Company Registration Number 06515775

KEY TECHNOLOGIES LIMITED

DIRECTORS' REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

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KEY TECHNOLOGIES LIMITED
AND SUBSIDIARY COMPANIES

COMPANY INFORMATION

DIRECTORS

T Middleton
K Hilton
C G Rowe
L R Litwinowicz
R Papanicolaou

COMPANY NUMBER

06515775

COMPANY SECRETARY

K Hilton

REGISTERED OFFICE

5 The Courtyard
Timothy's Bridge Road
Stratford Upon Avon
Warwickshire
CV37 9NP

AUDITOR

Mazars LLP
45 Church Street
Birmingham
B3 2RT

BANKERS

Barclays Bank Plc
Barclays Business Centre
15 Colmore Row
Birmingham
B3 2BH

SOLICITORS

Gateley Plc
One Eleven
Edmund Street
Birmingham
B3 2HJ

STRATEGIC REPORT

The directors present their Strategic Report of the group for the year ended 30 June 2016.

PRINCIPAL ACTIVITIES

The principal activity of Key Technologies Limited is that of a holding company to the following group of companies;

- STS Defence Limited, whose principal activities are the design and manufacture of high reliability electronics and wiring harnesses to the defence and aerospace markets and the provision of through-life system engineering services to the defence market;
- Primetake Limited, whose principal activity is the design and manufacture of ammunition and explosive devices for specialised applications for the defence and homeland security markets;
- S R Antenna Limited, a dormant company; and
- STS International Limited, a dormant company.

BUSINESS REVIEW

The Group continued to make progress during the year and the financial results for the year are satisfactory. Against a continuing background of political uncertainty in the Middle East and cutbacks in defence and law enforcement expenditure, turnover increased by 24.6% to £23.847m (2015: £19.115m) and underlying operating profit by 82.5% to £2.563m (2015: £1.446m). The investments made in recent years to develop profitable growth opportunities and improving the operational performance of the businesses are beginning to yield results in line with expectations.

A positive cash flow from operating activities of £1.498m (2015: £3.035m) was generated for the year and the Group continues to operate well within its banking facilities with headroom of £1.8m (2015: £2.6m) as at the year end.

The Group increased its investments in new product development, new machinery & equipment and strengthening the management structure during the year which resulted in further improvements to customer service levels, quality standards and operational performance across all businesses. The Directors consider continuous improvement in these areas as key to the future success of the business in the medium to long term and in order to mitigate the risk posed by competitive pressures from around the world.

The Group enters the new financial year with a good order pipeline and the Directors are, therefore, confident that 2017 will show further progress.

FINANCIAL KEY PERFORMANCE INDICATORS

The Group uses a number of key performance indicators (KPI's) to monitor its progress against its objectives. In addition to on time delivery and quality standards, the key financial KPI's are:

	2016	**2015**
Revenue	£23.847m	£19.115m
Gross profit %	29.5%	28.7%
Underlying operating profit	£2.764m	£1.470m

Underlying operating profit comprises operating profit adjusted to remove the impact of exceptional items.

PRINCIPAL RISKS AND UNCERTAINTIES

There are a number of risks and uncertainties that can impact the performance of the Group, some of which are beyond the control of Key Technologies and its Board. The Group's businesses closely monitor market trends and risks on an on-going basis. These trends and risks are the focus of monthly management meetings where each business unit's performance is assessed versus budget, forecast and prior year, key performance indicators are also used to benchmark operational performance. Such meetings are rotated around the different locations of each business and at least two executive directors are present. An annual assessment of trends and risks is also an integral part of each business's annual review of its strategic plan and budget, which are submitted to the Group Board for consideration and approval. A combination of all of this, in what is a bottom up and top down approach, enables the Board to determine and assess the Group's risk environment.

The principal risks and uncertainties facing the Group are outlined below:

Market conditions

The Group's products are targeted at principally the defence, aerospace and homeland security markets. As a result demand is dependent on activity levels in these respective markets, which vary by geographical area and are subject to the usual drivers of activity (i.e. general economic conditions and volatility, interest rates, business/consumer confidence levels, unemployment, population growth, etc.). While our markets are inherently cyclical, regulations continue to act positively on the underlying demand for many of the Group's products.

Input prices and availability

The Group's operating performance is impacted by the pricing and availability of its key inputs, which include electrical components, cartridges and chemical compounds. The pricing of such inputs can be quite volatile at times due to supply and demand dynamics and the input costs of the supply base. The Group manages the effect of such movements through its procurement process, long-term relationships with suppliers, economic purchasing, multiple suppliers and inventory management. The Group continually mitigates risk by avoiding over-reliance on a single supplier and by developing in house capability.

Research & development and quality control

Innovation is fundamental to the ethos of the Group and underpins its competitive advantage. With the support of external audits, quality control systems are reviewed and improved on an on-going basis to ensure each business is addressing the control environment around product and process development and the formal sign off from development to production. New products also go through a qualification process in line with recognised military standards before they are brought to market.

Approved by the Board on 16 March 2017 and signed on its behalf by:

T. Midd

T.Middleton
Director

REPORT OF THE DIRECTORS

The directors present their Directors' Report and the financial statements of the group for the year ended 30 June 2016.

DIRECTORS

The following directors held office from 1 July 2015 up to the date of signing these financial statements;

T Middleton
K Hilton
C G Rowe
L R Litwinowicz
R Papanicolaou

RESPONSIBILITIES OF DIRECTORS

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and applicable law. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss of the Group for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether IFRS as adopted by the European Union have been followed subject to any material departures disclosed and explained in the financial statements;
- provide additional disclosures when compliance with specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

DISCLOSURE OF INFORMATION TO THE AUDITOR

In so far as the directors are, individually, aware

- there is no relevant audit information of which the company's auditor is unaware, and
- each director has taken all steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

AUDITOR

Mazars LLP were auditor during the year and a resolution to reappoint Mazars LLP as auditor for the ensuing year will be proposed at the forthcoming annual general meeting.

Approved by the Board on 16 March 2017 and signed on its behalf by:

K Hilton
Director

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KEY TECHNOLOGIES LIMITED AND SUBSIDIARY COMPANIES

We have audited the consolidated financial statements of Key Technologies Limited for the year ended 30 June 2016 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Balance Sheets, the Consolidated and Parent Company Cash Flow Statements, the Consolidated and Parent Company Statements of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRS") as adopted by the European Union and as regards the parent company financial statements as applied in accordance with the provisions of the Companies Act 2006.

Respective responsibilities of directors and auditors

As explained more fully in the Directors responsibilities statement set out on page 4 the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. 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.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.auditukscopeprivate.

Opinion on the financial statements

In our opinion:

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

Opinion on the other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Ian Holder (Senior Statutory Auditor)
For and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor
45 Church Street
Birmingham
B3 2RT
24 March 2017

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 30 June 2016

	Notes	**2016 Underlying £000**	**2016 Non-Underlying £000**	**2016 Total £000**	2015 Underlying £000	2015 Non-Underlying £000	2015 Total £000
CONTINUING OPERATIONS							
Revenue		**23,847**	-	**23,847**	19,115	-	19,115
Cost of sales		**(16,819)**	-	**(16,819)**	(13,626)	-	(13,626)
Gross profit		**7,028**	-	**7,028**	5,489	-	5,489
Administrative expenses		**(4,180)**	-	**(4,180)**	(4,019)	-	(4,019)
Impairment/amortisation		**(84)**	**(792)**	**(876)**	-	(794)	(794)
Exceptional costs	2	**(201)**	-	**(201)**	(24)	(5)	(29)
Operating profit/(loss)	2	**2,563**	**(792)**	**1,771**	1,446	(799)	647
Finance costs	3	**(527)**	**(69)**	**(596)**	(507)	(132)	(639)
Profit/(loss) before income tax		**2,036**	**(861)**	**1,175**	939	(931)	8
Taxation	4	**(75)**	-	**(75)**	69	-	69
Profit/(loss) for the year from continued operations		**1,961**	**(861)**	**1,100**	1,008	(931)	77
Total comprehensive income for the year		**1,961**	**(861)**	**1,100**	1,008	(931)	77

All of the activities of the company are classed as continuing.

CONSOLIDATED BALANCE SHEET
As at 30 June 2016

	Notes	2016 £000	2015 £000
Non-current assets			
Intangible assets	5	**8,658**	9,326
Property, plant and equipment	6	**1,370**	862
Retirement benefit scheme asset	21	**-**	-
Deferred tax	14	**710**	710
		10,738	10,898
Current assets			
Inventories	8	**1,314**	1,126
Construction contract work in progress	9	**1,614**	1,375
Trade and other receivables	10	**5,840**	5,096
Current tax receivable	10	**-**	207
Cash and cash equivalents	10	**69**	1,105
		8,837	8,909
Total assets		**19,575**	19,807
Current liabilities			
Cash and cash equivalents	10	**-**	-
Borrowings	11	**1,250**	1,000
Trade and other payables	11	**6,842**	6,939
Amounts due to customers for contract work	9	**-**	-
Current tax payable	11	**64**	-
		8,156	7,939
Net current assets		**681**	970
Non-current liabilities			
Long term borrowings	12	**5,253**	6,432
Other creditors	12	**809**	1,105
Deferred tax	14	**57**	41
Provisions for liabilities	13	**-**	90
		6,119	7,668
Total liabilities		**14,275**	15,607
Net assets		**5,300**	4,200
Share capital	15	**74**	74
Share premium account		**1,777**	1,777
Merger reserve		**3,410**	3,410
Other reserves		**31**	31
Retained loss		**8**	(1,092)
Total equity		**5,300**	4,200

The financial statements were approved by the board of directors on 16 March 2017 and are signed on its behalf by:

K Hilton – Director
Company number 06515775

COMPANY BALANCE SHEET
As at 30 June 2016

	Notes	2016 £000	2015 £000
Non-current assets			
Investments	7	**12,958**	12,958
Tangible assets	6	**9**	14
Retirement benefit scheme asset	21	**-**	-
Trade and other receivables more than one year	10	**4,000**	4,000
		16,967	16,972
Current assets			
Trade and other receivables	10	**448**	1,022
Cash and cash equivalents	10	**-**	-
		448	1,022
Total assets		**17,415**	17,994
Current liabilities			
Cash and cash equivalents	10	**726**	458
Borrowings	11	**1,250**	1,000
Trade and other payables	11	**1,553**	1,383
		3,529	2,841
Net current liabilities		**(3,081)**	(1,819)
Non-current liabilities			
Long term borrowings	12	**10,260**	10,240
Provisions for liabilities	13	**-**	90
		10,260	10,330
Total liabilities		**13,789**	13,171
Net assets		**3,626**	4,823
Share capital	15	**74**	74
Share premium account		**1,777**	1,777
Merger reserve		**3,410**	3,410
Other reserves		**31**	31
Retained loss		**(1,666)**	(469)
Total equity		**3,626**	4,823

The financial statements were approved by the board of directors on 16 March 2017 and are signed on its behalf by:

K Hilton – Director
Company number 06515775

STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June 2016

Group	Share capital £000	Share premium £000	Merger reserve £000	Retained earnings £000	Other reserves £000	Total £000
Balance as at 1 July 2014	74	1,777	3,410	(1,169)	31	4,123
Profit for the year	-	-	-	77	-	77
Balance as 30 June 2015	74	1,777	3,410	(1,092)	31	4,200
Profit for the year	-	-	-	1,100	-	1,100
Balance as 30 June 2016	**74**	**1,777**	**3,410**	**8**	**31**	**5,300**

Company	Share capital £000	Share premium £000	Merger reserve £000	Retained earnings £000	Other reserves £000	Total £000
Balance as at 1 July 2014	74	1,777	3,410	441	31	5,733
Loss for the year	-	-	-	(910)	-	(910)
Balance as 30 June 2015	74	1,777	3,410	(469)	31	4,823
Loss for the year	-	-	-	(1,197)	-	(1,197)
Balance as 30 June 2016	**74**	**1,777**	**3,410**	**(1,666)**	**31**	**3,626**

The merger reserve arose when the shares of STS International Limited were exchanged for shares in Key Technologies Limited.

Other reserves relate to the fair value of the equity component of convertible unsecured loan stock issued during a previous year.

CONSOLIDATED CASHFLOW STATEMENT
for the year ended 30 June 2016

	Cashflow Note	2016 £000	2015 £000
Cash inflows from operating activities	1	**1,498**	3,035
Investing activities			
Acquisition of property, plant and equipment		**(750)**	(470)
Acquisition of intangible assets		**(208)**	(65)
Deferred consideration received		**101**	108
Deferred consideration payment		**(221)**	(294)
Proceeds on disposal of tangible asset		**-**	16
Net cash used in investing activities		**(1,078)**	(705)
Financing activities			
Interest and similar expenses paid		**(527)**	(507)
Payment of transaction costs related to loans and borrowings		**-**	(45)
Net movement on borrowings		**(929)**	(315)
Net cash used in financing activities		**(1,456)**	(867)
Net (decrease)/increase in cash and cash equivalents		**(1,036)**	1,463
Cash and cash equivalents at beginning of year		**1,105**	(358)
Cash and cash equivalents at year end		**69**	1,105

COMPANY CASHFLOW STATEMENT
for the year ended 30 June 2016

	Cashflow Note	2016 £000	2015 £000
Cash flows from operating activities	1	**(43)**	201
Investing activities			
Deferred consideration received		**101**	108
Net cash from investing activities		**101**	108
Financing activities			
Interest and similar expenses paid		**(527)**	(507)
Payment of transaction costs related to loans and borrowings		**-**	(45)
Net movement on borrowings		**201**	(314)
Net cash used in financing activities		**(326)**	(866)
Net decrease in cash and cash equivalents		**(268)**	(557)
Cash and cash equivalents at beginning of year		**(458)**	99
Cash and cash equivalents at year end		**(726)**	(458)

NOTES TO THE CONSOLIDATED AND COMPANY CASHFLOW STATEMENT
for the year ended 30 June 2016

1. Reconciliation of operating profit/(loss) to net cash flow from operating activities

	2016 Group £000	**2016 Company £000**	2015 Group £000	2015 Company £000
Profit /(loss) before income tax for the year	**1,175**	**(1,197)**	8	(910)
Add back net financing costs	**596**	**596**	639	639
Operating profit/(loss) for the year	**1,771**	**(601)**	647	(271)
Adjustments for				
Depreciation of property, plant and equipment	**242**	**5**	312	18
Amortisation of intangible assets	**876**	**-**	830	-
Loss on disposal of tangible asset	**-**	**-**	5	-
Operating cash flows before movements in working capital	**2,889**	**(596)**	1,794	(253)
(Increase)/decrease in inventories	**(215)**	**-**	(675)	-
Decrease/(increase) in receivables	**(1,057)**	**473**	895	(542)
Increase/(decrease) in payables	**(331)**	**80**	937	996
Taxation	**212**	**-**	84	-
Net cash flow from operating activities	**1,498**	**(43)**	3,035	201

1 ACCOUNTING POLICIES

1.1 General information

Key Technologies Limited is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is 5 The Courtyard, Timothy's Bridge Road, Stratford Upon Avon, Warwickshire, CV37 9NP.

The principal activity of Group is set out in the principal activities and business review set out on page 2 of the financial statements.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates. Foreign transactions are included in accordance with the accounting policy set out in 1.12 below.

1.2 Presentation of financial statements

These consolidated and company financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as endorsed by the International Accounting Standards Board and adopted by the EU ("adopted IFRS"). They have been prepared in accordance with those parts of the Companies Act 2006 applicable to companies preparing accounts under IFRS. The consolidated financial statements have been prepared under the historical cost convention except in the case of financial instruments required to be included in the financial statements at fair value.

The directors consider it appropriate that the financial statements are prepared on a going concern basis. The Directors have prepared cash and profit forecasts for the next 5 years and together with their other enquiries leads them to conclude that the company has a reasonable expectation of being able to meet its liabilities as they fall due, at least for the next 12 months from the date of approval of these financial statements.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all years presented in these financial statements.

1.3 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and enterprises controlled by the company (and its subsidiaries) made up to 30 June 2016. Control is achieved where the company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

On acquisition, the identifiable assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies used into line with those used by the group.

All intra-group transactions, balances, income and expenditure are eliminated on consolidation.

In accordance with the Companies Act 2006, Section 408, a separate income statement of Key Technologies Limited is not presented. The loss after tax of Key Technologies Limited for the year ended 30 June 2016 was £1,197,000.

1.4 Goodwill and other intangible assets

Goodwill arising on consolidation represents the excess of the fair value of the consideration for investment in subsidiary undertakings over the group's interest in the fair value of identifiable assets and liabilities acquired. Goodwill is stated at cost less any accumulated impairment losses. Goodwill is reviewed annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

Acquired goodwill is stated at cost and reviewed annually for impairment.

Licences are valued at cost less accumulated amortisation. Amortisation is calculated to write off the cost in equal instalments over their estimated useful life of between 3 and 5 years.

Products, contracts and brands are valued at cost less amortisation. Amortisation is calculated to write off the cost in equal instalments over their useful life of 10 years.

1.5 Revenue recognition

Revenue represents amounts receivable for goods and services net of VAT and trade discounts. Revenue is recognized when goods are delivered and title has passed, or the group has otherwise fulfilled its performance, obligations or in line with accounting policy 1.8 for construction contracts.

1.6 Investments

Non-current investments are stated at cost less provision for impairment. A review is carried out at the end of each financial year end to determine if any assets have suffered an impairment loss.

1.7 Inventories and work in progress

Inventories and work in progress (other than construction contracts) are stated at the lower of cost and net realisable value. Costs comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Costs are allocated on a first in first out basis.

Net realisable value represents the estimated selling price less estimated costs to completion and costs to be incurred in marketing, selling and distribution.

A provision is made for obsolete, slow moving or otherwise impaired inventory.

1.8 Construction contracts

When the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion at the balance sheet. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the income of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recovered. Contract costs are recognised as expenses in the year in which they are incurred.

Where it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Payments on account are firstly deducted from construction contract work in progress, any excess is included in creditors as payments on accounts.

1.9 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation.

Depreciation is charged so as to write off the cost over its expected useful lives, using the straight-line method, as follows:

Leasehold improvements	- over the length of the lease
Plant and equipment	- 20% & 33% per annum straight line
Motor vehicles	- 20% per annum straight line
Fixtures, fittings and equipment	- 20% per annum straight line.

1.10 Leasing and hire purchase commitments

Where assets are financed by leasing agreements and the risks and rewards are substantially transferred to the group ("finance leases") the assets are treated as if they had been purchased outright and the corresponding liability to the leasing company is included as an obligation under finance leases. Depreciation is charged to the income statement on the same basis as owned assets.

Leasing payments are treated as consisting of capital and interest elements and the interest is charged to the income statement on the sum of digits basis.

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases and are accounted for on a straight line basis over the term of the lease.

1.11 Impairment of assets

A review is carried out at the end of each financial year to determine if any assets have suffered an impairment loss. If such indication exists, the asset's recoverable amount is estimated and compared to its carrying value. Impairment losses are recognised in the income statement when an asset's carrying value exceeds its recoverable amount.

1.12 Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to the income statement.

1.13 Research and development

Research expenditure is written off to the income statement in the period in which it is incurred. Development expenditure is written off to the income statement in the year in which it is incurred unless the expenditure meets, and the company demonstrates, the following criteria; the completion is technically feasible to make the intangible asset available for use or for sale; there is the intention to complete the intangible asset and use or sell it; the company is able to use or sell the intangible asset; there are probable future economic benefits likely to result from the intangible asset; adequate technical, financial and other resources exist to complete the development and the expenditure attributable to the intangible asset can be measured reliably.

1.14 Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

The group operates a defined benefit retirement benefit plan which requires contributions to be made to a separately administered funds. For the defined benefit retirement benefit plan, the cost of providing benefits is determined using the projected unit credit method, with interim actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses are immediately recognised in full. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the amended benefits become vested.

The amount recognised in the balance sheet represents the present value of the defined benefit obligation reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to the present value of available refunds and reductions in future contributions to the plan.

1.15 Warranty provision

Provision is made for the estimated future cost of fulfilling the company's warranty obligations, based upon historical warranty experience and future expectations.

1.16 Taxation

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full using the balance sheet liability method. Deferred tax is the future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities shown on the balance sheet. Deferred tax assets and liabilities are not recognised if they arise in the following situations; the initial recognition of goodwill or the initial recognition of assets and liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of recovery or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantially enacted at the balance sheet date. Deferred tax charges and credits are recognised in the income statement unless they relate to items taken to the statement of comprehensive income in which case the related deferred tax charge or credit is also taken to the statement of comprehensive income.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. The carrying amount of the deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

1.17 Government grants

Grants are credited to deferred revenue. Grants towards capital expenditure are released to the income statement over the expected useful life of the assets. Grants towards revenue expenditure are released to the income statement as the related expenditure is incurred.

1.18 Financial instruments

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

1.19 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

1.20 Borrowings

Interest bearing borrowings and overdrafts are recorded when the proceeds are received, net of direct issue costs. Finance charges, including premiums payable on settlement of redemption and incremental costs directly attributable to the issue, are accounted for on an accruals basis as part of finance expenses in the income statement using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period that they arise.

1.21 Compound Financial Instruments

The group evaluates the carrying amount of the liability component of compound financial instruments by measuring the fair value of a similar liability that does not have an associated equity component. The carrying amount of the equity instrument represented by the option to convert the instrument into ordinary shares is then determined by deducting the fair value of the financial liability from the fair value of the compound financial instrument as a whole.

1.22 Trade receivables

Trade receivables are initially measured at fair value.. They are reflected net of estimated provisions for doubtful client accounts. The provision is based in historic collection patterns and with reference to the ageing of certain balances and other relevant information available to the directors.

1.23 Trade payables

Trade payables are initially measured at fair value.

1.24 Share based payment

The group issues share options to certain employees. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense with a corresponding increase in equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in the assumptions about the number of options that are expected to vest. At each balance sheet date, the group revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimated, if any, in the income statement, with a corresponding adjustment to equity.

Fair value is measured using the Black-Scholes model.

1.25 Adoption of new and revised standards

The adoption of the following standards, amendments and interpretations in the current year have not had a material impact on the Group's/Company's financial statements.

	EU effective date periods beginning on or after
IFRIC 21 'Levies'	17 June 2014
Annual Improvements to IFRS (2011 - 2013)	1 January 2015

Standards, amendments and interpretations in issue but not yet effective

The adoption of the following standards, amendments and interpretations in future years will be assessed to consider the impact they will have on the Group/Company's financial statements.

	EU effective date – periods beginning on or after
IAS 1 (amendment) 'Presentation of Financial Statements' - Disclosure initiative	1 January 2016
IAS 16 (amendment) 'Property, Plant and Equipment' and IAS 38 (amendment) 'Intangible Assets' - Clarification of acceptable methods of depreciation and amortisation	1 January 2016
IAS 16 (amendment) 'Property, Plant and Equipment' and IAS 41 (amendment) 'Agriculture' - Agriculture: Bearer plants	1 January 2016
IAS 19 (amendment) 'Employee Benefits' - Defined benefit plans: Employee contributions	1 February 2015
IAS 27 (amendment) 'Separate Financial Statements' - Equity method in separate financial statements	1 January 2016
IFRS 10 (amendment) 'Consolidated Financial Statements', IFRS 12 (amendment) 'Disclosure of Interests in Other Entities' and IAS 28 (amendment) 'Investments in Associates and Joint Ventures' - Investment entities: Applying the consolidation exception	Expected to be endorsed after 1 January 2016
IFRS 11 (amendment) 'Joint Arrangements' - Accounting for acquisitions of interests in joint operations	1 January 2016
Annual Improvements to IFRS (2010 - 2012)	1 February 2015
Annual Improvements to IFRS (2012 - 2014)	1 January 2016
IAS 7 (amendment) 'Statement of Cash Flows' - Disclosure initiative	Expected to be endorsed before 1 January 2017 *
IAS 12 (amendment) 'Income Taxes' - Recognition of deferred tax assets for unrealised losses	Expected to be endorsed before 1 January 2017 *
IFRS 9 'Financial Instruments'	Expected to be endorsed before 1 January 2018 *
IFRS 15 'Revenue from Contracts with Customers'	Expected to be endorsed before 1 January 2018 *
Clarifications to IFRS 15 'Revenue from Contracts with Customers'	Expected to be endorsed before 1 January 2018 *

1.25 Adoption of new and revised standards (continued)

IFRS 2 (amendment) 'Share-based Payment' - Classification and measurement of share-based payment transactions	Expected to be endorsed before 1 January 2018 *
IFRS 16 'Leases'	Expected to be endorsed before 1 January 2019 *
IFRS 14 'Regulatory Deferral Accounts'	Will not be endorsed by the EU
IFRS 10 (amendment) 'Consolidated Financial Statements' and IAS 28 (amendment) 'Investments in Associates and Joint Ventures' - Sale or contribution of assets between an investor and its associate or joint venture	Endorsement has been postponed indefinitely

* These standards, amendments and interpretations have not yet been endorsed by the EU and the dates shown are the expected dates.

The adoption of the above mentioned standards, amendments and interpretations in future years are not expected to have a material impact on the Group/Company's financial statements.

1.26 Critical accounting judgments and key sources of estimation uncertainty

The preparation of accounts in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may ultimately differ from those estimates the key source of estimation uncertainty at the balance sheet date derives from management assumptions in relation to the level of completion of construction contracts. The accounting policy in relation to this item is disclosed in note 1.8 above. Impairment tests have been undertaken on Goodwill as detailed in note 6.

2. Operating profit/(loss)

	2016	2015
	£000	£000
Operating profit/(loss) is stated after charging/(crediting)		
Depreciation of property, plant and equipment	**255**	312
Research and development	**709**	455
Operating lease rentals		
- Plant and machinery	**27**	23
- Other operating leases	**545**	566
Amortisation of intangible assets	**876**	840
Exceptional costs	**201**	29
Loss of disposal of fixed assets	**-**	5
Profit on foreign exchange	**(295)**	-
Fees payable to company's auditor for the audit of the company's annual accounts	**7**	7
Fees payable to company's auditor for other services:		
-The audit of the company's subsidiaries pursuant to legislation	**17**	17
Fees payable to associates of the auditor		
-Other services	**6**	4

Exceptional costs in the year comprise costs relating to professional fees £19k (2015 £Nil), restructuring of £46,000 (2015 £5,000), one off bonus payments £131,000 (2015 £Nil) and deficit payments to the defined pension scheme of £4,000 (2015 £24,000).

3. Finance costs

	2016 £000	2015 £000
Interest on bank loans and overdrafts	**265**	283
Interest on other loans	**262**	224
Fees relating to costs of financing	-	45
Amortisation of debt issue costs	**69**	87
	596	639

4. Taxation

	2016 £000	2015 £000
UK current tax		
UK Corporation tax		
Current year	**63**	(110)
Adjustment for prior year	**(4)**	-
Current tax charge	**59**	(110)
Deferred tax		
Deferred tax credit current year	**16**	41
Taxation for the year	**75**	(69)
Factors affecting taxation for the year		
Profit on ordinary activities before taxation	**1,175**	8
Profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 20.00% (2015: 20.75%)	**235**	2
Non-deductible expenses	**19**	4
Losses carried forward	-	32
Other tax adjustments	**15**	3
Additional deduction for R&D expenditure	**(156)**	(110)
Deferred tax not recognised	**(34)**	-
Adjustments to prior year	**(4)**	-
Taxation for the year	**75**	(69)

5. Intangible assets

Group	Products £000	Contracts £000	Brands £000	Licences £000	Goodwill £000	Total £000
Cost						
At 30 June 2014	9,247	316	1,051	2	5,322	15,938
Additions	75	-	-	-	-	75
At 30 June 2015	9,322	316	1,051	2	5,322	16,013
Additions	208	-	-	-	-	208
At 30 June 2016	**9,530**	**316**	**1,051**	**2**	**5,322**	**16,221**
Amortisation						
At 30 June 2014	5,086	175	584	2	-	5,847
Provided during the year	732	25	83	-	-	840
At 30 June 2015	5,818	200	667	2	-	6,687
Provided during the year	768	25	83	-	-	876
At 30 June 2016	**6,586**	**225**	**750**	**2**	**-**	**7,563**
Net book value						
At 30 June 2016	**2,944**	**91**	**301**	**-**	**5,322**	**8,658**
At 30 June 2015	3,504	116	384	-	5,322	9,326

Impairment tests on the carrying values of goodwill are performed by analysing the carrying value allocated to each significant cash generating unit against its value in use. All goodwill is allocated to specific cash generating units which are in all cases no larger than operating segments. Value in use is calculated for each cash generating unit as the present value of that unit's discounted future cash flows. Cash flow projections are based on the next three years budgets and plans approved by management based on their view of industry growth forecasts and expèctations for the future. Cashflow projections beyond that three-year period have been extrapolated on the basis of a 2% growth rate.

The Company carries out an impairment test of goodwill on an annual basis. For the year ended on 30 June 2015, a detailed impairment was undertaken. The impairment test has been carried out using a Discounted Cash Flow unlevered model covering a 5 year period.

The principal assumptions made in determining value in use are analysed as follows:

Cash flow projections are based on the next three years budgets and plans approved by management based on their view of industry growth forecasts and expectations for the future Cash flow projections beyond that three-year period have been extrapolated on the basis of a 2% growth rate.

The pre tax discount rate used to discount projected cash flows have been derived from the Company's post tax weighted average cost of capital of 5.3% and adjusted to account for currency risk, country risk and other factors affecting the income generating unit.

The directors have tested the above assumptions and a 1% increase in the pre tax discount rate would require an extra £41,000 impairment. Setting the long term growth rate beyond 3 years to zero would require an extra £101,000 impairment.

6. Property, plant and equipment - Group

	Leasehold improvements £000	Plant, office equipment and vehicles £000	Total £000
Cost			
At 30 June 2014	806	2,065	2,871
Additions	18	452	470
Disposals	-	(65)	(65)
At 30 June 2015	824	2,452	3,276
Additions	123	640	763
Disposals	-	-	-
At 30 June 2016	**947**	**3,092**	**4,039**
Depreciation			
At 30 June 2014	647	1,499	2,146
Charge for year	23	289	312
Estimated on disposal	-	(44)	(44)
At 30 June 2015	670	1,744	2,414
Charge for year	29	226	255
Estimated on disposal	-	-	-
At 30 June 2016	**699**	**1,970**	**2,669**
Net book value			
At 30 June 2016	**248**	**1,122**	**1,370**
At 30 June 2015	154	708	862

6. Property, plant and equipment (continued) – Company

	Leasehold improvements £000	Office equipment £000	Total £000
Cost			
At 30 June 2014	595	107	702
Additions	-	-	-
At 30 June 2015	595	107	702
Additions	-	-	-
At 30 June 2016	**595**	**107**	**702**
Depreciation			
At 30 June 2014	595	75	670
Charge for year	-	18	18
At 30 June 2015	595	93	688
Charge for year	-	5	5
At 30 June 2015	**595**	**98**	**693**
Net book value			
At 30 June 2016	**-**	**9**	**9**
At 30 June 2015	-	14	14

7. Fixed asset investments - Company

	Shares in subsidiary undertakings £000
At 30 June 2015 and at 30 June 2016	12,958

Name of undertaking	Country of Incorporation	Description of shares held	Proportion of nominal value of issued shares held by the group %
STS International Limited*	England and Wales	Ordinary	100
STS Defence Limited	England and Wales	Ordinary	100
Primetake Limited	England and Wales	Ordinary	100
SR Antenna Systems Limited	England and Wales	Ordinary	100**

All the above subsidiary undertakings have been consolidated in the financial statements using the acquisition method.

*STS International Limited is exempt from preparing individual accounts and filing these accounts with the registrar by virtue of s394a and s448a of Companies Act 2006 respectively.

**Held by STS Defence Limited

8. Inventories - Group

	2016 £000	2015 £000
Raw materials and consumables	**1,314**	1,126

In the opinion of the directors there is no significant difference between the replacement cost and the value disclosed for inventories.

The total inventory charged as an expense in the year amounted to £13,540,000 (2015: £10,969,000).

9. Construction contracts - Group

The breakdown of the amounts included in the balance sheet is as follows:

	2016 £000	2015 £000
Construction contracts	**1,614**	1,375
Invoicing account to customers	**-**	-
	1,614	1,375
Of which amounts are disclosed		
Under assets	**1,614**	1,375
Under liabilities	**-**	-
	1,614	1,375

10. Other financial assets

	2016 Group £000	2016 Company £000	2015 Group £000	2015 Company £000
Trade and other receivables				
Trade receivables	**5,158**	-	4,334	1
Provision for doubtful debts	-	-	-	-
	5,158	-	4,334	1
Current tax receivable	-	-	207	-
Related party receivables	-	**4,423**	-	4,800
Other debtors	**65**	**1**	203	198
Prepayments and accrued income	**617**	**24**	559	23
	5,840	**4,448**	5,303	5,022
Included in other debtors above are:				
Other debtor more than one year	-	**4,000**	-	4,000

Cash, cash equivalents and bank overdrafts include the following for the purpose of the cash flow statement:

	2016 Group £000	2016 Company £000	2015 Group £000	2015 Company £000
Cash and cash equivalents	**2,814**	-	2,962	-
Bank overdrafts	**(2,745)**	**(726)**	(1,857)	(458)
	69	**(726)**	1,105	(458)

As the group has a pooling arrangement with regard to the individual company bank balances the net position has been shown as an asset within the group and company financial statements.

11. Other financial liabilities

Trade and other payables	2016 Group £000	2016 Company £000	2015 Group £000	2015 Company £000
Trade payables	**2,573**	**144**	2,780	77
Other taxation and social security	**373**	**4**	744	2
Related party payables	-	**317**	-	423
Other creditors	**1,268**	**16**	1,344	60
Accrued expenses and deferred income	**2,628**	**1,072**	2,071	821
	6,842	**1,553**	6,939	1,383
Current tax payable	**64**	-	-	-
Payments received on account	-	-	-	-
Bank and other loans (see note 12)	**1,250**	**1,250**	1,000	1,000
Cash and cash equivalents (see note 10)	-	**726**	-	458
	8,156	**3,529**	7,939	2,841

For details on borrowings and security see note 12.

12. Non-current liabilities

	2016		2015	
	Group	**Company**	Group	Company
	£000	**£000**	£000	£000
Bank and other loans	**5,253**	**5,253**	6,432	6,432
Related party loan	**-**	**5,007**	-	3,808
	5,253	**10,260**	6,432	10,240
Other creditors	**809**	**-**	1,105	-
	6,062	**10,260**	7,537	10,240
The bank and other loans are repayable as follows:				
On demand or within one year	**1,250**	**1,250**	1,000	1,000
Within one to two years	**3,912**	**3,912**	1,250	1,250
Within two to five years	**1,446**	**6,453**	5,356	9,164
After five years	**-**	**-**	-	-
	6,608	**11,615**	7,606	11,414
Included in current liabilities	**(1,250)**	**(1,250)**	(1,000)	(1,000)
Less: unamortised issue costs	**(105)**	**(105)**	(174)	(174)
	5,253	**10,260**	6,432	10,240

Amounts included within current liabilities in respect of the above loans are as follows:

	2016		2015	
	Group	**Company**	Group	Company
	£000	**£000**	£000	£000
Bank loans	**1,250**	**1,250**	1,000	1,000

Interest on bank loans accrues at a variable rate of 2.75 percent above LIBOR. The costs of raising the above debt finance are being amortised over the period of the relevant loan.

Net bank borrowings totaling £4,341,000 (2015: £4,307,000) are secured by fixed and floating charges over assets and group companies.

Within 'Non-current liabilities: other loans' there is a balance amounting to £1,446,000 (2015: £1,446,000) which relates to convertible unsecured loan stock. The equity component of this compound financial instrument has been calculated at £31,000 and is shown within equity. The holder has the option to convert the stock to ordinary shares at the rate of one share for every £2 of stock held at any time from 1 January 2009 to 31 March 2018. The number of ordinary shares that would be issued if all stockholders converted their stock would be 738,340.

13. Provisions for liabilities

	Group £000	Company £000
Balance at 30 June 2014	90	90
Transfer	-	-
Balance at 30 June 2015	90	90
Transfer to income in year	(90)	(90)
Balance at 30 June 2016	-	-

The provisions related to the costs of dilapidation or contractual repairs to properties held under leases that expired in the year.

14. Deferred taxation - Group

	2016 £000	2015 £000
Deferred tax asset to be recovered after more than 12 months	**(710)**	(710)
Deferred tax asset to be recovered within 12 months	**57**	41
Deferred tax asset	**(653)**	(669)
Of which amounts are disclosed:		
Under assets	**(710)**	(710)
Under liabilities	**57**	41
	(653)	(669)

The gross movement on the deferred tax account is as follows

	2015 £000	2014 £000
Balance at 30 June 2015	**(669)**	(710)
Income statement credit		
- depreciation in advance of capital allowances	**16**	41
- other timing differences	-	-
- trade losses earned forward	-	-
Comprehensive income statement debit		
- Defined benefit pension scheme movement	-	-
Balance at 30 June 2016	**(653)**	(669)

Group deferred tax is provided as follows:

	2016 £000	**2015 £000**
Depreciation in excess of capital allowances	**57**	41
Trade losses carried forward	**(710)**	(710)
Defined benefit pension scheme asset	-	-
	(653)	(669)

The recoverability of the deferred tax asset is dependent on future taxable profits in excess of those arising from the reversal of deferred tax liabilities.

15. Share capital

Group and Company	2016 £000	2015 £000
Authorised		
20,000,000 Ordinary shares of 1p each	**200**	200
Allotted, called up and fully paid		
7,383,431 Ordinary shares of 1p each	74	74

16. Contingent liabilities

Company only
The company is party to a cross guarantee relating to the group's bank borrowings. At 30 June 2016, net bank borrowings relating to the guarantee are £4,341,000 (2015 £4,307,000).

In addition the Group has provided a performance guarantee to an overseas customer for $282,000. No liability is expected to arise from this guarantee.

17. Directors' remuneration

	Group 2016 £000	Group 2015 £000
Emoluments for qualifying services	**342**	339
Contributions to money purchase pension schemes	**80**	33
Benefits in kind	**3**	3
	425	375

Highest paid director

	Group 2016 £000	Group 2015 £000
Emoluments for qualifying services	**204**	190
Contributions to money purchase pension schemes	**58**	12
Benefits in kind	**1**	1
	263	203

The number of directors for whom retirement benefits are accruing under money purchase pension schemes amounted to 3 (2015: 3).

18. Staff costs

The average monthly number of employees (including directors) during the year was:

	2016		2015	
	Group No.	Company No.	Group No.	Company No.
Manufacturing	189	-	176	-
Sales and administration	52	6	48	6
	241	6	224	6

Staff costs during the year (including directors) were as follows:

	2016		2015	
	Group £000	Company £000	Group £000	Company £000
Wages and salaries	7,199	413	6,379	321
Social security costs	682	34	617	38
Other pension costs	101	14	108	14
	7,982	461	7,104	373

19. Financial commitments

At 30 June 2016 the group had total commitments for future minimum lease payments under non-cancellable operating leases as follows:

	2016 £000	2015 £000
Falling due within one year	587	595
Falling due between two and five years	2,246	2,506
Falling due after five years	1,109	1,478
	3,942	4,579

20. Financial instruments and risks

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders. The capital structure of the Group consists of cash and cash equivalents and equity comprising issued share capital, reserves and retained earnings. The Group is not subject to any externally imposed capital requirements.

The principal financial instruments of the company comprise cash and bank deposits, bank overdrafts and loans together with trade creditors and trade debtors that arise directly from its operations. The main purpose of these instruments is to raise funds for the Group's operations and to finance its continuing operations.

The Company's operations expose it to a variety of financial risks including the effects of currency risk, credit risk, liquidity risk and interest rate risk:

Currency Risk - the Group has foreign currency dealings with customers and suppliers based outside the UK which are consequently subject to exchange rate fluctuations. The Group actively manages these exposures with foreign currency instruments unless there is a natural hedge between sales and purchases. The principal currencies involved are US Dollars and Euros.

Liquidity Risk - the Group manages this risk by the use of bank balances and overdraft facilities along with efficient monitoring and forecasting of cashflow and bank covenants to ensure there are sufficient funds to meet liabilities.

Credit Risk - trade debtors are managed in respect of credit and cashflow risk by policies monitoring the credit offered to customers and regular monitoring of amounts outstanding for both time and total exposure.

The ageing profile of trade receivables is as follows:

	2016	2015
	£000	£000
Ageing profile		
Up to 3 months	**5,069**	4,036
3 to 6 months	**37**	57
6 to 12 months	**62**	241
Over 12 months		-
Gross trade receivables	**5,168**	4,334
Less impairment	**(10)**	-
Total	**5,158**	4,334

Balances over 3 months old have either been provided for or are considered to be recoverable.

The movement on the provision for impairment of group trade receivables is as follows:

	£000
As at 1 July 2015	-
Released during the year	10
As at 30 June 2016	10

Trade receivables amounting to £1,080,000 (2015: £1,589,000) are past due but have not been provided for as the amounts are considered to be receivable in full.

Interest Rate Risk - the group has exposure to increases in interest rates on its bank loans and overdraft facility. The risk is limited by an interest rate cap instrument.

21. Retirement benefit plans

Defined contribution

The group operates a defined contribution scheme. The assets of the scheme are held separately from those of the group in independently administered funds. The pension cost charge represents contributions payable by the group to the funds.

	2016 £000	2015 £000
Contributions payable by the group for the period	101	108
Contributions accrued and payable at the period end	35	12

Defined benefit

The group provided pension arrangements through a funded defined benefit scheme, the STF Field Grant Limited Pension Scheme. The scheme is closed to new members.

STS Field Grant Limited Pension Scheme
The pension costs relating to this scheme are assessed every three years in accordance with the advice of a qualified actuary using the project unit method. The most recent valuation at 1 January 2015 indicates that, on the basis of service to date and current salaries, the schemes' assets were sufficient to meet liabilities.

At 30 June 2016 the scheme, which is contracted out of the state scheme, had assets of approximately £9,559,000 (2015: £8,787,000) at market value.

Contributions to both schemes by employees and the group have been maintained in accordance with the recommendations of the actuary in their previous valuations.

International Accounting Standard 19 'Retirement Benefits' disclosures
The group operates a defined benefits scheme, the STS Field Grant Limited Pension Scheme. A full valuation was undertaken as at 1 January 2015 and updated to 30 June 2016 by a qualified independent actuary. The assumptions used by the actuary in their valuation of the scheme at 30 June 2016 are given below, as well as a breakdown of the schemes assets and liabilities at that date.

The major assumptions used were as follows:

	At 30 June 2016	At 30 June 2015
Discount rate	3.7%	4.5%
Consumer price inflation	1.7%	2.0%
Salary increase rate		
Pensions increases (at Limited Price Indexation)	2.7%	2.9%
Deferred pension revaluation	1.7%	2.0%

Mortality rates follow the standard table known as SIPA using 100% of the base table with the CMI 2014 mortality projections with a long term rate of improvement of 1%. The mortality assumptions are set out below:

21. Retirement benefit plans (continued)

Assuming retirement at age 65, the life expectancies in years are as follows:

	CMI 2014 30 June 2016	CMI 2011 30 June 2015
For a male aged 65 now	**22.2**	22.2
At 65 for a male member aged 45 now	**23.5**	23.5
For a female aged 65 now	**24.5**	24.4
At 65 for a female member aged 45 now	**26.0**	25.9

The market value of the assets held, and the expected rates of return assumed are as follows:

STS Field Grant Limited Pension Scheme

	Value at 30 June 2016 £000	Value at 30 June 2015 £000
Equities	**4,368**	4,218
Bonds	**4,837**	4,306
Cash	**354**	263
	9,559	8,787

	Total 2016 £000	Total 2015 £000	Total 2014 £000
Total market value of assets	**9,559**	8,787	8,237
Value of scheme liabilities	**(6,674)**	(6,195)	(5,619)
Surplus in the scheme	**2,885**	2,592	2,618
Unrecognised asset due to surplus restriction	**(2,885)**	(2,592)	(2,618)
	-	-	-

The relevant retirement benefit assets have been restricted to the present value of the scheme's future pension costs, less the present value of the contributions for future service committed to in the relevant schedule of contributions in line with IFRIC 14.

21. Retirement benefit plans (continued)

The amounts recognised in the income statement are as follows:

	2016 £000	2015 £000
Current service cost	-	-
Interest on obligation	273	275
Expected return on plan assets	(389)	(406)
Contributions	(6)	(24)
Restriction on above	122	155
Total operating income	-	-
Actual return on assets	669	391

Changes in the value of the defined benefit obligation are as follows:

	2016 £000	2015 £000
Present value of obligation at beginning of year	6,195	5,619
Current service cost	-	-
Interest on obligation	273	275
Actuarial losses/(gains) on obligation	482	459
Past service costs, including curtailments	-	98
Benefits paid	(276)	(256)
Present value of obligation at end of year	6,674	6,195

Changes in the market value of the plan assets are as follows:

	2016 £000	2015 £000
Value of scheme assets at beginning of year	8,787	8,237
Expected return	389	406
Actuarial (losses)/gains	669	391
Contributions	6	24
Administration costs	(16)	(15)
Benefits paid	(276)	(256)
Value of assets at end of year	9,559	8,787

The group expects to contribute £Nil (2015: £4,000) to these defined benefit pension plans in the year to 30 June 2017.

21. Retirement benefit plans (continued)

Amounts recognised in the statement of total comprehensive income:

	2016 £000	2015 £000
Actual return less expected return on assets	**669**	391
Experience gains/(losses) on the obligations	**30**	(74)
(Loss)/gain arising from changes in assumptions	**(512)**	(385)
Effects of restricted surplus	**(187)**	68
Actuarial (loss)/gain recognised in statement of comprehensive income	**-**	-

Sensitivity analysis
The tables below show the effect on the funded obligations of changing the assumptions used:

Change in assumption	**Estimated increase/(decrease) in obligation £'000**
	£'000
Discount rate – plus 0.1%	(101)
Discount rate – minus 0.1%	103
CPI – plus 0.1%	26
CPI – minus 0.1%	(25)
Age of member – plus 1 year	(229)
Age of member – minus 1 year	229

22. Related party transactions

During the period the following transactions were made between Key Technologies Limited and its subsidiaries:

The company waived a loan of £Nil due from Primetake Limited in the year (2015: £500,000).

The company received a dividend of £Nil (2015: £800,000) from STS Defence Limited.

Amounts owed to and by subsidiaries are interest free and have no fixed terms of repayment. GIL Investments Limited is a related party through common directors and shareholders. GIL Investments Limited charges during the period in respect of finance arrangement and management fees were £60,000 (2015: £60,000).

Remuneration to key management personnel during the financial year amounted to £564,592 (2015: £468,070).

23. Capital management

The Board maintains a strong capital base so as to maintain investor and creditor confidence and to sustain future development of the business. The Board monitors shareholder return on capital, which the Group defines as total shareholders equity and the level of dividends to ordinary shareholders.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

There are bank covenants associated with the Group's facilities.

There were no changes in the Group's approach to capital management during the year.

24. Control

There is no ultimate controlling party as no shareholder individually holds more than 50% of the issued share capital.