

**Cubo Communications Group Plc**

**Annual Report**

**Year ended 31 December 2013**

**Company Registration Number 05433076 (England and Wales)**

# **CUBO COMMUNICATIONS GROUP Plc**

**Annual Report for the year ended 31 December 2013**

## **Company Information**

<b>Directors</b>	Andrew Harris (non-executive Chairman) Kerry Simpson (Chief Executive Officer) Ian Mansel-Thomas (Group Chief Financial Officer)
<b>Secretary</b>	Ian Mansel-Thomas
<b>Company number</b>	05433076
<b>Registered office</b>	Holden House 57 Rathbone Place London W1T 1JU
<b>Bankers</b>	Coutts & Co 440 Strand London WC2R 0QS
<b>Auditors</b>	Kingston Smith LLP 141 Wardour Street London W1F 0UT

# CUBO COMMUNICATIONS GROUP Plc

## Annual Report for the year ended 31 December 2013

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# **CUBO COMMUNICATIONS GROUP Plc**

## **Annual Report for the year ended 31 December 2013**

### **Board of Directors**

#### **Andrew Harris**

##### **Non-Executive Chairman**

Andrew was appointed to the board of the Company on 11 September 2009.

Andrew has more than 20 years' experience in the marketing industry. He qualified as a Chartered Accountant with Ernst and Whinney, and subsequently worked in the oil, publishing and software industries. Andrew joined Evans Hunt Scott in its formative years, an agency of some 40 people, as its first finance director. He left 17 years later in 2005 as Chief Executive of a top 5 UK marketing services group with turnover in excess of £100m and over 350 staff. In this period Andrew gained experience in acquisitions, mergers, divestments, restructures, rationalisations and operational initiatives to improve market position and profitability. Andrew is now an independent consultant providing commercial and management advice.

#### **Kerry Simpson**

##### **Chief Executive Officer**

Kerry joined the Group as Managing Director of Cubo Brand Communications Limited when it was acquired by the Company on 13 February 2006, and was appointed to the board of the Company on 2 July 2008.

Kerry has been involved in the marketing communications industry for 29 years and, with Chris Walmsley, was a co-founder of Cubo. Kerry's career has included positions at CPM Field Marketing, Cerca Marketing (the promotional marketing division of Ted Bates) and LGM Marketing, working on integrated campaigns for major international brands.

Kerry holds 31,806,742 ordinary shares in the Company, comprising, at the balance sheet date, 17.2% of its issued share capital.

#### **Ian Mansel-Thomas**

##### **Group Chief Financial Officer**

Ian joined the Group as Chief Financial Officer on 28 February 2011.

Ian has 17 years' experience in the media and marketing industries, before joining the Group spending 8 years as Director of Operations and Finance at Nexus Productions, one of the UK's leading commercials production companies. An integral part of the senior management team at Nexus, Ian was responsible for the full financial and commercial function of the company as it grew from a turnover of £2m to over £9m. His wide commercial experience includes setting up international subsidiaries and joint ventures, group consolidations, domestic and international business affairs negotiation with agencies and brands, copyright, trade mark and intellectual property litigation, HR and IT strategy, international treasury policy and process and change management.

# **CUBO COMMUNICATIONS GROUP Plc**

## **Annual Report for the year ended 31 December 2013**

### **Strategic Report**

#### **Business review**

2013 was a challenging year. A number of clients reduced their marketing spend through the Group significantly and we lost two accounts which had been sizeable for us in 2012. Conversely, we had a strong year in attracting new clients, although this was not sufficient to offset the attrition of existing clients. As a result, income and operating profit fell.

However, through the year we made significant progress in reshaping the businesses in the Group to put us in a position to continue to win new clients. We feel that we are now able to service both new and existing clients in a more effective and profitable way, and enter 2014 with some confidence, backed up by some promising new business wins.

#### **Key performance indicators**

Group management monitors three primary KPIs – (i) operating margin; (ii) staff costs as a percentage of gross profit; and (iii) gross profit per head. Each of these KPIs can vary significantly from business to business.

Operating margin is calculated as operating profit divided by gross profit. Achieving a margin of 15% is considered a strong performance in our sector, a target which many agencies and groups find difficult to hit. There is undoubtedly a continued trend for increasing client pressure on margin. This, coupled with the reduction in income, has meant neither the trading part of the parent company nor The Media Foundry achieved an operating margin of 15% in 2013.

Staff costs as a percentage of gross profit is particularly important in the marketing services industry, where people are the main cost to the business, and therefore one of the main factors in determining operating margin. We would like our businesses to achieve a figure of 60% for this KPI. This has proven to be a challenging target, as salary levels in the industry have undoubtedly pushed ahead in the last year. In light of this, we have had to ensure our key talent stays with us and have rewarded a small number of key team members in the year. We have also continued to invest in certain areas to strengthen our offering. We have recruited into a number of roles in our planning, strategy and creative functions, which has already borne fruit in securing a number of new client accounts. While our staff cost ratio sits above our 60% target, we continue to closely monitor our staffing levels to ensure they are commensurate with income.

Gross profit per head gives us a measure of productivity. An efficient business in our sector should be generating a gross profit of between £80,000 and £120,000 per head. 2013 saw this figure drop just below £80,000 for the Group.

#### **Risks and uncertainties**

It is a risk throughout the marketing services industry that existing clients might reduce expenditure or find alternative agencies. The Group seeks to find a way to measure the extent of this risk and our approach is to measure and monitor how much of the year's gross profit is genuinely secure – barring client default or liquidation. This secure income is the total of gross profit already earned, plus retainer fees covered by contractual notice periods. This is monitored on a monthly basis. Of the current forecast gross profit for 2014, it is estimated that at the end of April approximately 67% was secure on the above basis. This is encouraging given we are only a third of the way through the year.

**Approved by the Board of Directors  
and signed on behalf of the Board  
by Kerry Simpson**

# CUBO COMMUNICATIONS GROUP Plc

## Annual Report for the year ended 31 December 2013

### Directors' Report

The Directors present their report and financial statements of Cubo Communications Group Plc (the "Company") and its subsidiary undertakings (the "Group") for the year ended 31 December 2013.

The Group has continued to be debt-free, and in 2013 achieved an operating profit of £159,000 (2012 - £570,000). At 31 December 2013 the Group had net current assets of £1.732 million and net assets of £4.329 million.

#### Principal activities and business review

The principal activity of the Group during the year was the provision of marketing services; comprising advertising, promotional marketing and public relations.

The principal activities of the Company are that of a holding company and the provision of advertising and promotional marketing.

#### Results and dividends

The audited financial statements for the year ended 31 December 2013 are set out on pages 10 to 25.

The Directors have not recommended a dividend payment for the year.

The Company has taken advantage of Section 408 of the Companies Act 2006 and consequently a profit and loss account for the Company alone is not presented.

#### Directors and their interests

The directors who served the Company during the year together with their interests (including family interests) in the shares of the Company at the beginning and end of the year were as follows:

	Ordinary Shares of 1p each	
	31 December 2013	1 January 2013
Andrew Harris	nil	nil
Kerry Simpson	31,806,742	31,806,742
Ian Mansel-Thomas	nil	nil

#### Subsidiary undertakings

At 31 December 2013, no director of the Company held shares or debentures in any of the Group's subsidiary undertakings.

#### Employment policy

It is the Group's policy to employ individuals with the necessary qualifications and experience without regard to sex, sexual orientation, marital status, race, belief, colour, age, nationality or religion. Full and fair consideration is given to applications for employment made by disabled persons.

The Group recognises the great importance of the contributions made by all employees and aims to keep them informed on matters affecting them as employees and on developments within the Group. Communication and consultation is achieved by a variety of means, both within individual operating companies and on a group-wide basis.

#### Creditor payment policy

The Group makes purchases from suppliers according to the terms and conditions agreed in advance between the two parties. Payments are made to suppliers when the goods or services have been received and the terms and conditions of the agreement have been met. On average the Group took 29 days to pay its creditors.

#### Environmental policy

The Group takes its environmental responsibilities seriously with policies and initiatives in place covering recycling and the minimisation of its carbon footprint.

# **CUBO COMMUNICATIONS GROUP Plc**

## **Annual Report for the year ended 31 December 2013**

### **Directors' Report**

#### **Auditors**

Kingston Smith LLP have indicated their willingness to continue in office and in accordance with the provisions of the Companies Act 2006 it is proposed that they be re-appointed auditors for the ensuing year.

#### **Statement of Directors' Responsibilities**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards.

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group, and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting policies have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records that 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.

#### **Statement of Disclosure to Auditors**

In so far as the directors are aware:

- there is no relevant audit information of which the Group's auditors are unaware; and
- the directors have taken all steps that they ought to have taken in order to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

**Approved by the Board of Directors  
and signed on behalf of the Board  
by Kerry Simpson**

# **CUBO COMMUNICATIONS GROUP Plc**

## **Annual Report for the year ended 31 December 2013**

### **Chief Executive's Statement**

#### **HIGHLIGHTS**

- 2013 operating profit £159,000, down from £570,000 in 2012.
- Operating profit margins fell significantly from 13.3% in 2012 to 4.3% in 2013.
- Balance sheet strengthened, with net current assets increased by £148,000 in the year.
- 9.667m shares purchased and cancelled during the year.

#### **REVIEW OF THE YEAR**

In a tough year for the Group we did nevertheless manage to post a modest profit, although margins continued to come under pressure.

Our track record in client retention is good. Nevertheless, it is a fact of agency life that clients do move their business for all sorts of reasons, not necessarily linked to quality of work or service. We experienced two such losses during the course of the year as significant accounts from 2012 stopped spending with us.

On the other hand we had a very respectable year in winning business from new clients, although the spend from these during the course of the year did not completely balance out the lost income.

The most desirable new client wins are obviously those which provide ongoing opportunities rather than one off projects. I am therefore pleased to report that we have had several successes of this nature during the latter part of 2013 and early 2014 which make me cautiously optimistic for the current year.

As ever, my sincere thanks go to my fellow board members and all the staff of the Cubo Group for their continued commitment to our business.

**Kerry Simpson**

Chief Executive Officer

16 May 2014

# CUBO COMMUNICATIONS GROUP Plc

## Annual Report for the year ended 31 December 2013

### Group Chief Financial Officer's Statement

#### RESULTS

For the year ended 31 December 2013 the Group generated an operating profit of £159,000 (2012 – £570,000) on gross profit of £3.7 million (2012 – £4.3 million).

The following table sets out the key movements between the two years.

	<b>Gross profit £000</b>	<b>Operating profit £000</b>
2012	4,281	570
Change in performance of continuing operations	(544)	(411)
2013	3,737	159

#### CURRENT AND NON-CURRENT LIABILITIES

The Group continues to be debt free.

#### STAFF NUMBERS

The average number of employees in 2013 decreased to 47, from 49 in 2012. At the end of April 2014, the number of employees was 43.

#### DIVIDENDS

The Directors have not recommended a dividend.

#### POST BALANCE SHEET EVENTS

There are no post balance sheet events to disclose.

**Ian Mansel-Thomas**

Group Chief Financial Officer

16 May 2014

# **CUBO COMMUNICATIONS GROUP Plc**

## **Annual Report for the year ended 31 December 2013**

### **INDEPENDENT AUDITORS REPORT TO THE MEMBERS OF CUBO COMMUNICATIONS GROUP Plc**

We have audited the financial statements of Cubo Communications Group Plc for the year ended 31 December 2013 which comprise the Group Statement of Comprehensive Income, the Group Statement of Financial Position, the Group Statement of Cash Flows, the Group Statement of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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 for no purpose other than to draw to the attention of the company's members those matters which we are required to include in an auditors' report addressed to them. To the fullest extent permitted by law, we do not accept or assume responsibility to any party other than the company and company's members as a body, for our work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement set out on page 5 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition we read all the financial and non-financial information in the Directors' report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### **Opinion on financial statements**

In our opinion the group financial statements:

- give a true and fair view of the state of the group's affairs as at 31 December 2013 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### **Opinion on other matters prescribed by the Companies Act 2006**

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the group financial statements are prepared is consistent with the group financial statements.

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

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

- 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.

#### **Other matters**

We have reported separately on the parent company financial statements of Cubo Communications Group Plc for the year ended 31 December 2013.

**Richard Heap (Senior Statutory Auditor)**  
for and on behalf of Kingston Smith LLP, Statutory Auditor

Date: .....  
141 Wardour Street  
London W1F 0UT

# CUBO COMMUNICATIONS GROUP Plc

Annual Report for the year ended 31 December 2013

## GROUP STATEMENT OF COMPREHENSIVE INCOME

	Note	2013 £000	2012 £000
<b>Revenue</b>	1, 3	<b>6,146</b>	7,790
Direct costs		<b>(2,409)</b>	(3,509)
<b>Gross profit</b>	3	<b>3,737</b>	4,281
Administrative expenses		<b>(3,578)</b>	(3,711)
<b>Operating profit</b>	4	<b>159</b>	570
Interest receivable		<b>6</b>	11
<b>Profit on ordinary activities before taxation</b>	3	<b>165</b>	581
Tax charge on profit or loss on ordinary activities	7	<b>(44)</b>	(91)
<b>Profit on ordinary activities after taxation</b>		<b>121</b>	490
Other comprehensive income		-	-
<b>Total comprehensive income</b>		<b>121</b>	490
<b>Earnings/(loss) per ordinary share from continuing and total operations:</b>			
Basic	8	<b>0.06p</b>	0.25p
Diluted	8	<b>0.04p</b>	0.17p

The accompanying accounting policies and notes form an integral part of these financial statements.

# CUBO COMMUNICATIONS GROUP Plc

Annual Report for the year ended 31 December 2013

## GROUP STATEMENT OF FINANCIAL POSITION

	Note	2013 £000	2012 as restated £000
<b>Non-current assets</b>			
Goodwill	9	2,542	2,542
Tangible assets	10	55	88
		<b>2,597</b>	<b>2,630</b>
<b>Current assets</b>			
Trade and other receivables	12	1,020	1,551
Cash at bank and in hand		2,069	1,746
		<b>3,089</b>	<b>3,297</b>
<b>Current liabilities</b>			
Trade and other payables	13	(1,313)	(1,577)
Current tax liabilities	7	(44)	(136)
		<b>(1,357)</b>	<b>(1,713)</b>
<b>Net current assets/(liabilities)</b>		<b>1,732</b>	<b>1,584</b>
<b>Total assets less current liabilities</b>		<b>4,329</b>	<b>4,214</b>
<b>Non-current liabilities:</b>			
Bank loans		-	-
<b>Total net assets</b>	3	<b>4,329</b>	<b>4,214</b>
<b>Capital and reserves</b>			
Called up share capital	19	1,849	1,946
Share option reserve		149	111
Capital redemption reserve		334	237
Merger reserve		(150)	(150)
Retained earnings		2,147	2,070
<b>Shareholders' funds</b>		<b>4,329</b>	<b>4,214</b>

Approved by the Board on 16 May 2014

**Ian Mansel-Thomas**

Group Chief Financial Officer

Company number 05433076

# CUBO COMMUNICATIONS GROUP Plc

Annual Report for the year ended 31 December 2013

## GROUP STATEMENT OF CASH FLOWS

	Note	2013 £000	2012 £000
<b>Cash flows from operating activities</b>			
Operating profit		159	570
Charge in respect of share option scheme	17	38	42
Depreciation charge	10	42	37
<hr/>			
Operating profit before working capital changes		239	649
Reduction/(increase) in trade and other receivables		531	(532)
(Reduction)/increase in trade and other payables		(264)	146
<hr/>			
<b>Net cash inflow from operating activities</b>		<b>506</b>	<b>263</b>
<b>Investing activities</b>			
Interest received		6	11
Purchases less disposals of property, plant and equipment		(9)	(48)
<hr/>			
<b>Net cash used in investing activities</b>		<b>(3)</b>	<b>(37)</b>
<b>Taxation</b>			
<hr/>			
<b>UK corporation tax (paid)/received</b>		<b>(136)</b>	<b>(71)</b>
<b>Financing activities</b>			
Repurchase of own shares		(44)	(12)
<hr/>			
<b>Net cash outflow from financing activities</b>		<b>(44)</b>	<b>(12)</b>
<hr/>			
Net change in cash and cash equivalents		323	143
Net cash and cash equivalents at beginning of year		1,746	1,603
<hr/>			
<b>Cash and cash equivalents at end of year</b>		<b>2,069</b>	<b>1,746</b>
<hr/>			
Analysed as:			
<hr/>			
<b>Cash at bank and in hand</b>		<b>2,069</b>	<b>1,746</b>
<hr/>			

# CUBO COMMUNICATIONS GROUP Plc

Annual Report for the year ended 31 December 2013

## GROUP STATEMENT OF CHANGES IN EQUITY

	Called up share capital £000	Share premium account £000	Share option reserve £000	Capital redemption reserve £000	Merger reserve £000	Profit and loss account £000	Total £000
At 1 January 2012	2,008	-	69	175	(150)	1,650	3,752
Impact of restatement (note 13)	-	-	-	-	-	(57)	(57)
At 1 January 2012 (as restated)	2,008	-	69	175	(150)	1,593	3,695
Retained profit for the year	-	-	-	-	-	490	490
Repurchase and cancellation of shares	(62)	-	-	62	-	(13)	(13)
Charge for share based payment	-	-	42	-	-	-	42
At 31 December 2012 (as restated)	1,946	-	111	237	(150)	2,070	4,214
Retained profit for the year	-	-	-	-	-	121	121
Repurchase and cancellation of shares	(97)	-	-	97	-	(44)	(44)
Charge for share based payment	-	-	38	-	-	-	38
<b>At 31 December 2013</b>	<b>1,849</b>	<b>-</b>	<b>149</b>	<b>334</b>	<b>(150)</b>	<b>2,147</b>	<b>4,329</b>

The merger reserve arose from the merger of the Company with Paul Simons & Partners Limited in 2006. Merger relief under Section 612 of the Companies Act 2006 was taken and the premium arising on the issue of these shares was disregarded as required by Sections 615 and 616 of the Companies Act 2006.

The cost for repurchase and cancellation of shares includes associated costs of stamp duty and filing fees.

# CUBO COMMUNICATIONS GROUP Plc

## Annual Report for the year ended 31 December 2013

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 1. Accounting policies

##### a) Statement of compliance

The consolidated financial statements have been prepared in accordance with IFRS and IFRIC interpretations for use in the European Union and issued by the International Accounting Standards Board.

##### b) Basis of preparation

The Group financial statements have been prepared in sterling, the functional currency and currency in which the majority of the Group's transactions are denominated, under the historical cost convention and in accordance with applicable International Financial Reporting Standards ("IFRS"). The principal accounting policies which have been consistently applied are described below.

The Directors have satisfied themselves that the Company will in due course be able to satisfy all its liabilities within its present banking facilities, and have therefore prepared the financial statements on the going concern basis.

##### c) Standards in effect in 2013 and IFRS in issue but not applied to the current financial statements

IFRS 13, Fair Value Measurement, has been applied for the first time in the current year. IFRS 13 provides a definition of fair value and sets out in a single IFRS a framework for measuring fair value. It also introduces new disclosure requirements. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions.

IFRS 13 requires prospective application for periods beginning on or after 1 January 2013. As such the requirements have not been applied for comparative periods. The application of IFRS 13 has not had any material impact on the amounts presented in the consolidated financial statements.

There were no other new standards, amendments and interpretations issued that would be expected to have a material effect on the group.

The following new and amended standards, and interpretations are mandatory for the first time for the financial year beginning 1 January 2013 but are not currently relevant to the group (although they may affect the accounting for future transactions and events):

- Amendment to IAS 19, 'Employee benefits', effective date 1 January 2013
- Annual improvements to IFRS (2009-2011) cycle, various effective dates.

The following IFRS and IFRIC Interpretations have been issued but have not been applied by the Group in preparing these financial statements as they are not as yet effective. The Group intends to adopt these Standards and Interpretations when they become effective, rather than adopt them early.

- IFRS 9, 'Financial instruments', effective date 1 January 2015
- IFRS 10, 'Consolidated financial statements', effective date 1 January 2014
- IFRS 11, 'Joint arrangements', effective date 1 January 2014
- IFRS 12, 'Disclosures of interests in other entities', effective date 1 January 2014
- IAS 27 (revised 2011), 'Separate financial statements', effective date 1 January 2014
- IAS 28 (revised 2011), 'Associates and joint ventures', effective date 1 January 2014

A number of IFRS and IFRIC interpretations are also currently in issue which are not relevant for the Group's activities and which have not therefore been adopted in preparing these financial statements.

# CUBO COMMUNICATIONS GROUP Plc

## Annual Report for the year ended 31 December 2013

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 1. Accounting policies (continued)

##### d) Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiaries for the year ended 31 December 2013. Control is achieved where the Group has the power to govern the financial and operating policies of an investee so as to obtain benefits from its activities.

On acquisition the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. a discount on acquisition) is credited to the profit or loss in the financial year in which the acquisition takes place.

The results of subsidiaries acquired during the year are included in the consolidated Statement of Comprehensive Income from the effective date of acquisition. Where necessary, adjustments are made to the financial statements of subsidiary undertakings to bring the accounting policies used in line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

##### e) Gross revenue recognition

Revenue is taken on fee income in the period to which it relates. Project income is recognised in the period in which the project is worked on. For projects which fall over the financial year end, income is recognised to reflect the partial performance of the contractual obligations in accordance with IAS 18.

Third party costs and the associated income relating to bought in costs directly rechargeable to clients are recognised in the period to which they relate.

##### f) Retirement benefit costs

The pension cost charge for the year represents contributions payable by the Company to the scheme. The Group continues to operate a stakeholder pension scheme for employees.

##### g) Taxation

The tax charge or credit represents the sum of current tax and deferred tax.

The current tax charge or credit is based on taxable profit or loss for the year. Taxable profit or loss differs from profit or loss on ordinary activities before taxation as reported in the Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years, and 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 balance sheet date.

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

# CUBO COMMUNICATIONS GROUP Plc

## Annual Report for the year ended 31 December 2013

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 1. Accounting policies (continued)

##### g) Taxation (continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, 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 balance sheet 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. Deferred tax is charged or credited in the profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

##### h) Goodwill

Goodwill arising from the purchase of subsidiary undertakings represents the difference between the purchase consideration and the fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary acquired, and is capitalised in accordance with the requirements of IFRS 3. Future anticipated payments to vendors in respect of earn-outs are based on the Directors' best estimates of these obligations. Earn-outs are dependent on the future performance of the relevant business and are reviewed annually. The deferred consideration is discounted to its fair value in accordance with IFRS 3 and IAS 37. The difference between the fair value of these liabilities and the actual amounts payable is charged to the profit and loss account as notional finance costs over the life of the associated liability.

Goodwill impairment is assessed in accordance with IAS 36. Impairment has taken place if the carrying amount of an asset is greater than its 'recoverable amount'. The recoverable amount of an asset is the higher of its 'fair value' (less the likely costs of disposal) and its 'value in use'. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Value in use is the discounted present value of the future cash flows expected to be derived from the asset. The discount rate used is the risk-free rate of interest adjusted to reflect the risk associated with the asset. This adjusted discount rate should reflect the return that an investor would require from an investment in such an asset. Impairment is recognised in the income statement and is not subsequently reversed.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

##### i) Operating leases

Rental costs under operating leases are charged to the profit or loss in equal annual amounts over the periods of the leases. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term or the period to the next review.

##### j) Plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any provision for impairment. Depreciation is provided on a straight-line basis over the estimated useful economic lives of assets at between 25% and 33% per annum.

Any gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the Statement of Comprehensive Income.

# CUBO COMMUNICATIONS GROUP Plc

## Annual Report for the year ended 31 December 2013

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 1. Accounting policies (continued)

##### k) Trade receivables

Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

##### l) Share-based payment

The Company grants options over its shares to certain directors and employees under the Company's Enterprise Management Incentive Plan. The value of these share-based payments is measured at the date of grant using the Black-Scholes pricing model, and is expensed on a straight-line basis over the vesting period. The options may be exercised through an Employee Benefit Trust.

	Number of shares	Weighted average exercise price
Share options as at 1 January 2013	82,333,332	0.45p
Option lapsed 16 August 2013	(9,000,000)	0.45p
Options granted 25 September 2013	9,000,000	0.45p
<b>Share options as at 31 December 2013</b>	<b>82,333,332</b>	<b>0.45p</b>

##### m) Segment reporting

In accordance with IFRS 8, segmental information is presented based on the way in which financial information is reported internally to the chief operating decision maker. The group's internal financial reporting is organised along product and service lines and therefore segmental information has been presented about business segments. A business segment is a group of assets and operations engaged in providing products and services that are subject to risks and returns which are different from those of other business segments.

The group has determined its reportable segments in accordance with IFRS 8. In accordance with that Standard the results of certain operating segments may be aggregated if they are sufficiently similar in nature. Where a business segment contributes in excess of either 10% of total revenue, 10% of total assets or 10% of the absolute amount of reported profit or loss, it is disclosed as a separate segment. Because the group has determined that its reportable segments are based on products and services, the disclosures specifically required by IFRS 8 in respect of products and services are not separately disclosed.

Information regarding geographical revenues and non-current assets is disclosed in note 3 to the financial statements.

##### n) Foreign currency translation

Items included in the financial statements of each group company are measured using their functional currency, being the currency of the primary economic environment in which each company operates. The consolidated financial statements are presented in Sterling, which is the company's functional and presentational currency.

Foreign currency transactions are translated using the rate of exchange applicable at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-translation at the year end of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

##### o) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and other short term highly liquid deposits with original maturities of three months or less. Bank overdrafts are shown within borrowings in current liabilities on the Statement of Financial Position.

# CUBO COMMUNICATIONS GROUP Plc

## Annual Report for the year ended 31 December 2013

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 1. Accounting policies (continued)

##### p) Share capital

Ordinary shares of the company are classified as equity. Mandatorily redeemable preference shares and other classes of share where an obligation exists to transfer economic benefits are classified as liabilities.

##### q) Trade payables

Trade payables are recognised initially at fair value and are subsequently measured at amortised cost using the effective interest method. As the payment period of trade payables is short future cash payments are not discounted as the effect is not material.

#### 2. Critical accounting estimates and judgements

The preparation of financial information in accordance with generally accepted accounting practice, in the case of the Group being International Financial Reporting Standards as adopted by the European Union, requires the directors to make estimates and judgements that affect the reported amount of assets, liabilities, income and expenditure and the disclosures made in the financial statements. Such estimates and judgements must be continually evaluated based on historical experience and other factors, including expectations of future events.

The significant judgements made by management in applying the Group's accounting policies as set out above, and the key sources of estimation, were:

- a) Impairment of goodwill: the group tests goodwill annually for impairment, in accordance with the accounting policy stated in note 1 above. The value in use calculation requires the Group to estimate the future cash flows expected to arise from each cash generating unit and also to estimate a suitable discount rate in order to calculate the present values of the anticipated future cash flows.
- b) Plant and equipment: the charge in respect of periodic depreciation is derived after determining an estimate of an asset's expected useful life and the expected residual value at the end of its life. Increasing an asset's expected life or its residual value would result in a reduced depreciation charge in the Statement of Comprehensive Income. The useful lives of the Group's assets are determined by management at the time the asset is acquired and reviewed at least annually for appropriateness. The lives are based on historical experience with similar assets as well as anticipation of future events, which may impact their life, such as changes in technology.
- c) Bad debts: we perform ongoing credit evaluations of our customers and grant credit based upon past payment history, financial condition, and anticipated industry conditions. Customer payments are regularly monitored and a provision for doubtful accounts is established based upon specific situations and overall industry conditions. Our history of bad debt losses has been within expectations and is generally limited to specific customer circumstances.

#### 3. Segment reporting

The Group's gross profit on ordinary activities before taxation were derived from the business segments below. Creative services represents the trade in marketing and creative services formerly undertaken by Cubo Brand Communications Ltd, now carried out by Cubo Communications Group Plc alongside its investment business, whilst public relations represents the trade of The Media Foundry International Ltd.

	<b>2013</b>	2012
	<b>£000</b>	£000
<b>Gross profit</b>		
Creative services	<b>3,149</b>	3,581
Public relations	<b>588</b>	700
	<b>3,737</b>	4,281

# CUBO COMMUNICATIONS GROUP Plc

## Annual Report for the year ended 31 December 2013

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 3. Segment reporting (continued)

	2013	2012
	£000	£000
<b>Profit or loss on ordinary activities before taxation</b>		
Creative services	306	621
Public relations	45	105
Head office	(186)	(145)
Impairment provision	-	-
	<b>165</b>	<b>581</b>

Profit or loss on ordinary activities before taxation is shown before intra-group management charges.

	2013	2012
	£000	as restated £000
<b>Net assets/(liabilities)</b>		
Creative services	451	451
Public relations	(136)	(158)
Head office	4,014	3,921
	<b>4,329</b>	<b>4,214</b>

Head office incorporates the effect of consolidation adjustments.

The Group's revenue was earned from clients based in the following geographical markets:

	UK	Rest of World	Total
	£000	£000	£000
<b>Year ended 31 December 2013</b>			
Creative services	1,412	4,030	5,442
Public relations	515	189	704
	<b>1,927</b>	<b>4,219</b>	<b>6,146</b>
<b>Year ended 31 December 2012</b>			
Creative services	1,769	5,309	7,078
Public relations	563	149	712
	<b>2,332</b>	<b>5,458</b>	<b>7,790</b>

During the year 54% (2012 - 43%) of turnover was derived from one customer, included within Creative services and Public relations, Rest of World and 10% (2012 - nil) from another customer, included within Creative services, Rest of World.

All assets and liabilities are located within the UK with the exception of certain trade receivables which relate to the revenue noted above.

#### 4. Operating profit

Operating profit is stated after charging:

	2013	2012
	£000	£000
Staff costs (Note 5)	2,443	2,553
Directors' emoluments (Note 5)	257	206
Depreciation – owned plant and equipment (Note 10)	42	37
Operating lease rentals – land and buildings	178	178
Operating lease rentals – plant and machinery	6	3
Auditors' remuneration for audit services	17	18
Auditors' remuneration for non-audit services	9	3

# CUBO COMMUNICATIONS GROUP Plc

## Annual Report for the year ended 31 December 2013

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 5. Staff costs

The average monthly number of employees (including non-executive Directors) was:

	2013	2012
Directors	3	3
Creative services	36	37
Public relations	8	9
	47	49

Their total aggregate remuneration comprised:

	2013 £000	2012 £000
Wages and salaries	2,178	2,245
Social security costs	265	266
Pension costs	-	-
Severance costs	-	42
	2,443	2,553

Directors' remuneration during the year was as follows:

	2013 £000	2012 £000
Emoluments	257	206
Pension contributions	-	-
	257	206

No pension contributions were made during the year in respect of any director (2012: £nil).

Amounts paid to the highest paid Director were £152,727 (2012 - £102,665). The share option charge in respect of options held by the highest paid director was £11,809 (2012 - £12,163).

#### 6. Interest payable and similar charges

	2013 £000	2012 £000
Interest and charges on bank overdrafts and loans	-	-
Interest on convertible loan notes	-	-
Interest on other loans	-	-
	-	-

#### 7. Tax on profit on ordinary activities

	2013 £000	2012 £000
<b>Current tax (UK corporation tax at 23.25% (2012 – 24.5%):</b>		
Current year	(44)	(136)
Prior year	-	45
Total current tax charge	(44)	(91)
<b>Deferred tax:</b>		
Prior year (see Note 14)	-	-
Total deferred tax charge	-	-
Total tax charge	(44)	(91)

# CUBO COMMUNICATIONS GROUP Plc

## Annual Report for the year ended 31 December 2013

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 7. Tax on profit on ordinary activities (continued)

The tax charge for the year can be reconciled to the profit per the Statement of Comprehensive Income as follows:

	2013 £000	2012 £000
Profit/(loss) before tax	165	581
Notional tax (charge)/credit at UK corporation tax rate of 23.25% (2012 – 24.5%)	(38)	(142)
<i>Tax effect of:</i>		
Other expenditure disallowed for tax purposes	(15)	(12)
Capital allowances in excess of depreciation	4	3
Effect of Marginal Relief and Small Profits Rate	5	15
Credit relating to prior year	-	45
Tax charge for year	(44)	(91)

#### 8. Earnings or loss per share

The calculation of the basic and diluted earnings or loss per share is based on the following data:

<b>Earnings/(loss)</b>	2013 £000	2012 £000
Earnings/(loss) for the purposes of basic and diluted earnings or loss per share (net earnings or loss attributable to equity holders)	121	490
<b>Number of shares</b>	<b>2013</b>	<b>2012</b>
Weighted average number of ordinary shares for basic earnings or loss per share	187,953,565	197,594,446
Effect of dilutive potential ordinary shares:		
Weighted average number of share options	83,456,620	88,161,201
Weighted average number of ordinary shares for diluted earnings or loss per share	271,410,185	285,755,647

#### 9. Goodwill

The movement on goodwill during the year is set out below.

	£000
At beginning of year	2,542
Disposals	-
<b>At end of year</b>	<b>2,542</b>

Impairment reviews have been undertaken in respect of goodwill in accordance with the policy set out in Note 1(h). No impairment charge arose.

Goodwill at the end of the year comprised the following substantial holdings:

	£000
Cubo	2,291
The Media Foundry	251
<b>Total goodwill</b>	<b>2,542</b>

# CUBO COMMUNICATIONS GROUP Plc

## Annual Report for the year ended 31 December 2013

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 10. Tangible assets

For the year ended 31 December 2013:

	Short leasehold premises £000	Plant and machinery £000	Total £000
<b>Cost:</b>			
At beginning of year	40	301	341
Additions	-	11	11
Disposals	(2)	-	(2)
<b>At end of year</b>	<b>38</b>	<b>312</b>	<b>350</b>
<b>Depreciation:</b>			
At beginning of year	22	231	253
Charge for year	9	33	42
Disposals	-	-	-
<b>At end of year</b>	<b>31</b>	<b>264</b>	<b>295</b>
<b>Net book value:</b>			
At beginning of year	18	70	88
<b>At end of year</b>	<b>7</b>	<b>48</b>	<b>55</b>

For the year ended 31 December 2012:

	Short leasehold premises £000	Plant and machinery £000	Total £000
<b>Cost:</b>			
At beginning of year	33	260	293
Additions	7	41	48
Disposals	-	-	-
<b>At end of year</b>	<b>40</b>	<b>301</b>	<b>341</b>
<b>Depreciation:</b>			
At beginning of year	12	204	216
Charge for year	10	27	37
Disposals	-	-	-
<b>At end of year</b>	<b>22</b>	<b>231</b>	<b>253</b>
<b>Net book value:</b>			
At beginning of year	21	56	77
<b>At end of year</b>	<b>18</b>	<b>70</b>	<b>88</b>

#### 11. Subsidiaries

The Group's subsidiary undertakings at the end of the year were as follows:

	Country of incorporation	Principal activity	Holding
The Media Foundry International Limited	UK	Public Relations	100%
Cubo Brand Communications Limited	UK	Dormant	100%
Exedra Consultancy Limited	UK	Non-trading	100%
Paul Simons and Partners Limited	UK	Non-trading	100%

# CUBO COMMUNICATIONS GROUP Plc

Annual Report for the year ended 31 December 2013

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 12. Trade and other receivables

	2013 £000	2012 £000
Amounts receivable from provision of services	739	1,085
Other taxation and social security	57	236
Prepayments and accrued income	148	152
Other debtors	76	78
	<b>1,020</b>	<b>1,551</b>

The Directors consider that the carrying value of trade and other receivables approximates their fair market value.

### 13. Trade and other payables

	2013 £000	2012 as restated £000
Trade creditors	485	756
Other taxation and social security	65	69
Accruals	256	140
Other creditors	507	612
	<b>1,313</b>	<b>1,577</b>

Deferred income has been restated for 2012 to adjust for income over-accrued in the accounting periods prior to 2009. This is included in Other creditors above and has reduced retained profits brought forward for 2012 by £57,000.

### 14. Deferred tax

At the year end the Group had an unprovided deferred tax liability of £6,000 (2012 - £12,000) and the Company an unprovided deferred tax liability of £6,000 (2012 - £12,000), relating to fixed asset timing differences.

### 15. Pensions

During the year, the Group did not operate a defined contribution pension scheme. The pension cost charge was £nil (2012 - £nil). The Group continues to operate a stakeholder pension scheme for employees.

### 16. Operating lease commitments

At the end of the year the Group had total commitments under operating leases as set out below:

	Plant and machinery		Land and buildings	
	2013 £000	2012 £000	2013 £000	2012 £000
Expiring within one year	-	2	134	-
Expiring between one and five years	7	-	-	312
	<b>7</b>	<b>2</b>	<b>134</b>	<b>312</b>

### 17. Share based payments

The Company grants options from time to time under its 2007 Enterprise Management Incentive Plan.

During the year, options were granted over 9,000,000 shares, options over 9,000,000 shares lapsed and no options were exercised. The options outstanding at 31 December 2013 had a weighted average remaining minimum life of 261 days.

# CUBO COMMUNICATIONS GROUP Plc

## Annual Report for the year ended 31 December 2013

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 17. Share based payments (continued)

The Group recognised a charge of £38,000 (2012 - £42,000) in relation to share-based payment transactions in the year. The value of the options is measured by the use of the Black-Scholes valuation model, assuming volatility of 50%, an expected life of 3-5 years based on the contractual life of the options, and a risk free rate of 0.59%. Expected volatility is based on historic volatility of the Group's share price.

#### 18. Employee Benefit Trust

The Group operates an Employee Benefit Trust. The purpose of the Trust is to encourage and facilitate employees of the group to hold shares in the parent company. Contributions to the Trust are not charged to the Group Statement of Comprehensive Income until the shares vest in employees of the company. Cubo Communications Group Plc made no contributions to the fund in the year (2012 - £nil).

#### 19. Share Capital

The Company's called-up, allotted and fully-paid share capital is now £1.849 million, comprising 184,919,775 ordinary shares of one penny each. On 24 April 2013, the Company repurchased and cancelled 9,666,666 ordinary shares of one penny each, for a total consideration of £43,500.

#### 20. Related party transactions

Transactions between the Company and its subsidiaries, which are wholly owned, have been eliminated on consolidation and are not disclosed in this note. There were no other transactions with related parties during the year.

#### 21. Financial instruments

The Group's financial instruments principally comprise cash at bank and various items such as trade debtors and creditors that arise directly from operations. The main purpose of these financial instruments is to raise money for the Group's operations. The Group's policy is to ensure that adequate cash is available and the Group does not trade in financial instruments and has not entered into any derivative transactions.

All the material activities of the Group take place in the United Kingdom and consequently there is minimal exchange risk. As at 31 December 2013 the Group had no material foreign currency exposures.

The main risks arising from the Group's financial instruments are interest rate risk and liquidity risk. The Directors monitor the cash flows of the Group to ensure that there is sufficient liquidity to meet foreseeable needs. The operations of the Group generate cash and the planned growth activities are cash generative.

The Group has taken advantage of the exemption in respect of the disclosure of short-term debtors and creditors.

The fair values of the Group's financial assets and liabilities are not considered to be materially different from their book values.

#### 22. Capital risk management

The group's objectives when managing capital are to safeguard the group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

# **CUBO COMMUNICATIONS GROUP Plc**

## **Annual Report for the year ended 31 December 2013**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

#### **22. Capital risk management (continued)**

Consistent with others in the industry, the group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is as the company share capital plus retained reserves.

#### **23. Post balance sheet events**

There have been no post balance sheet events to report.

# **CUBO COMMUNICATIONS GROUP Plc**

## **Annual Report for the year ended 31 December 2013**

### **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CUBO COMMUNICATIONS GROUP Plc IN RESPECT OF THE PARENT COMPANY**

We have audited the parent company financial statements of Cubo Communications Group Plc for the year ended 31 December 2013 which comprise the Parent Company Balance Sheet, the Parent Company Statement of Total Recognised Gains and Losses and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 for no purpose other than to draw to the attention of the company's members those matters which we are required to include in an auditors' report addressed to them. To the fullest extent permitted by law, we do not accept or assume responsibility to any party other than the company and company's members as a body, for our work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement set out on page 6 the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### **Opinion on financial statements**

In our opinion the parent company financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2013;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### **Opinion on other matters prescribed by the Companies Act 2006**

In our opinion:

- 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 parent company financial statements.

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

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- 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.

#### **Other matter**

We have reported separately on the group financial statements of Cubo Communications Group Plc for the year ended 31 December 2013.

**Richard Heap (Senior Statutory Auditor)**

for and on behalf of Kingston Smith LLP, Statutory Auditor

Date: .....

141 Wardour Street  
London W1F 0UT

# CUBO COMMUNICATIONS GROUP Plc

Annual Report for the year ended 31 December 2013

## PARENT COMPANY BALANCE SHEET

	Note	2013 £000	2012 as restated £000
<b>Fixed assets</b>			
Goodwill	26	2,590	2,590
Tangible fixed assets	27	50	81
Investments in subsidiary undertakings	28	397	397
		<b>3,037</b>	3,068
<b>Current assets</b>			
Trade and other debtors	29	1,760	2,284
Cash at bank and in hand		1,787	1,545
		<b>3,547</b>	3,829
<b>Creditors: amounts falling due within one year</b>	30	<b>(2,124)</b>	(2,515)
<b>Net current assets/(liabilities)</b>		<b>1,423</b>	1,314
<b>Total assets less current liabilities</b>		<b>4,460</b>	4,382
<b>Creditors: amounts falling due after more than one year</b>		-	-
<b>Total net assets</b>		<b>4,460</b>	4,382
<b>Capital and reserves</b>			
Called up share capital	19	1,849	1,946
Capital redemption reserve		334	237
Share option reserve		149	111
Profit and loss account		2,128	2,088
<b>Equity shareholders' funds</b>		<b>4,460</b>	4,382

Approved by the Board on 16 May 2014

**Ian Mansel-Thomas**

Director

# CUBO COMMUNICATIONS GROUP Plc

Annual Report for the year ended 31 December 2013

## PARENT COMPANY STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	<b>2013</b>	2012
	<b>£000</b>	as restated £000
Profit for the year	<b>84</b>	297
<b>Total recognised gains related to the year</b>	<b>84</b>	297
Prior year adjustment (note 30)	<b>(57)</b>	-
<b>Total recognised gains since last annual report</b>	<b>27</b>	297

# CUBO COMMUNICATIONS GROUP Plc

## Annual Report for the year ended 31 December 2013

### NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

#### 24. Accounting policies

##### a) Basis of preparation

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 Generally Accepted Accounting Practice.

The principal accounting policies, which have been consistently applied, are described below.

##### b) Retirement benefit costs

The Group continues to operate a stakeholder pension scheme for employees.

##### c) Revenue recognition

Revenue is taken on fee income in the period to which it relates. Project income is recognised in the period in which the project is worked on. For projects which fall over the financial year end, income is recognised to reflect the partial performance of the contractual obligations in accordance with UITF40.

Third party costs and the associated income relating to bought in costs directly rechargeable to clients are recognised in the period to which they relate.

##### d) Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

##### e) Operating Leases

Rental costs under operating leases are charged to the profit and loss account in equal annual amounts over the periods of the leases.

Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term or the period to the next review.

##### f) Fixed assets

Plant and equipment is stated at cost less accumulated depreciation and any provision for impairment. Depreciation is provided on a straight-line basis over the estimated useful economic lives of assets, at rates of between 25% and 33% per annum.

Any gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

##### g) Share-based payment

The Company grants options over its shares to certain directors and employees under the Group's Enterprise Management Incentive Plan. The value of these share-based payments is measured at the date of grant using the Black-Scholes pricing model, and is expensed on a straight-line basis over the vesting period.

# CUBO COMMUNICATIONS GROUP Plc

## Annual Report for the year ended 31 December 2013

### NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

#### 24. Accounting policies (continued)

##### h) Goodwill

Goodwill arising from the purchase of subsidiary undertakings is subject to an annual impairment review by the Directors. The directors are of the view that the goodwill has an indefinite useful economic life and as such do not provide for amortisation of the goodwill.

#### 25. Fixed asset investments

Investments held as fixed assets are stated at cost less any provisions for impairment.

#### 26. Goodwill

The value of goodwill at 1 January 2013 and at 31 December 2013 was £2,590,000. This represents the carrying value of the Company's investment in Cubo Brand Communications Limited, the trade and assets of which were transferred to the Company on 30 November 2010.

#### 27. Tangible fixed assets

	<b>Plant and machinery £000</b>
<b>Cost:</b>	
At beginning of year	226
Additions	10
Disposals	(2)
<b>At end of year</b>	<b>234</b>
<b>Depreciation:</b>	
At beginning of year	145
Charge for year	39
<b>At end of year</b>	<b>184</b>
<b>Net book value:</b>	
At beginning of year	81
<b>At end of year</b>	<b>50</b>

#### 28. Investments in subsidiary undertakings

	<b>£000</b>
At beginning of year	397
Impairment	-
Disposals	-
<b>At end of year</b>	<b>397</b>

Details of the Group's subsidiary undertakings at the end of the year are given in Note 11.

# CUBO COMMUNICATIONS GROUP Plc

## Annual Report for the year ended 31 December 2013

### NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

#### 29. Trade and other debtors

	2013 £000	2012 £000
Trade debtors	609	943
Amounts owed by Group undertakings	869	875
Other taxation and social security	73	247
Prepayments and accrued income	133	143
Other debtors	76	76
	<b>1,760</b>	<b>2,284</b>

#### 30. Creditors: amounts falling due within one year

	2013 £000	2012 as restated £000
Trade creditors	478	733
Amounts owed to Group undertakings	849	883
Corporation tax	40	120
Accruals	235	128
Other taxation and social security	55	59
Other creditors	467	592
	<b>2,124</b>	<b>2,515</b>

Deferred income has been restated for 2012 to adjust for income over-accrued in the accounting periods prior to 2009. This is included in Other creditors above and has reduced retained profits brought forward for 2012 by £57,000.

The Company had no overdraft at the end of the year.

#### 31. Employment Benefit Trust

The Company operates an Employee Benefit Trust. The purpose of the Trust is to encourage and facilitate employees of the Company to hold shares in the Company.

Contributions to the Trust are not charged to the profit and loss account until the shares vest in employees of the company. Cubo Communications Group Plc made no contributions to the fund in the year (2012 - nil).

#### 32. Related party transactions

Transactions between the Company and its subsidiaries, which wholly owned, have been eliminated on consolidation and are not disclosed in this note (details of subsidiaries are included in Note 10). Related party transactions involving the Company are disclosed in Note 20.

#### 33. Post balance sheet events

Post balance sheet events involving the Company are disclosed in Note 23.