REGISTERED NUMBER: SC222407 (Scotland)

Report of the Directors and

Audited Financial Statements

for the Year Ended 31 December 2016

for

Lingo24 Limited

Lingo24 Limited (Registered number: SC222407)

Contents of the Financial Statements
for the Year Ended 31 December 2016

Company Information
for the Year Ended 31 December 2016

DIRECTORS:	Mr C N Arno Mr A A M Campbell
SECRETARY:	Mr C N Arno
REGISTERED OFFICE:	18 Torphichen Street Edinburgh Midlothian EH3 8JB
REGISTERED NUMBER:	SC222407 (Scotland)
SENIOR STATUTORY AUDITOR:	Fraser Campbell
AUDITORS:	Campbell Dallas LLP Chartered Accountants Statutory Auditors Titanium 1 King's Inch Place Renfrew PA4 8WF

Report of the Directors
for the Year Ended 31 December 2016

The directors present their report with the financial statements of the company for the year ended 31 December 2016.

PRINCIPAL ACTIVITY
Lingo24 is a leading Language Service Provider (LSP) with global reach and a trusted brand synonymous with technical excellence, quality and outstanding customer service.

REVIEW OF BUSINESS
As planned, 2016 was another year of investment and business transformation for Lingo24. The key transformation involves evolving from a company with lots of small customers to one ready to handle multiple large customers. We restructured the sales team and its remuneration in the latter part of 2015. In 2016, while the new sales team bedded in, we continued the business transformation by making the necessary changes to the way that the production/project management team was structured. We also started to focus more of our technology resources on improving back office productivity.

The Board is pleased to report that our initiatives aimed at reshaping our client base are bearing fruit. In 2016 sales from our Top 30 clients were up 35% on the previous year and accounted for almost two-thirds of total sales (with no client representing more than 5-6% of total sales). Also, last year 21 customers each spent more than £100,000 (up from 14 in 2015). Similarly, our decision to focus on e-commerce and dedicate sales resources to this fast-growing sector has met with rapid success. In 2016 e-commerce sales increased 64% on the previous year and this sector now accounts for 30% of our total sales.

With the change in focus we did lose sales from some of our smaller clients, restricting overall sales growth to 12% year-on-year. Such is our ambition, the Board was slightly disappointed with this outcome. However, we were buoyed by the strong finish to the year- December 2016 was a record month for sales and Q4 2016 a record quarter.
We also continued to focus on the quality of the sales revenue. In this respect, we are pleased to report a high level of success on revenue retention - in 2016 we lost only 8 of our top 100 clients, while overall revenue retention for the entire business was almost 103%.

We monitor customer satisfaction on an on-going basis. However, retention rates are arguably the best measure of customer satisfaction. While our success on client retention reflects the importance we attach to being customer focused and the effort we put into developing strong client relationships, we would also like to thank our clients for their loyalty.

In 2016 we also continued to invest in a much more robust technology infrastructure and in our own translation technology platform. In this respect, it is encouraging to see an increasing proportion of our business being conducted through our award-winning computer assisted translation (CAT) tool (known as Coach), which is bringing benefits to both clients and translators, as well as our own project management team. We are also seeing an increasing uptake in the number of clients using our client portal (Ease) and our integration technology (a series of tools which allow our clients to integrate a range of content management systems much more easily with our translation platform). In addition, the investment in our in-house AI-driven machine translation (MT) capability, which allows clients faster turnaround times, has become core to our business with some of our biggest customers.

The progress achieved in 2016 was only possible due to the efforts of our staff, located across the globe, operating as a team 24 hours/day. The group operates an option scheme, enabling everyone in the business to share in its future success. In 2016 we placed more emphasis on the development of our team, with increased effort on staff training and development.

It is also important to mention the importance we place on the maintenance, expansion and improvement of our network of thousands of suppliers, which allows us to meet the complex needs of our clients in terms of both quality and timeliness. We recognise the vital contribution that our 'expanded team' plays in our success. In 2017 we plan to take advantage of our continued growth to deepen our relationship with our key suppliers, while our continuing enhancement of Coach will make the life of our translators easier and more productive.

The heavy investment we have made resulted in the business making a loss in 2016, as planned. Our ability to invest for the future has been made possible by investment from both existing and new equity investors, together with debt financing provided by Lloyds Banking Group which has proved to be a strong and supportive partner, for which we are very grateful.

In 2016 we made considerable progress. Further work is still required to make production/project management and various back end processes more streamlined and effective. This will require additional investment in technology, coupled with further understanding and flexibility from our staff. However, by the end of 2017 we expect to be in a position to report that Lingo24 is a fully scalable business.

Lingo24 has made an encouraging start to 2017, with sales growing and margins improving. More importantly, I remain confident that we will achieve our longer-term plans for sustainable and profitable growth.

DIRECTORS

Mr C N Arno has held office during the whole of the period from 1 January 2016 to the date of this report.

Other changes in directors holding office are as follows:

Mr A A M Campbell - appointed 1 October 2016

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Report of the Directors 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 judgements 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.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

So far as the directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

AUDITORS

The auditors, Campbell Dallas LLP, will be proposed for re-appointment at the forthcoming Annual General Meeting.

This report has been prepared in accordance with the provisions of Part 15 of the Companies Act 2006 relating to small companies.

ON BEHALF OF THE BOARD:

Mr C N Arno - Director

24 May 2017

Lingo24 Limited (Registered number: SC222407)

Balance Sheet
31 December 2016

		2016		2015	
	Notes	£	£	£	£
FIXED ASSETS					
Intangible assets	3		1,804,285		1,513,109
Tangible assets	4		15,680		15,302
			1,819,965		1,528,411
CURRENT ASSETS					
Debtors	5	2,469,414		1,824,831	
Investments	6	241		241	
Cash at bank and in hand		111,077		882,042	
		2,580,732		2,707,114	
CREDITORS					
Amounts falling due within one year	7	2,956,214		2,167,338	
NET CURRENT (LIABILITIES)/ASSETS			(375,482)		539,776
TOTAL ASSETS LESS CURRENT LIABILITIES			1,444,483		2,068,187
CREDITORS					
Amounts falling due after more than one year	8		512,067		511,588
NET ASSETS			932,416		1,556,599
CAPITAL AND RESERVES					
Called up share capital	12		99,060		99,060
Other reserves	13		4,175,492		2,815,000
Retained earnings	13		(3,342,136)		(1,357,461)
SHAREHOLDERS' FUNDS			932,416		1,556,599

The notes form part of these financial statements

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Balance Sheet - continued
31 December 2016

The financial statements have been prepared and delivered in accordance with the provisions of Part 15 of the Companies Act 2006 relating to small companies.

In accordance with Section 444 of the Companies Act 2006, the Income Statement has not been delivered.

The financial statements were approved by the Board of Directors on 24 May 2017 and were signed on its behalf by:

Mr C N Arno - Director

1. STATUTORY INFORMATION

Lingo24 Limited is a private company, limited by shares, registered in Scotland. The company's registered number and registered office address can be found on the Company Information page.

2. ACCOUNTING POLICIES

Basis of preparing the financial statements
These financial statements have been prepared in accordance with the provisions of Section 1A "Small Entities" of Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and the Companies Act 2006. The financial statements have been prepared under the historical cost convention.

Going concern
In light of the reported trading position the directors have considered the cashflow position of the company for the next twelve months and are of the opinion they have sufficient bank funding in place and are satisfied that the principal equity funders will continue to support the company for the foreseeable future.

Profit and loss and cash flow projections are in place for the next two years, and when sensitised downwards show sufficient cash headroom for the next 12 months. Should trading or cash flow not meet required levels, the equity shareholders have committed to continue to fund the company for the next 12 months.

Taking the above into consideration, the directors consider it appropriate to prepare the financial statements on a going concern basis.

Significant judgements and estimates
The preparation of Financial Statements requires management to make judgements, 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 assumptions are reviewed on an ongoing basis and revisions to estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The directors are of the opinion there are no matters of significant judgement and estimation which are material to the financial statements.

Turnover
The turnover shown in the profit and loss account represents amounts invoiced during the year, exclusive of Value Added Tax.

In respect of long-term contracts and contracts for on-going services, turnover represents the value of work done in the year, including estimates of amounts not invoiced. Turnover in respect of long-term contracts and contracts for on-going services is recognised by reference to the stage of completion.

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2. ACCOUNTING POLICIES - continued

Intangible assets
Intangible assets are initially measured at cost. After initial recognition, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

Amortisation
Amortisation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Information Systems - 20% straight line

Fixed assets
Depreciation is provided at the following annual rates in order to write off the cost less estimated residual value of each asset over its estimated useful life.
Plant and machinery etc - 33% on cost

All fixed assets are initially recorded at cost.

Taxation
Taxation for the year comprises current and deferred tax. Tax is recognised in the Income Statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity.

Current or deferred taxation assets and liabilities are not discounted.

Current tax is recognised at the amount of tax payable using the tax rates and laws that that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation
Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date.

Timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements. Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the year end and that are expected to apply to the reversal of the timing difference.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Research and development
Development expenditure incurred on clearly defined projects whose outcome can be assessed with reasonable certainty is capitalised as an intangible asset and carried forward. Amortisation is not charged in the year of acquisition and is charged from the following year over the lesser of the life of the project or five years.

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2. **ACCOUNTING POLICIES - continued**

Foreign currencies
Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of transaction. Exchange differences are taken into account in arriving at the operating result.

Hire purchase and leasing commitments
Rentals paid under operating leases are charged to profit or loss on a straight line basis over the period of the lease.

Pension costs
The company contributes to the individual personal pension arrangements of their employees. These contributions are charged to the profit and loss account.

Financial instruments
Financial assets and liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument and are classified in accordance with their underlying economic reality. The Company has two main categories of financial instruments, which are loans and other receivables and other financial liabilities.

Loans and other receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Upon recognition, these assets are measured at fair value less directly related transaction expenses. In successive periods these are measured at amortised cost, and any differences between acquisition cost and redemption value is accounted for over the borrowing period by using the effective interest method. If transaction costs are immaterial and the credit period is short, amortised cost is equal to the nominal value less any allowance for credit losses.

Other financial liabilities
Other financial liabilities are recognised initially at fair value, net of transaction costs incurred. In successive periods these are measured at amortised cost. Any differences between acquisition cost and redemption value is accounted for over the borrowing period by using the effective interest method. If transaction costs are immaterial and the credit period is short, amortised cost is equal to the nominal value.

Impairment of financial instruments
A provision for impairment is established when there is objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows have been impacted.

Government grants
Grants in respect of revenue expenditure are credited to the profit and loss account when received. Grants in respect of capital expenditure are credited to the profit and loss account over the lifetime of the asset.

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3. INTANGIBLE FIXED ASSETS

	Information systems £
COST	
At 1 January 2016	1,885,123
Additions	668,201
At 31 December 2016	2,553,324
AMORTISATION	
At 1 January 2016	372,014
Amortisation for year	377,025
At 31 December 2016	749,039
NET BOOK VALUE	
At 31 December 2016	1,804,285
At 31 December 2015	1,513,109

4. TANGIBLE FIXED ASSETS

	Computer equipment £
COST	
At 1 January 2016	44,541
Additions	7,418
At 31 December 2016	51,959
DEPRECIATION	
At 1 January 2016	29,239
Charge for year	7,040
At 31 December 2016	36,279
NET BOOK VALUE	
At 31 December 2016	15,680
At 31 December 2015	15,302

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5. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2016	2015
	£	£
Trade debtors	1,027,338	887,008
Amounts owed by group undertakings	655,828	552,913
Other debtors	75,298	47,377
Tax	148,730	-
Deferred tax asset	421,709	227,660
Prepayments and accrued income	140,511	109,873
	2,469,414	1,824,831

The company has a recognised deferred tax asset of £421,709 which has arisen from unutilised tax losses of £4,269,603 and other timing differences. These losses will be used against future profits within the company.

6. CURRENT ASSET INVESTMENTS

	2016	2015
	£	£
Other investments	241	241

7. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2016	2015
	£	£
Bank loans and overdrafts (see note 9)	381,367	223,464
Trade creditors	803,456	675,390
Amounts owed to group undertakings	656,599	63,865
Social security and other taxes	60,726	60,955
VAT	87,206	87,951
Other creditors	292,037	171,293
Accrued expenses	674,823	884,420
	2,956,214	2,167,338

Included within other creditors due within one year is a shareholder loan of £215,170 (2015: £123,473).

8. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2016	2015
	£	£
Other creditors	512,067	511,588

Included within other creditors due after one year is a shareholder loans of £512,067 (2015: £511,588).

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9. LOANS

An analysis of the maturity of loans is given below:

	2016	2015
	£	£
Amounts falling due within one year or on demand:		
Bank overdrafts	381,367	223,464

Included in loans and overdraft is £381,367 (2015: £223,464) relating to the invoice discounting facility.

10. LEASING AGREEMENTS

Minimum lease payments under non-cancellable operating leases fall due as follows:

	2016	2015
	£	£
Within one year	81,782	39,500
Between one and five years	64,043	52,667
	145,825	92,167

11. DEFERRED TAX

	£
Balance at 1 January 2016	(227,660)
Credit to Income Statement during year	(194,049)
Balance at 31 December 2016	(421,709)

12. CALLED UP SHARE CAPITAL

Allotted, issued and fully paid:

Number:	Class:	Nominal value:	2016 £	2015 £
9,906,000	Ordinary shares	0.01	99,060	99,060

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13. RESERVES

	Retained earnings £	Other reserves £	Totals £
At 1 January 2016	(1,357,461)	2,815,000	1,457,539
Deficit for the year	(1,984,675)		(1,984,675)
Capital contribution	-	1,360,492	1,360,492
At 31 December 2016	(3,342,136)	4,175,492	833,356

The capital contribution was received from the parent company.

14. DISCLOSURE UNDER SECTION 444(5B) OF THE COMPANIES ACT 2006

The Report of the Auditors was unqualified.

Fraser Campbell (Senior Statutory Auditor)
for and on behalf of Campbell Dallas LLP

15. RELATED PARTY DISCLOSURES

The company has taken advantage of exemption, under the terms of Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', not to disclose related party transactions with wholly owned subsidiaries within the group.

During the year a loan was received from a shareholder of Lingo24 Holdings Limited to the value of £700,000.

At the year end, loans due to shareholders include a loan of £14,510 (2015: £135,061) due to Jack Waley-Cohen of which £13,469 (2015: £123,473) is due within one year and £1,041 (2015: £11,588) is due after one year, and a loan of £712,728 (2015: £500,000) due to Paul Gregory of which £201,701 (2015: £nil) is due within one year and £511,027 (2015: £500,000) is due after one year.

During the year, directors remuneration of £107,333 (2015: £97,351) and pension contributions of £22,669 (2015: £34,000) were paid to C N Arno, and directors remuneration of £26,635 and pension contributions of £3,025 were paid to A Campbell. A A M Campbell was not a director in the prior year.

16. ULTIMATE CONTROLLING PARTY

The controlling party is Lingo24 Holdings Limited.

The ultimate controlling party is Mr C N Arno.