

REGISTERED NUMBER: 04230977 (England and Wales)

**Strategic Report, Report of the Director and
Audited Financial Statements
for the Year Ended 31 October 2016
for
ENGHOUSE INTERACTIVE (UK) LIMITED**

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for the Year Ended 31 October 2016**

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ENGHOUSE INTERACTIVE (UK) LIMITED

Company Information for the Year Ended 31 October 2016

DIRECTOR:	S J Sadler
SECRETARY:	D C Bryson
REGISTERED OFFICE:	Imperium Imperial Way Reading Berkshire RG2 0TD
REGISTERED NUMBER:	04230977 (England and Wales)
SENIOR STATUTORY AUDITOR:	Neil John Gadeke FCCA
INDEPENDENT AUDITORS:	Masons Statutory Auditors 337 Bath Road Slough Berkshire SL1 5PR
SOLICITORS:	Ashfords Solicitors Ashford House Grenadier Road Exeter EX1 3LH

**Strategic Report
for the Year Ended 31 October 2016**

The director presents his strategic report for the year ended 31 October 2016.

REVIEW OF BUSINESS

The results for the year and the financial position at the year-end were considered satisfactory by the director who expects continued growth in the foreseeable future.

During the year the company transitioned from previously extant UK GAAP to FRS 101 - Reduced Disclosure Framework and has taken advantage of the disclosure exemptions allowed under this standard. The Company's parent undertaking, Enghouse Systems Limited, was notified of and did not object to the use of the EU-adopted IFRS disclosure exemptions. Details of the recognition or measurement differences arising on the adoption of FRS 101 are included in notes to these financial statements.

PRINCIPAL RISKS AND UNCERTAINTIES

The management of the business and the execution of the company's strategy are subject to a number of risks.

The key business risks affecting the company are set out below.

Risks are reviewed by management on an on-going basis and appropriate processes put in place to monitor and mitigate them.

(i) Competition

The group operates in a highly competitive market particularly around price and product availability/quality. This results not only in downward pressure on margins, but also the risk that we will not meet our customers' expectations. In order to mitigate this risk, management review pricing on an on-going basis. Furthermore, we undertake market research and customer surveys to understand our customers' expectations and whether their needs are being met.

(ii) Economic, business and political environment

Periodic difficulties or changes in the domestic or international economic, business or political environment particularly affecting the technology industry or industries from which we derive a significant portion of our revenues, increase the likelihood that customers will unexpectedly delay, cancel or reduce the size of orders.

Management continues to invest in maintaining existing partner relationships and further establishing and expanding relationships with partners such that any general decline in trading conditions can be countered by expanding our opportunity base and attachment rate.

(iii) Product development

As the technological, market and industry conditions in our business can change very rapidly, if we do not successfully adapt our products to these changes, our revenues and profits can be damaged. This risk is mitigated by continuing to invest significantly in developing new products and enhancing existing products to respond to customer requirements, keeping pace with merging technologies as well as investing in an on-going program of education and training of our sales force and partners.

PRINCIPAL ACTIVITIES

The principal activities of the company in the year under review were those of providing software and services to medium and large enterprises. By combining voice recognition, speaker verification and CTI in an open standards solution, we are able to provide solutions and services that solve business problems, deliver reductions in operating costs, improve process efficiency and deliver a measurable return on investment.

**Strategic Report
for the Year Ended 31 October 2016**

KEY PERFORMANCE INDICATORS

Given that the company is a fully owned subsidiary of Enghouse Systems Limited which is a public company listed on the Toronto stock exchange, the Director is of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business. KPIs for the Enghouse Group can be found on page 1 of the Enghouse Systems Limited Annual Report 2016.

ON BEHALF OF THE BOARD:

S J Sadler - Director

17 July 2017

**Report of the Director
for the Year Ended 31 October 2016**

The director presents his report with the financial statements of the company for the year ended 31 October 2016.

DIVIDENDS

No dividends will be distributed for the year ended 31 October 2016.

RESEARCH AND DEVELOPMENT

In order to maintain the competitive position of the Company, there is a dedicated development team at Group level.

FUTURE DEVELOPMENTS

The company is a subsidiary of Enghouse Systems Limited, a publicly traded Canadian based software and services company founded in 1984. Enghouse serves a number of distinct vertical markets through its two divisions, each developing and selling enterprise oriented applications software.

Enghouse's overall strategy is to create a larger and more diverse enterprise software company through strategic acquisitions and managed growth. The company is led by a seasoned team of proven executives who have years of experience building and running successful software companies.

The external commercial environment is expected to remain competitive in 2016, while economic conditions remain uncertain. However, we remain confident we will maintain our market position through leveraging existing strong partner relationships and by continuing to invest in our product portfolio.

DIRECTOR

S J Sadler held office during the whole of the period from 1 November 2015 to the date of this report.

FINANCIAL RISK MANAGEMENT

The director is responsible for setting risk management policies. The company's operations expose it to a variety of financial risks that include the effects of risk and liquidity. The company has processes in place to ensure these risks are minimised.

i) Credit risk

The company has implemented policies that require appropriate credit checks on potential customers before sales are made.

ii) Liquidity risk

The company aims to continuously assess and observe the level of funding required to finance the business to ensure that it has sufficient liquid assets for financing its operations.

iii) Price risk and interest risk

The company does not consider that it is exposed to any material risks in relation to price or interest rates.

DISABLED EMPLOYEES

The Company gives full consideration to applications for employment from disabled persons where the candidate's particular aptitudes and abilities are consistent with adequately meeting the requirements of the job. Opportunities are available to disabled employees for training, career development and promotion.

Where existing employees become disabled, it is the Company's policy to provide continuing employment wherever practicable in the same or an alternative position and to provide appropriate training to achieve this aim.

**Report of the Director
for the Year Ended 31 October 2016**

EMPLOYEE INVOLVEMENT

The Company operates a framework for employee information and consultation which complies with the requirements of the Information and Consultation of Employees Regulations 2005. Regular meetings are held between local management and employees to allow a free flow of information and ideas.

STATEMENT OF DIRECTOR'S RESPONSIBILITIES

The director is responsible for preparing the Strategic Report, the Report of the Director and the financial statements in accordance with applicable law and regulations.

Company law requires the director to prepare financial statements for each financial year. Under that law the director has elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 101 'Reduced Disclosure Framework'. Under company law the director must not approve the financial statements unless he is satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the director is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable accounting standards 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 director is responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable him to ensure that the financial statements comply with the Companies Act 2006. He is 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 AS TO DISCLOSURE OF INFORMATION TO AUDITORS

So far as the director is aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the company's auditors are unaware, and he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

AUDITORS

The auditors, Masons Statutory Auditors, will be proposed for re-appointment at the forthcoming Annual General Meeting.

ON BEHALF OF THE BOARD:

S J Sadler - Director

17 July 2017

Report of the Independent Auditors to the Members of Enghouse Interactive (UK) Limited

We have audited the financial statements of Enghouse Interactive (UK) Limited for the year ended 31 October 2016 on pages eight to twenty five. 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), including Financial Reporting Standard 101 'Reduced Disclosure Framework'.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in a Report of the Auditors and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of director and auditors

As explained more fully in the Statement of Director's Responsibilities set out on page five, the director is 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 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 company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the director; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Strategic Report and the Report of the Director 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 financial statements:

- give a true and fair view of the state of the company's affairs as at 31 October 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 'Reduced Disclosure Framework'; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Report of the Independent Auditors to the Members of Enghouse Interactive (UK) Limited

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

Neil John Gadeke FCCA (Senior Statutory Auditor)
for and on behalf of Masons Statutory Auditors
337 Bath Road
Slough
Berkshire
SL1 5PR

17 July 2017

ENGHOUSE INTERACTIVE (UK) LIMITED (REGISTERED NUMBER: 04230977)

**Statement of Comprehensive Income
for the Year Ended 31 October 2016**

	Notes	31.10.16 £'000	31.10.15 £'000
TURNOVER	3	24,571	22,911
Cost of sales		<u>721</u>	<u>695</u>
GROSS PROFIT		23,850	22,216
Administrative expenses		<u>13,618</u>	<u>14,641</u>
		10,232	7,575
Other operating income		<u>1,582</u>	<u>-</u>
OPERATING PROFIT		11,814	7,575
Interest receivable and similar income		<u>125</u>	<u>54</u>
		11,939	7,629
Interest payable and similar expenses	5	<u>8</u>	<u>178</u>
PROFIT BEFORE TAXATION	6	11,931	7,451
Tax on profit	8	<u>2,335</u>	<u>1,582</u>
PROFIT FOR THE FINANCIAL YEAR		9,596	5,869
OTHER COMPREHENSIVE INCOME		<u>-</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>9,596</u>	<u>5,869</u>

The notes form part of these financial statements

ENGHOUSE INTERACTIVE (UK) LIMITED (REGISTERED NUMBER: 04230977)

Balance Sheet
31 October 2016

	Notes	31.10.16 £'000	£'000	31.10.15 £'000	£'000
FIXED ASSETS					
Tangible assets	9		682		404
Investments	10		<u>39,122</u>		<u>34,731</u>
			39,804		35,135
CURRENT ASSETS					
Debtors	11	26,447		7,289	
Cash at bank		<u>5,735</u>		<u>7,350</u>	
		32,182		14,639	
CREDITORS					
Amounts falling due within one year	12	<u>26,768</u>		<u>14,152</u>	
NET CURRENT ASSETS			<u>5,414</u>		<u>487</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>45,218</u>		<u>35,622</u>
CAPITAL AND RESERVES					
Called up share capital	14		316		316
Share premium	15		20,972		20,972
Retained earnings	15		<u>23,930</u>		<u>14,334</u>
SHAREHOLDERS' FUNDS			<u>45,218</u>		<u>35,622</u>

The financial statements were approved by the director on 17 July 2017 and were signed by:

S J Sadler - Director

The notes form part of these financial statements

**Statement of Changes in Equity
for the Year Ended 31 October 2016**

	Called up share capital £'000	Retained earnings £'000	Share premium £'000	Total equity £'000
Balance at 1 November 2014	-	8,465	20,972	29,437
Changes in equity				
Issue of share capital	316	-	-	316
Total comprehensive income	-	5,869	-	5,869
Balance at 31 October 2015	<u>316</u>	<u>14,334</u>	<u>20,972</u>	<u>35,622</u>
Changes in equity				
Total comprehensive income	-	9,596	-	9,596
Balance at 31 October 2016	<u>316</u>	<u>23,930</u>	<u>20,972</u>	<u>45,218</u>

The notes form part of these financial statements

**Notes to the Financial Statements
for the Year Ended 31 October 2016**

1. STATUTORY INFORMATION

Enghouse Interactive (UK) Limited is a private company, limited by shares, registered in England and Wales. The company's registered number and registered office address can be found on the Company Information page.

The functional currency and presentation currency of the financial statements is Pound Sterling (£).

The Company as parent of a group has taken advantage of the exemption under s400 of the Companies Act 2006 not to prepare group accounts as it is a wholly owned subsidiary of Enghouse Systems Limited which is a public company listed on the Toronto stock exchange and is included in their consolidated financial statements.

**Notes to the Financial Statements - continued
for the Year Ended 31 October 2016**

2. ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Financial Reporting Standard 101 "Reduced Disclosure Framework" and the Companies Act 2006. The financial statements have been prepared under the historical cost convention.

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by FRS 101 "Reduced Disclosure Framework":

- the requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 Share-based Payment;
- the requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 Business Combinations;
- the requirements of paragraph 33(c) of IFRS 5 Non Current Assets Held for Sale and Discontinued Operations;
- the requirements of IFRS 7 Financial Instruments: Disclosures;
- the requirements of paragraphs 91 to 99 of IFRS 13 Fair Value Measurement;
- the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:
 - paragraph 79(a)(iv) of IAS 1;
 - paragraph 73(e) of IAS 16 Property, Plant and Equipment;
 - paragraph 118(e) of IAS 38 Intangible Assets;
 - paragraphs 76 and 79(d) of IAS 40 Investment Property; and
 - paragraph 50 of IAS 41 Agriculture;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D and 111 of IAS 1 Presentation of Financial Statements;
- the requirements of paragraphs 134 to 136 of IAS 1 Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements of paragraphs 17 and 18A of IAS 24 Related Party Disclosures;
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group;
- the requirements of paragraphs 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 Impairments of Assets.

Judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements:

Operating lease commitments:

The Company has entered into leases for buildings, vehicles and office machinery. The classification of such leases as operating or finance lease requires the Company to determine, based on an evaluation of the terms and conditions of the arrangements, whether it retains or acquires the significant risks and rewards of ownership of these assets and accordingly whether the lease requires an asset and liability to be recognised in the balance sheet.

Taxation:

Notes to the Financial Statements - continued
for the Year Ended 31 October 2016

Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies.

Turnover

Revenue represents net invoiced sales of goods, excluding value added tax. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, value added tax and other sales taxes. The company has four main streams of turnover. The streams along with the accounting policy associated with their recognition are as follows:

- Software licence and hardware sales - Turnover is recognised in full upon shipment of the software. This is deemed to be at the point of delivery to the customer.
- Maintenance sales - Maintenance sales are held on the balance sheet as "deferred revenue" and amortised over the period of maintenance to which it relates on a straight line basis.
- Service sales - Turnover for services such as consultancy and training are recognised upon the performance of the service.
- Hosted revenue - Software and services supplied over a centrally hosted platform are recognised by the number of ports used by the customers each month.

Tangible fixed assets

Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life.

- | | |
|----------------------------------|--------------------------------------|
| Short leasehold | - Straight line over period of lease |
| Fixtures, fittings and equipment | - 33% on reducing balance |

Notes to the Financial Statements - continued
for the Year Ended 31 October 2016

2. ACCOUNTING POLICIES - continued

Financial instruments, assets and liabilities

(i) Financial assets

Initial recognition and measurement

The Company's financial assets include cash and short-term deposits, trade and other receivables and loans.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognised at fair value and subsequently measured at amortised cost using the effective interest (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance revenue in the income statement. Losses arising from impairment are recognised in the income statement in other operating expenses. Trade debtors, which generally have 30 day invoice terms, are recognised and carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, receivables are carried at amortised cost. Provision for impairment is made through profit or loss when there is objective evidence that the Company will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

Derecognition of financial assets

A financial asset is derecognised when (a) the rights to receive cash flows from the asset have expired or (b) the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass through" arrangement; and either (i) the Company has transferred substantially all the risks and rewards of the asset, or (ii) the company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired. If there is objective evidence that an impairment loss on loans and receivables carried at amortise cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced, with the amount of the loss recognised in administration costs. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the profit and loss account, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

(ii) Financial liabilities

**Notes to the Financial Statements - continued
for the Year Ended 31 October 2016**

2. ACCOUNTING POLICIES - continued

Initial recognition and measurement

All of the Company's financial liabilities are classified as loans and borrowings. The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value plus directly attributable transaction costs.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Interest bearing loans and borrowings

Obligations for loans and borrowings are recognised when the Company becomes party to the related contracts and are measured initially at the fair value of consideration received less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Derecognition of financial liabilities

A liability is generally derecognised when the contract that gives rise to it is settled, sold, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in profit or loss.

(iii) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated balance sheet if, and only if, there is currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

- For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arms length market transactions; reference to the current fair value of another instrument this is substantially the same; discounted cash flow analysis or other valuation models.
- (iv)

**Notes to the Financial Statements - continued
for the Year Ended 31 October 2016**

2. ACCOUNTING POLICIES - continued

Taxation

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date. Deferred income tax is recognised on all temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the financial statements.

Income tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly, income tax is charged or credited directly to equity if it relates to items that are credited or charged directly to equity. Otherwise income tax is recognised in the income statement.

Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised. Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date. Deferred income tax assets and liabilities are offset, only if a legally enforcement right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the company to make a single net payment.

Research and development

Research costs are expensed as incurred. Development expenditure on an individual project is recognised as an intangible asset when the Company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised evenly over the period of expected future benefit. During the period of development, the asset is tested for impairment annually.

Foreign currencies

Transactions in foreign currencies are initially recorded in the entity's functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Employee benefit costs

The company operates a defined contribution pension scheme. Contributions payable to the company's pension scheme are charged to the income statement in the period to which they relate.

Notes to the Financial Statements - continued
for the Year Ended 31 October 2016

2. ACCOUNTING POLICIES - continued

Investments

Investments in subsidiary undertakings are recorded at cost plus incidental expenses less any provision for impairment. Impairment reviews are performed by the director where there has been an indication of potential impairment.

Going concern

The director believes that the Company is well placed to manage its business risks successfully. After making enquiries, the director has a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the director continues to adopt the going concern basis in preparing the annual report and financial statements.

3. TURNOVER

The turnover and profit before taxation are attributable to the principal activities of the company.

An analysis of turnover by class of business is given below:

	31.10.16	31.10.15
	£'000	£'000
Hosting revenue	1,384	1,025
Professional services	2,842	1,938
Maintenance revenue	11,736	11,538
Software licences	8,295	7,977
Hardware & third party licence	314	433
	<u>24,571</u>	<u>22,911</u>

An analysis of turnover by geographical market is given below:

	31.10.16	31.10.15
	£'000	£'000
United Kingdom	15,956	16,624
Europe	6,156	4,837
Rest of the world	2,459	1,450
	<u>24,571</u>	<u>22,911</u>

4. EMPLOYEES AND DIRECTORS

	31.10.16	31.10.15
	£'000	£'000
Wages and salaries	7,604	8,349
Social security costs	1,085	1,250
Other pension costs	304	286
	<u>8,993</u>	<u>9,885</u>

Notes to the Financial Statements - continued
for the Year Ended 31 October 2016

4. EMPLOYEES AND DIRECTORS - continued

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

	31.10.16	31.10.15
Technical services	48	53
Sales and marketing	30	33
Research and development	25	30
Finance and administration	27	28
	<u>130</u>	<u>144</u>

During the year, employees working in research and development were recharged to Enghouse Development UK Limited, another group company.

	31.10.16	31.10.15
	£	£
Director's remuneration	<u>-</u>	<u>-</u>

5. INTEREST PAYABLE AND SIMILAR EXPENSES

	31.10.16	31.10.15
	£'000	£'000
Interest payable on amounts owed to group undertakings	-	178
Interest payable on taxation	<u>8</u>	<u>-</u>
	<u>8</u>	<u>178</u>

6. PROFIT BEFORE TAXATION

The profit before taxation is stated after charging/(crediting):

	31.10.16	31.10.15
	£'000	£'000
Cost of inventories recognised as expense	721	695
Depreciation - owned assets	424	308
Foreign exchange differences	(1,582)	153
Research and development	-	2,762
Operating leases - other	344	440
Operating leases - plant and machinery	27	19
Write down of intercompany balances	<u>-</u>	<u>460</u>

The charges for operating leases are borne by the company but the financial commitment remains with Enghouse Development (UK) Limited.

During the prior year the company wrote down the value of intercompany balances to nil for those entities where the assets were transferred to the company as part of the restructuring process or if the owing company had insufficient funds. The opposite entry was made in the financial statements of the respective company.

Notes to the Financial Statements - continued
for the Year Ended 31 October 2016

7. AUDITORS' REMUNERATION

	31.10.16 £'000	31.10.15 £'000
Fees payable to the company's auditors and their associates for the audit of the company's financial statements	<u>65</u>	<u>65</u>

For the financial statement ended 31 October 2016 the company had 2 separate auditors being PricewaterhouseCoopers LLP and Masons. The remuneration payable to each auditor was:

	£'000
- PricewaterhouseCoopers LLP	50
- Masons	15

Audit fees of £5,000 (2015 - £5,000) for the following companies are borne by the company; Arc Solutions (International) Limited, Enghouse Development (UK) Limited and Enghouse Interactive Holdings (UK) Limited.

8. TAXATION

Analysis of tax expense

	31.10.16 £'000	31.10.15 £'000
Current tax:		
Tax	2,380	872
Prior period taxation	<u>(90)</u>	<u>13</u>
Total current tax	<u>2,290</u>	<u>885</u>
Deferred tax	<u>45</u>	<u>697</u>
Total tax expense in statement of comprehensive income	<u><u>2,335</u></u>	<u><u>1,582</u></u>

Notes to the Financial Statements - continued
for the Year Ended 31 October 2016

8. TAXATION - continued

Factors affecting the tax expense

The tax assessed for the year is lower (2015 - higher) than the standard rate of corporation tax in the UK. The difference is explained below:

	31.10.16	31.10.15
	£'000	£'000
Profit before income tax	11,931	7,451
Profit multiplied by the standard rate of corporation tax in the UK of 20% (2015 - 20.420%)	2,386	1,521
Effects of:		
Expenses not taxable for tax purposes	-	125
Capital allowances in excess of depreciation	31	10
Items not allowable for tax purposes	22	23
Group loss relief	(30)	(20)
Tax losses utilised	-	(787)
Research and development tax credit	(29)	-
Adjustment in respect of prior years	(18)	(61)
Deferred tax charged to comprehensive income	(27)	752
Change in the prevailing rate of tax	-	19
Tax expense	<u>2,335</u>	<u>1,582</u>

Other than the deferred tax asset there are no other factors that affect future tax charges.

The standard rate of corporation tax in the UK changed from 21% to 20% with effect from 1 April 2016.

In addition to the changes in the corporation tax rate further changes to the UK tax system were announced in the July 2016 UK budget statement. These include proposals to reduce the main rate of corporation tax to 19% from the 1 April 2017 and to 18% from the 1 April 2020. These further changes had not been substantively enacted at the balance sheet date and are therefore not reflected in these financial statements.

The overall effect of these changes if they had been applied to the deferred tax balance at the balance sheet date would be to reduce the deferred tax asset by an additional £30,000 with a resultant increase in the tax expense for the year.

Notes to the Financial Statements - continued
for the Year Ended 31 October 2016

9. TANGIBLE FIXED ASSETS

	Short leasehold £'000	Fixtures, fittings and equipment £'000	Totals £'000
COST			
At 1 November 2015	140	1,107	1,247
Additions	240	462	702
At 31 October 2016	<u>380</u>	<u>1,569</u>	<u>1,949</u>
DEPRECIATION			
At 1 November 2015	131	712	843
Charge for year	32	392	424
At 31 October 2016	<u>163</u>	<u>1,104</u>	<u>1,267</u>
NET BOOK VALUE			
At 31 October 2016	<u>217</u>	<u>465</u>	<u>682</u>
At 31 October 2015	<u>9</u>	<u>395</u>	<u>404</u>

10. INVESTMENTS

	Shares in group undertakings £'000
COST	
At 1 November 2015	34,731
Additions	4,391
At 31 October 2016	<u>39,122</u>
NET BOOK VALUE	
At 31 October 2016	<u>39,122</u>
At 31 October 2015	<u>34,731</u>

The company's investments at the Balance Sheet date in the share capital of companies include the following:

Andtek GmbH

Registered office: A company registered in Germany

Nature of business: Software

	% holding
Class of shares:	
Ordinary	100.00

Notes to the Financial Statements - continued
for the Year Ended 31 October 2016

10. INVESTMENTS - continued

Enghouse Holdings (UK) Limited

Registered office: Imperium, Imperial Way, Reading, Berkshire, Reading RG2 0TD

Nature of business: Holding company

	%
Class of shares:	holding
Ordinary	
Preference	83.00

Enghouse Transportation Limited

Registered office: A company registered in Canada

Nature of business: Software

	%
Class of shares:	holding
Preference	100.00

FVT Holdings Limited

Registered office: Imperium, Imperial Way, Reading, Berkshire, Reading RG2 0TD

Nature of business: Dormant

	%
Class of shares:	holding
Ordinary	100.00

The company was registered as being dissolved on the 14 February 2017.

SRC Europe Limited

Registered office: Imperium, Imperial Way, Reading, Berkshire, Reading RG2 0TD

Nature of business: Dormant

	%
Class of shares:	holding
Ordinary	100.00

The company was registered as being dissolved on the 14 February 2017.

11. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	31.10.16	31.10.15
	£'000	£'000
Trade debtors	5,138	4,043
Amounts owed by group undertakings	19,295	1,963
Other debtors	1,224	525
Deferred tax asset	111	156
Prepayments and accrued income	679	602
	<u>26,447</u>	<u>7,289</u>

Amounts owed by group undertakings are subject to a nominal interest charge at a rate of 2.25%, are unsecured and repayable upon demand.

Notes to the Financial Statements - continued
for the Year Ended 31 October 2016

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	31.10.16	31.10.15
	£'000	£'000
Trade creditors	1,061	1,767
Amounts owed to group undertakings	16,464	4,518
Tax	2,442	-
Social security and other taxes	-	891
VAT	-	275
Other creditors	455	114
Accruals and deferred income	6,346	6,587
	<u>26,768</u>	<u>14,152</u>

Amounts owed to group undertakings are subject to a nominal interest charge at a rate of 2.25%, are unsecured and repayable upon demand.

13. DEFERRED TAX

	£'000
Balance at 1 November 2015	(156)
Credit to Statement of Comprehensive Income during year	(27)
Prior period adjustment	72
Balance at 31 October 2016	<u>(111)</u>

Deferred tax assets and liabilities are offset where the company has a legally enforceable right to do so.

Notes to the Financial Statements - continued
for the Year Ended 31 October 2016

14. CALLED UP SHARE CAPITAL

Allotted, issued and fully paid:

Number	Class	Nominal value:	31.10.16 £	31.10.15 £
3,624,785	Participating Preferred	0.001p	36	36
2,840,000	Deferred	0.001p	28	28
3,684,791	Convertible Preferred	0.001p	37	37
60,000,000	Senior Convertible Preference	0.001p	600	600
5,371,552	A Ordinary	0.001p	54	54
315,140	Ordinary	£1	<u>315,140</u>	<u>315,140</u>
			<u>315,895</u>	<u>315,895</u>

The 'A' ordinary shares, participating preferred shares, convertible preferred shares and senior convertible preference shares rank equally in respect of dividends and votes. The deferred shares have no entitlement to dividends or to vote.

Upon the winding up of the company any surplus is used first to repay the capital of the holders of the senior convertible preference shares, then to the participating preferred shares and then the holders of the convertible preferred shares. In any remaining surplus up to a maximum of £1,000,000, the holders of the participating preferred shares and the 'A' ordinary shares shall then rank as one class. Amounts over and above this are first used to repay the subscription price to the holders of the deferred shares and then allocated to the holders of the participating preferred shares and the 'A' ordinary shares who shall then rank as one class.

15. RESERVES

	Retained earnings £'000	Share premium £'000	Totals £'000
At 1 November 2015	14,334	20,972	35,306
Profit for the year	<u>9,596</u>	<u></u>	<u>9,596</u>
At 31 October 2016	<u>23,930</u>	<u>20,972</u>	<u>44,902</u>

16. ULTIMATE PARENT COMPANY

Enghouse Systems Limited (incorporated in Canada) is regarded by the director as being the company's ultimate parent company.

The company's immediate parent undertaking is Enghouse Interactive Holdings (UK) Limited, a company incorporated in England and Wales.

The only group in which the results of the company for the year ended 31 October 2016 are consolidated was that headed by Enghouse Systems Limited. The consolidated accounts of this group for that year are available to the public and may be obtained from www.enghouse.com/investors/financials.html.

**Notes to the Financial Statements - continued
for the Year Ended 31 October 2016**

17. TRANSITION TO FRS 101

For all periods up to and including the year ended 31 October 2015, the Company prepared its financial statements in accordance with previously extant United Kingdom generally accepted accounting practice (UK GAAP). These financial statements, for the year ended 31 October 2016, are the first the Company has prepared in accordance with FRS 101.

Accordingly, the Company has prepared financial statements which comply with IFRS applicable for periods ending on or after 31 October 2016, together with the comparative period data as at and for the year ended 31 October 2015, as described in the accounting policies, and the significant accounting policies meeting those requirements are described in the relevant notes.

In preparing these financial statements, the Company has started from an opening balance sheet as at 1 November 2015, the Company's date of transition to FRS101, and made those changes in accounting policies and other restatements required for the first-time adoption of FRS 101. As such, this note explains the principal adjustments made by the Company in restating its balance sheet as at 1 November 2015 prepared under previously extant UK GAAP and its previously published UK GAAP financial statements for the year ended 31 October 2015.

On transition to FRS 101, the company has applied the requirements of paragraphs 6-33 of IFRS 1 "First time adoption of International Financial Reporting Standards".

On transition to FRS 101, no adjustments were required to the previous UK reported opening sheet presentation as at 1 November 2015.

This document was delivered using electronic communications and authenticated in accordance with the registrar's rules relating to electronic form, authentication and manner of delivery under section 1072 of the Companies Act 2006.