

Zest Technology Limited

**Strategic report, Directors' report and
financial statements**

Registered number 05104223

31 December 2018



Contents

| | |
|---|----|
| Company information | 1 |
| Strategic report | 2 |
| Directors' report | 4 |
| Statement of directors' responsibilities in respect of the Strategic report, the Directors' report and the financial statements | 6 |
| Independent auditor's report to the members of Zest Technology Limited | 7 |
| Profit and loss account | 10 |
| Balance sheet | 11 |
| Statement of Changes in Equity | 12 |
| Notes | 13 |

Company information

| | |
|--------------------------|--|
| Directors | PJ Hollingdale R Sieber ML Timmins NM Stevens |
| Registered office | Leatherhead House Station Road Leatherhead Surrey KT22 7FG |
| Registered number | 05104223 (England and Wales) |
| Auditors | KPMG LLP 1 Sovereign Square Sovereign Street Leeds LS1 4DA |
| Bankers | Barclays Bank plc 82 High Street Epsom KT19 8BH |

Strategic report

The directors present their strategic report for the year ended 31 December 2018.

In the accounts to 31 December 2017 we stated that in 2018 we planned to continue the investment in our technology to ensure that we increasingly lead the way in the reward communication and benefits administration market. I am pleased to report that this was delivered, allowing us to reinforce the ground-breaking reputation of our technology.

Our financial strategy is to build up our long-term recurring licence revenue stream by moving from being a bespoke software services provider to a premium SaaS cloud based application software supplier, in order to deliver sustainable, profitable revenue growth. The 2018 revenues of £5.3m reflect this ongoing transformation program.

The release of our ground-breaking new software platform, Zest, at the end of 2017, followed by further significant advances in 2018, manifests our investment strategy. I am delighted to announce that this has led to the award of two major licensee contracts from Unum and Edenred and underlines our leadership in the employee benefits market.

The impact of these technology advances was further reinforced by the transition of most of our direct clients from our legacy technology to Zest during 2018. This willingness to migrate readily underlines both the attractiveness of the new software and the ease with which new portals can be built using our unique rapid configuration technology.

By continuing our strategy of focussing on maintaining our reputation as the leading, state of the art software platform provider, we can provide the ideal proposition for each channel to the workplace market. For our major licensees, looking for a white label solution to support their market propositions, Zest is the perfect fit, enabling them to promote a leading-edge solution under their own brand, confident in always having the pre-eminent technology.

For our value-added resellers across leading corporate advisers, employee benefit consultants, product providers and other financial services groups, we will continue to provide them with a ground-breaking software platform to enable them to offer a total solution for to the employee benefits workplace market based on the best technology available.

Thirdly, for the direct channel, we have continued to achieve major direct sales where organisations are seeking best of breed technology solutions. Zest's ability to work on any device, anywhere, allows our clients to engage with remote workers and a distributed workforce, and this is opening up significant new opportunities for the business.

We stated previously that we are moving into a period of unprecedented change in the employee benefits market. The desire amongst a growing number of SMEs to deliver a high value employee benefits offering, means that software capabilities will need to continue to evolve. We believe that the initiatives we have in place positions our business strongly to take advantage of these changes and to deliver new and unique propositions.

To support this growth, during 2018 we continued to undergo significant investment in our people and in developing greater specialist expertise, to the extent that we now have industry leading skills across product development, systems implementation, client support and sales. In 2019 we will continue to focus on these specialist skills.

In addition, our plan is to continue to invest in our technology throughout 2019 to maintain our leadership, as we continue to expand and extend our software to appeal to an ever-increasing range of clients and partners, by offering them a unique and powerful solution to employee engagement, attraction and retention.

I again thank all our staff who continue to show tremendous dedication and enthusiasm in embracing the transformational changes needed to deliver our new technology to the market and ensure we can continue to grow and prosper as a company and address new and emerging market needs in innovative ways.

Strategic report *(continued)*

With the market opportunities ahead of us and with the ongoing investment we will be putting into development of our software and services, combined with the ever present commitment and support of our parent group, I am confident that the company is well positioned for long term profitable growth and to increase its lead in the market.

On behalf of the board:

A handwritten signature in black ink, appearing to read 'ML Timmins', is written over a large, light-colored oval shape that serves as a background for the signature.

ML Timmins
Director

Leatherhead House
Station Road
Leatherhead
Surrey
KT22 7FG

20 September 2019

Directors' report

The directors present their report and financial statements of the company for the year ended 31 December 2018.

Dividends

The directors do not recommend payment of a dividend (2017: £nil).

Directors

The directors who held office during the year and up to the date of signing this report were as follows.

PJ Hollingdale
R Sieber
ML Timmins
NM Stevens
SC Turvey (resigned 30 April 2019)

Principal risks and uncertainties

The Directors review and where possible mitigate known business risks. The principal risks of the Group are detailed in the financial statements of The SimplyBiz Group plc (formerly The SimplyBiz Group Limited). The directors do not believe that there are any significant risks and uncertainties associated with this company.

Going concern

On the basis of the Company's current and forecast profitability and cash flows, and the availability of committed funding, the Directors consider and have concluded that the Company will have adequate resources to continue in operational existence for the foreseeable future. For these reasons they continue to adopt a going concern basis in the preparation of the financial statements.

Brexit

The Directors continue to monitor the uncertainties surrounding the UK's withdrawal from the EU, and the potential impacts on the business and its stakeholders, with the largest risk believed to be associated impacts that a financial shock could have on the UK economy. The Directors believe that the Company's diversified and solely UK revenue streams, together with regular monitoring of the financial markets, provide some degree of mitigation.

Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Other information

An indication of likely future developments in the business and particulars of significant events which have occurred since the end of the financial year have been included in the Strategic Report.

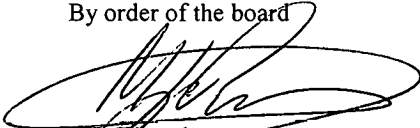
Directors' indemnities

As permitted by the Articles of Association, the Directors have the benefit of a Directors' and Officers' liability insurance, which is a qualifying third-party indemnity provision as defined by Section 234 of the Companies Act 2006. This indemnity, purchased by The SimplyBiz Group plc and applicable to the directors of the Company was in force throughout the last financial year and is currently in force.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the board



M.L. Timmins
Director

Leatherhead House
Station Road
Leatherhead
Surrey
KT22 7FG

20 September 2019

Statement of directors' responsibilities in respect of the Strategic report, the Directors' report and the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



KPMG LLP
1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA
United Kingdom

Independent auditor's report to the members of Zest Technology Limited

Opinion

We have audited the financial statements of Zest Technology Limited ("the company") for the year ended 31 December 2018 which comprise the Profit and loss account and other comprehensive income, the Balance sheet and the Statement of changes in equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model, including the impact of Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 6, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

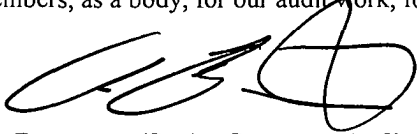
Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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.



Ian Beaumont (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

1 Sovereign Square
West Yorkshire
LS1 4DA

25 September 2019

Profit and loss account

for the year ended 31 December 2018

| | Note | 31 December 2018 £ | 31 December 2017 £ |
|---|------------|--------------------------|--------------------------|
| Turnover | | 5,305,057 | 6,331,572 |
| Operating expenses | | (5,326,989) | (6,271,434) |
| Operating (loss) / profit | 2-4 | (21,932) | 60,138 |
| Interest receivable and similar income | 5 | - | 103 |
| (Loss) / profit on ordinary activities before taxation | | (21,932) | 60,241 |
| Tax on (loss) / profit on ordinary activities | 6 | (90,990) | (143,917) |
| (Loss) for the financial year | | (112,922) | (83,676) |


There are no items to be included in Other Comprehensive Income in the current or preceding year.

The notes on pages 13 to 23 form part of these financial statements.

Balance sheet
at 31 December 2018

| | <i>Note</i> | 31 December 2018 | | 31 December 2017 | |
|---|-------------|-------------------------|------------------|-------------------------|------------------|
| | | £ | £ | £ | £ |
| Fixed assets | | | | | |
| Tangible assets | 7 | | 25,919 | | 59,974 |
| Intangible assets | 8 | | 2,657,379 | | 2,133,484 |
| | | | <u>2,683,298</u> | | <u>2,193,458</u> |
| Current assets | | | | | |
| Debtors | 9 | 2,831,009 | | 4,095,984 | |
| Deferred tax asset | 12 | 13,324 | | 9,441 | |
| Cash and cash equivalents | 10 | 690,455 | | 249,575 | |
| | | | <u>3,534,788</u> | | <u>4,355,000</u> |
| Creditors: amounts falling due within one year | 11 | (1,295,054) | | (1,607,377) | |
| Net current assets | | | <u>2,239,734</u> | | <u>2,747,623</u> |
| Total assets less current liabilities | | | <u>4,923,032</u> | | <u>4,941,081</u> |
| Deferred tax liability | 12 | | (505,569) | | (410,696) |
| Net assets | | | <u>4,417,463</u> | | <u>4,530,385</u> |
| Capital and reserves | | | | | |
| Called up share capital | 14 | | 255 | | 255 |
| Share premium | | | 1,588,177 | | 1,588,177 |
| Profit and loss account | | | 2,829,031 | | 2,941,953 |
| Shareholders' funds | | | <u>4,417,463</u> | | <u>4,530,385</u> |

These financial statements were approved by the board of directors on 20 September 2019 and were signed on its behalf by:


ML Timmins
Director

Company registered number: 05104223

The notes on pages 13 to 23 form part of these financial statements.

Statement of Changes in Equity
for the year ended 31 December 2018

| | Called up share capital £ | Share premium account £ | Profit and loss account £ | Total equity £ |
|--|------------------------------------|----------------------------------|------------------------------------|----------------------|
| Balance at 1 January 2017 | 255 | 1,588,177 | 3,025,629 | 4,614,061 |
| Total comprehensive loss for the period | | | | |
| Loss for the period | - | - | (83,676) | (83,676) |
| | ----- | ----- | ----- | ----- |
| Total comprehensive loss for the period | - | - | (83,676) | (83,676) |
| | ----- | ----- | ----- | ----- |
| Balance at 31 December 2017 | 255 | 1,588,177 | 2,941,953 | 4,530,385 |
| | ===== | ===== | ===== | ===== |
| Balance at 1 January 2018 | 255 | 1,588,177 | 2,941,953 | 4,530,385 |
| Total comprehensive loss for the period | | | | |
| Loss for the period | - | - | (112,922) | (112,922) |
| | ----- | ----- | ----- | ----- |
| Total comprehensive loss for the period | - | - | (112,922) | (112,922) |
| | ----- | ----- | ----- | ----- |
| Balance at 31 December 2018 | 255 | 1,588,177 | 2,829,031 | 4,417,463 |
| | ===== | ===== | ===== | ===== |

The notes on pages 13 to 23 form part of these financial statements.

Notes

(forming part of the financial statements)

1 Accounting policies

Zest Technology Limited (the "Company") is a company limited by shares and incorporated and domiciled in the UK. The address of its registered office is Leatherhead House, Station Road, Leatherhead, Surrey, KT22 7FG.

These financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* applicable in the UK and Republic of Ireland ("*FRS 101*") as issued in August 2014. The amendments to FRS 101 issued in September 2015 and effective immediately have been applied. The presentation currency of these financial statements is sterling.

The Company's ultimate parent undertaking, The SimplyBiz Group plc (formerly The SimplyBiz Group Limited) includes the Company in its consolidated financial statements. The consolidated financial statements of The SimplyBiz Group plc are available to the public and may be obtained from The John Smith's Stadium, Stadium Way, Huddersfield, HD1 6PG. In these financial statements, the company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 101 in respect of the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning to end of the period;
- Cash Flow Statement and related notes;
- Key Management Personnel compensation;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs; and
- Comparative period reconciliations for tangible fixed assets and intangible assets.

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

1.1 *Measurement convention*

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial instruments classified at fair value through the profit or loss, biological assets, investment property, tangible fixed assets and intangible assets measured in accordance with the revaluation model and investments in associates and joint ventures measured at fair value.

1.2 *Going concern*

Further information on the Company's business activities, together with the factors likely to affect its future performance and position, are set out in the Strategic report.

The Company meets its day-to-day working capital requirements through operating cash flows. The Company's forecasts and projections, taking account of reasonable possible changes in trading performance, show that the Company is expected to have a sufficient level of financial resources available through its operating cash flows, and facilities agreed and expected to be agreed when these fall due for renewal.

The Company has net current assets of £2,239,734 and net assets of £4,417,463 as at 31 December 2018 (31 December 2017: net current assets £2,747,623 and net assets of £4,530,385)

On the basis of the Company's current and forecast profitability and cash flows, the Directors consider to have concluded that the Company will have adequate resources to continue in operational existence for the foreseeable future. For these reasons they continue to adopt a going concern basis in the preparation of the financial statements.

Notes (continued)

1 Accounting policies (continued)

1.3 Classification of financial instruments issued by the Company

In accordance with FRS 101, financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

- a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and
- b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

1.4 Basic financial instruments

Trade and other debtors / creditors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

Interest-bearing borrowings classified as basic financial instruments

Interest-bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Investments in ordinary shares

Investments in equity instruments are measured initially at fair value, which is normally the transaction price. Transaction costs are excluded if the investments are subsequently measured at fair value through profit and loss. Subsequent to initial recognition investments that can be measured reliably are measured at fair value with changes recognition in profit or loss. Other investments are measured at cost less impairment in profit or loss.

1.5 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Tangible fixed assets include investment property whose fair value cannot be measured reliably without undue cost or effort.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets, for example land is treated separately from buildings.

Notes (continued)

1 Accounting policies (continued)

1.5 Tangible fixed assets (continued)

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases. Leased assets acquired by way of finance lease are stated on initial recognition at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, including any incremental costs directly attributable to negotiating and arranging the lease. At initial recognition a finance lease liability is recognised equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. The present value of the minimum lease payments is calculated using the interest rate implicit in the lease. Lease payments are accounted for as described at 1.8 below.

The company assesses at each reporting date whether tangible fixed assets (including those leased under a finance lease) are impaired.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives are as follows:

- office equipment: 33% straight line
- fixtures and fittings: 33% straight line

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the company expects to consume an asset's future economic benefits.

1.6 Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the company treats the guarantee contract as a contingent liability until such time as it becomes probable that the company will be required to make a payment under the guarantee.

1.7 Turnover

Turnover represents the provision of services to external customers at invoiced amounts less value added tax.

Turnover from the rendering of services is recognised in the period in which the services are provided.

1.8 Expenses

Operating lease

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in profit and loss over the term of the lease as an integral part of the total lease expense.

Finance lease

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability using the rate implicit in the lease. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Notes (continued)

1 Accounting policies (continued)

1.8 Expenses (continued)

Interest receivable and Interest payable

Interest payable and similar charges include interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the profit and loss account (see foreign currency accounting policy).

Other interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method. Dividend income is recognised in the profit and loss account on the date the company's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

1.9 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met; and differences relating to investments in subsidiaries, to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is provided in respect of the additional tax that will be paid or avoided on differences between the amount at which an asset (other than goodwill) or liability is recognised in a business combination and the corresponding amount that can be deducted or assessed for tax. Goodwill is adjusted by the amount of such deferred tax.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

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

1.10 Research and development expenditure

All ongoing research expenditure is expensed in the period in which it is incurred. Where a product is technically feasible, production and sales are intended, a market exists and sufficient resources are available to complete the project, development costs are capitalised and subsequently amortised on a straight line basis over the estimated useful life of the product concerned from commercial launch.

1.11 Exceptional costs

Items that are material in size and unusual in nature are included within the operating result and disclosed separately in the income statement. The separate reporting of these items helps to provide a more accurate indication of the underlying business performance.

Notes (continued)

1 Accounting policies (continued)

1.12 Critical accounting estimates and judgements

The Company makes certain estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed below.

Intangible assets – Capitalised Development Costs

The company business includes a significant element of research and development activity. Under FRS 101 there is a requirement to capitalise and amortise development spend to match costs to expected benefits from projects deemed to be commercially viable. The application of this policy involves the ongoing consideration by management of the forecasted economic benefit from such projects compared to the level of capitalised costs, together with the selection of amortisation periods appropriate to the life of the associated revenues from the product.

Impairment of trade debtors

The Company makes an estimate of the recoverable value of trade and other debtors. When assessing impairment of trade and other receivables, management considers factors including the ageing profile of receivables and historical experience.

1.13 Adoption of new and revised standards

A number of new and revised IFRSs have been issued and are due to be effective in future financial periods, with their impacts due to effect FRS 101 adopters. Their adoption is not expected to have a material effect on the financial statements, other than the standards noted below:

- IFRS 16 *Leases* is a replacement for IAS 17 'Leases' and will be effective for the period ending 31 December 2019 onwards. IFRS 16 required lessees to recognise a lease liability reflecting future lease payments and a right-of-use asset for lease contracts.

The Company has performed an assessment of the impact of IFRS 16 on its existing lease portfolio and it is expected to impact the majority of their operating lease commitments. This includes a material impact on the balance sheet, as both assets and liabilities will increase, and it is also expected to have a material impact on key components on the income statement, such as a reduction in operating expenses, which is expected to materially increase EBITDA. The adoption will also result in an increase in depreciation on the right-of-use asset and interest recognised on the lease liability. This will result in a change to the profile of the income statement over the life of the lease and will consequently impact profit after tax. There will be no impact on cashflows, although the presentation of the cash flow statement will change.

The Company is planning to adopt the new standard under the modified retrospective transition approach, with the increase in assets and liabilities expected to be material to the financial statements.

Notes *(continued)*

2 Expenses and auditor's remuneration

The operating (loss) / profit is stated after charging:

| | 31 December 2018 | 31 December 2017 |
|---|-----------------------------|---------------------|
| | £ | £ |
| Research and development expenditure | 161,432 | 560,659 |
| Other operating leases | 826,228 | 852,213 |
| Depreciation – owned assets | 46,138 | 52,245 |
| Auditors' remuneration | 10,000 | 10,000 |
| Auditor's remuneration for non audit work – taxation services | 6,500 | 6,500 |
| | <u> </u> | <u> </u> |

3 Staff numbers and costs

| | 31 December 2018 | 31 December 2017 |
|-----------------------|-----------------------------|---------------------|
| | £ | £ |
| Wages and salaries | 2,794,827 | 3,374,821 |
| Social security costs | 297,670 | 351,823 |
| Other pension costs | 131,339 | 130,633 |
| | <u> </u> | <u> </u> |
| | <u>3,223,836</u> | <u>3,857,277</u> |

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

| | 31 December 2018 | 31 December 2017 |
|--------------------------|-----------------------------|---------------------|
| Sales and administration | 66 | 77 |
| | <u> </u> | <u> </u> |

4 Directors' remuneration

| | 31 December 2018 | 31 December 2017 |
|--|-----------------------------|---------------------|
| | £ | £ |
| Directors' remuneration | 135,500 | 191,153 |
| Directors' pension contributions to money purchase schemes | 6,435 | 6,435 |
| | <u> </u> | <u> </u> |

Notes *(continued)*

4 Directors remuneration *(continued)*

The number of directors to whom retirement benefits were accruing was as follows:

| | 31 December 2018 | 31 December 2017 |
|------------------------|---------------------|---------------------|
| Money purchase schemes | 1 | 1 |
| | <u>1</u> | <u>1</u> |

Information regarding the highest paid director for the year ended 31 December 2018 is as follows:

| | 31 December 2018 £ | 31 December 2017 £ |
|--|--------------------------|--------------------------|
| Emoluments etc. | 115,500 | 101,494 |
| Pension contribution to money purchase schemes | 6,435 | 6,435 |
| | <u>115,500</u> | <u>101,494</u> |

No specific amount has been recharged with respect to some Directors' costs due to their involvement in a large number of other entities across the Group.

5 Interest receivable and similar income

| | 31 December 2018 £ | 31 December 2017 £ |
|--------------------------|--------------------------|--------------------------|
| Bank interest receivable | - | 103 |
| | <u>-</u> | <u>103</u> |

6 Taxation

Total tax charge recognised in the profit and loss account

| | 31 December 2018 £ | 31 December 2017 £ |
|--|--------------------------|--------------------------|
| <i>Current tax</i> | | |
| Current tax on income for the period | 201,038 | 204,149 |
| Adjustments in respect of prior periods | (201,038) | (204,149) |
| Total current tax | <u>-</u> | <u>-</u> |
| <i>Deferred tax</i> | | |
| Origination and reversal of timing differences | (90,990) | (143,917) |
| Total deferred tax (see note 12) | <u>(90,990)</u> | <u>(143,917)</u> |
| Total tax charge | <u>(90,990)</u> | <u>(143,917)</u> |

All tax is recognised in the profit and loss account.

Notes *(continued)*

6 Taxation *(continued)*

Reconciliation of effective tax rate

| | 31 December 2018 £ | 31 December 2017 £ |
|---|--------------------------|---------------------------|
| Loss for the year | (112,922) | (83,676) |
| Total tax charge | <u>90,990</u> | <u>143,917</u> |
| (Loss) / profit before taxation | <u>(21,932)</u> | <u>60,241</u> |
| Tax using the UK corporation tax rate of 19% (2017: 19.25%) | <u>(4,167)</u> | <u>11,596</u> |
| <i>Effects of:</i> | | |
| Expenses not deductible for tax purposes | 28,379 | 3,505 |
| Group relief surrendered / (claimed) | 292,194 | 333,365 |
| Capital allowances in excess of depreciation | 3,318 | 4,377 |
| Allowable development expenditure | (118,686) | (148,694) |
| Adjustments to tax charge in respect of prior periods | (201,038) | (204,149) |
| Deferred tax timing difference | <u>90,990</u> | <u>143,917</u> |
| Total tax charge included in the profit or loss | <u>90,990</u> | <u>143,917</u> |

Changes affecting the future tax charge

Reductions in the UK corporation tax rate to 19% (effective from 1 April 2018) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2017.

7 Tangible fixed assets

| | Office equipment £ | Fixtures and fittings £ | Total £ |
|---------------------------|--------------------------|-------------------------------|--------------------|
| <i>Cost</i> | | | |
| At 1 January 2018 | 155,499 | 177,304 | 332,803 |
| Additions | 12,083 | - | 12,083 |
| Disposals | - | - | - |
| At 31 December 2018 | <u>167,582</u> | <u>177,304</u> | <u>344,886</u> |
| <i>Depreciation</i> | | | |
| At 1 January 2018 | 120,463 | 152,366 | 272,829 |
| Charge for year | 27,127 | 19,011 | 46,138 |
| Disposals | - | - | - |
| At 31 December 2018 | <u>147,590</u> | <u>171,377</u> | <u>318,967</u> |
| <i>Net book value</i> | | | |
| At 31 December 2018 | <u>19,992</u> | <u>5,927</u> | <u>25,919</u> |
| At 31 December 2017 | <u>35,036</u> | <u>24,938</u> | <u>59,974</u> |

Notes *(continued)*

8 Intangible Assets

| | Development expenditure | Total |
|----------------------------|------------------------------------|------------------|
| | £ | £ |
| <i>Cost</i> | | |
| At 1 January 2018 | 2,133,484 | 2,133,484 |
| Additions | 657,052 | 657,052 |
| | <hr/> | <hr/> |
| At 31 December 2018 | 2,790,536 | 2,790,536 |
| | <hr/> | <hr/> |
| <i>Amortisation</i> | | |
| At 1 January 2018 | - | - |
| Charge for year | 133,157 | 133,157 |
| | <hr/> | <hr/> |
| At 31 December 2018 | 133,157 | 133,157 |
| | <hr/> | <hr/> |
| <i>Net book value</i> | | |
| At 31 December 2018 | 2,657,379 | 2,657,379 |
| | <hr/> <hr/> | <hr/> <hr/> |
| At 31 December 2017 | 2,133,484 | 2,133,484 |
| | <hr/> <hr/> | <hr/> <hr/> |

9 Debtors

| | 31 December 2018 | 31 December 2017 |
|--------------------------------------|-----------------------------|-----------------------------|
| | £ | £ |
| Amounts falling due within one year: | | |
| Trade debtors | 816,407 | 1,196,583 |
| Amounts owed by group undertakings | 1,339,715 | 2,047,290 |
| Other debtors | 100 | 100 |
| Prepayment and accrued income | 674,787 | 852,011 |
| | <hr/> | <hr/> |
| | 2,831,009 | 4,095,984 |
| | <hr/> <hr/> | <hr/> <hr/> |

10 Cash and cash equivalents

| | 31 December 2018 | 31 December 2017 |
|--------------------------|-----------------------------|-----------------------------|
| | £ | £ |
| Cash at bank and in hand | 690,455 | 249,575 |
| | <hr/> <hr/> | <hr/> <hr/> |

Notes *(continued)*

11 Creditors: amounts falling due within one year

| | 31 December 2018 £ | 31 December 2017 £ |
|---------------------------------|--------------------------|--------------------------|
| Trade creditors | 369,733 | 433,400 |
| Social security and other taxes | 243,324 | 277,936 |
| Other creditors | 21,216 | 20,615 |
| Accruals and deferred income | 660,781 | 875,426 |
| | <u>1,295,054</u> | <u>1,607,377</u> |

Amounts owed to group undertakings are repayable on demand and do not attract interest.

12 Deferred tax, assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

| | Assets | | Liabilities | | Net | |
|-------------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| | 31 December 2018 £ | 31 December 2017 £ | 31 December 2018 £ | 31 December 2017 £ | 31 December 2018 £ | 31 December 2017 £ |
| Accelerated capital allowances | 9,435 | 5,472 | - | - | 9,435 | 5,472 |
| Other short term timing differences | 3,889 | 3,969 | (505,569) | (410,696) | (501,680) | (406,727) |
| | <u>13,324</u> | <u>9,441</u> | <u>(505,569)</u> | <u>(410,696)</u> | <u>(492,245)</u> | <u>(401,255)</u> |

13 Employee benefits

Included within other creditors are pension costs of £21,216 (2017: £20,615) which were outstanding at the year end.

14 Called up share capital

Allotted, issued and fully paid:

| Number | Class: | Nominal value: | 31 December 2018 £ | 31 December 2017 £ |
|---------|----------|----------------|--------------------------|--------------------------|
| 255,030 | Ordinary | £0.001 | 255 | 255 |
| | | | <u>255</u> | <u>255</u> |

There is a single class of Ordinary share. There are no restrictions on the distribution of dividends or the repayment of capital.

Notes *(continued)*

15 Operating leases

Non-cancellable operating lease rentals are payable as follows:

| | Land and buildings | | Other operating leases | |
|----------------------------|-----------------------------|-----------------------------|-------------------------------|-----------------------------|
| | 31 December 2018 | 31 December 2017 | 31 December 2018 | 31 December 2017 |
| | £ | £ | £ | £ |
| <i>Expiring:</i> | | | | |
| Within one year | 109,958 | 138,744 | 112,013 | 574,163 |
| Between one and five years | - | 91,229 | - | 95,694 |
| In more than five years | - | - | - | - |
| | <u>109,958</u> | <u>229,973</u> | <u>112,013</u> | <u>669,857</u> |

16 Contingencies

The company has provided a guarantee against the bank loans of The SimplyBiz Group plc, the ultimate parent company. The total amount outstanding at 31 December 2018 amounted to £7,500,000 (2017: £35,000,000).

17 Related party disclosures

The company has taken advantage of the exemption within FRS 101 and therefore not disclosed details of transactions with fellow companies within the group headed by The SimplyBiz Group plc.

18 Ultimate parent company and controlling party

The immediate parent undertaking is Simplybiz Limited.

The ultimate parent undertaking is The SimplyBiz Group plc, which is the only set of consolidated financial statements which include the results of the company. These accounts can be obtained from the company's registered office.

In the opinion of the directors, the ultimate controlling party is The SimplyBiz Group plc (formerly The SimplyBiz Group Limited).

19 Subsequent events

On 20 March 2019, The SimplyBiz Group plc increased its borrowing from £7,500,000 to £45,000,000, as part of the funding structure for an acquisition. The Company continues to provide a guarantee against these bank loans.