In accordance with Regulation 32 of the Overseas Companies Regulations 2009.

OS AA01

Statement of details of parent law and other information for an overseas company

Companies House

THURSDAY

A69LKB36
A09 29/06/2017 #53
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✓ **What this form is for**
You may use this form to accompany your accounts disclosed under parent law.

✗ **What this form is NOT for**
You cannot use this form to r an alteration of manner of co with accounting requirements

Part 1 Corporate company name

Corporate name of overseas company ❶	Frontier Smart Technologies Group Limited
UK establishment number	B R 0 1 6 6 3 1

→ **Filling in this form**
Please complete in typescript or in bold black capitals.

All fields are mandatory unless specified or indicated by *

❶ This is the name of the company in its home state.

Part 2 Statement of details of parent law and other information for an overseas company

A1 Legislation

Please give the legislation under which the accounts have been prepared and, if applicable, the legislation under which the accounts have been audited.

Legislation ❷ European Union

❷ This means the relevant rules or legislation which regulates the preparation and, if applicable, the audit of accounts.

A2 Accounting principles

Accounts

Have the accounts been prepared in accordance with a set of generally accepted accounting principles?

Please tick the appropriate box.

☐ **No.** Go to **Section A3**.

☑ **Yes.** Please enter the name of the organisation or other body which issued those principles below, and then go to **Section A3**.

Name of organisation or body ❸ European Union (IRFS)

❸ Please insert the name of the appropriate accounting organisation or body.

A3 Accounts

Accounts

Have the accounts been audited? Please tick the appropriate box.

☐ **No.** Go to **Section A5**.

☑ **Yes.** Go to **Section A4**.

OS AA01

Statement of details of parent law and other information for an overseas company

A4 Audited accounts

Audited accounts	Have the accounts been audited in accordance with a set of generally accepted auditing standards? Please tick the appropriate box. ☐ **No.** Go to **Part 3 'Signature'**. ☑ **Yes.** Please enter the name of the organisation or other body which issued those standards below, and then go to **Part 3 'Signature'**.	❶ Please insert the name of the appropriate accounting organisation or body.
Name of organisation or body ❶	International Standards of Auditing (UK & Ireland)	

A5 Unaudited accounts

Unaudited accounts	Is the company required to have its accounts audited? Please tick the appropriate box. ☐ **No.** ☑ **Yes.**

Part 3 Signature

	I am signing this form on behalf of the overseas company.
Signature	Signature **X** **X**
	This form may be signed by: Director, Secretary, Permanent representative.

OS AA01

Statement of details of parent law and other information for an overseas company

Presenter information

You do not have to give any contact information, but if you do it will help Companies House if there is a query on the form. The contact information you give will be visible to searchers of the public record.

Contact name: Jonathan Apps

Company name: Frontier Smart Technologies Group Limited

Address: 4th Floor, 137 Euston Road

Post town: London

County/Region:

Postcode: N W 1 2 A A

Country:

DX:

Telephone: 020 7391 0620

Checklist

We may return forms completed incorrectly or with information missing.

Please make sure you have remembered the following:

- ☐ The company name and, if appropriate, the registered number, match the information held on the public Register.
- ☐ You have completed all sections of the form, if appropriate.
- ☐ You have signed the form.

Important information

Please note that all this information will appear on the public record.

Where to send

You may return this form to any Companies House address:

England and Wales:
The Registrar of Companies, Companies House, Crown Way, Cardiff, Wales, CF14 3UZ.
DX 33050 Cardiff.

Scotland:
The Registrar of Companies, Companies House, Fourth floor, Edinburgh Quay 2,
139 Fountainbridge, Edinburgh, Scotland, EH3 9FF.
DX ED235 Edinburgh 1
or LP - 4 Edinburgh 2 (Legal Post).

Northern Ireland:
The Registrar of Companies, Companies House, Second Floor, The Linenhall, 32-38 Linenhall Street, Belfast, Northern Ireland, BT2 8BG.
DX 481 N.R. Belfast 1.

Further information

For further information, please see the guidance notes on the website at www.companieshouse.gov.uk
or email enquiries@companieshouse.gov.uk

This form is available in an alternative format. Please visit the forms page on the website at www.companieshouse.gov.uk

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FRONTIER SMART TECHNOLOGIES GROUP LIMITED (FORMERLY TOUMAZ LIMITED)

ANNUAL REPORT AND ACCOUNTS

FOR THE YEAR ENDED

31 DECEMBER 2016

FRONTIER SMART TECHNOLOGIES GROUP LIMITED

OFFICERS AND ADVISORS

For the year ended 31 December 2016

Registered office:	Intertrust Group 190 Elgin Avenue George Town Grand Cayman Cayman Islands
Directors:	Mr A Sethill (CEO) Mr J Apps (CFO) Mr C Batterham (Non-Executive Director) Dr M Knight (Non-Executive Director) Mr M Harriman (Non-Executive Director) appointed 8 December 2016
Secretary:	Intertrust Group Cayman Islands
Assistant Secretary:	Mr J Apps 137 Euston Road London NW1 2AA
Nominated adviser and broker:	Peel Hunt Moor House 120 London Wall London EC2Y 5E
Registrars:	Capita Registrars (Jersey) Limited 12 Castle Street St Helier, Jersey JE2 3RT Channel Islands
Depository	Capita IRG Trustees Limited The Registry 34 Beckenham Road, Beckenham Kent BR3 4TU
Solicitors:	Taylor Wessing 5 New Street Square London EC4A 3TW
Auditor:	Grant Thornton UK LLP Grant Thornton House Melton Street Euston Square London NW1 2EP

FRONTIER SMART TECHNOLOGIES GROUP LIMITED

CONTENTS

For the year ended 31 December 2016

Chairman's Statement

In last year's report, I described how our highest priority was to optimise shareholder value from our loss-making Healthcare business. Working with advisors, we completed the sale of the business in July 2016 – for gross proceeds of £1.3 million. In addition, the Group will receive royalties on net revenues over ten years and, if the business is sold within four years, we will receive 19% of net proceeds.

Following this disposal, the Group is now fully focused on its consumer audio technology business – Digital Radio and Smart Audio - an area where Management has extensive, deep-rooted expertise.

To reflect this shift in focus, in November 2016, we changed our name to Frontier Smart Technologies Group Limited. At the same time we undertook a 40 for 1 share consolidation.

I am pleased to report that in 2016, the continuing (consumer audio) business became EBITDA positive for the first time – moving from an EBITDA loss of £0.8 million to a positive figure of £0.7 million. Revenues were relatively flat at £32.1 million; but close control of overheads, in particular R&D costs, contributed to this significant improvement in financial performance.

At year end, the Group had a cash balance of £3.4 million. Given the continuing business's improved financial performance, the Board is confident that no further funds from shareholders will be required to support the existing business.

Frontier has two business lines, Digital Radio and Smart Audio, each in different stages of development. Digital Radio business is well-established and performing well. The prospects for DAB radio appear positive – not least, as Norway has recently become the first country in the world to start switching off its FM transmission. The cashflows from this business line provide a foundation for our investment in Smart Audio.

Our Smart Audio business, where we are working closely with Google, offers potentially exciting opportunities, but is in a much earlier stage of development. Initial indications in terms of design wins for this business are promising – however it is too early to predict with great certainty how quickly revenues will grow. Nevertheless, for the Group as a whole, our financial goals for 2017 and 2018 are to increase revenues and improve our profitability and cash generation.

In the last 12 months, we have seen some changes to the Board. In July 2016, Professor Chris Toumazou stepped down from his position as Non-Executive Director. As many of you will know, Chris was the founder of and long-time driving force behind the Group. I would like to thank him for his contribution over the years. In November, we appointed a new NED, Martin Harriman. Martin brings a wealth of international, digital experience – most recently from his time at Telefonica. I would like to welcome Martin to the Board.

Finally, I would like to thank the Group's staff. The success of our established business is down to them, – and their efforts will play a crucial role in determining our fortunes as we address the exciting, opportunities in Smart Audio.

Martin Knight
Chairman
23 March 2017

CHIEF EXECUTIVE'S STATEMENT

Overview

2016 was a pivotal year for the Group. In July, we sold our loss-making Healthcare business, leaving the Group to focus solely on its consumer audio business, Frontier Silicon, which provides technology solutions for DAB digital radios and Wi-Fi enabled smart audio devices.

In November 2016, the Group was renamed Frontier Smart Technologies Group Limited which more accurately reflects the refocused business. At the same time, a 40 for one share consolidation was undertaken, which the Board believes may help to make New Ordinary Shares more attractive to potential new investors.

In FY 2016, the continuing business returned its first positive EBITDA of £0.7 million (against an adjusted loss of £0.8 million in 2015.) Reported revenues were slightly ahead at £32.1 million (2015: £31.7 million), benefiting from being largely denominated in US dollar.

As of 31 December 2016, the Group had cash of £3.4 million, with the outstanding balance of its bank loan being reduced by £0.9 million to £4.1 million.

The improvement in EBITDA reflected improved revenues from Digital Radio and an 11% reduction in the Group's R&D expenditure to £6.6 million (2015: £7.4 million); this follows completion of the Group's fourth generation digital radio chip in 2015. Smart Audio revenues were lower than 2015, pending the release of the Group's next generation solution incorporating Google Chromecast.

Smart Audio is expected to be the driver of growth for the business in the medium term. Global volumes for Smart Audio devices are expected to grow from 14 million units in 2016 to 50 million units in 2020 (*Source: Strategy Analytics*). Frontier's focus is on third party brands which are incorporating ecosystem platforms, such as Google's Chromecast, into their Smart Audio devices.

Operational Review

Digital Radio

Digital Radio revenues were up 8% to £22.3 million (2015: £20.6 million), supported by sales volume growth of 4% to 4.5 million (2015: 4.4 million).

EBITDA for Digital Radio was £8.7 million, a significant improvement on the prior year (2015: £2.7 million) - largely reflecting the completion of major R&D expenditure. The Group's fourth generation chip is shipping in significant volumes and is generating improved margins for the business.

Frontier continues to retain its strong market leadership position and has benefited from growth in Germany, the UK, Norway and the Netherlands. Continued growth is expected following the start of Norway's switch-off of FM transmissions in January 2017, a process which completes at the end of this year. Sustained medium term growth in volumes should be driven by continued expansion in continental Europe, including Switzerland switching off FM in 2020-24.

Smart Audio

Smart Audio revenues were 11% lower at £9.8 million (2015: £11.1 million), reflecting a 20% fall in volumes, pending the release of Minuet, Frontier's new solution incorporating Google Chromecast.

Working software for Minuet was released in December 2016, four months later than originally anticipated, but the Group has now secured a number of design wins for its new platform. The first, Brookstone's Big Blue Studio Wireless Speaker, has already gone on sale in the US. Several other Minuet design wins have also been secured, including for Harman JBL, the world's largest manufacturer of speakers. The Board believes these design wins will deliver growth in Smart Audio revenues in 2017.

Frontier's competitive position in this sector is based on its significant experience in developing technologies in emerging areas of the consumer audio market, its well-established supply chain operations and its relationships with leading audio brands and industry innovators, such as Google.

Prospects for this business, whilst not without risk, are promising, driven in particular by the advent of Voice Personal Assistants ('VPAs') such as the Amazon Echo and Google Home. Frontier's focus will be on third party brands who aim to include these technologies in their own devices.

Disposal of Healthcare

The Group disposed of its healthcare business, Sensium Healthcare, in July 2016 as the business had been heavily loss-making with significant uncertainty regarding when revenue generation would commence. The loss, comprising of £4.7 million in respect of trading losses and £9.5 million loss on disposal for the discontinued business in 2016, was £14.2 million (£6.8 million in 2015).

The business was sold for gross proceeds of £1.3 million (£1.0 million on completion and a further £0.3 million on 31 December 2016) to its European distributor, The Surgical Company ('TSC'). This followed a strategic review, initiated by the Board, which concluded that significant investment would be required to see the business through to revenue generation.

Proceeds from the sale will be used to fund working capital requirements. In addition, the Group will benefit from a ten year royalty stream (3% of net revenues for five years, followed by 2% of net revenues for the following five years). If TSC sells the business within the next four years, Frontier will receive 19% of net proceeds.

Financial review

Revenue

As noted, the Healthcare Division was sold on 22 July 2016 and the trading results and loss on disposal is treated as a discontinued business throughout these accounts. As a result, certain comparative numbers for 2015 have been restated so as to show changes against the continuing business.

Group revenue for the year increased marginally from £31.7 million to £32.1 million, this follows growth of 22.1% in 2015 and 19.6% in 2014. 2016 was broadly flat despite the benefit to revenue of foreign exchange movements between sterling and the US dollar. The exchange gain was offset by a shift in product mix in Digital Radio where fourth generation modules sell for c$5-6 and third generation for c$7-9, and an overall reduction in Smart Radio sales. Total volumes shipped across the business were 5.2 million (2015: 5.2 million).

Gross profit margin increased slightly over the year from 43.2% to 43.9%. Overall gross margins are expected to decline in the mid-term as Smart Audio, which has lower margins than Digital Radio, grows as a proportion of total revenues.

R&D

As noted last year, the Group largely completed its investment phase in 2015, with R&D expenditure having peaked at £7.4million. For 2016 as a whole, R&D spend was £6.6m and is expected to decline further into 2017.

EBITDA

For the first time in its history the Group is able to report a positive EBITDA of £0.7 million compared to a loss in 2015 on a like for like basis of £0.8 million. As noted earlier, revenue has benefited from the movement in the sterling/dollar exchange rate, however as you move further down the Consolidated Statement of Comprehensive Income this effect is reduced as all the Group's cost of sales is dollar denominated as is a large proportion of its overheads where staff are located outside the UK. The Group expects EBITDA performance to improve further in the coming years as Smart Audio matures.

Discontinued operations

During the year the Group disposed of its Healthcare Division and both the trading losses and loss on disposal have been included in "Loss for the year from discontinued operations" of £14.2 million. As has been noted in public market announcements previously, the Board undertook a rigorous sales process with external advisers and disposed of the division for gross proceeds of £1.3 million, plus a future royalty stream and a share of any profits on a subsequent disposal.

The table below reconciles the Group's EBITDA to its loss for the year.

	2016 £'000	Restated 2015 £'000
Loss for the year	**(15,612)**	**(14,735)**
Add back:		
Taxation	(1,607)	(1,133)
Net finance charges / (income)	352	60
Depreciation	355	371
Amortisation	2,377	2,480
Share based payment	633	1,229
Impairment	-	3,016
Loss for the year from discontinued operations	14,173	6,809
EBITDA	**671**	**(1,903)**
Provision against other receivables	-	1,122
Adjusted EBITDA	**671**	**(781)**

Pre-tax loss

The Group reported a pre-tax loss of £3.0 million (Restated 2015: loss £9.1 million).

Taxation

The Group has historically applied for and received tax credits in respect of its research and development expenditure. In 2016 the tax credits amounted to £1.6 million (2015: £1.7 million). It is expected that similar claims will be made in 2016.

As at 31 December 2016 the Group has unutilised tax losses of £37.9 million which may be utilised against taxable future profits. These losses are still to be agreed with the UK tax authorities. In the Board's opinion there is uncertainty over the timing and quantum of their use in the foreseeable future and therefore a deferred tax asset has not been recognised.

Cash flow

At the year-end, the Group recorded £3.4 million of cash and cash equivalents on the balance sheet. The Board believes that with the Group trading at a positive EBITDA level and generating positive cash flows in 2017 and beyond that this is sufficient for the immediate needs of the business.

Current Trading and Outlook

The outlook for 2017 is healthy and the Board expects revenues and EBITDA to improve this year.

Digital Radio revenues are benefitting from the continued international uptake of DAB radio. In January 2017, Norway became the first country to start the switch-off of its FM broadcasts, which has contributed to increased demand in the opening months of this year. Smart Audio revenues should return to growth in 2017 following the release of the Group's new solution at the end of 2016.

Anthony Sethill

Chief Executive Officer

23 March 2017

STRATEGIC REPORT

The Directors present their annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2016. This report has been prepared voluntarily in order to provide appropriate information for shareholders.

Principal activity

The principal activity of the Group is commercial exploitation of wireless technologies and systems in the Digital Radio and Smart Audio sectors

Business review

A review of the business in the year and of future developments is given in the Chairman's Statement and Chief Executive's Statement on pages 2 to 7.

The results of the Group are shown within the financial statements. The Directors do not recommend the payment of a dividend.

The key performance indicators the Directors utilise to monitor the performance of the Group are as follows:

Unit orders and sales

The Group monitors, on a weekly basis, all products ordered and shipped (sold) across all divisions. Monthly targets are set at the budget approval stage and these targets are reported upon in each month's management accounts.

Average Selling Prices, Average Cost Prices and Gross Margins

As with unit orders and sales, sales prices, cost prices and margins are monitored for each product type offered by the Group. Gross margins by division are reported upon in the management accounts.

Total Revenues, Margins, Overheads and EBITDA

The management accounts include full financials for each division in the business and Consumer Audio is split into connected audio and digital radio. Comparisons are made to Budget and Prior Year.

Net Working Capital and Cash

The Board considers the cash balance of the Group to be of pre-eminent importance. The Group has moved to a cash positive position on an ongoing basis but cash still needs to be carefully managed to cope with the seasonal and fluctuating working capital balances. Even when sustainable positive cash flow is achieved this focus on cash will continue.

Funding

During the year the Group concentrated on managing the cash resources of the business in line with internal financial projections. The current forecasts indicate that no further funds are required in the foreseeable future. Should additional funding be required in future periods then it is believed by the Board that a number of potential sources may be available - these would be assessed at that time.

Share price

The share price is constantly under scrutiny by the Board.

STRATEGIC REPORT

Business risks

A number of risks and uncertainties could adversely affect the achievement of the Group's corporate aims. The following are the key risks the Board has identified together with the processes and policies the Group has in place to mitigate those risks as far as commercially practical.

The introduction of new technologies into the Group's markets

The introduction of new and untested technologies into the Digital Radio market exposes the Group to the risk that costly developments will take longer to be adopted than expected or not achieve acceptable financial returns and therefore put a strain on financial resources. Close relationships with customers, strategic partners and attendance at technology conferences help management keep informed of new technology innovations.

Potential delays in development and testing

Designing and introducing new and revised products, at the cutting edge of the technology central to the Group, can result in operating failures when first introduced and tested. Delays in this can adversely impact our ability to supply the products our customers might want in a timely manner. Continued improvement of management of the software development team will mitigate these risks.

In Digital Radio, our customers' products may be commercially unsuccessful

Frontier Silicon is dependent on connected audio and digital radio manufacturers selecting its solutions for inclusion in their consumer facing devices. Even if this occurs, sales of the Group's solutions are dependent on the commercial success of the end consumer products.

Failure to protect properly our intellectual property and challenges for infringement by third parties

Whilst we seek to protect our intellectual property (IP) by a well-structured and controlled process of patent applications, maintenance and other tools, we face the risk that others may seek to copy and/or infringe certain aspects of our intellectual property. Defence of our claims may prove unsuccessful and expensive. In addition we might face challenges to our use of intellectual property that others could claim belongs to them. The consequences of this would be either a complete withdrawal / redesign of the offending product or serious and costly delays in proving our right to exploit the disputed intellectual property. We are not aware of any situation of IP infringement.

Risks associated with our suppliers and partners failing and causing a disruption in supply

We are dependent on third parties to manufacture our components and, in some cases, assemble our products. Failure of any of our major suppliers could lead to delays in designing and testing new products or in supplying products on time and at the agreed costs to our customers. This risk is reduced by using a number of different suppliers wherever possible.

Dependency on senior management and staff for product development

If we fail to retain key management and employees our ability to complete our development programmes and commitments to customers on time and to budget could lead to delays in achieving Group strategic results. To protect our position in this regard we constantly monitor the competitive nature of our salary and rewards package (including the share option scheme) for key employees. We regularly update staff on the Group's goals, strategy and progress through company meetings and individual briefings.

STRATEGIC REPORT

Financial risk management objectives and policies

The Group's principal financial instruments comprise cash and cash equivalents. The Group has various other financial instruments such as trade receivables and trade payables, which arise directly from its operations.

The Group is exposed to a variety of financial risks which result from its operating and investing activities. The Directors are responsible for co-ordinating the Group's risk management and focus on actively securing the Group's short to medium term cash flows.

The Group does not actively engage in the trading of financial assets and has no financial derivatives. The most significant risks to which the Group is exposed are described below:

Credit risk

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of any allowance for doubtful receivables, estimated by the Directors. The majority of the Group's customers are large, established businesses. Credit control checks are carried out on all new customers and credit limits are regularly reviewed.

Cash flow risks

The Group seeks to manage risks to ensure sufficient liquidity is available to meet foreseeable needs by investing cash assets safely and profitably. Short term flexibility is achieved by the use of money markets to deposit excess cash which is not required in the short term. The Directors prepare rolling cash flow forecasts to identify the need to raise any additional funding where a shortfall in facilities is forecast. During 2015 a £5.0 million loan facility was arranged and drawn down, this is repayable over a 3 year period with repayments commencing in 2016. Current forecasts demonstrate that no further financing will be required to fund existing operations.

Currency risks

The Group is exposed to foreign exchange risk. Most of its products are priced in US$ and, whilst the majority of its third party cost base is also denominated in US$, a large element of its labour cost is borne in sterling and with the setting up of the research centre in Timisoara, Romania an element is borne in Romanian LEU. Management aims to keep a reasonable balance of cash in both US$ and GBP to cover the cost base. The Group does not hedge its foreign exchange risk. At the time when the Directors consider that exposure to foreign exchange trading risks becomes significant they will seek to adopt appropriate hedging strategies and products.

ON BEHALF OF THE BOARD

Jonathan Apps

Assistant Company Secretary

23 March 2017

DIRECTORS' REPORT

Directors

The present Directors of the company are shown on pages 11 to 12. Details of share options held by the Directors are set out in the Report on Remuneration on pages 14 to 16. Details of the Directors biographies are set out on page 11 to 12.

Substantial shareholdings

The only interests in substantial holdings of share capital of the Group which have been notified as at 15 March 2016 were as follows:

	Ordinary shares of 10p each Number	Percentage of capital %
M & G Investments	7,951,272	18.7
Herald Investment	5,376,947	12.7
AXA Investment	2,718,889	6.4
Luc Van Schil	2,438,019	5.7
Hargreave Hale	1,986,017	4.9

Employee involvement

The Group has continued its practice of keeping employees informed of matters affecting them as employees and the financial and economic factors affecting the performance of the Group.

This is achieved through consultations with employees and regular staff meetings. Employee share option schemes have operated since 2003 and are open to all eligible employees. Details of the various share options outstanding are given in note 23 of these accounts. At 31 December 2016 2,060,469 share options were outstanding with a weighted average exercise price of 66p.

Disabled employees

Applications for employment by disabled persons are given full and fair consideration for all vacancies in accordance with their particular aptitudes and abilities. In the event of employees becoming disabled, every effort is made to retrain them in order that their employment with the Group may continue. It is the policy of the Group that training, career development and promotion opportunities should be available to all employees.

DIRECTORS' REPORT

DIRECTORS' RESPONSIBILITIES STATEMENT

The Group was incorporated as a corporation in the Cayman Islands, which does not prescribe the adoption of any particular accounting framework. Accordingly, the Board has resolved that the Group will follow International Financial Reporting Standards as adopted by the European Union (IFRSs) when preparing its annual financial statements.

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

- 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 Group will continue in business.

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

The Directors confirm that:

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

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

To the best of my knowledge:

- the Group financial statements, prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the undertakings included in the consolidation taken as a whole; and
- the annual report, including the Strategic report, includes a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Jonathan Apps
Assistant Company Secretary
23 March 2017

CORPORATE GOVERNANCE

UK Corporate Governance

The Board is committed to the highest standards of Corporate Governance and is accountable to the Company's shareholders for good governance. The Company has not adopted the UK Corporate Governance Code. However, the Board believes it has complied with those aspects of the UK Corporate Governance Code it believes relevant for the Company.

Board of Directors

Dr Martin Knight Non-Executive Chairman

Martin Knight is chairman of LMS Capital Plc, the quoted investment business, and of Cambridge Mechatronics Limited, the unquoted high tech engineering Company. He is a Director of Chrysalis VCT, the quoted SME investor. Until 1 August 2016, he was Chairman of Touchstone Innovations Plc, formerly Imperial Innovations Plc. For 18 years, until the end of 2010, he was a Council member of Imperial College of which he is a Fellow. He is a Trustee, and Chairman of the Finance Committee of the Royal Institution. He started his career at Morgan Grenfell & Co Limited, of which he became a Director in 1982.

Anthony Sethill CEO

Before joining Frontier Smart Technologies Group Anthony was founder and CEO of Frontier Silicon Limited, the leading supplier of digital broadcast and network audio products. From 2001 he successfully grew the business and established Frontier Silicon as a strategic supplier of digital audio chips and modules to global consumer electronic brands. Prior to that Anthony was Managing Director of Consumer & Mobile Phone Products at Amstrad PLC, Sales and Marketing Director at Samsung (UK) Limited, and has also held positions with ONDigital.

Jonathan Apps CFO

Jonathan has over 18 years' experience as a Finance Director, having previously been CFO of Europe's largest independent Wi-Fi operator, The Cloud Networks, for over four years. Prior to that Jonathan was CFO of interactive TV, mobile and internet content producer YooMedia, CFO at AIM listed technology venture capital fund E-capital Investments, and European Finance Director at network integrator EQUANT Integration Services. Jonathan qualified as a chartered accountant with Coopers & Lybrand and has a Bachelor of Commerce degree from Birmingham University.

Chris Batterham NED

Chris Batterham has considerable financial and operational experience and expertise having had an extensive career in a range of relevant companies. His career includes being finance Director of Unipalm plc, the first internet company to IPO and then staying with the company for five years following its takeover by UUnet and being CFO for Searchspace. He is currently a Non-Executive Director of SDL plc, Blue Prism Group plc and NCC Group Plc. He is also Chairman of Eckoh plc. Chris has served on the Boards of Staffware plc, DBS Management plc, DRS plc, Betfair Limited The Invesco Techmark Enterprise Trust plc and Iomart Plc.

CORPORATE GOVERNANCE

Martin Harriman NED appointed 8 December 2016

Martin Harriman, joined the Frontier Board in December 2016, bringing a wealth of experience managing and advising international technology businesses. He has held a number of senior roles at Telefónica S.A., the Spanish multinational telecommunications provider, including CEO of Telefónica Digital UK and subsequently Global Managing Director of Consumer Internet of Things & Digital Home, where he was responsible for the roll-out of digital technologies into the home across Telefónica's 24 country footprint. His earlier career also encompassed management roles at Ericsson, Marconi and BT.

Professor Chris Toumazou NED resigned 20 July 2016

Professor Chris Toumazou (FRS, FREng, FIEEE, FIET, FRSM, FCGI, CEng, DEng, PhD) is currently the Founding Director and Chief Scientist at The Institute of Biomedical Engineering, Imperial College, London. Chris is the founder of two technology-based companies with applications spanning ultra-low-power mobile technology (Frontier Smart Technologies Group Limited) and DNA Sequencing (DNA Electronics Limited). He is also Director of the Winston Wong Centre for Bio Inspired Technology.

Sir Hossein Yassaie NED – resigned 7 February 2016

Sir Hossein Yassaie, PhD, is the Chief Executive Officer of Imagination Technologies plc. After attaining his PhD, Hossein was a research fellow at the University of Birmingham. He spent eight years with STMicroelectronics and Inmos, where he set up and managed the DSP and digital video developments. Ultimately he became responsible for the system divisions, including research and development, manufacturing and marketing. Hossein joined Imagination Technologies in 1992 as CTO, joined the Board in 1995, and became CEO in 1998. He was knighted in the 2013 New Year's Honours List for services to technology and innovation.

The role of the Board

The Group supports the concept of an effective Board leading and controlling the Group. The Board is responsible for approving Group policy and strategy. It meets on a regular basis, at least nine times a year, and has a schedule of matters specifically reserved to it for decision making. The Board also delegates specific responsibilities to senior management and certain Board committees. Management supply the Board with appropriate and timely information and the Directors are free to seek any further information they consider necessary. All Directors have access to advice from the Company Secretary and independent professional advice at the Group's expense.

The Board consists of a Non-Executive Chairman, who was independent on appointment, two executive Directors, who hold the key operational positions in the Group, and three Non-Executive Directors, who bring a breadth of experience and knowledge.

Board Effectiveness

All Board members were asked to complete a questionnaire addressing the Board, committees, chairman and individual performance. The questionnaire was completed anonymously to ensure frank and open discussion. The evaluation was undertaken by Apple Consulting who are independent from any connection to the Board. The results were presented to the Board and recommendations from the report are being implemented.

CORPORATE GOVERNANCE

Relations with shareholders

The Group values the views of its shareholders and recognises their interest in the Group's strategy and performance. The Annual General Meeting will be used to communicate with private investors and they are encouraged to participate. The Directors will be available to answer questions.

Separate resolutions will be proposed on each issue so that they can be given proper consideration and there will be a resolution to approve the annual report and accounts.

Internal control

The Board is responsible for maintaining a strong system of internal control to safeguard shareholders' investment and the Group's assets and for reviewing its effectiveness. The system of internal financial control is designed to provide reasonable, but not absolute, assurance against material misstatement or loss.

An Audit Committee has been established and comprises two Non-Executive Directors, C Batterham (Chair) and Dr M Knight. M Harriman was appointed after the year end. The Committee meets at least half yearly and is responsible for ensuring that the financial performance of the Group is properly monitored and reported on, as well as meeting the auditor and reviewing any reports from the auditor regarding accounts and internal control systems. The Audit Committee also review and monitor the company's whistle blowing procedures and policy. Terms of reference for the Audit Committee have been reviewed and approved by the Board.

The Board has considered the need for an internal audit function but has decided the size of the Group does not justify it at present. However, it will keep the decision under annual review.

Going concern

At 31 December 2016 the Group has net assets of £19.5 million and net current assets of £4.9 million, including £3.4 million of cash. In order to meet their strategic ambitions the Board remains committed to on-going investment into the development of its products. As such the Group anticipates being cash flow positive in 2017 but will nevertheless maintain strict controls over cash to ensure it is managed properly to cover the seasonality and occasional large costs inherent in the business.

In order to assess the appropriateness of the going concern basis the Board has prepared detailed profit and cash flow forecasts through to 31 December 2018 which incorporate the Group and its subsidiary undertakings as at 31 December 2016.

Forecasts have been prepared as follows:

- Management have used their best efforts to predict revenues and gross margin from the core business for the forecast period based on existing customer relationships and expectations for developing new relationships in existing markets.
- Revenue streams for new business lines have been modelled on a best estimate basis with growth rates reflecting the risk associated with new lines of business.
- The Group's cost base is designed to support existing revenue streams and the development of new integrated solutions for consumer audio together with their expected deliverable dates. This has been forecast based on existing costs together with an estimate of forecast costs based on management's experience.

- The Board notes that existing forecasts demonstrate the Group achieving a cash flow positive position for 2017.

The Board is satisfied that whilst there are risk factors associated with any set of forecasts, due care has been exercised in preparing them. Having due regard to all of the factors listed above, the Board is satisfied that it is appropriate to prepare the accounts on a going concern basis.

Directors' and Officers' liability Insurance

During the period the Company maintained insurance cover for Directors' and Officers' liability.

Directors' Attendance Record

The attendance of Directors at relevant meetings of the board was as follows:

Director	Board	Audit Committee	Remuneration Committee
Mr A Sethill	13 of 14		
Mr J Apps	14 of 14		
Sir H Yassaie	1 of 1		
Professor C Toumazou FRS	8 of 9		
Dr M Knight	13 of 14	4 of 4	1 of 1
Mr C Batterham	12 of 14	4 of 4	1 of 1

Report on Remuneration

Basis of preparation

The Board is committed to openness and transparency in relation to the remuneration of the Directors. The report below sets out the key elements of the Group's policies in this respect, in order to provide appropriate information to the shareholders.

Directors' remuneration

The Board recognises that Directors' remuneration is of legitimate concern to shareholders. The Group operates within a competitive environment where performance depends on the individual contributions of the Directors and employees and it believes in rewarding vision and innovation.

Policy on executive Directors' remuneration

A separate Remuneration Committee has been established comprising the three Non-Executive Directors, Dr M Knight, Mr C Batterham and Mr M Harriman (chair).

The Remuneration Committee meets at least twice a year and is responsible for recommending to the Board the policy and structure for the remuneration of the Executive Directors and senior management and approving performance based remuneration. The Remuneration Committee also fulfils the role of an options committee for the Employee Share Option Scheme and its main duty in this context is to approve the grant of options to relevant employees. Terms of reference for the Remuneration Committee have been reviewed and approved by the board.

The policy of the Board is to provide executive remuneration packages designed to attract, motivate and retain Directors of the calibre necessary to maintain the Group's position and to reward them for enhancing shareholder value and return. It aims to provide sufficient levels of remuneration to do this, but to avoid paying more than is necessary. The remuneration will also reflect the Director's responsibilities and contain incentives to deliver the Group's objectives.

The remuneration of the Directors for the year ended 31 December 2016 is as follows:

	2016 Fees and Emoluments £'000	**2015 Fees and Emoluments £'000**
Dr R Steeves	-	30
Mr A Sethill	276	302
Mr J Apps	223	246
Professor C Toumazou	25	30
Paid to Merrycroft Ltd in respect of services provided by Dr M Knight	70	37
Paid to Imagination Technologies plc on behalf of Sir H Yassaie	3	30
Mr C Batterham	30	30
Paid to A Digital Edge Ltd in respect of services provided by Mr M Harriman	3	-
Total	**630**	**705**

Pensions and benefits in kind

Included in the £276,000 paid to Anthony Sethill is £9,000 in benefits in kind.

Pension Contributions

Pension contributions are paid on base salary only.

Report on Remuneration

Bonuses

Director's bonuses payable at 31 December 2016 are £NIL (2015: £82,000).

Notice periods

Mr A Sethill has a service agreement with a six months' notice period on either side. Mr J Apps has a service agreement with a six months' notice period on either side.

The Non-Executive Directors have letters of appointment which are terminable on three months' notice on either side. Future appointments of NEDs will be for specified terms subject to re-election.

Share option incentives

On 4 November there was a 40 to 1 share consolidation the below figures reflect the adjusted options granted and new option price following this change in share capital.

On 21 January 2010 Dr M Knight was granted 75,000 options over Ordinary Shares at £2.40 per share exercisable after 21 January 2010 and which expire on 20 January 2020.

On 1 July 2013 Mr A Sethill was granted 75,000 options over Ordinary Shares at £0.10 each which expire on 10 January 2023 under the Group JSOP scheme, on 23 January 2016 when these options were due to vest the performance criteria had not been met and therefore these options have lapsed. On 26 June 2014 Mr A Sethill was granted 205,000 options over Ordinary shares at £0.10 each which expire on 25 June 2024 under the Group JSOP Scheme. On 28 January 2015 Mr A Sethill was granted 180,000 options over Ordinary shares at £0.10 each which expire on 27 January 2025 under the Group JSOP Scheme. These options are subject to performance criteria as set out below.

25 January 2013 Mr J Apps was granted 75,000 options over Ordinary Shares at £0.10 each which expire on 10 January 2023 under the Group JSOP scheme. On 23 January 2016 when these options were due to vest the performance criteria had not been met and therefore these options have lapsed. On 26 June 2014 Mr J Apps was granted 150,000 options over Ordinary Shares at £0.10 each which expire on 25 June 2024. On 28 January 2015 Mr J Apps was granted 150,000 options over Ordinary Shares at £0.10 each which expire on 27 January 2025. These options are subject to performance criteria as set out below.

Vesting of the 2014 options awards for directors is conditional on a combination of the Groups' share price in comparison to the FTSE All Share Index and the Group's share price attaining a value of £6 for 90 days by 1 April 2019.

Vesting of the 2015 option awards for directors is conditional on the Group's share price attaining a value of £6 for 90 days by 1 April 2019.

None of the other Directors have any interests in share options of the Group.

Shares

At 23 March 2017

Mr A Sethill held 150,000 shares in the Group.

Dr M Knight held 31,250 shares in the Group.

Mr C Batterham held 25,000 shares in the Group.

Mr J Apps held 6,250 shares in the Group.

It is company policy that Directors are not permitted to pledge shares held in the company.

FRONTIER SMART TECHNOLOGIES GROUP LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FRONTIER SMART TECHNOLOGIES GROUP LIMITED

We have audited the group financial statements of Frontier Smart Technologies Group Limited for the year ended 31 December 2016 which comprise the principal accounting policies, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated cashflow statement 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 the terms of our engagement. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 9, the directors are responsible for the preparation of the group 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 group 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 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 2016 and of its loss for the year then ended in accordance with IFRSs as adopted by the European Union.

Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
Date: 23 March 2017

The Company was incorporated in the Cayman Islands which do not prescribe the adoption of any particular accounting framework. The Board has therefore adopted and complied with International Financial Reporting Standards as adopted by the European Union (IFRS). The Company's shares are listed on the AIM market of the London Stock Exchange. The principal accounting policies of the Group are set out below.

BASIS OF CONSOLIDATION

The Group financial statements consolidate those of the Company and all of its subsidiary undertakings drawn up to the balance sheet date. Subsidiaries are entities over which the Group has control, which is defined as being exposure, or rights, to variable returns from its involvement with the investee and where the Group has the ability to affect those returns through its power over the investee. The Group obtains and exercises control through 100% ownership of subsidiary companies.

Unrealised gains on transactions between the Group and its subsidiaries are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Acquisitions of subsidiaries are accounted for using the acquisition method. The acquisition method involves the recognition at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. The acquisition cost is calculated as the sum of the acquisition date fair values of the assets transferred by the acquirer, the equity interests issued and excludes any transaction costs. The acquisition cost includes the fair value of any assets or liabilities arising from contingent consideration arrangement. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group accounting policies. Goodwill is stated after separating out identifiable intangible assets. Goodwill represents the excess of acquisition cost over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition.

Where the Group's interest in a subsidiary changes, but does not result in a change in control, that change is treated as an equity transaction. Any difference between the carrying value of the non-controlling interest and the fair value of the consideration is recognised directly in equity.

Where the consideration involves a contingent element, consideration is given as to whether this meets the definition of equity as a financial liability.

Contingent consideration initially recognised as a financial liability in accordance with the Group's policy is subsequently remeasured at fair value through profit or loss until settled. Contingent consideration initially recognised as equity is not subsequently remeasured.

ADOPTION OF NEW ACCOUNTING POLICIES

The Group has not adopted any new standards or amendments that have a significant impact on the Group's results or financial position.

GOING CONCERN

At 31 December 2016 the Group has net assets of £19.5 million and net current assets of £4.9 million, including £3.4 million of cash. In order to meet their strategic ambitions the Board remains committed to on-going investment into the development of its products. As such the Group anticipates being cash flow positive in 2017 but will nevertheless maintain strict controls over cash to ensure it is managed properly to cover the seasonality and occasional large costs inherent in the business.

In order to assess the appropriateness of the going concern basis the Board has prepared detailed profit and cash flow forecasts through to 31 December 2018 which incorporate the Group and its subsidiary undertakings as at 31 December 2016.

Forecasts have been prepared as follows:

- Management have used their best efforts to predict revenues and gross margin from the core business for the forecast period based on existing customer relationships and expectations for developing new relationships in existing markets.
- Revenue streams for new business lines have been modelled on a best estimate basis with growth rates reflecting the risk associated with new lines of business.
- The Group's cost base is designed to support existing revenue streams and the development of new integrated solutions for consumer audio together with their expected deliverable dates. This has been forecast based on existing costs together with an estimate of forecast costs based on management's experience.
- The Board notes that existing forecasts demonstrate the Group achieving a cash flow positive position for 2017.

The Board is satisfied that whilst there are risk factors associated with any set of forecasts, due care has been exercised in preparing them. Having due regard to all of the factors listed above, the Board is satisfied that it is appropriate to prepare the accounts on a going concern basis.

REVENUE

Revenue, excluding sales tax, comprises revenue arising from the sale of products.

Revenue is only recognised when the Group has performed all of its obligations under the agreement and when the revenues can be reliably measured.

Revenue, excluding sales tax, in respect of the sale of goods is recognised at the point that goods are despatched to and accepted by customers. It is at this point that the customer assumes ownership of the product and therefore substantially all risks and rewards of ownership are deemed to have transferred.

GOODWILL

Goodwill, representing the excess of the fair value of consideration over the fair value of the Group's share of the identifiable net assets acquired, is capitalised and reviewed annually for impairment. Goodwill is carried at cost less accumulated impairment losses. Any excess in the net fair value of an acquirer's identifiable net assets over the cost of acquisition is recognised immediately after acquisition in profit and loss.

TAXATION

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable result for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in the total comprehensive loss.

Deferred taxes are calculated using the liability method on temporary differences. This involves the comparison of the carrying amounts of assets and liabilities in the consolidated financial statements with their respective tax bases. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with shares in subsidiaries is not provided if reversal of these temporary differences can be controlled by the Group and it is probable the reversal will not occur in the foreseeable future. In addition, tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets.

Deferred tax liabilities are always provided for in full. Deferred tax assets are recognised to the extent that it is probable that they will be able to be offset against future taxable income. Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date.

Most changes in deferred tax assets or liabilities are recognised as a component of tax expense in profit and loss. Changes in deferred tax assets or liabilities that relate to a change in value of assets or liabilities that is recognised in other comprehensive income are charged or credited in other comprehensive income, current and deferred tax that relates to items that are recognised in equity is recognised directly in equity.

Research and development tax credits not received at the year end date are included as current assets within the Consolidated Statement of Financial Position, amounts receivable are included within taxation in the Consolidated Statement of Comprehensive Income.

INTANGIBLE ASSETS

Intellectual property rights, licences and development expenditure

The costs of creating and protecting internally generated intellectual property, patents and know-how are written-off to the Consolidated Statement of Comprehensive Income in the period in which they are incurred if they do not meet all of the following criteria:

- the technical feasibility of completing the asset so that it will be available for use or sale is probable;
- it is the intention of management to complete the asset and use or sell it;
- the Group has the ability to use or sell the asset;
- it is probable the asset will generate future economic benefit for the Group;
- adequate technical, financial and other resources to complete and use or sell the asset are available; and
- the Group has the ability to measure reliably the expenditure attributable to the asset during its development.

The costs of acquiring rights to the use of third party intellectual property are capitalised and, subject to impairment reviews, amortised over the estimated economic life of the intellectual property concerned. Amortisation is calculated so as to write off the cost of an asset, less its estimated residual value on a straight line basis over the useful economic life of the asset as follows:

Intellectual property rights	- 4 to 12 years
Licence and development fees	- over the life of the asset

Prepaid royalties and maintenance agreements

Prepaid royalties and maintenance agreements are recognised in the Statement of Comprehensive Income as the underlying assets are utilised. In respect of royalties this is when the related goods are sold. For maintenance agreements this is rateably over the life of the agreement.

Assets acquired as part of a business combination

An intangible asset acquired in a business combination is deemed to have a cost to the Group of its fair value at the acquisition date. The fair value of the intangible asset reflects market expectations about the probability that the future economic benefits embodied in the asset will flow to the Group. The fair value is then amortised over the economic life of the asset. Where an intangible asset might be separable, but only together with a related tangible or intangible asset, the group of assets is recognised as a single asset separately from goodwill where the individual fair values of the assets in the Group are not reliably measurable. Where the individual fair value of the complementary assets is reliably measurable, the Group recognises them as a single asset provided the individual assets have similar useful lives.

REVIEW OF THE CARRYING VALUE OF GOODWILL, OTHER INTANGIBLE ASSETS, PROPERTY, PLANT AND EQUIPMENT AND OTHER INVESTMENTS

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Group management have determined that cash-generating units, to which goodwill can be allocated, are equivalent to its operating segments. Goodwill is allocated to those cash-generating units that are expected to benefit from the synergies of the related business combination and represent the lowest level within the Group at which management monitor goodwill.

Goodwill is tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised in the Statement of Comprehensive Income for the amount by which the asset or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow evaluation. Impairment losses recognised are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro-rata to the other assets in the cash generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment loss is reversed if there has been a favourable change in the estimates used to determine the assets' recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortisation, if no impairment loss had been recognised.

FINANCIAL ASSETS

The Group's financial assets include cash and trade and other receivables, which are classified as loans and receivables.

All financial assets are recognised when the Group becomes party to the contractual provisions of the instrument. All financial assets are initially recognised at fair value, plus transaction costs and subsequently are amortised in line with the Group's policy as disclosed on page 26.

Trade and other receivables are provided against when objective evidence is received that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivable. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

Financial assets are derecognised when the contractual rights to the cash flows from the financial assets expire, or when the financial asset and substantially all of the associated risks and rewards have transferred.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand and bank demand deposits, together with other short-term highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value with original maturities of three months or less from the date of acquisition.

EQUITY

The share capital is determined using the nominal value of shares that have been issued.

The share premium account represents premiums received on the initial issuing of the share capital. Any transaction costs associated with the issuing of shares are deducted from share premium, net of any related income tax benefits.

The share based payment reserve represents the cumulative amount which has been expensed in the Consolidated Statement of Comprehensive Income in connection with equity settled share based payments, less any amounts transferred to the profit and loss account on the exercise of share options.

Retained earnings include all current and prior period results as disclosed in the Consolidated Statement of Comprehensive Income.

Where, as part of a business combination, the Group enters into an agreement which includes a contingent element that is classified as equity, these amounts are fair valued at the date of the acquisition and held in a separate equity reserve. These amounts are not subsequently remeasured but are transferred to share capital and share premium on settlement of the contingent consideration.

The foreign exchange reserve represents the unrealised foreign exchange gains and losses in the Group's overseas subsidiaries.

SHARE BASED PAYMENTS

All share based payment arrangements, including the JSOP scheme are recognised in the financial statements. The Group operates equity-settled share based remuneration plans as an integral part of its remuneration of its employees.

All services received in exchange for the grant of any share-based remuneration are measured at their fair values. These are indirectly determined by reference to the fair value of the share options awarded.

Their fair value is appraised at the grant date and excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets).

Share based payments are ultimately recognised as an expense in profit or loss in the Consolidated Statement of Comprehensive Income with a corresponding credit to the share based payment reserve, net of deferred tax where applicable. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options that are expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates. No adjustment is made to the expense or share issue cost recognised after vesting if fewer share options ultimately are exercised than vested.

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs up to the nominal value of the shares issued are allocated to share capital with any excess being recorded as share premium.

FINANCIAL LIABILITIES

The Group's financial liabilities include trade and other payables. Financial liabilities are obligations to pay cash or other financial assets and are recognised when the Group becomes a party to the contractual provisions of the instrument.

All financial liabilities are recognised initially at fair value, net of direct issue costs, and are subsequently recorded at amortised cost using the effective interest method with interest related charges recognised as an expense in consolidated statement of comprehensive income.

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Where the Group enters into a contractual arrangement which may be settled either through the issue of equity or a cash payment, consideration is given as to whether the arrangement should be classified as equity or as a liability. Such arrangements are treated as equity if and only if the following criteria are met:

- the Group has the ability to avoid settling the obligation in cash;
- the Group can settle the obligation by issuing a fixed number of shares.

Where both criteria are not met the obligation is treated as a financial liability and initially recognised at fair value. Subsequent changes in the fair value are recognised in total comprehensive income for that period. Where the effects of discounting the payments are material, this is taken into consideration in the initial measurement. The subsequent unwinding of this discount is treated as a finance expense in total comprehensive income over the term of the obligation.

PROPERTY, PLANT AND EQUIPMENT

i Measurement bases

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use. Subsequent expenditure relating to property, plant and equipment is added to the carrying amount of the assets only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs, such as repairs and maintenance are charged to Consolidated Statement of Comprehensive Income during the period in which they are incurred.

When assets are sold, any gain or loss resulting from their disposal, being the difference between the net disposal proceeds and the carrying amount of the assets, is included in the consolidated statement of comprehensive income account.

ii Depreciation

Depreciation is calculated so as to write off the cost of property, plant and equipment, less its estimated residual value, which is revised annually, over its useful economic life as follows:

Leasehold improvements	-	33.3% straight line
Office equipment	-	33.3% straight line
Fixtures and fittings	-	33.3% straight line
Computer equipment	-	33.3-50%straight line

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition, which comprises the cost of direct materials and third party charges. Net realisable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

RETIREMENT BENEFIT SCHEME

The Group operates a defined contribution retirement benefit scheme. The assets of the scheme are held separately from those of the Group in independently administered funds. Entrants into this scheme are entitled to have a percentage of their basic salary paid into the scheme by the Group. These contributions are charged to Consolidated Statement of Comprehensive Income as an employee benefit expense in respect of the accounting period in which they become payable.

FOREIGN CURRENCIES

The consolidated financial statements are presented in UK Sterling, which is also the functional currency of the parent company. Foreign currency transactions are translated into the functional currency of the respective Group entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items at year-end exchange rates are recognised in profit or loss in the Consolidated Statement of Comprehensive Income.

Non-monetary items measured at historical cost are translated using the exchange rates at the date of the transaction (not retranslated). In the Group's financial statements, all assets, liabilities and transactions of Group entities with a functional currency other than UK Sterling are translated into UK Sterling upon consolidation. The functional currency of the entities in the Group has remained unchanged during the reporting period.

On consolidation, assets and liabilities have been translated into UK Sterling at the closing rate at the reporting date. Income and expenses have been translated into the Group's presentation currency at the average rate over the reporting period which is deemed to be a reasonable approximation of the actual rate. Exchange differences are charged/credited to other comprehensive income and accumulated in the foreign exchange reserve in equity. Goodwill and fair value adjustments arising on the acquisition of a foreign entity have been treated as assets and liabilities of the foreign entity and translated into UK Sterling at the closing rate.

PROFIT OR LOSS FROM DISCONTINUED OPERATIONS

A discontinued operation is a component of the Group that either has been disposed of, or is classified as held for sale. Profit or loss from discontinued operations comprises the post-tax profit or loss of discontinued operations and the post-tax gain or loss from resulting from the measurement and disposal of assets classified as held for sale.

SEGMENTAL REPORTING

In identifying its operating segments, Group management follows the Group reporting structure which represents the development and exploitation of its products and the overall control of operations. The Group currently reports two segments.

Consumer Audio – This division develops and sells wireless semiconductor chips and embedded solutions for the growing area of internet and cloud-connected applications.

Group costs – Frontier Smart Technologies Group Limited's responsibilities are the overall management of the Group companies providing finance, Group strategy and corporate governance guidance.

Each of the segments is managed separately requiring different management, resources and marketing approaches.

The measurement policies the Group uses for segment reporting under IFRS 8 are the same as those used in its management reporting.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next accounting year are discussed below:

Impairment of non-financial assets

The Group conducts annual impairment reviews of assets when events or changes in circumstances indicate that their carrying amounts may not be recoverable, or in accordance with the relevant accounting standards. An impairment loss is recognised when the carrying amount of an asset is higher than the greater of its net selling price or the value in use. In determining the value in use, management assesses the present value of the estimated future cash flows expected to arise from the continuing use of the asset and from its disposal at the end of its useful life. Estimates and judgments are applied in determining these future cash flows and the discount rate. These assumptions relate to future events and circumstances. The actual results may vary, and may cause adjustments to the Group's assets in future financial years. In particular, assumptions are made on revenue growth rates and achievable margins which, given the markets that the Group operates in, and the new products the Group are introducing, may not eventuate or be slower to attain. Details of the estimates and assumptions made in respect of the potential impairment of intellectual property, goodwill on consolidation, interests in joint venture and interests in associate are detailed in notes 9 and 10 to the financial statements.

The Directors considered the applicability of the discount rate of 18% for the Consumer Audio division, and no impairment was necessary.

Inventories

Management estimates the net realisable values of inventories, taking into account the most reliable evidence available at each reporting date. The future realisation of these inventories may be affected by future technology or other market-driven changes that may reduce future selling prices.

Valuations of share options granted

The fair value of share options granted is calculated using the Black Scholes option pricing model, which requires the input of subjective assumptions, including the volatility of share price.

Details of the inputs are set out in note 23 to the financial statements.

Internally generated software and research costs

Management monitors progress of internal research and development projects by using a project management system. Significant judgement is required in distinguishing research from the development phase. Development costs are recognised as an asset when all the criteria of IAS 38 are met, whereas research costs are expensed as incurred.

Deferred tax assets

The assessment of the probability of future taxable income in which deferred tax assets can be utilised is based on the Group's latest approved budget forecast, which is adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. The tax rules in the numerous jurisdictions in which the Group operates are also carefully taken into consideration. If a positive forecast of taxable income indicates the probable use of a deferred tax asset, especially when it can be utilised without a time limit, that deferred tax asset is usually recognised in full. The recognition of deferred tax assets that are subject to certain legal or economic limits or uncertainties is assessed individually by management based on the specific facts and circumstances.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Group

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the Group. Management anticipates that all of the pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Group's financial statements is provided below although these are not expected to have a material impact.

The following standards, amendments and interpretations have been issued by the International Accounting Standards Board (IASB) or by the International Financial Reporting Interpretations Committee (IFRIC). The Group's approach to these is as follows:

New standards and interpretations currently in issue (as at 14 Dec 2016) but not effective, based on EU mandatory effective dates, for accounting periods commencing on 1 January 2016 are:

- *IFRS 9 Financial Instruments* (Issued on 24 July 2014) 01 January 2018
- *IFRS 14 Regulatory Deferral Accounts* (issued on 30 January 2014) 01 January 2016
- *IFRS 15 Revenue from Contracts with Customers* (issued on 28 May 2014) including amendments to IFRS 15: Effective date of IFRS 15 (issued on 11 September 2015) 01 January 2018
- *IFRS 16 Leases* (Issued on 13 January 2016) 01 January 2019
- *Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (issued on 11 September 2014) Deferred indefinitely
- *Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses* 01 January 2017
- *Amendments to IAS 7: Disclosure Initiative* (issued on 29 January 2016) 01 January 2017
- *Clarifications to IFRS 15 Revenue from Contracts with Customers* (issued on 12 April 2016) 01 January 2018
- *Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions* (issued on 20 June 2016) 01 January 2018
- *Amendments to IFRS 4: Applying IFRS 9 financial instruments with IFRS 4 Insurance* Contracts 01 January 2018
- *Annual improvements to IFRS 2014-2016 Cycle* (Issued 8 December 2016) - Relating to IFRS 1 First time adoption of IFRS and IAS 28 Investment in associates and joint ventures 01 January 2017
- *Annual improvements to IFRS 2014-2016 Cycle* (Issued 8 December 2016) - Relating to IFRS 12 Disclosure of interest in other entities 01 January 2018
- *IFRIC Interpretation 22 Foreign currency transactions and advance* considerations (issued on 8 December 2016) 01 January 2018
- *Amendments to IAS 40: Transfers of investment property* (issued 8 December 2016) 01 January 2018

IFRS 15 Revenue from Contracts with Customers'

IFRS 15 presents new requirements for the recognition of revenue, replacing IAS 18 'Revenue', IAS 11 'Construction Contracts', and several revenue-related Interpretations. The new standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in details under existing IFRSs, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities.

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018. Management intends to adopt the Standard retrospectively, recognising the cumulative effect of initially applying this Standard as an adjustment to the opening balance of retained earnings on the initial date of application. Under this method, IFRS 15 will only be applied to contracts that are incomplete as at 1 January 2018. Management has started to assess the impact of this new Standard, current revenue streams will remain unaffected by this Standard.

IFRS 16 Leases
IFRS 16 will replace IAS 17 and three related Interpretations. It completes the IASB's long-running project to overhaul the lease accounting. Leases will be recorded on the Statement of Financial Position in the form of a right-of-use asset and a lease liability.

IFRS 16 is effective from periods beginning on or after 1 January 2019. Management is yet to fully assess the impact of the Standard and therefore is unable to provide information. However, in order to determine the impact the Group are in the process of:

- performing a full review of all agreements to assess whether any additional contracts will now become a lease under IFRS 16's new definition
- deciding which transitional provision to adopt; either full retrospective application or partial retrospective application.
- assessing the additional disclosures that will be required.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2016

	Note	2016 £'000	Restated 2015 £'000
Revenue	1	**32,135**	**31,721**
Cost of sales		**(18,000)**	**(18,030)**
Gross profit		**14,135**	**13,691**
Research & development		(6,588)	(7,362)
Sales & administrative expenses - other		(6,876)	(7,110)
EBITDA		671	(781)
Amortisation		(2,377)	(2,480)
Depreciation	11	(355)	(371)
Share based payment		(633)	(1,229)
Impairment	2	-	(3,016)
Exceptional items	3	-	(1,122)
Total administrative expenses		**(16,829)**	**(22,690)**
Loss from continuing operations		**(2,694)**	**(8,999)**
Finance income	6	**9**	**15**
Finance charges		**(361)**	**(75)**
Loss before taxation	1	**(3,046)**	**(9,059)**
Taxation	5	**1,607**	**1,133**
Loss for the year from continuing operations		**(1,439)**	**(7,926)**
Loss for the year from discontinued operations	4	(14,173)	(6,809)
Loss for the year		**(15,612)**	**(14,735)**
Items that will not be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations		**17**	**59**
Other comprehensive income		**17**	**59**
Total comprehensive income for the year		**(15,595)**	**(14,676)**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2016

Earnings per share	Note		
Basic earnings per share	4		restated
-From continuing operations		(3.36)p	(18.6)p
-From discontinued operations		(33.1)p	(16.0)p
Earnings per share			
Diluted earnings per share			restated
-From continuing operations		(3.36)p	(18.6)p
-From discontinued operations		(33.1)p	(16.0)p

FRONTIER SMART TECHNOLOGIES GROUP LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the year ended 31 December 2016

	Note	2016 £'000	2015 £'000
ASSETS			
Non-current assets			
Goodwill	9	8,536	19,118
Other intangible assets	10	8,510	11,519
Property, plant and equipment	11	401	707
		17,447	31,344
Current assets			
Inventories	12	2,588	2,666
Tax receivable		1,123	1,301
Trade and other receivables	13	9,890	6,342
Cash and cash equivalents	14	3,376	7,748
Total current assets		16,977	18,057
Total assets		34,424	49,401
LIABILITIES			
Current liabilities			
Trade and other payables	15	12,074	11,239
Total current liabilities		12,074	11,239
Other liabilities > 1 year	16	2,872	3,735
Total liabilities		14,946	14,974
EQUITY			
Share capital	17	4,275	4,262
Share premium		115,300	115,300
Share based payment reserve		5,134	4,501
Foreign exchange reserve		(18)	(35)
Retained earnings		(105,213)	(89,601)
Total equity		19,478	34,427
Total equity and liabilities		34,424	49,401

The consolidated financial statements were approved by the Board on 23 March 2017

Jonathan Apps
Chief Financial Officer

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

FRONTIER SMART TECHNOLOGIES GROUP LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Share capital £'000	Share premium £'000	Share based payment reserve £'000	Retained earnings £'000	Foreign exchange reserve £'000	Total equity £'000
At 1 January 2015	**4,195**	**115,251**	**3,325**	**(74,866)**	**(94)**	**47,811**
Share-based payments	-	-	1,229	-	-	1,229
Issue of share capital	63	-	-	-	-	63
Deferred consideration – retention element	4	49	(53)	-	-	-
Transactions with owners	67	49	1,176	-	-	1,292
Loss for the year	-	-	-	(14,735)	-	(14,735)
Other comprehensive losses						
Exchange differences on translating foreign operations	-	-	-	-	59	59
Total comprehensive loss	-	-	-	(14,735)	59	(14,676)
At 1 January 2016	**4,262**	**115,300**	**4,501**	**(89,601)**	**(35)**	**34,427**
Share-based payments	-	-	633	-	-	633
Issue of share capital	13	-	-	-	-	13
Cost of share issue	-	-	-	-	-	-
Transactions with owners	13	-	633	-	-	646
Loss for the year	-	-	-	(15,612)	-	(15,612)
Other comprehensive losses						
Exchange differences on translating foreign operations	-	-	-	-	17	17
Total comprehensive loss	-	-	-	(15,612)	17	(15,595)
At 31 December 2016	4,275	115,300	5,134	(105,213)	(18)	19,478

FRONTIER SMART TECHNOLOGIES GROUP LIMITED

CONSOLIDATED CASHFLOW STATEMENT

For the year ended 31 December 2016

	Note	2016 £'000	2015 £'000
Cash flows from operating activities			
Loss before taxation		**(3,046)**	**(9,059)**
Amortisation		2,377	2,480
Depreciation		355	371
Impairment of intangible assets		-	3,016
Exceptional item		-	1,122
Share based payments		633	1,229
Net interest payable		352	60
(Decrease) increase in inventories		78	(1,102)
(Increase) in trade and other receivables		(3,568)	(905)
Increase in trade and other payables		868	1,111
foreign exchange (loss)/ gain		(559)	59
Tax refund		1,805	1,998
Net cash from continuing operations		(705)	380
Net cash from discontinued operations		(3,481)	(8,130)
Net cash from operating activities		**(4,186)**	**(7,750)**
Cash flows from investing activities			
Purchase of property, plant and equipment		(81)	(578)
Purchase of intangible assets		(143)	(1,389)
Proceeds from sale of subsidiaries, net of cash sold		714	-
Net cash used in investing activities		**490**	**(1,967)**
Cash flows from financing activities			
Loan		(900)	5,000
Loan interest payable		(361)	(75)
Interest receivable		9	15
Net cash inflow from financing activities		**(1,252)**	**4,940**
Net change in cash and cash equivalents		**(4,948)**	**(4,777)**
Cash and cash equivalents at the beginning of period		7,748	12,513
Exchange differences on cash and cash equivalents		576	12
Cash and cash equivalents at the end of period	**12**	**3,376**	**7,748**
Cash and cash equivalents for discontinued operations		-	297
Cash and cash equivalents for continuing operations		3,376	7,451

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

1 REVENUE, LOSS BEFORE TAXATION AND SEGMENTAL INFORMATION

Revenue and loss before taxation

Revenue and loss before taxation are attributable to the principal activities of the Group.

The loss before taxation is stated after charging:

	2016 £'000	Restated 2015 £'000
Share based payment expense	633	1,229
Staff costs	9,135	9,701
Research and development costs written off	6,588	7,362
Amortisation of intangible assets	2,377	2,480
Depreciation of owned property, plant and equipment	355	371
Impairment of intangibles	-	3,016
Exceptional bad debt provision	-	1,122
Gain on foreign exchange	(193)	(200)
Operating leases: land and buildings	660	553
Auditor's remuneration:		
Fees payable to the Company's auditor for the audit of the Company financial statements	29	36
Fees payable to the Company's auditor for other services		
- audit of the Company's subsidiaries pursuant to the legislation	50	55
- other assurance services	3	2
- non audit services	1	1

Revenue by geographic location

	2016 £'000	2015 £'000
United States and North America	919	1,019
Europe	2,456	2,828
Asia	28,760	27,874
Total revenue	**32,135**	**31,721**

Assets and liabilities by geographic location

	Assets		Liabilities	
	2016	2015	2016	2015
	£'000	£'000	£'000	£'000
Cayman Islands	2,522	3,836	4,359	6,025
Europe	31,314	44,976	10,233	8,635
Asia	588	580	354	313
North America	-	9	-	1
	34,424	49,401	14,946	14,974

Segmental information
As described under Segmental Reporting in the Principal Accounting Policies, Management currently identifies three divisions as operating segments.

For the year ended 31 December 2016	Consumer Audio	Group	Total
	£'000	£'000	£'000
Revenue	32,135	-	32,135
Cost of sales	(18,000)	-	(18,000)
Gross profit	14,135	-	14,135
Amortisation of intellectual property	(2,377)	-	(2,377)
Depreciation	(355)	-	(355)
Share based payment	-	(633)	(633)
Research & development	(6,588)	-	(6,588)
Sales & administrative expenses – other	(6,185)	(691)	(6,876)
Total administrative expenses	(15,505)	(1,324)	(16,829)
Profit/ (loss) from continuing operations	(1,370)	(1,324)	(2,694)
Net finance payable	-	(352)	(352)
Profit/ (loss) before taxation	(1,370)	(1,676)	(3,046)

Included in revenues for the year ended 31 December 2016 are revenues of £10.7 million from the largest customer, £5.4 million from its second largest customer and £1.8 million from its third largest customer. Together these represent 55.8% of the total Group revenue for the year.

For the year ended 31 December 2015	Consumer	Group	Total

	Audio		
	£'000	£'000	£'000
Revenue	31,721	-	31,721
Cost of sales	(18,030)	-	(18,030)
Gross profit	13,691	-	13,691
Amortisation of intellectual property	(2,470)	(10)	(2,480)
Depreciation	(371)	-	(371)
Share based payment	-	(1,229)	(1,229)
Exceptional item	(1,122)	-	(1,122)
Impairment	(3,016)	-	(3,016)
Research & development	(7,362)	-	(7,362)
Sales & administrative expenses – other	(6,470)	(640)	(7,110)
Total administrative expenses	(20,811)	(1,879)	(22,690)
Loss from continuing operations	(7,120)	(1,879)	(8,999)
Net finance payable	10	(70)	(60)
Loss before taxation	(7,110)	(1,949)	(9,059)

Included in revenues for the year ended 31 December 2015 are revenues of £5.5 million from the largest customer, £4.3 million from its second largest customer and £2.1 million from its third largest customer. Together these represent 37% of the total Group revenue for the year.

2 IMPAIRMENT

	2016	2015
	£'000	£'000

Impairment of intangible assets	-	**3,016**
	-	**3,016**

During the prior year the Board took the view that the next generation of connected audio products should be based on third party silicon rather than the company develop its own chip. As a result of this decision certain licences and IP recorded as intangible assets have had their value impaired.

3 EXCEPTIONAL ITEMS

	2016 £'000	2015 £'000
Provision against other debtor	-	**1,122**
	-	**1,122**

As reported in note 2 during the prior year a change in direction in respect of the Company's connected audio strategy has resulted in an impairment of certain intangible assets. This decision resulted in other intangibles assets being reclassified as "Other receivables". It is the Board's view that due to a change of management at its sub-contracting silicon partner; these receivables should be provided for.

4 DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE AND DISCONTINUED OPERATIONS

The amounts presented in the statement of comprehensive income under discontinued operations relate to the disposal of Sensium Healthcare Limited and its subsidiaries, together with the closure of Frontier Microsystems Limited. Sensium Healthcare was disposed of on 22 July 2016 and the decision to close Frontier Microsystems was taken on the same day. Revenue and expenses relating to the discontinuation of this subgroup have been eliminated from loss from the Group's continuing operations and are shown as a single line item on the face of the statement of comprehensive income.

Operating loss of Sensium Healthcare & Frontier Microsystems until the date of disposal and the loss from re-measurement and disposal of assets and liabilities classified as held for sale are summarised as follows:

	note	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Revenue		53	323
Cost of sales		(22)	(423)
Gross profit		31	(100)
Amortisation of intangible assets		(123)	(256)
Depreciation		(49)	(86)
Research & development		(3,753)	(3,897)
Sales & administrative expenses - other		(1,269)	(2,989)
Total administrative expenses		(5,194)	(7,228)
Loss from discontinued operations before tax		(5,163)	(7,328)
Taxation		437	519
Loss on disposal	5	(9,447)	-
Loss for the year from discontinued operations		(14,173)	(6,809)

The disposal of Sensium Healthcare allowed for the disposal of all of the assets and liabilities of the entities as at 22 July with the exception of a receivable in respect of R&D tax credits of £150k. The closure of Frontier Microsystems eliminated any continuing costs and allowed for the settlement of all liabilities as at 22 July with non-current assets, primarily test and IT equipment, transferred to other Frontier Smart Technologies Group companies.

The carrying amounts of assets and liabilities in this disposed group are summarised as follows:

	31 December 2016	31 December 2015
Assets	**£'000**	**£'000**
Non-current assets		
Goodwill	-	10,582
Other intangible assets	-	693
Property, plant and equipment	-	71
	-	11,346
Current assets		
Inventories	-	473
Tax receivable	229	428
Trade and other receivables	-	347
Cash and cash equivalents	-	297
Total current assets	229	1,545
Total assets	229	12,891
Liabilities		
Current liabilities		
Trade and other payables	408	2,716
Total current liabilities	(179)	2,716

5 DISPOSAL OF SENSIUM HEALTHCARE LIMITED

On 22 July 2016, the Group disposed of its 100% shareholding in its subsidiary Sensium Healthcare.

The consideration was settled £1 million on 22 July 2016 and £316k on 31 December 2016. At the date of disposal, the carrying amounts of Sensium Healthcare net assets were as follows:

	£'000
Goodwill	10,582
Intangible assets	590
Property, plant and equipment	70
Total non-current assets	11,242
Inventories	435
Debtors	532
Cash and cash equivalents	318
Total current assets	1,285
Trade and other payables	(2,125)
Total current liabilities	(2,125)
Total net assets	10,402
Total consideration received in cash	1,000
Deferred consideration	316
Other consideration	296
Cost of disposal	(657)
Fair value of consideration received	955
Loss on disposal	9,447

Included within other consideration is amounts relating to a 10 year royalty stream (3% of net revenues for five years, followed by 2% of net revenues for the following five years).

6 FINANCE INCOME

	2016 £'000	2015 £'000
Bank interest receivable	9	15
	9	15

7 TAXATION

The tax credit for the year is as follows:

	2016 £'000	2015 £'000
Current tax		
UK research and development tax credit – current year	**(804)**	**(1,301)**
UK research and development tax credit in the prior year	**(931)**	**(499)**
Foreign tax paid	**128**	**149**
	(1,607)	**(1,651)**

The tax assessed for the period differs from the standard rate of corporation tax in the UK as follows:

	2016 £'000	2015 £'000
Loss before tax	(3,046)	(16,386)
Tax rate	20%	20.75%
Expected tax credit	**(609)**	**(3,400)**
-Tax relief for qualifying R&D expenditure	**(967)**	**(1,570)**
-Under-provision in the prior year	**(931)**	**(499)**
Adjustment for non-deductible expenses:		
-Disallowable expenses	**459**	**1,453**
-Deferred tax balance not recognised in relation to fixed asset timing differences	**98**	**142**
-Other adjustments/ foreign tax paid	**33**	**109**
-Increase in losses carried forward to future	**310**	**2,114**
Actual tax credit	**(1,607)**	**(1,651)**

The Group has tax losses in the UK of approximately £37.9 million (2015: £57.0 million) available for offset against future operating profits. The Group has not recognised any further deferred tax asset in respect of these or any other of the Group's losses. The losses are still to be agreed with the UK tax authorities. It is anticipated that the losses will be available for offset against future profits. However, there is uncertainty over the timing of future profits and therefore a deferred tax asset has not been recognised in respect of these additional losses.

The deferred tax asset amounting to approximately £106,000 (2015: £207,900) has not been provided on the share-based payment expense due to there being insufficient certainty regarding its recovery.

A deferred tax liability arises on the intangible assets acquired as part of the acquisition of the Frontier Group of approximately £1.9m. At that time the group headed by Frontier Silicon

(Holdings) Limited had accumulated trading losses which would have resulted in a deferred tax asset in excess of these amounts. Given that these amounts would be expected to be settled at the same time as the liability, an asset in respect of these losses has been recognised to an equal value of the potential liability. Given the Group has a right and the ability to settle these amounts at the same time, the asset and liability have been offset in these financial statements.

8 LOSS PER SHARE

The calculation of the basic loss per share of 36.46 pence, 3.36 pence from continuing operations and 33.1 pence from discontinued operations (2015 restated: 34.6 pence) is based on the loss after tax of £15.6 million (2015: £14.7 million) divided by the weighted average number of ordinary shares in issue during the year of 42,832,269 (2015 restated: 42,543,169).

Due to the losses incurred the impact of the share options and other deferred shares is anti-dilutive. As such the diluted earnings per share equals the ordinary earnings per share.

9 GOODWILL

	Frontier Silicon	Sensium Healthcare	Frontier Microsystems	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 January 2015	8,536	10,582	5,951	25,069
Additions	-	-	-	-
At 31 December 2015	8,536	10,582	5,951	25,069
Additions	-	-	-	-
Disposals	-	(10,582)	-	(10,582)
At 31 December 2016	8,536	-	5,951	14,487
Impairment				
At 1 January 2015	-	-	5,951	5,951
Charge in the year	-	-	-	-
At 31 December 2015	-	-	5,951	5,951
Charge in the year	-	-	-	-
At 31 December 2016	-	-	5,951	5,951
Net book amount at 31 December 2016	8,536	-	-	8,536
Net book amount at 31 December 2015	8,536	10,582	-	19,118

Goodwill relating to Sensium Healthcare results from the acquisition of Sensium Healthcare Limited on 3 November 2005. Goodwill relating to Frontier Silicon results from the acquisition of the Frontier Silicon Group on 20 August 2012.

All principal operating divisions incurred losses in the year ended 31 December 2016, which is an indicator of impairment. The Directors have tested the aggregate recoverable value of goodwill, specific intellectual property, and licence & development fees for impairment in accordance with the Group's accounting policy of testing annually for impairment. Recoverable value is assessed by value in use. The Directors, in assessing the recoverability of the remaining amount have considered the technical feasibility of the technology and the opportunities for commercial exploitation, including the position with the current commercial relationships.

To determine the value in use, the Directors have produced detailed monthly profit and loss and cash flow forecasts for the four years up to December 2020. A four year forecast period is considered reasonable for the markets that the Company addresses, particularly given the stage of development of the Group's products and the expected life of new technologies as explained further below.

The Chief Executive's Statement on pages 3 to 4 provides a summary of the Group's expectations for each division, together with an overview of the relevant markets. Below we have summarised the key judgements in relation to the individual impairment reviews.

Consumer Audio - Frontier Silicon

The intangible assets of Frontier Silicon were independently valued in 2012 as part of the acquisition accounting. The difference between the fair value of the net assets and the fair value of the consideration has been treated as goodwill.

Whilst Frontier has continued to make losses post-acquisition, primarily as a result of R&D spend, this is in line with the forecasts at the time of the acquisition and therefore the Directors consider the Goodwill arising on consolidation as still valid and no impairment has occurred since acquisition.

The Directors have reviewed the carrying value of these assets in light of their forecasts of revenues and profitability for this business sector. A discount rate of 16% was applied to future cash flows with a rate of 18% used as a stress test. Under both scenarios, the carrying value of the intangible assets could be supported.

In assessing the future cash flows of the division, the Directors have looked at a 4 year forward view and then made a terminal value assessment at the end of 2020 assuming no further sales and cost growth. This is based on the life cycle of the smart audio and digital radio products, where certain existing models are reaching end of life, and new models have 12 to 24 months development ahead of them before a useful sales life of 4-5 years depending on future product enhancements. The Directors expect the market for digital radio to keep expanding at its current rate and for the company to maintain its market share. In smart audio the Directors expect the market to expand significantly as Wi-Fi enabled speakers with much enhanced functionality really take hold. The forecast demonstrates that even a relatively small market share could lead to revenue growth rates significantly ahead of more mature markets.

The key judgements applied by the Directors in the forecasts are in relation to sales prices volumes and margins. The forecast model is built on the Directors' best estimates of the addressable market and the Company's resultant share of that market. In determining these estimates the Directors have considered information and trends from existing markets and their expectations for emerging markets in order to develop an assessment of both future sales volumes and prices. The Directors believe the underlying assumptions to be reasonable but are aware that there are significant competitive risks which would be magnified by delays to key programmes and therefore growth rates may not be achieved or margins could be compromised. Should the underlying estimates not be achieved there is a risk these assets will be impaired.

10 OTHER INTANGIBLE ASSETS

	Marketing intellectual property £'000	Customer intellectual property £'000	Other intellectual property £'000	Licence & development fees £'000	Total £'000
Cost					
At 1 January 2015	4,000	1,690	17,009	16,562	39,261
Additions				1,389	1,389
Disposals	-	-	-	(1,378)	(1,378)
At 31 December 2015	4,000	1,690	17,009	16,573	39,272
Additions	-	-	-	81	81
Disposals	-	-	(6,805)	(826)	(7,631)
At 31 December 2016	4,000	1,690	10,204	15,828	31,722
Amortisation					
At 1 January 2015	933	329	9,827	10,912	22,001
Charge in the year	400	141	1,268	927	2,736
Impairment	-	-	-	3,016	3,016
Disposals	-	-	-	-	-
At 31 December 2015	1,333	470	11,095	14,855	27,753
Charge in the year	400	141	1,268	568	2,377
Disposals	-	-	(6,805)	(113)	(6,918)
At 31 December 2016	1,733	611	5,558	15,310	23,212
Net book amount at 31 December 2016	2,267	1,079	4,646	518	8,510
Net book amount at 31 December 2015	2,667	1,220	5,914	1,718	11,519

Intellectual property

Intellectual property relates to the valuation of beneficial licence agreements, trade names and customer relationships in Frontier Silicon at the date of their original acquisition.

Licence & development fees

The Group capitalises certain licence and third party development fees where, in the view of management, they have intrinsic value to ongoing software and hardware development programmes. Additions in the year relate to technology on new projects essential to the future development of new generation solutions. The capitalised licence and development fees are amortised in accordance with the Group accounting policy and are subject to an annual impairment review

Marketing

Marketing-related intangible assets are defined as those assets that are primarily used in the marketing or promotion of products and services. The Frontier solutions are well known and preferred by a majority of the consumer electronic brands who specifically instruct their manufacturers to use Frontier modules and solutions in their audio systems.

Customer relationships

Customer-related intangible assets may consist of customer lists, order or production backlogs, customer contracts and relationships, and non-contractual customer relationships. Frontier has developed relationships with both consumer electronic brands and manufacturers. The customer relationship valuation captures the economic benefits of having these trading relationships.

Impairment reviews

The Directors have tested all intangible assets for impairment in conjunction with their testing for goodwill, in accordance with the Group's accounting policy.

11 PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements £'000	Plant and machinery £'000	Office equipment £'000	Fixtures and fittings £'000	Computer equipment £'000	Total £'000
Cost						
At 1 January 2015	175	1,676	155	2,763	326	5,095
Additions	-	159	27	362	30	578
Disposals	-	-	-	(364)	-	(364)
Foreign exchange on opening balance	-	-	-	21	-	21
At 31 December 2015	175	1,835	182	2,782	356	5,330
Foreign exchange on opening balance	-	-	-	140	-	140
Additions	-	4	3	129	7	143
Disposals	(175)	-	(133)	(118)	(363)	(789)
At 31 December 2016	-	1,839	52	2,933	-	4,824
Depreciation						
At 1 January 2015	167	1,627	117	2,320	286	4,517
Charge in the year	6	81	30	301	39	457
Foreign exchange on opening balance	-	-	-	13	-	13
Disposals	-	-	-	(364)	-	(364)
At 31 December 2015	173	1,708	147	2,270	325	4,623
Foreign exchange on opening balance	-	-	-	92	-	92
Charge in the year	1	63	17	310	14	405
Disposals	(174)	-	(112)	(72)	(339)	(697)
At 31 December 2016	-	1,771	52	2,600	-	4,423
Net book amount						
At 31 December 2016	-	68	-	333	-	401
At 31 December 2015	2	127	35	512	31	707

12 INVENTORIES

	2016	2015
	£'000	£'000
Raw materials	1,074	597
Work in progress	333	166
Finished goods	1,181	1,903
	2,588	2,666

13 TRADE AND OTHER RECEIVABLES

	2016	2015
	£'000	£'000
Trade receivables	6,719	4,061
Other debtors	2,502	1,341
Prepayments and accrued income	669	940
	9,890	6,342

All trade receivables are within credit terms of between 30 to 60 days and do not bear any effective interest.

The fair value of these short term financial assets is not individually determined as the carrying amount is a reasonable approximation of fair value.

At the balance sheet date, trade receivables are aged as follows. Whilst some of these amounts are past due, none of the amounts are considered to be impaired in management's opinion.

	2016	2015
	£'000	£'000
0 – 30 days	4,433	3,501
31 – 60 days	2,286	560
	6,719	4,061

All trade receivables have been reviewed for indicators of impairment based on the age of the balances outstanding and the credit worthiness of the third parties from which these balances are due.

There was no provision for bad debt at the start or end of the year.

14 CASH AND CASH EQUIVALENTS

	2016	2015
	£'000	£'000
GBP £	205	4,398
USD $	2,916	3,130
Euro €	17	76
Hong Kong $	200	106
Romania LEU	38	38
	3,376	7,748

15 TRADE AND OTHER PAYABLES

	2016	2015
	£'000	£'000
Trade payables	6,740	3,621
Other payables	626	1,459
Accruals	3,548	4,996
Loan (note 16)	1,160	1,163
	12,074	11,239

All of the above are due within one year. The fair value of trade and other payables has not been disclosed as, due to their short duration, management considers the carrying amounts recognised to be a reasonable approximation of their fair value.

16 CREDITORS: amounts falling due after more than one year

	2016	2015
	£'000	£'000
Loan	2,872	3,735
	2,872	3,735

Loan

Frontier Smart Technologies Group Limited entered into a loan facility agreement in October 2015 for a maximum of £5,000,000. The loan accrues interest monthly at 6.8% with interest repayable in 12 quarterly instalments commencing 29 December 2015. Capital repayments are payable quarterly in 10 instalments commencing March 2016, made up of 9 instalments of £300k and a final instalment of £2,300k. The loan carries a fixed and floating charge over all the property, assets and undertakings of the Group.

17 SHARE CAPITAL

	2016 £'000	Restated 2015 £'000
Authorised		
100,000,000 ordinary shares of 10p	**10,000**	**10,000**
Allotted, issued and fully paid		
42,748,464 (2015: 1,704,779,379 0.25p each) ordinary shares of 10p	**4,275**	**4,262**

The movement in the number of shares is as follows:

	Number of ordinary shares
At 1 January 2015	1,677,866,400
Shares issued	26,912,979
At 31 December 2015	1,704,779,379
Shares issued (pre share consolidation)	5,159,210
Share consolidation 40:1	(1,667,190,125)
At 31 December 2016	**42,748,464**

On 4 November 2016 there was a 40 to 1 share consolidation. The Company's issued share capital now comprises 42,748,464 ordinary shares of 10p each. All shares are equally eligible to receive dividends and the repayment of capital and represent equal votes at meetings of shareholders with the exception of 2,329,714 (2015 restated: 2,613,822) shares held jointly by the Employee Benefit Trust and participants for the purposes of the Company's joint share ownership plan in relation to which all voting rights have been waived.

Allotments during the year

16 March 2016, 2,666,119 ordinary shares Of 0.25p were issued in relation to the exercise of share options by employees.

29 March 2016, 1,000,699 ordinary shares Of 0.25p were issued in relation to the exercise of share options by employees.

25 April 2016, 64,668 ordinary shares Of 0.25p were issued in relation to the exercise of share options by employees.

3 May 2016, 1,320,000 ordinary shares Of 0.25p were issued in relation to the exercise of share options by employees.

20 October 2016, 74,028 ordinary shares Of 0.25p were issued in relation to the exercise of share options by employees.

31 October 2016, 33,696 ordinary shares Of 0.25p were issued in relation to the exercise of share options by employees.

Employee Long Term Incentive Scheme

At 31 December 2016, shares in the JSOP of 685,000 (2015 restated: 1,150,000) ordinary shares were in issue to directors serving at that date as disclosed in the Report on Remuneration. In addition, at that date the Company had in issue 1,219,778 (2015 restated: 1,463,821) further JSOP shares.

Share options

At 31 December 2016, options over 75,000 (2015 restated: 382,646) ordinary shares were in issue to Directors serving at that date as disclosed in the Report on Remuneration. In addition, at that date the Company had in issue 765,691 (2015 restated: 861,248) further options. Details of the fair value of all options in existence are provided in Note 21.

18 CONTINGENT LIABILITIES

There were no contingent liabilities at 31 December 2016 or 31 December 2015.

19 CAPITAL COMMITMENTS

There were no capital commitments at 31 December 2016 or 31 December 2015.

20 OPERATING LEASE COMMITMENTS

The Group leases office under operating leases, in addition the Group had other annual commitments under non-cancellable operating agreements. The future minimum lease payments are as follows:

	Within one year	One to five years	Over five years	Total
	£'000	£'000	£'000	£'000
Rent	524	391	-	915
Total	**524**	**391**	**-**	**915**

21 FINANCIAL INSTRUMENTS

The Group uses financial instruments comprising cash and cash equivalents, other loans and various other short-term instruments such as trade receivables and trade payables which arise from its operations. The main purpose of these financial instruments is to fund the Group's business strategy and the short-term working capital requirements of the business.

Financial assets by category

The IAS 39 categories of financial asset included in the balance sheet and the headings in which they are included are as follows:

	2016			2015		
	Loans and receivables £'000	Non financial assets £'000	Balance sheet total £'000	Loans and receivables £'000	Non financial assets £'000	Balance sheet total £'000
Goodwill	-	8,536	8,536	-	19,118	19,118
Other intangibles assets	-	8,510	8,510	-	11,519	11,519
Property, plant and equipment	-	401	401	-	707	707
Inventories	-	2,588	2,588	-	2,666	2,666
Trade receivables	6,719	-	6,719	4,061	-	4,061
Other receivables	2,502	-	2,502	1,341	-	1,341
Prepayments and accrued income	-	669	669	-	940	940
Tax receivable	-	1,123	1,123	-	1,301	1,301
Cash and cash equivalents	3,376	-	3,376	7,748	-	7,748
Total	12,597	21,827	34,424	13,150	36,251	49,401

21 FINANCIAL INSTRUMENTS - continued

Financial liabilities by category

The IAS 39 categories of financial liability included in the balance sheet and the headings in which they are included are as follows:

	2016			2015		
	Other financial liabilities at amortised cost £'000	**Financial liabilities at fair value through profit & loss £'000**	**Total £'000**	**Other financial liabilities at amortised cost £'000**	**Financial liabilities at fair value through profit & loss £'000**	**Total £'000**
Trade payables	6,740	-	6,740	3,621	-	3,621
Other payables	626	-	626	1,459	-	1,459
Accruals and deferred income	3,548	-	3,548	4,996	-	4,996
Loan	4,032		4,032	4,898		4,898
Total	14,946	-	14,946	14,974	-	14,974

All financial assets and liabilities are stated at amortised cost.

The Group is exposed to a variety of financial risks which result from both its operating and investing activities. The Board is responsible for co-ordinating the Group's risk management and focuses on actively securing the Group's short to medium term cash flows. Long term financial investments are managed to generate lasting returns.

The Group does not actively engage in the trading of financial assets and has no financial derivatives. The most significant risks to which the Group is exposed are described below:

Credit risk

The Group's credit risk is primarily attributable to its trade receivables, recoverable taxation and cash and cash equivalents. The amounts presented in the balance sheet are net of any allowance for doubtful receivables, estimated by the Directors. The Group has a concentration of credit risk due to exposure from a limited number of customers. This is managed at the highest level in the Group and is noted as Business Risk on page 10. Cash at bank is all held with highly rated banks, the suitability of which is periodically reviewed.

Liquidity risk

The Group seeks to manage risks to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. Short term flexibility is achieved by the use of money markets to deposit excess cash which is not required in the short term. The Directors prepare rolling cash flow forecasts and seek to raise additional funding whenever a shortfall in facilities is forecast. Details of the funding status of the Group are included in the going concern paragraph in the principal accounting policies.

All the financial liabilities noted above are expected to result in cash outflow within six months of the year end.

Currency risks

The Group is exposed to translation foreign exchange risk in connection with its investment in Frontier Silicon Ltd whose subsidiaries are Frontier Silicon (Hong Kong) Ltd incorporated in Hong Kong and Frontier Silicon SRL incorporated in Romania. The Group does not hedge any transactions. As a result the Group is subject to foreign currency risk in respect of accounting for its investment in the subsidiaries.

Foreign currency denominated financial assets and liabilities which expose the Group to currency risk are disclosed below. The amounts shown are those reported to the Directors and translated into GBP at the closing rate used in the consolidated financial statements.

	Romanian LEU	**HK$**
	£'000	**£'000**
Assets	**479**	**588**
Liabilities	**(60)**	**(354)**
Total exposure	**419**	**234**

22 RELATED PARTY TRANSACTIONS

The Group has taken advantage of the exemption under IAS 24 'Related Party Disclosures' from disclosing transactions with other members of the group headed by Frontier Smart Technologies Group Limited.

In 2015 Imagination Technologies Limited, a company that owed 10.3% of the share capital of Frontier Smart Technologies Group Limited had the following transactions with the Group. Imagination Technologies Limited no longer owns any shares in the Group

Frontier Silicon Limited purchased goods, services and assets to the value of £1,557,000 from Imagination Technologies Limited. At 31 December 2015 there was an outstanding balance of £566,000 due from Frontier Silicon Limited to Imagination Technologies Limited in respect of these purchases.

During 2015 Imagination Technologies Limited purchased goods from Frontier Silicon Limited to the value of £38,000. At 31 December 2015 there was an outstanding balance of £1,000 owing to Frontier Silicon Limited in respect of these sales.

During 2015 Frontier Microsystems Limited purchased goods, services and assets to the value of £260,000 from Imagination Technologies Limited. At 31 December 2015 there was an outstanding balance of £251,000 due from Frontier Microsystems Limited to Imagination Technologies Limited in respect of these purchases.

23 EMPLOYEE REMUNERATION

(i) Employee benefits expense

The average number of employees during the year was 168(2015: 188).

Expense recognised for employee benefits, including Directors' emoluments, is analysed below:

	2016	Restated 2015
	£'000	£'000
Wages and salaries	7,382	7,415
Social security costs	725	717
Share based payment	633	1,229
Pensions – defined contribution scheme	398	342
	9,138	9,703

Included within the above, fully disclosed in the Report on Remuneration on page 19, are amounts in respect of Directors, including the non-executive Directors. Key Personnel include the CEO, CFO, VPs of Marketing, Sales, Engineering Operations and HR. The compensation of key management personnel is as follows:

	2016	Restated 2015
	£'000	£'000
Fees and emoluments	1,425	1,448
Share based payment	343	557
	1,768	2,005

(ii) Equity compensation benefits

Frontier Smart Technologies Group has adopted the following schemes to promote retention, reward loyalty and align the interests of employees and Directors with the long term interest of the shareholders. There are currently five types of schemes in place as detailed below.

Frontier Smart Technologies Group EMI Scheme (2002)

The Frontier Smart Technologies Group EMI Scheme was adopted in 2002 and approved by HMRC that year and was open to all employees who were employed by the company for more than 25 hours per week or 75% of their working hours.

The options outstanding at 31 December 2016 are exercisable at price of £2.08 and have a weighted average remaining contractual life of 1 year (2015: 3.45 years). No options were granted in the period ended 31 December 2016, or in the period ended 31 December 2015. No further options will be granted under this scheme. All options lapse 10 years after date of grant.

On 3 March 2015 42,804 options originally issued in 2005 under the EMI scheme time expired and were extended for a further 3 years at the same exercise price, granting the shares a total life of 13 years. Although the EMI benefits to the employees expire after 10 years, the extended-life shares are included in the table below.

Current Grants Frontier Smart Technologies Group EMI Scheme:

Date of grant — Exercise price restated (pre share consolidation)

3 March 2005 — £2.08 (5.2p) — Price agreed by HRMC.

18 September 2009 — £1.48 (3.7p) — Average market price over three previous days before grant.

13 March 2010 — £2.80 (7p) — Average market price over three previous days before grant.

	Outstanding at 1 January 2016	Restated for share consolidation	Exercised during year	Forfeited during year	Outstanding at 31 December 2016	Options exercisable 31 December 2016
Amount	5,110,986	127,775	-	(91,771)	36,004	36,004
Weighted Average price	5.9p	£2.36	-	£2.47	£2.08	£2.08

Former Frontier Smart Technologies Group Unapproved Scheme (Employees) (2005)

There were no options outstanding at 31 December 2016. During the year options over 42,500 shares were forfeited.

Current Grants Former Frontier Smart Technologies Group Unapproved Scheme (Employees):

Date of grant — Exercise price restated (pre share consolidation)

13 March 2007 — £3.90 (9.75p) — Average market price over three previous days before grant.

13 March 2010 — £2.80 (7p) — Average market price over three previous days before grant.

	Outstanding at 1 January 2016	Restated for share consolidation	Exercised during year	Forfeited during year	Outstanding at 31 December 2016	Options exercisable 31 December 2016
Amount	1,700,000	42,500	-	(42,500)	-	-
Weighted Average price	8.13p	£3.25	-	£3.25	-	-

Former Frontier Smart Technologies Group Unapproved Scheme (Directors) (2005)

The former Frontier Smart Technologies Group Unapproved Scheme was adopted by the board in May 2005. All options, bar those granted 30 September 2005, lapse 10 years after the date of grant. The Options granted 30 September 2005, originally due to lapse on 1 June 2015 were extended on 29 September for a further 12 months with the same exercise price. On 20 July 2016 when C Toumazou resigned these were extended to 31 July 2017.

The options outstanding at 31 December 2015 were exercisable at prices between 1.48p and 2.78p and had a weighted average remaining contractual life of 3 years (2014: 4.35 years). No options were granted in the period ended 31 December 2015, or in the period ended 31 December 2014. No further options will be granted under this scheme.

The following performance conditions are relevant to the grants dated 24 October 2006 and 20 November 2006, 50% exercisable after 1 year of date of grant, 50% subject to a share price of £10.

Current Grants Former Frontier Smart Technologies Group Unapproved Scheme:

Date of grant	Exercise price restated (pre share consolidation)	
30 September 2005	£2.78 (6.94p)	Price not agreed by HMRC.
24 October 2006	£3.50 (8.75p)	Average market price over three previous days before grant.
18 September 2010	£1.48 (3.7p)	Average market price over three previous days before grant.
21 January 2010	£2.40 (6p)	Average market price over three previous days before grant.

	Outstanding at 1 January 2016	Restated for share consolidation	Exercised during year	Forfeited during year	Outstanding at 31 December 2016	Options exercisable 31 December 2016
Amount	22,305,835	557,646	-	(75,000)	482,646	482,646
Weighted Average price	6.27p	£2.508	-	£3.50	£2.36	£2.36

Frontier Smart Technologies Group Unapproved Share Scheme 2012 Rules

Options were issued to employees and Directors under the Frontier Smart Technologies Group Unapproved Share Scheme which was approved by the board in November 2012. The exercise price for all options is 10p. The options vest after three years and the award will lapse 10 years from grant.

The Unapproved options outstanding at 31 December 2016 are all exercisable at a price of 10p and have a weighted average remaining contractual life of 7.5 years (2015: 8.1 years). During the current year zero (2015 restated: 138,912) options were granted to employees and Directors. Good leaver rules apply to this scheme.

The following performance conditions are relevant to the award 25 January 2013, for senior managers and Directors the exercise is conditional on the Frontier Smart Technologies Group share price performing above 125% compared to the FTSE All share Index over the three year period commencing on the date of grant.

For senior managers and Directors 50% or 100% respectively were subject to a combination of the performance criteria set out below:

Criteria 1 This performance criteria has been set such that the value of an Ordinary Share is required to outperform the FTSE All Share Index by 25 per cent over the course of the vesting period in order for 50 per cent of the award to vest and by 50 per cent in order for the balance of the awards to vest. Awards vest pro-rata between those two thresholds.

Criteria 2 50% of the award will be subject to the share price attaining a level of £6 for 90 days by 1 April 2019. The remaining 50% will be subject to the following. The value of an Ordinary Share is required to outperform the FTSE All Share Index by 25 per cent over the course of the vesting period in order for 25 per cent of the total award to vest and by 50 per cent, in order for the balance of the awards to vest. Awards vest pro-rata between those two thresholds. This vesting will be not before 1 April 2017 and not after 1 April 2019.

For the award 30 January 2015, for senior managers and Directors 50% or 100% respectively were subject to the share price attaining a level of £6 for 90 days by 1 April 2020.

Current Grants Frontier Smart Technologies Group Unapproved Share Scheme 2012 Rules:

Date of grant	Exercise price restated (pre share consolidation)
25 January 2013	10p (0.25p)
15 May 2013	10p (0.25p)
27 June 2014	10p (0.25p)
28 January 2015	10p (0.25p)

	Outstanding at 1 January 2016	Restated for share consolidation	Exercised during year (Weighted average share price)	Forfeited during year	Outstanding at 31 December 2016	Options exercisable 31 December 2016
Amount	20,638,946	515,974	(158,841)	(35,091)	322,041	43,114

Weighted Average price	0.25p	10p	10p	10p	10p	10p

Frontier Smart Technologies Group Employee Long Term Incentive Scheme Joint Shared Ownership Scheme (JSOP)

The JSOP was approved by the board in November 2012. Under the JSOP agreement, the JSOP Shares are held by participants jointly with the trustee of the employee benefit Trust (EBT) pursuant to the terms of joint ownership agreements between the EBT and each respective Participant.

Awards granted under the JSOP will vest on the third anniversary of their grant and value can be realised in respect of such awards from that date until the tenth anniversary of the date of grant.

The exercise price payable by Participants under the JSOP is 10p being equal to the nominal value of the Ordinary Shares. All dividend and voting rights in the shares held by the JSOP have been waived, save that, in accordance with the terms of the JSOP, immediately prior to certain disposals of JSOP Shares these rights will be reinstated.

The JSOP Awards outstanding at 31 December 2016 are all exercisable at a price of 10p and had a weighted average remaining contractual life of 7.5 years (2015: 9.0 years). During the year zero (2015 restated: 621,627) JSOP awards were made to employees and Directors. Good leaver rules apply to this scheme.

The following performance conditions are relevant to the awards of 25 January 2013. For senior managers and Directors the exercise is conditional on the Frontier Smart Technologies Group share price performing above 125% compared to the FTSE All share Index over the three year period commencing on the date of grant.

For senior managers and Directors 50% or 100% respectively were subject to a combination of the performance criteria set out below:

Criteria 1 - The performance criteria has been set such that the value of an Ordinary Shares is required to outperform the FTSE All share Index by 25 per cent over the course of the vesting period in order for 50 per cent of the award to vest and by over 50 per cent in order for the balance of the awards to vest. Awards vest pro-rata between those two thresholds.

Criteria 2 - 50% of the award will be subject to the share price attaining a level of £6 for 90 days by 1 April 2019. The remaining 50% will be subject to the following. The value of an Ordinary Share is required to outperform the FTSE All Share Index by 25 per cent over the course of the vesting period in order for 25 per cent of the total award to vest and by 50 per cent, in order for the balance of the awards to vest. Awards vest pro-rata between those two thresholds. This vesting will be not before 1 April 2017 and not after 1 April 2019.

For the award 30 January 2015, for senior managers and Directors 50% and 100% respectively were subject to the share price attaining a level of £6 for 90 days by 1 April 2020.

Current Grants Frontier Smart Technologies Group JSOP Scheme:

Date of grant	Exercise price restated (pre share consolidation)
25 January 2013	10p (0.25p)
15 May 2013	10p (0.25p)

1 July 2013	10p (0.25p)
27 June 2014	10p (0.25p)
28 January 2015	10p (0.25p)

	Outstanding at 1 January 2016	Restated for share consolidation	Exercised during year (Weighted average Share price)	Forfeited during year	Outstanding at 31 December 2016	Options exercisable 31 December 2016
Amount	104,552,860	2,613,822	(285,357)	(1,108,687)	1,219,778	179,159
Weighted Average price	0.25p	10p	10p	10p	10p	10p

The total number of Options and JSOP outstanding at 31 December 2016 is 2,060,469. Consisting of

Total JSOP 31 December 2016	1,219,778	(2015 restated: 2,613,822)
Total Options 31 December 2015	840,691	(2015 restated: 1,243,894)

Employee share-based expense of £633,000 (2015: £1,229,000) has been included in the consolidated income statement in accordance with IFRS 2 "Share Based Payments" which gave rise to a share based payment reserve. No liabilities were recognised due to share-based payment transactions. The deferred tax asset amounting to approximately £106,000 (2015: £207,900) has not been provided on the share-based payment expense due to there being insufficient certainty regarding its recovery.

24 SUBSIDIARY UNDERTAKINGS

Name	Principal activity	Place of incorporation	% Equity
Frontier Microsystems Limited	Development and exploitation in relation to wireless	England and Wales	100%

	semiconductor chips and embedded solutions		
Frontier Silicon Limited	Development, manufacture and sale of digital radio and smart audio technologies	England and Wales	100%
Frontier Silicon (HK) Limited[1]	Company providing support services from Hong Kong and People's Republic of China	Hong Kong	100%
Frontier Silicon SRL[1]	Development of digital radio and smart audio technologies	Romania	100%

[1]owned by Frontier Silicon Limited

25 CAPITAL MANAGEMENT

The Group's capital management objective is to ensure that there is adequate capital within the business to preserve the working capital required for on-going trading and to provide the Group with the necessary resources to develop products that will generate future profitable revenue streams. Whilst management actively seeks to secure funding in the form that is most advantageous to both the business and the shareholders, the nature of the Group's current activities means that this is typically limited to equity funding. As such the Group does not actively manage targets for ratios of debt to equity funding. For forecast data please see the going concern details on page 12.

26 POST BALANCE SHEET EVENTS

On 6 February 2017, 2,499,997 EMI options were granted to Senior Management in line with the scheme rules with an exercise price for all options of 78.5p.
The award will lapse 10 years from grant and will vest (subject to the performance target being met) as follows:

Length of time since Date of Grant	Proportion Vesting

2nd Anniversary of Date of Grant	1/3 of the EMI Option Shares (rounded down to the nearest whole number of Shares)
3rd Anniversary of Date of Grant	1/3 of the EMI Option Shares (rounded down to the nearest whole number of Shares)
4th Anniversary of Date of Grant	The remainder of the EMI Option Shares

For 100% of the award 6 February 2017 the Performance Target shall be met if the mid-market closing price of a Share on the Alternative Investment Market (AIM) of the London Stock Exchange is £1.60 or higher for at least 30 consecutive trading days between the Date of Grant and the date of exercise of the Option.

Current Grants Frontier Smart Technologies Group EMI Share Option Scheme 2017 rules:

Date of Grant	Exercise Price
6 February 2017	78.5p

27 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 23 March 2017.

Notice of Annual General Meeting

Notice is given that the Annual General Meeting of the members of Frontier Smart Technologies Group Limited will be held at the offices of Buchanan, 107 Cheapside, London EC2V 6DN on Tuesday 9 May 2017 at 9:00am to consider and, if thought fit, to pass the resolutions set out below:
In regard to resolutions 2-4, the Directors believe that the Board continues to maintain an appropriate balance of knowledge skills. This follows a process of formal evaluation which confirms that each Director makes an effective and valuable contribution to the Board and demonstrates commitment to the role.

Ordinary resolutions

1 To receive the report and accounts for the year ended 31 December 2016.

2 To re-elect Anthony Sethill retiring as a Director who is retiring by rotation in accordance with the articles of association of the Company and, being eligible, offering himself for reappointment as a Director of the Company.

3 To re-elect Jonathan Apps as a Director who is retiring by rotation in accordance with the articles of association of the Company and, being eligible, offering himself for reappointment as a Director of the Company.

4 To re-elect Martin Knight as a Director who is retiring by rotation in accordance with the articles of association of the Company and, being eligible, offering himself for reappointment as a Director of the Company.

5 To re-appoint Grant Thornton UK LLP as auditors and to authorise the Directors to determine their remuneration

6 That the Directors be authorised to disapply the pre-emption rights set out in article 17 of the articles of association, such power to expire at the conclusion of the Company's next annual general meeting, and that the Directors may allot equity securities following an offer or agreement made before the expiry of the authority and provided that the authority is limited to:

6.1 the allotment of equity securities pursuant to the exercise of any of the options either granted or to be granted under the company's share option scheme; and

6.2 the allotment of equity securities, otherwise than in accordance with paragraph 6.1 up to an aggregate amount being ten per cent of the company's issued share capital on the date of this notice.

By order of the Board

Jonathan Apps
Assistant Company Secretary
Intertrust Group
190 Elgin Avenue
George Town
Grand Cayman
Cayman Islands

23 March 2017

Notes to General Meeting

1 A member entitled to attend and vote at the above meeting may appoint one or more proxies to attend and, on a poll, vote in his place. A proxy need not be a member of the company.

2 The instrument appointing a proxy and (in the case of an instrument signed by an agent of the member who is not a corporation) the authority under which such instrument is signed or and office copy or duly certified copy must be deposited at the office of Capita Asset Services, PXS, 34 Beckenham Road, Kent BR3 4TU, not less than 48 hours before the time appointed for the meeting or any adjourned meeting. A prepaid form of proxy for use in respect of the meeting is enclosed.

3 Completion of a form of proxy will not prevent a member from attending and voting in person.

4 Members will be entitled to attend and vote at the meeting if they are registered on the Company's register of members 48 hours before the time appointed for the meeting or any adjourned meeting. Changes to entries on the register after this time will be disregarded in determining the rights of any person to attend or vote at the meeting.

5 In the case of joint holders of the shares in the Company, the vote of the senior holder shall be accepted to the exclusion of the votes of the other joint holders(s). For this purpose, seniority will be determined by the order in which the names appear in the Company's register of shareholders (or the Company's registrar's records).