Registration number: 03936915

# Imaginatik plc

Directors' Report and Consolidated Financial Statements

for the Year Ended 31 March 2017

# Imaginatik plc

## Contents

# Imaginatik plc

## Company Information

| | |
|---|---|
| **Company secretary** | Mr Shawn Karl Taylor |
| **Registered office** | 27/28 Eastcastle Street<br>London<br>W1W 8DH |
| **Solicitors** | Marriott Harrison LLP<br>Staple Court<br>11 Staple Inn<br>London<br>WC1V 7QH |
| **Bankers** | Bank of Scotland<br>144-148 High Street<br>Southampton<br>SO14 2JF |
| **Auditors** | Grant Thornton UK LLP<br>Senior Statutory Auditor<br>Southampton |
| **Nominated advisor and broker** | Finn Cap<br>60 New Broad Street<br>London EC2M 1JJ |
| **US attorneys** | Dorsey & Whitney LLP<br>250 Park Avenue<br>New York<br>NY 10177<br>United States of America |
| **Registrars** | Neville Registrars Limited<br>Neville House<br>18 Laurel Lane<br>Halesowen B63 3DA |
| **Public relations** | Alma PR Limited<br>37 Dempster Road<br>London<br>SW18 1AS |
| **Website** | www.imaginatik.com |

# Imaginatik plc

## Directors for the Year Ended 31 March 2017

**Directors**

The board comprises two executive directors and two non-executive directors, whose details are set out below:

**Shawn Karl Taylor FCA** ***(Chief Financial Officer and Chief Operating Officer, aged 54, British)***

Shawn joined Imaginatik in September 2005 and maintains responsibility for financial systems and processes. Shawn also has responsibility for the routine financial controls, management accounting, forecasting and budgeting procedures, treasury management, foreign exchange control, corporate governance compliance and the management of human resources.

He has significant experience as a public company Chief Financial Officer and has led companies through growth phases having previously been Chief Financial Officer of HIT Entertainment PLC from 1998 to 2001 and Content Film PLC from 2001 to 2004.

**Matthew Cooper** ***(Non-Executive Chairman, aged 50, American)***

Chairman of Remuneration Committee

Matthew Cooper was appointed to the board as Non-executive Chairman in 2009, he became Executive Chairman in June 2010 and moved back to Non-executive Chairman in December 2014. Matthew, a graduate of Princeton University and an American national, is an experienced public company director and investor. He has been the Chairman of Octopus Capital Limited since 2002 and is currently a non-executive director of a number of VCTs and private companies. Prior to joining Octopus, Matthew was the Principal Managing Director of Capital One Bank (Europe) PLC where he was responsible for all aspects of the company's strategic direction and day-to-day operations in Europe. He led the UK portion of the business from start-up to 2 million customers, generating annual revenues of over £275 million and employing over 2,000 people.

**Simon Charles** ***(Non-Executive Director, aged 46, British)***

Chairman of Audit Committee.

Simon Charles is a senior equity partner at the City of London firm of solicitors Marriott Harrison LLP, having joined the firm in March 2004. He is a qualified solicitor in England and Wales and has substantial experience advising private and public companies and investors in both a corporate and legal capacity. Mr. Charles has worked closely with the Company for a number of years. Prior to joining Marriott Harrison LLP, Mr. Charles worked in the corporate finance department at Numis Securities Limited, where he advised both AIM quoted and Main Market companies as a nominated advisor and sponsor.

**Ralph Welborn Ph.D.** ***(Chief Executive Officer, aged 56, American)***

Ralph was appointed to the board on 1 December 2014. Ralph has significant global business advisory and technology implementation experience, focusing on identifying where value is being created and destroyed. He was Strategy and Transformation Leader at IBM (Middle East and Africa) and Senior Partner of Solutions and Innovation at KPMG Consulting.

**Board committees**

The board has established an audit committee and a remuneration committee. Simon Charles chairs the audit committee and is a member of the remuneration committee. Matt Cooper chairs the remuneration committee and is a member of the audit committee.

# Imaginatik plc

## Chairman's Statement for the Year Ended 31 March 2017

**Chairman's Statement**

We are pleased to report results for the year to 31 March 2017 which are broadly in line with management and market expectations, and good underlying progress across a number of strategic fronts. During the year we have added new customers to our blue-chip client base, expanded our market reach, improved the financial strength of the business by further reducing trading losses and completing a successful equity fundraising, and maintained investment in our proprietary innovation software and services to seek to ensure the long-term success of the Group.

The financial results show the 4th consecutive year of reduced trading losses, with adjusted loss after tax of £0.55m. The result is net of an exceptional foreign exchange loss of £0.23m arising as a result of the strong US dollar over the reporting period (2016: adjusted net loss of £0.80m). This was delivered on static revenue of £3.9m (2016: £3.9m).

A total number of 15 new customers were signed during the year (2016: 9), 9 of which are on annual or multi-year contracts consisting of both technology and consulting, and 6 are on consulting engagements. Out of these new customer wins, 11 were added in the second half of the year as sales momentum started to build and also partially reflective of the inherent sales volatility often characteristic of a small company. Approximately 76% of renewals by value were converted over the period. This was due to the loss of two significant clients, one being acquired and the other through a cost reduction programme. In the last three years this renewal rate was higher at approximately 90% or more. We have contracted two new clients so far in the new financial year, in what is traditionally a slower quarter for new business and renewals. We are currently contracting with six new clients that we expect to close in the next few weeks.

During the period under review, we completed a successful placing and open offer, raising £1.67m gross in June 2016. The proceeds of the equity fundraising were used to fund development investment in the business as well as strengthen the Group's balance sheet to cover the on-going albeit diminishing trading losses.

Our core focus is to help businesses achieve and realise the value from a sustainable innovation programme, delivered through our portfolio of unique solutions, which combines innovation consultancy services and software. As more and more organisations are waking up to the importance of harnessing business-critical innovation, the message is becoming even clearer: businesses that innovate survive and thrive, while those that fail to do so, risk failure. We believe that this realisation is driving a 'coming of age' for the innovation market and we have seen an acceleration in the maturing of the market. This is evidenced by new buyers entering the market with access to larger budgets for innovation programmes.

As the market opportunity grows, our focus is on ensuring we remain the leaders in the space through continued investment in our capabilities and expanding our routes to market, including the development of our channel partnership programme. A key achievement in the year was the signing of several partnership agreements, the most significant of which is with a leading digital technology services company. We have already launched our first jointly-developed innovation offering which is currently being marketed to both partners' global customer bases. To capitalise on these channel partner opportunities, a proportion of the July 2017 fundraising proceeds were allocated for investment in sales and marketing for the channel partnership programme, along with further investment in technology. On behalf of the Board, I would like to thank our shareholders for their continued support. We will continue to pursue a strategy of building relationships with strategic partners to continue to expand the Group's market reach and open up new opportunities.

## Imaginatik plc

## Chairman's Statement for the Year Ended 31 March 2017

I would like to thank all of our dedicated employees and colleagues whose vision and hard work is invaluable as we drive Imaginatik forward. As we look ahead, we have a clear, focused strategy, a good pipeline of opportunities and a growing market opportunity. We remain encouraged by the Group's growth prospects.

**Matt Cooper**

**Non-executive Chairman**

4 August 2017

# Imaginatik plc

## Strategic Report for the Year Ended 31 March 2017

### Strategic Report

Imaginatik is a comprehensive, full service innovation provider. Our unique ability to provide consultancy services and also deliver innovation programmes through our software platform remains a powerful differentiator in the market. During the year we have added to our capabilities through continued investment in our consultancy and technology solutions and have expanded our addressable market through the development of our partnership channel programme. We have secured contractual arrangements with several partners, opening up a new potential client base to Imaginatik through mutual referral as well as bringing added value to our existing customer base through access to an expanded range of services.

### Market

We firmly believe that companies that have innovation as part of their corporate DNA are better equipped to navigate and thrive in the business world whilst those that are less innovative find it increasingly difficult to compete and survive, and this message is resounding louder among our customers and prospective customers. In recognition, organisations are allocating innovation responsibilities to senior leaders whose responsibilities span across their respective businesses, including more frequently to the role of CEO, and away from silo-ed departments with limited budgets. These new buyers are entering the market for the first time with dedicated budget spend.

While awareness is on the rise, the majority of these new buyers are still unclear of what they need to do and this is evidenced by a growing number of inbound enquiries. There is no 'one size fits all' solution to build an innovation ethos within an organisation. It requires a significant amount of guidance to ensure the solution is appropriate and effective for each individual case. Our enterprise software platform, enabling customers to scale consistent innovation practices across their organisation, combined with a highly qualified consulting team with many years of experience in corporate innovation management is ideally positioned to help these customers.

In response to the growing value of this market, large, broad-based consulting firms are starting to enter the space in a meaningful way and we see this as further validation of the opportunity available. Examples of this activity includes Deloitte's purchase of Doblin, an innovation consultancy, adding it to their services portfolio; KPMG Netherlands acquired Innovation Factory to strengthen its innovation technology capabilities, E&Y Belgium acquired Cognistreamer in January 2017; and IBM is expanding its innovation focus with a series of technology-specific innovation services. While there are new participants emerging in the market, Imaginatik's established offering, which has been developed and refined over years of industry practice and experience, is recognised as the leading solution. In a report by Forrester (*The Forrester WaveTM: Innovation Management Solutions, Q2 2016*) Imaginatik was named as having *"the most comprehensive innovation management solution."* The report also ranked Imaginatik above all other market competitors in terms of its current suite of offerings as well as its strategy.

### Strategy

Our strategy is to capitalise on the Group's leading reputation to grow the business organically through new customer acquisition whilst also maintaining a focus on customer renewals and growth within existing accounts. In line with the strategy, we remain committed to the ongoing investment in the Group's technology platform and service capabilities to continually improve our offering, with a particular focus on extending its analytic insight capabilities, including the recruitment and hiring of additional personnel across technology, sales and consulting functions.

# Imaginatik plc

## Strategic Report for the Year Ended 31 March 2017

**Operational Review**

Imaginatik's full service innovation offering covers three main sectors within the innovation industry, being:

*a. Innovation strategy advisory*
This involves advisory consulting to help senior executives build and develop their corporate innovation programs, such programs of work typically have a duration of one to three months.

*b. Innovation capability building*
This type of consulting is more operational in nature involving the Company providing workshops, training, facilitation and innovation management services in support of a client's ongoing program. These activities are frequently project based with delivery taking place over a few months, but may also be embedded within annual or multi-year contracts sitting alongside a technology purchase.

*c. Innovation software platform*
The Company provides an enterprise innovation software platform that enables large global organisations to scale innovation practices across the enterprise in a repeatable way. This is usually deployed as annual or multi-year software as a service ("SaaS") contracts.

**Sales and Marketing**

Marketing efforts during the year focused on leveraging more web-based digital advertising with a shift away from more traditional conference activity for lead generation. This has proved beneficial over the year as this change in focus, combined with growing market awareness, has resulted in more inbound leads than previously experienced. Particularly important was an investment in a new public website, which featured a refinement of Imaginatik's message and positioning, as well as an evolution of the Company's brand image.

The combination of redoubled digital advertising and content dissemination, along with improvements in website user experience, have led to consistently higher lead acquisition and conversion at the front end of the marketing funnel. We believe demand patterns will continue to strengthen going forward, as we further expand our digital marketing efforts. In addition, we have introduced a new internal resource to help target particular market verticals, particularly those where we have existing client and sales pipeline concentrations, in sectors such as retail banking, insurance, manufacturing and healthcare.

To improve sales velocity through the pipeline, this year saw the institution of streamlined go-to-market solution packages, with simplified pricing and targeted use cases, across our service and product lines. The simplified offerings structure, combined with clarity of what needs each solution serves, has improved our ability to target the right prospects and present them with the most appropriate solutions. The resulting consolidation of Imaginatik's sales processes and selling materials has resulted in improved velocity and clarity at each pipeline stage.

In addition, we invested in a number of new personnel, mostly in the US, spanning both technology development and software sales. Looking forward, the Company intends to further bolster its sales function in line with the market opportunity.

*Partnership channel*

We have expanded our partnership programme over the year which has added a new sales channel to the Group and broadened our market reach. We signed several channel partners, which cover a range of agreement arrangements including advocate partners through to referral partners and finally, to a more significant strategic partnership channel which we signed in the year with a leading digital technology services company. In this latter case, we have been working with the partner since the early part of calendar 2017 to develop a joint go-to-market strategy across a set of new offerings, including the launch of our first jointly-developed innovation offering post period end, as well as employee training.

Going forward, the Group will look to add further US-based sales and consulting resources to take advantage of the sales opportunities afforded by the developing partnerships and growing innovation market as a whole.

**Consultancy**

The market's growing maturity is evidenced by more business executives being involved in the decision making process around innovation. Driving this involvement is the acceleration of change taking place across industries as well as the recognition that shifts in technology and business models create new opportunities. It is our intention to take advantage of these buyers within the innovation space.

Examples of customer engagements successfully delivered in the year include:

a. Innovation Strategy Advisory: *A life insurance and asset management company: helping the CEO to realise their vision through Advisory engagement*

The client had a specific strategic vision and was aware that innovation is key to helping realise that vision. However, the client had no clear idea as to how to proceed. Imaginatik was hired to meet two of the client's objectives: firstly, to bridge the gap between the CEO's vision and re-focusing the executive team around how to meet that vision, and secondly, to design an innovation program to develop new capabilities to deliver on the CEO's vision. The innovation strategy we created following the Advisory engagement is expected to lead to the client acquiring our technology platform as the foundation of the innovation program.

b. Innovation Capability Building: *A pharmaceutical company specializing in ophthalmology: Innovating for specific disease categories.*

The client needed to address innovation across specific disease areas in an effort to mitigate the loss of patents. The client engaged Imaginatik to support the ideation process. As a first phase, we designed a virtual ideation process to enable participation across the globe. The virtual ideas were then used as a starting point for a small group facilitated session. The small group developed the ideas with transformational potential and then prioritised the ideas into concepts most likely to have a significant impact. These prioritised concepts were then presented to the leadership team for funding and further development.

**Technology**

During the year we made good progress in advancing our technology roadmap including a new mobile app, enhanced analytics capabilities and workflows, as well as further enhancing the user experience. The technology team was bolstered with the appointments of David Boghossian, General Manager, Software, and Kai Chuang who joined the Group as our Boston based Chief Technology Officer. David is based in Boston and has a remit to be the interface between our technology and sales activities, as well as assisting the sales team with their sales pursuits. David is a Harvard graduate with over 25 years' experience in running technology businesses. Kai has more than 20 years' experience in creating digital technology solutions and has previously worked at Accenture and Google.

We are seeing several emerging trends that we are focused on taking advantage of. First, connectivity between innovation platforms and other applications that support innovation ideation or core business applications. For example, Facebook's Workplace is a rapidly growing application that many organisations have. We have been asked to provide connectivity capabilities from Workplace into our platform to broaden the source of ideas that we can then apply our analytic capabilities to - which we are doing. Second, many organisations are struggling with how to make more sense of their innovation ideas. We are strong in terms of existing analytics tools, and we are building upon that strength through further investment in our technology platform, with a particular emphasis on helping organisations drive sustainable user engagement for their innovation programs across the enterprise, deploying artificial intelligence in our solutions to augment decision making capabilities, and delivering more "insight capabilities" into different sources of data that will strengthen the relevance and usefulness of our platform.

**KPIs & Financial Review**

The key performance indicators on which we judge the progress of our business are as follows:

| **KPI** | **2017** | **2016** |
|---|---|---|
| Gross bookings* ^ | £3.6m | £4.7m |
| Recognised revenue | £3.9m | £3.9m |
| New & expansion bookings** ^ | £1.9m | £2.5m |
| Renewal bookings*** ^ | £1.7m | £2.2m |
| Number of clients renewing their contracts | 22/30 | 28/35 |
| Number of new client wins in the year | 15 | 9 |
| Total number of annual contracts at year end | 40 | 39 |
| Consulting as a % of contracted revenue | 26% | 28% |
| Adjusted loss after tax**** | (£0.55m) | (£0.80m) |
| Cash balance | £0.12m | £0.02m |

*^At constant currency, exchange rate of 1.2453.*

** Gross value of contracted sales in the period*
*** Gross value of contracted sales in the period to new clients and expansion within existing clients*
**** Gross value of contracted sales in the period for clients renewing their contract*
***** Adjusted for impact of £0.23m of foreign exchange loss in the period*

At £3.6m this year our gross bookings were down on the prior year, in part that was the result of the way in which our multi-year renewals fell, with more of the larger customers renewing last year than this, and in part the result of lower new and expansion bookings achieved in the year.

The lower level of renewals secured in FY17 was disappointing and in contrast to the higher levels seen in prior years. The Company lost nine clients in the period (2016: 7) with two of the losses amounting to almost half the loss. We were however pleased with the 15 new client wins achieved in the period (2016: 9), with 9 now on annual or multi-year contracts and the balance a mixture of consulting engagements, the most significant on which was a three month strategy engagement with a leading Canadian financial institution. This initial engagement is expected to lead to a subsequent annual technology sale post period end.

During the year, 28% of bookings were generated from expansion sales of our software and consulting services into existing customers, 25% from selling into new clients, and 47% from renewals business (FY16: 31%:22%:47%).

Our new clients acquired in the period include an impressive array of large global businesses, that cover a variety of sectors including financial services, pharmaceutical, manufacturing and technology. By the period end we had 40 clients (FY16: 39) on annual or multi-year contracts. Of this base we have 30 clients with contracts set for renewal in FY18, worth approximately £2.4m.

The Company's cash balances are a key KPI which were monitored on a regular basis during the period under review.

*Financial Review*

Total recognised revenue for the year ended 31 March 2017 remained flat at £3.90m (FY16: £3.89m) with consulting revenues comprising 26% of the total recognised revenue (FY16: 28%) and 74% derived from technology revenues (FY16: 72%). Whilst consulting is often the first point of contact for new clients the technology offering remains core to our client engagements and we see the Company as a technology business with various consulting offerings wrapped around. We do not expect this ratio to change materially in the future.

In terms of geographic split the US market remains our core sales market with 71% of recognised revenues arising from the region (2016: 76%) with the remaining 29% derived from the Rest of the World (FY16: 24%).

Administrative expenses for the period were £4.54m, broadly similar to the prior year at £4.57m. Head count across the business remained at 35 at period end, the same as the prior year reflecting a re-configuration of the staff base over the year as well as a determined effort to contain the cost base. Other operating income represents income arising as a result of sub-leasing office space in Boston.

The Company secured a further R&D tax credit from HMRC of £0.22m (FY16: £0.17m), reflected in the taxation line in the consolidated statement of comprehensive income.

Losses on ordinary activities after tax were £0.78m in the year ended 31 March 2017, a reduction of 18% on the prior year (FY16: £0.95m). This net result for the period includes a foreign exchange loss of £0.23m (2016: £0.15m) arising as a result of the retranslation of certain US$ based balance sheet assets and liabilities. Adjusting for this fx loss, the net result for the period was £0.55m (FY16: £0.80m).

During the period we have invested in both our technology platform and consulting offerings, adding the new products and new capabilities to improve our competitiveness and widen our addressable market. In the year we capitalised £0.57m of costs (FY16: £0.26m).

Cash outflows from operating activities was £0.86m (FY16: £0.46m) these outflows were met through the proceeds of an institutional fund raising undertaken in the period.

In June 2016 the Company undertook placings of new ordinary shares with both new and existing shareholders, raising aggregate gross proceeds of £1.67m.

Subsequent to the period end, the Company raised a further £1.45m gross via a placing and open offer to shareholders including management and employees. A proportion of the net proceeds will be invested in sales and marketing for the Company's partnership channels. The Company has been developing its partnership channels providing the technology platform and consultancy services to both the partner and to the partner's customer base as part of a jointly developed innovation offering. For this the Company receives subscription revenues and consulting fees and will also be entitled to receive success-based fees based on the total contract value of the joint offering. The Company will also use the proceeds to invest in both new and existing technology. The focus on existing technology will be to: improve reporting; mobile enablement; and user experience. Spend on new product development will be primarily focussed on further enhancing the analytical tools. The balance of the net proceeds will provide additional working capital to help better manage the seasonality of renewals and volatility often seen in the sales pipeline and protect strategic options as the market evolves.

The Directors have reviewed the Group's budgets and forecasts for the coming 12 months, which have been prepared with appropriate regard to the current macroeconomic environment and the conditions in the principal markets served by the Group. The Directors have taken into consideration the Group's net funds, the level of anticipated renewals by reviewing on a customer by customer basis, forecast new and up sell revenues based on sales in the pipeline and anticipated costs. There is inherent uncertainty in the level of anticipated renewals and up sell revenues and assumptions are based on reasonable expectations taking into account historic experience and current knowledge. The forecasts include investments and additional costs commensurate with expected levels of growth and options available to the Directors include the ability to flex these investments and costs should predicted revenues be lower than forecast.

As a result, at the time of approving the financial statements, the Directors consider that the Group has sufficient financial resources to continue in operational existence for the foreseeable future and, therefore, that it is appropriate to adopt the going concern basis in preparing these financial statements. As with all business forecasts, the Directors' statement cannot guarantee that the going concern basis will remain appropriate given the inherent uncertainty about future events.

**Summary and Outlook**

This has been a year of good progress as we continue to position the business to capitalise on the growing market opportunity available. We have delivered results broadly in line with market expectations, resulting in improved financial strength as we make further progress toward breakeven, while also continuing to invest in the business to add new capabilities to our consulting and technology offerings and expand our addressable market through the development of our partnership channel.

We are encouraged by the development of the sales pipeline arising as a result of the newly developed partnership channels. Whilst we are mindful of the task ahead, we remain optimistic about the Group's growth prospects.

*Approved by the Board and signed on its behalf by:*

**Ralph Welborn**

**Chief Executive Officer**

**Shawn Taylor**

**Chief Operating and Financial Officer**

4 August 2017

# Imaginatik plc

## Corporate Governance

**Statement of corporate governance**

The Group is committed to business integrity, high ethical values and professionalism in all its activities. As an essential part of this commitment the Group supports the highest standards in corporate governance. The Board is accountable to the company's shareholders for good governance and this statement and the Directors' remuneration report describe how the principles of good governance set out in the UK Corporate Goverance Code, published by the Financial Reporting Council are applied within the company. We do not comply with the UK Corporate Governance Code. However, we have reported on our Corporate Governance arrangements by drawing upon best practice available, including those aspects of the UK Corporate Governance Code we consider to be relevant to the company and best practice.

**Board composition**

The group has two executive directors and two non-executive directors. The board retains full and effective control over the group. The group holds regular board meetings at which financial, operational and other reports are considered and, where appropriate, voted on. Apart from regular meetings, additional meetings will be arranged when necessary to review strategy, planning, operational and financial performance, risk, capital expenditure and human resource. The board is also responsible for monitoring the activities of the executive management. To enable the board to perform its duties, all directors will have full access to all relevant information. If necessary the non-executive directors may take independent professional advice at the group's expense.

**Board committees**

The directors have established an audit committee and a remuneration committee with formally delegated duties and responsibilities:

*The audit committee*

The audit committee meets at least twice a year. The committee reviews regular reports before submission to the board for approval. The committee also reviews regular reports and meets with management and the external auditors on accounting and internal control matters. Where appropriate, the committee monitors the progress of action taken in relation to such matters. The committee also recommends the appointment of, and reviews the fees of, the external auditors.

*The remuneration committee*

The remuneration committee meets at least twice a year. It is responsible for reviewing the performance of the executive directors and for setting the scale and structure of their remuneration, paying due regard to the interests of shareholders as a whole and the performance of the group. The remuneration committee also determines allocations of any warrants or options granted under any share option scheme adopted by the group now and in the future and is responsible for setting any performance criteria relevant to such warrants or options.

**Board appointments**

Any decision to appoint further directors to the board is taken by the entire board in a formal meeting. Where it is deemed necessary, new members of the board are provided with appropriate training in respect of their roles and duties as a public company director.

# Imaginatik plc

## Corporate Governance

**Investor relations**

Simon Charles has been identified as the group's Senior Independent Director. He is available to shareholders who wish to raise any concerns that they have been unable to resolve through other channels and to attend meetings between management and major investors. The Board has concluded that Simon Charles was independent throughout the year. In arriving at this conclusion the Board has applied the criteria set out in the provision in B.1.1 of the UK Corporate Governance Code. Simon Charles is a partner in Marriot Harrison, legal advisors to the company and also holds a small amount of shares and share options. However transactions with Marriot Harrison and his interests in shares are considered to be too small to affect his independence.

The notice of the AGM will be sent to shareholders at least 21 clear days before the Meeting. At the forthcoming AGM, the group will indicate the level of proxy voting and members of the board committees will be available to answer questions.

**Corporate social responsibility**

The group takes seriously its global carbon footprint and takes reasonable measures to minimize its carbon emissions.

**Internal control**

The directors acknowledge their responsibility for the group's systems of internal control.

The group maintains systems of internal control to provide reasonable but not absolute assurance against material misstatement or loss.

The system of internal control is structured around an assessment and prioritisation of the various risks to the business. The control environment is designed to address particularly those risks that the board considers to be material to the business, in safeguarding the assets against unauthorised use or disposition and maintaining proper accounting records which produce reliable financial information.

The board has reviewed the effectiveness of the system of internal control for the accounting period and the period to the date of approval of the financial statements.

The key features of the group's systems of internal control are as follows:

- an ongoing process of risk assessment to identify, evaluate and manage business risks;
- management structure with clearly defined responsibilities and authority limits;
- a comprehensive system of reporting financial results to the board; and
- appraisal and authorisation of capital expenditure.

The group does not currently operate an internal audit function. At the audit committee meetings the Chief Financial Officer reports on internal controls and a programme of work to ensure systems and processes are continuously improved.

# Imaginatik plc

## Directors' Remuneration

**Remuneration report**

**Responsibilities**

The remuneration committee is responsible for the determination of the remuneration policy of the group's executive directors and senior executives.

**Composition**

Matt Cooper chairs the remuneration committee and Simon Charles is a member.

**Directors' service contracts**

The service contracts entered into by the Chief Financial Officer require twelve months' notice of termination on either side and the service contract of the Chief Executive Officer requires six months' notice of termination on either side.

**Remuneration of non-executive directors**

The remuneration for the non-executive directors is determined by the board as a whole and consists of fees for their services in connection with board and board committee meetings and, where relevant, for additional services such as chairing a board committee. They are not eligible for pension scheme membership and do not participate in any bonus scheme.

Non-executive directors do not participate in decisions about their own remuneration.

**Executive remuneration policy**

The committee endeavours to offer competitive remuneration packages which are designed to attract, retain and provide appropriate incentives to executive directors and senior executives with the experience and necessary skills to operate and develop the group's business to their maximum potential, thereby delivering the highest level of return for the shareholders.

Consistent with this policy, benefits packages awarded to executives are intended to be competitive and comprise a mix of non performance-related and performance-related remuneration designed to provide appropriate incentives to them, but not to detract from the goals of corporate governance.

**Remuneration components for executive directors**

Remuneration packages are reviewed each year to ensure that they are in line with the group's business objectives. No director participates in decisions about their own remuneration package.

The main components in determining pay are as follows:

*Basic salary/fees and benefits*

The basic annual salary is subject to an annual review which takes into account the performance of the group and the individual. Benefits comprise the provision of private healthcare insurance.

*Annual performance-related bonus*

Demanding annual performance targets, which are consistent with both the short and long term objectives for the business, are set for executive directors which must be achieved before the bonus is payable.

*Executive share options schemes*

Share options are granted to executive directors to encourage them to deliver sustained, long term growth. Except in exceptional circumstances, the value of options granted in any year will not exceed two and a half times basic salary.

# Imaginatik plc

## Directors' Remuneration

**Directors' detailed emoluments**

The emoluments of the directors of the group were as follows:

| | Salary | Share based payments | Benefits in kind | 2017 Total | 2016 Total |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| S K Taylor | 159 | 6 | 5 | 184 | 175 |
| M J Cooper | 84 | 11 | - | 116 | 75 |
| S Charles | 25 | 1 | - | 26 | 25 |
| R Welborn | 315 | 11 | - | 331 | 285 |
| | 583 | 29 | 5 | 657 | 560 |

**Interests in share options**

The following directors hold share options over the ordinary shares of the company:

| | Number of share options | Exercise price | Grant date |
|---|---|---|---|
| S K Taylor | 7,700 | 25.20p | 22 November 2012 |
| | 397,812 | 6.736p | 17 December 2013 |
| | 984,166 | 3.750p | 22 December 2014 |
| | 62,533 | 4.88p | 14 December 2015 |
| M J Cooper | 8,250 | 25.20p | 22 November 2012 |
| | 2,528,280 | 6.736p | 17 December 2013 |
| | 50,000 | 3.750p | 22 December 2014 |
| S Charles | 93,750 | 3.750p | 22 December 2014 |
| | 25,000 | 4.88p | 14 December 2015 |
| R Welborn | 2,200,000 | 3.750p | 22 December 2014 |
| | 67,000 | 4.88p | 14 December 2015 |

After an initial two year qualification period 50% of the options are exercisable at any time up to the tenth anniversary of the date of grant. The remaining 50% of the options are exercisable between the third and tenth anniversaries of grant.

The mid-market price of the company's shares at 31 March 2017 was 2.000p (2016: 1.875p)

**M Cooper**

Chairman, Remuneration Committee

# Imaginatik plc

## Directors' Report for the Year Ended 31 March 2017

The directors present their report and the consolidated financial statements for the year ended 31 March 2017.

**Results and dividends**

The consolidated statement of comprehensive income is set out on page 21 and shows the result for the year.

The directors do not recommend the payment of a dividend.

**Principal activity**

The principal activity of the company and its subsidiaries is the provision of collaborative innovation software and related consultancy services.

**Directors of the group**

The directors who held office during the year were as follows:

Mr Simon Charles

Mr Matthew J Cooper

Mr Shawn Karl Taylor

Mr Ralph Welborn

**Matters covered in the Strategic Report**

Future developments and research and development activities are disclosed in the Strategic Report.

***Principal risks and uncertainties***

The Group's financial and operational performance is subject to a number of risks. The Board seeks to ensure that appropriate processes are put in place to manage, monitor and mitigate these risks. The Board considers the principal risks faced by the Group to be as follows:

Loss of major customers
The Group has a small number of major customers. Accordingly, there is a risk of loss of major clients that could result in a reduction in revenue. The Group endeavours to provide an excellent service to customers at competitive pricing. In the event of the loss of a major customer, steps would be taken to reduce the Group's cost base.

Customer failure
The Group has a small number of major customers and, accordingly, is exposed to potentially significant bad debts should a major customer become insolvent. The Group operates a credit control policy to reduce the risk of customer failure, although the Group does not have credit insurance in place.

Brexit
The Group is monitoring the impact of Brexit on its current and likely future trading performance in Europe. In particular there is an unknown impact on whether our deployment solutions will be compliant with changing EU and industry regulation including data protection.

Competition
The Group's competitors may offer superior services to the market or lower prices, which could reduce the attractiveness of the Group's services and result in a reduction in revenue. In the event of a significant reduction in revenue, steps would be taken to reduce the Group's cost base.

Attraction and retention of Directors and key employees.
The success of the Group depends on the abilities and experience of the Directors and key employees. The loss of Directors and key employees or the inability to recruit replacements or further Directors or key employees could have a significant adverse effect on the day to day running of the Group and on the development of the Group's business. The Group seeks to reward Directors and key employees at appropriate levels, including the provision of equity incentive schemes, designed to attract and retain Directors and key employees of appropriate calibre.

Financial risks
The group finances its operations through a mixture of cash generated from operations and, where necessary to fund expansion or capital expenditure programmes, through leasing or the proceeds of the sale of shares.

Management's objectives are to:

- Retain sufficient liquid funds to enable the group to meet its day to day obligations as they fall due whilst maximising returns on surplus funds; and
- Match the repayment schedule of any external borrowings with the expected future cash flows expected to arise from the group's trading activities.

As all the group's surplus funds are invested in Pound Sterling and US Dollar bank deposit accounts foreign exchange risk arises.

The group's surplus funds are held primarily in short term variable rate deposit accounts. The directors believe that this gives them the flexibility to release cash resources at short notice and also allows them to take advantage of changing conditions in the finance markets as they arise.

Foreign exchange risk arises because the group has operations located in various parts of the world whose functional currency is not the same as the functional currency in which the group companies are operating. The group's policy is, where possible, to allow entities to settle liabilities denominated in their functional currency with the cash generated from their own operations in that currency.

More details on financial instruments management objectives and policies are mentioned within note 22.

**IFRS**

We have prepared our financial statements in accordance with International Financial Reporting Standards as adopted by the EU (IFRS).

**Going concern**

The group posted a loss of £779,000 (2016: £945,000) for the period, has current net liabilities of £910,000 (2016: £1,466,000) and retained losses of £13,596,000 (2016: £12,817,000). The group has net funds at 31 March 2017 of £117,000 (2016: £23,000).

The group meets its financing requirements through the regular placing of new shares and completed a placing of new ordinary shares with institutional and other investors in June 2017 raising a total of £1,450,000 before expenses.

The Directors have reviewed the group's budgets and forecasts for the coming 12 months, which have been prepared with appropriate regard to the current macroeconomic environment and the conditions in the principal markets served by the group. The Directors have taken into consideration the group's net funds, the level of anticipated renewals by reviewing on a customer by customer basis, forecast new and up sell revenues based on sales in the pipeline and anticipated costs. There is inherent uncertainty in the level of anticipated renewals and up sell revenues and assumptions are based on reasonable expectations taking into account historic experience and current knowledge. The forecasts include investments and additional costs commensurate with expected levels of growth and options available to the Directors include the ability to flex these investments and costs should predicted revenues be lower than forecast.

As a result, at the time of approving the financial statements, the Directors consider that the group has sufficient financial resources to continue in operational existence for the foreseeable future and, therefore, that it is appropriate to adopt the going concern basis in preparing these financial statements. As with all business forecasts, the Directors' statement cannot guarantee that the going concern basis will remain appropriate given the inherent uncertainty about future events.

## Imaginatik plc

## Directors' Report for the Year Ended 31 March 2017

**Statement of Directors' Responsibilities**

The directors are responsible for preparing 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 International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's and the company's transactions and disclose with reasonable accuracy at any time the financial position of the group and 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 group and the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**Disclosure of information to the auditors**

Each director has taken steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information. The directors confirm that there is no relevant information that they know of and of which they know the auditors are unaware.

Approved by the Board on 4/8/17 and signed on its behalf by:

.....

Mr Shawn Karl Taylor
Director

# Imaginatik plc

## Independent Auditor's Report to the members of Imaginatik Plc

We have audited the financial statements of Imaginatik plc for the year ended 31 March 2017, which comprise the consolidated statement of comprehensive income, the consolidated and parent company statement of financial position, the consolidated and parent company statement of cash flows, the consolidated and parent company statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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 Statement of Directors' Responsibilities (set out on page 18), 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 APB's web-site at www.frc.org.uk/auditscopeukprivate.

**Opinion on the financial statements**

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the company's affairs as at 31 March 2017 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

**Opinion on other matter prescribed by the Companies Act 2006**

In our opinion, based on 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.

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

In the light of the knowledge and understanding of the Group and parent Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and Directors' Report.

## Independent Auditor's Report to the members of Imaginatik Plc

**Matters on which we are required to report by exception**

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

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

.....

Paul Etherington BSc FCA CF (Senior Statutory Auditor)
For and on behalf of Grant Thornton UK LLP, Statutory Auditor

Southampton

Date: 4 August 2017

## Imaginatik plc

## Consolidated Statement of Comprehensive Income for the Year Ended 31 March 2017

| | Note | 2017<br>£ 000 | 2016<br>£ 000 |
|---|---|---|---|
| Revenue | 3 | 3,920 | 3,893 |
| Cost of sales | | (194) | (232) |
| Gross profit | | 3,726 | 3,661 |
| Administrative expenses | | (4,540) | (4,570) |
| Foreign exchange (gains) / losses | | (230) | (150) |
| Other operating income | 6 | 63 | 14 |
| Operating loss | 7 | (981) | (1,045) |
| Finance costs | 9 | (13) | (65) |
| Loss before tax | | (994) | (1,110) |
| Income tax receipt | 10 | 215 | 165 |
| Loss on ordinary activities for the year and total comprehensive income | | (779) | (945) |
| Loss per share - Basic and diluted | 11 | 0.57p | 1.15p |

The above results were derived from continuing operations.

The group has no recognised income or expenses other than the results for the year as set out above.

All of the above losses for the year are attributable to equity holders of the parent.

## Imaginatik plc

## (Registration number: 03936915)
## Consolidated Statement of Financial Position as at 31 March 2017

| | Note | 2017<br>£ 000 | 2016<br>£ 000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 13 | 25 | 19 |
| Intangible assets | 14 | 933 | 493 |
| Trade and other receivables | | 97 | 273 |
| | | 1,055 | 785 |
| **Current assets** | | | |
| Trade and other receivables | 15 | 1,789 | 1,403 |
| Cash and cash equivalents | | 117 | 23 |
| | | 1,906 | 1,426 |
| Total assets | | 2,961 | 2,211 |
| **Equity and liabilities** | | | |
| **Equity** | | | |
| Share capital | 16 | 4,041 | 3,374 |
| Share premium | | 7,765 | 6,883 |
| Other reserves | | 1,198 | 1,143 |
| Retained losses | | (13,596) | (12,817) |
| Equity attributable to owners of the company | | (592) | (1,417) |
| **Non-current liabilities** | | | |
| Deferred income | 18 | 737 | 736 |
| **Current liabilities** | | | |
| Trade and other payables | 19 | 2,816 | 2,892 |
| Total liabilities | | 3,553 | 3,628 |
| Total equity and liabilities | | 2,961 | 2,211 |

Approved by the Board on 4/8/17 and signed on its behalf by:

.....

Mr Shawn Karl Taylor

Director

The notes on pages 27 to 51 form an integral part of these financial statements.

## Imaginatik plc

## (Registration number: 03936915)
## Statement of Financial Position as at 31 March 2017

| | Note | 2017<br>£ 000 | 2016<br>£ 000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 13 | 25 | 19 |
| Intangible assets | 14 | 933 | 493 |
| Trade and other receivables | 15 | 97 | 273 |
| | | 1,055 | 785 |
| **Current assets** | | | |
| Trade and other receivables | 15 | 1,936 | 1,579 |
| Cash and cash equivalents | | 117 | 23 |
| | | 2,053 | 1,602 |
| Total assets | | 3,108 | 2,387 |
| **Equity and liabilities** | | | |
| **Equity** | | | |
| Share capital | 16 | 4,041 | 3,374 |
| Share premium | | 7,765 | 6,883 |
| Other reserves | | 1,198 | 1,143 |
| Retained losses | | (13,449) | (12,641) |
| Total equity | | (445) | (1,241) |
| **Non-current liabilities** | | | |
| Deferred income | 18 | 737 | 736 |
| **Current liabilities** | | | |
| Trade and other payables | 19 | 2,816 | 2,892 |
| Total liabilities | | 3,553 | 3,628 |
| Total equity and liabilities | | 3,108 | 2,387 |

The company has taken advantage of the exemption under S408 of the Companies Act 2006 and has not presented its own statement of comprehensive income. Of the consolidated result for the year ended 31 March 2017 a loss of £805,000 (2016: loss of £974,000) is attributable to the company.

Approved by the Board on 4/8/17 and signed on its behalf by:

.....

Mr Shawn Karl Taylor

Director

The notes on pages 27 to 51 form an integral part of these financial statements.

## Imaginatik plc

## Consolidated and Company Statement of Cash Flows for the Year Ended 31 March 2017

| | Note | 2017<br>£ 000 | 2016<br>£ 000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Loss for the year | | (779) | (945) |
| Adjustments to cash flows from non-cash items | | | |
| Depreciation and amortisation | 7 | 151 | 180 |
| Share based payment transactions | | 55 | 67 |
| Income tax credit | 10 | (215) | (165) |
| Finance costs | | 13 | 65 |
| | | (775) | (798) |
| Working capital adjustments | | | |
| (Increase)/decrease in trade and other receivables | 15 | (209) | 320 |
| Decrease in trade and other payables | 19 | (76) | (82) |
| Cash generated from operations | | (1,060) | (560) |
| Finance costs | | (13) | (65) |
| Income taxes received | 10 | 215 | 165 |
| Net cash flow from operating activities | | (858) | (460) |
| **Cash flows from investing activities** | | | |
| Acquisitions of property plant and equipment | | (22) | (1) |
| Acquisition of intangible assets | 14 | (575) | (264) |
| Net cash flows from investing activities | | (597) | (265) |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of ordinary shares, net of issue costs | | 1,549 | 623 |
| Net increase/(decrease) in cash and cash equivalents | | 94 | (102) |
| Cash and cash equivalents at 1 April | | 23 | 125 |
| Cash and cash equivalents at 31 March | | 117 | 23 |

The notes on pages 27 to 51 form an integral part of these financial statements.

## Imaginatik plc

## Consolidated Statement of Changes in Equity for the Year Ended 31 March 2017

| | Share capital £ 000 | Share premium £ 000 | Other reserves £ 000 | Retained earnings £ 000 | Total £ 000 |
|---|---|---|---|---|---|
| At 1 April 2015 | 3,154 | 6,480 | 1,076 | (11,872) | (1,162) |
| Employee share-based payment options | - | - | 67 | - | 67 |
| Issue of share capital | 220 | 403 | - | - | 623 |
| Transactions with owners | 220 | 403 | 67 | - | 690 |
| Loss for the year and total comprehensive income | - | - | - | (945) | (945) |
| At 31 March 2016 | 3,374 | 6,883 | 1,143 | (12,817) | (1,417) |

| | Share capital £ 000 | Share premium £ 000 | Other reserves £ 000 | Retained earnings £ 000 | Total £ 000 |
|---|---|---|---|---|---|
| At 1 April 2016 | 3,374 | 6,883 | 1,143 | (12,817) | (1,417) |
| Employee share-based payment options | - | - | 55 | - | 55 |
| Issue of share capital | 667 | 882 | - | - | 1,549 |
| Transactions with owners | 667 | 882 | 55 | - | 1,604 |
| Loss for the year and total comprehensive income | - | - | - | (779) | (779) |
| At 31 March 2017 | 4,041 | 7,765 | 1,198 | (13,596) | (592) |

The notes on pages 27 to 51 form an integral part of these financial statements.

## Imaginatik plc

## Statement of Changes in Equity for the Year Ended 31 March 2017

| | Share capital £ 000 | Share premium £ 000 | Other reserves £ 000 | Retained earnings £ 000 | Total £ 000 |
|---|---|---|---|---|---|
| At 1 April 2015 | 3,154 | 6,480 | 1,076 | (11,667) | (957) |
| Employee share-based payment options | - | - | 67 | - | 67 |
| Issue of share capital | 220 | 403 | - | - | 623 |
| Transactions with owners | 220 | 403 | 67 | - | 690 |
| Loss for the year and total comprehensive income | - | - | - | (974) | (974) |
| At 31 March 2016 | 3,374 | 6,883 | 1,143 | (12,641) | (1,241) |

| | Share capital £ 000 | Share premium £ 000 | Other reserves £ 000 | Retained earnings £ 000 | Total £ 000 |
|---|---|---|---|---|---|
| At 1 April 2016 | 3,374 | 6,883 | 1,143 | (12,641) | (1,241) |
| Employee share-based payment options | - | - | 55 | - | 55 |
| Issue of share capital | 667 | 882 | - | - | 1,549 |
| Transactions with owners | 667 | 882 | 55 | - | 1,604 |
| Loss for the year and total comprehensive income | - | - | - | (808) | (808) |
| At 31 March 2017 | 4,041 | 7,765 | 1,198 | (13,449) | (445) |

The notes on pages 27 to 51 form an integral part of these financial statements.

# Imaginatik plc

## Notes to the Financial Statements for the Year Ended 31 March 2017

### 1 General information

The group headed by Imaginatik PLC is one of the leading providers of collaborative innovation software and related professional services to large and medium-sized enterprises.

The company is a public company limited by share capital incorporated and domiciled in the UK.

The address of its registered office is:
27/28 Eastcastle Street
London
W1W 8DH

The company's ordinary shares are traded on the Alternative Investment Market (AIM) of the London Stock Exchange.

The company has adopted the requirements of International Financial Reporting Standards (IFRS) and IFRIC interpretations endorsed by the European Union (EU) and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention, except for the treatment of share options, and are in accordance with applicable accounting standards.

These financial statements have been prepared in accordance with the accounting policies set out below, which have been consistently applied to all the years presented. These accounting policies comply with applicable IFRS and IFRIC interpretations issued and effective at the time of preparing these statements.

### 2 Accounting policies

**Going concern**
The group posted a loss of £779,000 (2016: £945,000) for the period, has current net liabilities of £910,000 (2016: £1,466,000) and retained losses of £13,596,000 (2016: £12,817,000). The group has net funds at 31 March 2017 of £117,000 (2016: £23,000).

The group meets its financing requirements through the regular placing of new shares and completed a placing of new ordinary shares with institutional and other investors in June 2017 raising a total of £1,450,000 before expenses.

The Directors have reviewed the group's budgets and forecasts for the coming 12 months, which have been prepared with appropriate regard to the current macroeconomic environment and the conditions in the principal markets served by the group. The Directors have taken into consideration the group's net funds, the level of anticipated renewals by reviewing on a customer by customer basis, forecast new and up sell revenues based on sales in the pipeline and anticipated costs. There is inherent uncertainty in the level of anticipated renewals and up sell revenues and assumptions are based on reasonable expectations taking into account historic experience and current knowledge. The forecasts include investments and additional costs commensurate with expected levels of growth and options available to the Directors include the ability to flex these investments and costs should predicted revenues be lower than forecast.

As a result, at the time of approving the financial statements, the Directors consider that the group has sufficient financial resources to continue in operational existence for the foreseeable future and, therefore, that it is appropriate to adopt the going concern basis in preparing these financial statements. As with all business forecasts, the Directors' statement cannot guarantee that the going concern basis will remain appropriate given the inherent uncertainty about future events.

**Basis of consolidation**
The Group financial statements consolidate those of the company and all of its subsidiary undertakings drawn up to 31 March 2017. Subsidiaries are entities over which the Group has the control. Control comprises an investor having power over the investee and is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power.

The company has taken advantage of the exemption under S408 of the Companies Act 2006 and has not presented its own statement of comprehensive income. Of the consolidated result for the year ended 31 March 2017 a loss of £805,000 (2016: loss of £974,000) is attributable to the company.

**Revenue recognition**
Revenue is measured at the fair value of the consideration received or receivable net of sales related taxes. Income for the group is derived from two sources: Technology and Consultancy. These sources are service-based rather than through the sale of goods. Following the principles of IAS 18 Revenue, the policies for income recognition in respect of each of the different sources of income are such that income is recognised by reference to the stage of completion of the transaction at the end of the reporting period. In applying the income recognition policies below where there is a requirement for a contract to be signed, income is recognised in accordance with the policy when the contract has been signed or persuasive evidence that an arrangement exists.

a) Consulting:
Income derived from our consulting offering subject to contracts is recognised in the month in which the consulting takes place. Income from longer term consulting arrangements shall be recognised evenly over the term of the contract.

b) Technology:
The provision of our suite of technology products includes provision of software licences, hosting and maintenance in relation to the product over the contract term. Income arising from the provision of these bundled services are recognised evenly over the term of the contract, once an agreement has been signed or persuasive evidence of an arrangement exists.

**Leases**
Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Costs in respect of operating leases are charged on a straight line basis over the term of the lease in arriving at the operating loss before taxation.

**Defined contribution pension obligation**
Contributions to the group's defined contributions pension scheme are charged to profit or loss in the period in which they become payable.

**Property, plant and equipment**
All property, plant and equipment is stated at cost less subsequent depreciation and impairment. The costs of the property, plant and equipment is their purchase price plus any incidental costs of acquisition. Depreciation commences at the point the asset is brought into use.

If there is any indication that an asset's value is less than its carrying amount an impairment review is carried out. Where impairment is identified an asset's value is reduced to reflect this.

The residual values and useful economic lives of fixed assets are reviewed by management on an annual basis and revised to the extent required.

**Depreciation**
Depreciation is provided to write off the cost, less estimated residual values, of all property, plant and equipment equally over their expected useful lives. It is calculated at the following rates:

| Asset class | Depreciation method and rate |
|---|---|
| Leasehold improvements | Over the life of the lease |
| Fixtures and fittings | 33% per annum |
| Equipment | 33% per annum |

**Intangible assets**
Software licences
The costs of significant groups of software licences are capitalised and then amortised over the useful economic lives of the software concerned. Amortisation is charged to administrative expenses.

The cost of intangible assets is their purchase price plus any incidental costs of acquisition. Amortisation begins from the time the asset is brought into use.

Research and development
The cost of research is charged to the statement of comprehensive income in the period in which it is incurred. Development expenditure is capitalised only if the company can demonstrate the following conditions:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale.
- Its intention to complete the intangible asset and use or sell it.
- Its ability to use or sell the intangible asset.
- How the intangible asset will generate probably future economic benefits.
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset
- Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Development costs not meeting the criteria for capitalisation are expensed in the period in which they are incurred. The cost of an internally generated intangible asset comprises all directly attributable costs, including labour costs, necessary to create, produce, and prepare the asset to be capable of operating in the manner intended by management. Until completion of the development project, the assets are subject to impairment testing only. Amortisation commences when the asset is brought into use, and is shown within 'Administrative Expenses' on the consolidated statement of comprehensive income.

**Amortisation**
Amortisation is provided on intangible assets so as to write off the cost, less any estimated residual value, over their expected useful economic life as follows:

| Asset class | Amortisation method and rate |
|---|---|
| Software | 20% to 33% per annum |
| Development costs | 20% per annum |

**Impairment**

At the end of each accounting period the Group assesses the recoverable amounts of intangible assets. Where there is an indication of impairment an impairment loss is recognised for the amount by which the assets carrying value exceed its recoverable amount. Impairment losses are recognised in the profit and loss.

**Tax**
The tax expense for the period comprises current tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised based on tax rates that have been enacted or substantively enacted at the statement of financial position date. Deferred tax and current tax are charged or credited to profit or loss, except when it relates to items charged or credited in other comprehensive income or directly to equity, in which case the deferred tax is also recognised in other comprehensive income or equity respectively.

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

**Share based payments**
Where equity-settled share options are awarded to employees, the fair value of the options at the date of grant is charged to profit or loss 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. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the income statement for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the income statement. The Group has no cash settled share based payments.

**Foreign currency transactions and balances**

The presentational currency of the group and functional currency of the trading entities is Sterling. Transactions entered into by group entities in a currency other than the currency of the primary economic environment in which they operate (their "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the statement of financial position date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in profit or loss.

**Employee benefits**

The company accounts for employee benefits in accordance with IAS 19. Under IAS 19 there is a requirement to recognise the monetary value of employee benefits accruing to employees but not yet settled, typically holiday pay. There is a requirement to account for the value of the liability for employee benefits to be paid in the future for services provided up to the reporting date.

**Financial assets**

***Classification***

Financial assets currently comprise trade and other receivables, cash and cash equivalents.

***Recognition and measurement***

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Included within loans and receivables are trade and other receivables. Trade and other receivables are recognised at fair value less transaction costs. Subsequently they are carried at amortised cost.

Cash and cash equivalents

Cash and other short-term deposits in the Statement of Financial Position comprise cash at banks and in hand and short-term deposits with an original maturity of three months or less and where there is an insignificant risk of changes in value. In the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above.

**Financial liabilities**

***Classification***

Financial liabilities currently comprise trade and other payables.

***Recognition and measurement***

Trade and other payables

Trade and other payables are initially recognised at fair value less transaction costs and thereafter carried at amortised cost.

**Share capital**

Equity comprises the following:

"Issued capital" represents the nominal value of equity shares.

"Share premium" represents the excess over nominal value of the fair value of consideration received for equity shares net of expenses of the share issue.

"Share option reserve" represents equity-settled share-based employee remuneration until such share options are exercised.

"Retained losses" represents retained losses.

**Changes in accounting policy**

**New standards, interpretations and amendments not yet effective**

| **Standards and interpretations** | | **Effective for annual periods beginning on or after** |
|---|---|---|
| IFRS 2 | Share based payment | 1 January 2018 |
| IFRS 9 | Financial Instruments | 1 January 2018 |
| IFRS 15 | Revenues | 1 January 2018 |
| IFRS 16 | Leases | 1 January 2017 |

The directors have not yet considered the full impact of the above standards on the financial statements of the company. The directors anticipate that as a minimum the changes will have a significant impact on the disclosures provided in the financial statements.

**Critical judgements and significant accounting estimates**

In determining and applying accounting policies, judgement is often required in respect of items where the choice of specific policy, accounting estimate or assumption to be followed could materially affect the reported results or net asset position of the Group should it later be determined that a different choice would be more appropriate. The most significant areas where judgements and estimates have been applied are as follows:

*Judgements*

The value of the awards under the modified and new share option scheme was measured, in accordance with IFRS 2, by reference to their fair value at the date on which they were granted. Judgement was required in determining the most appropriate valuation model (see Note 17).

At the end of each accounting period the Group assesses the recoverable amounts of intangible assets. Where there is an indication of impairment an impairment loss is recognised for the amount by which the assets carrying value exceed its recoverable amount. Impairment losses are recognised in the profit and loss.

The cost of an internally generated intangible asset comprises all directly attributable costs necessary to create, produce, and prepare the asset to be capable of operating in the manner intended by management. Until completion of the development project, the assets are subject to impairment testing only. Amortisation commences upon completion of the asset, and is shown within 'Administrative Expenses' on the consolidated statement of comprehensive income.

At the end of each accounting period, the group assesses it's ability to continue for a period of at least 12 months from the date the financial statements are approved, by reviewing budgets and forecasts for future trading years (as noted above in Note 2).

*Estimates*

Significant assumptions were necessary in arriving at the inputs into the valuation model for modified and new share option scheme (see Note 17).

## 3 Segmental reporting

Management currently identifies the Group's two revenue streams as its operating segments. These operating segments are monitored by the Group's chief operating decision maker. For these operating segments only revenues are reported to the Group's chief operating decision maker as results, other costs and assets and liabilities cannot be reliably allocated to the operating segments.

| | 2017 | 2016 |
|---|---|---|
| | £'000 | £'000 |
| **Segmental revenue:** | | |
| Technology | 2,911 | 2,778 |
| Consultancy | 1,009 | 1,115 |
| | 3,920 | 3,893 |

All other information presented to the Chief Operating Decision Maker is the same as is reported in these financial statements.

The Group's revenues from external customers and its non-current assets are divided into the following geographical areas:

| | 2017 | 2016 |
|---|---|---|
| | £'000 | £'000 |
| **Segmental revenue:** | | |
| United States of America | 2,784 | 2,977 |
| Rest of the World | 1,136 | 916 |
| | 3,920 | 3,893 |
| **Segmental non-current assets:** | | |
| United States of America | 92 | 219 |
| Rest of the World | 943 | 566 |
| | 1,035 | 785 |

Revenues from external customers have been identified on the basis of the customer's geographical location. Non-current assets are allocated based on their physical location.

The Group has one customer (2016: nil customers) who accounted for revenues of more than 10% of Group revenues, accounting for 11.5% of turnover. These revenues arose in the Technology segment.

## 4 Staff costs

The aggregate payroll costs (including directors' remuneration) were as follows:

| | 2017<br>£ 000 | 2016<br>£ 000 |
|---|---|---|
| Wages and salaries | 2,322 | 2,483 |
| Social security costs | 259 | 227 |
| Other short-term employee benefits | 83 | 109 |
| Pension costs, defined contribution scheme | 2 | - |
| Share-based payment expenses | 55 | 67 |
| | 2,721 | 2,886 |

The average number of persons employed by the group (including directors) during the year, analysed by category was as follows:

| | 2017<br>No. | 2016<br>No. |
|---|---|---|
| Administration and support | 35 | 35 |

## 5 Key management personnel

**Key management compensation**

| | 2017<br>£ 000 | 2016<br>£ 000 |
|---|---|---|
| Salaries and other short term employee benefits | 800 | 828 |
| Post-employment benefits | 1 | - |
| Share-based payments | 29 | 67 |
| | 830 | 895 |

Retirement benefits are accruing to one of the company directors under a defined contribution scheme (2016: none).

The directors' emoluments are shown in the remuneration report on page 13.

## 6 Other operating income

The analysis of the group's other operating income for the year is as follows:

| | 2017<br>£ 000 | 2016<br>£ 000 |
|---|---|---|
| Sub lease rental income | 63 | 14 |

## 7 Operating loss

Arrived at after charging/(crediting)

| | 2017<br>£ 000 | 2016<br>£ 000 |
|---|---|---|
| Depreciation expense | 16 | 17 |
| Amortisation expense | 135 | 163 |
| Research and development cost | 322 | 330 |
| Foreign exchange losses | 230 | 150 |
| Operating lease expense - property | 153 | 76 |

## 8 Auditor's remuneration

| | Note | 2017<br>£ 000 | 2016<br>£ 000 |
|---|---|---|---|
| Fees payable to the company's auditor for the audit of the company's annual accounts | | 24 | 22 |
| Fees payable to the company's auditor and its associates for other services: | | | |
| Audit of the accounts of subsidiaries | | 1 | 1 |
| Tax advisory services | | 3 | 3 |
| | | 28 | 26 |

## 9 Finance income and costs

| | 2017<br>£ 000 | 2016<br>£ 000 |
|---|---|---|
| **Finance costs** | | |
| Other finance costs | 13 | 65 |

## 10 Income tax

Tax credited in the income statement

| | 2017<br>£ 000 | 2016<br>£ 000 |
|---|---|---|
| **Current taxation** | | |
| UK corporation tax | (215) | (165) |

The tax on (loss)/profit before tax for the year is less than (2016 - less than) the standard rate of corporation tax in the UK of 20% (2016 - 20%).

The differences are reconciled below:

| | 2017<br>£ 000 | 2016<br>£ 000 |
|---|---|---|
| Loss before tax | (994) | (1,110) |
| Corporation tax at standard rate | (189) | (183) |
| Effect of revenues exempt from taxation | (6) | (39) |
| Effect of expense not deductible in determining taxable profit (tax loss) | 12 | 15 |
| Increase (decrease) from effect of tax incentives | (2) | 1 |
| Increase (decrease) in UK and foreign current tax from unutilised tax losses | 185 | 206 |
| Increase (decrease) in UK and foreign current tax from R&D tax credits received relating to prior periods | (215) | (165) |
| Total tax credit | (215) | (165) |

Factors that may affect future tax charges

Based on current capital investment plans, the group expects to be able to continue to claim capital allowances in excess of depreciation in future periods at a slightly lower level than in the current period.

At 31 March 2017 the group has estimated tax losses of £10,311,685 (2016: £9,981,625) carried forward and available indefinitely for offset against future profits. No deferred tax asset has been recognised in respect of these losses as there is insufficient evidence that future profits will be sufficient for recovery of the losses.

## 11 Earnings per share

The calculation of basic loss per share (EPS) is based on the loss attributable to equity holders of the parent for the year of £776,000 (2016: loss of £945,000) and a weighted average of 136,474,544 (2016: 81,948,369) ordinary shares in issue.

The share options issued during the current and prior year are anti-dilutive due to losses, and therefore diluted EPS equals basic EPS.

## 12 Investments

### Group

### Details of undertakings

Details of the investments in which the group holds 20% or more of the nominal value of any class of share capital are as follows:

| Undertaking | Country of incorporation | Holding | Proportion of voting rights and shares held 2017 | 2016 |
|---|---|---|---|---|
| **Subsidiary undertakings** | | | | |
| Imaginatik (Goswell) Limited | England and Wales | Ordinary shares | 100% | 100% |
| Imaginatik Inc. | United States of America | Ordinary shares | 100% | 100% |

**Subsidiary undertakings**

The principal activity of Imaginatik (Goswell) Limited is the licencing of intellectual property.

Imaginatik Inc. is dormant.

## 13 Property, plant and equipment

**Group and company**

| | Leasehold improvements £ 000 | Fixtures and fittings £ 000 | Equipment £ 000 | Total £ 000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 April 2015 | 50 | 62 | 351 | 463 |
| Additions | - | - | 1 | 1 |
| At 31 March 2016 | 50 | 62 | 352 | 464 |
| At 1 April 2016 | 50 | 62 | 352 | 464 |
| Additions | - | - | 22 | 22 |
| At 31 March 2017 | 50 | 62 | 374 | 486 |
| **Depreciation** | | | | |
| At 1 April 2015 | 41 | 62 | 325 | 428 |
| Charge for year | 3 | - | 14 | 17 |
| At 31 March 2016 | 44 | 62 | 339 | 445 |
| At 1 April 2016 | 44 | 62 | 339 | 445 |
| Charge for the year | 2 | - | 14 | 16 |
| At 31 March 2017 | 46 | 62 | 353 | 461 |
| **Carrying amount** | | | | |
| At 31 March 2017 | 4 | - | 21 | 25 |
| At 31 March 2016 | 6 | - | 13 | 19 |

## 14 Intangible assets

**Group and company**

| | Software £ 000 | Development costs £ 000 | Total £ 000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 April 2015 | 353 | 509 | 862 |
| Additions | 12 | 252 | 264 |
| At 31 March 2016 | 365 | 761 | 1,126 |
| At 1 April 2016 | 365 | 761 | 1,126 |
| Additions | 44 | 531 | 575 |
| At 31 March 2017 | 409 | 1,292 | 1,701 |
| **Amortisation** | | | |
| At 1 April 2015 | 330 | 140 | 470 |
| Amortisation charge | 9 | 154 | 163 |
| At 31 March 2016 | 339 | 294 | 633 |
| At 1 April 2016 | 339 | 294 | 633 |
| Amortisation charge | (6) | 141 | 135 |
| At 31 March 2017 | 333 | 435 | 768 |
| **Carrying amount** | | | |
| At 31 March 2017 | 76 | 857 | 933 |
| At 31 March 2016 | 26 | 467 | 493 |

At the Statement of Financial Position date, impairment testing was undertaken by comparing the carrying values of intangibles against the recoverable amount of the CGU to which the asset has been allocated. Recoverable amounts are based on value-in-use calculations using pre-tax cashflows covering a three year period based on forecasts approved by management. No terminal value has been attributed to the development projects. A discount rate of 12% has been used reflecting management's assessment of the risks specific to CGUs. Sensitivity analysis performed on these projections demonstrate significant valuation headroom above the carrying values of each CGU if the discount rate is increased to 25%. It should be noted that the forecasting process is difficult and subject to a high degree of volatility, therefore prior year forecasts have not always been met. The average remaining amortisation period, for those assets still being amortised is 26 months. The longest remaining amortisation period for a single asset is 48 months.

## 15 Trade and other receivables

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | £ 000 | £ 000 | £ 000 | £ 000 |
| Trade receivables | 1,442 | 1,236 | 1,442 | 1,236 |
| Provision for impairment of trade receivables | (10) | (7) | (10) | (7) |
| Net trade receivables | 1,432 | 1,229 | 1,432 | 1,229 |
| Receivables from related parties | - | - | 147 | 176 |
| Accrued income | 79 | 7 | 79 | 7 |
| Prepayments | 270 | 167 | 270 | 167 |
| Other receivables | 8 | - | 8 | - |
| Total current trade and other receivables | 1,789 | 1,403 | 1,936 | 1,579 |

**Details of non-current trade and other receivables**

**Group**
£97,000 (2016 - £273,000) of trade or other receivables are classified as non current.

**Company**
£97,000 (2016 - £273,000) of trade or other receivables is classified as non current.

The inter-company receivables are not past due, not impaired and are regarded as fully performing assets. They are unsecured and repayable on demand.

Customer invoices are due for payment within 30 to 60 days of issue, however trade receivables that are less than 3 months old are not considered past due in view of normal customer payment patterns. As of 31 March 2017 £nil (2016: £nil) were past due but not impaired following management review of the receivables.

The group trades only with recognised, credit-worthy third parties. Receivable balances are monitored on an ongoing basis with the aim of minimising the group's exposure to bad debts or being unable to realise amounts recoverable on contracts. The maximum exposure is the carrying amount above. There are no significant concentrations of credit risk within the group.

The group has reviewed in detail all items comprising the above past due but not impaired trade receivables to ensure that no impairment exists.

As at 31 March 2017, trade receivables of £10,000 (2016: £7,000) were impaired and provided for.

Materially all of the group and company's trade and other receivables are denominated in US dollars.

Movements on the group provision for impairment of trade receivables are as follows:

| | £'000 |
|---|---|
| At 1 April 2016 | 7 |
| Movements on the provision for receivables impairment | 3 |
| Receivables written off during the year as uncollectable | - |
| At 31 March 2017 | 10 |

The creation and release of provision for impaired receivables have been included in 'Administrative expenses' in the income statement.

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

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The group does not hold any collateral as security.

## 16 Share capital and reserves

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | No. 000 | £ 000 | No. 000 | £ 000 |
| Ordinary shares of £0.01 (2016 - £0.01) each | 151,829 | 1,518 | 85,112 | 851 |
| Deferred shares of £0.04 (2016 - £0.04) each | 63,084 | 2,523 | 63,084 | 2,523 |
| | 214,913 | 4,041 | 148,196 | 3,374 |

**New shares allotted**

During the year 66,717,012 ordinary shares having an aggregate nominal value of £667,170 were allotted for an aggregate consideration of £1,667,925. Issue costs relating to the above placings were £119,000 and have been deducted from the share premium account.

**Share premium account**

This reserve records the consideration premium for shares issued at a value that exceeds their nominal value, less any costs incurred relating directly to the issue of these shares.

**Other reserve account**

This account acts as the share option reserve and records the charges to profit with respect to unexercised share options.

**Rights, preferences and restrictions**

Ordinary have the following rights, preferences and restrictions:
The Ordinary shares carry rights to participate in dividends and distributions declared by the company and each share carries the right to one vote at any general meeting. There are no rights of redemption attaching to the Ordinary shares.

Deferred have the following rights, preferences and restrictions:
The deferred shares carry no rights to receive any dividend or distribution and carry no rights to vote at any general meeting. On a return of capital the Deferred share holders are entitled to receive the amount paid up on them after the Ordinary share holders have received £100,000,000 in respect of each share held by them. The company may purchase all or any of the Deferred shares at an appropriate consideration of £1.

**Alloted, called up and fully paid shares**

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | **No. 000** | **£ 000** | **No. 000** | **£ 000** |
| At 1 April | 148,195,874 | 3,374 | 63,084,290 | 3,154 |
| Issued in the year | 66,717,012 | 667 | 22,027,294 | 220 |
| Share sub-division | - | - | 63,084,290 | - |
| At 31 March | 214,912,886 | 4,041 | 148,195,874 | 3,374 |

In June 2015 the Company undertook a share capital re-organisation, under which 63,084,290 ordinary shares previously having a nominal value of 5 pence each were subdivided into one new ordinary share of 1 pence each and one deferred share of 4 pence each.

## 17 Share-based payments

**Enterprise management scheme**

**Scheme details and movements**

During the year the Group operated an approved Enterprise management scheme, an approved Incentive stock option agreement and an unapproved share option scheme.

For all schemes, options vest provided the employee who has been granted the option remains employed by the group at the earliest date that they may exercise the option. Each director or employee may exercise 50% of the options granted to them between two and ten years after the date of the grant. The remainder may be exercised between three and ten years after the date of the grant. Options are forfeited if the employee leaves the company before the options vest. The options will be settled by the issue and allotment of fully-paid ordinary shares.

The movements in the number of share options during the year were as follows:

| | 2017 | 2016 |
|---|---|---|
| | **Number** | **Number** |
| Outstanding, start of period | 9,791,841 | 11,051,410 |
| Granted during the period | 9,650,000 | 1,275,332 |
| Forfeited during the period | (1,067,350) | (2,534,901) |
| Exercised during the period | (413,491) | - |
| Outstanding, end of period | 17,961,000 | 9,791,841 |
| Exercisable, end of period | 6,395,974 | 2,660,113 |

The movements in the weighted average exercise price of share options during the year were as follows:

| | 2017 | 2016 |
|---|---|---|
| Outstanding, start of period | 5.4626p | 5.4037p |
| Granted during the period | 1.6202p | 4.1732p |
| Forfeited during the period | 3.2641p | 4.5569p |
| Outstanding, end of period (see below) | 3.5925p | 5.4626p |
| Exercisable, end of period | 6.0412p | 6.6955p |

Outstanding share options at year end:

| 2017 Number of options | 2017 Exercise price | 2016 Number of options | 2016 Exercise price |
|---|---|---|---|
| 3,918,171 | 6.736p | 3,951,921 | 6.736p |
| 77,406 | 25.2p | 77,406 | 25.2p |
| 3,974,582 | 3.75p | 4,634,582 | 3.75p |
| 660,841 | 4.88p | 714,441 | 4.88p |
| 300,000 | 2.88p | 413,491 | 2.7p |
| 7,340,000 | 1.625p | | |
| 1,690,000 | 1.375p | | |
| 17,961,000 | | 9,791,841 | |

The weighted average remaining contractual life is 8.45 years (2016: 8.01 years).

The cost of options granted is spread over the option vesting period. The charge for the year in relation to options held during the year is £54,740 (2016: £66,255).

**Fair value of options granted**

The fair value of the new options of £88,214 (2016: £21,968) and the incremental fair value of the modified options of £nil (2016: £nil) were calculated using the Black-Scholes-Merton model. The cancelled options had fully vested prior to cancellation. The inputs into the model were as follows:

| | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| Volatility | 100% | 88% | 88% | 84% |
| Expected life | 10 years | 10 years | 10 years | 10 years |
| Share price | 1.625p | 4.880p | 3.750p | 0.0842p |
| Exercise price | 1.625p | 4.880p | 3.750p | 0.0842p |
| Dividend yield | - | 0% | 0% | 0% |
| Risk-free rate | 0.25% | 2% | 2% | 2% |

External independent experts were used in determining the expected volatility. The figure used was determined by calculating the historical volatility of the share price of companies considered by the experts to be comparable to the company.

## 18 Non-current liabilities

| | Group 2017 £'000 | Company 2017 £'000 | Group 2016 £'000 | Company 2016 £'000 |
|---|---|---|---|---|
| Deferred income | 737 | 737 | 736 | 736 |

## 19 Trade and other payables

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 £ 000 | 2016 £ 000 | 2017 £ 000 | 2016 £ 000 |
| Trade payables | 235 | 227 | 235 | 227 |
| Accruals and deferred income | 2,451 | 2,320 | 2,451 | 2,320 |
| Social security and other taxes | 41 | 24 | 41 | 24 |
| Outstanding defined contribution pension costs | 10 | - | 10 | - |
| Other payables | 79 | 321 | 79 | 321 |
| | 2,816 | 2,892 | 2,816 | 2,892 |

## 20 Pension and other schemes

### Defined contribution pension scheme

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

The total pension charge for the year represents contributions payable by the group to the scheme and amounted to £2,315 (2016 - £nil).

Contributions totalling £9,814 (2016 - £nil) were payable to the scheme at the end of the year and are included in creditors.

## 21 Commitments

### Group

**Capital commitments**
There are no material capital commitments at the year end (2016 - £Nil).

**Other financial commitments**

As at 31 March 2017 the group had non-cancellable operating leases relating to three properties occupied by the group as set out below:

| | 2017 | 2016 |
|---|---|---|
| | Land and buildings | Land and buildings |
| | £'000 | £'000 |
| Minimum future payments: | | |
| Due within one year | 71 | 87 |
| Later than one year and not later than five years | 84 | 154 |
| | 155 | 241 |

## 22 Financial instruments

### Financial assets

***Loans and receivables***

| | Carrying value | | Fair value | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | £ 000 | £ 000 | £ 000 | £ 000 |
| Cash and cash equivalents | 117 | 23 | 117 | 23 |
| Trade and other receivables | 1,616 | 1,509 | 1,616 | 1,509 |
| | 1,733 | 1,532 | 1,733 | 1,532 |

*Valuation methods and assumptions*

Loans and receivables:
The directors believe that the fair value of financial assets and liabilities approximates to the carrying value.

### Financial liabilities

***Financial liabilities at amortised cost***

| | Carrying value | | Fair value | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | £ 000 | £ 000 | £ 000 | £ 000 |
| Trade and other payables | 478 | 676 | 478 | 676 |

*Valuation methods and assumptions*

Financial liabilities at amortised cost
The directors believe that the fair value of financial assets and liabilities approximates to the carrying value.

**Risk management**

The group is exposed through its operations to the following financial risks:

- credit risk;
- foreign exchange risk; and
- liquidity risk.

In common with all other businesses, the group is exposed to risks that arise from its use of financial instruments. This note describes the group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

Principal financial instruments

The principal financial instruments used by the group, from which financial instrument risk arises, are as follows:

- trade receivables;
- cash at bank; and
- trade and other payables.

General objectives, policies and processes

The board has overall responsibility for the determination of the group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the group's finance function. The board receives monthly reports from the chief Financial Officer through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the board is to set polices that seek to reduce risk as far as possible without unduly affecting the group's competitiveness and flexibility. Further details regarding these policies are set out below.

**Interest rate risk**

At present the directors do not believe that the group has significant interest rate risk and consequently does not hedge against such risk. Cash balances earn interest at variable rates.

The group's financial assets as at 31 March 2017 comprised cash at bank of £117,000 (2016: £23,000). Interest is paid on cash at floating rates in line with prevailing market rates.

***Sensitivity analysis***

At 31 March 2017, had the LIBOR 1 MONTH rate increased by 1% with all other variables held constant, the increase in interest receivable on financial assets would amount to approximately £1,000 (2016: £1,000). Similarly a 1% decrease in the LIBOR 1 MONTH rate with all other variables held constant would result in a decrease in interest receivable on financial assets of approximately £1,000 (2016: £1,000).

**Credit risk and impairment**

Credit risk is the risk of financial loss to the group if a customer or a counterparty to a financial instrument fails to meet its contractual obligations. The group is mainly exposed to credit risk from credit sales. It is group policy, implemented locally, to assess the credit risk of new customers before entering contracts. Such credit ratings take into account local business practices.

The group has established a credit policy under which each new customer is analysed individually for creditworthiness before the group's standard payment and delivery terms and conditions are offered.

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. To manage this, the group has made sure that they use reputable banks.

The group's chief financial officer monitors the utilisation of the credit limits regularly and at the reporting date does not expect any losses from non-performance by the counterparties other than what has already been provided for.

**Foreign exchange risk**

Foreign exchange risk arises because the group has operations located in various parts of the world whose functional currency is not the same as the functional currency in which the group companies are operating. Although its global market penetration reduces the group's operational risk in that it has diversified into several markets, the group's net assets arising from such overseas operations are exposed to currency risk resulting in gains or losses on retranslation into sterling. Only in exceptional circumstances will the group consider hedging its net investments in overseas operations as generally it does not consider that the reduction in foreign currency exposure warrants the cash flow risk created from such hedging techniques.

The group's policy is, where possible, to allow group entities to settle liabilities denominated in their functional currency (primarily US dollars or pound sterling) with the cash generated from their own operations in that currency. Where group entities have liabilities denominated in a currency other than their functional currency (and have insufficient reserves of that currency to settle them) cash already denominated in that currency will, where possible, be transferred from elsewhere within the group.

Currency profile

Financial assets
- Cash Sterling: £23,000 (2016 - £8,000)
- Cash US dollar: £94,000 (2016 - £15,000)
- Trade receivables Sterling: £194,000 (2016 - £19,000)
- Trade receivables US dollar: £986,000 (2016 - £1,135,000)
- Trade receivables Euro: £279,000 (2016 - £283,000)

Financial liabilities
- Trade payables Sterling: £69,000 (2016 - £95,000)
- Trade payables US dollar: £160,000 (2016 - £131,000)
- Trade payables Euro: £2,000 (2016 - £nil)

***Sensitivity analysis***

At 31 March 2017, if Sterling had strengthened by 10% against USD with all other variables held constant, loss before tax for the year would have been approximately £92,000 (2016: £101,900) higher, mainly as a result of foreign exchange losses on translation of USD denominated cash and cash equivalents and trade receivables, compensated by foreign exchange gains on translation of USD denominated trade payables and deferred revenue balances.

Conversely, if Sterling had weakened by 10% against USD with all other variables held constant, loss before tax for the year would have been approximately £92,000 (2016: £101,900) lower.

**Liquidity risk**

Liquidity risk arises from the group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the group will encounter difficulty in meeting its financial obligations as they fall due.

The group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due.

The board receives rolling 12-month cash flow projections on a regular basis as well as information regarding cash balances. At the statement of financial position date, these projections indicated that the group expected to have sufficient liquid resources to meet its obligations under all reasonably expected circumstances.

There were no undrawn facilities at 31 March 2017 or 31 March 2016.

**Capital risk management**

**Capital management**

The Group's capital management objectives are to ensure the Group is appropriately funded to continue as a going concern and to provide an adequate return to shareholders commensurate with risk. The Group defines capital as being total shareholders equity. The Group has no external debt finance and hence gearing is not measured. The Group's capital structure is periodically reviewed and, if appropriate, adjustments are made in the light of expected future funding needs, changes in economic conditions, financial performance and changes in Group structure.

The Group adheres to the capital maintenance requirements as set out in the Companies Act.

Capital for the reporting periods under review is summarised as follows:
- Total equity: £(589,000) (2016 - £(1,417,000))
- Cash and cash equivalents: £117,000 (2016 - £23,000)

## 23 Related party transactions

M J Cooper, S K Taylor, S Charles and R Welborn are all related parties by virtue of their directorships during the year. The directors' emoluments are shown in the remuneration report on page 13.

S Charles is a partner in Marriott Harrison, legal advisors to the company. During the year Imaginatik plc incurred legal fees with Marriott Harrison amounting to £57,047 (2016: £71,864). At the year end £6,000 (2016: £14,790) was outstanding.

During the year ended 31 March 2016, a loan was made to the company by M J Cooper. At the year end the amount owed to M J Cooper was £nil (2016: £248,582).

The following transactions occurred during the year and at the end of the year the following amounts were due to related parties:

The company made purchases of services from Imaginatik (Goswell) Limited in the year totalling £30,000 (2016: £29,000). At 31 March 2016 Imaginatik (Goswell) Limited owed the company £147,000 (2016: £176,000).

## 24 Controlling party

The directors do not believe that a controlling party exists.

## 25 Non adjusting events after the financial period

The Group announced on 3 July 2017 that it had successfully raised £1.45m gross by way of a placing and open offer. The terms of the placing and open offer were described in a circular which was dispatched to shareholders of the Group on 9 June 2017. The placing shares were admitted to trading on 28 June 2017 and the open offer shares were admitted to trading on 4 July 2017.