McDonough	150	-	70	8	-	10	**238**	214
Tim Sykes	150	-	70	8	-	9	**237**	208
	502	30	481	16	110	29	**1,168**	732

Directors' Remuneration Report (continued)

Details of directors' interests in share options in the Executive Share Option Schemes

	At 31 July 2016	Granted	Exercised	Lapsed	At 31 July 2017	Exercise price pence	Market price at date of exercise pence	Date from which exercisable	Expiry date
Non – executive Directors									
Alan Aubrey	-	-	-	-	-	-	-	-	-
Rodney Potts	-	-	-	-	-	-	-	-	-
Executive Directors									
Rod Jones[1]	175,000	-	(175,000)	-	-	18.75p	-	-	Note 2
	635,960	-	(635,960)	-	-	36.50p	-	-	Note 3
	210,000	-	(210,000)	-	-	114.50p	-	-	Note 4
Sean McDonough	300,000	-	-	-	300,000	18.75p	-	-	Note 2
	635,960	-	-	-	635,960	36.50p	-	-	Note 3
	210,000	-	-	-	210,000	114.50p	-	-	Note 4
Tim Sykes	75,000	-	-	-	75,000	18.75p	-	-	Note 2
	635,960	-	-	-	635,960	36.50p	-	-	Note 3
	210,000	-	-	-	210,000	114.50p	-	-	Note 4

Note 1 – This Director resigned on 6 July 2017.

Note 2 – Each of these options were granted on 29 September 2008 and vested as to one third on each anniversary of the date of grant of the option for each of the three years following the date of grant of the option, conditional upon the share price performance of the Company being better than the AIM all share index. Each option must be exercised by 28 September 2018.

Note 3 – Each of these options were granted on 14 January 2014 and vest as to one third on the occurrence of each of the following events:

- First tranche: the average closing mid-market share price of the Company being 60p;
- Second tranche: the average closing mid-market share price of the Company being 75p; and
- Third tranche: the average closing mid-market share price of the Company being 90p.

In the case of Tim Sykes, the third tranche has a second condition related to the proportion of his time spent providing services to the Company.

Note 4 – Each of these options were granted on 12 February 2016 and vest as to one third on each anniversary of the date of grant of the option for each of the three years following the date of grant of the option. Each option must be exercised by 12 February 2026. At the Board's discretion, the vesting criteria relating to the options granted to Rod Jones were waived unconditionally.

The aggregate gain made by current directors on the exercise of share options was £1,216,458 (2016: £Nil).

Performance graph

The following graph shows the Company's share price (rebased) compared with the performance of the FTSE AIM all share (rebased) for the year to 31 July 2017.

PROACTIS Holdings PLC vs. Peers

The Committee has selected the above index because it is most relevant for a company of PROACTIS' size and sector.

On behalf of the Board

Rodney Potts
Chair of the Remuneration Committee

10 October 2017

Corporate Governance

Code on Corporate Governance

Whilst the Company is listed on AIM, it is not required to adopt the provisions of the 2014 UK Corporate Governance Code published by the Financial Reporting Council ("the Combined Code"). However, the Board is committed to the maintenance of high standards of corporate governance and after due consideration it has adopted many aspects of the Combined Code as described below.

The Board of Directors and Committees of the Board of Directors

The Board, which is headed by the Chairman who is non-executive, comprises one other non-executive and three executive members as at 31 July 2017. The Board met regularly throughout the year with ad hoc meetings being held also. The role of the Board is to provide leadership of the Company and to set strategic aims but within a framework of prudent and effective controls which enable risk to be managed. The Board has agreed the Schedule of Matters reserved for its decision which includes ensuring that the necessary financial and human resources are in place to meet its obligations to its shareholders and others. It also approves acquisitions and disposals of businesses, major capital expenditure, the annual financial budgets and recommends interim and final dividends. It receives recommendations from the Audit Committee in relation to the appointment of auditors, their remuneration and the policy relating to non-audit services. The Board agrees the framework for executive directors' remuneration with the Remuneration Committee and determines fees paid to non-executive directors. Board papers are circulated before Board meetings in sufficient time to be meaningful.

The division of responsibilities between the Chairman and the Chief Executive Officer is clearly defined. The Chairman's primary responsibility is ensuring the effectiveness of the Board and setting its agenda. The Chairman has no involvement in the day-to-day business of the Group. The Chief Executive Officer has direct charge of the Group on a day-to-day basis and is accountable to the Board for the financial and operational performance of the Group.

The performance of the Board is evaluated on an ongoing basis with reference to all aspects of its operation including, but not limited to: the appropriateness of its skill level; the way its meetings are conducted and administered (including the content of those meetings); the effectiveness of the various Committees; whether Corporate Governance issues are handled in a satisfactory manner; and, whether there is a clear strategy and objectives.

A new director, on appointment, is briefed on the activities of the Company. Professional induction training is also given as appropriate. The Chairman briefs non-executive directors on issues arising at Board meetings if required and non-executive directors have access to the Chairman at any time. Ongoing training is provided as needed. Directors are continually updated on the Group's business and on issues covering insurance, pensions, social, ethical, environmental and health and safety by means of Board presentations.

In the furtherance of his duties or in relation to acts carried out by the Board or the Company, each director has been informed that he is entitled to seek independent professional advice at the expense of the Company. The Company maintains appropriate cover under a Directors and Officers insurance policy if legal action is taken against any director. The non-executive directors are considered by the Board to be free to exercise independence of judgement. They have never been employees of the Company nor do they participate in any of the Company's pension schemes or bonus arrangements. They receive no other remuneration from the Company other than their fees.

It is recognised that the Combined Code does not treat the Chairman as independent due to his shareholding and it is considered best practice that he should not sit on the Audit or Remuneration Committees. However the Board takes the view that as the number of non-executive directors is only two, including the Chairman, and as the Chairman does not chair

	Board Meetings		Committee Meetings Audit		Remuneration		Nomination	
	Possible	Attended	Possible	Attended	Possible	Attended	Possible	Attended
Non – executive Directors								
Alan Aubrey	9	9	1	1	2	2	1	1
Rodney Potts	9	8	1	1	2	2	1	1
Executive Directors								
Rod Jones	5	5	-	-	-	-	-	-
Hamp Wall	2	2						
Sean McDonough	9	9	-	-	-	-	-	-
Tim Sykes	9	9	-	-	-	-	-	-

either of those Committees, his participation will continue as each of the Committees gain the benefit of his external expertise and experience in areas which the Company considers important.

The table above shows the number of Board, Audit Committee and Remuneration Committee meetings held during the year from the date of the approval of the last set of financial statements to the date of approval of these financial statements and the attendance of each director.

The Audit Committee

The Audit Committee ("the Committee") is established by and is responsible to the Board. It has written terms of reference. Its main responsibilities are:

- to monitor and be satisfied with the truth and fairness of the Company's financial statements before submission to the Board for approval, ensuring their compliance with the appropriate accounting standards and the law;
- to monitor and review the effectiveness of the Company's system of internal control;
- to make recommendations to the Board in relation to the appointment of the external auditors and their remuneration, following appointment by the shareholders in general meeting, and to review and be satisfied with the auditors' independence, objectivity and effectiveness on an ongoing basis; and
- to implement the policy relating to any non-audit services performed by the external auditors.

Alan Aubrey is the Chair of the Committee. The other member of the Committee is Rodney Potts who is a non-executive director, having gained wide experience in regulatory and risk issues.

The Committee is authorised by the Board to seek and obtain any information it requires from any officer or employee of the Company and to obtain external legal or other independent professional advice as is deemed necessary by it.

Meetings of the Committee are held normally once a year to coincide with the external audit and observations arising from their work in relation to internal control and to review the financial statements. The external auditors meet with the Audit Committee with management being present at least once a year. The Committee carries out a full review of the year-end financial statements and of the audit, using as a basis the Report to the Audit Committee prepared by the external auditors and taking into account any significant accounting policies, any changes to them and any significant estimates or judgments. Questions are asked of management of any significant or unusual transactions where the accounting treatment could be open to different interpretations.

The Committee receives reports from management on any shortfall in the system of internal controls as and when such matters are identified. It also receives from the external auditors a report of matters arising during the course of the audit which the auditors deem to be of significance for the Committee's attention. The statement on internal controls and the management of risk, which is included in the annual report, is approved by the Committee.

The 1998 Public Interest Disclosure Act ("the Act") aims to promote greater openness in the workplace and ensures "whistle blowers" are protected. The Company maintains a policy in accordance with the Act which allows employees to raise concerns on a confidential basis if they have reasonable grounds in believing that there is serious malpractice within the Company. The policy is designed to deal with concerns, which must be raised without malice and in good faith, in relation to specific issues which are in the public interest and which fall outside the scope of other Company policies and procedures. There is a specific complaints procedure laid down and action will be taken in those cases where the complaint is shown to be justified. The individual making the disclosure will be informed of what action is to be taken and a formal written record will be kept of each stage of the procedure.

The external auditors are required to give the Committee information about policies and processes for maintaining their independence and compliance regarding the rotation of audit partners and staff. The Committee considers all relationships between the external auditors and the Company to ensure that they do not compromise the auditors' judgement or independence particularly with the provision of non-audit services.

Corporate Governance
(continued)

The Remuneration Committee

The Remuneration Committee, which is chaired by Rodney Potts, also comprises Alan Aubrey, the non-executive Chairman, and meets when required, but meets at least once a year with the Chief Executive Officer in attendance as appropriate. It has written terms of reference. The Committee agrees the framework for executive directors' remuneration with the Board.

The Nomination Committee

The Nomination Committee, which is formed at the Board's discretion, is required to ensure that the balance of Directors on the Board remains appropriate as the Group develops to ensure that the business can compete effectively in the marketplace and to identify and nominate candidates to fill Board vacancies as and when they arise. In doing so, it is required to evaluate the balance of skills, knowledge and experience and diversity of the Board to ensure an optimum mix whilst considering succession planning for Directors and senior managers to ensure that there is a pipeline high calibre candidates and that succession is managed smoothly. The Nomination Committee was formed twice during the year, was chaired by Alan Aubrey and also comprised Rodney Potts, to recommend Tim Sykes as the Chief Executive Officer of the Group as a result of the intended retirement of Rod Jones and, latterly, to recommend that Hamp Wall take the role of Chief Executive Officer and Tim Sykes take the role of Chief Financial Officer of the Group following the acquisition of Perfect.

Re-election

Directors are subject to election at the Annual General Meeting following their appointment and are subject to re-election at least every three years.

Shareholder communications

The Chairman, Chief Executive Officer and the Chief Financial Officer regularly meet with institutional shareholders to foster a mutual understanding of objectives.

The directors encourage the participation of all shareholders, including private investors, at the Annual General Meeting and as a matter of policy the level of proxy votes (for, against and vote withheld) lodged on each resolution is declared at the meeting.

The Financial Statements are published on the company's website, www.proactis.com, and can be accessed by shareholders.

Internal controls

The Board is responsible for the Group's system of internal controls and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Group highlights potential financial and non-financial risks which may impact on the business as part of the monthly management reporting procedures. The Board receives these monthly management reports and monitors the position at Board meetings.

The Board confirms that there are ongoing processes for identifying, evaluating and mitigating the significant risks faced by the Group and that these processes are consistent with the guidance for directors on internal control issued by the Turnbull Committee.

The Group's internal financial control and monitoring procedures include:

→ clear responsibility on the part of line and financial management for the maintenance of good financial controls and the production of accurate and timely financial management information;

→ the control of key financial risks through appropriate authorisation levels and segregation of accounting duties;

→ detailed monthly budgeting and reporting of trading results, balance sheets and cash flows, with regular review by management of variances from budget;

→ reporting on any non-compliance with internal financial controls and procedures; and

→ review of reports issued by the external auditors.

The Audit Committee on behalf of the Board reviews reports from the external auditors together with management's response regarding proposed actions. In this manner they have reviewed the effectiveness of the system of internal controls for the period covered by the accounts.

“The directors encourage participation from all shareholders”

Statement of Directors' Responsibilities

in respect of the strategic report, the directors' report and the financial statements

The directors are responsible for preparing the Strategic Report, the Directors' Report and the group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice),including FRS 101 Reduced Disclosure Framework.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- for the group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities. Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditor's report

to the members of PROACTIS Holdings Plc.

1 Our opinion is unmodified

We have audited the financial statements of Proactis Holdings Plc ("the Company") for the year ended 31 July 2017 which comprise the Consolidated Statement of Comprehensive Income, Consolidated and Company Balance Sheets, Consolidated and Company Statements of Changes in Equity, Consolidated and Company Cashflow Statements and the related notes, including the accounting policies in note 1.

In our opinion:

- → the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 July 2017 and of the Group's loss for the year then ended;
- → the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- → the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- → the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

2 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows:

Acquisition accounting	Subjective valuation	Our procedures included:
£4.554 million of separately identifiable intangible assets. Refer to page 49 (accounting policy) and page 58 (financial disclosures).	The Group acquired Millstream Associates Limited during the year which was a material acquisition to the Group. The determination of separately identifiable intangible assets arising on business combinations is inherently judgemental and valuation of these assets is complex and sensitive to underlying assumptions around future cash flows and discount rates.	→ **Our experience:** assessing the appropriateness of the separate intangible assets identified by applying our professional experience to the information obtained from our inspection of purchase agreements and inquiries. → **Evaluating assumptions:** assessing, with regard to our experience gained from challenging previous business combinations of similar intangibles where we were assisted by our valuation specialist, the Group's valuation analysis which was the basis for the determination of the fair value of intangible assets. We critically challenged the key assumptions, and in particular evaluated the reasonableness of inflationary growth rates, customer attrition rates and discount rates. In performing this assessment we had regard to the performance of the existing business, and to market rates of inflation. → **Tests of detail:** agreeing a sample of the development costs to employee pay records. → **Assessing transparency:** considering the adequacy of the Group's disclosures in respect of determining the fair value of the intangibles acquired.

Capitalisation of development costs	Subjective estimate	Our procedures included:
£2.684 million; 2016: £1.465 million Refer to page 49 (accounting policy) and page 58 (financial disclosures).	The group conducts a significant level of development activity. Project development costs are capitalised if they meet the criteria of relevant accounting standards, which require, among other things, an identification of directly attributable costs to capitalise on development. Determining the proportion of personnel time attributable to the qualifying projects has historically been inherently judgemental as development personnel are often deployed across multiple projects. The risk has decreased compared to prior year as the developers now spend all their time on development activities.	→ **Tests of detail:** testing a sample of employee pay records to confirm the salary amounts on the capitalisation schedule have been recorded accurately and corroborating the employee job role. → **Personnel interviews:** Interviewing development managers to understand the changes made to the operation of the development personnel including identifying that the majority of developers now spend all of their time on development projects rather than on a mix of development and non-development activities. Corroborating judgements made by management regarding the proportion of time, incurred on specified qualifying development projects, by interviewing development team managers and developers. → **Assessing transparency:** considering the adequacy of the Group's disclosures in respect of the capitalisation of development costs.

Recoverability of carrying value of investment and intercompany receivables in subsidiaries (parent company only)	Low risk, high value	Our procedures included:
£38.085 million; 2016: £17.284 million Refer to page 71 (accounting policy) and page 72-73 (financial disclosures).	The carrying amount of Investments in the Company balance sheet is £30.2m, with a further £7.9m owing from subsidiaries. The carrying amount of the company's investments, held at cost less impairment, represents 73% of the company's total assets. We do not consider the recoverable amount of these investments and receivables to be at a high risk of significant misstatement, or to be subject to a significant level of judgement. However, due to their materiality in the context of the company financial statements as a whole, this is considered to be the area which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our company audit.	→ **Tests of detail:** Comparing the carrying amount of the highest value investments in subsidiaries with the respective net asset values to identify whether the net asset values of the subsidiaries, being a prudent approximation of their minimum recoverable amount, were in excess of their carrying amount. → **Tests of detail:** Assessing the liquidity of the net assets of the subsidiaries and therefore the ability to recover the receivable if called, through inspection of the subsidiaries' latest available audited accounts and consideration of the work performed by the group audit team in respect of current year results. → **Tests of detail:** Where the carrying amount of the investment exceeded the net asset value, further evaluation of the forecasts specific to that entity was performed (including the assessment of the revenue growth rates and discount rates) to identify whether the value in use of the investment was greater than its carrying amount.

3 Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £193,000 (2016: £95,000), determined with reference to a benchmark of Group profit before taxation adjusted to add back certain non-recurring costs, of which it represents 5% (2016:5%).

Materiality for the parent company financial statements as a whole was set at £130,500 (2016: £86,000), determined with reference to a benchmark of company total assets, of which it represents 0.3% (2016: 0.5%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £9,650 (2016: £4,800), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the group's 15 (2016: 14) reporting components, we subjected 11 (2016: 10) to full scope audits for group purposes. These audits covered 94% (2016: 93%) of total Group revenue, 100% (2016: 100%) of Group loss before taxation, and 93% (2016: 89%) of total Group assets. Component materiality levels were set individually for all components having regard to the mix of size and risk profile of the Group across the components, and ranged from £1,000 to £130,500 (2016: £8,000 to £90,000).

The work on one of the eleven components (2016: one of the ten components) was performed by component auditors and the rest by the Group team.

For the residual components, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement.

The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back.

4 We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

5 We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

→ we have not identified material misstatements in the strategic report and the directors' report;

→ in our opinion the information given in those reports for the financial year is consistent with the financial statements; and

- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

6 We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

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

We have nothing to report in these respects.

7 Respective responsibilities

Under the Companies Act 2006, we are required to report to you if, in our opinion:

Directors' responsibilities
As explained more fully in their statement set out on page 39, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

8 The purpose of our audit work and to whom we owe our responsibilities

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

Johnathan Pass

Senior Statutory Auditor
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA

10 October 2017

Consolidated Statement of Comprehensive Income

for the year ended 31 July 2017

	Notes	**2017 £000**	2016 £000
Revenue		**25,404**	19,374
Cost of sales		**(3,545)**	(3,401)
Staff costs	3	**(10,960)**	(8,877)
Other operating expenses		**(9,969)**	(2,495)
Depreciation of property, plant and equipment	11	**(216)**	(224)
Amortisation of intangible assets	12	**(3,322)**	(2,495)
Operating profit before non-recurring administrative expenses, amortisation of customer related intangibles and share based payment charges		**5,249**	3,227
Non-recurring administrative expenses	5	**(6,796)**	(579)
Amortisation of customer related intangible assets	12	**(936)**	(648)
Share based payment charges	4	**(125)**	(118)
Operating (loss)/profit	6	**(2,608)**	1,882
Finance income	7	**2**	6
Finance expenses	8	**(142)**	(87)
(Loss)/profit before taxation		**(2,748)**	1,801
Income tax (charge)/credit	9	**(23)**	684
(Loss)/profit for the year		**(2,771)**	2,485
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Share based payment charges		**125**	118
Deferred tax on share options		**240**	-
Items that are or may be reclassified to profit or loss			
Foreign operations – foreign currency translation differences		**(91)**	(792)
Other comprehensive gain/(loss) net of tax		**274**	(674)
Total comprehensive (loss)/income		**(2,497)**	1,811
(Loss)/earnings per ordinary share:			
- Basic	10	**(5.9p)**	6.3p
- Diluted	10	**(5.7p)**	5.9p

All of the Group's operations are continuing.

The following notes form an integral part of these financial statements.

Consolidated Balance Sheet

as at 31 July 2017

	Notes	2017 £000	*Represented 2016 £000
Non-current assets			
Property, plant & equipment	11	**381**	391
Intangible assets	12	**38,628**	21,613
Deferred tax asset	17	**500**	500
		39,509	22,504
Current assets			
Trade and other receivables	13	**5,880**	5,276
Cash and cash equivalents	14	**4,277**	3,595
		10,157	8,871
Total assets		**49,666**	31,375
Current liabilities			
Trade and other payables	15	**8,104**	2,769
Obligations under finance leases		**14**	-
Deferred income	16	**10,880**	9,008
Income taxes		**555**	270
Borrowings	20	**1,400**	1,393
		20,953	13,440
Non-current liabilities			
Deferred income	16	**577**	488
Deferred tax liabilities	17	**1,778**	1,819
Borrowings	20	**3,760**	2,656
Obligations under finance leases		**54**	-
		6,169	**4,963**
Total liabilities		**27,122**	**18,403**
Net assets		**22,544**	**12,972**
Equity attributable to equity holders of the Company			
Called up share capital	18	**5,024**	3,983
Share premium account	19	**17,631**	5,962
Merger reserve	19	**556**	556
Capital reserve	19	**449**	449
Foreign exchange reserve	19	**(1,164)**	(1,073)
Retained earnings		**48**	3,095
Total equity		**22,544**	12,972

*The prepayments and deferred income balances have been represented in respect of deferred income which was previously shown net of certain prepaid expenses.

The following notes form an integral part of these financial statements. The financial statements on pages 44 to 74 were approved by the Board of Directors on 10 October 2017 and signed on its behalf by:

George Hampton Wall
Chief Executive Officer

Tim Sykes
Chief Financial Officer

Consolidated Statement of Changes in Equity

	Share Capital £000	Share premium £000	Merger reserve £000	Capital reserve £000	Foreign exchange reserve £000	Retained earnings £000	Total £000
At 31 July 2015	3,941	5,840	556	449	(281)	967	11,472
Shares issued during the period	42	122	-	-	-	-	164
Dividend payment of 1.2p per share	-	-	-	-	-	(475)	(475)
Arising during the period	-	-	-	-	(792)	-	(792)
Result for the period	-	-	-	-	-	2,485	2,485
Share based payment charges	-	-	-	-	-	118	118
At 31 July 2016	3,983	5,962	556	449	(1,073)	3,095	12,972
Shares issued during the period	1,041	11,669	-	-	-	(3)	12,707
Dividend payment of 1.3p per share	-	-	-	-	-	(638)	(638)
Arising during the period	-	-	-	-	(91)	-	(91)
Result for the period	-	-	-	-	-	(2,771)	(2,771)
Share based payment charges	-	-	-	-	-	125	125
Deferred tax on share options						240	240
At 31 July 2017	**5,024**	**17,631**	**556**	**449**	**(1,164)**	**48**	**22,544**

Details of the nature of each component of equity are given in Note 19.

The following notes form an integral part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 July 2017

	Notes	2017 £000	2016 £000
Operating activities			
(Loss)/profit for the year		**(2,771)**	2,485
Amortisation of intangible assets		**3,322**	2,497
Depreciation		**216**	224
Net finance expense		**140**	81
Forward contract provision		1,832	-
Income tax charge/(credit)		**23**	(684)
Share based payment charges		**125**	118
Operating cash flow before changes in working capital		**2,887**	4,719
Movement in trade and other receivables		**148**	(530)
Movement in trade and other payables and deferred income		**2,513**	1,229
Operating cash flow from operations		**5,548**	5,416
Finance income		**2**	6
Finance expense		**(142)**	(87)
Income tax (paid)/received		**(743)**	(145)
Net cash flow from operating activities		**4,665**	5,190
Investing activities			
Purchase of plant and equipment		**(82)**	(169)
Purchase of intangible assets		-	(304)
Payments to acquire subsidiary undertakings	25	**(14,327)**	(4,370)
Development expenditure capitalised		**(2,765)**	(2,075)
Net cash flow from investing activities		**(17,174)**	(6,918)
Financing activities			
Payment of dividend		**(638)**	(475)
Proceeds from issue of shares		**12,707**	164
Receipts from bank borrowings		**4,200**	3,000
Repayment of bank borrowings		**(3,089)**	(864)
Finance lease payments		**(1)**	-
Net cash flow from financing activities		**13,179**	1,825
Effect of exchange rate movements on cash and cash equivalents		**12**	72
Net increase in cash and cash equivalents		**670**	99
Cash and cash equivalents at the beginning of the year		**3,595**	3,424
Cash and cash equivalents at the end of the year	14	**4,227**	3,595

Notes to the Consolidated Financial Statements

1 Accounting policies

Significant accounting policies

PROACTIS Holdings PLC (the 'Company') is a public company incorporated and domiciled in the United Kingdom, with subsidiary undertakings in the United States and Australia. The address of its registered office is Riverview Court, Castle Gate, Wetherby, LS22 6LE.

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group"). The Company financial statements present information about the Company as a separate entity and not about its Group.

The Group is principally engaged in the development and sale of business software, installation and related services.

The following paragraphs summarise the significant accounting policies of the Group, which have been applied consistently in dealing with items which are considered material in relation to the Group's consolidated financial statements.

Basis of preparation

The Group consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union, IFRIC interpretations and the Companies Act 2006 as applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention.

The Company has elected to prepare its Company financial statements in accordance with FRS 101 "Reduced Disclosure Framework" ("FRS 101").

The financial statements are presented in pounds sterling, which is the functional currency of the parent company and the presentational currency of the Group, and in round thousands.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. 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.

Judgements made by management in the application of IFRSs that have a significant effect on the Group financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 23.

After careful enquiry and review of available financial information, including projections of profitability and cash flows, the Directors believe that the Group has adequate resources to continue to operate for the foreseeable future and that it is therefore appropriate to continue to adopt the going concern basis of accounting in the preparation of the consolidated and Company financial statements.

New standards, amendments to standards or interpretations

The following Adopted IFRSs have been issued but have not been applied by the Group in these financial statements.

Standards in effect in 2016

- → Amendments to IFRS 11 - Accounting for Acquisitions of Interests in Joint Operations.
- → Amendments to IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortisation.
- → Amendments to IAS 16 and IAS 41 - Agriculture: Bearer Plants.
- → Amendments to IAS 27 - Equity Method in Separate Financial Statements.
- → Annual Improvements to IFRSs – 2012-2014 Cycle.
- → Amendments to IFRS 10, IFRS 12 and IAS 28 - Investment entities: Applying the Consolidation Exception.
- → Disclosure Initiative – Amendments to IAS 1.

None of these had a material impact on these financial statements.

No new standards becoming effective and applied in the current year have had a material impact on the financial statements.

IFRS in issue but not applied in the current financial statements

The following IFRS and IFRIC Interpretations have been issued but have not been applied by the Company in preparing these financial statements as they are not as yet effective. The Company intends to adopt these Standards and Interpretations when they become effective, rather than adopt them early.

- → IFRS 9 Financial Instruments (effective date 1 January 2018).
- → IFRS 15 Revenue from Contract with Customers (effective date 1 January 2018).
- → IFRS 16 Leases (effective date to be confirmed).
- → Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses (effective date to be confirmed).

- Amendments to IAS 7: Disclosure Initiative (effective date to be confirmed).
- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (effective date to be confirmed).
- Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective date to be confirmed).

It is expected that IFRS 9 will impact both the measurement and disclosure of financial instruments. IFRS 16 will impact the classification of operating leases. Beyond this, it is not practicable to provide a reasonable estimate of the effect of IFRS 9, and IFRS 16 until a detailed review has been completed.

IFRS 15 will have an impact on revenue recognition and related disclosures. At this point in time the Company is still working through an impact assessment. An estimated impact of this standard has not yet been finalised.

A number of IFRS and IFRIC interpretations are also currently in issue which are not relevant for the Company's activities and which have not therefore been adopted in preparing these financial statements.

The Group continues to monitor the potential impact of other new standards and interpretations which may be endorsed by the European Union and require adoption by the Group in future reporting periods.

The following principal accounting policies have been applied consistently to all periods presented in these Group financial statements.

Basis of consolidation

Subsidiaries are entities controlled by the Company. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and its ability to affect those returns through its power to direct the activities of the entity.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

All intra-group balances and transactions, including unrealised profits arising from intra-group transactions, are eliminated fully on consolidation.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains and losses on translation are recognised in the statement of comprehensive income.

The assets and liabilities of foreign operations are translated to the Group's presentational currency (Sterling), at foreign exchange rates ruling at the balance sheet date. Exchange differences arising from this translation of foreign operations are reported as an item of other comprehensive income and accumulated in the foreign exchange reserve.

Property, plant and equipment

Property, plant and equipment are held at cost less accumulated depreciation and impairment charges.

Depreciation is provided at the following annual rates in order to write off the cost less estimated residual value of property, plant and equipment over their estimated useful lives as follows:

Computer equipment	– 10 to 50%
Office fixtures and fittings	– 10 to 25%

Intangible assets – Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

Acquired intangible assets – business combinations

Intangible assets that are acquired as a result of a business combination but that can be separately measured at fair value on a reliable basis are separately recognised on acquisition at their fair value. Amortisation is charged on a straight-line basis to the consolidated statement of comprehensive income over their expected useful economic lives. For the Groups' intangible assets this has been assessed to be between 3 and 25 years (2016: between 3 and 25 years) depending on the individual asset.

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment and whenever events or circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are tested for impairment when events or a change in circumstances indicate that the carrying amount may not be recoverable.

Research and development

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

An intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, the Group can demonstrate all of the following:

- 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;
- how the intangible asset will generate probable future

Notes to the Consolidated Financial Statements (continued)

economic benefits. Among other things, the Group 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;

- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Internally generated intangible assets are amortised over their useful economic life, over a period not exceeding five years (2015: five years). Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Impairment

The carrying amount of the Group's non-financial assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the consolidated statement of comprehensive income.

An impairment loss is recognised for the amount by which the carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and the value in use. For the purposes of assessing impairments, assets are grouped at the lowest levels for which there are identifiable cash flows.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then, to reduce the carrying amount of the other assets of the unit (group of units) on a pro-rata basis.

Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

Financial assets

The Group classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired:

Fair value through profit or loss: These assets are carried in the balance sheet at fair value with changes in the fair value recognised in the consolidated statement of comprehensive income.

Loans and receivables: These assets are non-derivative financial assets with fixed and determinable payments that are not quoted in an active market. They arise principally through the provision of services to customers (trade debtors). They are carried at amortised cost using the effective interest method.

Cash and cash equivalents: These assets comprise cash balances held by the Group.

Financial liabilities

Financial liabilities are comprised of trade payables and other short-term monetary liabilities, which are recognised at amortised cost.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

Derivative financial instruments

Derivative financial instruments are recognised at fair value. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss.

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.

The Group derives revenue from the sale of software as a perpetual licence, the provision of software as a service and also complimentary managed services, consultancy, support and hosting services.

Sale of software as a perpetual licence – the Group recognises the revenue capable of being allocated to perpetual software licences, at the time of an initial sale or subsequently as an upsell, when all the following conditions have been satisfied:

- The Group has transferred to the buyer the significant risks and rewards of ownership of the licence;
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow; and

- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Provision of Software as a Service – revenue from provision of Software as a Service under contracts, at the time of an initial sale or subsequently as an upsell, with extended terms which combine software and support service elements are recognised evenly over the period to which the services relate. Customers pay a fee quarterly (generally) for a defined contractual term, normally three or five years, and the contracts provide the customer with current software products, rights to received unspecified future software products and rights to support services during the term of the contract. This policy reflects the continuous nature of the transfer of value to the customer. Revenue invoiced but not recognised in the income statement under this policy is classified as deferred income in the balance sheet.

Consultancy services – revenue capable of being allocated to consultancy services is recognised when the service is performed.

Support services – revenue capable of being allocated to support services is recognised on a straight-line basis over the term of the support contract. Revenue invoiced but not recognised in the income statement under this policy is classified as deferred income in the balance sheet.

Hosting Services – revenue capable of being allocated to hosting services is recognised on a straight-line basis over the term of the hosting contract. Revenue invoiced but not recognised in the income statement under this policy is classified as deferred income in the balance sheet.

In the case where a single contract involves the combination of any or all of sale of software as a perpetual licence, provision of Software as a Service, consultancy services and support services and hosting services, the amount of consideration is derived from an assessment of the fair value of each of the individual constituent elements of the goods and services provided. The revenue allocated to each element is recognised as outlined above. The Group is able to reliably measure the fair value of each element of these contracts using a combination of factors including the contract price agreed with the client, through consideration of the relative value of each element of the contract and through the contract price charged for those elements in similar circumstances with other clients.

The Group utilises business partners to access certain markets as distributors. Where a business partner sells the Group's products or services, the sale is treated as revenue by the Group and the commission payable to the business partner is treated as a cost of sale.

Following the acquisition of the entire issued share capital of Intesource Inc. on 2 June 2014, a material proportion of the origin and destination of revenue now arises in the US, although all of the Group's revenue continues to relate to one class of business.

Leases

Leases where the lessor retains substantially all of the risks and rewards of ownership are classified as operating leases. Payments made under operating lease rentals are charged to the income statement on a straight line basis over the term of the lease.

Post-retirement benefits

The Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The amount charged to the income statement represents the contributions payable to the scheme in respect of the accounting period.

Share based payments

The fair value of awards to employees that take the form of shares or rights to shares is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is due only to share prices not achieving the threshold for vesting.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Income 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.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which an asset can be utilised.

Notes to the Consolidated Financial Statements (continued)

2 Operating segments

The Group determines and presents operating segments based on the information that internally is provided to the Board of Directors, which is considered to be the Group's chief operating decision maker.

IFRS 8 requires consideration of the Chief Operating Decision Maker ("CODM") within the Group. In line with Group's internal reporting framework and management structure, the key strategic and operating decisions are made by the Board of Directors, which reviews internal monthly management reports, budget and forecast information as part of this. Accordingly the Board of Directors is deemed to be the CODM.

Operating segments have then been identified based on the internal reporting information and management structures within the Group and take into consideration the relative size of the operation. The Board has determined there is one reportable operating segment. As the Group continues to develop and expand, the number of reportable segments will be kept under review.

The table below shows a segmental analysis of gross assets and of revenue based on the location of the customer which is not materially different from the location where the order is received.

	2017		2016	
	Revenue %	Gross assets £000	**Revenue %**	Gross assets £000
Europe	**76**	42,685	**73**	23,467
United States	**24**	7,191	**27**	6,814

There are no customers who represent more than 10% of revenue for the current or prior year.

3 Employees and Directors' remuneration

	2017 £000	2016 £000
Staff costs:		
- Wages and salaries	**11,533**	9,270
- Social security costs	**1,235**	1,032
- Other pension costs	**307**	224
- Share based payments	**125**	118
	13,200	10,644
Amounts capitalised within Development costs and Software for own use (note 12)*	**(2,240)**	(1,767)
	10,960	8,877
Average number of employees (including directors) during the year:		
Sales and production	**189**	138
Administrative	**26**	22
	215	160

*Note that capitalised development costs (see note 12) includes staff costs and other external costs incurred.

Details of Directors' remuneration subject to audit are provided in the Directors' Remuneration Report on pages 14 to 18.

4 Share based payments

The Group operates two Inland Revenue approved executive incentive plans (EMI scheme and EMI rollover scheme), and an unapproved share option plan (unapproved scheme). Details of the option grants remaining unexercised at 31 July 2017 are given below:

Grant date	Employees entitled	Number of options granted	Performance conditions	Exercise price (p)	Expiry date
29 September 2008	2	375,000	Time served and share price performance	18.75	Note 1
28 September 2010	6	51,000	Time served and share price performance	34.00	Note 2
21 October 2013[1]	3	16,668	Time served and share price performance	30.50	Note 3
14 January 2014[2]	2	1,271,920	Share price performance	36.50	Note 4
16 May 2014[3]	1	50,000	Time served	52.50	Note 5
2 June 2014[4]	4	185,000	Time served	49.00	Note 6
1 August 2014[5]	1	25,000	Time served	49.00	Note 7
1 August 2014[5]	2	100,000	Time served	56.00	Note 7
4 November 2015[6]	4	225,000	Time served	127.50	Note 8
12 February 2016[7]	3	470,000	Time served	114.50	Note 9
10 November 2016	1	50,000	Operational performance	125.00	Note 10
16 November 2016	5	120,000	Time served	135.00	Note 11

Note 1: These options have vested and must be exercised on or before 28 September 2018.

Note 2: These options have vested and must be exercised on or before 27 September 2019.

Note 3: These options have vested and must be exercised on or before 20 October 2023.

Note 4: These options have vested and must be exercised on or before 13 January 2024.

Note 5: These options have vested and must be exercised on or before 7 February 2024.

Note 6: These options have vested and must be exercised on or before 2 June 2024.

Note 7: These options have vested and must be exercised on or before 1 August 2024.

Note 8: These options vest as to one third on the first anniversary of the date of grant, as to one third on the second anniversary of the date of grant and as to one third on the third anniversary of the date of grant. These options must be exercised on or before 3 November 2025.

Note 9: These options vest as to one third on the first anniversary of the date of grant, as to one third on the second anniversary of the date of grant and as to one third on the third anniversary of the date of grant. These options must be exercised on or before 11 February 2026.

Note 10: These options vest as to one third on the first anniversary of the date of grant, as to one third on the second anniversary of the date of grant and as to one third on the third anniversary of the date of grant. These options must be exercised on or before 9 November 2026.

Note 11: These options vest as to one third on the first anniversary of the date of grant, as to one third on the second anniversary of the date of grant and as to one third on the third anniversary of the date of grant. These options must be exercised on or before 15 November 2026.

Notes to the Consolidated Financial Statements (continued)

The number and weighted average exercise price of share options are as follows:

	Weighted average exercise price 2017 (p)	**Number of options 2017 (number)**	Weighted average exercise price 2016 (p)	Number of options 2016 (number)
Outstanding at start of year	**56.5**	**3,913,715**	35.8	3,838,058
Granted during the year	**132.1**	**170,000**	118.7	1,005,000
Exercised during the year	**52.9**	**(1,094,127)**	39.2	(417,501)
Lapsed during the year	**127.5**	**(50,000)**	39.1	(511,842)
Outstanding at end of the year	**53.3**	**2,939,588**	56.5	3,913,715
Exercisable at end of the year	**44.1**	**2,306,086**	36.5	2,945,379

Options outstanding at 31 July 2016 have exercise prices in the range 18.75p to 135.00p.

During the current and prior period, the Group has not granted equity as consideration for goods or services received.

Fair value assumptions of share based payments

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of fair value is measured using the Black-Scholes model. The following assumptions were used to determine fair value of the options:

	Black Scholes
Weighted average share price at grant date (pence)	132.1
Exercise price (pence)	132.1
Expected volatility (%)	39.6%
Average option life (year)	6
Expected dividend (%)	1.0%
Risk free interest rate (%)	1.0%

The expected volatility is based on the historic volatility of the company's share price.

Charge to the income statement

The charge to the income statement comprises:

	2017 £000	2016 £000
Share based payment charges	**125**	118

5 Non-recurring administrative expenses

	2017 £000	2016 £000
Costs to closure of the Group's re-organisation programmes	**-**	65
Costs of restructuring the Group's operations	**673**	354
Expenses of acquisition related activities	**6,123**	160
	6,796	579

The Group acquired Millstream Associates Limited on 16 November 2016 and Perfect Commerce LLC on 4 August 2017. The expenses of acquisition related activities include the actual and estimated costs of professional services required to undertake those acquisitions, including £1,832,000 (refer to note 20) in respect of the marking to market of a conditional forward contract for the purchase of $125,000,000 US Dollars in respect of the acquisition of Perfect Commerce LLC which was entered into before the year end but which matured and was utilised after the year end. The costs of restructuring the Group's operations in the current and in the prior year relate primarily to the restructuring of the Group's management team and the centralising of the UK operations.

These non-recurring administrative costs are largely disallowable for corporation tax purposes. It is estimated that the income tax on these expenses is £220,000.

6 Operating (loss)/profit

	2017 £000	2016 £000
Operating (loss)/profit is stated after charging:		
Depreciation of property, plant and equipment (see note 11)	216	224
Amortisation of software for own use and development costs (see note 12)	2,386	1,847
Amortisation of customer related intangible assets (see note 12)	936	648
Operating lease rentals :		
- Land and buildings	509	351
- Other equipment	17	3

	2017 £000	2016 £000
Auditor's remuneration:		
Audit of these financial statements	**30**	31
Amounts receivable by auditors and their associates in respect of:		
- Audit of financial statements of subsidiaries pursuant to legislation	**45**	30
- Other services relating to taxation compliance	**16**	20
- Transactional services	**555**	-
- Other tax services	**60**	-

7 Finance income

	2017 £000	2016 £000
Bank interest receivable	**2**	6

Notes to the Consolidated Financial Statements (continued)

8 Finance expenses

	2017 £000	2016 £000
Bank interest	**142**	84
Other interest	**-**	3
	142	87

9 Taxation

	2017 £000	2016 £000
Recognised in the income statement:		
Current tax		
Current year	**442**	230
Adjustment in respect of prior periods	**160**	(83)
Total current tax	**602**	147
Deferred tax		
Released during the current year	**(191)**	(230)
Recognised in current year	**(388)**	(601)
Total deferred tax	**(579)**	(831)
Total tax in income statement	**23**	(684)

Reconciliation of effective tax rate	2017 £000	2016 £000
(Loss)/profit before tax for the period	**(2,748)**	1,801
Tax using the UK corporation tax rate of 19.67% (2016: 20%)	**(541)**	360
Effect of differential foreign tax rates	**34**	92
Adjustments in respect of prior periods	**160**	(83)
Disallowable net expenses	**1,023**	103
Losses used not previously recognised[2]	**(462)**	(329)
Effect of change in tax base of foreign operations[3]	**-**	(292)
Relief from governmental tax incentives[1]	**-**	(50)
Effect of change in tax rates on deferred tax (see below)	**(191)**	(485)
Total tax (income)	**23**	(684)

Note 1: This item relates includes the effect of tax reliefs in respect of qualifying governmental tax incentives.

Note 2: The Group has substantial operating losses in some of its subsidiary undertakings which have been utilised during the period. These are reviewed annually and a deferred tax assets based on the next 5 years profitability is recognised in these numbers.

Note 3: Intesource Inc has made a voluntary transition of the tax base of its revenue from a cash basis to an accruals basis and this has had the effect of deferring tax payable on cash received in advance of revenue being recognised.

Reduction in the UK corporation tax rate from 20 per cent to 19 per cent (effective from 1 April 2017) and to 17 per cent (effective 1 April 2020) were substantively enacted on 16 March 2016. In future, this will reduce the Group's current tax charge accordingly. In accordance with accounting standards, the effect of these rate reductions on deferred tax balances has been reflected in these financial statements, dependent upon when temporary timing differences are likely to reverse.

10 Basic and diluted earnings per ordinary share

The calculation of earnings per ordinary share is based on the profit or loss for the period and the weighted average number of equity voting shares in issue as follows.

	2017 £000	2016 £000
Earnings (£000)	**(2,771)**	2,485
Post tax effect of non-recurring administrative expenses	**6,573**	507
Post tax effect on customer related intangible assets	**777**	508
Post tax effect of share based payment charges	**125**	118
Non-recurring tax factors	**(493)**	(751)
Post tax effect of adjusted earnings (£000)	**4,211**	2,867
Weighted average number of shares (number '000)	**46,944**	39,746
Dilutive effect of share options (number '000)	**1,827**	2,440
Fully diluted number of shares (number '000)	**48,771**	42,186
Basic (loss)/earnings per ordinary share (pence)	**(5.9p)**	6.3p
Adjusted earnings per ordinary share (pence)	**9.0p**	7.2p
Basic diluted (loss)/earnings per ordinary share (pence)	**(5.7p)**	5.9p
Adjusted diluted earnings per ordinary share (pence)	**8.6p**	6.8p

11 Property, plant and equipment

	Computer equipment £000	Office fixtures and fittings £000	**Total £000**
Cost			
At 31 July 2015	531	155	**686**
Additions	85	84	**169**
On acquisitions	177	47	**224**
Disposals	(70)	(3)	**(73)**
At 31 July 2016	723	283	**1,006**
Additions	48	103	**151**
On acquisitions	51	4	**55**
At 31 July 2017	822	390	**1,212**
Depreciation			
At 31 July 2015	226	96	**322**
Charge for the year	180	44	**224**
On acquisitions	100	42	**142**
Disposals	(70)	(3)	**(73)**
At 31 July 2016	436	179	**615**
Charge for the year	173	43	**216**
On acquisitions	-	-	**-**
At 31 July 2017	609	222	**831**
Net book value			
At 31 July 2016	287	104	391
At 31 July 2017	**213**	**168**	**381**

12 Intangible assets

	Goodwill £000	Customer related intangibles £000	Development costs £000	Software for own use £000	**Total £000**
Cost					
At 31 July 2015	3,319	11,343	7,816	1,674	24,152
Additions	-	-	-	304	304
Internally developed	-	-	1,465	610	2,075
On acquisitions	4,533	583	-	-	5,116
At 31 July 2016	7,852	11,926	9,281	2,588	31,647
Internally developed	-	-	2,284	481	2,765
On acquisitions	13,018	4,154	400	-	17,572
At 31 July 2017	20,870	16,080	11,965	3,069	51,984
Amortisation and impairment					
At 31 July 2015	-	1,869	5,096	574	7,539
Amortisation for the year	-	648	1,294	553	2,495
At 31 July 2016	-	2,517	6,390	1,127	10,034
Amortisation for the year	-	936	1,754	632	3,322
At 31 July 2017	-	3,453	8,144	1,759	13,356
Carrying amounts					
At 31 July 2016	7,852	9,409	2,891	1,461	21,613
At 31 July 2017	**20,870**	**12,627**	**3,821**	**1,310**	**38,628**

Goodwill and customer related intangibles have arisen on the acquisitions of Millstream in November 2016 (provisional goodwill £13,018,000), Due North in February 2016 (goodwill £4,533,000), Intelligent Capture in August 2014 (goodwill £577,000), EGS Group in February 2014 (goodwill £150,000), Intesource in June 2014 (goodwill £1,502,000) and Requisoft and Alito in 2007 (goodwill £1,090,000). The value is attributed to the cash-generating-units (CGUs) in accordance with this except in the case of Requisoft and Alito which are assessed on the group CGU because their cash flows are not monitored separately to the group. The group tests these assets annually for impairment or more frequently if there are indications that an impairment may have occurred.

The recoverable amount of these assets are assessed against their value in use according to the CGU to which they relate. The key assumptions for these value in use calculations are set out below. The value in use calculations are based upon detailed budgets and forecasts prepared over a 2 year period, followed by an extrapolation into perpetuity for the terminal value of expected cash flows at growth rates given below, discounted at the rates provided below. The growth rate reflects a prudent estimate of the long-term growth rate for each cash generating unit. The discount rates reflect the different risk profiles the Directors attach to each income stream. The directors have reviewed the recoverable amount of the CGUs and do not consider there to be any indication of impairment.

%	**2017** %	2016
Long term growth rate	2.50	2.50
Discount rate (post tax rate) Group CGU	8.65	8.65
Discount rate (post tax rate) EGS CGU	13.00	13.00
Discount rate (post tax rate) Intesource CGU	13.00	13.00
Discount rate (post tax rate) Intelligent Capture CGU	15.00	15.00
Discount rate (post tax rate) Due North CGU	15.00	15.00
Discount rate (post tax rate) Millstream CGU	15.00	15.00

The Directors' key assumptions relate to revenue growth, length of contract, gross and operating margins and discount rate. Sensitivity analysis has been performed and a reasonably possible change in the key assumptions would not cause the carrying amount to exceed the recoverable amount of each CGU.

The Directors determine the initial recognition of development costs and software for own use by reference to the amount of time spent by relevant staff on development, subject to the expectation that the development will be completed and there will either be an external market for the development or the asset will be used internally to assist in generating future economic benefits. The Directors currently consider that the full direct salary costs of the Group's development and technical teams and all of the costs of development resource bought in from third parties meet the criteria to be capitalised. This estimate has not changed during this or the previous financial year.

Amortisation and impairment

The amortisation charge is recognised in the following line items in the income statement:

	2017 £000	2016 £000
Development costs	**1,754**	1,294
Customer related intangible assets	**936**	648
Software for own use	**632**	553
Administrative costs	**3,322**	2,495

Development costs, customer related intangibles and software for own use is amortised on a straight line basis over their useful life, which is the period during which they are expected to generate revenue. The estimated useful life of development costs and software for own use is three years (2016: 3 years) which resulted in an amortisation charge of £1,754,000 (2016: £1,294,000) and £632,000 (2016: £553,000) respectively. The Director's currently consider that three years is a suitably short estimate of the useful economic life of the development costs capitalised because of the fast rate of change of technological advancement and market demand and this estimate has not changed during this or the previous financial year. During September 2011 a customer list was acquired for consideration of £160,000 and this is has been amortised over the useful life of five years (2016: 5 years) and resulted in an amortisation charge of £nil (2016: £35,000). The estimated useful life of the customer related intangible assets of Millstream is 10 years and that of other customer related intangible assets is in the range 10-25 years (2016: 10-25 years). This has resulted in a charge of £936,000 (2016: £648,000).

Notes to the Consolidated Financial Statements (continued)

13 Trade and other receivables

	2017 £000	*2016 £000
Trade receivables (net of impairment of £248,000, 2016: £55,000)	**3,113**	2,677
Prepayments and accrued income	**1,731**	1,505
Deferred cost of sales*	**1,036**	1,094
	5,880	5,276

*The prepayments and deferred income balances have been represented in respect of deferred income which was previously shown net of certain prepaid expenses.

Included within trade and other receivables is £Nil (2016: £Nil) expected to be recovered in more than 12 months.

Trade and other receivables denominated in currencies other than sterling comprise £511,000 (2016: £456,000) of trade receivables denominated in US dollars, £128,000 (2016: £139,000) denominated in Euros and £81,000 (2016: £70,000) denominated in Australian dollars. The fair values of trade and other receivables are the same as their book values.

The movement on the Group's provisions against trade receivables are as follows:

	2017 £000	2016 £000
At the start of the year	**55**	38
On acquisitions	**45**	9
Utilised in the period against uncollectable amounts	**(33)**	(16)
Charged to the income statement	**181**	24
At the end of the year	**248**	55

Trade receivables that are past due are considered individually for impairment. The Group uses a monthly ageing profile as an indicator for impairment. The summarised ageing analysis of trade receivables past due but not impaired is as follows:

	2017 £000	2016 £000
Under 30 days overdue	**1,351**	643
Between 30 and 60 days overdue	**326**	140
Over 60 days overdue	**124**	459
	1,801	1,242

The other classes within trade and other receivables do not contain impaired assets.

14 Cash and cash equivalents

	2017 £000	2016 £000
Cash and cash equivalents	**4,277**	3,595

Cash and cash equivalents denominated in foreign currencies other than sterling comprise £651,000 (2016: £1,056,000) denominated in US dollars, £52,000 (2016: £93,000) denominated in Euros and £20,000 (2016: £159,000) in Australian dollars.

15 Trade and other payables

	2017 £000	2016 £000
Trade payables	**1,644**	654
Other taxes and social security	**783**	763
Accruals and other creditors	**5,677**	1,352
	8,104	2,769

Trade and other payables denominated in currencies other than sterling comprise £580,000 (2016: £35,000) of trade payables denominated in US dollars, £1,000 (2016: £53,000) in Australian dollars and £81,000 (2016: £nil) in Euros.

16 Deferred income

Deferred income arises from certain products and services sold by the Group. In return for a single upfront payment or series of upfront payments, the Group commits to a fixed term contract to provide those products and services to customers. In these circumstances, income is recognised evenly over the term of the contract.

Movement in the Group's deferred income liabilities during the current and prior year are as follows (restated for gross revenue):

	2017 £000	*2016 £000
Balance at the beginning of the period	**9,496**	6,655
On acquisitions	**2,267**	903
Income deferred to future periods	**8,562**	8,214
Release of income deferred from previous periods	**(8,868)**	(6,276)
	11,457	9,496

The deferred income liabilities fall due as follows:

	2017 £000	2016 £000
Within one year	**10,880**	9,008
After more than one year	**577**	488
	11,457	9,496

Income recognised during the year is as follows:

	2017 £000	2016 £000
Income received	**25,098**	21,312
Income deferred to future periods	**(8,562)**	(8,214)
Release of income deferred from previous periods	**8,868**	6,276
Income recognised in the year	**25,404**	19,374

*The prepayments and deferred income balances have been represented in respect of deferred income which was previously shown net of certain prepaid expenses.

17 Deferred tax liabilities

Deferred tax assets and liabilities are analysed below and are disclosed as non-current assets or liabilities in the balance sheet.

	2017 £000	2016 £000
Deferred tax asset		
Trading losses arising in foreign operations	**500**	500

	2017 £000	2016 £000
Deferred tax liabilities		
On customer related intangible assets, development costs and software for own use	**3,070**	2,939
Share options	**(773)**	(533)
Trading losses	**(519)**	(587)
	1,778	1,819

Movement in deferred tax for the year ended 31 July 2017

	As at 31 July 2016 £000	Foreign exchange movements £000	Income statement £000	**As at 31 July 2017 £000**
Deferred tax asset				
Trading losses arising in foreign operations	500	4	(4)	**500**

	As at 31 July 2016 £000	On acquisitions £000	Reserves movements £000	**As at** Income statement £000	**31 July 2017 £000**
Deferred tax liabilities					
On customer related intangible assets, development costs and software for own use	2,939	782	-	(651)	**3,070**
Share options	(533)	-	(240)	-	**(773)**
Trading losses	(587)	-	-	68	**(519)**
	1,819	782	(240)	(583)	**1,778**

Deferred tax asset not recognised

	2017 £000	2016 £000
UK tax, not recognised as future economic benefit is uncertain	**329**	761
US tax, not recognised as future economic benefit is uncertain	**656**	830

18 Share capital

	2017 £000	2016 £000
Allotted, called up and fully paid - 50,238,546 Ordinary shares of 10p each (2016: 39,835,159)	5,024	3,983

On various dates throughout the year, the Group issued a total of 10,403,387 Ordinary shares of 10p each at a weighted average price of 125.8p per share pursuant to the exercising of options by past and present employees or directors.

The Group's objectives when managing capital are to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk. The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt. During 2015, the Group's strategy, which was unchanged from 2014, was to maximise net cash. Gross cash at 31 July 2017 was £4,277,000 (2016: £3,595,000).

Share option schemes

The Company operates three share option schemes; an EMI Rollover Scheme and an EMI Scheme (together 'the EMI schemes') and an Unapproved Option Scheme. At 31 July 2017, options had been granted (but not exercised) under the EMI schemes over a total of 1,571,983 Ordinary shares of the Company (1.7% of the issued share capital of the Company). At 31 July 2017, options had been granted (but not exercised) under the Unapproved Option Scheme over a total of 1,367,605 Ordinary shares of the Company (1.5% of the issued share capital of the Company).

19 Capital and reserves

Share premium

The Group has issued 10,403,387 Ordinary shares of 10p each during the year at a weighted average price of 125.8p per share, creating a share premium of £12,044,000. Costs totalling £375,000 were offset against the share premium.

Merger reserve

The merger reserve of £556,000 (2016: £556,000) arose from the application of merger accounting principles to the financial statements on implementation of the capital reorganisation of the Group during the year ended 31 July 2006. The Directors considered that this treatment was required for the accounts to present a true and fair view of the Group's results and financial position.

Capital reserve

The capital reserve arose on issue of share options as part of the consideration for the purchase of Alito (UK) Limited. The reserve is not distributable.

Foreign exchange reserve

The foreign exchange reserve arises through the translation of the net assets of the Group's US subsidiary undertakings, PROACTIS US Holdings Inc, PROACTIS Inc and Intesource Inc and the Group's Australian subsidiary, PROACTIS Pty Limited.

20 Financial risk management

Overview

The Group has exposure to the following risks

- Credit risk
- Interest rate risk
- Currency risk
- Liquidity risk

This note presents information about the Group's exposure to each of the above risks and the Group's objectives and processes for managing this risk. Further disclosures are included throughout these consolidated financial statements.

Financial instruments policy

Treasury and financial risk policies are set by the Board and have remained unchanged from the previous period. All instruments utilised by the Group are for financing purposes. The day-to-day financial management and treasury function is controlled centrally for all operations. In July 2017 the Group entered into a deal contingent forward contract for US dollars in order to manage the foreign exchange risk in the acquisition of Perfect Commerce LLC.

Financial assets and liabilities

The Group's financial instruments comprise cash and liquid resources, and various items such as trade receivables and trade payables that arise directly from its operations.

Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an on-going basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The Group does not require collateral in respect of financial assets.

At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet.

Interest rate risk

The Group continues to manage the cash position in a manner designed to maximise interest income, while at the same time minimising any risk to these funds. Surplus cash funds are deposited with commercial banks that meet credit criteria approved by the Board, for periods between one and six months. At the year-end date there was no material exposure to movements in interest rates as borrowings are at a low level.

Liquidity risk management

The Group manages liquidity risk by maintaining adequate cash reserves and by continuously monitoring both forecast as well as actual cash flows to enable matching of the maturity profiles of financial assets and liabilities. Sufficient cash is retained to service short-term financing needs.

Currency risk

The Group is exposed to fluctuations in exchange rates as some of its future revenues will be denominated in foreign currencies, comprising US dollars, Euros and Australian Dollars. The Group seeks to remove this risk by invoicing in Sterling. Where this is not possible, the Group may hedge such transactions through foreign exchange forward contracts. There were no such contracts in place at 31 July 2017 or 31 July 2016.

In July 2017 the Group entered into a deal contingent forward contract for US dollars in order to manage the foreign exchange risk in the acquisition of Perfect Commerce LLC. This derivative was assessed at level 1 of the fair value hierarchy. The forward contract is for the purchase of $125m. This forward contract was initially classified as fair value through profit and loss, and the resulting fair value at year end is reflected as a financial liability within accruals and other creditors in note 15.

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20 Financial risk management (continued)

Interest rate and currency profile

Financial assets	2017 £000	2016 £000
Loans and receivables:		
Trade receivables	**3,113**	2,677
Cash at bank	**4,277**	3,595
	7,390	6,272

Cash at bank attracted interest at floating rates, which were between 0.00% and 0.55% at the year-end (2016: 0.00% and 0.80%).

Financial liabilities	2017 £000	2016 £000
Trade payables	**1,644**	654
Other short term liabilities	**783**	763
Bank borrowings	**5,160**	4,049
	7,587	5,466

All of the financial assets and liabilities detailed above are recorded at amortised cost. Bank borrowings are in the form of a Term Loan repayable over three years at an interest rate of 1.95% per annum above LIBOR and a Revolving Credit Facility which is in place for 4 years at interest rates between 1.75% and 2.50% per annum above LIBOR. The Term Loan and the Revolving Credit Facility are secured by way of a debenture over the assets of the Group and has certain performance criteria related to its ongoing availability.

Maturity profile of financial liabilities	2017 £000	2016 £000
In one year or on demand	**3,827**	2,810
In one to two years	**1,400**	1,293
In two to five years	**2,360**	1,363
	7,587	5,466

Fair value of financial instruments

At 31 July 2017 the difference between the book value and the fair value of the Group's financial assets and liabilities measured at amortised cost was £Nil (2016: £Nil). The fair value of financial liabilities measured at fair value through profit and loss is £1,832k and is included within other operating expenses. This is described in more detail on page 49.

Sensitivity analysis

The Group is not materially exposed to changes in interest or exchange rates as at 31 July 2017.

21 Commitments

(a) Capital commitments
There were no capital commitments existing at 31 July 2017 or 31 July 2016.

(b) Operating lease commitments
Total future operating lease commitments at the balance sheet date are as follows:

	2017		2016	
	Land and buildings £000	**Other equipment £000**	Land and buildings £000	Other equipment £000
- Within one year	**550**	**33**	358	10
- Between one and two years	**492**	**29**	313	10
- Between two and five years	**583**	**70**	487	29
- After more than five years	**36**	**-**	78	-
	1,661	**132**	1,236	49

The Group leases nine office facilities under operating leases. During the year £526,000 was recognised as an expense in the income statement in respect of operating leases (2016: £351,000).

22 Pensions

The Group operates a defined contribution pension scheme for its employees. The pension cost charge for the year represents contributions payable by the Group to the scheme and other personal pension plans and amounted to £307,000 (2016: £214,000). There were outstanding contributions at 31 July 2017 of £37,000 (2016: £26,000).

23 Accounting estimates and judgements

The Directors discussed with the Audit Committee the development, selection and disclosure of the Group's critical accounting policies and estimates and the application of these polices and estimates. The accounting policies are set out in Note 1.

The Directors consider that the key judgements and sources of estimation made in preparation of the financial statements are:

Intangible fixed assets

A number of commercial and financial assumptions, judgements and estimates have been made to support the initial recognition and carrying amounts of the intangible asset categories of goodwill, customer related intangible assets, development costs and software for own use. These are described within note 12.

Revenue recognition

The Group's revenues are derived from the sale of software as a perpetual licence, provision of software as a service, managed services, consultancy services, support services and hosting services. The Directors have applied judgement to determine the most appropriate revenue recognition principles for each distinct type of revenue which reflects the transfer of value to the customer.

It is often the case that more than one type of revenue is included in the same contractual arrangement. IAS18 requires that the Directors apply judgement in assessing the entire arrangement in order to attribute an appropriate amount of revenue to each different element. This assessment can differ from the legally contracted values.

In addition the Group utilises business partners to access certain markets as distributors. Where sales of the Group's products or services are made through a business partner, the Directors judge whether the Group is responsible for the majority of the risks and responsibilities in the transaction and where the Directors judge that this is the case, the sale is treated as revenue of the Group and the commission payable to the business partner is treated as a cost of sale.

Fair values

The Group has undertaken a fair value assessment on each of the acquisitions during the year. This assessment includes a detailed analysis of the accounting policies and methods adopted by the acquired businesses and an estimate of the value of separately identifiable intangible assets, principally customer related intangible assets and capitalised development costs. This estimate requires the Directors to judge the likely revenues from and costs of the delivery of future services to the customers of the acquired businesses at the date that the businesses were acquired.

24 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and have therefore not been disclosed.

Remuneration of key management personnel

The remuneration of the Directors, who are the key management personnel of the Group, is provided in the audited part of the Directors' Remuneration Report on pages 14 to 18. In addition, the Group recognised a share-based payment charge under IFRS2 'Share-based payment' in respect of the Directors of £84,000 (2016: £69,000).

25 Acquisitions

On 16 November 2016, the Group acquired the entire issued ordinary share capital of Millstream Limited. The provisional fair values of assets and liabilities acquired are set out below.

	Fair value £000
Property, plant and equipment	55
Customer related intangible assets	4,154
Capitalised development costs	400
Trade and other receivables (net of impairment of £45,000)	809
Investment property sold at completion	2,400
Cash	2,321
Trade and other payables	(3,327)
Deferred tax	(782)
Net assets acquired	6,030
Goodwill	13,018
	19,048
Purchase consideration	
Cash	19,048
Cash acquired	(2,321)
Cash received from sale of investment property	(2,400)
Net cash outflow on acquisition	14,327

The fair value adjustments relate to the recognition of intangible assets in accordance with IFRSs.

Pre-acquisition carrying amounts were determined based on applicable IFRSs, immediately prior to the acquisition. The values of assets and liabilities recognised are estimated fair values. In determining the fair value of intangible assets, the Group applied a discount rate of 15.0% to estimated cash flows.

The goodwill is attributable to the skilled labour force of the acquired business. The value of the skilled labour force was not recognised as a separate intangible asset on the basis that it could not be separated from the value generated from the business as a whole. In addition, the goodwill relates to the future potential to realise cross-selling opportunities and operational cost synergies.

The revenue of Millstream Limited for the period from the date of acquisition to 31 July 2017 was £3,536,000 and the profit before tax for that period was approximately £1,590,000. The revenue of Millstream Limited for the period from 1 August 2016 to 31 July 2017 was £5,080,000 and the profit before tax for that period was approximately £2,120,000. This does not factor in the amortisation of intangible assets that will now be recognised in the Group accounts.

Company Balance Sheet

as at 31 July 2017

	Notes	2017 £000	2016 £000
Non current assets			
Investments	29	**30,204**	11,156
Deferred tax asset	30	**773**	-
		30,977	11,156
Current assets			
Debtors	30	**8,065**	6,175
Cash at bank and in hand		**2,410**	667
		10,475	6,842
Creditors - amounts falling due within one year	31	**(14,650)**	(2,651)
Net current (liabilities)/assets		**(4,175)**	4,191
Total assets less current liabilities		**26,802**	15,347
Creditors - amounts falling due after more than one year	32	**(3,759)**	(2,656)
Net assets		**23,043**	12,691
Capital and reserves			
Called up share capital	33	**5,024**	3,983
Share premium account	34	**17,631**	5,962
Capital reserve	34	**449**	449
Profit and loss account	34	**(61)**	2,297
Shareholders' funds		**23,043**	12,691

The following notes form an integral part of these financial statements.

The balance sheet was approved by the Board of Directors on 10 October 2017 and signed on its behalf by:

George Hampton Wall
Chief Executive Officer

Tim Sykes
Chief Financial Officer

Company number 5752247

Company Statement of Changes in Equity

as at 31 July 2017

	Share capital £000	Share premium £000	Capital reserve £000	Retained earnings £000	Total £000
At 31 July 2015	3,941	5,840	449	1,511	11,741
Shares issued during the period	42	122	-	-	164
Dividend payment of 1.2p per share	-	-	-	(475)	(475)
Result for the period	-	-	-	1,143	1,143
Share based payment charges	-	-	-	118	118
At 31 July 2016	3,983	5,962	449	2,297	12,691
Shares issued during the period	1,041	11,669	-	(3)	12,707
Dividend payment of 1.3p per share	-	-	-	(638)	(638)
Result for the period	-	-	-	(2,082)	(2,082)
Share based payment charges	-	-	-	125	125
Deferred tax on share options	-	-	-	240	240
At 31 July 2017	**5,024**	**17,631**	**449**	**(61)**	**23,043**

Details of the nature of each component of equity are given in Note 34.

The following notes form an integral part of these financial statements.

Company Cash Flow Statement

for the year ended 31 July 2017

	Notes	2017 £000	2016 £000
Operating activities			
Profit for the year		**(2,082)**	1,143
Net finance expense		**141**	78
Forward contract provision		**1,832**	-
Income tax (credit)/charge		**(318)**	(33)
Share based payment charges		**125**	118
Operating cash flow before changes in working capital		**(302)**	1,306
Movement in trade and other receivables		**(1,894)**	(16)
Movement in trade and other payables and deferred income		**10,158**	775
Operating cash flow from operations		**7,962**	2,065
Finance income		**1**	6
Finance expense		**(142)**	(84)
Income tax paid		**(210)**	-
Net cash flow from operating activities		**7,611**	1,987
Investing activities			
Payments to acquire subsidiary undertakings	25	**(19,048)**	(4,500)
Net cash flow from investing activities		**(19,048)**	(4,500)
Financing activities			
Payment of dividend		**(638)**	(475)
Proceeds from issue of shares		**12,707**	164
Receipts from bank borrowings		**4,200**	3,000
Repayment of bank borrowings		**(3,089)**	(864)
Net cash flow from financing activities		**13,180**	1,825
Net decrease in cash and cash equivalents		1,743	(688)
Cash and cash equivalents at the beginning of the year		667	1,355
Cash and cash equivalents at the end of the year		**2,410**	667

Notes to the Company Balance Sheet

26 Company accounting policies

Basis of preparation

As used in the financial statements and related notes, the term 'Company' refers to PROACTIS Holdings PLC. The separate financial statements of the Company are presented as required by the Companies Act 2006.

These financial statements, for the year ended 31 July 2017, are the second the company has prepared in accordance with FRS 101 "Reduced Disclosure Framework" ("FRS 101"), as issued by the Financial Reporting Council. For periods up to and including the year ended 31 July 2015, the company prepared its financial statements in accordance with United Kingdom Generally Accepted Accounting Principles (UK GAAP).

Accordingly, the company has prepared financial statements that comply with FRS 101 applicable as at 31 July 2017.

These financial statements have been prepared in pounds sterling (£), which is also the functional currency of the company.

Where relevant, equivalent disclosures have been given in the group accounts of PROACTIS Holdings PLC. The group accounts of PROACTIS Holdings PLC are available to the public and can be obtained as set out in note 1. Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account. The parent company had a loss of £1,932,000 for the year ended 31 July 2016 (2016: profit £1,143,000).

These financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention.

Certain disclosures have been included in the consolidated notes section of these financial statements in pages 32 to 52. These include:

→ disclosures in respect of share-based payments (see note 4);

→ certain disclosures required by IFRS 7 Financial Instrument Disclosures on the basis that the consolidated financial statements include the equivalent disclosures (see note 13);

→ disclosures in respect of capital management (see note 18); and

→ disclosures in respect of the compensation of Key Management Personnel (see note 21).

Investments

Fixed asset investments are stated at cost less provision for impairment where appropriate. The Directors consider annually whether a provision against the value of investments on an individual basis is required. Such provisions are charged in the profit and loss account in the year.

Cash and liquid resources

Cash comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand. Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at close to their carrying values or traded in an active market. Liquid resources comprise term deposits of more than seven days.

Taxation

The charge for taxation is based on the result for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Share based payments

The Company accounting policies followed are the same as the Group's policy under IFRS2 'Share-based payment'. The policy is shown in the Group accounting policies in Note 1.

27 Employees

The only employees of the Company were the Directors.

Details of Directors' remuneration, share options and Directors' pension entitlements are disclosed in the Directors' Remuneration Report on pages 14 to 18.

28 Employee share options schemes

The Company has granted share options to employees under two Inland Revenue approved executive incentive plans (EMI scheme and EMI rollover scheme), and an unapproved share option plan (unapproved scheme).

The Company recognised total expenses of £84,000 (2016: £69,000) in relation to these equity settled share-based payment transactions.

Details of the schemes are given in Note 4.

Notes to the Company Balance Sheet (continued)

29 Investments

Shares in subsidiary undertakings	£000
Cost	
At 31 July 2016	11,156
Acquisition of Millstream Limited	19,048
At 31 July 2017	**30,204**

On 24 May 2006, pursuant to the terms of the share exchange agreement 20,462,900 Ordinary shares of 10p were issued to the shareholders of PROACTIS Group Limited at nominal value as consideration for the purchase by the Company of the entire issued share capital of PROACTIS Group Limited.

The companies in which PROACTIS Holdings PLC's interest is more than 20% at the year-end are as follows:

	Country of incorporation	Principal activity	Class and percentage of shares held	Holding
Subsidiary undertakings				
PROACTIS Group Limited[a]	England and Wales	Software sales and development	Ordinary 100%	Direct
Requisoft Plc[a]	England and Wales	Dormant	Ordinary 100%	Indirect
Alito Limited[a]	England and Wales	Software sales	Ordinary 100%	Indirect
PROACTIS Inc[d]	USA	Software sales	Ordinary 100%	Indirect
PROACTIS Pty Limited[e]	Australia	Software sales	Ordinary 100%	Indirect
Alito (UK) Limited[a]	England and Wales	Dormant	Ordinary 100%	Direct
PROACTIS Overseas Limited[a]	England and Wales	Intermediate Holding Company	Ordinary 100%	Direct
PROACTIS Limited[a]	England and Wales	Dormant	Ordinary 100%	Indirect
PROACTIS Accelerated Payments Limited[a]	England and Wales	Dormant	Ordinary 100%	Indirect
PHD Developing Markets Limited[f]	Mauritius	Intermediate Holding Company	Ordinary 100%	Direct
PROACTIS Total Procure Pvt Limited[g]	India	Managed services	Ordinary 50%	Indirect
EGS Group Limited[a]	England and Wales	Software sales	Ordinary 100%	Indirect
EGS Group Holdings Limited[a]	England and Wales	Software sales	Ordinary 100%	Indirect
FE Online Limited[a]	England and Wales	Dormant	Ordinary 100%	Indirect
Unity Marketplace Limited[a]	England and Wales	Dormant	Ordinary 100%	Indirect
PROACTIS US Holdings Inc[c]	USA	Intermediate Holding Company	Ordinary 100%	Indirect
Intesource Inc[c]	USA	Managed services	Ordinary 100%	Indirect
Intelligent Capture Limited[a]	England and Wales	Software sales	Ordinary 100%	Direct
Intelligent Capture Managed Services Limited[a]	England and Wales	Managed services	Ordinary 100%	Indirect
Image Integrators Limited[a]	England and Wales	Dormant	Ordinary 100%	Indirect
Due North Limited[a]	England and Wales	Software sales	Ordinary 100%	Direct
Millstream Limited[b]	England and Wales	Managed services and software sales	Ordinary 100%	Direct

Alito Limited is a subsidiary of Alito (UK) Limited. PROACTIS US Holdings Inc, Proactis Pty Limited and PHD Developing Markets Limited are subsidiaries of PROACTIS Overseas Limited. Proactis Inc and Intesource Inc are subsidiaries of Proactis Overseas Limited. Proactis Total Procure Pvt Limited is a subsidiary of PHD Developing Markets Limited. Intelligent Capture Managed Services Limited and Image Integrators Limited are subsidiaries for Intelligent Capture Limited. All other indirectly held subsidiaries are directly held subsidiaries of PROACTIS Group Limited except for EGS Group Limited, FE Online Limited and Unity Marketplace Limited which are subsidiaries of EGS Group Holdings Limited.

Registered offices of entities are as noted
a Riverview Court, Castlegate, Wetherby, LS22 6LE England
b 10 Queens Road, Aberdeen, AB15 4ZT Scotland
c 2111 East Highland Avenue, Suite B-375, Phoenix, AZ 85016 USA
d 35 New England Business Centre Drive, Suite 230, Andover. MA 01810 USA
e Riverside Centre, Level 18, 123 Eagle Street, Brisbane, QLD 4000 Australia
f c/o Estera Management (Mauritius) Limited, 11th Floor Medine Mews, La Chaussee Street, Port Louis, Mauritius
g111 Free Press House, Free Press Journal Road, 215 Nariman Point, Mumbai 400021, India

30 Debtors

	2017 £000	2016 £000
Prepayments and accrued income	**27**	22
Income taxes	**5**	10
Other taxes and social security	**152**	15
Amounts owed by subsidiary undertakings	**7,881**	6,128
	8,065	6,175

Amounts owed by subsidiary undertakings are interest free and repayable on demand.

The deferred tax asset included within non-current assets relates to deferred tax on share option charges.

31 Creditors: Amounts falling due within one year

	2017 £000	2016 £000
Bank loans	**1,400**	1,393
Trade creditors	**656**	53
Accruals and deferred income	**3,041**	89
Amounts owed to subsidiary undertakings	**7,721**	1,116
Other creditors	**1,832**	-
	14,650	2,651

Amounts owed to subsidiary undertakings are interest free and repayable on demand.

32 Creditors: Amounts falling due after more than one year

	2017 £000	2016 £000
Bank loans	**3,759**	2,656
Bank loans are repayable as follows:		
Within one year	**1,400**	1,393
Between one and two years	**1,400**	1,293
Between two and five years	**2,359**	1,363
	5,159	4,049

Terms of the loan are disclosed in note 20.

33 Share capital

	2017 £000	2016 £000
Alloted, called up and fully paid:		
- 50,238,546 Ordinary shares of 10p each (2016: 39,835,159)	**5,024**	3,983

Notes to the Company Balance Sheet (continued)

34 Reserves

	Share premium account £000	Capital reserve £000	Profit and loss account £000
At 31 July 2016	5,962	449	2,297
Shares issued during the period	11,669	-	(3)
Loss for the period	-	-	(2,082)
Dividend paid	-	-	(638)
Share based payment charges (see Note 4)	-	-	125
Deferred tax on share options			240
At 31 July 2017	**17,631**	**449**	**(61)**

Share premium

The Group has issued 10,403,387 Ordinary shares of 10p each during the year at a weighted average price of 125.8p per share, creating a share premium of £12,044,000. Costs totalling £375,000 were offset against the share premium.

Capital reserve

The capital reserve arose on issue of share options as part of the deferred contingent consideration for the purchase of Alito (UK) Limited. The reserve is not distributable.

35 Commitments

(a) Capital commitments
There were no capital commitments existing at 31 July 2017 or 31 July 2016.

(b) Operating leases commitments
Total future operating lease commitments at the balance sheet date are as follows:

	Land and buildings	
	2017 £000	2016 £000
- Within one year	**84**	84
- Between one and two years	**75**	84
- Between two and five years	**-**	75
	159	243

36 Contingent liabilities

The Company has guaranteed the overdrafts of its subsidiaries, the amount outstanding at 31 July 2017 was £Nil (2016: £Nil).

37 Post balance sheet events

The Company acquired Perfect Commerce LLC on 4 August 2017 for consideration of $127.5m with an additional consideration of up to $5.0m depending on certain deliverables. Further information regarding this acquisition is noted in the Chief Financial Officers Report.

Secretary and Advisers

Secretary and Registered office

Tim Sykes

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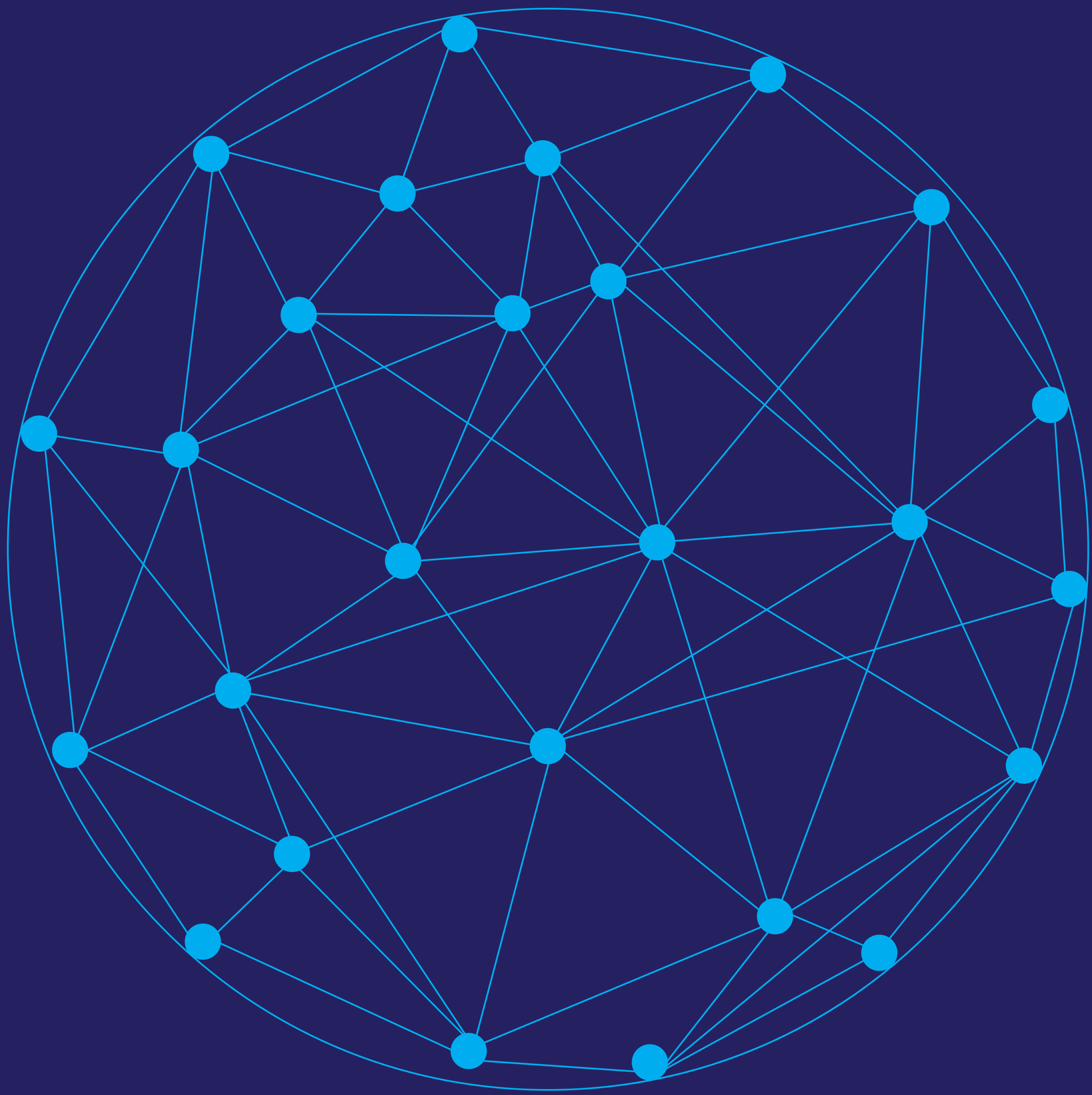
Kent
BR3 4TU



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