

MQA Limited

Report and Financial Statements

Year Ended

31 December 2016

Company Number 9123512



MQA Limited

Company Information

Directors	S D Jagoe J R Stuart A E Rupert M J Jbara
Company secretary	N Robson
Registered number	9123512
Registered office	11 Latham Road Huntingdon Cambridgeshire PE29 6YE
Independent auditor	BDO LLP 31 Chertsey Street Guildford Surrey GU1 4HD

MQA Limited

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MQA Limited

Group Strategic Report For the Year Ended 31 December 2016

Business review

MQA Limited (MQAL or the Company) was established to exploit intellectual property developed by Bob Stuart of Meridian Audio, Peter Craven and Malcolm Law: a team that began collaborating 40 years ago and has a collective 100 years of experience in high-quality music recording, coding and playback.

The IP embodies a new approach to digital audio coding, based on recent advances in neuroscience and a new understanding of the importance of distortion in the time domain. The goal was to help to reverse the general decline in audio quality by providing tools and a codec that is very efficient (for example by enabling uncompromised sound quality to be streamed to mobile platforms) while enabling an ecosystem where convenience and quality are not in conflict. The IP will enable the bit stream that is approved in the studio to be delivered identically to a listener, and the format has been named "Master Quality Authenticated" (MQA). MQA has a further advantage that it is backwardly compatible with existing digital formats. Key players in the music industry have closely checked the development of MQA.

MQAL has executed format licenses and equity deeds with the 3 major music labels. Their industry bodies (RIAA and JAS) are supportive of the technology.

The IP is protected by a number of patents, granted and pending, and by know-how residing in the core team. MQAL is a start-up company and, in the year under review, has continued to build its teams in engineering, marketing, content services and appointed a CEO.

The commercial launch activities in 2016 included:

- Marketing activities which included original video production and preparation for CES 2017
- Additional license agreements with hardware manufacturers
- Completion of license agreement with music retailers;

The revenue model is based on:

- Licensing of software tools for encoding of music in MQA;
- Per Unit Royalties charged on MQA decoders in CE devices;
- Per Unit Royalties charged on MQA decoders in software;
- Royalties charged for analogue-to-digital and digital-to-analogue converter designs in chips and firmware;
- Digital asset management supply chain services

At the date of this report, NDAs with over 150 companies, license agreements with around 20 companies have been signed, and MQA enabled products are already available for sale to the public.

During the year, MQA Inc. was incorporated as a subsidiary of MQA Limited.

Further information on MQA can be found on the Company's website, <http://www.mqa.co.uk>.

MQA Limited

Group Strategic Report For the Year Ended 31 December 2016

Principal risks and uncertainties

The principal risks in the business are:

- Our ability to scale the business within the time provided by available cash resources;
- The influence of the business strategies of other music industry participants - particularly labels - that may affect the acceptance rate of MQA and thus the revenue potential for the company;
- Challenge of getting mainstream consumers to value higher quality sound when presented with alternatives
- Focus on Tel-Co of one price data plans which drives down data consumption in mobile
- Potential of the software decoder to cannibalise the hardware/chip-based decoder/renderer
- Dependence on key personnel;
- Emergence of competitors

Given the widespread acceptance by key opinion makers in the music industry and journalists, as well as the business model adopted by the first licensees, the board remains confident that MQA is well positioned to succeed.

Financial key performance indicators


In the short term, the board will:

- Remain focused on the cash burn rate;
- Ensure that approved decoders are available in hardware and software to enable easy access to the MQA format;
- Complete the Merlin independent label agreement; and
- Support a program of getting MQA decoders and content into more music services – streaming and download.

This report was approved by the board on

6th April 2017 and signed on its behalf.

M J Jbara
Director



MQA Limited

Directors' Report For the Year Ended 31 December 2016

The directors present their report and the financial statements for the year ended 31 December 2016.

Directors' responsibilities statement

The directors are responsible for preparing the Group Strategic Report, the Directors' Report and the consolidated 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 applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). 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 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 for the Group's financial statements and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group 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 the 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 the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Business review

These accounts represent the 12 month period from 1 January 2016 to 31 December 2016 (2015: 18 month period from incorporation to 31 December 2015).

Results and dividends

The loss for the year, after taxation, amounted to £3,668,232 (2015 - loss £3,222,870).

The directors do not recommend payment of a dividend (2015: £Nil).

Directors

The directors who served during the year were:

S D Jagoe
J R Stuart
A E Rupert
M J Jbara (appointed 15 August 2016)

Future developments

The company's future developments are shown in the strategic report.

MQA Limited

Directors' Report (continued) For the Year Ended 31 December 2016

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 the director is aware, there is no relevant audit information of which the Company and the Group's auditor is unaware, and
- the 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 and the Group's auditor is aware of that information.

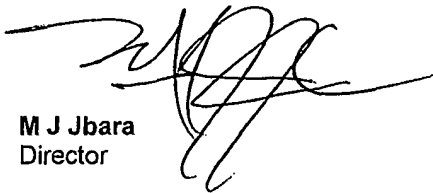
Post balance sheet events

There have been no significant events affecting the Group since the year end.

Auditor

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

This report was approved by the board on 6th APRIL 2017 and signed on its behalf.


M J Jbara
Director

MQA Limited

Independent Auditor's report to the members of MQA Limited

We have audited the financial statements of MQA Limited for the year ended 31 December 2016 which comprise the consolidated Statement of Comprehensive Income, the consolidated and company Balance Sheet, the consolidated and company Statement of Changes in Equity, the consolidated Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 auditors

As explained more fully in the statement of directors' responsibilities, 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 Financial Reporting Council's (FRC'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 FRC's website at 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 group's and the parent company's affairs as at 31 December 2016 and of the group's 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.

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 directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

MQA Limited

Independent Auditor's report to the members of MQA Limited

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following:

- 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.

BDO LLP

Nick Poulter (senior statutory auditor)
for and on behalf of BDO LLP, statutory auditor
Guildford
United Kingdom

Date: **7 APRIL 2017**

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

MQA Limited

Consolidated Statement of Comprehensive Income For the Year Ended 31 December 2016

		31 December 2016 £	18 months to 31 December 2015 £
	Note		
Turnover	4	29,957	976
Gross profit		<u>29,957</u>	<u>976</u>
Administrative expenses		(3,751,255)	(3,173,155)
Operating loss	5	(3,721,298)	(3,172,179)
Interest receivable and similar income	9	41,816	2,268
Interest payable	10	11,250	(52,959)
Loss before taxation		<u>(3,668,232)</u>	<u>(3,222,870)</u>
Tax on loss		-	-
Loss for the year/period		<u>(3,668,232)</u>	<u>(3,222,870)</u>
Loss for the year/period attributable to:			
Owners of the parent Company		(3,668,232)	(3,222,870)
		<u>(3,668,232)</u>	<u>(3,222,870)</u>

There was no other comprehensive income for 2016 (2015: £NIL).

The notes on pages 13 to 26 form part of these financial statements.

MQA Limited
Registered number:9123512

Consolidated Balance Sheet
As at 31 December 2016

	Note	2016 £	2015 £
Fixed assets			
Tangible assets	13	7,468	-
		<u>7,468</u>	<u>-</u>
Current assets			
Debtors: amounts falling due within one year	15	203,388	234,285
Cash and cash equivalents	16	8,508,258	11,905,030
		<u>8,711,646</u>	<u>12,139,315</u>
Creditors: amounts falling due within one year	17	(1,307,684)	(1,112,179)
Net current assets		<u>7,403,962</u>	<u>11,027,136</u>
Total assets less current liabilities		<u>7,411,430</u>	<u>11,027,136</u>
Net assets		<u>7,411,430</u>	<u>11,027,136</u>
Capital and reserves			
Called up share capital	19	12	9
Share premium account	20	14,302,520	14,249,997
Profit and loss account	20	(6,891,102)	(3,222,870)
		<u>7,411,430</u>	<u>11,027,136</u>

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


M J Jbara
Director

6th APRIL 2017

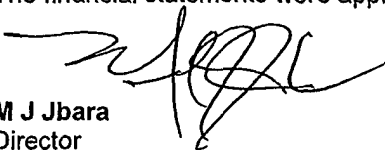
The notes on pages 13 to 26 form part of these financial statements.

MQA Limited
Registered number: 9123512

Company Balance Sheet
As at 31 December 2016

	Note	2016 £	2015 £
Fixed assets			
Tangible assets	13	7,468	-
Investments	14	80	-
		<u>7,548</u>	<u>-</u>
Current assets			
Debtors: amounts falling due within one year	15	414,696	234,285
Cash and cash equivalents	16	8,433,406	11,905,030
		<u>8,848,102</u>	<u>12,139,315</u>
Creditors: amounts falling due within one year	17	(1,307,604)	(1,112,179)
Net current assets		<u>7,540,498</u>	<u>11,027,136</u>
Net assets		<u><u>7,548,046</u></u>	<u><u>11,027,136</u></u>
Capital and reserves			
Called up share capital	19	12	9
Share premium account	20	14,302,520	14,249,997
Profit and loss account	20	(6,754,486)	(3,222,870)
		<u><u>7,548,046</u></u>	<u><u>11,027,136</u></u>

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


M J Jbara
Director

6th APRIL 2017

The notes on pages 13 to 26 form part of these financial statements.

MQA Limited

Consolidated Statement of Changes in Equity For the Year Ended 31 December 2016

	Called up share capital £	Share premium account £	Profit and loss account £	Total equity £
At 1 January 2016	9	14,249,997	(3,222,870)	11,027,136
Comprehensive income for the year				
Loss for the year	-	-	(3,668,232)	(3,668,232)
Total comprehensive income for the year	-	-	(3,668,232)	(3,668,232)
Contributions by and distributions to owners				
Shares issued during the year	3	52,523	-	52,526
Total transactions with owners	3	52,523	-	52,526
At 31 December 2016	12	14,302,520	(6,891,102)	7,411,430

Consolidated Statement of Changes in Equity For the Year Ended 31 December 2015

	Called up share capital £	Share premium account £	Profit and loss account £	Total equity £
Comprehensive income for the period				
Loss for the period	-	-	(3,222,870)	(3,222,870)
Total comprehensive income for the period	-	-	(3,222,870)	(3,222,870)
Contributions by and distributions to owners				
Shares issued during the period	9	14,249,997	-	14,250,006
Total transactions with owners	9	14,249,997	-	14,250,006
At 31 December 2015	9	14,249,997	(3,222,870)	11,027,136

The notes on pages 13 to 26 form part of these financial statements.

MQA Limited

Company Statement of Changes in Equity For the Year Ended 31 December 2016

	Called up share capital £	Share premium account £	Profit and loss account £	Total equity £
At 1 January 2016	9	14,249,997	(3,222,870)	11,027,136
Comprehensive income for the year				
Loss for the year	-	-	(3,531,616)	(3,531,616)
Total comprehensive income for the year	-	-	(3,531,616)	(3,531,616)
Contributions by and distributions to owners				
Shares issued during the year	3	52,523	-	52,526
Total transactions with owners	3	52,523	-	52,526
At 31 December 2016	12	14,302,520	(6,754,486)	7,548,046

Company Statement of Changes in Equity For the Year Ended 31 December 2015

	Called up share capital £	Share premium account £	Profit and loss account £	Total equity £
Comprehensive income for the period				
Loss for the period	-	-	(3,222,870)	(3,222,870)
Total comprehensive income for the period	-	-	(3,222,870)	(3,222,870)
Contributions by and distributions to owners				
Shares issued during the period	9	14,249,997	-	14,250,006
Total transactions with owners	9	14,249,997	-	14,250,006
At 31 December 2015	9	14,249,997	(3,222,870)	11,027,136

The notes on pages 13 to 26 form part of these financial statements.

MQA Limited

Consolidated Statement of Cash Flows For the Year Ended 31 December 2016

	2016 £	18 months to 31 December 2015 £
Cash flows from operating activities		
Loss for the financial year/period	(3,668,232)	(3,222,870)
Adjustments for:		
Depreciation of tangible assets	325	-
Interest paid	(11,250)	41,709
Interest received	(41,816)	(2,268)
Decrease/(increase) in debtors	30,897	(234,285)
Increase in creditors	195,505	362,179
Net cash generated from operating activities	(3,494,571)	(3,055,535)
Cash flows from investing activities		
Purchase of tangible fixed assets	(7,793)	-
Interest received	41,816	2,268
Net cash from investing activities	34,023	2,268
Cash flows from financing activities		
Issue of ordinary shares	52,526	14,250,006
Other new loans	-	750,000
Interest paid	11,250	(41,709)
Net cash used in financing activities	63,776	14,958,297
Net (decrease)/increase in cash and cash equivalents	(3,396,772)	11,905,030
Cash and cash equivalents at beginning of year/period	11,905,030	-
Cash and cash equivalents at the end of year/period	8,508,258	11,905,030
Cash and cash equivalents at the end of year comprise:		
Cash at bank and in hand	8,508,258	11,905,030
	8,508,258	11,905,030

The notes on pages 13 to 26 form part of these financial statements.

MQA Limited

Notes to the Financial Statements For the Year Ended 31 December 2016

1. General information

MQA Limited is a company incorporated in England and Wales under the Companies Act 2006. It is a company limited by shares. The address of the registered office is given on the company information page and the nature of the company's operations and principal activities are given in the directors' report and strategic report.

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.

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

The following principal accounting policies have been applied:

2.2 Basis of consolidation

The consolidated financial statements present the results of the Group and its own subsidiaries ("the Group") as if they form a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full.

The consolidated financial statements incorporate the results of business combinations using the purchase method. In the Balance Sheet, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the Consolidated Statement of Comprehensive Income from the date on which control is obtained. They are deconsolidated from the date control ceases.

2.3 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

Rendering of services

Revenue from a contract to provide services is recognised in the period in which the services are provided in accordance with the stage of completion of the contract when all of the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the Group will receive the consideration due under the contract;
- the stage of completion of the contract at the end of the reporting period can be measured reliably; and
- the costs incurred and the costs to complete the contract can be measured reliably.

MQA Limited

Notes to the Financial Statements For the Year Ended 31 December 2016

2. Accounting policies (continued)

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 over their estimated useful lives, as shown below.

Depreciation is provided on the following basis:

Computer equipment	- 25% straight line
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The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Consolidated Statement of Comprehensive Income.

2.5 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment. Where merger relief is applicable, the cost of the investment in a subsidiary undertaking is measured at the nominal value of the shares issued together with the fair value of any additional consideration paid.

Investments in unlisted Group shares, whose market value can be reliably determined, are remeasured to market value at each balance sheet date. Gains and losses on remeasurement are recognised in the Consolidated Statement of Comprehensive Income for the period. Where market value cannot be reliably determined, such investments are stated at historic cost less impairment.

2.6 Debtors

Short term debtors are measured at transaction price, 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 Consolidated 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 Group's cash management.

MQA Limited

Notes to the Financial Statements For the Year Ended 31 December 2016

2. Accounting policies (continued)

2.8 Financial instruments

The Group 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 Consolidated 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 Group would receive for the asset if it were to be sold at the balance sheet date.

Financial assets and liabilities are offset and the net amount reported in the Consolidated Balance Sheet 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.

2.9 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.

MQA Limited

Notes to the Financial Statements For the Year Ended 31 December 2016

2. Accounting policies (continued)

2.10 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 Consolidated Statement of Comprehensive Income except when deferred in other comprehensive income as qualifying cash flow hedges.

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

On consolidation, the results of overseas operations are translated into Sterling at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations are translated at the rate ruling at the reporting date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised in other comprehensive income.

2.11 Finance costs

Finance costs are charged to the Consolidated Statement of Comprehensive Income over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

2.12 Operating leases: Lessee

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

MQA Limited

Notes to the Financial Statements For the Year Ended 31 December 2016

2. Accounting policies (continued)

2.13 Pensions

Defined contribution pension plan

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

The contributions are recognised as an expense in the profit and loss account 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 Group in independently administered funds.

2.14 Holiday pay accrual

A liability is recognised to the extent of any unused holiday pay entitlement which is accrued at the Balance Sheet date and carried forward to future periods. This is measured at the undiscounted salary cost of the future holiday entitlement so accrued at the Balance Sheet date.

2.15 Interest income

Interest income is recognised in the Consolidated Statement of Comprehensive Income using the effective interest method.

2.16 Borrowing costs

All borrowing costs are recognised in the Consolidated Statement of Comprehensive Income in the year in which they are incurred.

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

In preparing these financial statements, the directors have made the following judgement:

- Determine whether leases entered into by the group either as a lessor or a lessee are operating or lease or financial leases. These decisions depend on an assessment of whether the risks and rewards of ownership have been transferred from the lessor to the lessee on a lease by lease basis.

4. Turnover

All turnover arose within the United Kingdom.

MQA Limited

Notes to the Financial Statements For the Year Ended 31 December 2016

5. Operating loss

The operating loss is stated after charging:

	31 December 2016 £	18 months to 31 December 2015 £
Depreciation of tangible fixed assets	325	-
Exchange differences	2,553	2,642
Defined contribution pension cost	52,214	37,348
	<u>52,539</u>	<u>37,348</u>

6. Auditor's remuneration

	31 December 2016 £	18 months to 31 December 2015 £
Fees payable to the Group's auditor for the audit of the Group's annual financial statements	12,700	11,500
	<u>12,700</u>	<u>11,500</u>

MQA Limited

Notes to the Financial Statements For the Year Ended 31 December 2016

7. Employees

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

	31 December 2016 £	18 months to 31 December 2015 £
Wages and salaries	1,622,236	434,423
Social security costs	112,171	93,051
Cost of defined contribution scheme	52,214	37,348
	<u>1,786,621</u>	<u>564,822</u>

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

	31 December 2016 No.	18 months to 31 December 2015 No.
Administration	14	9

8. Directors' remuneration

	31 December 2016 £	18 months to 31 December 2015 £
Directors' emoluments	482,440	110,586
Company contributions to defined contribution pension schemes	8,253	19,257
	<u>490,693</u>	<u>129,843</u>

During the year retirement benefits were accruing to 1 director (2015 - 1) in respect of defined contribution pension schemes.

The highest paid director received remuneration of £216,518 (2015 - £110,586).

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £8,253 (2015 - £19,257).

MQA Limited

Notes to the Financial Statements For the Year Ended 31 December 2016

9. Interest receivable

	31 December 2016 £	18 months to 31 December 2015 £
Other interest receivable	41,816	2,268
	<u>41,816</u>	<u>2,268</u>

10. Interest payable and similar charges

	31 December 2016 £	18 months to 31 December 2015 £
Other loan interest payable	(11,250)	52,959
	<u>(11,250)</u>	<u>52,959</u>

The credit of £11,250 in the current year relates to the release of a prior year accrual which is no longer payable.

11. Taxation

	31 December 2016 £	18 months to 31 December 2015 £
Total current tax	-	-

MQA Limited

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 - lower than) the standard rate of corporation tax in the UK of 20% (2015 - 20.49%). The differences are explained below:

	31 December 2016 £	18 months to 31 December 2015 £
Loss on ordinary activities before tax	(3,668,232)	(3,222,870)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2015 - 20.49%)	(733,646)	(660,366)
Effects of:		
Expenses not deductible for tax purposes, other than goodwill amortisation and impairment	6,340	1,013
Adjust closing deferred tax to average rate of 20%	201,250	-
Adjust opening deferred tax to average rate of 20%	(64,358)	-
Deferred tax not recognised	590,414	-
Short term timing difference leading to an increase (decrease) in taxation	-	1,037
Utilisation of tax losses and other deductions	-	658,316
Total tax charge for the year/period	-	-

Factors that may affect future tax charges

There is an unrecognised deferred tax asset at the year end of £1,196,849 (£583,228) in respect of taxable losses in MQA Limited and MQA Inc of £6,875,101 (2015: £3,212,603). The Directors have not recognised this on the basis there is insufficient certainty as to whether future revenue will exceed costs to generate sufficient, taxable profits to warrant the recognition of this asset.

12. Parent company profit for the year

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own Statement of Comprehensive Income in these financial statements. The loss after tax of the parent Company for the year/period was £3,531,616 (2015 - loss £3,222,870).

MQA Limited

Notes to the Financial Statements For the Year Ended 31 December 2016

13. Tangible fixed assets

Group and Company

	Computer equipment £
Cost	
Additions	7,793
At 31 December 2016	<u>7,793</u>
Depreciation	
Charge owned for the period	325
At 31 December 2016	<u>325</u>
Net book value	
At 31 December 2016	<u><u>7,468</u></u>
At 31 December 2015	<u><u>-</u></u>

MQA Limited

Notes to the Financial Statements For the Year Ended 31 December 2016

14. Fixed asset investments

Subsidiary undertakings

The following were subsidiary undertakings of the Company:

Name	Class of shares	Holding	Principal activity
			This company incurs costs in respect of US employees of the group
MQA Inc.	Ordinary	100 %	

The aggregate of the share capital and reserves as at 31 December 2016 and of the profit or loss for the year ended on that date for the subsidiary undertakings were as follows:

	Aggregate of share capital and reserves £	Profit/(loss) £
MQA Inc.	(106,187)	(106,267)
	<u>(106,187)</u>	<u>(106,267)</u>

Company

	Investments in subsidiary companies £
Cost	
Additions	80
At 31 December 2016	<u>80</u>
Net book value	
At 31 December 2016	<u>80</u>
At 31 December 2015	<u>-</u>

During the year, MQA Inc. was incorporated as a subsidiary of MQA Limited.

MQA Limited

Notes to the Financial Statements For the Year Ended 31 December 2016

15. Debtors

	Group 2016 £	Group 2015 £	Company 2016 £	Company 2015 £
Trade debtors	6,165	-	6,165	-
Amounts owed by group undertakings	-	-	211,308	-
Other debtors	148,772	219,864	148,772	219,864
Prepayments and accrued income	48,451	14,421	48,451	14,421
	<u>203,388</u>	<u>234,285</u>	<u>414,696</u>	<u>234,285</u>

16. Cash and cash equivalents

	Group 2016 £	Group 2015 £	Company 2016 £	Company 2015 £
Cash at bank and in hand	8,508,258	11,905,030	8,433,406	11,905,030
	<u>8,508,258</u>	<u>11,905,030</u>	<u>8,433,406</u>	<u>11,905,030</u>

17. Creditors: Amounts falling due within one year

	Group 2016 £	Group 2015 £	Company 2016 £	Company 2015 £
Other loans	750,000	750,000	750,000	750,000
Trade creditors	341,699	202,065	341,619	202,065
Other taxation and social security	44,123	24,465	44,123	24,465
Other creditors	24,130	49,298	24,130	49,298
Accruals and deferred income	147,732	86,351	147,732	86,351
	<u>1,307,684</u>	<u>1,112,179</u>	<u>1,307,604</u>	<u>1,112,179</u>

Interest on the loan is chargeable at 6%, which only falls due for payment when the loan capital is repaid.

MQA Limited

Notes to the Financial Statements For the Year Ended 31 December 2016

18. Financial instruments

	Group 2016 £	Group 2015 £	Company 2016 £	Company 2015 £
Financial assets				
Financial assets measured at amortised cost	8,663,195	12,124,894	8,779,075	12,124,894
	<u>8,663,195</u>	<u>12,124,894</u>	<u>8,779,075</u>	<u>12,124,894</u>
Financial liabilities				
Financial liabilities measured at amortised cost	(1,263,561)	(1,087,714)	(1,263,481)	(1,087,714)
	<u>(1,263,561)</u>	<u>(1,087,714)</u>	<u>(1,263,481)</u>	<u>(1,087,714)</u>

Financial assets measured at amortised cost comprise trade and other debtors and cash and cash equivalents. The company figures also include amounts due from group undertakings.

Financial liabilities measured at amortised cost comprise trade and other creditors, accruals and borrowings.

19. Share capital

	2016 £	2015 £
Shares classified as equity		
Allotted, called up and fully paid		
9,944 (2015 - 9,234) Ordinary shares of £0.001 each	10	9
1 A Ordinary share of £0.001	-	-
1,910 B Ordinary shares of £0.001 each	2	-
	<u>12</u>	<u>9</u>

On 18 August 2016, the company issued and allotted an additional 710 Ordinary £0.001 shares at par value.

In addition on 18 August 2016, the company issued 1,200 Ordinary B £0.001 shares and a further 710 Ordinary B £0.001 shares on 11 October 2016. The premium of £27.499 was paid per share.

The Ordinary and Ordinary A shares both have the right to a dividend, subject to shareholder agreement. The directors can declare different dividend on both share classes.

The Ordinary B shares have right to a dividend only after 1 January 2021. After such time, the dividend will be equal to the Ordinary share dividend.

The Ordinary and Ordinary A shares both carry on vote; the Ordinary B shares do not carry any votes.

MQA Limited

Notes to the Financial Statements For the Year Ended 31 December 2016

20. Reserves

The company has the following reserves:

Share premium

The share premium reserve relates to amounts paid for share capital in excess of nominal value.

Profit and loss account

The profit and loss account represents cumulative profits and losses net of dividends paid and other adjustments.

21. Pension commitments

The company operates a defined contributions pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions payable by the company to the fund and amounted to £52,214 (2015: £37,348). Contributions totalling £4,575 (2015: £5,322) were payable to the fund at the balance sheet date.

22. Commitments under operating leases

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

	Group 2016 £	Group 2015 £	Company 2016 £	Company 2015 £
Not later than 1 year	177,500	212,500	177,500	212,500
Later than 1 year and not later than 5 years	258,750	62,500	258,750	62,500
	<u>436,250</u>	<u>275,000</u>	<u>436,250</u>	<u>275,000</u>

23. Related party transactions

The company holds a loan from Muse Holdings SARL, a parent company. The loan amount of £750,000 (2015: £750,000) is outstanding at the year end.

During the year Meridian Audio Limited, a company of which J R Stuart is a director, paid £262,336 (2015: £1,009,000) in expenses on behalf of MQA Limited, these invoices have been recharged to MQA Limited. At the year end a balance of £7,386 remained outstanding. In addition, Meridian Audio Limited raised invoices for central recharges totalling £304,581 (2015: £729,000). At the year end a balance of £26,625 (2015: £28,905) was outstanding.

24. Controlling party

In the opinion of the directors, Reinet Investments SCA is the ultimate controlling party.