~~NM~~ 00 370 0(20)

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

WEDNESDAY

*A77JE8Q3*
A26 06/06/2018 #246
COMPANIES HOUSE

*A761NRSR*
A18 16/05/2018 #144
COMPANIES HOUSE

WED

✓ **What this form is for**
You may use this form to accompany your accounts disclosed under parent law.

✗ **What this form is NO[T for]**
You cannot use this fo[rm to register] an alteration of manne[r of compliance] with accounting requi[rements]

## Part 1 Corporate company name

→ **Filling in this form**
Please complete in typescript or in bold black capitals.
All fields are mandatory unless specified or indicated by *

Corporate name of overseas company ❶: FRONTIER SMART TECHNOLOGIES GROUP LIMITED

UK establishment number: B R 0 1 6 6 3 1

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 ❶: EUROPEAN UNION

❶ 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 ❷: European Union (IFRS)

❷ 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?<br>Please tick the appropriate box.<br>☐ **No.** Go to **Part 3 'Signature'**.<br>☑ **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?<br>Please tick the appropriate box.<br>☐ **No.**<br>☑ **Yes.** |

## Part 3 Signature

I am signing this form on behalf of the overseas company.

| | |
|---|---|
| Signature | Signature<br>**X** [signature] **X** |
| | This form may be signed by:<br>Director, Secretary, Permanent representative. |

CHFP000
05/12 Version 5.0

# 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

Company name

Address

Post town

County/Region

Postcode

Country

DX

Telephone

## 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.

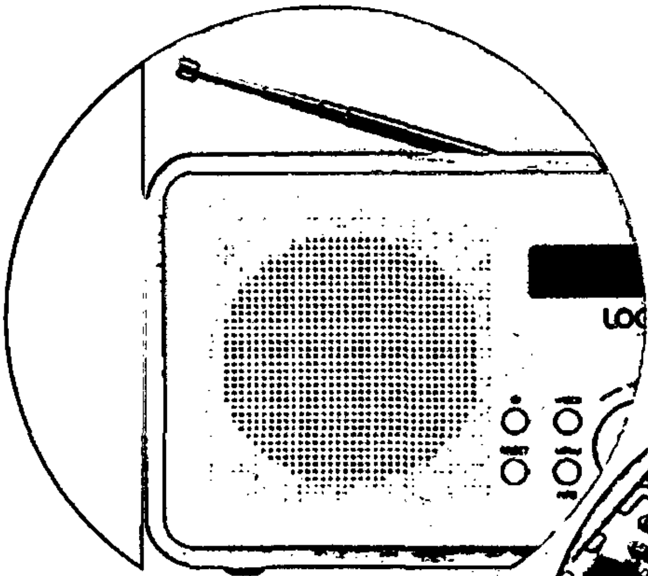
**Scotland:**
The Registrar of Companies, Companies House, Fourth floor, Edinburgh Quay 2, 139 Fountainbridge, Edinburgh, Scotland, EH3 9FF.
DX ED235 Edinburgh 1
or LP - 4 Edinburgh 2 (Legal Post).

**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.

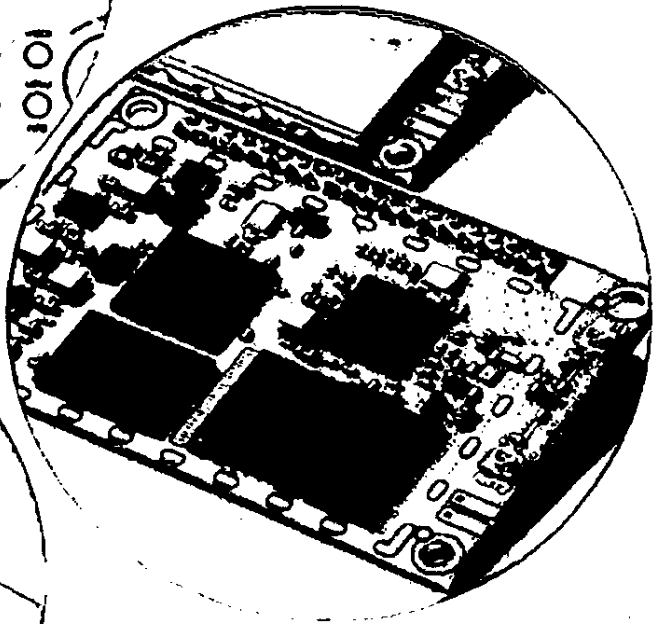
## Further information

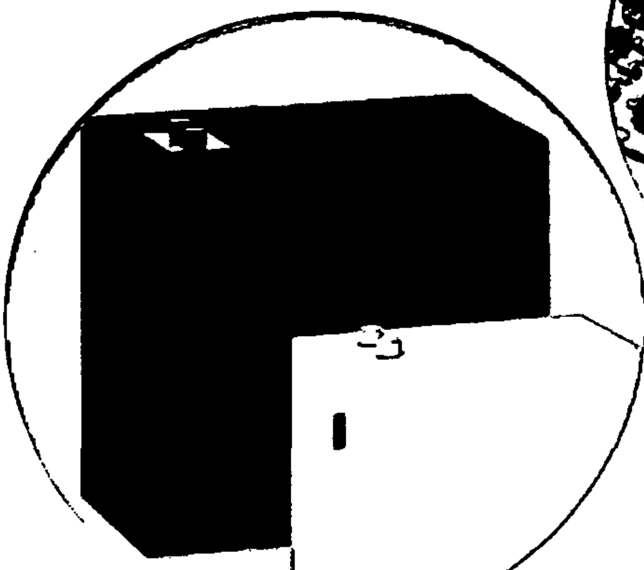
For further information, please see the guidance notes on the website at www.companieshouse.gov.uk or email enquiries@companieshouse.gov.uk

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



FRONTIER
SMART TECHNOLOGIES



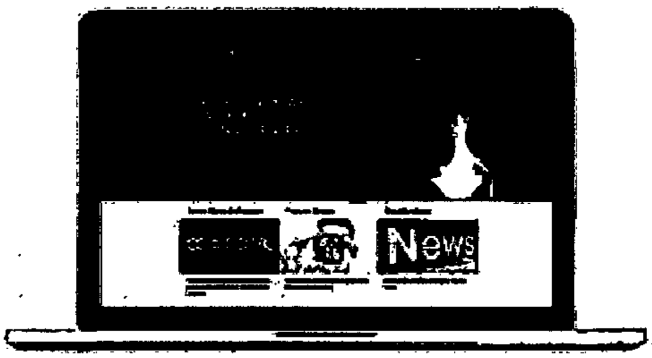


# PIONEER IN TECHNOLOGIES FOR DIGITAL AUDIO DEVICES

Annual Report and Accounts 2017
Frontier Smart Technologies Group Limited

# Frontier Smart Technologies Group is a pioneer in digital radio and smart audio technologies, providing chips, modules and software for audio devices

Frontier Silicon was founded in 2001 and is headquartered in London, with engineering, sales and operations teams in Cambridge, Timisoara (Romania), Hong Kong and Shenzhen



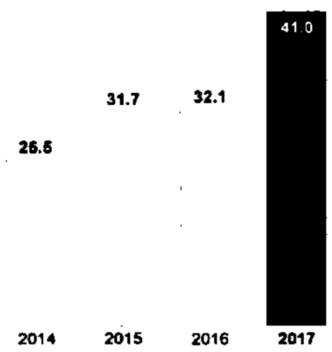

visit www.frontiersmart.com for more information

## CONTENTS

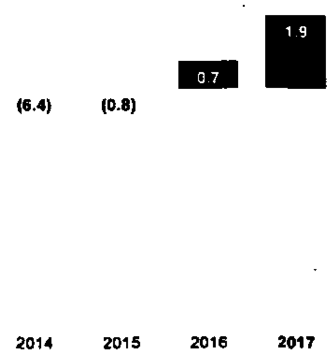
# HIGHLIGHTS

## 2017 saw strong growth in Group revenues and EBITDA

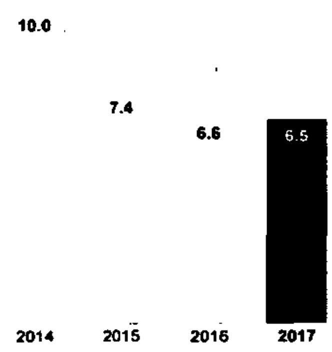
### Revenues £m




### EBITDA £m




### R&D expenditure £m




### Financial highlights

- Revenues up 28% to £41.0 million (FY2016: £32.1 million)
- EBITDA up 171% to £1.9 million (FY2016: £0.7 million)
- Radio revenues up 15% to £36.3 million (FY2016: £31.7 million)
- First material revenues for Smart Audio of £4.7 million (2016: £0.5 million)
- R&D expenditure flat at £6.5 million (FY2016: £6.6 million)
- As of 31 December 2017, the Group's gross cash balance was £5.9 million; the net cash balance was £3.0 million

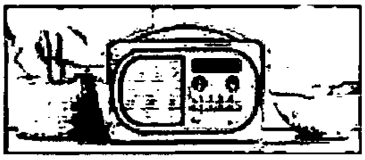
### Operational highlights

- Strong performance in Radio driven by switch-off of FM radio in Norway, coupled with steady growth in other European markets
- In Smart Audio, over 20 models released incorporating the Group's solution with Google Chromecast built in
- Working demonstrations of Frontier's Smart Audio solutions, incorporating Google's Voice Assistant, Amazon's Alexa Voice Services and Apple AirPlay 2, presented at the CES tradeshow in January 2018
- Ten design wins secured for devices incorporating Frontier's Smart Audio solution with Google's Voice Assistant – products to be released in 2018

# AT A GLANCE

## We are a global technology company focused on digital radio and smart audio solutions

## Our markets



### Radio

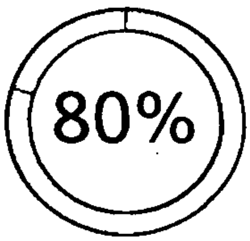
**Frontier Silicon is the world's leading provider of chips, modules and software for digital and internet radios. Customers include Sony, Philips, Panasonic, Pure, Roberts, Grundig and several major retailer own-brands.**

DAB radio is now established as the core future platform for radio in several European markets and Australia. In 2017, Norway became the first country in the world to switch off its FM broadcasts – providing a significant boost to Frontier's sales of DAB solutions. Switzerland has announced it will be the next country to switch off FM starting in 2020/21. National DAB+ services are available in the UK, Germany, Italy, the Netherlands and Denmark; and in 2018, a significant roll-out of new services is expected in France, Belgium and Austria.

Frontier has a strong market leadership position with approximately 80% share of the consumer DAB sector. The business line delivers strong positive cash flows (FY2017 EBITDA of £9.5 million before Group costs). Frontier is leveraging the experience and expertise gained in digital radio to establish itself in the rapidly developing world of Smart Audio.

**Key statistics**

Frontier share of consumer digital radio sector




### Smart Audio

**Frontier is positioned as the leading solution provider for third party brands building Smart Audio devices based on the streaming and voice platforms of Google, Amazon and Apple.**

In 2017, Frontier secured its first material revenues (£4.7 million) for its Smart Audio business line. The Group secured over 20 design wins from third party brands for smart speakers incorporating Google's Chromecast streaming platform. Customers include Harman JBL, Marshall and Urbanears.

At the Consumer Electronics Show ('CES') in January 2018, Frontier showcased working demonstrations of its first solutions incorporating Google's Voice Assistant, Amazon's Alexa Voice Services and Apple's AirPlay 2. The Group is one of a very small number of system integrators working with all three ecosystem players. The Company has recently announced ten design wins for voice-enabled products, which are due to come to market during 2018.

Google amazon

# Our engineering and commercial teams have a broad international presence - our customers include blue-chip digital audio brands

## Our locations

**180** employees globally


| UK | Romania | Hong Kong | Shenzhen |
|---|---|---|---|
| 65 | 56 | 34 | 25 |
| Core development and operations | Software development | Engineering, sales and support | Manufacturing and operations |

## Our customers

### Global

SONY, Marshall, BOSE, ONKYO, YAMAHA, Panasonic, PURE, DENON, harman kardon, JBL, Pioneer, PHILIPS

### Regional

Tivoli Audio, hama, GRUNDIG, ROBERTS, ALPINE, TEAC, JVC, Lenco, TechniSat, halfords, REVO, LG

### Importers/retailers

MediaMarkt, Dual, SATURN, John Lewis, BUSH, Dixons, BEST BUY, Walmart, Argos

# CHAIRMAN'S STATEMENT

> A very positive period for the Group

## Introduction

The last financial year has been a very positive period for Frontier. The Group has recorded a strong financial performance with revenues up 28% to £41.0 million and EBITDA more than doubling to £1.9 million. At the year end, Frontier recorded a gross cash balance of £5.9 million and had a net cash balance of £3.0 million. These results were driven by an impressive performance in Radio, and our first significant design wins in Smart Audio.

The strength in Radio has been especially pleasing and reflects a return on investment made by Frontier over several years. The Radio business has maintained its market-leading position, whilst also benefiting from growth in DAB Digital Radio volumes, driven by Digital Switchover ('DSO') in Norway (completed in December 2017) and steady growth in other European markets. The cash flows from Radio underpin the Group's investment in Smart Audio.

The Smart Audio market is still at an early stage of development and Frontier's business line remains in investment phase. 2017 saw the Group's first material revenues from the sector, but given the nascent status of the market for third party Smart Audio devices, it is difficult to predict the speed at which this business line will scale up. Our development focus is on bringing solutions to market which support the leading voice-enabled ecosystems of Google Voice Assistant ('GVA'), Alexa Voice Services ('AVS') and Apple AirPlay 2. These programmes are progressing well.

In 2018, we expect the growth in Group revenues and EBITDA to be modest. The Group's goal is to deliver a solid Smart Audio technology platform, which underpins stronger growth in 2019 and 2020, and also provides an entry point into additional (non-audio) segments of the Smart Home market. The Board and management will monitor the business closely to ensure stability of the Group's financial position.

Today, I am announcing that I am standing down from the Frontier Board at the upcoming Annual General Meeting and will not be seeking re-election as a Director. I have served as a Non-Executive Director for nine years and as Chairman since July 2015. In this latter period, the Group has successfully exited its healthcare business, removing a significant cash drain on the Group's finances and allowing management to focus on Frontier's digital audio business, an area where the Group has extensive expertise and strong competitive advantage. As a result, Frontier has become EBITDA positive and cash generative. The 2017 financial results are testament to the underlying strength of the Group and without doubt, an exciting future lies ahead for Frontier. I wish the Board every success in building a leading consumer technology business which delivers sustainable shareholder value.

I am also announcing today that Chris Batterham will not be seeking re-election as a Director at the Annual General Meeting. Chris joined the Board nearly six years ago. His experience and good sense have been invaluable in helping the Group through some testing times. I would like to thank him for his contribution.

Finally, as ever, I would like to thank the Group's staff for all their efforts over the last 12 months. The results speak for themselves and I believe that Frontier will continue to make significant progress in times ahead.

Dr Martin Knight
Non-Executive Chairman
7 March 2018

# INVESTMENT CASE



1

Number one technology provider for Digital Radio - delivering sustainable, positive EBITDA

2

Leveraging core strengths from Radio (technology, customers, ODM relationships) to address Smart Audio opportunity

3

Investment in Smart Audio underpinned by positive cash flows from Radio

4

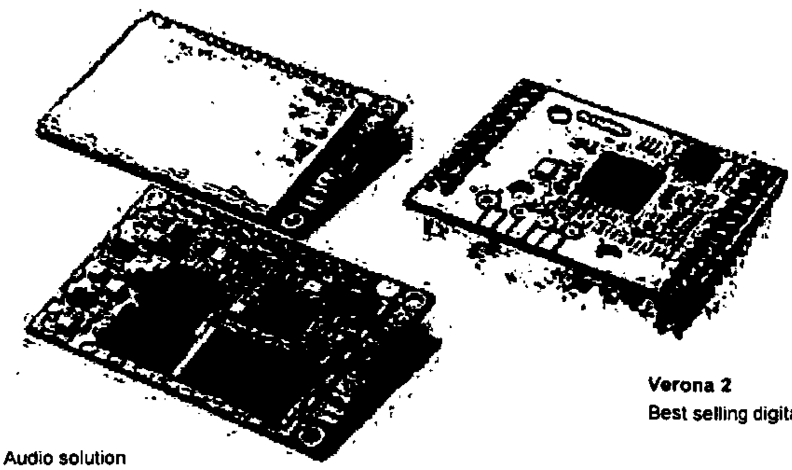
In Smart Audio, Frontier positioned as leading multi-ecosystem solutions provider – working with Google, Amazon and Apple

5

20 Smart Audio design wins in 2017. First voice-enabled design wins secured – products come to market in 2018

6

Technologies developed for Smart Audio transferrable to other non-audio Smart Home categories



**Verona 2**
Best selling digital radio module

**Minuet**
Frontier Smart Audio solution

# CHIEF EXECUTIVE OFFICER'S STATEMENT

> "Revenues up 28% to £41.0 million; EBITDA more than doubles to £1.9 million

**Anthony Sethill**
Chief Executive Officer

Revenue

**£41.0m**
(2016: £32.1m)

## Overview

Frontier made good progress in 2017. The Group delivered a robust financial performance with revenues up 28% to £41.0 million (FY2016: £32.1 million) and EBITDA growing strongly to £1.9 million (FY2016: £0.7 million).

Our established Radio business performed well in 2017, especially in the first half, boosted by the switch-off of FM radio in Norway and continued growth in other European markets. Our Smart Audio business delivered its first material revenues and, within this sector, the Group is well-positioned to address the emerging opportunities for modules and software for voice-enabled speakers.

In 2017, we kept our R&D expenditure broadly flat at circa £6.5 million, with investment in Smart Audio increasing marginally, whilst spend on Radio was reduced by a similar amount. We have focused our engineering efforts on the development of our Smart Audio software to include the incorporation of voice recognition capabilities. This work is progressing well. All R&D costs have been expensed during the year as they are either of a sustaining nature for Radio or they relate to Smart Audio which is a nascent market.

We retain a clear focus on bottom line profitability and through tight management of costs, coupled with strong revenue growth, we have improved our cash position during 2017, ending the year with £5.9 million cash and a net cash position of £3.0 million.

Our strategy for 2018 and beyond is to maintain our leadership position in Digital Radio and to use the cash flows from this business to underpin our investment in Smart Audio, and in due course, in Smart Home.

The Smart Audio market represents an exciting potential opportunity and growth driver for the Group. The sector has been transformed by the advent of voice-enabled devices from ecosystem industry leaders, Amazon and Google. Both companies are keen to develop a market for Smart Audio devices from third party brands based respectively on Amazon's Alexa Voice Services and Google's Voice Assistant. Whilst the market for devices from third party brands is still at an early stage of development, our clear objective is to establish Frontier as the leading multi-ecosystem solution provider in this sector, utilising our experience and relationships in Radio to develop this position. We have already announced a number of design wins for voice-enabled devices and we expect our first voice-enabled Smart Audio solutions to come to market in the course of 2018.

# CASE STUDY

## Zound Industries selects Frontier Silicon for its new Marshall branded multi-room speakers

> "It was important for us to ensure that the Marshall branded Wireless Multi-Room system provides an unparalleled listening experience with multiple ways to connect and listen to music. Frontier has been a dedicated partner, with its highly skilled software team and its mobile app development skills, in delivering this goal.
>
> *Pernilla Ekman*
> Zound Industries International

Zound Industries chose Frontier's smart audio platform, to add multi-room functionality, Chromecast built-in, Spotify Connect and Apple AirPlay to three of its Marshall multi-room speakers – the Marshall Acton, Marshall Stanmore and Marshall Woburn models.

The Marshall Stanmore Multi-Room and Marshall Woburn Multi-Room offer consumers six ways to connect: Chromecast built-in, Spotify Connect, AirPlay, Bluetooth, RCA input and a 3.5mm input, whilst the Marshall Acton Multi-Room offers five ways: Chromecast built-in, Spotify Connect, AirPlay, Bluetooth and a 3.5mm input. As a result, consumers can stream audio via Wi-Fi from over 150 online music services, such as Spotify, Pandora and iHeartRadio.

Zound Industries' Marshall branded Wireless Multi-Room system allows users to play different songs in each room or play the same song throughout the entire home. Each of the speakers has seven one-touch pre-sets, which allow users to select and store favourite playlists, albums, or radio stations.

All these features can be controlled through the "Marshall" branded app (for iOS and Android), which Frontier developed for Zound. The app also allows users to control the Marshall branded Wireless Multi-Room speakers' EQ settings and alter the intensity of their LED control dials.

The Marshall branded Wireless Multi-Room system was launched in September 2017.

# CHIEF EXECUTIVE OFFICER'S STATEMENT continued

## Operational review

### Radio

Frontier's Radio business performed well in 2017 with revenues growing 14.6% to £36.3 million (FY2016: £31.7 million) and EBITDA improving to £9.5 million (FY2016: £8.7 million). The Group continues to maintain its strong market leadership in both consumer DAB and Advanced (Internet) Radio. Frontier recently announced the sale of its 45 millionth digital radio solution, reflecting the Group's strength in the sector and is on course to have sold more than 50 million units by the end of 2018.

The key driver of growth in 2017 was the switch-off of FM in Norway, where digital radio sales volumes increased by over 100% compared to 2016. This particularly benefited Frontier's sales in the first half of the year. Growth was particularly strong in the automotive aftermarket segment – for devices required to convert cars which only have FM radio. The switchover took place over a 12-month period, starting in January 2017 and completing in December 2017. Sales growth was particularly buoyant in the first three quarters of the year, before slowing in the fourth quarter. Sales in 2018 are expected to fall back slightly, but the extent of this decline is difficult to predict. The next country anticipated to switch off its FM networks is Switzerland, a process expected to start in 2020/21.

Elsewhere in continental Europe, sales volumes continue to grow steadily with visible increases in Germany, the Netherlands, Denmark, France, Italy and Belgium. In the last 12 months, there have been significant developments in a number of our core markets. In Italy, a law was passed in December 2017 which will require all new radio receivers from 2020 to be capable of receiving digital signals. In France, the media regulator has confirmed plans for an accelerated roll-out of DAB+ services across the country. Once DAB+ coverage exceeds 20% of the French population, which is expected in 2018, a law requiring new receivers to offer DAB+ is due to be triggered. In Germany, the Grand Coalition agreement includes commitments to supporting DAB+ both at a national and European Union level. In the UK, 49.9% of radio listening is now via digital devices. When this figure exceeds 50%, the Government has promised a review of the UK's long-term digital radio strategy.

Margins for our Radio business remain healthy at 42% (FY2016: 44%). Average sales prices ('ASPs') were slightly lower largely due to a shift in product mix towards lower priced solutions; at the same time, average cost prices ('ACPs') also declined due to the use of lower cost components.

In 2017, our engineering expenditure for Radio was £1.8 million, 24% lower than in FY2016 (£2.3 million). The Radio business is relatively mature and any engineering expenditure is of a sustaining nature and therefore expensed. Our goal is to maintain our market leadership position and product margins, whilst ensuring that the business line continues to deliver strong positive cash flows.

The core assets from our Radio business of world class audio engineering skills, long-term commercial relationships with consumer audio brands, strong customer support for Asian-based factories, and strong positive cash flows, all underpin our entry into the voice-enabled Smart Audio market.

### Smart Audio

2017 saw the first material revenues of £4.7 million (FY2016: £0.5 million) for the Group's Smart Audio business. This business line is at an early stage of development and returned an EBITDA loss of £7.1 million (FY2016: £7.4 million).

Frontier's first Smart Audio revenues were for its Minuet solution incorporating Google's Chromecast technology (a non-voice platform which facilitates the streaming of online music services via Wi-Fi enabled speakers). More than 20 models incorporating Frontier's Smart Audio technology have been launched from brands including Harman JBL, Marshall, Urbanears, Brookstone, Jensen, Solis, Altec Lansing, Blaupunkt, Terris, and Toshiba.

The Smart Audio market is developing rapidly and the introduction of voice-enabled devices from Amazon and Google has transformed the landscape as both companies look to establish their respective voice assistants in consumer homes. In parallel, Apple has recently launched its AirPlay 2 streaming technology.

Google and Amazon are both aggressively promoting their own first party products (i.e. Google Home, Google Mini, the Amazon Echo and Echo Dot) whilst simultaneously pursuing strategies to encourage the development of Smart Audio devices from third party brands incorporating the Google Voice Assistant ('GVA') or Amazon's Alexa Voice Service ('AVS'). Frontier's focus for 2018 and beyond is on supporting these third party brands.

# CASE STUDY

Frontier is one of a very small number of technology players working with Google, Amazon and Apple in this sphere and our objective is to position ourselves as the leading multi-ecosystem solution provider in Smart Audio. The Group's ability to establish strong relationships with each of these players is testament to Frontier's expertise in the digital audio technology market.

At CES 2018, the global consumer electronics tradeshow in Las Vegas this January, Frontier showcased its latest Smart Audio solutions incorporating GVA, AVS, and AirPlay 2. All three solutions are on course to enter mass production during 2018. Frontier has already announced design wins for ten models incorporating GVA from brands including Altec Lansing, Braven, Klipsch, Jensen, Memorex, and Solis and these are expected to come to market during the course of 2018.

Frontier's margins for Smart Audio (FY2017: 31%) are narrower than for Radio, in part because the Company does not use its own silicon in this market segment, and also due to the greater competitive pressures in this market.

Smart Audio R&D expenditure is heavily focused on software development to ensure that the solutions incorporating GVA, AVS and AirPlay 2 meet the standards required by the respective ecosystem players. In 2017, R&D expenditure on Smart Audio was £4.7 million, (FY2016: £4.2 million).

## Legendary US audio brand Klipsch® chooses Frontier solution with Google Assistant

> “Frontier's technology, processes and customer support have been critical elements in enabling us to deliver, to very tight timelines, voice-enabled speakers which offer the high performance and emotional experience for which the Klipsch brand is internationally renowned.
>
> **Rob Standley**
> Vice President of Global Marketing & Product Development, Klipsch Group

US audio brand Klipsch® chose Frontier's Smart Audio platform to power its two new premium Google voice-enabled speakers.

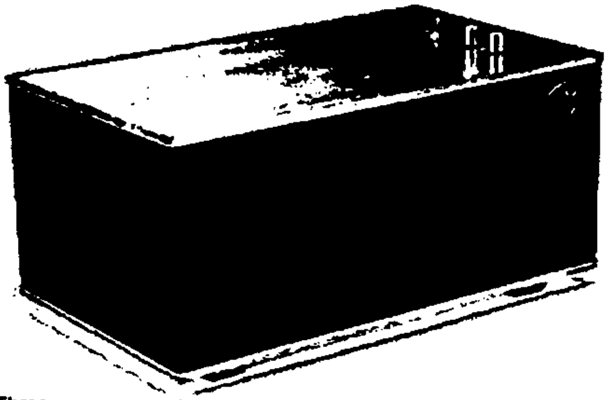
Klipsch produces high performance speakers aimed at audiophiles and aficionados around the world. The company has partnered with Frontier to bring voice assistant capability, via the Google Assistant, to two of its leading models – Klipsch Heritage Wireless speakers "The One" and "The Three".

The One is a 30W stereo speaker – now with the Google Assistant, Chromecast built-in, Bluetooth® wireless technology and an 8-hour rechargeable battery. It is a 2.1 semi-portable stereo speaker, and will be priced at $349. The Three (positioned as the One's "bigger, badder brother") is a table-top 2.1 stereo speaker with Google Assistant, Chromecast built-in, Bluetooth 4.2 and 60 watts of home-filling power. The Three will be priced at $499.

Both models embody Klipsch's core principles of delivering the power, detail, and emotion of the live music experience into consumers' homes using the latest audio technologies.

Frontier's SmartSDK (voice-enabled streaming software solution) and Minuet hardware provide a complete multi-ecosystem platform for brands and manufacturers to develop voice-enabled audio devices which support the latest technologies, including Google Assistant and Chromecast built-in, quickly and cost-effectively.

The speakers are planned to launch in 2018.



The Three

# CHIEF EXECUTIVE OFFICER'S STATEMENT continued

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

| | 2017 £'000 | Restated 2016 £'000 |
|---|---|---|
| **Loss for the year** | **(1,897)** | (17,331) |
| Add back: | | |
| Taxation | **313** | (1,607) |
| Net finance charges/(income) | **272** | 352 |
| Depreciation | **292** | 355 |
| Amortisation | **2,342** | 2,377 |
| Share-based payment | **617** | 633 |
| Loss for the year from discontinued operations | **—** | 15,892 |
| **EBITDA** | **1,939** | 671 |

## Financial review

### Revenue and margin

Group revenue for the year increased by 28% to £41.0 million (FY2016: £32.1 million). The growth in revenue was largely driven by DSO in Norway, which contributed to strong growth in Radio sales in the first half of the year, bolstered by the first material revenues from Smart Audio of £4.7 million. Total volumes shipped across the business were 6.4 million units (FY2016: 5.2 million).

Gross profit margin decreased slightly over the year from 44.0% to 41.2%. 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.

### Research and development

As noted last year, the trend on R&D expenditure as a proportion of revenues has been downwards since the first half of 2015, with R&D spend in 2017 of £6.5 million representing 15.9% of Group revenue (FY2016: £6.6 million and 20.5% of Group revenue). The Board expects R&D to increase slightly in 2018 to enable the completion of a number of software blocks for GVA, AVS and AirPlay 2.

### EBITDA

Following the Group's first positive EBITDA contribution in 2016 of £0.7 million, 2017 saw EBITDA increase by 171% to £1.9 million. This contribution flowed through to cash generation with year end gross cash at £5.9 million (£3.0 million net). This compares to year end 2016 with gross cash of £3.4 million (net debt £0.7 million).

### Discontinued operations

During 2016, the Group disposed of its Healthcare division and both the trading losses and loss on disposal have been included in the £15.9 million loss for the year from discontinued operations.

### Pre-tax loss

The Group reported a pre-tax loss of £1.6 million (2016: loss £3.0 million).

### Taxation

The Group has historically applied for and received tax credits in respect of its research and development expenditure. In 2017, the cash received in relation to R&D tax credits amounted to £0.9 million (2016: £1.8 million). The reduction year-on-year is due to the claims being restricted as the Group nears profitability.

As at 31 December 2017 the Group has unutilised tax losses of £36.9 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 £5.9 million of gross cash and cash equivalents on the balance sheet (net cash was £3.0 million).

### Current trading and outlook

Prospects for 2018 are favourable, though revenue and EBITDA growth are likely to be modest. Radio volumes are likely to plateau following the completion of the digital switchover in Norway in December 2017. In Smart Audio, we are on course to deliver solutions incorporating Google, Amazon and Apple technologies during 2018, but the market for third party voice-enabled speakers is still at an early stage of development and we therefore expect to see more substantial growth in later years.

As noted in the Chairman's Statement, Dr Martin Knight and Chris Batterham have, after careful consideration, decided not to seek re-election to the Board at the AGM in April 2018. I would like to thank both Martin and Chris for their long-standing service to Frontier and wish them well for the future. Additionally, I am pleased to announce that Sir Hossein Yassaie has been appointed to the Board and the Group looks forward to working with such an experienced professional in the digital audio space.

**Anthony Sethill**
Chief Executive Officer
7 March 2018

# BUSINESS MODEL

## The Group's aim is to be the leading provider of technology solutions for digital audio devices

Frontier is the established market leader in solutions for digital radios. The Group introduced its fourth generation digital radio chip, Kino 4, in 2015 – allowing the Company to maintain a share of the consumer DAB market of approximately 80%. This business line is significantly cash generative; R&D expenditure is focused on incremental developments designed to sustain the Group's sector leadership and its positive cash flows.

The Company is leveraging its strengths in Radio (relationships with customers and suppliers, in-house technology skills and supply chain capabilities) to establish a similar position in the rapidly developing Smart Audio market. The Group's focus is on enabling third party brands to develop Smart Audio devices incorporating the proprietary streaming and voice recognition technology platforms of the major ecosystem players (Google, Amazon and Apple). Since the end of 2016, more than 20 models of speaker have been launched based on Frontier's Smart Audio platform incorporating Google's Chromecast streaming technology.
At the beginning of 2018, the Company showcased its first voice-enabled solutions at the CES tradeshow – where it also announced ten voice-enabled design wins. Frontier is one of a very few system integrators whose platform will support the Google Voice Assistant, Amazon's Alexa Voice Services and Apple's AirPlay 2. This business line is currently in investment phase. Significant revenue growth is expected over the next three years.

The third leg of Frontier's strategy is Smart Home. The technologies developed for Smart Audio, in the areas of connectivity, security and voice recognition, are wholly transferable to other, non-audio, Smart Home categories. When coupled with the Group's relationships with the major ecosystem players and its strong relationships with many China-based ODMs, Frontier is well placed to address the opportunities in this market. The Group is in the early stages of devising its market entry strategy for this sector.


### Market leadership

**Retain market technology and leadership**

**Roadmap developments**

- **Automotive aftermarket**
- **Amazon Music**
- **Amazon connected audio API**


### Market development

**Frontier goal to be leading system integrator for third party brands**

**Frontier positioned as multi-ecosystem solution provider**

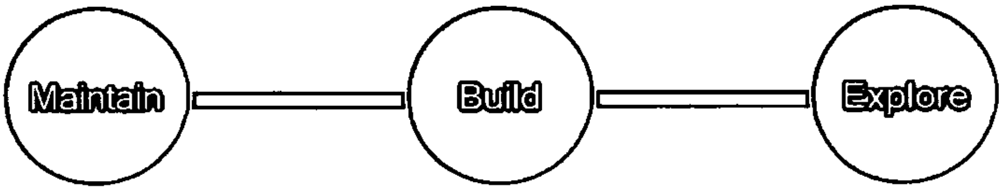
- **Turnkey module solutions**
- **Licensing SmartSDK**


### Market entry

**Engage with ecosystem (partners/customers)**

**Identify where Frontier technology is applicable**

**Extend capabilities of core platform SmartSDK**



# KPIs

## 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 both business lines. Monthly targets are set at the budget approval stage and these targets are reported 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 for Radio and Smart Audio are reported in the management accounts.

### Total revenues, margins, overheads and EBITDA

The management accounts include full financials for each business line. 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, the Board is confident that a number of potential sources may be available – these would be assessed at that time.

### Share price

The share price is constantly monitored by the Board.

# Our core strengths

| World-leading audio technology | Blue-chip audio brands | Factory/ODM relationships |
|---|---|---|

**16** years' heritage in DAB technology and relationships

Over **100** audio brands as customers

**45m** units shipped

**£1.9m** EBITDA in 2017

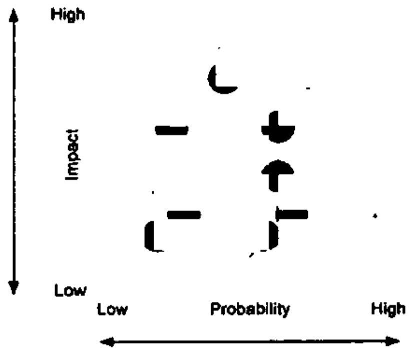
# PRINCIPAL RISKS AND UNCERTAINTIES

## A number of risks and uncertainties could adversely affect the achievement of the Group's corporate aims

### 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.

HEAT MAP




1. Impact of new technologies
2. Delays in development
3. Lack of commercial success
4. Losing market share
5. Supply-side risk
6. Margin erosion
7. Failure to protect IP
8. Staff dependency

### 1. The impact of new technologies on the Group's markets

| RISK | MITIGATION |
| --- | --- |
| The introduction of new and untested technologies into digital audio markets 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 participation in technology conferences help management keep informed of new technology innovations. The Group's Smart Audio software platform has been designed to ensure a high degree of flexibility in the direction of future developments. |

### 2. Potential delays in development and testing

| RISK | MITIGATION |
| --- | --- |
| Designing and introducing new and revised products at the cutting edge of technology can result in operating failures when first introduced and tested. Delays can adversely impact our ability to supply the products our customers might want in a timely manner. | We continue to improve the management of the software development team to mitigate these risks. In Smart Audio, our commercial, engineering and test teams have developed close working relationships with the major ecosystem players to ensure we are fully aware, in a timely manner, of potential changes in their software requirements. |

### 3. Customer products may not be commercially successful

| RISK | MITIGATION |
| --- | --- |
| In Radio, individual customers' models may not be successful. A risk exists that the category could be eroded by the rise of voice-enabled devices.<br><br>In Smart Audio, the speed at which the market for products from third party brands takes off is uncertain. It is also unclear which brands' products will be most successful. | In Radio, Frontier's market share (~80%) mitigates against the poor performance of individual models. The risk of the Radio sector being eroded by Smart Audio is mitigated by Frontier's involvement in the latter category. Frontier is also working closely with industry stakeholders to encourage the international development of digital radio.<br><br>In Smart Audio, Frontier is working closely with Google and Amazon to help ensure that products from third party brands can compete effectively with first party products in terms of features, pricing and promotional support. |

# PRINCIPAL RISKS AND UNCERTAINTIES continued

## 4. Losing market share to competitors

| RISK | MITIGATION |
|---|---|
| In Radio, as the DAB market grows, the risk from potential competitors increases.<br>In Smart Audio, the potential scale of the opportunity has attracted a greater number of competitors, the majority of whom are focused on working with a single ecosystem player. | Management identifies potential risk areas and ensures that the Group's commercial and engineering resources are focused on preventing any loss of business. When customers place particular models with competitors, the Group works hard to regain the business – for example by highlighting the best-in-class support that we provide to factories.<br>In Smart Audio, Frontier has developed close relationships with all the major ecosystem players. This positioning as a multi-ecosystem solution provider is an important differentiator. Frontier is also better placed than most of its competitors to serve multiple customers simultaneously. |

## 5. Availability and pricing of components; failure of suppliers causing a disruption in supply

| RISK | MITIGATION |
|---|---|
| In recent months, the pricing and availability of certain components has come under pressure.<br>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. | For potentially scarce components we have increased advanced orders to ensure continuity of supply. We closely monitor the timing and scale of our sales forecasts to minimise the risk of overstocking components.<br>We manage the risk of being dependent on certain suppliers by using a number of different suppliers wherever possible. |

## 6. Erosion of margins

| RISK | MITIGATION |
|---|---|
| Pressure on pricing and costs is a constant issue in Digital Audio. The pressure on margins in Smart Audio may be stronger than for Radio. | A key focus of our supply chain and logistics operations is to continually seek lower cost components and cost reductions where possible. |

## 7. Failure to protect adequately the Group's intellectual property and challenges for infringement by third parties

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

## 8. Dependency on senior management and staff for commercial relationships and product development

| RISK | MITIGATION |
|---|---|
| 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. | We constantly monitor the competitive nature of our salary and rewards package (including the share option scheme) for key employees.<br>We regularly update staff on the Group's goals, strategy and progress through company meetings and individual briefings. We provide training and development for staff (especially those with higher potential) to help with future succession planning. |

## 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. Cash at bank is all held with highly rated banks, the suitability of which is periodically reviewed.

## Financial risk management objectives and policies

The Group's principal financial instruments comprise of 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:

### 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 loan is repayable over a three-year period with repayments commencing in 2016; during 2017, £1.2 million was repaid. 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 dollars and, whilst the majority of its third party cost base is also denominated in US dollars, 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 dollars and sterling 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
7 March 2018

# BOARD OF DIRECTORS

## The Board is collectively responsible for creating shareholder value

### Dr Martin Knight
**Non-Executive Chairman**

#### Skills and experience

Martin Knight is an experienced technology investor. He was previously Chairman of Imperial Innovations Group plc (now part of the IP Group plc). For 18 years, until 2010, he was a Governor of Imperial College, of which he is a Fellow. He started his career at Morgan Grenfell & Co Limited, of which he became a Director in 1982.

#### External appointments

Chairman of LMS Capital plc (the quoted investment business), Cambridge Mechatronics Limited, and Chrysalis VCT plc (the quoted SME investor).

### Anthony Sethill
**Chief Executive Officer**

#### Skills and experience

Anthony Sethill is founder and CEO of Frontier Silicon Limited. Since 2001, he has successfully grown 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 Limited. His earlier career included senior management positions at Samsung (UK) Limited and ONDigital.

### Jonathan Apps
**Chief Financial Officer**

#### Skills and experience

Jonathan Apps 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.

#### External appointments

External adviser to technology start-up LimitEar Limited.

## Chris Batterham

**Non-Executive Director**

### Skills and experience

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 Limited and being CFO for Searchspace.

### External appointments

Currently a Non-Executive Director of Blue Prism Group plc and NCC Group plc. Previously Chairman of Eckoh plc and was a Non-Executive Director of Iomart Group plc, SDL plc, Staffware plc and Betfair Limited.

## Martin Harriman

**Non-Executive Director**

### Skills and experience

Martin Harriman joined the Frontier Board in December 2016, bringing a wealth of experience managing and advising international technology businesses. He has held 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 encompassed management roles at Ericsson, Marconi and BT.

# CORPORATE GOVERNANCE

## UK corporate governance

The Board is committed to high 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.

## 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 supplies 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 two 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.

## 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, Mr C Batterham (chair) and Mr M Harriman. 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 reviews and monitors 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 that 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 2017, the Group has net assets of £16.4 million and net current assets of £1.4 million, including £5.9 million of cash. In order to meet its strategic ambitions, the Board remains committed to ongoing investment into the development of its products. As such, the Group anticipates being cash flow positive in 2018 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 2019 which incorporate the Group and its subsidiary undertakings as at 31 December 2017.

Forecasts have been prepared as follows:

- management has used its 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; and
- the Group's cost base is designed to support existing revenue streams and the development of new integrated solutions for digital 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 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 | 9 of 9 | | |
| Mr J Apps | 9 of 9 | | |
| Dr M Knight | 9 of 9 | 1 of 1 | 2 of 2 |
| Mr M Harriman | 9 of 9 | 3 of 3 | 2 of 2 |
| Mr C Batterham | 7 of 9 | 3 of 3 | 2 of 2 |

# 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 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 Directors' responsibilities and contain incentives to deliver the Group's objectives.

The remuneration of the Directors for the year ended 31 December 2017 is as follows:

| Fees and emoluments | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Mr A Sethill | **266** | 276 |
| Mr J Apps | **215** | 223 |
| Professor C Toumazou | **—** | 25 |
| Paid to Merrycroft Limited in respect of services provided by Dr M Knight | **70** | 70 |
| Paid to Imagination Technologies Group Limited on behalf of Sir H Yassaie | **—** | 3 |
| Mr C Batterham | **30** | 30 |
| Paid to A Digital Edge Limited in respect of services provided by Mr M Harriman | **30** | 3 |
| **Total** | **611** | 630 |

## Pensions and benefits in kind

Included in the £266,000 paid to Mr A Sethill is £9,155 in benefits in kind.

## Pension contributions

Pension contributions are paid on base salary only.

## Bonuses

Directors' bonuses payable at 31 December 2017 are £260,979 (2016: £nil).

## 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 Non-Executive Directors will be for specified terms subject to re-election.

## Share option incentives

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 which expire on 20 January 2020.

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 1 April 2017 when these options were due to vest, the performance criteria had not been met, therefore 142,500 options lapsed, and 62,500 remain unvested. 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. On 6 February 2017, Mr A Sethill was granted 750,000 options over ordinary shares at £0.785 each, which expire on 6 February 2027. These options are subject to the performance conditions listed below.

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 1 April 2017 when these options were due to vest, the performance criteria had not been met, therefore 87,500 options lapsed and 62,500 remain unvested. 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. On 6 February 2017, Mr J Apps was granted 370,000 options over ordinary shares at £0.785 each, which expire on 6 February 2027. These options are subject to the performance conditions listed below.

Vesting of the 2014 options awards for Directors is conditional on a combination of the Group's share price in comparison to the FTSE All Share Index and the Group's share price attaining a value of £6.00 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 £6.00 for 90 days by 30 January 2020.

Vesting of the 2017 option awards for Directors is conditional on the Group's share price attaining a value of £1.60 for 30 consecutive trading days by 6 February 2027. This condition has been met.

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

## Shares

At 7 March 2018;

- 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; and
- 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.

This report was approved by the Board of Directors and signed on its behalf by:

Martin Harriman
Non-Executive Director
Chair of the Remuneration
Committee 7 March 2018

# DIRECTORS' REPORT

The Directors present their Annual Report together with the audited consolidated financial statements of the Group for the year ended 31 December 2017. 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 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 Officer's Statement on pages 6 to 10.

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

## Directors

The present Directors of the Company and their biographies are shown on pages 16 and 17. Details of share options held by the Directors are set out in the Report on Remuneration on pages 20 and 21.

## Substantial shareholdings

The only interests in substantial holdings of share capital of the Group which have been notified as at 26 February 2018 were as follows:

| | Ordinary shares of 10p each Number | Percentage of capital % |
|---|---|---|
| M & G Investments | 7,951,272 | 19.60 |
| Herald Investment | 4,383,809 | 10.81 |
| AXA Investment | 2,834,889 | 6.99 |
| Luc Van Schil | 2,438,018 | 6.01 |
| Hargreave Hale | 2,427,000 | 5.98 |

## 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 22 of these accounts. At 31 December 2017, 3,877,321 share options were outstanding with a weighted average exercise price of 79p.

## 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.

## Modern Slavery Act

The Board has approved a Modern Slavery Act Transparency Statement in compliance with section 54 of the Modern Slavery Act 2015, which is available to view on the Company's website:

http://www.frontiersmart.com/citizenship#

Jonathan Apps
Assistant Company Secretary
7 March 2018

# FINANCIAL STATEMENTS

## 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 ('IFRS') when preparing its annual financial statements.

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

In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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 auditor is 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 IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and 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
7 March 2018

# INDEPENDENT AUDITOR'S REPORT

To the members of Frontier Smart Technologies Group Limited

## Our opinion on the Group financial statements is unmodified

We have audited the Group financial statements of Frontier Smart Technologies Group Limited for the year ended 31 December 2017 which comprise Principal Accounting Policies, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Cash flow Statement and notes to the financial statements. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRS') as adopted by the European Union.

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 2017 and of its loss for the year then ended; and
- have been properly prepared in accordance with IFRS as adopted by the European Union.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the Group financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Who we are reporting to

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.

## Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

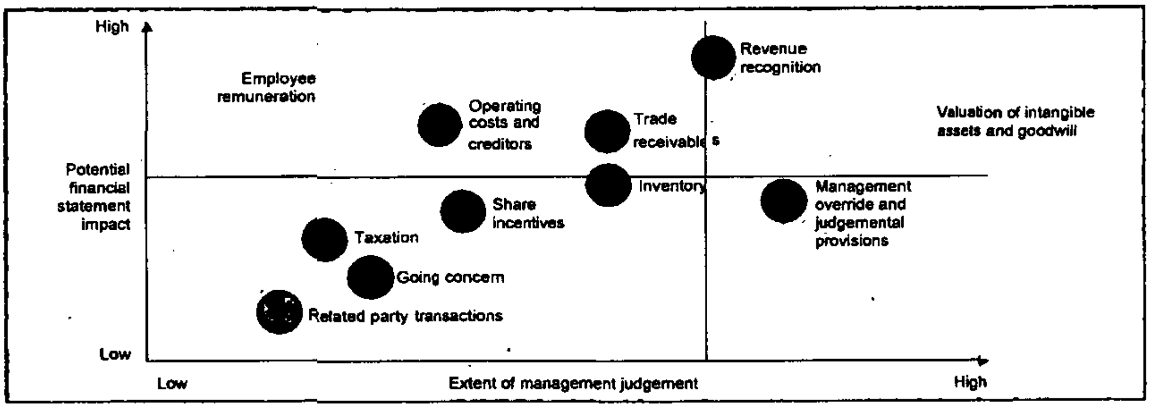
- the Directors' use of the going concern basis of accounting in the preparation of the Group financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the financial statements are authorised for issue.

Overview of our audit approach

- *Overall materiality*: £225,000, which represents 0.5% of the Group's forecasted revenues.
- Key audit matters were identified as revenue recognition and impairment of non-current assets.
- The operations that were subject to full-scope or targeted audit procedures made up 100% of consolidated revenues and 97% of total assets.

## Key audit matters

The graph below depicts the audit risks identified and their relative significance based on the extent of the financial statement impact and the extent of management judgement.



Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the group financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the group financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



| KEY AUDIT MATTERS | HOW THE MATTER WAS ADDRESSED IN THE AUDIT |
|---|---|
| **Revenue recognition**<br>Under ISA (UK) 240, there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue due to fraud.<br>The Group has reported revenues of £41.0 million for the year ended 31 December 2017, arising substantially from the sale of goods.<br>Revenue is the most significant item in the consolidated statement of comprehensive income and affects a number of key performance indicators and key strategic indicators set out in the Chief Executive Officer's Statement and Strategic Report.<br>There is a risk of incorrect revenue recognition, arising from:<br>- recognition of revenue in the wrong period;<br>- revenue is not recognised in accordance with IFRS as adopted by the European Union; and<br>- manipulation of revenues around the year end through management override.<br>We therefore identified revenue recognition as a significant risk, which was one of the most significant assessed risks of material misstatement. | Our audit work included, but was not restricted to:<br>- evaluating revenue recognition policies to ensure compliance with IAS 18 'Revenue';<br>- testing a sample of individual revenue items during the year and around the year end, agreeing items selected for testing through to supporting evidence including sales invoice, signed goods delivered notes and cash receipts; and<br>- assessing credit journal entries posted to revenue during the year where the corresponding debit entries were not in line with the audit team's expectation of debtors, deferred income or sales incentives. For entries not in line with expectation, supporting evidence was obtained to ensure appropriateness.<br>The Group's accounting policy on revenue recognition is stated in the principal accounting policies and disclosures relating to revenue are included in note 1.<br>**Key observations**<br>Our testing did not identify any material deviations in the Group's revenue recognition polices from IAS 18. In addition, our audit work did not identify any material errors in the occurrence of revenue recognised in the year. |
| **Impairment of non-current assets**<br>The Directors are required to make an annual assessment to determine whether the Group's goodwill and intangible assets, which stand at £8.5 million and £6.2 million, respectively, are impaired.<br>The process for assessing whether impairment exists under International Accounting Standard ('IAS') 36 Impairment of assets is complex. The process of determining the value in use, through forecasting cash flows related to cash generating units ('CGUs') and the determination of the appropriate discount rate and other assumptions to be applied, can be highly judgemental and can significantly impact the results of the impairment review.<br>We therefore identified the goodwill and intangible assets impairment review as a significant risk, which was one of the most significant assessed risks of material misstatement. | Our audit work included, but was not restricted to:<br>- obtaining and recalculating management's assessment and sensitivity analyses<br>- challenging management's assumptions utilised in the impairment models, including cash flow forecasts, growth rates, discount rates and terminal values through performing a sensitivity analysis;<br>- assessing for potential impairment indicators relating to intangible assets;<br>- comparing current market capitalisation to carrying value of net assets and calculated value in use for the Group;<br>- testing the accuracy of management's forecasting through a comparison of budget to actual data; and<br>- evaluating the detailed disclosures to ensure information provided in the financial statements is compliant with the requirements of IAS 36 and consistent with the results of the impairment review.<br>The Group's accounting policy on "review of the carrying value of goodwill, other intangible assets, property, plant and equipment and other investments" is shown on page 34 and the related disclosures are included in notes 8, 9 and 10.<br>**Key observations**<br>We concluded that there were no indicators of impairment and the value in use sufficiently exceeds the carrying value of goodwill and intangibles. |

# INDEPENDENT AUDITOR'S REPORT continued

To the members of Frontier Smart Technologies Group Limited

## Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

We determined materiality for the audit of the Group financial statements as a whole to be £225,000, which is 0.5% of Group revenue. This benchmark is considered the most appropriate because it is a key focus area for management and the users of the accounts and represents underlying growth of the business.

We use a different level of materiality, performance materiality, to drive the extent of our testing and this was set at 60% of financial statement materiality for the audit of the Group financial statements.

We determined the threshold at which we will communicate misstatements to the Audit Committee to be £11,000. In addition, we will communicate misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

## An overview of the scope of our audit

Our audit approach was based on a thorough understanding of the Group's business and is risk based. An interim visit was conducted before the year end to complete advance substantive audit procedures and to evaluate the Group's internal controls environment including its IT systems. The components of the Group were evaluated by the Group Audit Team based on a measure of materiality considering each as a percentage of total Group assets, liabilities, revenues and profit before taxes, to assess the significance of the component and to determine the planned audit response.

For those components that were evaluated as significant, either a full-scope or targeted audit approach was determined based on their relative materiality to the Group and our assessment of the audit risk. For significant components requiring a full-scope approach we evaluated controls over the financial reporting systems identified as part of our risk assessment, reviewed the accounts production process and addressed critical accounting matters. We then undertook substantive testing on significant transactions and material account balances.

In order to address the audit risks described above as identified during our planning procedures, we performed a full-scope audit of the financial statements of the parent company, Frontier Smart Technologies Group Limited, and of the UK entity, Frontier Silicon Limited. We performed targeted procedures over the other component entities in the UK, Hong Kong and Romania. The operations that were subject to full-scope or targeted audit procedures made up 100% of consolidated revenues and 97% of total assets. Statutory audits of subsidiaries, where required by local laws, were performed to lower materiality where applicable.

## Other information

The Directors acknowledge they are responsible for the other information. The other information comprises the information included in the Annual Report set out on pages 1 to 23, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Group financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Group financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement of the Group financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

## Responsibilities of Directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement set out on page 23, the Directors acknowledge they are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of Group financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Group financial statements, the Directors acknowledge they are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the Group financial statements

Our objectives are to obtain reasonable assurance about whether the Group financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Group financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Grant Thornton UK LLP

Nicholas Watson
Senior Statutory Auditor

for and on behalf of
Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London

7 March 2018

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

| | Note | 2017 £'000 | *Restated* 2016 £'000 |
|---|---|---|---|
| **Revenue** | 1 | **41,046** | 32,135 |
| Cost of sales | | **(24,153)** | (18,000) |
| **Gross profit** | | **16,893** | 14,135 |
| Research and development | | **(6,524)** | (6,588) |
| Sales and administrative expenses – other | | **(8,430)** | (6,876) |
| EBITDA | | **1,939** | 671 |
| Amortisation | 9 | **(2,342)** | (2,377) |
| Depreciation | 10 | **(292)** | (355) |
| Share-based payment | 22 | **(617)** | (633) |
| **Total administrative expenses** | | **(18,205)** | (16,829) |
| **Loss from continuing operations** | | **(1,312)** | (2,694) |
| Finance income | 5 | **9** | 9 |
| Finance charges | | **(281)** | (361) |
| **Loss before taxation** | 1 | **(1,584)** | (3,046) |
| Taxation | 6 | **(313)** | 1,607 |
| **Loss for the year from continuing operations** | | **(1,897)** | (1,439) |
| Loss for the year from discontinued operations | 3 | **—** | (15,892) |
| **Loss for the year** | | **(1,897)** | (17,331) |
| **Items that will not be reclassified subsequently to profit or loss** | | | |
| Exchange differences on translating foreign operations | | **(62)** | 17 |
| **Other comprehensive income** | | **(62)** | 17 |
| **Total comprehensive income for the year** | | **(1,959)** | (17,314) |
| **Basic earnings per share** | 7 | | |
| – From continuing operations | | **(4.44p)** | (3.36p) |
| – From discontinued operations | | **—** | (37.10p) |
| **Diluted earnings per share** | | | |
| – From continuing operations | | **(4.44p)** | (3.36p) |
| – From discontinued operations | | **—** | (37.10p) |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

| | Note | 2017 £'000 | Restated 2016 £'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Goodwill | 8 | **8,536** | 8,536 |
| Other intangible assets | 9 | **6,188** | 8,510 |
| Property, plant and equipment | 10 | **304** | 401 |
| | | **15,028** | 17,447 |
| **Current assets** | | | |
| Inventories | 11 | **3,536** | 2,588 |
| Tax receivable | | **126** | 1,123 |
| Trade and other receivables | 12 | **3,258** | 8,209 |
| Cash and cash equivalents | 13 | **5,854** | 3,376 |
| **Total current assets** | | **12,774** | 15,296 |
| **Total assets** | | **27,802** | 32,743 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 14 | **11,383** | 12,112 |
| **Total current liabilities** | | **11,383** | 12,112 |
| **Other liabilities > 1 year** | 15 | **—** | 2,872 |
| **Total liabilities** | | **11,383** | 14,984 |
| **EQUITY** | | | |
| Share capital | 16 | **4,277** | 4,275 |
| Share premium | | **115,300** | 115,300 |
| Share-based payment reserve | | **5,751** | 5,134 |
| Foreign exchange reserve | | **(80)** | (18) |
| Retained earnings | | **(108,829)** | (106,932) |
| **Total equity** | | **16,419** | 17,759 |
| **Total equity and liabilities** | | **27,802** | 32,743 |

The consolidated financial statements were approved by the Board on 7 March 2018.

Jonathan Apps

Chief Financial Officer

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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

| | Share capital £'000 | Share premium £'000 | Share-based payment reserve £'000 | Retained earnings £'000 | Foreign exchange reserve £'000 | Total equity £'000 |
|---|---|---|---|---|---|---|
| **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 |
| **Transactions with owners** | 13 | — | 633 | — | — | 646 |
| *Loss for the year* | — | — | — | (17,331) | — | (17,331) |
| **Other comprehensive losses** | | | | | | |
| Exchange differences on translating foreign operations | — | — | — | — | 17 | 17 |
| **Total comprehensive loss** | — | — | — | (17,331) | 17 | (17,314) |
| **At 1 January 2017** | 4,275 | 115,300 | 5,134 | (106,932) | (18) | 17,759 |
| Share-based payments | — | — | 617 | — | — | 617 |
| Issue of share capital | 2 | — | — | — | — | 2 |
| **Transactions with owners** | 2 | — | 617 | — | — | 619 |
| Loss for the year | — | — | — | (1,897) | — | (1,897) |
| **Other comprehensive losses** | | | | | | |
| Exchange differences on translating foreign operations | — | — | — | — | (62) | (62) |
| **Total comprehensive loss** | — | — | — | (1,897) | (62) | (1,959) |
| **At 31 December 2017** | 4,277 | 115,300 | 5,751 | (108,829) | (80) | 16,419 |

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2017

| | Note | 2017 £'000 | Restated 2016 £'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Loss before taxation | | **(1,584)** | (3,046) |
| Amortisation | | **2,342** | 2,377 |
| Depreciation | | **292** | 355 |
| Share-based payments | | **617** | 633 |
| Net interest payable | | **272** | 352 |
| (Increase)/decrease in inventories | | **(948)** | 78 |
| Decrease/(increase) in trade and other receivables | | **4,951** | (1,881) |
| (Decrease)/increase in trade and other payables | | **(2,636)** | 900 |
| Foreign exchange gain/(loss) | | **221** | (559) |
| Tax refund | | **919** | 1,805 |
| Net cash from continuing operations | | **4,446** | 1,014 |
| Net cash used in discontinued operations | | **—** | (5,200) |
| **Net cash from/ (used in) operating activities** | | **4,446** | (4,186) |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | | **(220)** | (81) |
| Purchase of intangible assets | | **(10)** | (143) |
| Proceeds from sale of subsidiaries, net of cash sold | | **—** | 714 |
| **Net cash used in investing activities** | | **(230)** | 490 |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of share capital | | **2** | — |
| Loan repayments | | **(1,200)** | (900) |
| Loan interest payable | | **(281)** | (361) |
| Interest receivable | | **9** | 9 |
| **Net cash used in financing activities** | | **(1,470)** | (1,252) |
| **Net change in cash and cash equivalents** | | **2,746** | (4,948) |
| Cash and cash equivalents at the beginning of period | | **3,376** | 7,748 |
| Exchange differences on cash and cash equivalents | | **(268)** | 576 |
| **Cash and cash equivalents at the end of period** | 13 | **5,854** | 3,376 |

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

# PRINCIPAL ACCOUNTING POLICIES

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 2017 the Group has net assets of £16.4 million and net current assets of £1.4 million, including £5.9 million of cash. In order to meet its strategic ambitions the Board remains committed to ongoing investment into the development of its products. As such the Group anticipates being cash flow positive in 2018 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 2019 which incorporate the Group and its subsidiary undertakings as at 31 December 2017.

Forecasts have been prepared as follows:

- management has used its 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; and
- the Group's cost base is designed to support existing revenue streams and the development of new integrated solutions for digital 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 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 and relevant sales incentives, 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.

The Group earns revenue from design services on either a fixed cost or time and materials basis. These projects tend to be short-term in nature and the revenue is booked to match the effort expended.

Many of the Group's Smart Audio contracts contain multiple deliverables *as the contracts contain an element of* deferred revenue in respect of ongoing maintenance obligations. The undelivered maintenance element is deferred based on management's assessment of the fair value of the ongoing maintenance using estimates of the cost plus margin over the period for which maintenance is contracted.

## 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 the Consolidated *Statement of Comprehensive Income*. 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.

# PRINCIPAL ACCOUNTING POLICIES continued

## 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 | – 1 to 4 years |

**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 spread 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 has 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 monitors 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 34.

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.

# PRINCIPAL ACCOUNTING POLICIES continued

## 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.

### Operating leases

All other leases are treated as operating leases. Where the Group is a lessee, payments on operating lease agreements are recognised as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

## 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 |
| Plant and machinery | – 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 three segments:

- **Radio** – this business line develops and sells digital radio solutions;
- **Smart Audio** – this business line develops and sells wireless semiconductor chips and embedded solutions for cloud-connected applications; and
- **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 segment 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.

# PRINCIPAL ACCOUNTING POLICIES continued

## 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 judgements 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. 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, are detailed in notes 8 and 9 to the financial statements.

The Directors considered the applicability of the discount rate of 18% for the Radio 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 Stochastic option pricing model, which requires the input of subjective assumptions, including the volatility of share price and satisfying conditions.

Details of the inputs are set out in note 22 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.

Research expenditure is recognised as an expense when it is incurred.

Development expenditure ordinarily expensed as incurred but may be capitalised if, and only if, the Group can demonstrate all of the following:

(i) the ability to measure reliably the expenditure attributable to the asset under development;

(ii) the product or process is technically and commercially feasible; its future economic benefits are probable;

(iii) the ability to use or sell the developed asset; and

(iv) the availability of adequate technical, financial and other resources to complete the asset under development.

Development expenditure on the current projects being worked on do not meet the criteria to be capitalised as, in the Board's view, it is too early to determine the economic benefits that may accrue. In 2017 the major initiative being worked on was the development of Google Voice Assistant technology which whilst very successful in Google's own branded products has yet to be proven in a third party environment. Development in 2018 is likely to focus on Amazon Voice Services and, again, the economic return from a third party environment has yet to be proven.

If the four criteria are met, future capitalised development expenditure would be measured at cost less accumulated amortisation and impairment losses, if any. Any future capitalised development expenditure will be amortised on a straight-line method over the expected life of the consumer end products that use the Frontier SDK. In the event that it is no longer probable that the expected future economic benefits will be recovered, the development expenditure would be written down to its recoverable amount.

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 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 but not effective, based on EU mandatory effective dates, for accounting periods commencing on 1 January 2017 are:

- IFRS 17 'Insurance Contracts' (issued on 18 May 2017) 1 January 2021;
- IFRS 16 'Leases' (issued on 13 January 2016) 1 January 2019;
- IFRIC Interpretation 22 'Foreign Currency Transactions and Advance Considerations' (issued on 8 December 2016) 1 January 2018;
- IFRS 15 'Revenue from Contracts with Customers' (issued on 28 May 2014) 1 January 2018;
- IFRS 9 'Financial Instruments' (issued on 24 July 2014) 1 January 2018;
- Amendments to IAS 40 'Transfers of Investment Property' (issued on 8 December 2016) 1 January 2018;
- Amendments to IFRS 2 'Classification and Measurement of Share-based Payment Transactions' (issued on 20 June 2016) 1 January 2018;
- Amendments to IFRS 9 'Prepayment Features with Negative Compensation' (issued on 12 October 2017) 1 January 2019;
- Amendments to IAS 28 'Long-term Interests in Associates and Joint Ventures' (issued on 12 October 2017) 1 January 2019;
- Amendments to IFRS 4 'Applying IFRS 9 Financial Instruments' with IFRS 4 'Insurance Contracts' (issued on 12 September 2016) 1 January 2018; and
- Clarifications to IFRS 15 'Revenue from Contracts with Customers' (issued on 12 April 2016) 1 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 detail under existing IFRS, 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.

**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; and
- assessing the additional disclosures that will be required.

**IFRS 9 'Financial Instruments'**

The new Standard for financial instruments (IFRS 9) replaces IAS 39 'Financial Instruments: Recognition and Measurement'. It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an 'expected credit loss' model for the impairment of financial assets.

The Group holds all of its financial assets as cash or cash equivalents and does not currently enter into any financial instruments that are more complicated than cash deposits.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 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:

| | 2017 £'000 | Restated 2016 £'000 |
|---|---|---|
| Share-based payment expense | 617 | 633 |
| Staff costs | 10,107 | 8,505 |
| Research and development costs written off | 6,624 | 6,588 |
| Amortisation of intangible assets | 2,342 | 2,377 |
| Depreciation of owned property, plant and equipment | 292 | 355 |
| Gain on foreign exchange | 352 | (193) |
| Operating leases: land and buildings | 604 | 660 |
| Auditor's remuneration: | | |
| Fees payable to the Company's auditor for the audit of the Company financial statements | 25 | 29 |
| Fees payable to the Company's auditor for other services | | |
| – audit of the Company's subsidiaries pursuant to the legislation | 59 | 50 |
| – other assurance services | — | 3 |
| – non-audit services | 3 | 1 |

**Revenue by geographic location**

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| United States and North America | 54 | 919 |
| Europe | 4,134 | 2,456 |
| Asia | 36,858 | 28,760 |
| **Total revenue** | 41,046 | 32,135 |

Assets and liabilities by geographic location

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | 2017 £'000 | 2016 £'000 | 2017 £'000 | 2016 £'000 |
| Cayman Islands | 591 | 841 | 3,349 | 4,397 |
| Europe | 26,411 | 31,314 | 7,563 | 10,233 |
| Asia | 800 | 588 | 471 | 354 |
| | 27,802 | 32,743 | 11,383 | 14,984 |

Segmental information

As described under segmental reporting in the Principal Accounting Policies, management currently identifies three business units as operating segments.

| For the year ended 31 December 2017 | Radio £'000 | Smart Audio £'000 | Group £'000 | Total £'000 |
|---|---|---|---|---|
| **Revenue** | 36,315 | 4,731 | — | 41,046 |
| Cost of sales | (20,876) | (3,277) | — | (24,153) |
| **Gross profit** | 15,439 | 1,454 | — | 16,893 |
| Research and development | (1,788) | (4,736) | — | (6,524) |
| Sales and administrative expenses – other | (4,124) | (3,780) | (526) | (8,430) |
| EBITDA | 9,527 | (7,062) | (526) | 1,939 |
| Amortisation | (2,334) | (8) | — | (2,342) |
| Depreciation | (237) | (55) | — | (292) |
| Share-based payment | — | — | (617) | (617) |
| Total administrative expenses | (8,483) | (8,579) | (1,143) | (18,205) |
| **Profit/(loss) from continuing operations** | 6,956 | (7,125) | (1,143) | (1,312) |
| Interest receivable/(payable) | 9 | — | (281) | (272) |
| **Profit/(loss) before taxation** | 6,965 | (7,125) | (1,424) | (1,584) |
| Taxation | — | — | (313) | (313) |
| **Profit/(loss) for the year from continuing operations** | 6,965 | (7,125) | (1,737) | (1,897) |

Included in revenues for the year ended 31 December 2017 are revenues of £12.9 million from the largest customer, £7.9 million from its second largest customer and £2.2 million from its third largest customer. Together these represent 56.1% of the total Group revenue for the year.

# NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 31 December 2017

## 1 Revenue, loss before taxation and segmental information continued

Segmental information continued

| For the year ended 31 December 2016 | Radio £'000 | Smart Audio £'000 | Group £'000 | Total £'000 |
|---|---|---|---|---|
| **Revenue** | 31,681 | 454 | — | 32,135 |
| Cost of sales | (17,682) | (318) | — | (18,000) |
| **Gross profit** | 13,999 | 136 | — | 14,135 |
| Research and development | (2,339) | (4,249) | — | (6,588) |
| Sales and administrative expenses – other | (2,948) | (3,237) | (691) | (6,876) |
| EBITDA | 8,712 | (7,350) | (691) | 671 |
| Amortisation | (2,367) | (10) | — | (2,377) |
| Depreciation | (262) | (93) | — | (355) |
| Share-based payment | — | — | (633) | (633) |
| Total administrative expenses | (7,916) | (7,589) | (1,324) | (16,829) |
| **Profit/(loss) from continuing operations** | 6,083 | (7,453) | (1,324) | (2,694) |
| Interest receivable/(payable) | — | — | (352) | (352) |
| **Profit/(loss) before taxation** | 6,083 | (7,453) | (1,676) | (3,046) |
| Taxation | — | — | 1,607 | 1,607 |
| **Loss for the year from continuing operations** | 6,083 | (7,453) | (69) | (1,439) |

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.

## 2 Prior period restatement

Shortly after the completion of the full year accounts for 2016, the Company became aware that an inter-company debtor of £1.7 million in respect of the discontinued business should have been provided for in the period to 31 December 2016. In preparing these statements for the period to 31 December 2017 and having regard to the materiality of the debtor, the Board has concluded that the item should be treated as a prior year adjustment. The discontinued loss for the year to 31 December 2016 has therefore increased to £15.9 million from the £14.2 million previously reported.

1. 2. 3. Financial Statements 4.

## 3 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 cessation of activities in Frontier Microsystems Limited. Sensium Healthcare was disposed of on 22 July 2016 and the decision to cease activities in Frontier Microsystems was taken on the same day. Revenue and expenses relating to the discontinuation of this sub-group have been eliminated from loss from the Group's continuing operations and are shown as a single line item in the Statement of Comprehensive Income.

The operating loss of Sensium Healthcare and Frontier Microsystems until the date of disposal and the loss from remeasurement and disposal of assets and liabilities classified as held for sale are summarised as follows:

| | Note | Restated 2016 £'000 |
|---|---|---|
| Revenue | | 53 |
| Cost of sales | | (22) |
| **Gross profit** | | **31** |
| Amortisation of intangible assets | | (123) |
| Depreciation | | (49) |
| Research and development | | (3,753) |
| Sales and administrative expenses – other | | (1,269) |
| **Total administrative expenses** | | (5,194) |
| **Loss from discontinued operations before tax** | | (5,163) |
| Taxation | | 437 |
| Loss on disposal | 4 | (11,166) |
| **Loss for the year from discontinued operations** | | (15,892) |

The disposal of Sensium Healthcare allowed for the disposal of all of the assets and liabilities of the entities as at 22 July 2016 with the exception of a receivable in respect of R&D tax credits of £150k. The cessation of activities in Frontier Microsystems eliminated any continuing costs and allowed for the settlement of all liabilities as at 22 July 2016 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:

| Assets | Restated 31 December 2016 £'000 |
|---|---|
| **Non-current assets** | |
| Goodwill | — |
| Other intangible assets | — |
| Property, plant and equipment | — |
| | — |
| **Current assets** | |
| Inventories | — |
| Tax receivable | 229 |
| Trade and other receivables | — |
| Cash and cash equivalents | — |
| **Total current assets** | 229 |
| **Total assets** | 229 |
| **Liabilities** | |
| **Current liabilities** | |
| Trade and other payables | 408 |
| **Total current liabilities** | 408 |

# NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 31 December 2017

## 4 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's net assets were as follows:

| | Restated 2016 £'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 | (406) |
| Total current liabilities | (406) |
| **Total net assets** | 12,121 |
| 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** | 11,166 |

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

## 5 Finance income

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Bank interest receivable | 9 | 9 |
| | 9 | 9 |

## 6 Taxation

The tax charged/(credited) for the year is as follows:

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| **Current tax** | | |
| UK research and development tax credit – current year | (126) | (804) |
| UK research and development tax credit – prior year | 204 | (931) |
| Foreign tax paid | 235 | 128 |
| | 313 | (1,607) |

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

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Loss before tax | (1,584) | (3,046) |
| Tax rate | 19% | 20% |
| Expected tax credit: | (301) | (609) |
| – tax relief for qualifying R&D expenditure | (585) | (967) |
| – over/(under)-provision in the prior year | 204 | (931) |
| Adjustment for non-deductible expenses: | | |
| – disallowable expenses | 446 | 459 |
| – deferred tax balance not recognised in relation to fixed asset timing differences | 80 | 98 |
| – other adjustments/ foreign tax paid | 159 | 33 |
| – increase in losses carried forward to future | 310 | 310 |
| Actual tax charge/(credit) | 313 | (1,607) |

The Group has tax losses in the UK of approximately £36.9 million (2016 restated: £35.2 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 £374,000 (2016: £106,000) 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 £1.9 million. 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.

# NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 31 December 2017

## 7 Loss per share

The calculation of the basic loss per share of 4.44 pence, (2016 restated: 40.46 pence) is based on the loss after tax of £1.9 million (2016 restated: £17.3 million) divided by the weighted average number of ordinary shares in issue during the year of 42,758,145 (2016: 42,832,269).

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.

## 8 Goodwill

| | Frontier Silicon £'000 | Sensium Healthcare £'000 | Frontier Microsystems £'000 | Total £'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2016 | 8,536 | 10,582 | 5,951 | 25,069 |
| Additions | — | — | — | — |
| Disposals | — | (10,582) | — | (10,582) |
| At 31 December 2016 | 8,536 | — | 5,951 | 14,487 |
| Additions | — | — | — | — |
| **At 31 December 2017** | **8,536** | **—** | **5,951** | **14,487** |
| **Impairment** | | | | |
| At 1 January 2016 | — | — | 5,951 | 5,951 |
| Charge in the year | — | — | — | — |
| At 31 December 2016 | — | — | 5,951 | 5,951 |
| Charge in the year | — | — | — | — |
| **At 31 December 2017** | **—** | **—** | **5,951** | **5,951** |
| **Net book amount at 31 December 2017** | **8,536** | **—** | **—** | **8,536** |
| Net book amount at 31 December 2016 | 8,536 | — | — | 8,536 |

Goodwill relating to Frontier Silicon results from the acquisition of the Frontier Silicon Group on 20 August 2012.

The Directors have tested the aggregate recoverable value of goodwill, specific intellectual property, and licence and 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 five years up to December 2022. A five-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 Officer's Statement on pages 6 to 10 provides a summary of the Group's expectations for each business line, together with an overview of the relevant markets. Below we have summarised the key judgements in relation to the individual impairment reviews.

### 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 because 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 considering their forecasts of revenues and profitability for this business sector. A discount rate of 12% 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 five-year forward view and then made a terminal value assessment at the end of 2022 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 four to five 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.



## 9 Other intangible assets

| | Marketing intellectual property £'000 | Customer intellectual property £'000 | Other intellectual property £'000 | Licence and development fees £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 January 2016 | 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 |
| Additions | — | — | — | 10 | 10 |
| Disposals | — | — | — | — | — |
| **At 31 December 2017** | **4,000** | **1,690** | **10,204** | **15,838** | **31,732** |
| **Amortisation** | | | | | |
| At 1 January 2016 | 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 |
| Charge in the year | 400 | 141 | 1,268 | 533 | 2,342 |
| Disposals | — | — | — | (10) | (10) |
| **At 31 December 2017** | **2,133** | **752** | **6,826** | **15,833** | **25,544** |
| **Net book amount at 31 December 2017** | **1,867** | **938** | **3,378** | **5** | **6,188** |
| Net book amount at 31 December 2016 | 2,267 | 1,079 | 4,646 | 518 | 8,510 |

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.

# NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 31 December 2017

## 9 Other intangible assets continued

### Licence and 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.

## 10 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 2016 | 175 | 1,835 | 182 | 2,782 | 356 | 5,330 |
| Additions | — | 4 | 3 | 129 | 7 | 143 |
| Disposals | (175) | — | (133) | (118) | (363) | (789) |
| Foreign exchange on opening balance | — | — | — | 140 | — | 140 |
| At 31 December 2016 | — | 1,839 | 52 | 2,933 | — | 4,824 |
| Foreign exchange on opening balance | — | — | — | (74) | — | (74) |
| Additions | — | 4 | — | 216 | — | 220 |
| Disposals | — | — | — | — | — | — |
| **At 31 December 2017** | **—** | **1,843** | **52** | **3,075** | **—** | **4,970** |
| **Depreciation** | | | | | | |
| At 1 January 2016 | 173 | 1,708 | 147 | 2,270 | 325 | 4,623 |
| Charge in the year | 1 | 63 | 17 | 310 | 14 | 405 |
| Foreign exchange on opening balance | — | — | — | 92 | — | 92 |
| Disposals | (174) | — | (112) | (72) | (339) | (697) |
| At 31 December 2016 | — | 1,771 | 52 | 2,600 | — | 4,423 |
| Foreign exchange on opening balance | — | — | — | (49) | — | (49) |
| Charge in the year | — | 57 | — | 235 | — | 292 |
| Disposals | — | — | — | — | — | — |
| **At 31 December 2017** | **—** | **1,828** | **52** | **2,786** | **—** | **4,666** |
| **Net book amount** | | | | | | |
| **At 31 December 2017** | **—** | **15** | **—** | **289** | **—** | **304** |
| At 31 December 2016 | — | 68 | — | 333 | — | 401 |

## 11 Inventories

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Raw materials | **1,377** | 1,074 |
| Work in progress | **263** | 333 |
| Finished goods | **1,896** | 1,181 |
| | **3,536** | 2,588 |

In 2017, a total of £21.9 million (2016: £16.3 million) of inventories was included in Cost of Sales in the Consolidated Statement of Comprehensive Income. This includes an amount of £nil (2016: £0.04 million) resulting from a write-down of inventories.

## 12 Trade and other receivables

| | 2017 £'000 | Restated 2016 £'000 |
|---|---|---|
| Trade receivables | **2,157** | 6,719 |
| Other debtors | **609** | 821 |
| Prepayments and accrued income | **492** | 669 |
| | **3,258** | 8,209 |

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.

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| 0 – 30 days | **1,174** | 4,433 |
| 31 – 60 days | **975** | 2,286 |
| 60 + days | **8** | — |
| | **2,157** | 6,719 |

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.

# NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 31 December 2017

## 13 Cash and cash equivalents

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| GBP £ | **791** | 205 |
| USD $ | **4,557** | 2,916 |
| Euro € | **10** | 17 |
| Hong Kong $ | **460** | 200 |
| Romania LEU | **36** | 38 |
| | **5,854** | 3,376 |

## 14 Trade and other payables

| | 2017 £'000 | Restated 2016 £'000 |
|---|---|---|
| Trade payables | **3,208** | 6,740 |
| Other payables | **939** | 664 |
| Accruals | **4,364** | 3,548 |
| Loan (note 15) | **2,872** | 1,160 |
| | **11,383** | 12,112 |

All of the above is 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.

## 15 Creditors: amounts falling due after more than one year

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Loan | **—** | 2,872 |
| | **—** | 2,872 |

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 6.25% above three-month LIBOR with interest repayable in 12 quarterly instalments commencing 29 December 2015. Capital repayments are payable quarterly in ten instalments commencing March 2016, made up of nine instalments of £300,000 and a final instalment of £2,300,000. The loan carries a fixed and floating charge over all the property, assets and undertakings of the Group.

## 16 Share capital

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| **Authorised** | | |
| 100,000,000 ordinary shares of 10 pence | **10,000** | 10,000 |
| **Allotted, issued and fully paid** | | |
| 42,766,171 (2016: 42,748,464) ordinary shares of 10 pence | **4,277** | 4,275 |

The movement in the number of shares is as follows:

| | Number of ordinary shares |
|---|---|
| At 1 January 2016 | 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 |
| Shares issued | 17,707 |
| **At 31 December 2017** | **42,766,171** |

On 4 November 2016 there was a 40 to 1 share consolidation. The Company's issued share capital now comprises 42,766,171 ordinary shares of 10 pence each. All shares are equally eligible to receive dividends and the repayment of capital and represent equal votes at meetings of shareholders except for 2,206,238 (2016: 2,329,714) 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

- **2 May 2017:** 7,497 ordinary shares of 10 pence were issued in relation to the exercise of share options by employees
- **5 June 2017:** 5,675 ordinary shares of 10 pence were issued in relation to the exercise of share options by employees
- **3 July 2017:** 300 ordinary shares of 10 pence were issued in relation to the exercise of share options by employees
- **5 September 2017:** 3,625 ordinary shares of 10 pence were issued in relation to the exercise of share options by employees
- **12 October 2017:** 157 ordinary shares of 10 pence were issued in relation to the exercise of share options by employees
- **6 November 2017:** 453 ordinary shares of 10 pence were issued in relation to the exercise of share options by employees

Employee Long Term Incentive Scheme

At 31 December 2017, shares in the JSOP of 455,000 (2016: 685,000) 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 349,853 (2016: 534,778) further JSOP shares.

Share options

At 31 December 2017, EMI options of 1,120,000 (2016: nil) 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 1,341,625 (2016: nil) further options. Details of the fair value of all options in existence are provided in note 22.

At 31 December 2017, options of 75,000 (2016: 75,000) 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 535,843 (2016: 765,691) further options. Details of the fair value of all options in existence are provided in note 22.

# NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 31 December 2017

## 17 Contingent liabilities

There were no contingent liabilities at 31 December 2017 or 31 December 2016.

## 18 Capital commitments

There were no capital commitments at 31 December 2017 or 31 December 2016.

## 19 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 £'000 | One to five years £'000 | Over five years £'000 | Total £'000 |
|---|---|---|---|---|
| Rent | 560 | 413 | — | 973 |
| **Total** | 560 | 413 | — | 973 |

## 20 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:

| | 2017 | | | Restated 2016 | | |
|---|---|---|---|---|---|---|
| | **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** | — | 8,536 | 8,536 |
| Other intangibles assets | **—** | **6,188** | **6,188** | — | 8,510 | 8,510 |
| Property, plant and equipment | **—** | **304** | **304** | — | 401 | 401 |
| Inventories | **—** | **3,536** | **3,536** | — | 2,588 | 2,588 |
| Trade receivables | **2,157** | **—** | **2,157** | 6,719 | — | 6,719 |
| Other receivables | **609** | **—** | **609** | 821 | — | 821 |
| Prepayments and accrued income | **—** | **492** | **492** | — | 669 | 669 |
| Tax receivable | **—** | **126** | **126** | — | 1,123 | 1,123 |
| Cash and cash equivalents | **5,854** | **—** | **5,854** | 3,376 | — | 3,376 |
| **Total** | **8,620** | **19,182** | **27,802** | 10,916 | 21,827 | 32,743 |

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:

| | 2017 | | | Restated 2016 | | |
|---|---|---|---|---|---|---|
| | Other financial liabilities at amortised cost £'000 | Financial liabilities at fair value through profit and loss £'000 | Total £'000 | Other financial liabilities at amortised cost £'000 | Financial liabilities at fair value through profit and loss £'000 | Total £'000 |
| Trade payables | 3,208 | — | 3,208 | 6,740 | — | 6,740 |
| Other payables | 939 | — | 939 | 664 | — | 664 |
| Accruals and deferred income | 4,364 | — | 4,364 | 3,548 | — | 3,548 |
| Loan | 2,872 | — | 2,872 | 4,032 | — | 4,032 |
| **Total** | 11,383 | — | 11,383 | 14,984 | — | 14,984 |

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. Cash at bank is all held with highly rated banks, the suitability of which is periodically reviewed.

Liquidity risk

The Group holds all of its financial assets as cash or cash equivalents which are entirely liquid. Trade receivables are recorded in the normal course of business and have maturities of less than three months. The Directors prepare rolling cash flow forecasts and would 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 current financial liabilities recorded in the balance sheet are expected to result in cash outflow within six months of the year end, with the exception of the term loan which is disclosed in note 14.

Currency risks

The Group is exposed to translation foreign exchange risk in connection with its investment in Frontier Silicon Limited 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 sterling at the closing rate used in the consolidated financial statements.

| | Romanian LEU £'000 | HK$ £'000 |
|---|---|---|
| Assets | 785 | 800 |
| Liabilities | (114) | (471 |
| **Total exposure** | 671 | 329 |

# NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 31 December 2017

## 21 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.

## 22 Employee remuneration

(i) Employee benefits expense

The average number of employees during the year was 176 (2016: 168).

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

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Wages and salaries | **8,761** | 7,382 |
| Social security costs | **912** | 725 |
| Share-based payment | **617** | 633 |
| Pensions – defined contribution scheme | **434** | 398 |
| | **10,724** | 9,138 |

Included within the above, fully disclosed in the Report on Remuneration on pages 20 and 21, 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:

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Fees and emoluments | **1,247** | 1,425 |
| Share-based payment | **102** | 343 |
| | **1,349** | 1,768 |

(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 2017 are exercisable at price of £2.08 and have a weighted average remaining contractual life of one year (2016: one year). No options were granted in the period ended 31 December 2017, or in the period ended 31 December 2016. No further options will be granted under this scheme. All options lapse ten years after date of grant.

On 3 March 2015 options originally issued in 2005 under the EMI scheme time expired and were extended for a further 45 months at the same exercise price, granting the shares a total life of 13 years 9 months. Although the EMI benefits to the employees expire after ten years, the extended-life shares are included in the table overleaf.

Current Grants Frontier Smart Technologies Group EMI Scheme:

| Date of grant | Exercise price |
|---|---|
| 3 March 2005 | £2.08[1] |

1 Price agreed by HMRC.

| | Outstanding at 1 January 2017 | Exercised during year | Forfeited during year | Outstanding at 31 December 2017 | Options exercisable 31 December 2017 |
|---|---|---|---|---|---|
| Amount | 36,004 | — | — | **36,004** | **36,004** |
| Weighted average price | £2.08 | — | — | **£2.08** | **£2.08** |

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 ten years after the date of grant. The 42,096 options granted 30 September 2005, originally due to lapse on 1 June 2015 were extended on 29 September 2015 for a further 12 months with the same exercise price. On 20 July 2016, when Mr C Toumazou resigned these were extended to 31 July 2017 and have now lapsed.

The options outstanding at 31 December 2017 were exercisable at a price of £2.40 and had a weighted average remaining contractual life of two years (2016: three years). No options were granted in the period ended 31 December 2017, or in the period ended 31 December 2016. No further options will be granted under this scheme.

Current Grants Former Frontier Smart Technologies Group Unapproved Scheme:

| Date of grant | Exercise price |
|---|---|
| 21 January 2010 | £2.40[1] |

1 Average market price over three previous days before grant.

| | Outstanding at 1 January 2017 | Exercised during year | Forfeited during year | Outstanding at 31 December 2017 | Options exercisable 31 December 2017 |
|---|---|---|---|---|---|
| Amount | 482,646 | — | (82,646) | **400,000** | **400,000** |
| Weighted average price | £2.36 | — | £2.14 | **£2.40** | **£2.40** |

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 10 pence. The options vest after three years and the award will lapse ten years from grant.

The unapproved options outstanding at 31 December 2017 are exercisable at a price of 10 pence and have a weighted average remaining contractual life of six years (2016: 7.5 years). During the current year zero (2016: nil) 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 have been set such that the value of an ordinary share is required to outperform the FTSE All Share Index by 25% over the course of the vesting period in order for 50% of the award to vest and by 50% in order for the balance of the awards to vest. Awards vest pro-rata between those two thresholds; and
- **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% over the course of the vesting period in order for 25% of the total award to vest and by 50%, 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.

# NOTES TO THE FINANCIAL STATEMENTS *continued*
For the year ended 31 December 2017

## 22 Employee remuneration continued
Current Grants Frontier Smart Technologies Group Unapproved Share Scheme 2012 Rules:

| Date of grant | Exercise price restated |
|---|---|
| 25 January 2013 | 10p |
| 15 May 2013 | 10p |
| 27 June 2014 | 10p |
| 28 January 2015 | 10p |

| | Outstanding at 1 January 2017 | Exercised during year (weighted average share price) | Forfeited during year | Outstanding at 31 December 2017 | Options exercisable 31 December 2017 |
|---|---|---|---|---|---|
| Amount | 322,041 | (17,707) | (129,495) | **174,839** | **105,434** |
| Weighted average price | 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 10 pence 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 2017 are exercisable at a price of 10 pence and had a weighted average remaining contractual life of 6.5 years (2016: 7.5 years). During the year zero (2016: nil) 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 have been set such that the value of an ordinary shares is required to outperform the FTSE All Share Index by 25% over the course of the vesting period in order for 50% of the award to vest and by over 50% in order for the balance of the awards to vest. Awards vest pro-rata between those two thresholds; and
- **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% over the course of the vesting period in order for 25% of the total award to vest and by 50%, 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 £6.00 for 90 days by 1 April 2020.

Current Grants Frontier Smart Technologies Group JSOP Scheme:

| Date of grant | Exercise price |
|---|---|
| 25 January 2013 | 10p |
| 15 May 2013 | 10p |
| 1 July 2013 | 10p |
| 27 June 2014 | 10p |
| 28 January 2015 | 10p |

| | Outstanding at 1 January 2017 | Exercised during year (weighted average share price) | Forfeited during year | Outstanding at 31 December 2017 | Options exercisable 31 December 2017 |
|---|---|---|---|---|---|
| Amount | 1,219,778 | (123,476) | (291,449) | 804,853 | 243,895 |
| Weighted average price | 10p | 10p | 10p | 10p | 10p |

Frontier Smart Technologies Group Limited 2017 EMI Share Option Scheme:

Options were issued to employees and Directors under the Frontier Smart Technologies Group 2017 EMI Share Option Scheme, which was approved by the Board in February 2017. The exercise price for all options is 78.50 pence. The options vest in three equal portions in years 2, 3 and 4 (2019, 2020 and 2021) subject to a performance target, and the award will lapse ten years from grant.

The EMI options outstanding at 31 December 2017 are exercisable at a price of 78.50 pence and have a weighted average remaining contractual life of 9.1 years. During the current year 2,499,997 options were granted to employees and Directors. Good leaver rules apply to this scheme.

For all awards issued on 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 Limited 2017 EMI Share Option Scheme:

| Date of grant | Exercise price |
|---|---|
| 6 February 2017 | 78.50p |
| **Risk-free interest rate** | |
| Second anniversary of date of grant | 0.69% |
| Third anniversary of date of grant | 0.78% |
| Fourth anniversary of date of grant | 0.86% |
| **Expected volatility** | |
| Second anniversary of date of grant | 60.24% |
| Third anniversary of date of grant | 59.79% |
| Fourth anniversary of date of grant | 58.40% |
| Expected dividend yield | 0% |

| | Outstanding at 1 January 2017 | Issued during the year | Exercised during year (weighted average share price) | Forfeited during year | Outstanding at 31 December 2017 | Options exercisable 31 December 2017 |
|---|---|---|---|---|---|---|
| Amount | — | 2,499,997 | — | (38,372) | 2,461,625 | — |
| Weighted average price | — | 78.5p | — | 78.5p | 78.5p | — |

# NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended 31 December 2017

## 22 Employee remuneration continued
Current Grants Frontier Smart Technologies Group Limited 2017 EMI Share Option Scheme continued:
The total number of options and JSOP outstanding at 31 December 2017 is 3,877,321.

| Consisting of | 2017 | 2016 |
|---|---|---|
| Total JSOP | **804,853** | 1,219,778 |
| Total other options | **3,072,468** | 840,691 |

Employee share-based expense of £617,000 (2016: £633,000) 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 £374,000 (2016: £106,000) has not been provided on the share-based payment expense due to there being insufficient certainty regarding its recovery.

## 23 Subsidiary undertakings

| Name | Principal activity | Place of incorporation | % equity |
|---|---|---|---|
| Frontier Microsystems Limited | Development and exploitation in relation to wireless semiconductor chips and embedded solutions | England and Wales | 100% |
| 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% |
| Frontier Smart Technologies Limited | Dormant | England and Wales | 100% |
| Sensium Healthcare SRL | Dormant | Romania | 100% |
| Toumaz Asia Pte Limited | Dormant | Singapore | 100% |

1 Owned by Frontier Silicon Limited.

## 24 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 ongoing 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 and simple debt instruments.

## 25 Post balance sheet events
There have been no material events since 31 December 2017.

## 26 Approval of the financial statements
The financial statements were approved by the Board of Directors on 7 March 2018.

# 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 24 April 2018 at 11:00am to consider and, if thought fit, to pass the resolutions set out below:

In regard to resolutions 2 and 3, 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 2017.

2 To re-elect Anthony Sethill 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 Martin Harriman 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 reappoint Grant Thornton UK LLP as auditor and to authorise the Directors to determine its remuneration.

5 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:

5.1 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

5.2 the allotment of equity securities, otherwise than in accordance with paragraph 5.1 up to an aggregate amount being 10% 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 KY19005
Cayman Islands

7 March 2018

## Notes to Annual 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 Link Asset Services, PXS, 34 Beckenham Road, Kent BR3 4TU, not less than 48 hours (excluding weekends) 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 as at close of business on 20 April 2018. 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 holder(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).

# OFFICERS AND ADVISERS

## Registered office
Intertrust Group
190 Elgin Avenue
George Town
Grand Cayman KY19005
Cayman Islands

## *Company number*
145128

## 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)

## Secretary
Intertrust Group
Cayman Islands

## Assistant Secretary
Mr J Apps
137 Euston Road
London
NW1 2AA

## Nominated adviser and broker
N+1 Singer
One Bartholomew Lane
London
EC2N 2AX

## Registrars
Link Market Services (Jersey) Limited
12 Castle Street
St Helier
Jersey
JE2 3RT
Channel Islands

## Depositary
Link Market Services Trustees Limited
34 Beckenham Road
Beckenham
Kent BR3 4TU

## Solicitors
Taylor Wessing
5 New Street Square
London
EC4A 3TW

## Auditor
Grant Thornton UK LLP
30 Finsbury Square
London
EC2A 1AG

# GLOSSARY

**ACP**
average cost price

**AGM**
Annual General Meeting

**AIM**
Alternative Investment Market

**API**
application programming interface

**ASP**
average sales price

**AVS**
Alexa Voice Service

**CES**
Consumer Electronics Show

**CGU**
cash-generating unit

**DAB**
digital audio broadcasting

**DSO**
digital switchover

**EBITDA**
earnings before interest, tax, depreciation and amortisation

**EBT**
Employee Benefit Trust

**EMI**
Enterprise Management Incentive

**EQ**
equaliser

**FRC**
Financial Reporting Council

**GVA**
Google Voice Assistant

**HMRC**
Her Majesty's Revenue and Customs

**HR**
human resources

**IAS**
International Accounting Standard

**IASB**
International Accounting Standards Board

**IFRIC**
International Financial Reporting Interpretations Committee

**IFRS**
International Financial Reporting Standards as adopted by the European Union

**IP**
intellectual property

**IPO**
initial public offering

**ISAs**
International Standards on Auditing

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

**LED**
light emitting diode

**ODM**
original design manufacturer

**R&D**
research and development

**RCA**
Radio Corporation of America

**VP**
Vice President

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