

Metaforic Limited

Directors' report and financial statements

Registered number SC300538

31 January 2013

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Directors' report

The directors present their directors' report and financial statements for the year ended 31 January 2013.

Principal activities and business review

Metaforic is a privately held, Venture Capital-backed company now shipping our second-generation software protection product. We market this software product to software creators in a variety of markets, ranging from device manufacturers to software publishers, financial institutions and games companies. We estimate the total annual market for this type of technology will be worth in excess of \$1bn per annum. The company has over 100 person-years invested and six patents granted and pending. As a result we are confident that we have important technology advantages over existing, or future, competitors.

Metaforic's core technology automatically embeds a protection system into software programs at build time, enabling those programs to constantly check themselves for integrity as they run, with no reliance on outside services or constant updates. Once a piece of software has been "hardened" with Metaforic's protection system it becomes very difficult for hackers to make modifications.

As an early-stage company, we spend more cash than we generate, so that we can build and improve the product, establish initial marketing outreach, and generate initial sales for relationships that should last many years. Consequently, the principal risk we face concerns balancing those expenditures with incoming revenue and new investment, and to date our investors have ensured that we have enough operating capital to continue expanding the business. Winning well known customers is a strong endorsement of the product and when combined with the long term nature of the contracts, provides a stable revenue platform on which to build the business.

Directors

The directors who held office during the year were as follows:

CB Anderson
FS Hallsworth
WA Krepick
AS McLennan
ASW Paterson
NW Stewart
D Stickel

Directors' report *(continued)*

Political and charitable contributions

Neither the Company nor any of its subsidiaries made any political or charitable donations or incurred any political expenditure during the year.

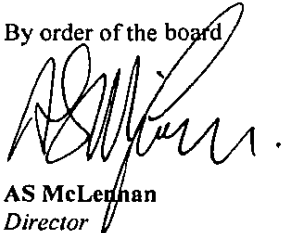
Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the board



AS McLennan
Director

146 West Regent Street
Glasgow
G2 2RQ

31 October 2013

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the Group and parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.



KPMG LLP

191 West George Street
Glasgow
G2 2LJ
United Kingdom

Independent auditor's report to the members of Metaforic Limited

We have audited the financial statements of Metaforic Limited for the year ended 31 January 2013 set out on pages 6 to 20. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 January 2013 and of the group's loss for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter – going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the group's and the parent company's ability to continue-as-a-going-concern. ~~The group incurred a net loss of £2,545,000 during the year ended 31 January 2013~~ and at 31 January 2013 has net liabilities of £291,000. The group's ability to continue as a going concern is significantly dependent upon reducing the group's cost base, successfully concluding commercial agreements with a view to generating future revenues and, depending upon the extent and timing of future revenues generated and costs reduced, on securing sufficient additional funding. These matters, and the other factors set out in note 1, indicate the existence of a material uncertainty which may cast significant doubt on the group's and the parent company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the group and the parent company were unable to continue as a going concern.

Independent auditor's report to the members of Metaforic Limited (*continued*)

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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



Martin Ross (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

17 December 2013

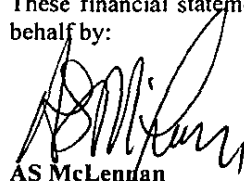
Consolidated Profit and Loss Account
for the year ended 31 January 2013

| | <i>Note</i> | 2013 £000 | 2012 £000 |
|--|-------------|----------------------------|--------------|
| Turnover | 2 | 938 | 721 |
| Cost of sales | | (337) | (428) |
| Gross profit | | 601 | 293 |
| Administrative expenses | 3 | (3,270) | (3,132) |
| Other operating income | 6 | 124 | 59 |
| Loss on ordinary activities before taxation | 3 | (2,545) | (2,780) |
| Tax on loss on ordinary activities | 7 | - | (145) |
| Loss for the financial year | | (2,545) | (2,925) |

Consolidated Balance Sheet
at 31 January 2013

| | <i>Note</i> | 2013 £000 | 2012 £000 |
|---|-------------|----------------------------|----------------------------|
| Fixed assets | | | |
| Tangible assets | 8 | 40 | 68 |
| Current assets | | | |
| Debtors | 10 | 212 | 289 |
| Cash at bank and in hand | | 307 | 493 |
| Creditors: amounts falling due within one year | 11 | 519 (850) | 782 (533) |
| Net current (liabilities)/assets | | (331) | 249 |
| Net (liabilities)/assets | | (291) | 317 |
| Capital and reserves | | | |
| Called up share capital | 12 | 324 | 152 |
| Share premium account | 13 | 8,801 | 7,010 |
| Profit and loss account | 13 | (9,416) | (6,845) |
| Shareholders' (deficit)/funds | | (291) | 317 |

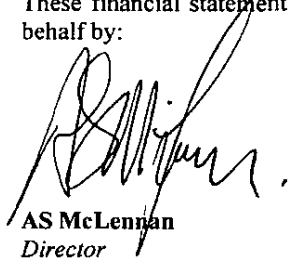
These financial statements were approved by the board of directors on 31st October 2013 and were signed on its behalf by:


AS McLennan
Director

Company Balance Sheet
at 31 January 2013

| | <i>Note</i> | 2013 £000 | 2012 £000 |
|---|-------------|----------------------------|----------------------------|
| Fixed assets | | | |
| Tangible assets | 8 | 33 | 60 |
| Current assets | | | |
| Debtors | 10 | 115 | 106 |
| Cash at bank and in hand | | 9 | 364 |
| Creditors: amounts falling due within one year | 11 | 124 (771) | 470 (435) |
| Net current (liabilities)/assets | | (647) | 35 |
| Net (liabilities)/assets | | (614) | 95 |
| Capital and reserves | | | |
| Called up share capital | 12 | 324 | 152 |
| Share premium account | 13 | 8,801 | 7,010 |
| Profit and loss account | 13 | (9,739) | (7,067) |
| Shareholders' (deficit)/funds | | (614) | 95 |

These financial statements were approved by the board of directors on 31st October 2013 and were signed on its behalf by:



AS McLennan
Director

Company registered number: Registered number SC300538

Consolidated Statement of Total Recognised Gains and Losses
for the year ended 31 January 2013

| | 2013 £000 | 2012 £000 |
|---|----------------|----------------|
| Loss for the financial year | (2,545) | (2,925) |
| Foreign currency retranslation | (26) | 5 |
| Total recognised gains and losses relating to the financial year | (2,571) | (2,920) |

Reconciliations of Movements in Shareholders' Funds
for the year ended 31 January 2013

| | Group | | Company | |
|--|--------------|--------------|--------------|----------------|
| | 2013 £000 | 2012 £000 | 2013 £000 | 2012 £000 |
| Loss for the financial year | (2,545) | (2,925) | (2,672) | (6,173) |
| Share capital issued | 1,963 | 2,944 | 1,963 | 2,944 |
| Foreign exchange differences | (26) | 5 | - | - |
| Net addition to /(reduction in) shareholders' funds | (608) | 24 | (709) | (3,229) |
| Opening shareholders' funds | 317 | 293 | 95 | 3,324 |
| Closing shareholders' funds | (291) | 317 | (614) | 95 |

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards, and under the historical cost accounting rules.

Under Financial Reporting Standard 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds of its size.

Going concern

The directors have prepared the financial statements on the going concern basis for the following reasons:

The group generates revenues primarily from licensing and receiving royalties on software it has developed and is developing. The group is continually investing in the research and development of new products and during 2012-13 the group's expenditure was in excess of revenues generated from existing products: the group's net loss for the year ended 31 January 2013 was £2,545,000 and at that date it had net liabilities of £291,000.

Subsequent to 31 January 2013, the directors secured additional equity funding of £2m. The first tranche of £1.2m was received in March 2013, and the company can request the second tranche of £0.8m at any time on or before 31 January 2014, subject to the satisfaction of certain conditions. In September 2013, the company drew down £0.2m of the second tranche in the form of Convertible Loan Notes due to the cash requirement being lower than previously expected. The notes mature in June 2014 and are convertible at the option of the note holders. Accordingly, the company still has the option to request the balance of the second tranche of £0.6m at any time on or before 31 January 2014, subject to the satisfaction of certain conditions, or the waiver thereof. The company is in discussions with a number of potential customers and the directors have a reasonable expectation that these discussions will be successful in increasing group revenues. If the anticipated revenue generation is achieved later than anticipated, however, the directors would seek to take appropriate steps to reduce the level of cash outflow and/or request some or all of the unutilised second tranche of funding of £0.6m. The directors are also in the process of taking steps to reduce the cost base of the group.

The directors have carried out a detailed review of the group's trading position and cash flow projections for the foreseeable future. Based on the results of this review, they have determined that the group may require further cash injections to continue to develop its suite of products and to generate new customers, and hence new revenue streams. If the company were unable to raise sufficient additional finance, and the company and group were unable to conclude appropriate commercial arrangements with a view to generating cash flows in line with those cash flow projections, this could cast doubt over the ability of the company and group to continue to meet the company's and group's liabilities as they fall due.

The directors are confident that sufficient financial resources will be available to enable the company and group to meet the medium term cash requirements as set out in the relevant cash flow projections. However, there can be no certainty in relation to these matters, and material uncertainty in relation to the potential failure to generate the required level of revenue and/or cost savings and potential consequential need to raise further funding may cast significant doubt on the group's and parent company's ability to continue realising their assets and discharging their liabilities in the normal course of business.

After making enquiries, and having regard to all of the foregoing, the directors have a reasonable expectation that the group and the company will have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements. The financial statements do not include any adjustments that would result from the going concern basis of preparation being inappropriate.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 31 January 2013. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

Notes (continued)

1 Accounting policies (continued)

Basis of consolidation (continued)

Under Section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account.

Investments

In the Company's financial statements, investments in subsidiary undertakings are stated at cost less any provision for impairment.

Tangible fixed assets and depreciation

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

| | | |
|------------------------|---|--------------|
| Plant and machinery | - | 3 to 4 years |
| Fixtures and fittings | - | 5 years |
| Leasehold improvements | - | 5 years |

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

The assets and liabilities of overseas subsidiary undertakings are translated at the closing exchange rates. Gains and losses arising on these translations are taken to reserves.

Government grants

Revenue based government grants are credited to the profit and loss account over the period to which they relate.

Taxation

The charge for taxation is based on the loss for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19. A net deferred tax asset is recognised to the extent that directors consider it is more likely than not that future relevant profits are expected to arise to allow the net asset to be recovered.

Revenue

Revenue is measured at the fair value of the consideration received or receivable net of trade discounts, volume rebates and excluding value added tax. Revenue comprises royalty income, license fees and other revenue earned during the year, excluding sales taxes.

Royalty income : Revenue relating to royalties is recognised on an accruals basis in accordance with the provisions of relevant agreements.

License fees : The Group sells licenses for their software to customers for a set fee. This is recognised evenly over the term of the licence as this is the period over which the group satisfies its obligations under the sales contracts. Licence fees in respect of software where a perpetual licence is granted and where the group retains no further obligation in respect of this software is recognised at the point at which the perpetual licence is granted.

Other Revenue : Other revenue is recognised in full once the significant risks and rewards of ownership have been transferred to the customer, which is generally when the software master has been delivered to the customer.

Research and development expenditure

Expenditure on research and development is written off to the profit and loss account in the year in which it is incurred.

Notes (continued)

1 Accounting policies (continued)

Share based payments

The company operates a share option programme allowing eligible employees to acquire shares of the Company. The fair value of options granted is recognised as an employee expense with a corresponding increase in liabilities. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options.

Leasing

Rentals paid under operating leases are charged to income on a straight line basis over the period of the lease.

2 Turnover

Turnover by destination can be analysed as follows:

| | 2013 £000 | 2012 £000 |
|---------------|--------------|--------------|
| UK | 222 | 117 |
| Europe | 66 | 110 |
| Rest of World | 650 | 494 |
| | <u>938</u> | <u>721</u> |

3 Loss on ordinary activities before taxation

| | 2013 £000 | 2012 £000 |
|--|--------------|--------------|
| <i>Loss on ordinary activities before taxation is stated after charging:</i> | | |
| Depreciation and other amounts written off tangible fixed assets | 37 | 28 |
| Hire of other assets - operating leases | 107 | 114 |
| | <u>144</u> | <u>142</u> |

Auditor's remuneration:

| | 2013 £000 | 2012 £000 |
|---|--------------|--------------|
| Audit of these financial statements | 8 | 8 |
| Amounts receivable by auditors and their associates in respect of: | | |
| Audit of financial statements of subsidiaries pursuant to legislation | 7 | 7 |
| Other services relating to taxation | 7 | 10 |
| | <u>15</u> | <u>17</u> |

The majority of the group's administrative expenses incurred relates to research and development activity.

4 Remuneration of directors

| | 2013 £000 | 2012 £000 |
|-----------------------|--------------|--------------|
| Directors' emoluments | 535 | 488 |

The aggregate of emoluments of the highest paid director was £200,244.

Notes (continued)

5 Staff numbers and costs

The average number of persons employed by the Group (including directors) during the year, analysed by category, was 31 (2012: 32):

The aggregate payroll costs of these persons were as follows:

| | 2013 £000 | 2012 £000 |
|------------------------------|--------------|--------------|
| Wages and salaries | 1,998 | 2,023 |
| Social security costs | 268 | 158 |
| Share based payments charges | - | 7 |
| | <u>2,266</u> | <u>2,188</u> |

6 Other operating income

| | 2013 £000 | 2012 £000 |
|--------------|--------------|--------------|
| Grant income | <u>124</u> | <u>59</u> |

7 Taxation

Analysis of charge in period

| | 2013 £000 | 2012 £000 |
|--|--------------|--------------|
| <i>UK corporation tax</i> | | |
| Current tax on income for the period | - | - |
| Total current tax | - | - |
| <i>Deferred tax (see note 14)</i> | | |
| Origination/reversal of timing differences | - | (2) |
| Adjustment in respect of previous years | - | (143) |
| Total deferred tax | - | (145) |
| Tax on loss on ordinary activities | - | (145) |

Notes (continued)

7 Taxation (continued)

Factors affecting the tax charge for the current period

The current tax credit for the period is higher/lower (2012: lower) than the standard rate of corporation tax applicable to small companies in the UK of 20%, (2012: 20%). The differences are explained below.

| | 2013 £000 | 2012 £000 |
|--|--------------|--------------|
| <i>Current tax reconciliation</i> | | |
| Loss on ordinary activities before tax | (2,545) | (2,780) |
| | <hr/> | <hr/> |
| Current tax at 20% (2012: 20%) | (509) | (556) |
| <i>Effects of:</i> | | |
| Expenses not deductible for tax purposes | 17 | 11 |
| Deferred tax charge | - | (2) |
| Tax losses not recognised | 492 | 547 |
| | <hr/> | <hr/> |
| Total current tax credit (see above) | - | - |
| | <hr/> | <hr/> |

8 Tangible fixed assets

| | Plant and machinery | Fixtures and fittings | Leasehold improvements | Total £000 |
|-----------------------|------------------------|--------------------------|---------------------------|---------------|
| Group | | | | |
| <i>Cost</i> | | | | |
| At beginning of year | 92 | 8 | 25 | 125 |
| Additions | 8 | - | 1 | 9 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| At end of year | 100 | 8 | 26 | 134 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| <i>Depreciation</i> | | | | |
| At beginning of year | 53 | 1 | 3 | 57 |
| Charge for year | 30 | 2 | 5 | 37 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| At end of year | 83 | 3 | 8 | 94 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| <i>Net book value</i> | | | | |
| At 31 January 2013 | 17 | 5 | 18 | 40 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| At 31 January 2012 | 39 | 7 | 22 | 68 |
| | <hr/> | <hr/> | <hr/> | <hr/> |

Notes (continued)

8 Tangible fixed assets (continued)

| | Plant and machinery | Fixtures and fittings | Leasehold improvements | Total £000 |
|-----------------------|------------------------|--------------------------|---------------------------|---------------|
| Company | | | | |
| <i>Cost</i> | | | | |
| At beginning of year | 81 | 8 | 25 | 114 |
| Additions | 7 | - | 1 | 8 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| At end of year | 88 | 8 | 26 | 122 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| <i>Depreciation</i> | | | | |
| At beginning of year | 50 | 1 | 3 | 54 |
| Charge for year | 28 | 2 | 5 | 35 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| At end of year | 78 | 3 | 8 | 89 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| <i>Net book value</i> | | | | |
| At 31 January 2013 | 10 | 5 | 18 | 33 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| At 31 January 2012 | 31 | 7 | 22 | 60 |
| | <hr/> | <hr/> | <hr/> | <hr/> |

9 Fixed asset investments

During the prior year, the directors reviewed the carrying value of the company's shares in group undertakings. As a result of this, the decision was made to continue to make full provision of £543,000 against investments in subsidiary undertakings : this provision remains.

| | Country of incorporation | Principal activity | Class and percentage of shares held Company |
|--------------------------------|-----------------------------|--------------------------------|--|
| <i>Subsidiary undertakings</i> | | | |
| Metaforic Inc | United States of America | Provision of security software | 100% |
| Metaforic KK | Japan | Provision of security software | 100% |

10 Debtors

| | Group | | Company | |
|--|--------------|--------------|--------------|--------------|
| | 2013 £000 | 2012 £000 | 2013 £000 | 2012 £000 |
| <i>Amounts falling due within one year</i> | | | | |
| Trade debtors | 119 | 216 | 87 | 88 |
| Other debtors | 32 | 36 | 2 | 4 |
| Prepayments and accrued income | 61 | 37 | 26 | 14 |
| Amounts due by subsidiary undertakings | - | - | - | - |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| | 212 | 289 | 115 | 106 |
| | <hr/> | <hr/> | <hr/> | <hr/> |

As a result of the group being in the early stages of its development, with a consequential degree of uncertainty over the extent and timing of future revenue and cash flow generation, the directors have determined that the amounts owed from subsidiary undertakings at 31 January 2013 should be fully provided against and, accordingly, a provision of £7.3 million (2012: £5.1 million) has been made in this regard.

Notes (continued)

11 Creditors: amounts falling due within one year

| | Group | | Company | |
|-----------------------------------|--------------|-------------|----------------|-------------|
| | 2013 | 2012 | 2013 | 2012 |
| | £000 | £000 | £000 | £000 |
| Trade creditors | 37 | 20 | 37 | 20 |
| Taxation and social security | 223 | 36 | 163 | 36 |
| Accruals and deferred income | 590 | 477 | 398 | 227 |
| Amounts due to group undertakings | - | - | 173 | 152 |
| | <u>850</u> | <u>533</u> | <u>771</u> | <u>435</u> |

12 Called up share capital

| Group and Company | 2013 | 2012 |
|---|-------------|-------------|
| | £000 | £000 |
| <i>Allotted, called up and fully paid</i> | | |
| 2,500,000 (2012: 2,500,000) Ordinary shares of £0.01 each | 25 | 25 |
| 9,489,782 (2012: 6,677,430) A Ordinary shares of £0.01 each | 95 | 67 |
| 8,285,462 (2012: nil) B Ordinary shares of £0.01 each | 84 | 60 |
| 11,957,186 (2012: nil) C Ordinary shares of £0.01 each | 120 | - |
| | <u>324</u> | <u>152</u> |

During the year, the company issued 2,182,352 ordinary class A shares, 2,285,462 ordinary class B shares and 11,957,186 ordinary class C as part of its funding requirement from equity shareholders.

The rights attached to each share vary by class.

In the event of liquidation, dissolution or winding up or other return of capital by the company C Ordinary shareholders are paid first, followed by the B Ordinary shareholders followed by the A Ordinary shareholders. The balance of any proceeds remaining is distributed among shareholders on a pro rata basis to the number of shares held.

Voting rights amounts to one vote per share.

Notes (continued)

13 Share premium and reserves

| Group | Share premium account £000 | Profit and loss account £000 |
|-----------------------------|-------------------------------------|---------------------------------------|
| At beginning of year | 7,010 | (6,845) |
| Loss for the year | - | (2,545) |
| Exchange adjustments | - | (26) |
| On additional shares issued | 1,791 | - |
| At end of year | 8,801 | (9,416) |

| Company | Share premium account £000 | Profit and loss account £000 |
|-----------------------------|-------------------------------------|---------------------------------------|
| At beginning of year | 7,010 | (7,067) |
| Loss for the year | - | (2,672) |
| On additional shares issued | 1,791 | - |
| At end of year | 8,801 | (9,739) |

14 Deferred tax

Group and Company

During the prior year, the directors re-assessed the carrying value of the deferred tax asset and it was written off at that point. Given uncertainty over the quantum and timing of sufficient relevant profits against which such losses can be utilised, the directors do not consider it appropriate to recognise an asset in relation to accumulated tax losses at the present time.

The unrecognised deferred tax asset as at 31 January 2013 amounts to £736,000 (2012: £244,000).

Notes (continued)

15 Commitments

Annual commitments under non-cancellable operating leases are as follows:

| Group | 2013 Buildings £000 | 2012 Buildings £000 |
|--|---------------------------|---------------------------|
| Operating leases which expire: | | |
| Within one year | 145 | 144 |
| In the second to fifth years inclusive | 30 | 30 |
| | <hr/> 175 <hr/> | <hr/> 174 <hr/> |
| | | |
| Company | 2013 Buildings £000 | 2012 Buildings £000 |
| Operating leases which expire: | | |
| Within one year | - | - |
| In the second to fifth years inclusive | 30 | 30 |
| | <hr/> 30 <hr/> | <hr/> 30 <hr/> |

16 Related party disclosures

The Company has taken advantage of the exemptions contained within FRS 8: Related Party Transactions not to disclose transactions (but not balances) with companies which are wholly owned subsidiaries.

The shareholders of the company, who are considered to be related parties, are SEP, Scottish Enterprise, Pentech Fund Limited Partnership and Slam Games Limited. There were no related party transactions in the year except for the issue of shares which at the year end stand at 6,214,097 B ordinary shares and 4,741,465 C ordinary shares (SEP), 3,856,061 A ordinary shares, 1,380,910 B ordinary shares and 3,340,673 C ordinary shares (Scottish Enterprise), 5,443,821 A ordinary shares, 690,455 B ordinary shares and 3,875,048 C ordinary shares (Pentech) and 189,000 ordinary shares (Slam Games Limited) respectively.

Fees paid to investors for the year amounted to £34,000, being £17,000 to each of SEP and Pentech.

17 Share option scheme

During the year 277,046 share options were granted. As a result, there are 2,955,316 UK share options in existence at an unrestricted value of £0.01 each, vesting over a four year period. The directors consider the fair value of the share options to be £0.01 per option, resulting in a fair value of options granted of £2,000.

18 Government grants

In 2008, the company was conditionally awarded Regional Selective Assistance of £200,000 to be paid in four tranches of £50,000 dependent on job creation targets. Up to 31 January 2011 three tranches of £50,000 were received. The conditions for the fourth tranche were met during the year and the final £50,000 was received.

In addition to the above, the company received various marketing and other grants totalling £73,845 (2012: £8,602).

The grants could be repayable in the event that numbers employed at the relevant site are below target levels during the specific monitoring periods.

Notes *(continued)*

19 Post balance sheet events

In March 2013, the company increased its authorised share capital such that at that date it comprised £73,784 being 7,378,370 Ordinary shares, £94,898 being 9,489,782 A Ordinary shares of £0.01 each, £90,203 being 9,020,320 B ordinary shares of £0.01 each, £119,572 being 11,957,186 C ordinary shares of £0.01 each, £87 being 873,585 A Growth shares of £0.0001 each, £33 being 326,070 B Growth shares of £0.001 per share, £34 being 346,197 being C Growth shares of £0.0001 each and £12 being 115,882 D Growth shares of £0.0001 each. The total cash received for the issue of shares issued was £1.25 million.

In September 2013, the company issued £200,000 Unsecured Convertible Loan Notes redeemable no later than 30 June 2014. These Loan Notes are convertible into D Ordinary Shares with a redemption premium of 100%.