20 September 2018

Cambridge Cognition Holdings plc
("Cambridge Cognition" or the "Company")

Half Yearly Report

The neuroscience technology company Cambridge Cognition Holdings plc (AIM: COG), which develops and markets digital solutions to assess brain health, announces its unaudited Interim Results for the six months ended 30 June 2018.

Strong sales performance and order pipeline entering second half

An encouraging first half performance with 13% like for like sales growth provides evidence that the investment made in the commercial operation is beginning to reap rewards.

Financial & Operational Highlights

- Like for like revenue +13% to £3.63m (H1 2017: £3.21m)
- Major contract win delivered in March 2018
- Ratio of Orders received to Revenue of 1.77
- Like for like loss before tax of £0.22m (H1 2017: £0.39m loss)
- Sales orders more than doubled to £4.87m (H1 2017: £2.13m)
    - NeuroVocalix voice platform generating revenue with pharmaceutical partners
    - Wearable technology increased +356% to £0.70m
    - CANTAB Recruit increased by +335% to £0.39m

Financial results under new accounting standard IFRS 15 (see note 3 to interim financial statement)

- Reported revenue of £2.75m
- Reported loss before tax of £1.02m
- Loss per share of 5.0p

Commenting on the results Steven Powell, Chief Executive Officer of Cambridge Cognition, said:
"The first half has been characterised by the Company delivering against its promised strategy as evidenced by a strong sales performance. Our continued investment in R&D means that we remain at the forefront of innovation in digital health and neuroscience and have created platforms for further, future commercial growth."

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The information communicated in this announcement contains inside information for the purposes of Article 7 of the Market Abuse Regulation (EU) No. 596/2014.

CHIEF EXECUTIVE OFFICER'S REVIEW

The first half of 2018 has seen continued investment in both commercial growth and technology development. This investment has been rewarded with an increase in sales orders to £4.87m, an increase of £2.74m, or 128.6%, on the first half of 2017. This growth in sales orders includes, but is certainly not limited to, the major contract win previously announced in March 2018.

Whilst the number of sales orders grew 6.0% in comparison to H1 2017, the average value of sales orders almost doubled. This clearly shows that whilst our sales reach is expanding, we are also adding more services and executing more value-added activities and so achieving greater value from our sales orders.

Revenue on a like for like basis has seen an increase of 13.1%, with a strong increase in software revenues resulting from the excellent sales orders number. Services revenues are lower than the comparative period, but we are confident that with the increased order book created by the improved sales performance this trend will be reversed in H2 2018.

Sales orders arising from products launched in 2016 and 2017 have increased. In particular, growth in bespoke services has been driven by £0.65m of sales orders in relation to digital health. This demonstrates that our focus in this area is justified and shows promise that this area can act as a driver of future revenues for the Company.

The continued development of our technology base, including wearable technology and enhanced functionality and utility of our core products, has driven an increase in R&D costs from £0.56m in H1 2017 to £0.86m in H1 2018. Our work in this area continues to be supported by both grant funding and commercial partners. R&D investment has driven our voice technology to the point of commercialisation and given rise to new intellectual property in the field of digital phenotyping. Significantly, and in the short term, the expansion of the Company's technology platforms, has established the business as a leading innovator and therefore served to attract an increasing number of commercial partnerships.

Financial Highlights

The increase in sales orders over last year resulted in a like for like revenue of £3.63m, up 13% on H1 2017. In prior years, the Company had adopted IAS 18 as the basis for recognising revenue, where software was recognised on contract signature. As a result, in the past there was a stronger correlation between sales orders and revenue recognition.

However, as of 1 January 2018, the Company has adopted the new revenue standard, IFRS 15. Under IFRS 15, the majority of software revenue must be recognised as the software is used. Usage is dependent on many factors, the majority of which are not in our control. Furthermore, given the transition rules of IFRS 15 applied by the Company, the 2018 results are measured under an IFRS 15 basis while being presented alongside the 2017 results, which continue to be presented under an IAS 18 basis. Note 3 to the interim financial statements sets out these changes in more detail and gives more comparative information.

The timing of the introduction of IFRS15, effective 1 January 2018, coincided with the end of a period of lower than average order intake making the presentation of our accounts this year more challenging than they might otherwise have been.

In 2017, when the Company was still reporting under IAS 18, we reported that two significant orders had been delayed to 2018 and as such our order intake for 2017 was £5.10m (2016: £7.08m). Our revenues at both the half year and the full year in 2017 were broadly in line with the previous year. The delay in these two orders not only affected our 2017 results but in converting to the new standard, the opening deferred revenue which would prove a major driver in our H1 2018 revenue, was also low.

In the first half of 2018 we booked orders of £4.87m (2017: £2.74m). The larger of the two deferred contracts was received in this period albeit too late to have an impact on revenue as we no longer recognise the software element up front as we did under the previous standard. Consequently, despite the increased orders, revenues under IFRS 15 have fallen to £2.75m in 2018 due to the lower order intake in 2017. The reduction compared to the IAS 18 result is a direct consequence of the lower 2017 sales order intake of £5.10m when compared with both 2016 and 2018.

Reported group revenues for H1 2018 and H1 2017 are therefore as follows:

(Newly adopted) IFRS 15 Basis	H1 2018 (IFRS 15) £m	H1 2017 (IAS 18) £m	Change £m	Change %
Software	1.45	1.36	0.09	6.6
Services	1.27	1.78	(0.51)	(28.7)
Total Software & Services	2.72	3.14	(0.42)	(13.4)
Hardware	0.03	0.07	(0.04)	(57.1)
Total Group Revenues	**2.75**	**3.21**	**(0.46)**	**(14.3)**

On an IAS 18 basis, revenues are as below. Only software revenue recognition is changed when moving from IAS 18 to IFRS 15; service and hardware revenue recognition has not changed.

IAS 18 Basis	H1 2018 (IAS 18) £m	H1 2017 (IAS 18) £m	Change £m	Change %
Software	2.33	1.36	0.97	71.3
Services	1.27	1.78	(0.51)	(28.7)
Total Software & Services	**3.60**	**3.14**	**0.46**	**14.6**
Hardware	0.03	0.07	(0.04)	(57.1)
Total Group Revenues	**3.63**	**3.21**	**0.42**	**13.1**

As noted above, on a like for like basis the increase in sales orders drives an increase in software revenues of £0.97m and 71.3%, however this is not repeated on an IFRS 15 basis. On an IFRS 15 basis software revenue for the period is £1.45m, which is nonetheless 6.6% ahead of last year's reported figure.

Services revenues have declined £0.51m, 28.7%, compared to H1 2017. This decline is in our core areas of study and data management and is a direct consequence of the dip in orders last year. This decline will be reversed over the coming 12 months on the back of the recent order intake.

Hardware revenues continue to be a small part of our business, though we remain equipped and responsive to any requirements our customers may have for hardware.

Cost of sales increased £0.06m to £0.37m (H1 2017: £0.31m). This results in a reported gross margin of 86.5%, and a gross margin on a like for like basis of 87.4%. H1 2017 gross margin was 90.4%. The reduction in gross margin is due to an increase in commission charges. Commissions have increased due to the increased value of sales orders as noted.

Total administrative costs for the period (incorporating sales and marketing, clinical operations, R&D and general administration) increased by £0.12m (3.6%) to £3.42m (H1 2017 £3.31m). This increase is driven by a 52.1% increase in R&D costs, continuing the increased investment seen in the second half of 2017. After periods of investment in 2016 and 2017, our sales and marketing spend has decreased by 21%, reflecting a stabilised position and a move away from bonus-based incentives to commission based incentives. There has also been some investment in our operational capacity and expertise, as we continue to deliver higher value products and services. This has been mitigated by a reduction in other costs. Our share-based payments credit arises due to a revision in management assumptions on the vesting position of certain awards. We remain committed to incentivise staff through share option awards.

Reported EBITDA (under IFRS 15) was a loss of £0.99m (H1 2017: £0.35m loss). Losses before tax were

£1.02m (H1 2017: £0.39m loss). On a like for like basis, EBITDA was a loss of £0.20m and losses before tax were £0.23m, showing a like for like improvement in bottom line results. The reported loss per share is 5.0p (H1 2016: 1.8p loss).

Net cash outflow from operations during the period was £0.95m, an increase from the outflow of £0.55m for the first half of the prior year. The net cash outflow is broadly in line with the IFRS 15 loss, with a working capital movement of £0.14m outflow. A combination of the lower level of orders received last year and the invoicing profile of the larger contracts received in H1 2018 combined to suppress the H1 2018 closing balance. The Company expects the cash outflow to be reversed in the second half on the back of the strong order intake. The net cash balance at 30 June 2018 was £0.88m (as at 31 December 2017: £1.86m; 30 June 2016 £1.82m), a decrease of £1.02m in the period.

On the balance sheet, current liabilities have increased by £2.08m. This is driven by an increase in deferred revenue of £1.94m. This arises both due to the IAS 18 to IFRS 15 transitional adjustment booked on 1 January 2018, but also due to the ongoing treatment of software revenues in accordance with IFRS 15. The adjustment booked on 1 January 2018 has been booked to retained earnings as mandated by IFRS 15. The adjustment in deferred revenue was £2.01m, with a small asset of £0.05m booked for deferred commissions.

Otherwise the balance sheet remains healthy with a strong receivables balance and no external debt. The Company believes the balance sheet gives the Company the resources it needs to continue executing on its goals.

Operational highlights

The strong half for sales orders has resulted in an increase in the value of contracted revenues yet to be recognised to £5.95m at 30 June 2018. This compares to £4.01m at 1 January 2018, an increase of £1.94m and 48.4% (both numbers on an IFRS 15 basis).

The Company also demonstrated a ratio of Orders received to Revenue in H1 2018 of 1.77. Given the increased disconnect between sales orders taken and revenue recognised brought about by IFRS 15, performance indicators such as sales orders taken and the ratio of orders to revenue take on increased importance going forwards.

New products launched in 2016 and 2017 are now showing excellent sales results. Sales orders for CANTAB Recruit increased by 335% to £0.39m in H1 2018 compared with H1 2017. As announced in April 2018, our Recruit offering is now established in two major Phase III trials. We are pleased with this growth and we expect more growth from this product family, which has the potential to translate from project to annuity revenue.

Sales orders for bespoke products, including wearable technology have increased 356% to £0.70m. This growth has been driven by significant wins in the digital health space. Whilst one particular contract win was announced in May 2018, further wins in this space have continued to drive progress in this area and all have the potential to lead to recurring license revenue over time.

R&D investment in 2016 and early 2017 expanded our core range of products through innovations such as CANTAB Recruit and Cognition Kit. From 2017 onwards, we have been expanding and improving the functionality and utility of our core products to allow for their use across a greater range of needs, for example a wider range of clinical outcome measures. Following on from CANTAB Prime, this expansion in utility will allow us to serve a wider range of customers with a wider range of products and services for any one project.

We have also commenced various projects to utilise our expertise and technology in the mental health arena. Research partnerships with universities and commercial partnerships have commenced and we look forward to the results. We also announced in June CANTAB BrainHealth, a new product to assess mental health and wellbeing, will be launched in corporate health markets later this year.

Our innovation projects concerning voice recognition technology and novel digital biomarkers continue apace. Our voice platform, now branded as NeuroVocalix, has progressed rapidly. The first tests on this platform have been translated into product and we have signed our first revenue generating collaborations with pharmaceutical partners to begin to pilot the technology in neurological and psychiatric clinical trials.

The digital phenotyping programme, using cognitive testing to match responsive sub-populations of patients with specific drugs, has progressed rapidly through the first half of 2018. A new cognitive test has been identified to serve as a digital biomarker in schizophrenia and new intellectual property has been generated. We expect this work to translate into a proof of concept study in 2019, which will be significant in demonstrating utility of this approach and adding enormous value to this programme.

The activities undertaken this year have built a foundation comprising three key business drivers, outlined below; that we believe will take the business into a new, larger growth phase.

- Electronic Cognitive Outcome Assessments ("eCogOA"). This is an expansion to our core business made possible by the core platform enhancements referred to above. This will allow our software to be used for a broader range of outcomes and widen our offering to both existing and new customers and has been driven by our customers requiring incorporation of multiple trial outcome assessments onto a single platform such as Connect. We believe that this move will more than double our current addressable market size in pharmaceutical clinical trials.

- Near-Patient Digital Health. We will continue our focus on near-patient technologies, including wearable, mobile and AI technologies and our new CANTAB BrainHealth product. These innovations enable frequent, objective and remote assessment of cognition to improve frequency of data collection and patient engagement, identifying risks to brain health early in order to allow health providers to intervene and prevent decline. Overall, we believe these technologies will both improve patient health and reduce the burden on global health services and generate recurrent revenues from channel partner agreements.

- Digital Phenotyping. We will continue our innovative development work on digital phenotyping, utilising our proprietary cognitive assessments to identify sub-groups within patient populations, matching them with personalised interventions to enhance treatment efficacy and health outcomes.

Overall, our ambitions to enable our customers to assess cognition anytime and anywhere, in a continuous and effortless way to improve global brain health underpins our future plans and strategies.

Outlook

A strong sales performance in H1 2018 with a strong sales order pipeline means that we are well placed for the remainder of the year. Our progress on innovative programmes, both within our own products and in the wider field of neuroscience, continues to excite our partners and customers. This is helping to establish Cambridge Cognition as a 'go to' partner for neuroscience measurement technology. In an industry that continues to look for and embrace technological advances, we approach the future with confidence for both the scientific and commercial results to come.

CONDENSED CONSOLIDATED COMPREHENSIVE INCOME STATEMENT
For the six months ended 30 June 2018

	Note	6 months to 30 June 2018	6 months to 30 June 2017	Year to 31 December 2017
		Unaudited	Unaudited	Audited
		£'000	**£'000**	**£'000**
Revenue	5	**2,753**	3,209	6,730
Cost of sales		**(371)**	(308)	(622)
Gross Profit		**2,382**	2,901	6,108
Administrative expenses		**(3,424)**	(3,307)	(6,485)
Other income		**23**	20	93
(Loss) before tax		**(1,019)**	(386)	(284)
Income tax		**(11)**	(3)	6
(Loss) for the period		**(1,030)**	**(389)**	**(278)**
Attributable to:				
Equity holders in the parent		**(1,030)**	(368)	(257)
Non-controlling interest		**-**	(21)	(21)
		(1,030)	**(389)**	**(278)**
Earnings per share (pence)	6			
Basic and diluted		**(5.0)**	(1.8)	(1.3)
(Loss) for the period		**(1,030)**	**(389)**	**(278)**
Other comprehensive income - items that may be reclassified subsequently to profit or loss				
Exchange differences on translation of foreign operations		(34)	24	38
Total comprehensive income for the period		**(1,064)**	**(365)**	**(240)**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 30 June 2018

	At 30 June 2018 Unaudited £'000	At 30 June 2017 Unaudited £'000	At 31 December 2017 Audited £'000
Assets			
Non-current assets			
Goodwill	**352**	352	352
Property, plant and equipment	**85**	109	88
Total non-current assets	**437**	461	440
Current assets			
Inventories	**34**	40	33
Trade and other receivables	**2,305**	2,003	2,246
Cash and cash equivalents	**879**	1,823	1,859
Total current assets	**3,218**	3,866	4,138
Total assets	**3,655**	**4,327**	**4,578**
Liabilities			
Current liabilities			
Trade and other payables	**3,782**	1,700	1,547
Total liabilities	**3,782**	**1,700**	**1,547**
Equity			
Share capital	**207**	205	207
Share premium account	**7,707**	7,552	7,707
Other reserves	**5,989**	6,009	6,023
Own shares	**(91)**	(45)	(43)
Retained earnings	**(13,939)**	(11,094)	(10,863)
Total equity	**(127)**	**2,627**	**3,031**
Total liabilities and equity	**3,655**	**4,327**	**4,578**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Other reserve	Own shares	Retained earnings	Non-controlling Interest	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2017	**204**	**7,517**	**5,985**	**(47)**	**(10,748)**	**(50)**	**2,861**
(Loss) for the period	-	-	-	-	(368)	(21)	(389)
Other comprehensive income	-	-	24	-	-	-	24
Total comprehensive income for the period	-	-	24	-	(368)	(21)	(365)
Issue of new share capital	1	35	-	-	-	-	36
Transfer on allocation of shares in trust	-	-	-	2	(2)	-	-
Credit to equity for share based payments	-	-	-	-	95	-	95
Transactions with owners	1	35	-	2	93	-	131
Transfer of accumulated loss on acquisition of non-controlling interest	-	-	-	-	(71)	71	-
Balance at 30 June 2017	**205**	**7,552**	**6,009**	**(45)**	**(11,094)**	**-**	**2,627**
Balance at 1 July 2017	**205**	**7,552**	**6,009**	**(45)**	**(11,094)**	**-**	**2,627**
Profit for the period	-	-	-	-	111	-	111
Other comprehensive income	-	-	14	-	-	-	14
Total comprehensive income for the period	-	-	14	-	111	-	125
Issue of new share capital	2	155	-	-	-	-	157
Transfer on allocation of shares in trust	-	-	-	2	(2)	-	-
Credit to equity for share based payments	-	-	-	-	122	-	122
Transactions with owners	2	155	-	2	120	-	279
Balance at 31 December 2017	**207**	**7,707**	**6,023**	**(43)**	**(10,863)**	**-**	**3,031**
Balance at 1 January 2018	**207**	**7,707**	**6,023**	**(43)**	**(10,863)**	**-**	**3,031**
(Loss) for the period	-	-	-	-	(1,030)	-	(1,030)
Other comprehensive income	-	-	(34)	-	-	-	(34)
Total comprehensive income for the period	-	-	(34)	-	(1,030)	-	(1,064)
Own shares acquired	-	-	-	(48)	-	-	(48)
Debit to equity for share based payments	-	-	-	-	(89)	-	(89)
Transactions with owners	-	-	-	(48)	(89)	-	(137)
Impact of adopting IFRS 15	-	-	-	-	(1,957)	-	(1,957)
Balance at 30 June 2018	**207**	**7,707**	**5,989**	**(91)**	**(13,939)**	**-**	**(127)**

CONSOLIDATED STATEMENT OF CASH FLOWS
For the 6 months ended 30 June 2018

	Note	6 months to 30 June 2018	6 months to 30 June 2017	Year to 31 December 2017
		Unaudited	Unaudited	Audited
		£'000	£'000	£'000
Net cash flows from operating activities	7	**(950)**	(547)	(624)
Investing activities				
Purchase of property, plant and equipment		**(25)**	(29)	(48)
Net cash flow used in investing activities		**(25)**	(29)	(48)
Financing activities				
Proceeds from the issue of share capital net of costs		**-**	36	193
Purchase of own shares		**(48)**	-	-
Net cash flows from financing activities		**(48)**	36	193
Net (decrease)/ increase in cash and cash equivalents		**(1,023)**	(540)	(479)
Cash and cash equivalents at start of period		**1,859**	2,384	2,384
Exchange differences on cash and cash equivalents		**43**	(21)	(46)
Cash and cash equivalents at end of period		**879**	1,823	1,859

NOTES TO THE INTERIM FINANCIAL STATEMENT

1. General information

Cambridge Cognition Holdings plc ('the Company') and its subsidiaries (together, 'the Group') develops and markets digital solutions to assess brain health for sale worldwide, principally in the UK, the US and Europe.

The Company is a public limited company listed on the Alternative Investment Market ('AIM') 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.

The condensed consolidated interim financial statements were approved by the Board of Directors for issue on 18 September 2018.

The condensed consolidated interim financial statements do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006.

Statutory accounts of the Group for the year ended 31 December 2017 were approved by the Board of Directors on 28 March 2018 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006.

The condensed consolidated interim financial statements together with the comparative information for the six months ended 30 June 2017 have been reviewed, not audited.

2. Basis of preparation

Going concern basis

The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, support the conclusion that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, a period of not less than twelve months from the date of this report. The Group therefore continues to adopt the going concern basis in preparing its condensed consolidated interim financial statements.

3. Accounting policies

The accounting policies adopted in the preparation of the condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's consolidated financial statements for the year ended 31 December 2017, other than as described below.

IFRS 15: Revenues from contracts with customers 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 (both for the six months to 30 June and the full year) as presented in these financial statements are presented under IAS 18: Revenues.

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 case, the customer purchases a right to use our intellectual property as it exists during the licence period, and our performance obligation is therefore executed over a period of time.

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 on sales where the related revenues is not expected to be recognised in the same accounting period, the commission is capitalised and held as an asset on the balance sheet, before being amortised in line with the related revenue.

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 retained earnings.

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 retained earnings 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 for 31 December 2017 (£'000)**	**As revised on 1 January 2018 (£'000)**	**Difference (£'000)**
Trade and other receivables	2,246	2,296	50
Total assets	***4,578***	***4,628***	***50***
Trade and other payables and total liabilities	*1,547*	*3,554*	*2,007*
Retained earnings	(10,863)	(12,820)	(1,957)
Total equity	*3,031*	*1,074*	*(1,957)*
Total liabilities and equity	***4,578***	***4,628***	***50***

As explained above, the comparative financial results are presented under IAS 18. For information, the summary below shows management's estimate of key results had IAS 18 still applied in 2018

	Period to 30 June 2018 – as reported under IFRS 15 (£'000)	**Period to 30 June 2018 – revised for IAS 18 (£'000)**
Revenue	2,753	3,630
Cost of sales	(371)	(455)
Gross profit	2,382	3,175
(Loss)/ profit before tax	(1,019)	(226)
(Loss)/ profit for the year	(1,030)	(237)

Further, the summary below shows management's estimate of key results had IFRS 15 been applied to prior periods.

	Period to 30 June 2017 – as reported under IAS 18 (£'000)	**Period to 30 June 2017 – revised for IFRS 15 (£'000)**	**Year to 31 December 2017 – as reported under IAS 18 (£'000)**	**Year to 31 December 2017 – revised for IFRS 15 (£'000)**
Revenue	3,209	3,618	6,730	6,896
Cost of sales	(308)	(316)	(622)	(636)
Gross profit	2,901	3,302	6,108	6,260
(Loss)/ profit before tax	(386)	269	(284)	(132)
(Loss)/ profit for the year	(389)	275	(278)	(126)

IFRS 9: Financial instruments also became effective for the Group on 1 January 2018. Management has reviewed the impact of consideration of the expected lifetime credit losses on its trade debtors' balance and the impact is immaterial to the financial statements.

Further, *IFRS 16: Leases* is not yet effective, but will apply 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. The exact values will depend on the length and cost of leases contracted at the time. The only operating leases presently held by the Group relate to its office properties in the UK.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies 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.

The following are the critical judgements that the directors have made in the process of applying the Group's accounting policies.

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.

Capitalisation of development costs
The point at which development costs meet the criteria for capitalisation is critically dependent on management judgment of the probability of future economic benefits.

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. 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.

5. Segmental information

The analysis of revenue by product type is as follows:

	6 months to 30 June 2018	**6 months to 30 June 2017**	**Year to 31 December 2017**
	£'000	**£'000**	**£'000**
Software	**1,450**	1,357	3,322
Services	**1,271**	1,787	3,302
Hardware	**32**	65	106
	2,753	3,209	6,730

6. Earnings per share

Calculation of loss per share is based on the following loss and numbers of shares:

	6 months to 30 June 2018 £'000	6 months to 30 June 2017 £'000	Year to 31 December 2017 £'000
Earnings			
Earnings for the purposes of basic and diluted earnings per share being net loss attributable to owners of the Company	**(1,030)**	**(368)**	(257)

	'000	'000	'000
Number of shares			
Weighted average number of ordinary shares for the purposes of basic EPS	**20,558**	**20,154**	20,398
Weighted average number of ordinary shares for the purposes of diluted EPS	**20,558**	**20,154**	20,398

The basic weighted average number of shares excludes shares held by an Employee Benefit Trust. Fully diluted earnings per share is calculated after showing the effect of outstanding options in issue. For all of the periods presented, the effect of the options would be to reduce the loss per share, and hence the diluted loss per share is the same as the basic loss per share.

The number of shares in issue at 30 June 2018 was 20,697,890 (31 December 2017: 20,697,890).

7. Reconciliation of operating result to operating cash flows

	6 months to 30 June 2018 £'000	6 months to 30 June 2017 £'000	Year to 31 December 2017 £'000
(Loss) before tax	**(1,019)**	(386)	(284)
Adjustments for:			
Depreciation	**28**	36	77
Share-based payments (credit)/ charge	**(89)**	95	217
Operating cash flows before working capital movements	**(1,080)**	(255)	10
Change in inventories	**-**	(2)	4
Change in trade and other receivables	**(26)**	180	(52)
Change in trade and other payables	**167**	(467)	(592)
Cash (used) by operations	**(939)**	(544)	(630)
Taxation (paid)/ received	**(11)**	(3)	6
Net cash flows from operations	**(950)**	(547)	(624)

The total adjustments of £1,957,000 made as a result of the introduction of IFRS 15 (see note 3) are a non-cash item and accordingly excluded from this reconciliation.

8. Copies of interim financial statements

Copies of the interim financial statements are available from the Company at its registered office at Tunbridge Court, Tunbridge Lane, Bottisham, Cambridge, CB25 9TU. The interim financial information document will also be available on the Company's website www.cambridgecognition.com.