

# Financial Statements

## Cognito Limited

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**For the Year Ended 31 December 2016**



**Registered number: 02723032**

## Company Information

|                            |  |
|----------------------------|--|
| <b>Directors</b>           | A Stafford-Deitsch<br>A Lonsdale<br>C Rolfe<br>J Pocock<br>L Othacehe<br>D Webb  |
| <b>Company secretary</b>   | C Rolfe  |
| <b>Registered number</b>   | 02723032   |
| <b>Registered office</b>   | Rivergate House<br>Newbury Business Park<br>NEWBURY<br>Berkshire<br>RG14 2PZ   |
| <b>Independent auditor</b> | Grant Thornton UK LLP<br>Chartered Accountants & Statutory Auditor<br>3140 Rowan Place<br>John Smith Drive<br>Oxford Business Park South<br>OXFORD<br>Oxfordshire<br>OX4 2WB |
| <b>Solicitors</b>          | Thrings<br>6 Drakes Meadow<br>Penny Lane<br>SWINDON<br>SN3 3LL   |

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# **Strategic Report**

**For the Year Ended 31 December 2016**

## **Introduction**

Over the last twenty years, Cognito has built a leading position in the delivery and support of real-time communication between mobile workers and their company's core business systems. Its products have evolved to embrace new technologies and the continuing support of its customer base is testament to the soundness of this approach.

During 2016 Cognito completed the commitment to the migration of its core platform to a hybrid public/private cloud and the further development of its Operational Performance Management (OPM) technology. This work has led to the successful delivery of a number of secured contracts including the largest contract of its kind awarded in the UK in 2015. These customers are now benefitting from the considerable improvements in scalability, resilience and flexibility.

## **Business review**

Turnover for the 12 month period in 2016 has increased by 12.4% with the delivery of the key contracts the comparison is to an extended 15 month accounting period in 2015, and revenue is expected to continue to recover as the development is completed and implemented in the coming year.

The business has invested in its staff and in external consultants to ensure that the new platform will represent best global practice in what is still relatively new technology. The cost of this investment has been fully expensed in the accounting period and this remains the prime reason for the operating loss. As expected this continued into 2016 and institutional shareholders provided further funding as had been anticipated in 2015.

The commitment to the new platform and to the further OPM development has captured the interest of customers both new and old and has created a much more dynamic and attractive working environment for staff.

# Strategic Report

For the Year Ended 31 December 2016

## Principal risks and uncertainties

### Financial risk management objectives and policies

Cognito is exposed to a variety of financial risks which result from its operating activities. The Board is responsible for coordinating the Company's risk management and focuses on actively securing the Company's short to medium term cash flows.

The company does not actively engage in the trading of financial assets and has no financial derivatives. The most significant risks to which the company is exposed are described below.

### Credit Risk

Cognito's principal financial assets are cash and trade debtors. The credit risk associated with the cash is limited as the counterparties have high credit ratings assigned by international credit agencies. The principal credit risk arises from its trade debtors. In order to manage credit risk an assessment of financial strength and third party credit references are considered. Trade debtors and payment history are regularly reviewed in conjunction with debt aging. Given that the company's products are critical to the continuing operation of its customers, there is every incentive for there to be no unjustified delay in payments for the continued provision by Cognito of its services.

### Cash flow risks

Cognito seeks to manage risks to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably.

The recurring revenue for the ongoing provision of its services provides a very predictable cash flow position. This, coupled with the financial support of its institutional investors, has allowed the company to sustain its investment in new platform development with confidence.

### Currency Risk

The company's exposure to currency fluctuations is monitored, the euro and dollar income streams cover any cost exposure and there is no other currency in which the Company is significantly exposed.

### Technical Risks

The development projects undertaken in this and the prior year has led to the successful delivery of a new scalable platform to customers and the ability to add future prospective customers.

The company considers the technical risks associated with these long term developments to now be minimal.

## Financial key performance indicators

The Company uses a range of KPI's to benchmark progress. The KPI's below represent significance in confirming revenue growth and the stability of overall revenue. The number of customers signed are a bench mark of business development and expected future projects.

|                                       | 2016  | 2015  | 2014 |
|---------------------------------------|-------|-------|------|
| Gross Subscriber Growth               | 36.9% | 16.2% | 8.7% |
| New Customers Signed                  | 3     | 5     | 3    |
| Contracted Services as a % of Revenue | 78%   | 83%   | 81%  |

Cognito Limited

## Strategic Report

For the Year Ended 31 December 2016

This report was approved by the board and signed on its behalf.

L Othacehe

A handwritten signature in black ink, consisting of a stylized 'L' followed by a series of loops and a long horizontal stroke.

Date: **23 March 2017**

# Directors' Report

For the Year Ended 31 December 2016

## Principal activity

The Company advises, designs, delivers and supports customers with field services operations who need time sensitive, business critical communications. The Company engages in technologies incorporating mobility, tracking, real time data, scheduling and dashboard reporting.

## Results and dividends

The loss for the year, after taxation, amounted to £2,816,994 (15 month period to 2015 - loss £1,338,174).

Development costs of £3.7m (2015: £3.1m) contributed to a loss before tax of £2.8m (2015 £1.3m). Development costs are expensed as incurred.

The directors did not propose or pay a dividend in 2016 (2015: £nil).

## Directors

The directors who served during the year were:

A Stafford-Deitsch  
A Lonsdale  
C Rolfe  
J Pocock  
L Othacehe  
D Webb

## Future developments

The Company has completed a significant development to migrate its core platform to a hybrid public/private cloud and to further develop Operational Performance Management (OPM) functionality. This continues its intention to develop products to enable customers to drive the performance and strategic operations in field service. The offering continues to include intelligent mobile workflow, optimal scheduling, employee performance management and real time decision support.

## Research and development activities

In the continued development of product for our customers and markets the Company has a dedicated technical research and development team who are actively engaged in the researching mobility platforms, advanced interfaces and portal developments to offer the most up to date and ground breaking technology to our markets.

## Directors' and officers liability insurance

The Company has, as permitted by s236 of the Companies Act 2006, maintained insurance cover on behalf of the Directors and Company Secretary indemnifying them against certain liabilities which may be incurred by them in relation to the Company.

## Matters covered in the strategic report

Details of the principal risks and uncertainties facing the company and its financial risk management objectives and policies are given in the strategic report.

## Directors' Report (continued)

For the Year Ended 31 December 2016

### Directors' responsibilities statement

The directors are responsible for preparing the Strategic report, the 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards 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 profit or loss of the company 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;
- 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 transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### Disclosure of information to auditor

Each of the persons who are directors at the time when this Directors' report is approved has confirmed that:

- so far as that director is aware, there is no relevant audit information of which the company's auditor is unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the company's auditor is aware of that information.

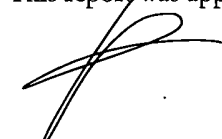
### Auditor

The auditor, Grant Thornton UK LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on

23 March 2017

and signed on its behalf.



L Othacche  
Directors





## Independent Auditor's Report to the Members of Cognito Limited

We have audited the financial statements of Cognito Limited for the year ended 31 December 2016, which comprise the Statement of comprehensive income, the Statement of financial position, the Statement of changes in equity, the Statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

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

### **Respective responsibilities of Directors and Auditor**

As explained more fully in the Directors' responsibilities statement on page 5, 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 (APB's) Ethical Standards for Auditors.

### **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.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.



## Independent Auditor's Report to the Members of Cognito Limited (continued)

### **Opinion on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with those financial statements; and
- the Strategic report and the Directors' report been prepared in accordance with applicable legal requirements.

### **Matters on which we are required to report under the Companies Act 2006**

In the light of our knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report and the Directors' report.

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

GRANT THORNTON UK LLP

Pinkesh Patel (Senior statutory auditor)  
for and on behalf of  
Grant Thornton UK LLP  
Chartered Accountants  
Statutory Auditor  
Oxford

Date: 23/3/2017

# Statement of Comprehensive Income

For the Year Ended 31 December 2016

|   |      |                    | 15 Month<br>period ended<br>31 December |
|---|------|--------------------|---|
|   | Note | 2016<br>£          | 2015<br>£                               |
| Turnover  | 4    | 9,717,487          | 10,806,286                              |
| Cost of sales   |      | (1,245,192)        | (1,180,966)                             |
| <b>Gross profit</b>                                   |      | <b>8,472,295</b>   | <b>9,625,320</b>                        |
| Distribution costs                                    |      | (5,401,986)        | (5,431,462)                             |
| Administrative expenses                               |      | (2,843,076)        | (3,096,333)                             |
| Development costs                                     |      | (3,692,747)        | (3,097,065)                             |
| <b>Operating loss</b>                                 | 5    | <b>(3,465,514)</b> | <b>(1,999,540)</b>                      |
| Interest receivable and similar income                | 9    | 1,522              | 1,379                                   |
| Interest payable and similar charges                  | 10   | -                  | (21,969)                                |
| <b>Loss before tax</b>                                |      | <b>(3,463,992)</b> | <b>(2,020,130)</b>                      |
| Tax on loss   | 11   | 646,998            | 681,956                                 |
| <b>Loss for the year</b>                              |      | <b>(2,816,994)</b> | <b>(1,338,174)</b>                      |
| <b>Total comprehensive income for the year/period</b> |      | <b>(2,816,994)</b> | <b>(1,338,174)</b>                      |

There were no recognised gains and losses for 2016 or 2015 other than those included in the statement of comprehensive income.

The notes on pages 13 to 28 form part of these financial statements.

## Statement of Financial Position

As at 31 December 2016

|  | Note | 2016<br>£          | 2015<br>£          |
|--|------|--------------------|--------------------|
| <b>Fixed assets</b>                            |      |                    |                    |
| Tangible assets                                | 12   | 751,663            | 935,389            |
| <b>Current assets</b>                          |      |                    |                    |
| Stocks   | 13   | 73,085             | 74,583             |
| Debtors: amounts falling due within one year   | 14   | 2,395,527          | 1,899,346          |
| Cash at bank and in hand                       | 15   | 886,605            | 2,142,543          |
|  |      | <u>3,355,217</u>   | <u>4,116,472</u>   |
| Creditors: amounts falling due within one year | 16   | <u>(3,125,802)</u> | <u>(2,253,795)</u> |
| <b>Net current assets</b>                      |      | <u>229,415</u>     | <u>1,862,677</u>   |
| <b>Total assets less current liabilities</b>   |      | <u>981,078</u>     | <u>2,798,066</u>   |
| <b>Net assets</b>                              |      | <u>981,078</u>     | <u>2,798,066</u>   |
| <b>Capital and reserves</b>                    |      |                    |                    |
| Called up share capital                        | 18   | 1,676,311          | 1,676,311          |
| Share premium account                          | 19   | 2,988,136          | 1,988,130          |
| Capital redemption reserve                     | 19   | 534,641            | 534,641            |
| Other reserves                                 | 19   | 281,667            | 281,667            |
| Profit and loss account                        | 19   | <u>(4,499,677)</u> | <u>(1,682,683)</u> |
|  |      | <u>981,078</u>     | <u>2,798,066</u>   |

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 23/3/17

  
L. Othachehe  
Directors

The notes on pages 13 to 28 form part of these financial statements.

## Statement of Changes in Equity

For the Year Ended 31 December 2016

|  | Called up<br>share<br>capital | Share<br>premium<br>account | Capital<br>redemption<br>reserve | Other<br>reserves | Profit and<br>loss<br>account | Total<br>equity |
|--|-------------------------------|-----------------------------|----------------------------------|-------------------|-------------------------------|-----------------|
|  | £                             | £                           | £                                | £                 | £                             | £               |
| At 1 January 2016                                  | 1,676,311                     | 1,988,130                   | 534,641                          | 281,667           | (1,682,683)                   | 2,798,066       |
| <b>Comprehensive income for<br/>the year</b>       |                               |                             |                                  |                   |                               |                 |
| Loss for the year                                  | -                             | -                           | -                                | -                 | (2,816,994)                   | (2,816,994)     |
| <b>Total comprehensive<br/>income for the year</b> | -                             | -                           | -                                | -                 | (2,816,994)                   | (2,816,994)     |
| Shares issued during the year                      | -                             | 1,000,006                   | -                                | -                 | -                             | 1,000,006       |
| <b>Total transactions with<br/>owners</b>          | -                             | 1,000,006                   | -                                | -                 | -                             | 1,000,006       |
| <b>At 31 December 2016</b>                         | <b>1,676,311</b>              | <b>2,988,136</b>            | <b>534,641</b>                   | <b>281,667</b>    | <b>(4,499,677)</b>            | <b>981,078</b>  |

## Statement of Changes in Equity

For the Year Ended 31 December 2015

|   | Called up<br>share<br>capital | Share<br>premium<br>account | Capital<br>redemption<br>reserve | Other<br>reserves | Profit and<br>loss<br>account | Total<br>equity  |
|---|-------------------------------|-----------------------------|----------------------------------|-------------------|-------------------------------|------------------|
|   | £                             | £                           | £                                | £                 | £                             | £                |
| At 31 October 2014                                    | 1,676,657                     | 950                         | 534,285                          | 281,667           | (344,153)                     | 2,149,406        |
| <b>Comprehensive income for<br/>the period</b>        |                               |                             |                                  |                   |                               |                  |
| Loss for the period                                   | -                             | -                           | -                                | -                 | (1,338,174)                   | (1,338,174)      |
| <b>Total comprehensive<br/>income for the period</b>  | -                             | -                           | -                                | -                 | (1,338,174)                   | (1,338,174)      |
| Shares issued during the<br>period                    | 10                            | 1,987,180                   | -                                | -                 | -                             | 1,987,190        |
| Shares repurchased and<br>cancelled during the period | (356)                         | -                           | 356                              | -                 | (356)                         | (356)            |
| <b>Total transactions with<br/>owners</b>             | <b>(346)</b>                  | <b>1,987,180</b>            | <b>356</b>                       | <b>-</b>          | <b>(356)</b>                  | <b>1,986,834</b> |
| <b>At 31 December 2015</b>                            | <b>1,676,311</b>              | <b>1,988,130</b>            | <b>534,641</b>                   | <b>281,667</b>    | <b>(1,682,683)</b>            | <b>2,798,066</b> |

The notes on pages 13 to 28 form part of these financial statements.

## Statement of Cash Flows

For the Year Ended 31 December 2016

|   | 2016<br>£          | 15 month<br>period ended<br>31 Dec 2015<br>£ |
|---|--------------------|--|
| <b>Cash flows from operating activities</b>                   |                    |  |
| Loss for the financial year                                   | (2,816,994)        | (1,338,174)                                  |
| <b>Adjustments for:</b>                                       |                    |  |
| Depreciation of tangible assets                               | 249,280            | 343,223                                      |
| Profit/(Loss) on disposal of tangible assets                  | -                  | (177)  |
| Interest paid   | -                  | 21,969                                       |
| Interest received   | (1,522)            | (1,379)                                      |
| Taxation charge   | (646,998)          | (681,956)                                    |
| Decrease in stocks  | 1,498              | 441,231                                      |
| (Increase) in debtors   | (481,470)          | (111,120)                                    |
| Increase/(decrease) in creditors                              | 857,296            | (207,821)                                    |
| Corporation tax received                                      | 646,998            | 681,956                                      |
| <b>Net cash used in operating activities</b>                  | <b>(2,191,912)</b> | <b>(852,248)</b>                             |
| <b>Cash flows from investing activities</b>                   |                    |  |
| Purchase of tangible fixed assets                             | (65,554)           | (213,523)                                    |
| Interest received   | 1,522              | 1,379  |
| <b>Net cash used in investing activities</b>                  | <b>(64,032)</b>    | <b>(212,144)</b>                             |
| <b>Cash flows from financing activities</b>                   |                    |  |
| Issue of ordinary shares                                      | 1,000,006          | 1,987,190                                    |
| Purchase of ordinary shares                                   | -                  | (356)  |
| Interest paid   | -                  | (21,969)                                     |
| <b>Net cash from/(used in) financing activities</b>           | <b>1,000,006</b>   | <b>1,964,865</b>                             |
| <b>Net (decrease)/increase in cash and cash equivalents</b>   | <b>(1,255,938)</b> | <b>900,473</b>                               |
| Cash and cash equivalents at beginning of year                | 2,142,543          | 1,242,070                                    |
| <b>Cash and cash equivalents at the end of year</b>           | <b>886,605</b>     | <b>2,142,543</b>                             |
| <b>Cash and cash equivalents at the end of year comprise:</b> |                    |  |
| Cash at bank and in hand                                      | 886,605            | 2,142,543                                    |
|   | <b>886,605</b>     | <b>2,142,543</b>                             |

# Notes to the Financial Statements

For the Year Ended 31 December 2016

## 1. General information

Cognito is a limited liability company incorporated in England and Wales. Its registered head office is located at Rivergate House, Newbury Business Park, Newbury, Berkshire, RG14 2PZ.

The Company advises, designs delivers and supports customers with field services operations who need time sensitive, business critical communications. The Company engages in technologies incorporating mobility, tracking, real time data, scheduling and dashboard reporting.

## 2. Accounting policies

### 2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

Information on the impact of first-time adoption of FRS 102 is given in note 26.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the company's accounting policies (see note 3).

The following principal accounting policies have been applied:

### 2.2 Going concern

The accounts have been prepared on a going concern basis, which assumes that the company will continue in operational existence for the foreseeable future. This is in line with directors' forecast for the business over the next 12 months, and the support provided by the parent company, Cognito IQ Limited, and the shareholders of that company.

### 2.3 Turnover

Turnover comprises revenue recognised by the company in respect of goods and services supplied during the year, exclusive of Value Added Tax and trade discounts.

Revenue in respect of sale of products is recognised on delivery of the product. Revenue in respect of services is recognised as the service is provided. Software licence revenue is recognised over the term of the support purchased with the software.

### 2.4 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is charged so as to allocate the cost of assets less their residual value.

Depreciation is provided on the following basis:

|                           |                 |
|---------------------------|-----------------|
| Leasehold improvements    | - Term of lease |
| Network plant             | - 6 years       |
| Other plant and equipment | - 3-5 years     |



# Notes to the Financial Statements

For the Year Ended 31 December 2016

## 2. Accounting policies (continued)

### 2.5 Stocks

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a first in, first out basis.

At each reporting date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in profit or loss.

### 2.6 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

### 2.7 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Statement of cash flows, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the company's cash management.

### 2.8 Research and development

Research and development costs are recognised in profit and loss account in the period in which they are incurred.

### 2.9 Research and development tax credit

The Company receives tax credits relating to qualifying expenditure on research and development. Tax credits are recognised once the amount has been received from HM Revenue and Customs (HMRC).

# Notes to the Financial Statements

For the Year Ended 31 December 2016

## 2. Accounting policies (continued)

### 2.10 Financial instruments

The company only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans from banks and other third parties, loans to related parties and investments in non-puttable ordinary shares.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade debtors and creditors, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration expected to be paid or received. However if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or financed at a rate of interest that is not a market rate or in case of an out-right short-term loan not at market rate, the financial asset or liability is measured, initially, at the present value of the future cash flow discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Statement of comprehensive income.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate, which is an approximation of the amount that the company would receive for the asset if it were to be sold at the reporting date.

Financial assets and liabilities are offset and the net amount reported in the Statement of financial position when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

### 2.11 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

# Notes to the Financial Statements

For the Year Ended 31 December 2016

## 2. Accounting policies (continued)

### 2.12 Foreign currency translation

#### Functional and presentation currency

The company's functional and presentational currency is GBP.

#### Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the Statement of comprehensive income within 'finance income or costs'. All other foreign exchange gains and losses are presented in the Statement of comprehensive income within 'other operating income'.

### 2.13 Share based payments

During the year the parent company, Cognito IQ Limited has issued equity settled share options to employees of Cognito Limited.

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the Statement of comprehensive income over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each Statement of financial position date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

No profit and loss account charge has been made for the options on issue as the directors do not consider that the cumulative charge is material.

### 2.14 Operating leases

Rentals paid under operating leases are charged to the Statement of comprehensive income on a straight line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the lease term, unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

# Notes to the Financial Statements

For the Year Ended 31 December 2016

## 2. Accounting policies (continued)

### 2.15 Pensions

#### Defined contribution pension plan

The company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. Once the contributions have been paid the company has no further payment obligations.

The contributions are recognised as an expense in the Statement of comprehensive income when they fall due. Amounts not paid are shown in accruals as a liability in the Statement of financial position. The assets of the plan are held separately from the company in independently administered funds.

### 2.16 Interest income

Interest income is recognised in the Statement of comprehensive income using the effective interest method.

### 2.17 Taxation

Tax is recognised in the Statement of comprehensive income, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Statement of financial position date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

### 2.18 Reclassification of cost of sales and administrative expenses

The directors have reviewed the classification of costs and have determined that some items previously included in cost of sales would be more appropriately classified as administrative expenses. As a result, £1,484,993 has been reclassified in 2015 from cost of sales to administrative expenses. This has had no impact on the reported result for the period.

# Notes to the Financial Statements

For the Year Ended 31 December 2016

## 3. Judgements in applying accounting policies and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Estimates are based on historical experience and other assumptions that are considered reasonable in the circumstances. The actual amount or values may vary in certain instances from the assumptions and estimates made. Changes will be recorded, with corresponding effect in profit or loss, if and when better information is obtained.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustment within the next financial year are included below.

Critical judgments that management have made in the process of applying accounting policies disclosed herein and that have a significant effect on the amounts recognised in the financial statements relate to the following:

### Useful lives of depreciable assets

Management reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected utility of the assets. Uncertainties in these estimates relate to technological obsolescence that may change the utility of certain IT equipment.

## 4. Turnover

The whole of the turnover is attributable to the principal activity of the company.

Analysis of turnover by country of destination:

|                | 2016             | 15 month<br>period ended<br>31 Dec 2015 |
|----------------|------------------|---|
|                | £                | £                                       |
| United Kingdom | 9,320,978        | 10,345,951                              |
| Rest of Europe | 396,509          | 460,335                                 |
|                | <u>9,717,487</u> | <u>10,806,286</u>                       |

## Notes to the Financial Statements

For the Year Ended 31 December 2016

**5. Operating loss**

The operating loss is stated after charging:

|  | 2016           | 15 month<br>period ended<br>31 Dec 2015 |
|--|----------------|---|
|  | £              | £                                       |
| Depreciation of tangible fixed assets  | 249,280        | 343,223                                 |
| Exchange differences                   | 157,859        | 127,214                                 |
| Profit/loss on sale of tangible assets | -              | (177)                                   |
| Defined contribution pension cost      | 530,496        | 538,238                                 |
| Research and development expense       | 3,692,747      | 3,097,065                               |
| Operating lease rentals                |                |   |
| - plant and equipment                  | 4,637          | 5,352                                   |
| - buildings                            | 156,216        | 117,162                                 |
| - motor vehicles                       | 8,089          | -                                       |
|  | <u>249,280</u> | <u>343,223</u>                          |

**6. Auditor's remuneration**

|   | 2016          | 15 month<br>period ended<br>31 Dec 2015 |
|---|---------------|---|
|   | £             | £                                       |
| Fees payable to the company's auditor and its associates for the audit of the company's annual financial statements | 20,000        | 16,500                                  |
| <b>Fees payable to the company's auditor and its associates in respect of:</b>                                      |               |   |
| Taxation compliance services  | 6,550         | 3,150                                   |
| Tax advisory services   | 25,675        | 11,000                                  |
| Accounts preparation  | 1,000         | 1,000                                   |
|   | <u>20,000</u> | <u>16,500</u>                           |

## Notes to the Financial Statements

For the Year Ended 31 December 2016

**7. Employees**

Staff costs, including directors' remuneration, were as follows:

|                                     | 2016             | 15 month<br>period ended<br>31 Dec 2015 |
|-------------------------------------|------------------|---|
|                                     | £                | £                                       |
| Wages and salaries                  | 6,833,485        | 7,029,750                               |
| Social security costs               | 753,922          | 802,708                                 |
| Cost of defined contribution scheme | 530,496          | 538,238                                 |
|                                     | <u>8,117,903</u> | <u>8,370,696</u>                        |

The average monthly number of employees, including the directors, during the year was as follows:

|                               | 2016<br>No. | 2015<br>No. |
|-------------------------------|-------------|-------------|
| Sales and marketing           | 4           | 6           |
| Administration and operations | 131         | 119         |
|                               | <u>135</u>  | <u>125</u>  |

**8. Directors' remuneration**

|   | 2016           | 15 month<br>period ended<br>31 Dec 2015 |
|---|----------------|---|
|   | £              | £                                       |
| Directors' emoluments   | 558,487        | 936,019                                 |
| Company contributions to defined contribution pension schemes | 38,867         | 57,358                                  |
| Compensation for loss of office                               | -              | 30,000                                  |
|   | <u>597,354</u> | <u>1,023,377</u>                        |

During the year retirement benefits were accruing to 6 directors (2015 - 7) in respect of defined contribution pension schemes.

The highest paid directors received remuneration of £212,780 (2015 - £272,738).

The value of the company's contributions paid to a defined contribution benefit pension scheme in respect of the highest paid directors amounted to £14,400 (2015 - £57,358).

# Notes to the Financial Statements

For the Year Ended 31 December 2016

## 9. Interest receivable

|                           | 2016<br>£ | 2015<br>£ |
|---------------------------|-----------|-----------|
| Other interest receivable | 1,522     | 1,379     |

## 10. Interest payable and similar charges

|                       | 2016<br>£ | 2015<br>£ |
|-----------------------|-----------|-----------|
| Bank interest payable | -         | 21,969    |

## 11. Taxation

|  | 2016<br>£ | 2015<br>£ |
|--|-----------|-----------|
| <b>Corporation tax</b>                         |           |           |
| Current tax on profits for the year            | (646,998) | (681,956) |
|  | (646,998) | (681,956) |
| <b>Total current tax</b>                       | (646,998) | (681,956) |
| <b>Deferred tax</b>                            |           |           |
| <b>Total deferred tax</b>                      | -         | -         |
| <b>Taxation on loss on ordinary activities</b> | (646,998) | (681,956) |



## Notes to the Financial Statements

For the Year Ended 31 December 2016

**11. Taxation (continued)****Factors affecting tax charge for the year/period**

The tax assessed for the year/period is lower than (2015 - higher than) the standard rate of corporation tax in the UK of 20% (2015 - 20.4%). The differences are explained below:

|  | 2016<br>£          | 2015<br>£          |
|--|--------------------|--------------------|
| Loss on ordinary activities before tax   | <u>(3,463,992)</u> | <u>(2,020,130)</u> |
| Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2015 - 20.4%) | (688,931)          | (412,107)          |
| <b>Effects of:</b>   |                    |                    |
| Fixed asset timing differences   | 1,632              | (17,233)           |
| Expenses not deductible for tax purposes, other than goodwill amortisation and impairment                  | 4,636              | 8,027              |
| Other permanent differences  | 124                | -                  |
| Additional reduction for R&D expenditure   | (64,693)           | -                  |
| R&D credits not yet recognised   | 747,170            | -                  |
| Surrender/ for R&D tax credit of tax losses  | -                  | 421,313            |
| R&D tax credits received in respect of prior years   | (646,936)          | (681,956)          |
| <b>Total tax charge for the year/period</b>  | <u>(646,998)</u>   | <u>(681,956)</u>   |

## Notes to the Financial Statements

For the Year Ended 31 December 2016

**11. Taxation (continued)****Factors that may affect future tax charges**

The Company has tax losses subject to Her Majesty's Revenue and Customs approval of approximately £2.2m (2015: £1.6m) available to offset against future operating profits.

A deferred tax asset of £452k (2015: £268k) has not been recognised due to uncertainty over the recoverability of this amount.

**12. Tangible fixed assets**

|                       | Leasehold<br>improvements<br>£ | Network<br>plant<br>£ | Other plant<br>and<br>equipment<br>£ | Total<br>£ |
|-----------------------|--------------------------------|-----------------------|--------------------------------------|------------|
| <b>Cost</b>           |                                |                       |                                      |            |
| At 1 January 2016     | 364,058                        | 821,453               | 533,170                              | 1,718,681  |
| Additions             | 3,222                          | 26,078                | 36,254                               | 65,554     |
| Disposals             | -                              | -                     | (2,336)                              | (2,336)    |
| At 31 December 2016   | 367,280                        | 847,531               | 567,088                              | 1,781,899  |
| <b>Depreciation</b>   |                                |                       |                                      |            |
| At 1 January 2016     | 68,896                         | 394,683               | 319,713                              | 783,292    |
| Charge for the period | 36,452                         | 130,483               | 82,345                               | 249,280    |
| Disposals             | -                              | -                     | (2,336)                              | (2,336)    |
| At 31 December 2016   | 105,348                        | 525,166               | 399,722                              | 1,030,236  |
| <b>Net book value</b> |                                |                       |                                      |            |
| At 31 December 2016   | 261,932                        | 322,365               | 167,366                              | 751,663    |
| At 31 December 2015   | 295,162                        | 426,770               | 213,457                              | 935,389    |

# Notes to the Financial Statements

For the Year Ended 31 December 2016

## 13. Stocks

|                       | 2016<br>£     | 2015<br>£     |
|-----------------------|---------------|---------------|
| Goods held for resale | <u>73,085</u> | <u>74,583</u> |

## 14. Debtors

|                                | 2016<br>£        | 2015<br>£        |
|--------------------------------|------------------|------------------|
| Trade debtors                  | 2,097,177        | 1,460,699        |
| Prepayments and accrued income | <u>298,350</u>   | <u>438,647</u>   |
|                                | <u>2,395,527</u> | <u>1,899,346</u> |

## 15. Cash and cash equivalents

|                          | 2016<br>£      | 2015<br>£        |
|--------------------------|----------------|------------------|
| Cash at bank and in hand | <u>886,605</u> | <u>2,142,543</u> |

## 16. Creditors: Amounts falling due within one year

|                                    | 2016<br>£        | 2015<br>£        |
|------------------------------------|------------------|------------------|
| Trade creditors                    | 242,695          | 146,513          |
| Other taxation and social security | 524,633          | 389,284          |
| Accruals and deferred income       | <u>2,358,474</u> | <u>1,717,998</u> |
|                                    | <u>3,125,802</u> | <u>2,253,795</u> |

## Notes to the Financial Statements

For the Year Ended 31 December 2016

**17. Financial instruments**

|   | 2016<br>£        | 2015<br>£        |
|---|------------------|------------------|
| <b>Financial assets at amortised cost</b>           |                  |                  |
| Cash at bank and in hand                            | 886,605          | 2,142,543        |
| Trade and other debtors                             | 2,097,177        | 1,460,699        |
|   | <u>2,983,782</u> | <u>3,603,242</u> |
| <b>Financial Liabilities held at amortised cost</b> |                  |                  |
| Trade creditors and accruals                        | 1,270,838        | 936,028          |
|   | <u>1,270,838</u> | <u>936,028</u>   |

**18. Share capital**

|   | 2016<br>£        | 2015<br>£        |
|---|------------------|------------------|
| <b>Shares classified as equity</b>                        |                  |                  |
| <b>Allotted, called up and fully paid</b>                 |                  |                  |
| 16,697,769 (2015 - 16,697,768) 'A' Shares of £0.10 each   | 1,669,777        | 1,669,777        |
| 248,214 (2015 - 248,214) 'B' Shares of £0.01 each         | 2,482            | 2,482            |
| 1,438,954 (2015 - 1,438,954) 'C' Shares of £0.002273 each | 3,271            | 3,271            |
| 780,653 (2015 - 780,653) 'D' Shares of £0.001 each        | 781              | 781              |
|   | <u>1,676,311</u> | <u>1,676,311</u> |

The holders of the 'A' Ordinary shares are entitled to receive notice of, to attend and to vote at general meetings, with one vote per 'A' Ordinary share held. Holders of the 'B' Ordinary, 'C' Ordinary, 'D' Ordinary and 'E' Ordinary shares shall not have the right to receive notice of, attend at or vote at general meetings of the Company.

The Ordinary 'A', 'B', 'C' 'D' and 'E' shares will rank equally after the holders of the Ordinary 'A', 'B' and 'C' shares have received an amount equal to £5.2m, above the Investment Threshold.

During the year one A share with a nominal value of £0.10 was issued at a price of £1,000,006.

## Notes to the Financial Statements

For the Year Ended 31 December 2016

### **19. Reserves**

#### **Share premium**

Includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares is deducted from share premium.

#### **Capital redemption reserve**

Includes the nominal amount of share capital which has been bought back by the company and subsequently cancelled.

#### **Other reserves**

Includes amounts in respect of negative goodwill on a historic transaction created in 1992, as permitted under UK GAAP at that time. The reserve was frozen on the adoption of new standards several years later.

#### **Profit and loss account**

Includes all current and prior period retained profits and losses.

### **20. Contingent liabilities**

There were no contingent liabilities as at 31 December 2016 or 31 December 2015

### **21. Capital commitments**

The Company had no capital commitments as at 31 December 2016 or 31 December 2015.

### **22. Pension commitments**

The company makes contributions to personal pension plans of certain employees. The cost of such contributions is shown in note 7.

# Notes to the Financial Statements

For the Year Ended 31 December 2016

## 23. Commitments under operating leases

At 31 December 2016 the company had future minimum lease payments under non-cancellable operating leases as follows:

|                           | 2016<br>£        | 2015<br>£        |
|---------------------------|------------------|------------------|
| <b>Land and Buildings</b> |                  |                  |
| Not later than 1 year     | 156,216          | 156,216          |
| 2-5 years                 | 624,864          | 624,864          |
| Later than 5 years        | 460,516          | 616,732          |
|                           | <u>1,241,596</u> | <u>1,397,812</u> |
|                           | 2016<br>£        | 2015<br>£        |
| <b>Other</b>              |                  |                  |
| Not later than 1 year     | 5,269            | 5,352            |
| 2-5 years                 | -                | 5,269            |
|                           | <u>5,269</u>     | <u>10,621</u>    |
|                           | 2016<br>£        | 2015<br>£        |
| <b>Motor Vehicles</b>     |                  |                  |
| Not later than 1 year     | 8,089            | -                |
| 2 - 5 years               | 39,433           | -                |
|                           | <u>47,522</u>    | <u>-</u>         |

## 24. Related party transactions

On 6 August 2015 the Company was loaned £749,730 by its then shareholders. Interest was charged on this loan at a rate of 8% per annum and the loan was repaid on 21 December 2015, when 100% of the Company's share capital was also purchased by Cognito IQ Limited.

The Company had no other related party transactions requiring disclosure during the year to 31 December 2016 or the period to 31 December 2015.

## 25. Controlling party

From 21 December 2015, the Company's controlling party is considered to be Cognito IQ Limited, a company incorporated in the UK, by virtue of its 100% shareholding in the Company

# Notes to the Financial Statements

For the Year Ended 31 December 2016

## **26. First time adoption of FRS 102**

The policies applied under the entity's previous accounting framework are not materially different to FRS 102 and have not impacted on equity or profit or loss.