# Cubo Communications Group Plc

## Annual Report

## Year ended 31 December 2014

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

# CUBO COMMUNICATIONS GROUP Plc

## Annual Report for the year ended 31 December 2014

## Company Information

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

# CUBO COMMUNICATIONS GROUP Plc

## Annual Report for the year ended 31 December 2014

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## 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, 18.2% 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 18 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 2014

## Strategic Report

**Business review**

2014 was a year of steady progress, following the challenges of 2013 when a number of clients stopped working with us. While some new business gains, coupled with stable revenues from ongoing clients, produced a reasonable year for revenue, further efficiencies were achieved to deliver a much improved margin.

The Group acquired 48% of the digital marketing agency eight&four in September 2014, an acquisition which has strengthened the Group's digital offering and is expected to deliver good results for the Group in this vital area of marketing services.

**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 good performance in our sector. There continues to be a trend for clients to increase pressure on agency margins. In 2014, the trading part of the parent company had an operating margin just below 15% and The Media Foundry just above 15%, an improvement on 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 target a figure of 60% for this KPI. This continues to be a challenging target, as salary levels in the industry have pushed ahead, if anything, at an increased pace. 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. 2014 saw this figure recover to over £82,000 across 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 2015, it is estimated that at the end of April approximately 73% 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**

## 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 2014.

The Group has continued to be debt-free, and in 2014 achieved an operating profit of £360,000 (2013 - £159,000). At 31 December 2014 the Group had net current assets of £1.644 million and net assets of £4.582 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 2014 are set out on pages 10 to 31.

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 2014** | **1 January 2014** |
| Andrew Harris | nil | nil |
| Kerry Simpson | 31,806,742 | 31,806,742 |
| Ian Mansel-Thomas | nil | nil |

**Subsidiary undertakings**

At 31 December 2014, no director of the Company held shares or debentures in any of the Group's subsidiary undertakings.

**Investment in Associate**

On 24 September 2014, the Company purchased 48% of the share capital of Eight and Four Limited, whose principal activity is the provision of digital marketing services.

**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 42 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.

**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**

## Chief Executive's Statement

**HIGHLIGHTS**

- 2014 operating profit £360,000, up from £159,000 in 2013.
- Operating profit margins increased from 4.3% in 2013 to 9.9% in 2014.
- Purchase of 48% of the share capital of Eight and Four Limited, a specialist digital marketing agency.
- 10.402m shares purchased and cancelled during the year.

**REVIEW OF THE YEAR**

2014 was a year of steady progress with encouraging uplifts in both operating profit and margin.

Some modest new business wins supported a solid year with existing clients and created a good platform for what we hope will be further progress in the current year.

We relaunched our consumer PR division as The Earned Agency and, although early days, this part of the group seems to be gaining good momentum.

The acquisition of 48% of eight&four was particularly pleasing, adding core digital capabilities entirely complementary to the existing services provided by the group. Collaboration with eight&four at every level has been excellent and we have already seen encouraging income opportunities opening up via our combined efforts.

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

15 May 2015

## Group Chief Financial Officer's Statement

**RESULTS**

For the year ended 31 December 2014 the Group generated an operating profit of £360,000 (2013 – £159,000) on gross profit of £3.6 million (2013 – £3.7 million).

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

| | Gross profit £000 | Operating profit £000 |
|---|---|---|
| 2013 | 3,737 | 159 |
| Change in performance of continuing operations | (118) | 201 |
| 2014 | 3,619 | 360 |

**CURRENT AND NON-CURRENT LIABILITIES**

The Group continues to be debt free.

**STAFF NUMBERS**

The average number of employees in 2014 decreased to 45, from 47 in 2013. At the end of April 2015, the number of employees was 46.

**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

15 May 2015

## 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 2014 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 6 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 Annual 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 2014 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 2014.

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

Date: ...........................

141 Wardour Street
London W1F 0UT

## GROUP STATEMENT OF COMPREHENSIVE INCOME

| | Note | 2014<br>£000 | 2013<br>£000 |
|---|---|---|---|
| **Revenue** | 1, 3 | **5,403** | 6,146 |
| Direct costs | | **(1,784)** | (2,409) |
| **Gross profit** | 3 | **3,619** | 3,737 |
| Administrative expenses | | **(3,259)** | (3,578) |
| **Operating profit** | 4 | **360** | 159 |
| Interest receivable | | **4** | 6 |
| **Profit on ordinary activities before taxation** | 3 | **364** | 165 |
| Share of profit of associate | 12 | **22** | - |
| Tax charge on profit or loss on ordinary activities | 7 | **(101)** | (44) |
| **Profit on ordinary activities after taxation** | | **285** | 121 |
| Other comprehensive income | | **-** | - |
| **Total comprehensive income** | | **285** | 121 |

| **Earnings per ordinary share from continuing and total operations:** | | **2014** | 2013 |
|---|---|---|---|
| Basic | 8 | **0.16p** | 0.06p |
| Diluted | 8 | **0.11p** | 0.04p |

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

## GROUP STATEMENT OF FINANCIAL POSITION

| | Note | 2014 £000 | 2013 £000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Goodwill | 9 | **2,542** | 2,542 |
| Tangible assets | 10 | **74** | 55 |
| Investment in Associate | 12 | **322** | - |
| | | **2,938** | 2,597 |
| **Current assets** | | | |
| Trade and other receivables | 13 | **711** | 1,020 |
| Cash at bank and in hand | | **2,035** | 2,069 |
| | | **2,746** | 3,089 |
| **Current liabilities** | | | |
| Trade and other payables | 14 | **(1,010)** | (1,313) |
| Current tax liabilities | 7 | **(92)** | (44) |
| | | **(1,102)** | (1,357) |
| **Net current assets/(liabilities)** | | **1,644** | 1,732 |
| **Total assets less current liabilities** | | **4,582** | 4,329 |
| **Non-current liabilities** | | **-** | - |
| **Total net assets** | 3 | **4,582** | 4,329 |
| | | | |
| **Capital and reserves** | | | |
| Called up share capital | 20 | **1,745** | 1,849 |
| Share option reserve | | **164** | 149 |
| Capital redemption reserve | | **438** | 334 |
| Merger reserve | | **(150)** | (150) |
| Retained earnings | | **2,385** | 2,147 |
| **Shareholders' funds** | | **4,582** | 4,329 |

Approved by the Board on 15 May 2015

**Ian Mansel-Thomas**
Group Chief Financial Officer

Company number 05433076

## GROUP STATEMENT OF CASH FLOWS

| | Note | **2014 £000** | 2013 £000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Operating profit | | **360** | 159 |
| Charge in respect of share option scheme | 18 | **15** | 38 |
| Depreciation charge | 10 | **37** | 42 |
| Operating profit before working capital changes | | **412** | 239 |
| Reduction in trade and other receivables | | **309** | 531 |
| Reduction in trade and other payables | | **(303)** | (264) |
| **Net cash inflow from operating activities** | | **418** | 506 |
| **Investing activities** | | | |
| Interest received | | **4** | 6 |
| Purchases less disposals of property, plant and equipment | | **(57)** | (9) |
| Investment in Associate | | **(300)** | - |
| **Net cash used in investing activities** | | **(353)** | (3) |
| **Taxation** | | | |
| **UK corporation tax paid** | | **(52)** | (136) |
| **Financing activities** | | | |
| Repurchase of own shares | | **(47)** | (44) |
| **Net cash outflow from financing activities** | | **(47)** | (44) |
| Net change in cash and cash equivalents | | **(34)** | 323 |
| Net cash and cash equivalents at beginning of year | | **2,069** | 1,746 |
| **Cash and cash equivalents at end of year** | | **2,035** | 2,069 |
| Analysed as: | | | |
| **Cash at bank and in hand** | | **2,035** | 2,069 |

## 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 2013 | 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 |
| At 31 December 2013 | 1,849 | - | 149 | 334 | (150) | 2,147 | 4,329 |
| Retained profit for the year | - | - | - | - | - | 285 | 285 |
| Repurchase and cancellation of shares | (104) | - | - | 104 | - | (47) | (47) |
| Charge for share based payment | - | - | 15 | - | - | - | 15 |
| **At 31 December 2014** | **1,745** | **-** | **164** | **438** | **(150)** | **2,385** | **4,582** |

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.

## 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 2014 and IFRS in issue but not applied to the current financial statements**

In the current year a new package of standards have been applied for the first time relating to consolidation:

- IFRS 10, 'Consolidated financial statements'
- IFRS 11, 'Joint arrangements'
- IFRS 12, 'Disclosures of interests in other entities'
- IAS 27 (revised 2011), 'Separate financial statements'
- IAS 28 (revised 2011), 'Associates and joint ventures'

These new standards have not had a material effect on the financial statements, however IFRS 12 has introduced some additional disclosures.

The following new and amended standards, and interpretations are mandatory for the first time for the financial year beginning 1 January 2014 but are not currently relevant to the group (although they may affect the accounting for future transactions and events):

- Amendments to IFRS 10, IFRS 12 and IAS 27, 'Investment entities', effective date 1 January 2014
- Amendments to IAS 32, 'Offsetting financial assets and liabilities', effective date 1 January 2014
- Amendments to IAS 36, 'Recoverable amount disclosures for non-financial assets', effective date 1 January 2014
- Amendments to IAS 39, 'Novation of derivatives and continuation of hedge accounting', effective date 1 January 2014
- IFRIC 21, 'Levies', effective date 1 January 2014

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 2018
- IFRS 15, 'Revenue from contracts with customers', effective date 1 January 2018
- Amendments to IFRS 11, 'Accounting for acquisitions of interests in joint operations', effective date 1 January 2016
- Amendments to IFRS 10 and IAS 28 'Sale or contributions of assets between an investor and its associate or joint venture', effective date 1 January 2016
- Amendments to IAS 16 and IAS 38, 'Clarification of acceptable methods of depreciation and amortisation', effective date 1 January 2016
- Amendments to IAS 19, 'Defined benefit plans: Employer contributions', effective date 1 July 2014
- Annual improvements '2010 - 2012 cycle', effective date 1 July 2014
- Annual improvements '2011 - 2013 cycle', effective date 1 July 2014

**1. Accounting policies (continued)**

**c. Standards in effect in 2014 and IFRS in issue but not applied to the current financial statements (continued)**

- Annual improvements '2012 - 2014 cycle', effective date 1 January 2016

The directors do not anticipate that adoption of any of the above standards will have a material impact on the financial statements in the future.

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.

**d) Basis of consolidation**

The Group financial statements consolidate the financial statements of the Company and its subsidiaries for the year ended 31 December 2014. 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.

**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) Investments in associates**

Associates are those entities in which the Group has significant control or joint control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 percent and 50 percent of the voting power of another entity.

Investments in associates are accounted for under the equity method and are recognised initially at cost. The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity-accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

If at the end of a reporting period there is an indication that an investment in an associate may be impaired, the entire carrying amount of the investment is tested for impairment. If the carrying amount of the investment is found to be less than its recoverable amount, the carrying amount is reduced to its recoverable amount and an impairment loss is immediately recognised in profit or loss.

**1. Accounting policies (continued)**

**i) Investments in associates (continued)**

When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

**j) 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.

**k) 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 profit or loss.

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 2014 | 82,333,332 | 0.45p |
| No options lapsed or were granted during the year | - | n/a |
| **Share options as at 31 December 2014** | **82,333,332** | **0.45p** |

**m) Segment reporting**

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 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.

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.

**1. Accounting policies (continued)**

**o) Foreign currency translation (continued)**

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.

**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.

| **Gross profit** | **2014 £000** | 2013 £000 |
|---|---|---|
| Creative services | **2,808** | 3,149 |
| Public relations | **811** | 588 |
| | **3,619** | 3,737 |

| **Profit or loss on ordinary activities before taxation** | **2014 £000** | 2013 £000 |
|---|---|---|
| Creative services | **407** | 306 |
| Public relations | **128** | 45 |
| Head office | **(171)** | (186) |
| | **364** | 165 |

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

| **Net assets/(liabilities)** | **2014 £000** | 2013 £000 |
|---|---|---|
| Creative services | **451** | 451 |
| Public relations | **(85)** | (136) |
| Head office | **4,216** | 4,014 |
| | **4,582** | 4,329 |

Head office incorporates the effect of consolidation adjustments.

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

| | **UK £000** | **Rest of World £000** | **Total £000** |
|---|---|---|---|
| **Year ended 31 December 2014** | | | |
| Creative services | 1,434 | 3,049 | 4,483 |
| Public relations | 666 | 254 | 920 |
| | **2,100** | **3,303** | **5,403** |
| **Year ended 31 December 2013** | | | |
| Creative services | 1,412 | 4,030 | 5,442 |
| Public relations | 515 | 189 | 704 |
| | **1,927** | **4,219** | **6,146** |

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:

| | 2014 £000 | 2013 £000 |
|---|---|---|
| Staff costs (Note 5) | **2,132** | 2,443 |
| Directors' emoluments (Note 5) | **261** | 257 |
| Depreciation – owned plant and equipment (Note 10) | **37** | 42 |
| Operating lease rentals – land and buildings | **194** | 178 |
| Operating lease rentals – plant and machinery | **3** | 6 |
| Auditors' remuneration for audit services | **20** | 17 |
| Auditors' remuneration for non-audit services | **5** | 9 |

**5. Staff costs**

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

| | 2014 | 2013 |
|---|---|---|
| Directors | **3** | 3 |
| Creative services | **31** | 36 |
| Public relations | **11** | 8 |
| | **45** | 47 |

Their total aggregate remuneration comprised:

| | 2014 £000 | 2013 £000 |
|---|---|---|
| Wages and salaries | **2,059** | 2,178 |
| Social security costs | **223** | 265 |
| Pension costs | **-** | - |
| Severance costs | **16** | - |
| | **2,298** | 2,443 |

Directors' remuneration during the year was as follows:

| | 2014 £000 | 2013 £000 |
|---|---|---|
| Emoluments | **261** | 257 |
| Pension contributions | **-** | - |
| | **261** | 257 |

No pension contributions were made during the year in respect of any director (2013: £nil).

Amounts paid to the highest paid Director were £153,413 (2013 - £152,727). The share option charge in respect of options held by the highest paid director was £3,775 (2013 - £11,809).

**6. Interest payable and similar charges**

| | 2014 £000 | 2013 £000 |
|---|---|---|
| Interest and charges on bank overdrafts and loans | **-** | - |
| Interest on other loans | **-** | - |
| | **-** | - |

### 7. Tax on profit on ordinary activities

| | 2014<br>£000 | 2013<br>£000 |
|---|---|---|
| **Current tax (UK corporation tax at 21.5% (2013 – 23.25%):** | | |
| Current year | **(92)** | (44) |
| Prior year | **(9)** | - |
| Total current tax charge | **(101)** | (44) |
| **Deferred tax:** | | |
| Prior year (Note 15) | **-** | - |
| Total deferred tax charge | **-** | - |
| Total tax charge | **(101)** | (44) |

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

| | 2014<br>£000 | 2013<br>£000 |
|---|---|---|
| Profit before tax | **364** | 165 |
| Notional tax (charge)/credit at UK corporation tax rate of 21.5% (2013 – 23.25%) | **(78)** | (38) |
| *Tax effect of:* | | |
| Other expenditure disallowed for tax purposes | **(22)** | (15) |
| Capital allowances in excess of depreciation | **3** | 4 |
| Effect of Marginal Relief and Small Profits Rate | **5** | 5 |
| Charge relating to prior year | **(9)** | - |
| Tax charge for year | **(101)** | (44) |

### 8. Earnings per share

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

| **Earnings** | 2014<br>£000 | 2013<br>£000 |
|---|---|---|
| Earnings for the purposes of basic and diluted earnings per share (net earnings attributable to equity holders) | **285** | 121 |

| **Number of shares** | **2014** | 2013 |
|---|---|---|
| Weighted average number of ordinary shares for basic earnings per share | **183,494,879** | 187,953,565 |
| Effect of dilutive potential ordinary shares: | | |
| Weighted average number of share options | **73,333,332** | 83,456,620 |
| Weighted average number of ordinary shares for diluted earnings per share | **256,828,211** | 271,410,185 |

### 9. Goodwill

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

| | £000 |
|---|---|
| At beginning of year | **2,542** |
| Disposals | **-** |
| **At end of year** | **2,542** |

### 9. Goodwill (continued)

Impairment reviews have been undertaken in respect of goodwill in accordance with the policy set out in Note 1(h). The reviews assumed growth rates of between 0% and 4% and a discount rate of 15%. No impairment charge arose.

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

| | £000 |
|---|---|
| Cubo | **2,291** |
| The Media Foundry | **251** |
| **Total goodwill** | **2,542** |

### 10. Tangible assets

| **For the year ended 31 December 2014:** | **Short leasehold premises £000** | **Plant and machinery £000** | **Total £000** |
|---|---|---|---|
| **Cost:** | | | |
| At beginning of year | 38 | 312 | 350 |
| Additions | 47 | 9 | 56 |
| Disposals | - | - | - |
| **At end of year** | **85** | **321** | **406** |
| **Depreciation:** | | | |
| At beginning of year | 31 | 264 | 295 |
| Charge for year | 9 | 28 | 37 |
| Disposals | - | - | - |
| **At end of year** | **40** | **292** | **332** |
| **Net book value:** | | | |
| At beginning of year | 7 | 48 | 55 |
| **At end of year** | **45** | **29** | **74** |

| **For the year ended 31 December 2013:** | **Short leasehold premises £000** | **Plant and machinery £000** | **Total £000** |
|---|---|---|---|
| **Cost:** | | | |
| At beginning of year | 40 | 301 | 341 |
| Additions | - | 11 | 11 |
| Disposals | (2) | - | (2) |
| **At end of year** | **38** | **312** | **350** |
| **Depreciation:** | | | |
| At beginning of year | 22 | 231 | 253 |
| Charge for year | 9 | 33 | 42 |
| Disposals | - | - | - |
| **At end of year** | **31** | **264** | **295** |
| **Net book value:** | | | |
| At beginning of year | 18 | 70 | 88 |
| **At end of year** | **7** | **48** | **55** |

## 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% |
| The Earned Agency Limited | UK | Dormant | 100% |
| Exedra Consultancy Limited | UK | Non-trading | 100% |
| Paul Simons and Partners Limited | UK | Non-trading | 100% |

## 12. Investment in associate

On 24 September 2014, the Group acquired 48 per cent of the equity of its associate Eight and Four Limited, a company registered in England and Wales, whose principal place of business is the same as the Group's and whose principal activity is the provision of digital marketing services. The total cost at acquisition was £300,000.

From the date of the Group's acquisition to 31 December 2014, Eight and Four Limited generated a retained profit of £46,000 on turnover of £205,000. At 31 December 2015, Eight and Four had net assets of £35,000. The Group guarantees an overdraft facility held by its associate to the sum of £12,000.

As is the case for the Group, it is a risk facing Eight and Four Limited that existing clients might reduce expenditure or find alternative agencies.

| | **2014**<br>**£000** | 2013<br>£000 |
|---|---|---|
| Cost plus share of associate post-acquisition reserves less accumulated impairment losses | **322** | - |

## 13. Trade and other receivables

| | **2014**<br>**£000** | 2013<br>£000 |
|---|---|---|
| Amounts receivable from provision of services | **554** | 739 |
| Other taxation and social security | **-** | 57 |
| Prepayments and accrued income | **137** | 148 |
| Other debtors | **20** | 76 |
| | **711** | 1,020 |

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

## 14. Trade and other payables

| | **2014**<br>**£000** | 2013<br>£000 |
|---|---|---|
| Trade creditors | **334** | 485 |
| Other taxation and social security | **70** | 65 |
| Accruals | **174** | 256 |
| Other creditors | **432** | 507 |
| | **1,010** | 1,313 |

## 15. Deferred tax

At the year end the Group had an unprovided deferred tax liability of £3,000 (2013 - £6,000) and the Company an unprovided deferred tax liability of £3,000 (2013 - £6,000), relating to fixed asset timing differences.

### 16. Pensions

During the year, the Group did not operate a defined contribution pension scheme. The pension cost charge was £nil (2013 - £nil). The Group continues to operate a stakeholder pension scheme for employees.

### 17. 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** | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **£000** | £000 | **£000** | £000 |
| Expiring within one year | **-** | - | **-** | 134 |
| Expiring between one and five years | **5** | 7 | **821** | - |
| | **5** | 7 | **821** | 134 |

### 18. Share based payments

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

During the year, no options were granted or lapsed and no options were exercised. The options outstanding at 31 December 2014 had a weighted average remaining minimum life of 153 days.

The Group recognised a charge of £16,000 (2013 - £38,000) 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.

### 19. 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 (2013 - £nil).

### 20. Share Capital

The Company's called-up, allotted and fully-paid share capital is now £1.745 million, comprising 174,518,022 ordinary shares of one penny each. On 12 November 2014, the Company repurchased and cancelled 10,401,753 ordinary shares of one penny each, for a total consideration of £46,808.

### 21. 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.

During the year, the Group purchased services for a net total of £23,206 (2013: nil) from its associate Eight and Four Limited. At the year end, a gross total of £23,461 was owed to the Group's associate in respect of these services.

During the year, the Group charged its associate Eight and Four Limited for administrative services to the value of £8,910. At the year end, £8,910 was due to the Group from its Associate in respect of these services.

All outstanding balances between the Associates are priced on an arm's length basis and are to be settled in cash within two months of the reporting date. None of the balances are secured.

### 22. 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 2014 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.

### 23. 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.

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.

### 24. Post balance sheet events

There have been no post balance sheet events to report.

## 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 2014 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 Annual 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 2014;
- 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 2014.

**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 2014

### PARENT COMPANY BALANCE SHEET

| | Note | **2014 £000** | 2013 £000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Goodwill | 27 | **2,590** | 2,590 |
| Tangible fixed assets | 28 | **70** | 50 |
| Investments in subsidiary undertakings | 29 | **397** | 397 |
| Investment in associate | 30 | **300** | - |
| | | **3,357** | 3,037 |
| **Current assets** | | | |
| Trade and other debtors | 31 | **1,003** | 1,760 |
| Cash at bank and in hand | | **1,780** | 1,787 |
| | | **2,783** | 3,547 |
| **Creditors: amounts falling due within one year** | 32 | **(1,500)** | (2,124) |
| **Net current assets** | | **1,283** | 1,423 |
| **Total assets less current liabilities** | | **4,640** | 4,460 |
| **Creditors: amounts falling due after more than one year** | | **-** | - |
| **Total net assets** | | **4,640** | 4,460 |
| | | | |
| **Capital and reserves** | | | |
| Called up share capital | 20 | **1,745** | 1,849 |
| Capital redemption reserve | | **438** | 334 |
| Share option reserve | | **164** | 149 |
| Profit and loss account | | **2,293** | 2,128 |
| **Equity shareholders' funds** | | **4,640** | 4,460 |

Approved by the Board on 15 May 2015

**Ian Mansel-Thomas**

Director

## PARENT COMPANY STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

| | **2014** | 2013 |
|---|---|---|
| | **£000** | £000 |
| Profit for the year | **212** | 84 |
| **Total recognised gains related to the year** | **212** | 84 |
| Prior year adjustment | **-** | (57) |
| **Total recognised gains since last annual report** | **212** | 27 |

## 25. 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.

**25. 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.

**26. Fixed asset investments**

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

**27. Goodwill**

The value of goodwill at 1 January 2014 and at 31 December 2014 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.

**28. Tangible fixed assets**

| | **Plant and machinery £000** |
|---|---|
| **Cost:** | |
| At beginning of year | 234 |
| Additions | 54 |
| Disposals | - |
| **At end of year** | **288** |
| **Depreciation:** | |
| At beginning of year | 184 |
| Charge for year | 34 |
| **At end of year** | **218** |
| **Net book value:** | |
| At beginning of year | 50 |
| **At end of year** | **70** |

**29. Investments in subsidiary undertakings**

| | **£000** |
|---|---|
| At beginning of year | 397 |
| Impairment | - |
| Disposals | - |
| **At end of year** | **397** |

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

**30. Investments in associates**

Details of the Company's investment in associates at the end of the year are given in Note 12.

### 31. Trade and other debtors

| | 2014 | 2013 |
|---|---|---|
| | £000 | £000 |
| Trade debtors | **376** | 609 |
| Amounts owed by Group undertakings | **469** | 869 |
| Other taxation and social security | **15** | 73 |
| Prepayments and accrued income | **124** | 133 |
| Other debtors | **19** | 76 |
| | **1,003** | 1,760 |

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

| | 2014 | 2013 |
|---|---|---|
| | £000 | £000 |
| Trade creditors | **333** | 478 |
| Amounts owed to Group undertakings | **474** | 849 |
| Corporation tax | **71** | 40 |
| Accruals | **162** | 235 |
| Other taxation and social security | **51** | 55 |
| Other creditors | **409** | 467 |
| | **1,500** | 2,124 |

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

### 33. 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 (2013 - nil).

### 34. 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 11). Related party transactions involving the Company are disclosed in Note 21.

### 35. Post balance sheet events

Post balance sheet events involving the Company are disclosed in Note 24.