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**Registered No: 8211361**

**Cambridge Cognition Holdings plc**

**Annual Report and Accounts**

**31 December 2018**

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# Cambridge Cognition Holdings plc

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# Cambridge Cognition Holdings plc

## Corporate Directory

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**Directors:** Michael Lewis (Non-Executive Chairman)  
Steven Powell (Chief Executive Officer)  
Nicholas Walters (Chief Financial Officer)  
Eric Dodd (Non-Executive)  
Nicholas Kerton (Non-Executive)

**Secretary:** Nicholas Walters

**Registered Office:** Tunbridge Court  
Tunbridge Lane  
Bottisham  
Cambridge  
CB25 9TU

**Company number:** 8211361

**Auditor:** Grant Thornton UK LLP  
Chartered Accountants  
Statutory Auditor  
101 Cambridge Science Park  
Milton Road  
Cambridge  
CB4 0FY

**Legal Advisers:** Baker Botts (UK) LLP  
41 Lothbury  
London  
EC2R 7HF

**Bankers:** Barclays  
28 Chesterton Road  
Cambridge  
CB4 3AZ

**Registrars:** Link Asset Services  
The Registry  
34 Beckenham Road  
Beckenham  
Kent  
BR3 4TU

**Nominated Advisor  
and Joint Broker:** finnCap  
60 New Broad Street  
London  
EC2M 1JJ

**Joint Broker:** Dowgate Capital Limited  
15 Fetter Lane  
London  
EC4A 1BW

# Cambridge Cognition Holdings plc

## Strategic Report for the year ended 31 December 2018

### CHIEF EXECUTIVE'S REVIEW

#### Financial summary

- Total revenues of £6.13m (2017: £6.73m)\*
- Gross profit of £5.23m (2017: £6.11m)\*
- Adjusted\*\* loss before tax of £1.50m (2017: loss of £0.07m)\*
- Loss before tax of £1.49m (2017: loss of £0.28m)\*
- Loss per share of 7.0 pence per share (2017: loss of 1.3 pence per share)\*
- Cash balance at 31 December 2018 of £1.11m (2017: £1.86m)
- Equity placing raised £2.50m in March 2019

\* For each of these items, 2018 results were prepared using IFRS 15 and 2017 results prepared using IAS 18.

\*\* Adjusted for share-based payments charge

#### Operational highlights

- Sales orders won in the year up 49% to £7.93m (2017: £5.31m)
- Contracted order book at year end: £6.08m (2017: £4.01m)
- Wider application of Cambridge Cognition technology platform to host a broader range of electronic clinical outcome assessments ('eCOA'): £2.67m of sales orders won in the year (2017: nil)
- Continued strong growth in digital healthcare: £0.63m of sales orders won in the year (2017 and earlier: £0.12m in total)
- Continued investment in research and innovative technology

#### Overview

2018 has seen the business progress into a new phase of commercial development with a strong increase in the order book for both the core clinical trials outcomes and digital health businesses.

Four key contracts were announced during the year and whilst each of these contracts has unique features the key common factor is their bespoke nature. It has become clear during the year that there is a key market demand for a custom approach for both our core CANTAB proprietary products and our digital, near-patient technologies. While this presents operational challenges, the equity placing enables us to capitalise on these significant market opportunities more quickly than we otherwise would have been able to.

Our NeuroVocalix voice platform has been included in its first contract and continues to be the subject of collaborative interest from many parties. We also launched our new healthcare offering – CANTAB BrainHealth – and we won our first contracts with this product.

Taking all of these factors together, the Group remains on track with its previously stated corporate goals of expanding our technology base, bringing cognitive testing closer to the user and positioning the Company's offer across the full clinical development cycle, including research and continuous monitoring. This was reflected in an increase in our R&D costs from £1.13m in 2017 to £1.41m. We also deepened our relationships with many academic and industrial collaborators during the year, not least through our partnership with the University of Bristol announced in June 2018.

#### Financial Results

Group revenues for 2018 and 2017 by product segment are as follows:

	2018 £m	2017 £m	Change £m	Change %
Software	3.09	3.32	(0.23)	(6.9)
Services	2.83	3.30	(0.47)	(14.2)
<b>Total Software &amp; Services</b>	<b>5.92</b>	<b>6.62</b>	<b>(0.70)</b>	<b>(10.6)</b>
Hardware	0.21	0.11	0.10	90.9
<b>Total Group Revenues</b>	<b>6.13</b>	<b>6.73</b>	<b>(0.60)</b>	<b>(8.9)</b>

Software and Services revenue were lower than 2017 for two key reasons. First, a low order intake in 2017 meant lower revenues carried forward into 2018 as a significant proportion of orders are recognised as revenue over

# Cambridge Cognition Holdings plc

## Strategic Report for the year ended 31 December 2018

several financial years as clinical trial contracts are implemented. Second, of those contracts signed in 2017 and 2018, a greater proportion of contracts than normal are for periods of more than one year. As the Company performs more bespoke work, a pattern of higher value, but longer period contracts will become the norm, as has been seen with key contract announcements made in 2018. This will give the Company much better visibility over future revenues.

Hardware revenues remain a small proportion of overall revenues. While the quantum of hardware sales continues to be insignificant, we are seeing a continuing desire of large pharmaceutical companies to source hardware from us as part of the full service package.

Gross profit was £5.23m (85.3%) in 2018 compared with £6.11m (90.8%) in 2017, a reduction of 5.5 percentage points. This reduction is a result of a slight increase in low-margin hardware sales and higher cost of sales relating to the increased customisation of products.

Administration costs increased by 4% in the year from £6.49m in 2017 to £6.75m. Overheads, excluding research and development, have been maintained at similar levels to the prior year. The ongoing commitment to innovation, with a £0.28m rise in research and development costs, continues to position Cambridge Cognition as a leader in its field and drives the development of its digital health business.

The loss before tax in the year was £1.49m, compared with a loss of £0.28m in 2017. R&D tax credits of £0.07m offset tax charges in the United States of America of £0.02m. Loss for the year was £1.44m, which equates to a loss per share for the year of 7.0 pence, compared with 1.3 pence in 2017.

Cash outflow from operating activities was £0.64m (2017: £0.62m outflow). In the second half of the year the Company generated cash of £0.31m. The annual cash outflow was lower than the loss as our billing pattern will typically result in invoicing ahead of revenue recognition. Capital expenditure remains low at £0.03m. The Company's Employee Benefit Trust purchased £0.05m of ordinary shares in the year to ensure that future obligations under employee incentive schemes could be met. Our cash balance of £1.11m has been subsequently boosted by the equity placing in March 2019.

The Company will use the net funds arising from the equity placing, being approximately £2.3 million to accelerate expansion of the Company's operations and strengthen its balance sheet as follows:

Replicate US 'prime' and digital health activities in the EU and Far East	£0.5m
Expand software group for eCOA and digital health opportunities – additional sprint teams	£0.6m
Digital intervention projects	£0.6m
Strengthen management team and balance sheet	£0.6m
<b>Total</b>	<b>£2.3m</b>

The major change in the balance sheet came on the adoption of IFRS 15 on 1 January 2018, when £1.96m was added to deferred income and taken out of retained earnings. This adjustment, alongside the loss for the year meant that the business entered a net liability position on the balance sheet. Of the £1.96m adjustment, £0.62m remains on the balance sheet at 31 December 2018. The Group has no long-term debt and, after the completion of the equity placing, has returned to a net asset position.

### ***The impact of the new accounting standard for revenues: IFRS 15***

The Group has adopted the new revenue accounting standard, IFRS 15, using the prospective method with effect from 1 January 2018. Accordingly, 2018 reported figures are prepared using IFRS 15, whilst 2017 reported figures were prepared under IAS 18. The main impact is that much of the Company's software revenue is now recognised as our customers use it, rather than on signature of contract as previously. We believe this new standard will result in a smoother spread of revenue over the life of all contracts.

Our estimate of revenues and loss before tax on each accounting basis for each of 2018 and 2017 are as follows:

On an IFRS 15 basis:

	<b>2018 (as reported)</b>	<b>2017</b>	<b>Difference</b>
<b>Revenue</b>	£6.13m	£6.89m	(£0.76m)
<b>Loss before tax</b>	£1.49m	£0.12m	(£1.37m)

# Cambridge Cognition Holdings plc

## Strategic Report for the year ended 31 December 2018

On an IAS 18 basis:

	2018	2017 (as reported)	Difference
<b>Revenue</b>	£7.11m	£6.73m	£0.38m
<b>Loss before tax</b>	£0.61m	£0.28m	(£0.33m)

### **Operational Review**

Our new sales team delivered an improved performance this year. Sales orders booked in the year totalled £7.93m representing a 49% increase on the prior year order intake figure of £5.31m. Accordingly, there has been an increase in the value of contracted revenues yet to be recognised of £2.07m in the year to £6.08m at 31 December 2018 (2017: £4.01m).

We continue to raise the profile of products in our core neuroscience disease areas, particularly Alzheimer's and schizophrenia. As we announced in April 2018, our Recruit offering is now established in two major Phase III trials for Alzheimer's disease, and its profile is also rising through inclusion in large public-private and EU-funded consortia such as Dementias Platform UK and the Europe-wide project Models of Patient Engagement for Alzheimer's Disease (MOPEAD). In schizophrenia, both our technology and our clinical trial design expertise are being increasingly recognised as world-leading. Our scientists are leading international working groups building industry consensus around schizophrenia trial design and are in demand as thought leaders, independent from their product-specific expertise.

The number of clinical studies using our technology at any time continues to increase, with our Operations team managing 55 studies in December 2018 (compared with 37 in December 2017). A growing number of these studies use our cloud-based clinical trials platform (Connect) to deliver digital forms of questionnaires and other electronic clinical outcomes assessments (eCOA) in addition to, or instead of, CANTAB cognitive tests. This opportunity to expand the use of Connect has arisen as customers recognise the versatility of our Connect platform and benefits the customer by being able to run more outcome measures on a single platform. By adding non-cognition outcome measures into our capabilities it also means that we can target more customers in non-CNS fields and so widens our potential customer audience.

In the USA, our 'digital health hub' in Boston has flourished in 2018 building a strong local presence and a network of relationships through the East Coast pharmaceutical clusters. Under the Cognition Kit brand we have continued to translate expertise in software and neuroscience into patient-centric applications that enable our pharmaceutical company partners to assess patients beyond the clinical trial site. These applications, whether delivered on patients' own mobile phones or integrated into other digital systems, are in increasing demand to enable lower cost data collection through remote or 'virtual' clinical trials and the opportunity to collect 'real world evidence' more easily and at earlier stages in the drug development cycle. While customer requirements for these purposes are typically of a bespoke product, we are gaining in efficiency as we build a menu of interoperable modules and user interface available for re-use in subsequent mobile apps. As we have noted in previous announcements, a significant attraction of this market is that each individual win in this area brings the potential for recurring license revenue over time.

Matthew Stork agreed to join the Company as Chief Operating Officer on completion of the equity placing in March 2019. This gives further breadth to the management and it is expected that Matthew will join the board in due course.

### **Innovation**

Our innovation and R&D activities continued apace during 2018, supported in part by grants from Innovate UK. A project to develop and deliver voice-based cognitive tasks through our new Neurovocalix voice-based platform has generated considerable interest from pharmaceutical partners. The funded project continues into 2019, however we have already commercialised our first tests into voice-products for two pharmaceutical partners as part of their drives to innovate clinical development in psychiatric and neurological indications. The second part of this project, to derive new biomarkers of mental state from the voice signal, is now gaining momentum as we collaborate with academic researchers to collect patient data from multiple disease states during 2019.

# Cambridge Cognition Holdings plc

## Strategic Report for the year ended 31 December 2018

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The digital phenotyping programme, using cognitive testing to match responsive sub-populations of patients with specific drugs, progressed rapidly during 2018. The initial Innovate UK-funded project focussing on schizophrenia was completed successfully at the end of 2018 and has led to a valuable development pipeline of biomarker-indication combinations that will be explored further in 2019. We have developed a new partnership with the University of Bristol School of Experimental Psychology in order to develop a broader pipeline of opportunities in this space. This allows us to take advantage of the discovery and early stage research expertise of the Bristol group, including access to clinical and experimental research facilities, and population cohorts such as the ALSPAC study. In return, we provide insight into regulatory and commercialisation paths and scale-up and adoption issues. We believe that as this joint team builds a portfolio of grant-funded projects it will rapidly accelerate our ability to translate new ways of phenotyping and treating mental ill-health through from initial discovery to applied R&D.

### **Outlook**

In 2018 we identified a key opportunity to accelerate the growth of our core clinical trials business with the addition of more outcome measures onto our Connect platform. We also made substantial progress in commercialising our digital health business. With additional financial resources from the equity placing and over £6m of future revenues already secured we believe we are well positioned to drive growth and fulfil our primary objective of sustainable profitability. We also expect our digital phenotyping programme to make significant advances in 2019 which will drive our corporate partnering activities.

We operate in a market with increasing levels of investment in both neuroscience and digital health. Our ability to provide innovative, customised solutions from our R&D activities positions the Company well for growth and recognition as a leader in its fields. As a result, we remain both optimistic and assured of more significant contracts and partnerships being secured in 2019.

As always, none of this would be possible without the continued support of our investors and the creativity and hard work of our operational teams.

# Cambridge Cognition Holdings plc

## Strategic Report for the year ended 31 December 2018

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### PRINCIPAL RISKS AND UNCERTAINTIES

The Group is exposed to a number of risks and uncertainties in undertaking its day to day operations. The key business risks affecting the Group and how they are managed are set out below:

#### **Financial**

The Group has a history of operating losses, with 2016 being the Group's first and so far only profitable year. Profitability depends on the success and market acceptance of current and new products and investment in sales infrastructure, without which the Group will make losses and consume cash. Until the profitable commercialisation of new products and markets is proved sustainable the Group will carefully monitor costs and cash flow with reference to ensuring the Group is able to continue as a going concern. In particular, the rate of investment in new technologies will be limited to the extent of any surplus cash reserves of the Group and the positive cash flow derived from the core business and recently launched products.

The directors have prepared a strategic plan, including financial forecasts and cash flows, for the period to December 2021. The monitoring of cash and future projected cash flows, as well as the sales pipeline is included in the monthly finance report to the Board.

#### **Product and market development**

Future success of the Group is principally focussed on growth of near term revenues through existing products as well as the successful commercialisation of innovative new products and services. The ability to transition current products to new markets and the development of new products and services for both existing and new markets will determine how successful the Group will be in growing. As noted in the Strategic Report, we have seen early successes in our most recent product innovations. However, the rate of future growth will be determined by the take up of these products in the various markets we serve.

#### **Brexit**

Uncertainty remains around the impacts of Brexit. The directors and management continue to monitor developments and plan for potential impacts. The key considerations for the Group are as follows:

- **People:** the group has a number of EU nationals as employees. The Group is working with these employees to ensure that impacts of Brexit on our people are understood and can be managed. Whilst longer-term implications may be unclear, what does seem clear is that there will be no immediate impact on EU nationals working in the UK.
- **Currency:** as the Group is a net exporter to the US and the EU, a decline in the value of GBP against the USD and the EUR is of benefit to the group in the immediate term. Strengthening of the GBP will result in a reduction in the GBP value of the Group's revenues.
- **Regulations:** the Group is working to ensure that compliance with regulations, especially those in relation to data sharing, continue to be adhered to, regardless of the nature of the UK's relationship with the EU.
- **Impacts on the broader market:** Directors and management continue to consider what impacts there may be on our customers and the broader economy. Virtually all of the Group's suppliers are UK based so there is minimal risk to our supply chain.

#### **Technology and regulation**

The success of the Group and its ability to compete effectively with other companies partly depends upon its ability to protect its intellectual property and exploit its technology. During the year significant development work has continued on the product range to ensure that the Group's products remain competitive and at the forefront of the sector. The Group files patent applications as it strives to protect and enhance its intellectual property.

#### **Growth management**

The Group's ability to manage its growth effectively requires it to continue to improve its operations, financial and management controls, reporting systems and procedures and to train, motivate and manage its employees. The Group's future success depends on its ability to hire, train and retain key technical, scientific, regulatory, sales and marketing personnel. The Group seeks to recruit and retain high calibre staff through offering share ownership incentives and rewards commensurate with their seniority in the business and maintaining open communication with employees.



# Cambridge Cognition Holdings plc

## Strategic Report for the year ended 31 December 2018

### **Reliance on key customers**

The Group maintains close relationships with a number of customers but aims not to be overly dependent on any one of them. During 2018, one customer accounted for 12% (2017: 14%) of the total revenue of the business though no other customer accounted for more than 10%. Over recent years, the increased diversity of our product offering has led to an increased diversity in our customer base that has continued to mitigate this risk. Nonetheless, there is a risk that the loss of a major customer would result in a revenue shortfall.

### **KEY PERFORMANCE INDICATORS**

The directors have monitored the performance of the Group with particular reference to the key performance indicators being revenue and sales orders, operating margin and cash flow. An overview of the financial results for the year is provided earlier in this report.

#### *KPIs at a glance:*

<b>KPI</b>	<b>2018 result</b>	<b>2017 result</b>	<b>Movement</b>	<b>Summary management commentary</b>
Revenue	£6.13m (as reported under IFRS 15)	£6.73m (as reported under IAS 18)	£0.60m decrease (9%)	Revenue has declined on an as reported basis and a consistent IFRS 15 basis given the low volume of sales orders taken in 2017.
Sales orders	£7.93m	£5.31m	£2.62m increase (49%)	This increase reflects improved commercial infrastructure and execution.
Order book (revenue yet to be recognised on orders won – IFRS 15 basis for both years)	£6.08m	£4.01m	£2.07m increase (52%)	Increase principally due to sales orders being £1.80m (29%) greater than revenue recognised.
Operating margin	(24%) (as reported under IFRS 15)	(4%) (as reported under IAS 18)	20 percentage point decrease	As well as the revenue result and change in accounting basis, this reflects the continued investment in research and development.
Cash flow	£0.72m outflow	£0.48m outflow	Increase in outflow of £0.24m	This is driven by the operating result, though billing in advance affords us some positive cash movement.

The Group monitors progress on a regular basis and will add to the key performance indicators as circumstances dictate. The directors value greatly the progress and innovation demonstrated by the Group, and in particular the increased investment in research and development. Unfortunately, this cannot be readily measured in the style of a KPI. The directors are pleased with the innovation successes during 2018, and the plans for continued innovation going forward.

Approved by the Board of Directors and signed on behalf of the Board.

Steven Powell  
Chief Executive Officer  
21<sup>st</sup> March 2019

# Cambridge Cognition Holdings plc

## Report of the Directors for the year ended 31 December 2018

The Directors present their report on the affairs of the Group and Company together with the financial statements for the year to 31 December 2018. The Group financial statements are prepared under International Financial Reporting Standards (EU-adopted IFRS).

### PRINCIPAL ACTIVITIES

Cambridge Cognition Holdings plc ('the Company') and its subsidiaries (together, 'the Group') specialises in improving brain health by developing and marketing near-patient cognitive testing techniques.

### GOING CONCERN AND FINANCIAL RISK MANAGEMENT

Having reviewed the financial forecasts and business plan of the Company and its subsidiaries and taking into account the level of cash resources available to them, the Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

In particular this consideration includes the raising of £2.3m (net) through a share placement on 12 March 2019.

Further information on the Group's financial risk management strategy can be found in note 25.

### SHARE ISSUES

The issued share capital of the Company is set out at Note 19 to the accounts. During 2018, 2,000 Ordinary shares were issued to satisfy the exercise of employee share options. On 12 March 2019 3,472,223 shares were issued in connection with the raising of £2.3m (net) referred to above.

### DIRECTORS

The Directors who held office at 31 December 2018 and their interest in the share capital of the Company were:

Name	Ordinary Shares of 1p each	
	2018	2017
Michael Lewis (Chairman)	33,375	33,375
Steven Powell	70,541	70,541
Nicholas Walters	186,937	186,937
Eric Dodd	-	-
Nicholas Kerton	22,899	22,899

### DIRECTORS' REMUNERATION AND SHARE OPTIONS

Details of Directors' remuneration and share options are provided within the Remuneration Report and are in addition to the interests in shares shown above.

### DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

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

Company law requires the Directors to prepare such financial statements for each financial year. Under that law, the Directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and have elected to prepare the Parent Company financial statements in accordance with United Kingdom Accounting Standards and applicable laws including Financial Reporting Standard 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 and of the profit or loss of the Company and Group for that year. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;

# Cambridge Cognition Holdings plc

## Report of the Directors for the year ended 31 December 2018

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- make judgements and accounting estimates that are reasonable and prudent;
- state whether the applicable IFRSs, or for the Parent Company, applicable UK GAAP have been followed, subject to any material departures disclosed and explained in the Company's financial statements
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm that:

- so far as each Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Directors have taken all steps that they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### DIRECTORS' INDEMNITY ARRANGEMENTS

During the year the Company purchased Directors' and Officers' liabilities insurance in respect of itself and its directors.

### SUBSTANTIAL SHAREHOLDERS

The Company's major shareholders at 15 March 2019 were:

Name	No. of Ordinary Shares	%
Nigel Wray	4,651,547	19.2
Canaccord Genuity Group Inc	3,620,150	15.0
Michael Buxton	2,889,589	12.0
Octopus Investments Nominees Ltd	1,429,771	5.9
Lombard Odier	1,388,889	5.7

### AUDITOR

A resolution to re-appoint Grant Thornton UK LLP as the Company's auditor will be proposed at the forthcoming Annual General Meeting. In accordance with normal practice, the Directors will be authorised to determine the Auditor's remuneration.

Approved by the Board of Directors and signed on behalf of the Board

Nick Walters  
Company Secretary  
21<sup>st</sup> March 2019

# Cambridge Cognition Holdings plc

## Corporate Governance Report for the year ended 31 December 2018

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### Chairman's Statement

As Chairman of the Cambridge Cognition Holdings plc ("the Company") Board, it is my responsibility to ensure that the Board is performing its role effectively and has the capacity, ability, structure and support to enable it to continue to do so.

We believe that a sound and well understood governance structure is essential to maintain the integrity of the Group in all its actions, to enhance performance and to impact positively on our shareholders, staff, customers, suppliers and other stakeholders.

After due consideration, the Company has adopted the QCA Corporate Governance Code ("the QCA Code") as the benchmark for measuring our adherence to good governance principles. These principles provide us with a clear framework for assessing our performance as a board and as a company, and the report below shows how we apply the Code's ten guiding principles in practice.

The QCA Code requires that some disclosures are available on the Company website, whilst others are required in the Company's Annual Report and Accounts and the Company has followed this recommendation. The Corporate Governance disclosure on our website can be found at <http://www.cambridgecognition.com/investors/corporate-governance/>

All members of the Board of the Company believe in the value and importance of good Corporate Governance. The Chairman is personally responsible for establishing and monitoring Corporate Governance.

The Company is listed on the AIM Market of the London Stock Exchange ("AIM").

Whilst the Board considers that it does not depart from any of the principles of the QCA Code, the Board will continue to develop its governance processes in the coming year.

Michael Lewis

Chairman

### Disclosures recommended under the QCA Code

#### ***Principle 1: Establish a strategy and business model which promotes long-term value for shareholders***

The Company has a rolling three-year detailed strategic plan that is updated and approved by the Board annually. This is supported by an annual operating plan, which is also subject to Board review.

The Company's Strategic Report, including an assessment of principal risks and uncertainties and key performance indicators can be found on pages three to eight of this Annual Report and Accounts.

#### ***Principle 4: Embed effective risk management, considering both opportunities and threats, throughout the organisation***

Risks are considered as part of the strategic planning process referred to above. The CEO is also ultimately responsible for the quality management of the company and reports to the Board on key matters. The Board will periodically receive presentations on specific operational and financial risks.

The principal risks and uncertainties of the Group are summarised on pages seven and eight of this Annual Report and Accounts.

#### ***Principle 5: Maintain the Board as a well-functioning, balanced team led by the Chair***

Profiles of each of the Directors are given below.

The Board consists of two executive directors, the non-executive Chairman and two further independent directors. The non-executive Chairman has a small shareholding, and one non-executive director holds shares and options, which are a result of their previous role as CEO. These holdings are not considered material.

# Cambridge Cognition Holdings plc

## Corporate Governance Report for the year ended 31 December 2018

All directors are expected to devote sufficient time to their duties as may be necessary. Typically, this would be around two days per month for the non-executive directors.

The Board is provided with monthly business and finance reports from the CEO and CFO respectively. Further information will be given to the Board for discussion at meetings as relevant.

The Board is supported by three sub-committees: the Audit Committee, the Remuneration Committee and the Nomination Committee. All non-executive directors sit on all sub-committees. Board and Committee attendance for 2018 is as follows:

	Board	Audit	Nomination	Remuneration
No. of Meetings	8	2	-	2
M. Lewis	8	2	-	2
Dr S. Powell	8	-	-	-
N. Walters	8	-	-	-
E. Dodd	8	2	-	2
Dr N. Kerton	8	2	-	2

***Principle 6: Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities***

Profiles of each of the Directors are given below.

***Principle 7: Evaluate board performance based on clear and relevant objectives, seeking continuous improvement***

Since the Company's listing in 2013, board evaluation has been an informal process led by the Chairman and principally consisting of one on one meetings to gather, compare and consider the views of each of the directors. This approach has, to date, been deemed appropriate given the small size of the Company.

With effect from 1st January 2019 the Board will conduct formal internal performance reviews every year supplemented by an external evaluation review every alternate year.

***Principle 8: Promote a corporate culture that is based on ethical values and behaviours***

The Board ensures that the Company culture is based on ethical values through the following means:

- The employee handbook clearly setting out values and employment codes
- All new employees benefit from an induction programme which emphasises our ethical values and behaviours
- These behaviours are re-iterated through the various employee communication and reward channels outlined above
- Particular training on topics relating to ethical behaviour, ranging from compliance in clinical trials to share dealing rules are given at regular intervals and attendance monitored
- Standard Operating Procedures ("SOPs") that outline the Company's process and the values that underpin them are required to be read by employees and documentation of compliance maintained
- Receiving monthly reports from human resources and other departments to ensure that any instances of behaviours not being recognised or respected are considered and resolved appropriately

***Principle 10: Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders***

Descriptions of the work of the Board and its Committees are below. The Remuneration Report is on pages 15 and 16.

# Cambridge Cognition Holdings plc

## Corporate Governance Report for the year ended 31 December 2018

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Further information on the Company's Corporate Governance framework, including on those principle of the QCA code not listed here can be found at <http://www.cambridgecognition.com/investors/corporate-governance/>

### Director profiles

Michael Lewis *Non-Executive Chairman*

Mr Lewis has 25 years global Health and Pharma industry experience. He is currently Executive Chairman of iPlato an m-Health provider with 9M patient connections in the UK, Chairman of Haem02, a biotechnology company developing artificial human haemoglobin, Chairman of Glyconics Ltd, developing diagnostics for COPD and director of Mikale Ltd. Mr Lewis is also a lecturer, speaker and invited Chair of innovation sessions at NHS Expo, Chairs the KTN Medtech group, and was past Chair of the Assisted Living Innovation platform. He previously has held senior roles at Gambro (Brussels), Boston Scientific (Paris), C.R. Bard (New Jersey), Sybron (Switzerland) and Becton Dickinson (UK).

Dr Steven Powell *Chief Executive Officer*

Dr Powell graduated in microbiology from the University of Wales and was awarded a PhD from the University of Aberdeen. He has over thirty years operational and investment experience in pharmaceutical and healthcare companies in the UK, USA and Scandinavia. Including his current role at Cambridge Cognition he has held five CEO roles, three in public companies. In 2003, he joined Gilde Healthcare, a pan-European life sciences investment fund as a partner and remained an adviser to the fund until 2016.

Nick Walters *Chief Financial Officer*

A chartered accountant, Mr Walters has served as Finance Director, Deputy Chairman and Chairman on a number of Boards. Mr Walters has over thirty years' experience across a wide range of industry sectors and a track record for addressing the fundamentals in these companies and setting them up for sustainable growth. He has experience of start-ups in both the USA and the Far East as CFO.

Dr Nicholas Kerton *Non-Executive Director*

Dr Kerton is an experienced director of public and private companies in the healthcare industry. Having completed a PhD in Organic Synthetic Chemistry at Nottingham University, he progressed through the Wellcome Foundation, and then joined DuPont and Whatman Reeve Angel plc in senior business development and sales roles before moving into microbiology as Managing Director of Malthus Instruments, a subsidiary of Radiometer of Denmark. Dr Kerton was a member of the management team who established Celsis PLC, one of the first biotechnology companies to float on the London Stock Exchange, led the successful sale of Maybridge to Fisher Scientific International, founded Lab21 (a molecular diagnostics service funded by Merlin Biosciences) during which time he acquired three companies, and managed the Sirigen Group from initial venture capital funding in 2008 through to selling the business to Becton Dickinson in August 2012.

Eric Dodd *Non-Executive Director*

Mr Dodd brings significant experience in board-level positions to the Company, including having been Chief Financial Officer of Antisoma plc, Morse plc, Stanmore Implants Worldwide Holdings Limited and KBC plc. Mr Dodd is presently Chief Financial Officer at ATTRAQT PLC, an AIM-listed software company.

### Board sub-committees

The Board is supported by three sub-committees, the Audit Committee, Nomination Committee and Remuneration Committee.

The **Audit** Committee's responsibilities include making recommendations to the Board on the appointment of the Company's auditors, approving the auditor's fees, safeguarding the objectivity and independence of the auditors, reviewing the findings of the audit and monitoring and reviewing effectiveness of the Company's systems of risk management and internal control. The Audit Committee is also responsible for monitoring the integrity of the financial statements of the Company, including its annual and half yearly reports and interim management statements.

The main issues considered by the Committee during the year in relation to the financial statements included the appropriateness of revenue recognition policies especially in light of the adoption of IFRS 15, adequacy of

# Cambridge Cognition Holdings plc

## Corporate Governance Report for the year ended 31 December 2018

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systems of internal control and going concern. The Committee notes the auditors' inclusion of revenue recognition as a key audit matter.

No significant fees were paid in the year to the auditors for services other than audit and tax compliance and related work. The independence and objectivity of the auditors is important to the Company and the Committee keeps track of fees paid to the auditors for any change in this position. Periodically the Audit Committee chairman speaks directly with the audit partner to set out the needs of the committee and to receive any feedback without the presence of any executive directors.

The Committee also reviews the Group's risk management and continues to believe that the Company's risk management strategy properly addresses the main risk areas.

The **Nomination** Committee's responsibilities include reviewing the structure, size and composition of the Board, making recommendations to the Board concerning membership of Board committees and identifying and nominating candidates for the Board for Board approval. Every director appointed by the Board is subject to re-election by the shareholders at the AGM following their appointment and every third AGM thereafter.

The **Remuneration** Committee's responsibilities include determining the remuneration of the executive directors, reviewing the design of all share incentive plans and determining each year whether awards will be made, and if so, the overall amount of such awards, the individual awards to executive directors and the performance targets to be used. Annual performance evaluation is based on targets set at the outset of each year and bonuses paid, as appropriate, in line with the agreed incentive plan.

# Cambridge Cognition Holdings plc

## Remuneration Report for the year ended 31 December 2018

The Company has established a Remuneration Committee. The members of the Remuneration Committee are:

Michael Lewis (Chair)  
Eric Dodd  
Nicholas Kerton

The Committee makes recommendations to the Board. No director plays a part in any discussion about his own remuneration.

### Components of Executive Directors' remuneration

Executive remuneration packages are prudently designed to attract, motivate and retain directors of the high calibre needed to enhance the Group's market position and to reward them for increasing value to shareholders. The performance measurement of the executive directors and key members of senior management and the determination of their annual remuneration package are undertaken by the Committee.

There are five main elements of the remuneration package for the executive directors and senior management:

- Basic annual salary;
- Benefits-in-kind;
- Annual bonus payments;
- Share option incentives; and
- Pension arrangements.

### Non-Executive Directors' remuneration

The remuneration of Non-Executive Directors is determined by the Board and reflects their anticipated time commitment to fulfill their duties. The Non-Executive Directors' remuneration is subject to the same principles of the Group Remuneration policy. The letters of appointment of Non-Executive Directors can be terminated with one month's notice given by either party.

### Directors' remuneration (audited)

The remuneration of the Directors is as follows:

	<b>Salary /Fee £'000</b>	<b>Benefits £'000</b>	<b>Bonus £'000</b>	<b>Pension £'000</b>	<b>2018 Total £'000</b>	<b>2017 Total £'000</b>
Current Directors:						
Executive Directors:						
Steven Powell	147	-	-	-	<b>147</b>	150
Nicholas Walters	48	-	-	-	<b>48</b>	48
Non-Executive Directors:						
Michael Lewis	44	-	-	-	<b>44</b>	44
Eric Dodd	30	-	-	-	<b>30</b>	30
Nicholas Kerton	30	-	-	-	<b>30</b>	30
Andrew Blackwell*	-	-	-	-	-	15
<b>Total</b>	<b>299</b>	-	-	-	<b>299</b>	317

\* Resigned as Non-Executive Director on 1 July 2017

Payments were also made to third parties for the services of Nicholas Walters. See note 26 to the consolidated financial statements.



# Cambridge Cognition Holdings plc

## Remuneration Report for the year ended 31 December 2018

### Share Options:

	<b>Granted</b>	<b>Number of Options</b>	<b>Performance criteria</b>	<b>Exercise price in pence</b>	<b>Exercise period</b>
Nicholas Kerton	Sept 2014	75,000	Vested (1)	60 pence	To 30 Sep 2024
Steven Powell	July 2015 May 2018	62,500 100,000	Vested (2) (3)	82.5 pence 1 penny	Dec 2017 - July 2025 May 2021 – May 2028
Nicholas Walters	May 2018	25,000	(3)	1 penny	May 2021 – May 2028

### Performance Criteria

- (1) Options vest once the average of the closing price of shares in the Company over two consecutive dealing days, as derived from the London Stock Exchange Daily Official List, has equalled or exceeded 90 pence. This condition was fulfilled on 1 October 2015
- (2) Options vest once the average of the closing price of shares in the Company over two consecutive dealing days, as derived from the London Stock Exchange Daily Official List, has equalled or exceeded 120 pence. This condition was fulfilled on 4 May 2017
- (3) 55% of these options will vest if the average closing mid-market price of an Ordinary Share for the final 10 trading days of 2019 is greater than 170 pence per share. A pro rata sliding scale will apply if the average closing mid-market price of an Ordinary Share for the final 10 trading days of 2019 is between 130 pence and 170 pence. 45% of these options granted will vest if the Group reports a profit after tax in both of the years ended 31 December 2018 and 31 December 2019. In the case that the Group reports a profit after tax in only one of these years, 10% of the total options granted will vest.

On 31 December 2018, 550,000 options in favour of Steven Powell and 150,000 options in favour of Nicholas Walters were forfeited as the performance criteria were not met. These criteria required that the average closing mid-market price of an Ordinary Share for the final 10 trading days of 2018 was a minimum of 100 pence; and that the total revenue of the three financial years ended 31 December 2018 exceeded £23m.

Upon his resignation as a Non-Executive Director on 1 July 2017, Andrew Blackwell forfeited 112,567 options. On 11 October 2017, he exercised 225,135 options at an exercise price of 70 pence.

# Cambridge Cognition Holdings plc

## Independent auditor's report to the members of Cambridge Cognition Holdings plc

### Independent auditor's report to the members of Cambridge Cognition Holdings plc

#### Opinion

##### **Our opinion on the financial statements is unmodified**

We have audited the financial statements of Cambridge Cognition Holdings Plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2018 which comprise the Consolidated statement of comprehensive income, the Consolidated statement of financial position, the Consolidated statement of changes in equity, the Consolidated statement of cash flows, the Parent company statement of financial position, the Parent company statement of changes in equity and notes to the Consolidated and Parent company financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2018 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 United Kingdom Generally Accepted Accounting Practice; and
- the financial statements 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 under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

## Cambridge Cognition Holdings plc

### Independent auditor's report to the members of Cambridge Cognition Holdings plc

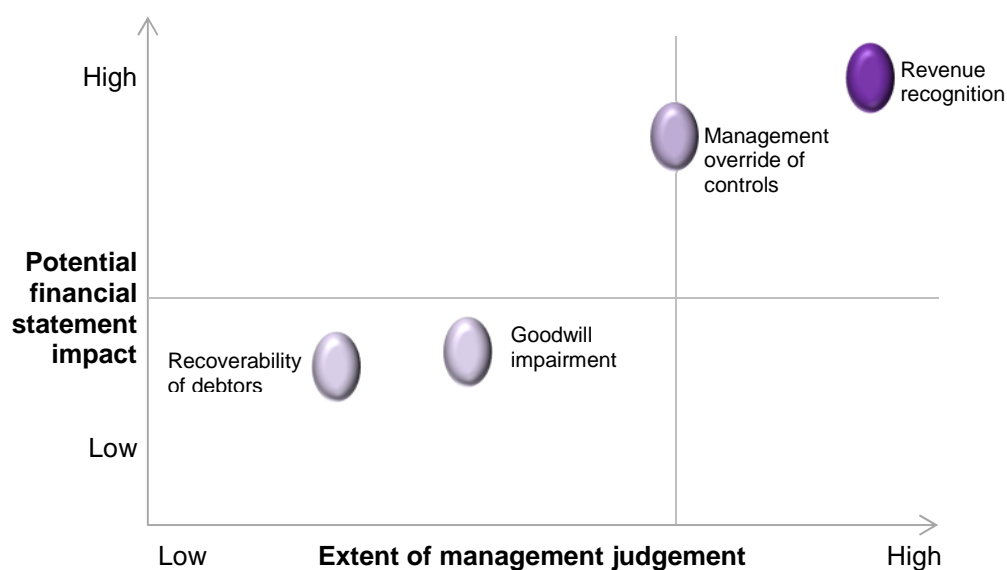


#### Overview of our audit approach

- Overall materiality: £184,000 which represents 3% of the group's revenue;
- Key audit matter identified was revenue recognition
- We performed full scope audit procedures on the financial statements of Cambridge Cognition Holdings Plc and on the financial information of Cambridge Cognition Limited which itself accounts for 71% of the group loss before tax.
- We performed targeted audit procedures on Cambridge Cognition LLC and analytical procedures on CANTAB Corporate Health Limited, Cambridge Cognition Trustees Limited and Cognition Kit Limited

#### Key audit matter

The graph below depicts the audit risks identified and their relative significance based on the extent of the financial statement impact and the extent of management judgement.



Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

# Cambridge Cognition Holdings plc

## Independent auditor's report to the members of Cambridge Cognition Holdings plc

### Key Audit Matter – Group

#### **The risk of improper recognition of revenue due to multiple revenue streams with different recognition criteria**

Under International Standard on Auditing (UK) 240 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements', there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.

The Group adopted IFRS 15 'Revenue from Contracts with Customers' using the modified retrospective method of adoption with the date of initial application of 1 January 2018. Inappropriate interpretation and application of the new and complex standard could result in possible material misstatement to the cumulative effect of initial application of the standard recognised as an adjustment to the opening balance of retained earnings at 1 January 2018 and revenue recognised in the period.

The Group provides multiple products or services to their customers as part of a single arrangement that may include licences of IP, sale of hardware, data management services, study management services, study support services, training, or other maintenance services.

Management apply significant judgement to:

- identify the separate performance obligations in an arrangement based on the terms of the contract and the Group's customary business practices
- determine whether the performance obligation is satisfied over time or at a point in time; and
- select an appropriate method for measuring progress of that performance obligation if it is satisfied over time.

A number of the products or services may be sold together as a bundled contract.

Determining whether the products or

### How the matter was addressed in the audit – Group

Our audit work included, but was not restricted to:

- Assessing whether revenue recorded in the period was consistent with the Group's accounting policy and whether that was compliant with IFRS 15 'Revenue from Contracts with Customers';
- For a sample of contracts, we:
  - checked that the performance obligations have been appropriately identified in accordance with the Group's accounting policy;
  - checked that revenue recognised in the year relates to amounts allocated to performance obligations that were satisfied in the year;
  - inspected evidence of delivery of the products or rendering of services, such as delivery of licence keys, number of assessments completed in the period, and notifications that the assessments have been completed; and
  - evaluated the significant judgements made by management in identifying the separate performance obligations and selecting an appropriate method for measuring progress
- Testing the deferred revenue and accrued income for a sample of contracts that were not complete at 1 January 2018 (cumulative adjustment to retained earnings as at the date of initial application of IFRS 15) and at the reporting date, as follows:
  - inspecting evidence that invoices raised relate to milestones met in the period in accordance with the

# Cambridge Cognition Holdings plc

## Independent auditor's report to the members of Cambridge Cognition Holdings plc

<b>Key Audit Matter – Group</b>	<b>How the matter was addressed in the audit – Group</b>
<p>services are distinct from other goods and services in an arrangement is key to the appropriate recognition of revenue.</p> <p>Revenue is a material figure in the financial statements (2018: £6,134,000; 2017: £6,730,000).</p> <p>We therefore identified revenue occurrence as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>payment schedule agreed with the customer;</p> <ul style="list-style-type: none"> <li>▪ checking revenue has been recognised in accordance with the Group's accounting policy</li> <li>▪ recalculating the deferred revenue and accrued income</li> </ul> <p>The group's accounting policy on revenue recognition is set out in note 3.3 to the financial statements and related disclosures are included in note 27.</p> <p><b>Key observations</b> Based on our audit work we consider the Group's revenue recognition to be appropriate and in accordance with IFRS 15.</p>

We did not identify any Key Audit Matters relating to the audit of the financial statements of the parent company.

### Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

Materiality was determined as follows:

<b>Materiality Measure</b>	<b>Group</b>	<b>Parent</b>
Financial statements as a whole	<p>£184,000 which is 3% of group revenue. This benchmark is considered the most appropriate because the group's results fluctuate annually.</p> <p>Materiality for the current year is lower than the level that we determined for the year ended 31 December 2017 to reflect the decrease in the group's revenues.</p>	<p>£6,000 which is 5% of losses before tax. This benchmark is considered the most appropriate because the entity is cost based and not revenue generative.</p> <p>Materiality for the current year is lower than the level that we determined for the year ended 31 December 2017 to reflect the decrease in the parent's loss before tax.</p>

## Cambridge Cognition Holdings plc

### Independent auditor's report to the members of Cambridge Cognition Holdings plc

Performance materiality used to drive the extent of our testing	75% of financial statement materiality.	75% of financial statement materiality.
Specific materiality	We also determine a lower level of specific materiality for certain areas such as directors' remuneration and related party transactions of £1,000 due to the inherent sensitivity of these transactions and related disclosures.	We also determine a lower level of specific materiality for certain areas such as directors' remuneration and related party transactions of £1,000 due to the inherent sensitivity of these transactions and related disclosures.

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.



#### An overview of the scope of our audit

Our audit approach was a risk-based approach founded on a thorough understanding of the group's business, its environment and risk profile and in particular included:

- Assessing the risk of material misstatement to the group's financial statements. We considered the transactions undertaken by each entity and therefore where the focus of our work was required;
- Full scope audit procedures were completed for the main trading subsidiary, Cambridge Cognition Limited and on Cambridge Cognition Holdings Plc. Targeted audit procedures were undertaken on Cambridge Cognition LLC and analytical procedures on CANTAB Corporate Health Limited, Cambridge Cognition Trustees Limited and Cognition Kit Limited
- The total percentage coverage of full scope procedures over the Group's total revenues was 99% and Group's total assets was 95%.
- All accounting is centralised, and we completed our onsite audit work at the Group's main operating location with all audit work undertaken by the Cambridge based group audit team.
- The audit risks identified for each trading component are the same audit risks identified for the Group as a whole.

#### Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

## Cambridge Cognition Holdings plc

### Independent auditor's report to the members of Cambridge Cognition Holdings plc

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In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

#### **Our opinion on other matters prescribed by the Companies Act 2006 is unmodified**

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the 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 the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

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

We have nothing to report in respect of the following matters in relation to which 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.

#### **Responsibilities of directors for the financial statements**

As explained more fully in the directors' responsibilities statement set out on pages 9-10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent 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 the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

#### **Auditor's responsibilities for the audit of the financial statements**

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 an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in

## Cambridge Cognition Holdings plc

### Independent auditor's report to the members of Cambridge Cognition Holdings plc

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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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

#### **Use of our report**

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.

David Newstead  
Senior Statutory Auditor  
for and on behalf of Grant Thornton UK LLP  
Statutory Auditor, Chartered Accountants  
Cambridge

21<sup>st</sup> March 2019



# Cambridge Cognition Holdings plc

## Consolidated statement of comprehensive income

	Notes	Year to 31 December 2018 £'000	Year to 31 December 2017 £'000
<b>Revenue</b>	5	6,134	6,730
Cost of sales		(900)	(622)
<b>Gross profit</b>		5,234	6,108
Administrative expenses		(6,749)	(6,485)
Other operating income	6	27	93
<b>Loss before tax</b>	7	(1,488)	(284)
Income tax	10	46	6
<b>Loss for the year</b>		(1,442)	(278)

<b>Attributable to:</b>			
Equity holders in the Parent		(1,442)	(257)
Non-controlling interest		-	(21)
		(1,442)	(278)

<b>Earnings per share (pence)</b>			
	11		
Basic and diluted earnings per share		(7.0)	(1.3)

<b>Other comprehensive income</b>			
(Loss) for the year		(1,442)	(278)
<b>Items that may subsequently be reclassified to profit or loss</b>			
Exchange differences on translation of foreign operations		(92)	38
<b>Total comprehensive income for the year</b>		(1,534)	(240)

All items of other comprehensive income are attributable to the equity holders in the Parent.

The above results relate to continuing operations.

# Cambridge Cognition Holdings plc

## Consolidated statement of financial position

	Notes	At 31 December 2018 £'000	At 31 December 2017 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	12	390	352
Property, plant and equipment	13	58	88
Total non-current assets		448	440
<b>Current assets</b>			
Inventories	15	26	33
Trade and other receivables	16	1,868	2,246
Cash and cash equivalents		1,110	1,859
Total current assets		3,004	4,138
<b>Total assets</b>		<b>3,452</b>	<b>4,578</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	18	3,978	1,547
<b>Total liabilities</b>		<b>3,978</b>	<b>1,547</b>
<b>Equity</b>			
Share capital	19	207	207
Share premium account		7,707	7,707
Other reserves	20	5,931	6,023
Own shares	20	(94)	(43)
Retained earnings		(14,277)	(10,863)
<b>Total equity</b>		<b>(526)</b>	<b>3,031</b>
<b>Total liabilities and equity</b>		<b>3,452</b>	<b>4,578</b>

The financial statements on pages 23 to 48 were approved by the Board of Directors and authorised for issue on 21<sup>st</sup> March 2019 and were signed on its behalf by:

Steven Powell  
Chief Executive Officer

# Cambridge Cognition Holdings plc

## Consolidated statement of changes in equity

	Share capital	Share premium	Other reserves	Own shares	Retained earnings	Non-controlling interest	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Balance at 1 January 2017</b>	<b>204</b>	<b>7,517</b>	<b>5,985</b>	<b>(47)</b>	<b>(10,748)</b>	<b>(50)</b>	<b>2,861</b>
Profit for the year	-	-	-	-	(257)	(21)	(278)
Other comprehensive income	-	-	38	-	-	-	38
Total comprehensive income for the year	-	-	38	-	(257)	(21)	(240)
Issue of new share capital	3	190	-	-	-	-	193
Transfer on allocation of shares held in trust	-	-	-	4	(4)	-	-
Credit to equity for equity-settled share-based payments	-	-	-	-	217	-	217
Transactions with owners	3	190	-	4	213	-	410
Transfer of accumulated loss on acquisition of non-controlling interest	-	-	-	-	(71)	71	-
<b>Balance at 31 December 2017</b>	<b>207</b>	<b>7,707</b>	<b>6,023</b>	<b>(43)</b>	<b>(10,863)</b>	<b>-</b>	<b>3,031</b>
Impact of adopting IFRS 15	-	-	-	-	(1,957)	-	(1,957)
<b>Balance at 1 January 2018 (restated)</b>	<b>207</b>	<b>7,707</b>	<b>6,023</b>	<b>(43)</b>	<b>(12,820)</b>	<b>-</b>	<b>1,074</b>
Profit for year	-	-	-	-	(1,442)	-	(1,442)
Other comprehensive income	-	-	(92)	-	-	-	(92)
Total comprehensive income for the year	-	-	(92)	-	(1,442)	-	(1,534)
Purchase of own shares	-	-	-	(51)	(1)	-	(52)
Charge to equity for equity-settled share-based payments	-	-	-	-	(14)	-	(14)
Transactions with owners	-	-	-	(51)	(15)	-	(66)
<b>Balance at 31 December 2018</b>	<b>207</b>	<b>7,707</b>	<b>5,931</b>	<b>(94)</b>	<b>(14,277)</b>	<b>-</b>	<b>(526)</b>

**Cambridge Cognition Holdings plc**  
**Consolidated statement of cash flows**

	Notes	Year to 31 December 2018 £'000	Year to 31 December 2017 £'000
<b>Net cash flows from operating activities</b>	21	(644)	(624)
<b>Investing activities</b>			
Purchase of property, plant and equipment		(25)	(48)
<b>Net cash flow used in investing activities</b>		(25)	(48)
<b>Financing activities</b>			
Proceeds from the issue of share capital		-	193
Purchase of own shares		(51)	-
<b>Net cash flows from financing activities</b>		(51)	193
<b>Net (decrease) in cash and cash equivalents</b>		(720)	(479)
Cash and cash equivalents at start of year		1,859	2,384
Exchange differences on cash and cash equivalents		(29)	(46)
<b>Cash and cash equivalents at end of year</b>	21	1,110	1,859

# Cambridge Cognition Holdings plc

## Notes to the financial statements

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### 1. General information

Cambridge Cognition Holdings plc ('the Company') and its subsidiaries (together, 'the Group') specialises in improving brain health by developing and marketing near-patient cognitive testing techniques.

The Company is a public limited company which is listed on the AIM market of the London Stock Exchange (symbol: COG) and is incorporated and domiciled in the UK. The address of its registered office is Tunbridge Court, Tunbridge Lane, Bottisham, Cambridge, CB25 9TU.

In the period since the principal trading company, Cambridge Cognition Limited was formed in 2002, it has created a well-established business through sales of its proprietary CANTAB® (Cambridge Neuropsychological Test Automated Battery) software into academic and pharmaceutical research locations around the world.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union, IFRIC interpretations and the Companies Act 2006 applicable to companies operating under IFRS. The accounting policies adopted are consistent with those followed in the preparation of the consolidated financial statements for the year ended 31 December 2017, other than that IFRS 15: Revenue from contracts with customers, and IFRS 9 Financial Instruments which have been adopted in the 2018 financial statements. See notes 3.3, 4 and 27 for more details on the impacts of adopting IFRS 15. There is no material impact on the adoption of IFRS 9. The financial statements have been prepared under the historical cost convention.

The subsidiary undertakings included within the consolidated financial statements as at 31 December 2018 are given in note 14.

### 2. Outlook for adoption of future Standards (new and amended)

At the date of authorisation of the Consolidated Financial Statements, the following Standard which has not been applied in the Consolidated Financial Statements were in issue but not yet effective:

- IFRS 16 Leases (effective 1 January 2019) – see note 22 for discussion of the impact of IFRS 16 on the Group.

All other Standards and Interpretations that are in issue but not yet effected are considered to have no impact on the Group as they do not apply to the Group at present.

### 3. Significant accounting policies

#### 3.1 Basis of consolidation

The consolidated financial statements incorporate the results of the Company and of its subsidiaries.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation. Where a subsidiary is not wholly-owned, it is consolidated in full, and the percentage not owned by the Group is recorded as a non-controlling interest.

#### 3.2 Going concern

At the time of approving the financial statements, and based on a review of the Group's forecasts and business plan, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

#### 3.3 Revenue recognition

From 1 January 2018, revenue is accounted for in accordance with IFRS 15 Revenue from contracts with customers.

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services, net of discounts, VAT and other sales-related taxes. Contracts are identified and the constituent parts are assessed separately to ensure that revenue is recognised appropriately. The Group sales can be placed into three categories as follows: software, services and hardware. Revenue recognition for each of these items are considered in turn below.

# Cambridge Cognition Holdings plc

## Notes to the financial statements

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### 3. Significant accounting policies (continued)

#### 3.3 Revenue recognition (continued)

##### *Software:*

The Group sells licences to use its software and/or its software hosting platform. These licences can take different forms, which are described in turn below:

##### *Software licences hosted on our servers:*

Where software is hosted on our servers the revenue is recognised over a period of time, as we have a continuing performance obligation to provide services (e.g. to ensure our servers are available).

- For contracts where the software value is greater than or equal to £20,000, and software is sold on a cost per assessment basis, the Group uses the assessment price to recognise the revenue as the assessments are used.
- For contracts where the software value is less than £20,000, and software is sold on a cost per assessment basis, the Group uses a portfolio estimate of the revenue being recognised over 12 months. This period has been chosen as it best represents the average life of this portfolio of contracts.
- For contracts where the licence is sold for unlimited uses over a limited period of time, the revenue is taken equally over the course of the licence period.

##### *Software licences not hosted on our servers:*

Where software is not hosted on our servers, it is used as it exists at the point in time the licence is granted and as such revenue is recognised at that point in time. The time of recognition is once the licence has been delivered to the customer, either through delivery of a physical software key or installation on the client systems, as this is when our performance obligations are satisfied.

##### *Services:*

The Group provides a range of services that include supporting clinical studies, bespoke software development and scientific consultancy. Some services will be ongoing services provided over a period of time, whilst some will be clearly tied to a deliverable or other project milestone.

##### *Services delivered over a period of time:*

When services are delivered over a period of time (e.g. study support services) the revenue is recognised equally over the relevant period. In some instances, the period in question may be for the life of the contract, and in these instances management will estimate the length of the contract for this purpose. When that estimate changes, revenue that has not yet been recognised will be adjusted prospectively to match the revised estimate. Study support services can be separated into set-up, ongoing management and close out phases with separate performance obligations. Where material and clearly identifiable, these phases will be recognised separately. Where immaterial or not clearly identifiable, these revenues will be recognised evenly over the course of the total relevant period.

##### *Services delivered at a point in time:*

Some services, such as training and delivery of scientific reports will be delivered at a point in time and as such will be recognised at a point in time, as the performance obligation is discharged on delivery.

In some cases, whilst the end product is a specific deliverable, it may be that the work required is executed over an extended period of time. In these cases, management may make an estimate of revenue earned to date consistent with the principles of services delivered over a period of time.

##### *Customer support services:*

Aside from any specific services contracted, our customers have access to our customer support team should they have problems with their software. The life of this support matches the life of the software licence, and as such this support is not separated from the software licence revenue recognition as described above.

##### *Hardware:*

The Group does not manufacture hardware, but will acquire, configure and sell hardware to customers as part of our offering. Hardware revenue is recognised when hardware is despatched to the customer, and the performance obligation is discharged at this point.

##### *Bill and hold arrangements:*

On some occasions, a customer may ask that we purchase and configure hardware on their behalf and then store the hardware awaiting specific despatch instructions. In these cases, the customer assumes ownership of the assets even though they may still be in our physical possession. Once all of the specific criteria under IFRS 15 are met, the Group will recognise this hardware revenue, even though the hardware has not yet been despatched.

# Cambridge Cognition Holdings plc

## Notes to the financial statements

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### 3. Significant accounting policies (continued)

#### **3.3 Revenue recognition (continued)**

Revenue recognised in the Statement of Comprehensive Income but not yet invoiced is held on the Statement of Financial Position within 'Accrued income'. Revenue invoiced but not yet recognised in the Statement of Comprehensive Income is held on the Statement of Financial Position within 'Deferred revenue'.

#### **3.4 Grants**

Grants of a revenue nature are credited to profit and loss to match with the expenses incurred. Where the grant relates directly to the Group's principal activities, it is taken as revenue. Where the grant relates to payments for the use of the Group's products or resources to support broader projects, the grant is taken as other income.

#### **3.5 Sales commissions**

Commissions are accrued and subsequently paid based on the contractual terms reached with the salesperson. Where commissions are paid related to revenues that are not expected in the same accounting period, the commission amount is capitalised and held as an asset on the balance sheet, before being amortised in line with the related revenue.

#### **3.6 Leasing**

This policy is in accordance with IAS 17 Leases, which is replaced by IFRS 16 Leases as of 1 January 2019.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

In the event that lease incentives are received at the time the entity enters into an operating lease agreement, such incentives are recognised as a liability and released through profit and loss over the term of the lease agreement. The aggregate benefit of incentives is recognised as a reduction to rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

#### **3.7 Foreign currencies**

The individual financial statements of each subsidiary are presented in the currency of the primary economic environment in which it operates (its functional currency). The UK pound is the functional currency of the Company and presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date.

Exchange differences are recognised in the period in which they arise.

On consolidation, assets and liabilities have been translated into the UK pound at the closing rate at the reporting date. Income and expenses have been translated into the UK pound at the average monthly rates over the reporting period. Exchange differences are charged or credited to other comprehensive income and recognised in the currency translation reserve in equity.

#### **3.8 Post employment benefit costs**

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

#### **3.9 Taxation**

The tax expense represents the sum of the tax currently payable and deferred tax.

##### *Current tax*

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

##### *Deferred tax*

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are 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. However, such assets and liabilities are not recognised if the temporary difference arises from the initial

# Cambridge Cognition Holdings plc

## Notes to the financial statements

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### 3. Significant accounting policies (continued)

#### 3.9 Taxation (continued)

recognition of 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.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting 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 is realised based on tax laws and rates that have been enacted or substantively enacted at the reporting date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

#### 3.10 Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the entity over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from synergies arising from the combination. Cash-generating units to which goodwill has been attributed under IFRS 3 Business Combinations are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period. For impairment review purposes the value in use is assessed with reference to cash flows arising from the Board approved three-year plan using a 7.5% discount rate. If this calculation suggests the recoverability of goodwill is sensitive to any of these factors, appropriate scenario modelling is performed.

#### 3.11 Tangible and intangible assets

##### *Property, plant and equipment*

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives on the following bases:

Fixtures, fittings and equipment	-	25% - 33% per annum straight line
Leasehold improvements	-	straight line over the lesser of 5 years or over the term of the lease

The gain or loss arising on the disposal of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit and loss on the transfer of the risks and rewards of ownership.

##### *Purchased licences*

Where a licence for software used in the provision of services to customers is purchased, the amount is capitalised and amortised over the period of the licence. The amortisation charge is charged to cost of sales.

##### *Internally-generated intangible assets – research and development expenditure*

The Group undertakes research and development expenditure in view of developing new products. Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally-generated intangible asset arising from the Group's development is recognised only if all of the following conditions are met:



# Cambridge Cognition Holdings plc

## Notes to the financial statements

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### 3. Significant accounting policies (continued)

#### 3.11 Tangible and intangible assets (continued)

- an asset is created that can be identified (such as software and new processes);
- it is probable that the asset created will generate future economic benefits, for example it is technically and commercially feasible and the Group has sufficient resources to complete development; and
- the development cost of the asset can be measured reliably.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

#### 3.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the First-In-First-Out method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

#### 3.13 Financial instruments

Financial assets and financial liabilities are recognised in the Group's Statement of Financial Position when the Group becomes a party to the contractual provisions of the instrument. Financial assets are initially measured at amortised cost, and financial liabilities at fair value, plus or minus directly attributable transaction costs.

##### *Financial assets*

Financial assets are subsequently measured at amortised cost. The Group currently holds no assets at fair value through profit and loss or fair value through other comprehensive income. Accordingly, where the Group believes that there is a change in the fair value of a financial instrument (e.g. a trade receivable is considered unrecoverable) this amount will be adjusted through the income statement. A financial asset is derecognised once the contractual rights expire (e.g. when cash has been received for a trade receivable).

##### *Expected credit losses on trade receivables*

The Group estimates expected credit losses by taking the credit losses over the preceding 36 months and comparing this to the revenue over the same period. The percentage derived is then applied to the outstanding trade receivables. This has resulted in an immaterial amount and as such no provision has been booked.

##### *Financial liabilities*

All the Group's financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. Financial liabilities are derecognised when the related obligation is discharged, cancelled or expires.

##### *Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued are recognised as the proceeds received, net of direct issue costs.

##### *Hedge accounting*

The Group does not have any relationships that qualify for hedge accounting.

#### 3.14 Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non-market-based vesting conditions. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 23.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. At each reporting date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserves.

#### 3.15 Employee Benefit Trust

In order to facilitate the exercise of share options the Group maintains an Employee Benefit Trust (EBT). This is consolidated in accordance with IFRS10. The costs of purchasing own shares held by the EBT are deducted from equity under 'Own Shares' reserve. Neither the purchase nor sale of own shares leads to a gain or loss being recognised in the Group's profit and loss or other comprehensive income. When shares are subsequently transferred to employees for less than their purchase price the difference is a realised loss recognised directly in reserves.

# Cambridge Cognition Holdings plc

## Notes to the financial statements

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### 4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 3, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

#### ***Critical judgements in applying the Group's accounting policies***

The following are the critical judgements that the directors, supported by management have made in the process of applying the Group's accounting policies. Where estimation uncertainty exists, the directors, supported by management take account of all available information in forming their judgement.

#### *Revenue recognition*

In the adoption and subsequent continuous application of IFRS 15, many judgements may be required in recognising revenue and cost. These judgements include

- The extent to which, and the way in which, contracts are separated into their component parts and the values attributed to those parts;
- Whether software licences are granted to allow the customer the benefit of use of our intellectual property over a period of time (including benefitting from future maintenance and improvements) or whether that right is given as the intellectual property exists at the point of time the licence is granted. In the case of the former, software is recognised over the period of use, for the latter revenue is recognised when the licence commences and the customer is able to use the software;
- The adoption of the portfolio approach for lower value sales and the recognition criteria applied;
- Where performance obligations are satisfied over time, the length of time remaining for performance, and whether this needs revising over time; and
- The length of time for performance also dictates the initial deferral and subsequent recognition of commissions in cost of sales.

#### *Goodwill*

The Group reviews the carrying value of its goodwill balances by carrying out impairment tests at least on an annual basis. These tests require estimates to be made of the value in use of its CGUs which are dependent on estimates of future cash flows and long-term growth rates of the CGUs. See note 12.

#### *Capitalisation of development costs*

The point at which development costs meet the criteria for capitalisation is critically dependent on management judgement of the probability of future economic benefits. No development was completed in the year which met the requirements for capitalisation under IAS 38 Intangible Assets. The research and development expenditure primarily relates to ongoing research as outlined in the Strategic Report. Therefore, no development costs have been capitalised during 2018 (2017: £nil).

#### *Recovery of deferred tax assets*

Deferred tax assets have not been recognised for deductible temporary differences, share options and tax losses as management considers that there is not sufficient certainty that future taxable profits will be available to utilise those temporary differences and tax losses.

#### *Share-based payment transactions*

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using either a Black-Scholes model or a Binomial Option model, with the assumptions detailed in note 23. The accounting estimates and assumptions relating to equity settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit and loss and equity.

# Cambridge Cognition Holdings plc

## Notes to the financial statements

### 5. Segmental Information

An analysis of the Group's revenue for each major product and service category is as follows:

	2018 £'000	2017 £'000
Software	3,088	3,322
Services	2,831	3,302
Hardware	215	106
	<u>6,134</u>	<u>6,730</u>

The accounting policies of the reportable segments are the same as the accounting policies described in note 3. Costs cannot be directly attributed to the products and services above so profit measures are not presented.

### Geographical information

The revenue from external customers by geographical location is detailed below:

	2018 £'000	2017 £'000
United Kingdom	745	1,087
United States of America	4,070	4,094
European Union	612	578
Rest of world	707	971
	<u>6,134</u>	<u>6,730</u>

All non-current assets are held in the United Kingdom.

### Information about major customers

Revenue of £731,000 (2017: £966,000) can be attributed to one (2017: one) customer who accounted for more than 10% of reported revenue for the related year. No other customers accounted for more than 10 per cent of reported revenue.

### 6. Other operating income

Other operating income is made up of the following:

	2018 £'000	2017 £'000
Grant income	-	47
Sub-lease income	27	46
	<u>27</u>	<u>93</u>

### 7. Operating loss

Operating loss has been arrived at after charging:

	2018 £'000	2017 £'000
Net foreign exchange losses	68	32
Research and development costs	1,414	1,129
Depreciation of property, plant and equipment	55	77
Staff costs (see note 9)	4,434	4,341

# Cambridge Cognition Holdings plc

## Notes to the financial statements

### 8. Auditor's remuneration

The analysis of the auditor's remuneration is as follows:

	2018 £'000	2017 £'000
Fees payable to the Company's auditor for the audit of: the Company's annual accounts	15	14
the subsidiaries' annual accounts	24	21
<b>Total audit fees</b>	<b>39</b>	<b>35</b>
Audit-related assurance services	9	8
Taxation compliance services	9	9
Other taxation advisory services	-	2
<b>Total non-audit fees</b>	<b>18</b>	<b>19</b>
Fees payable to affiliate firms of the Company's auditor: Taxation compliance services	27	45
<b>Total fees payable to affiliate firms of the Company's auditor</b>	<b>27</b>	<b>45</b>

### 9. Staff costs

The average monthly number of employees (including executive directors) was:

	2018 Number	2017 Number
Operations	45	42
Sales and business development	16	14
Administrative support	12	12
	<b>73</b>	<b>68</b>

Their aggregate remuneration comprised:

	2018 £'000	2017 £'000
Wages and salaries	3,898	3,605
Social security costs	327	315
Other pension costs (see note 24)	223	204
Share-based payments charge (see note 23)	(14)	217
	<b>4,434</b>	<b>4,341</b>

# Cambridge Cognition Holdings plc

## Notes to the financial statements

### 10. Taxation

	2018 £'000	2017 £'000
Corporation tax:		
Current year	23	4
Adjustments in respect of prior years	(69)	(10)
	(46)	(6)
Deferred tax (see note 17)	-	-
Total tax credit	(46)	(6)

Corporation tax is calculated at 19.00% (2017: 19.25%) of the estimated taxable loss for the year.

The tax charge for each year can be reconciled to the loss per statement of comprehensive income as follows:

	2018 £'000	2017 £'000
Loss before tax on continuing operations	(1,488)	(284)
Tax at the UK corporation tax rate of 19.00% (2017: 19.25%)	(283)	(55)
Difference in foreign tax rates	(4)	-
Expenses not deductible for tax purposes	(10)	69
Deduction on exercise of share options	(3)	(216)
Unrecognised deferred tax on IFRS 15 transition adjustment	120	-
Movement in unprovided deferred tax on losses	180	202
Adjustment in respect of prior years	(69)	(10)
Foreign tax charge	23	4
Tax credit for the year	(46)	(6)

The adjustment in respect of prior years relates to the receipt of R&D tax credits in respect of 2016 and 2017 (2017: in respect of 2015). No claim has yet been made for 2018 and no credit has been recognised in the financial statements.

### 11. Earnings per share

The calculation of the basic and diluted earnings per share ("EPS") is based on the following data:

#### Earnings

	2018 £'000	2017 £'000
Earnings for the purposes of basic and diluted EPS per share being net loss attributable to owners of the Company	(1,442)	(257)

#### Number of shares

	2018 '000	2017 '000
Weighted average number of ordinary shares for the purposes of basic EPS	20,553	20,398
Weighted average number of ordinary shares for the purposes of diluted EPS	20,553	20,398

For 2018 and 2017, the effect of options would be to reduce the loss per share and as such the diluted loss per share is the same as the basic loss per share.

# Cambridge Cognition Holdings plc

## Notes to the financial statements

### 12. Intangible assets

	Goodwill £'000	Licences £'000	Total £'000
<b>Cost</b>			
At 1 January 2018	352	-	352
Additions	-	40	40
At 31 December 2018	<u>352</u>	<u>40</u>	<u>392</u>
<b>Amortisation</b>			
At 1 January 2018	-	-	-
Charge for the year	-	2	2
At 31 December 2018	<u>-</u>	<u>2</u>	<u>2</u>
<b>Net Book value</b>			
At 31 December 2018	<u>352</u>	<u>38</u>	<u>390</u>
At 31 December 2017	<u>352</u>	<u>-</u>	<u>352</u>

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. Forecast cash flows for 2018 and beyond validate the value in use of the goodwill and no impairment provision is required.

### 13. Property, plant and equipment

	Leasehold Improvements £'000	Fixtures and fittings £'000	Total £'000
<b>Cost</b>			
At 1 January 2018	76	552	628
Additions	-	28	28
Disposals	(38)	(8)	(46)
At 31 December 2018	<u>38</u>	<u>572</u>	<u>610</u>
<b>Depreciation</b>			
At 1 January 2018	73	467	540
Charge for the year	3	52	55
Disposals	(38)	(5)	(43)
At 31 December 2018	<u>38</u>	<u>514</u>	<u>552</u>
<b>Net Book value</b>			
At 31 December 2018	<u>-</u>	<u>58</u>	<u>58</u>
At 31 December 2017	<u>3</u>	<u>85</u>	<u>88</u>

# Cambridge Cognition Holdings plc

## Notes to the financial statements

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### 14. Subsidiaries and joint ventures

Details of the Company's subsidiaries at 31 December 2018 are as follows:

<b>Name</b>	<b>Place of incorporation (or registration) and operation</b>	<b>Proportion of ownership interest %</b>	<b>Proportion of voting power held %</b>
Cambridge Cognition Limited	United Kingdom	100%	100%
Cambridge Cognition Trustees Limited	United Kingdom	100%	100%
Cambridge Cognition LLC	Delaware, United States of America	100%	100%
Cantab Corporate Health Limited	United Kingdom	100%	100%
Cognition Kit Limited	United Kingdom	50%	50%

The results and assets of Cognition Kit Limited are immaterial to the Group. Accordingly, detailed joint venture disclosures have not been presented.

All the above companies, except Cambridge Cognition Limited, are held via Cambridge Cognition Limited. All UK entities have their Registered Office at the Company's registered office. The Registered Office of Cambridge Cognition LLC is 2750 Rasmussen Road, Park City, UT 84098, USA.

All holdings are in ordinary shares.

### 15. Inventories

	<b>2018 £'000</b>	<b>2017 £'000</b>
Finished goods and goods for resale	26	33

During the year inventories with a total value of £115,000 (2017: £77,000) were included in the income statement as an expense.

# Cambridge Cognition Holdings plc

## Notes to the financial statements

### 16. Trade and other receivables

	2018 £'000	2017 £'000
Amount receivable for the sale of goods and services	823	1,201
Accrued income	223	662
Prepayments	165	192
Other receivables	657	191
	<u>1,868</u>	<u>2,246</u>

#### **Trade receivables**

Trade receivables disclosed above are classified as financial assets and are measured at amortised cost.

The average credit period offered on sales of goods varies from 30 days to 90 days. The Group has recognised an allowance for doubtful debts based on estimated irrecoverable amounts determined by reference to past default experience of the counterparty and an analysis of the counterparty's current financial position.

Trade receivables disclosed above include amounts which are past due at the year-end (see below for aged analysis) but against which the Group has not recognised an allowance for doubtful receivables. There has not been a significant change in credit quality and the amounts are still considered recoverable. The average age of these receivables is 29 days in 2018 (2017: 46 days).

Aging of past due but not impaired receivables:

	2018 £'000	2017 £'000
31-60 days	29	72
61-90 days	21	8
91-120 days	42	-
121 or more days	38	36
	<u>130</u>	<u>116</u>

Movement in the allowance for doubtful debts:

	2018 £'000	2017 £'000
Balance at the beginning of the year	-	30
(Decrease) in provision	-	(30)
Balance at the end of the year	<u>-</u>	<u>-</u>

In determining the recoverability of a trade receivable the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Management considers that all the above financial assets that are not impaired or past due are of good credit quality. Under IFRS 9, the credit losses provision for the Group would be immaterial and has not been booked.

A total of £5,000 of bad debt was written off in the year.

### 17. Deferred Tax

At the reporting date, the Group has unused tax losses of £8.9 million (2017: £8.7 million) available for offset against future profits. No deferred tax asset has been recognised in respect of these losses as there is uncertainty over the timing of future taxable profits. Losses may be carried forward indefinitely. No deferred tax asset has been recognised in respect of share options.



# Cambridge Cognition Holdings plc

## Notes to the financial statements

### 18. Trade and other payables

#### Amounts falling due within one year

	2018 £'000	2017 £'000
Trade payables	406	278
Accruals	604	410
Deferred income	2,847	739
Social security and other taxes	93	92
Other payables	28	28
	<u>3,978</u>	<u>1,547</u>

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 38 days (2017: 48 days). For all suppliers no interest is charged on the trade payables. Group policy is to ensure that payables are paid within the pre-agreed credit terms and to avoid incurring penalties and/or interest on late payments. The Directors consider that the carrying amount of trade payables approximates their fair value.

### 19. Share capital

	2018 £'000	2017 £'000
<b>Issued and fully paid</b>		
20,697,870 (2017: 20,697,870) Ordinary Shares of £0.01 each	<u>207</u>	<u>207</u>

During 2018, no Ordinary Shares were issued. On 12 March 2019, 3,472,223 Ordinary Shares were issued in a placing that raised net proceeds of £2.3m.

### 20. Own Shares Reserve and Other Reserve

	2018 £'000	2017 £'000
Own Shares Reserve	<u>94</u>	<u>43</u>

The Own Shares Reserve represents the cost of shares acquired by the two Cambridge Cognition Employee Benefit Trusts to satisfy options under the Group's share options schemes. The number of shares held by the UK Employee Benefit Trust at 31 December 2018 was 102,693 (2017: 102,693).

During the year employees exercised 2,000 share options at an exercise price of £0.01 which were satisfied by the UK Employee Benefit Trust. These shares were bought back by the UK Employee Benefit Trust and the value of own shares held grew by £2,000 as a result of these transactions.

The Group established an Employee Benefit Trust in Jersey in 2018. The Jersey Employee Benefit Trust purchased 48,250 shares for consideration of £49,000 in the year.

The Other Reserve in the consolidated statement of changes in equity is made up of £5,981,000 which arose when the Company became the new Group holding company in April 2013, and £50,000 of cumulative exchange differences on the translation of foreign operations.

# Cambridge Cognition Holdings plc

## Notes to the financial statements

### 21. Notes to the cash flow statement

	2018 £'000	2017 £'000
Loss before tax	(1,488)	(284)
Adjustments for:		
Depreciation of property, plant and equipment	57	77
Share-based payment expense	(14)	217
Operating cash flows before movements in working capital	(1,445)	10
Decrease in inventories	7	4
Decrease/ (increase) in receivables	513	(52)
Increase/ (decrease) in payables	304	(592)
Cash generated by operations	(621)	(630)
Tax credit received less tax paid	(23)	6
Net cash from operating activities	(644)	(624)

The total adjustments of £1,957,000 made to working capital as a result of the introduction of IFRS 15 (see note 27) are a non-cash item and accordingly excluded from this reconciliation.

### Cash and cash equivalents

	2018 £'000	2017 £'000
Cash and bank balances	1,110	1,859

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets is approximately equal to their fair value.

### 22. Operating lease arrangements

	2018 £'000	2017 £'000
Lease payments under operating leases recognised as an expense in the year	127	171

At the reporting date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2018 £'000	2017 £'000
Within one year	113	98
In the second to fifth years inclusive	85	-
After five years	-	-

Operating lease payments represent rentals payable by the Group for rent. Property rental across two buildings has an average of 21 months to expiry at 31 December 2018.

IFRS 16 Leases applies to the Group from 1 January 2019. On application, operating leases with a duration of greater than one year will be recognised as both a fixed asset and a financial liability. These will be realised subsequently in the income statement through depreciation and a combination of cash payments and finance charges respectively. At 1 January 2019 an equal and opposite asset and liability of £201,000 was booked in respect of the leases above.

# Cambridge Cognition Holdings plc

## Notes to the financial statements

### 23. Share-based payments

#### **Equity-settled share option scheme**

The Company has a share option scheme for key employees of the Group. The vesting periods vary between 0 and 3 years. Options are forfeited if the employee leaves the Group before the options vest. Details of the share options outstanding during the year are as follows:

	2018		2017	
	Number of share options	Weighted average exercise price (in £)	Number of share options	Weighted average exercise price (in £)
Outstanding at beginning of year	1,793,606	0.17	2,155,708	0.35
Exercised during the year	(2,000)	0.01	(278,135)	0.70
Granted during the year	404,500	0.01	287,200	0.01
Forfeited during the year	(1,386,700)	0.01	(371,167)	0.71
Outstanding at the end of the year	809,406	0.36	1,793,606	0.17
Exercisable at the end of the year	389,406	0.73	391,406	0.73

The options outstanding at 31 December 2018 had a weighted average remaining contractual life of 7.3 years.

Options were granted on 2 May 2018. The performance conditions attached to some of these options are such that options vest dependent on the Company achieving certain performance hurdles. The performance conditions, which are both market and non-market conditions, have been incorporated into the measurement by actuarial modelling. The aggregate of the estimated fair values of the options granted is £222,000. The inputs into the Binomial Option model for the performance related options were as follows:

	May 2018
Share price at date of issue	151p
Exercise price	1p
Expected volatility	51%
Expected life	3 years
Risk-free rate	0.77%
Expected dividend yields	0.0%

Expected volatility was determined by considering the expected share price movements and other comparable listed companies in the sector. For each option tranche a minimum share price hurdle for the options to vest was set in accordance with the individual terms set out in the option contracts.

The Group recognised a total credit of £14,000 (2017: expense of £217,000) in relation to equity-settled share-based payment transactions.

### 24. Post-employment benefit schemes

#### **Defined contribution schemes**

The Group operates a defined contribution retirement benefit scheme for all qualifying employees. The assets of the scheme are held separately from those of the Group in funds under the control of independent trustees.

The total cost charged to income of £223,000 (2017: £204,000) represents contributions payable to these schemes by the Group at agreed rates. As at 31 December 2018, contributions of £22,000 (2017: £19,000) due in respect of the current reporting year had not been paid over to the schemes.

# Cambridge Cognition Holdings plc

## Notes to the financial statements

### 25. Financial instruments

#### **Capital risk management**

The Group manages its capital to ensure the Group is able to continue as a going concern while maximising the return to stakeholders through optimising the balance between the Group debt and equity. The Group had no borrowings at 31 December 2018.

The current capital structure of the Group consists of cash and cash equivalents and equity attributable to equity holders of the Parent, comprising issued capital, reserves and retained earnings as follows:

	2018 £'000	2017 £'000
Cash and cash equivalents	1,110	1,859
Equity shareholder funds	(526)	3,031

The Group is not subject to any externally imposed capital requirements.

#### **Significant accounting policies**

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the basis of measurement and the bases for recognition of income and expenses) for each class of financial asset, financial liability and equity instrument are disclosed in note 3.

#### **Categories of financial instruments**

	2018 £'000	2017 £'000
<b>Financial assets classified at amortised cost</b>		
Cash and bank balances	1,110	1,859
Trade and other receivables	1,105	1,391
<b>Financial liabilities at amortised cost</b>		
Trade and other payables	1,113	771

The Group has reviewed the requirements of IFRS 9 and ascertained that our financial assets that were previously designated as loans and receivables under IAS 39 are now appropriately classified as debt instruments at amortised cost, as they form both part of the Group's business model and are solely payments of principal and interest.

#### **Financial risk management objectives**

The Group's Finance function is responsible for all aspects of corporate treasury. It co-ordinates access to financial markets, monitors and manages the financial risks relating to the operations of the Group through internal reports which analyse exposures by degree and magnitude. The risks reviewed include market risk (including currency risk), credit risk and liquidity risk.

#### **Liquidity Risk**

Liquidity risk is that the Group might be unable to meet its obligations. The Group manages its liquidity needs by monitoring cash outflows due in day-to-day business. The Board reviews an annual 12 month financial projection as well as information regarding cash balances on a monthly basis, which includes projections of at least a further 12 months. The Group maintains cash and cash equivalents to meet its liquidity requirements for up to a 30-day period.

At 31 December 2018, the Group's financial liabilities had contractual maturities which are summarised below:

	2018 £'000	2017 £'000
	Within 1 year	Within 1 year
Trade payables	406	278
Other payables	707	493
	<u>1,113</u>	<u>771</u>

# Cambridge Cognition Holdings plc

## Notes to the financial statements

### 25. Financial instruments (continued)

#### **Market risk**

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates (see below). The Group has limited exposure to foreign currency exchange rates and does not believe the use of financial derivatives is appropriate.

There has been no change to the Group's exposure to market risks or the manner in which these risks are managed and measured.

#### **Foreign currency risk management**

The Group undertakes transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the year-end were as follows:

	Liabilities		Assets	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
US Dollar	115	31	809	1,124
Euro	-	3	263	246
Qatari Riyal	-	-	57	61
Canadian Dollar	-	-	21	-

A movement in the £/\$ exchange rate of +/- 5% from 31 December 2018 to the date of realising the US dollar net asset position would result in a gain/loss of £52,000 (2017: £55,000). Similarly with the Euro, the gain/loss would be £15,000 (2017: £12,000). With the Qatari Riyal, the gain/loss would be £3,000 (2017: £3,000). With the Canadian Dollar, the gain/loss would be £1,000 (2017: £nil).

#### **Credit risk management**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group makes appropriate enquiries of the counter party and independent third parties to determine credit worthiness. Use of other publicly available financial information and the Group's own trading records is made to rate its major customers. The Group's exposure and the credit worthiness of its counterparties are continuously monitored and the aggregate value of transactions is spread amongst approved counterparties. Credit exposure is also controlled by counterparty limits that are reviewed and approved by Group management continuously.

The Group does not have any significant credit risk exposure to any single counterparty or group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities.

The carrying amount recorded for financial assets in the Statement of Financial Position is net of impairment losses and represents the Group's maximum exposure to credit risk. The Group has calculated its expected credit losses and the amount is immaterial. This is consistent with the position under IAS 39 at 31 December 2017. No guarantees have been given in respect to third parties.

#### **Fair value of financial instruments**

The directors consider that the carrying amounts of financial assets and financial liabilities recorded in the Statement of Financial Position approximate their fair values.

# Cambridge Cognition Holdings plc

## Notes to the financial statements

### 26. Related party transactions

Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and other related parties are disclosed below.

#### **Transactions with Cognition Kit Limited**

Cognition Kit Limited is the Group's 50% owned joint venture.

During the year the Group invoiced £34,000 (2017: £47,000) in respect of the value of time and expenses of the Group committed to the activities of Cognition Kit Limited. At year-end a balance of £nil (2017: £5,000) was owed to the Group by Cognition Kit Limited. The Group has also accrued for the repayment of £88,000 representing the value of time and expenses of the Group (2017: £59,000).

Further, the Group paid Cognition Kit Limited £1,000 in referral fees in the year (2017: £7,000). No balance was outstanding at 31 December 2018 (2017: nil). The Group has also accrued costs in respect of licence fees and other services payable to Cognition Kit Limited of £101,000 (2017: nil).

#### **Remuneration of directors and key management personnel**

The remuneration of the key management personnel of the Group is set out below in aggregate for each of the categories specified in IAS 24 *Related Party Disclosures*. The key management personnel of the Group at 31 December 2018 consist of the Directors and three additional senior staff.

	2018 £'000	2017 £'000
Short-term employee benefits	626	631
Post-employment benefits	19	12
Termination benefits	-	-
Share-based payments	(10)	148
	<u>635</u>	<u>791</u>

Payments in respect of each director are set out in the Remuneration Report. The audited section of that Report forms part of the financial statements.

#### **Other transactions**

In addition to the above, during 2018 the Group incurred consultancy fees of £24,000 (2017: £36,000) from MCR Holdings, a partnership of which Nicholas Walters is a partner. At 31 December 2018 a balance of £5,820 (2017: £2,714) was outstanding to MCR Holdings.

### 27. Introduction of IFRS 15: Revenue from contracts with customers

IFRS 15 became effective for the Group on 1 January 2018. The Group has chosen to adopt IFRS 15 as of 1 January 2018 and recognise the cumulative effect of the initial application at that date. This means that the results for 2017 in these financial statements are presented under IAS 18: Revenues.

#### **Differences between IAS 18 and IFRS 15 for the Group**

There are three changes in accounting policy for the Group given the adoption of IFRS 15.

- 1) For licences that are hosted on our own servers, we are now measuring these in one of two ways:
  - a. For contracts where we also provide study and data management services, and also for any other contract greater than £20,000 in value, we are allocating a per assessment price to the assessments sold and amortising the deferred revenue over the period the assessments are used.
  - b. For all other sales, we are recognising revenue on a straight line period of 12 months. This period has been chosen as it best represents the average life of this portfolio of contracts.

In either of these cases, the customer purchases a right to use our intellectual property as it exists throughout the licence period, and our performance obligation is therefore executed over a period of time.

# Cambridge Cognition Holdings plc

## Notes to the financial statements

### 27. Introduction of IFRS 15: Revenue from contracts with customers (continued)

- 2) For licences that are not hosted on our own servers, we now only recognise the revenue when the licence period commences, even if the order has been placed and accepted, and software prepared, prior to this date. In this case, the customer purchases a right to use our intellectual property at the point in time the licence commences, and so our performance obligation is discharged upon delivery of the licence.
- 3) Where commissions are paid related to revenues that are not expected in the same accounting period, the commission amount is capitalised and held as an asset on the balance sheet, before being amortised in line with the related revenue. Previously, all commissions paid were recognised immediately in the income statement.

#### Adjustment posted to the accounts on 1 January 2018

As described above, the Group posted an adjustment to its accounts on 1 January 2018. This adjustment impacts the balance sheet, with the corresponding value being debited or credited to accumulated reserves.

The value of this adjustment with respect to each of the three changes detailed above was as follows:

- 1) Deferred revenue increased by £1,843,000
- 2) Deferred revenue increased by £164,000
- 3) An asset of £50,000 created

This resulted in a total debit to opening reserves of £1,957,000. The following table shows the 31 December 2017 values as per these financial statements and the revised balance as at 1 January 2018.

Balance sheet caption	As presented at 31 December 2017 (£'000)	As revised on 1 January 2018 (£'000)	Difference (£'000)
Prepayments and accrued income (part of trade and other receivables)	854	904	50
<b>Total assets</b>	<b>4,578</b>	<b>4,628</b>	<b>50</b>
Accruals and deferred income (part of trade and other payables)	1,149	3,156	2,007
<b>Total liabilities</b>	<b>1,547</b>	<b>3,554</b>	<b>2,007</b>
Retained earnings	(10,863)	(12,820)	(1,957)
<b>Total equity</b>	<b>3,031</b>	<b>1,074</b>	<b>(1,957)</b>
<b>Total liabilities and equity</b>	<b>4,578</b>	<b>4,628</b>	<b>50</b>

#### Comparison of 2018 results as reported under IFRS 15 to 2018 results under IAS 18

The statements below compare the reported results to the results that would have been recorded if IFRS 15 had not been adopted on 1 January 2018.

Consolidated Statement of Comprehensive Income:

	Note	Year to 31 December 2018 (Reported under IFRS 15) £'000	Year to 31 December 2018 (IAS 18) £'000	Difference £'000
<b>Revenue</b>	A	6,134	7,108	974
Cost of sales	B	(900)	(993)	(93)
<b>Gross profit</b>		5,234	6,115	881
Administrative expenses		(6,749)	(6,749)	-
Other operating income		27	27	-
<b>Loss before tax</b>		(1,488)	(607)	881
Income tax		46	46	-
<b>Loss for the year</b>		(1,442)	(561)	881

Basic and diluted earnings per share under IAS 18 would have been a loss of 2.7 pence, rather than the 7.0 pence loss as reported under IFRS 15.

# Cambridge Cognition Holdings plc

## Notes to the financial statements

Consolidated Statement of Financial Position:

	Notes	Year to 31 December 2018 (Reported under IFRS 15) £'000	Year to 31 December 2018 (IAS 18) £'000	Difference £'000
<b>Assets</b>				
<b>Non-current assets</b>				
Intangible assets		390	390	-
Property, plant and equipment		58	58	-
Total non-current assets		448	448	-
<b>Current assets</b>				
Inventories		26	26	-
Trade and other receivables	B	1,868	1,775	(93)
Cash and cash equivalents		1,110	1,110	-
Total current assets		3,004	2,911	(93)
<b>Total assets</b>		<b>3,452</b>	<b>3,359</b>	<b>(93)</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Trade and other payables	A	3,978	3,004	(974)
<b>Total liabilities</b>		<b>3,978</b>	<b>3,004</b>	<b>(974)</b>
<b>Equity</b>				
Share capital		207	207	-
Share premium account		7,707	7,707	-
Other reserves		5,931	5,931	-
Own shares		(94)	(94)	-
Retained earnings	A, B	(14,277)	(13,396)	881
<b>Total equity</b>		<b>(526)</b>	<b>355</b>	<b>881</b>
<b>Total liabilities and equity</b>		<b>3,452</b>	<b>3,359</b>	<b>(93)</b>

Note A: Under IAS 18, more revenue would have been recognised because software revenue would be recognised upfront. In the year, the value of new software sales exceeded the value recognised under IFRS 15 so this impact would be to increase revenue if IAS 18 was still being used. The balance sheet impact would be that the value of deferred income would be lower.

Note B: Under IAS 18, given more revenue would have been recognised, more commission would have been expensed. Deferred commissions are held as a current receivable and so the value of current receivables would be reduced under IAS 18.



# Cambridge Cognition Holdings plc

## Notes to the financial statements

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### **Other required disclosures under IFRS 15**

- Of the £2,007k deferred revenue recognised on transition at 1 January 2018 £1,386,000 was recognised as revenue in 2018.
- Payment terms can vary from customer to customer and are subject to negotiation. Normally, software will be invoiced at the point of initial sale and services invoiced as delivered. This will mean that a deferred revenue balance is created in respect of software which will be reduced as the software is used.
- At 31 December 2018, the Group has sales orders worth £6,084,000 for which performance obligations are currently unsatisfied. At that date the Group estimates that £3,391,000 of this will be recognised in 2019, £1,321,000 will be recognised in 2020 and £1,372,000 in 2021 and thereafter.
- Of the £50,000 deferred commission asset created on transition, £34,000 was amortised in the year, in line with revenue recognition on the applicable contracts.

### **Results for 2018 and 2017 under IFRS 15 and IAS 18**

For information, the summary below shows management's estimate of key results had IFRS 15 been applied to 2017, and also if IAS 18 had been applied to 2018.

On an IFRS 15 basis:

	<b>2018 (as reported)</b>	<b>2017</b>	<b>Difference</b>
<b>Revenue</b>	£6.13m	£6.89m	(£0.76m)
<b>Loss before tax</b>	£1.49m	£0.12m	(£1.37m)

On an IAS 18 basis:

	<b>2018</b>	<b>2017 (as reported)</b>	<b>Difference</b>
<b>Revenue</b>	£7.11m	£6.73m	£0.38m
<b>Loss before tax</b>	£0.61m	£0.28m	(£0.33m)

# Cambridge Cognition Holdings plc

## Parent Company statement of financial position

	Notes	At 31 December 2018 £'000	At 31 December 2017 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Investments	2	375	351
Total non-current assets		375	351
<b>Current assets</b>			
Trade and other receivables	3	5,587	5,117
Cash and cash equivalents		19	562
Total current assets		5,606	5,679
<b>Total assets</b>		<b>5,981</b>	<b>6,030</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	4	61	62
<b>Total liabilities</b>		<b>61</b>	<b>62</b>
<b>Equity</b>			
Share capital	5	207	207
Share premium account		7,707	7,707
Retained earnings		(1,994)	(1,946)
<b>Total equity</b>		<b>5,920</b>	<b>5,968</b>
<b>Total liabilities and equity</b>		<b>5,981</b>	<b>6,030</b>

No profit and loss account is presented for Cambridge Cognition Holdings plc as provided by section 408 of the Companies Act 2006. The Company's loss after tax for the financial year was £34,000 (2017: £197,000).

The financial statements of Cambridge Cognition Holdings plc on pages 49 to 52 were approved and authorised for issue by the Board on 21<sup>st</sup> March 2019 and were signed on its behalf by:

Steven Powell  
Chief Executive Officer

## Cambridge Cognition Holdings plc

### Parent Company statement of changes in equity

	Share capital £'000	Share premium £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2017	204	7,517	(1,966)	5,755
Loss for the year	-	-	(197)	(197)
Issue of new share capital	3	190	-	193
Credit to equity of equity-settled share-based payments	-	-	217	217
Transactions with owners	3	190	217	410
At 31 December 2017	<b>207</b>	<b>7,707</b>	<b>(1,946)</b>	<b>5,968</b>
Balance at 1 January 2018	207	7,707	(1,946)	5,968
Loss for the year	-	-	(34)	(34)
Charge to equity of equity-settled share-based payments	-	-	(14)	(14)
Transactions with owners	-	-	(14)	(14)
At 31 December 2018	<b>207</b>	<b>7,707</b>	<b>(1,994)</b>	<b>5,920</b>

# Cambridge Cognition Holdings plc

## Notes to the Parent Company financial statements

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### 1. Significant accounting policies

#### **1.1 Basis of accounting**

The separate financial statements of the Company are presented as required by the Companies Act 2006. They have been prepared under the historical cost convention and in accordance with applicable United Kingdom Accounting Standards and law. The Company has elected to use Financial Reporting Standard – 'The Reduced Disclosure Framework' (FRS 101). The Company has taken advantage of the following disclosure exemptions afforded by FRS 101:

- Disclosure exemption allowing no cash flow statement or related notes to be presented
- Disclosure exemption allowing the Company not to disclose related party transactions when transactions are entered into wholly within the Group
- Disclosure exemption around Key Management Personnel compensation (though see note 26 of the Group accounts and the Directors Remuneration Report)
- Capital management disclosures (though see note 25 of the Group accounts)
- Disclosure exemption on the effect of future accounting standards
- Disclosure exemption on share-based payment information disclosures (IFRS 2), as this information has been presented for the Group in note 23 of the consolidated financial statements
- Disclosure exemption on financial instrument disclosures (IFRS 7) as this information has been presented for the Group in note 25 of the consolidated financial statements.

The principal accounting policies are summarised below. They have all been applied consistently throughout the year. The accounts are presented in Pounds Sterling ("£"), and to the nearest £1,000.

#### **1.2 Investments**

Fixed asset investments in subsidiaries are shown at cost less provision for impairment. The Company accounts for share options granted to the employees of subsidiary undertakings by recognising an increased investment in the subsidiary, with the corresponding credit recognised in reserves.

#### **1.3 Financial instruments**

The Company's financial instruments accounting policy is as per the Group's policy (see note 3.13).

#### **1.4 Going concern**

The directors have, at the time of approving the financial statements, a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

#### **1.5 Employee Benefit Trust**

Two Employee Benefit Trusts (EBTs) are maintained in order to facilitate the exercise of employee share options. Assets and shares of the EBTs are not consolidated into the Parent company. Neither the purchase nor sale of own shares leads to a gain or loss being recognised in the Company's profit and loss account or statement of total recognised gains and losses.

# Cambridge Cognition Holdings plc

## Notes to the Parent Company financial statements

### 2. Investments

	<b>Investment in Subsidiaries £'000</b>
<b>Cost</b>	
At 1 January 2018	351
Additions	24
At 31 December 2018	<u>375</u>
<b>Provisions for impairment</b>	
At 31 December 2017 and At 31 December 2018	<u>-</u>
<b>Net Book value</b>	
At 31 December 2018	<u>375</u>
At 31 December 2017	<u>351</u>

The subsidiary undertaking at the end of the year was as follows:

<b>Name</b>	<b>Country of Operation</b>	<b>Proportion of Ownership and Voting Power Held</b>	<b>Nature of Business</b>
Cambridge Cognition Limited	United Kingdom	100%	Development and sale of computerised neuropsychological tests

Other Group subsidiaries, all of which are owned indirectly through Cambridge Cognition Limited are detailed in note 14 of the Group accounts. All subsidiaries have been included in the consolidated accounts.

### 3. Trade and other receivables

	<b>2018 £'000</b>	<b>2017 £'000</b>
Amounts due from subsidiary undertakings	5,568	5,103
Other receivables	19	14
	<u>5,587</u>	<u>5,117</u>

£5,100,000 of the amounts due from subsidiary undertakings is considered a long term loan to Cambridge Cognition Limited, and the Company receives interest at a rate of 7.5% per annum on this amount. The remaining balance is of an operating nature and is cleared regularly.

### 4. Trade and other payables

	<b>2018 £'000</b>	<b>2017 £'000</b>
Trade payables	28	27
Social security and other taxes	10	13
Accruals	23	22
	<u>61</u>	<u>62</u>

### 5. Share capital

The details on the share capital of the Company are provided at note 19 to the Group's accounts.

### 6. Employment costs

The only employees of the Company are the Directors. Payments in respect of each director are set out in the Remuneration Report. The audited section of that Report forms part of the financial statements.