



**FreeAgent Central Ltd**

**Report and Financial Statements**

**Year Ended**

**31 March 2017**

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Company Number SC316774

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## Directors' Report

The directors present the annual report and financial statements of the group for the year ended 31 March 2017. These are consolidated accounts for FreeAgent Central Ltd however the consolidated and company accounts are the same as the sub, Inc is dormant.

### Principal activities

The principal activity of the group in the year was that of accounting software development.

### Business review

FreeAgent Holdings plc was incorporated on 25 July 2016, and on 21 October 2016 it acquired the issued share capital of FreeAgent Central Limited by way of a share-for-share exchange. This included the one wholly owned subsidiary, FreeAgent Inc. The consideration for the acquisition was satisfied by the issue of 15,004,270 Ordinary shares, 7,065,000 A preference shares and 8,671,200 B preference shares in FreeAgent Holdings plc to the shareholders of FreeAgent Central Limited.

During 2017, FreeAgent Central Ltd increased revenue by 41% to £8.0m. Recurring revenue was 95% of all revenue, with the balance being made up of development income from our partnership with The Royal Bank of Scotland Group ("RBSG"). Our Annualised Committed Monthly Recurring Revenue ("ACMRR") was £8.6m.

The Direct channel customers who come to our website and subscribe directly, continued to contribute more than 45% of our revenue for the year. Revenue in this channel has grown from £3.1m to £3.6m.

The Accounting practice channel contributed £3.3m to our revenue in the year to 31 March 2017, up 102% from the prior year. Expanding this channel continues to be an area of focus for the business. We have invested in growing the practice sales team from 19 at March 2016 to 26 at March 2017. Notwithstanding the Government's recent reforms to the tax treatment for self-employed contractors on public sector projects, we continue to see our greatest success in the contractor-focused practice market.

The new relationship with RBSG, which was announced in January 2017, has generated revenue of £0.5m for the Group from development work completed to facilitate the launch of the partnership offering.

The take-up of cloud accounting by both accountants and business owners is rising fast and the UK government's 'Making Tax Digital' agenda looks set to accelerate this further in the coming years.

To ensure we are able to take best advantage of this opportunity, we continue to make substantial investments in both customer acquisition and product development.

### Going concern

The directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis in preparing the financial statements.

On 16 November 2016, the parent company, FreeAgent Holdings plc, completed a successful Initial Public Offering (IPO) on the Alternative Investment Market (AIM) of the London Stock Exchange. This raised £8m gross new money for the group and £2.6m for selling shareholders. £2.9m was used to repay the debt facility, leaving net cash of £4.3m included on the statement of financial position after payment of the costs of admission to AIM. These funds were routed to FreeAgent Central Ltd via an inter-company transfer from the parent company.

Further details regarding the adoption of the going concern basis can be found in the statement of accounting policies in note 1 to the financial statements.

### Financial risk management

Financial risk management is discussed in note 3.

### Strategic report exemption

The company is exempt from the preparation of a Strategic Report.

### Directors' Report (continued)

#### Results and dividends

The loss for the year ended 31 March 2017 of £2,854k (2016: £1,273k) has been deducted from reserves. The directors are unable to recommend the payment of a dividend.

FreeAgent Inc. is not trading and has no net assets at 30 September 2017. Therefore, there is no material difference between the financial statements of the Group and Company.

#### Post balance sheet events

There are no events subsequent to the year-end reporting date requiring disclosure.

#### Directors

The directors who served during the period and to the date of this report were as follows:

E Molyneux  
O Headey (resigned 18 January 2017)  
R Lavery (resigned 12 January 2017)  
C Janz (resigned 20 December 2016)  
F Coorevits (resigned 19 December 2016)  
K Tenner (appointed 1 February 2017)  
G Mitchell (appointed 24 July 2017)

#### Disclosure of information to the auditor

Each of the persons who are directors of the group at the date of approval of this report confirms that:

- so far as each of the directors is aware, there is no relevant audit information of which the group's auditor is unaware; and
- each of the directors 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 group's auditor is aware of that information.

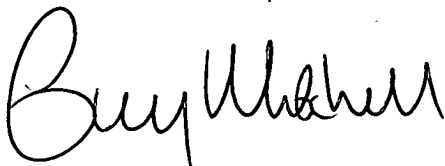
This confirmation is given and should be interpreted in accordance with s418 of the Companies Act 2006.

#### Independent auditor

BDO LLP have indicated their willingness to continue in office and have been reappointed as auditor in the absence of an Annual General Meeting.

#### Small Companies

In preparing the report, the directors have taken advantage of the small companies exemption provided by section 415A of the Companies Act 2006.



**Guy Mitchell**  
Interim Chief Financial Officer

Date: 20 December 2017

## Glossary

**Subscriber:** Subscriber means each unique subscription by an accounting partner, an end user or a financial institution.

**ACMRR:** Annualised committed monthly revenue represents actual monthly recurring revenue at 31 March multiplied by 12 plus any revenue committed from accounting partners within the next 12 months. Accordingly, it provides a 12 month forward view of revenue.

**ARPU:** Average revenue per user is calculated as monthly revenue at 31 March divided by subscribers at that time.

**Lifetime value (LTV):** LTV is the revenue expected from a subscriber over the lifetime of that subscriber. This is calculated by taking the average subscriber lifetime multiplied by ARPU. The residual LTV is the total LTV to be collected from all existing subscribers across their expected lifetimes.

**Lifetime margin (LTM):** LTM is the gross margin expected from a subscriber over the lifetime of that subscriber. This is calculated by taking the average subscriber lifetime multiplied by ARPU multiplied by the gross margin percentage.

**CAC:** Customer acquisition costs including sales and marketing activities.

## **Directors' responsibilities**

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 the directors have elected to prepare the financial statements in accordance International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 company and of the profit or loss of the group for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping 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 company and group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FREEAGENT CENTRAL LTD**

We have audited the financial statements of FreeAgent Central Ltd ("the parent company") and its subsidiaries ("the group") for the year ended 31 March 2017 which comprise the consolidated and company statement of comprehensive income, consolidated and company statement of financial position, consolidated and company statement of cash flows, consolidated and company statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken 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 statement of directors' responsibilities, 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 Financial Reporting Council's (FRC'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 FRC's website at [www.frc.org.uk/auditscopeukprivate](http://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 and parent company's affairs as at 31 March 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report has been prepared in accordance with applicable legal requirements.

**Matters on which we are required to report by exception**

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the directors' report.

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to prepare the directors' report in accordance with the small companies regime and to the exemption from the requirement to prepare a strategic report.



**Alastair Rae, (senior statutory auditor)**  
**For and on behalf of BDO LLP, statutory auditor**  
**Edinburgh**

**Date:** 20 December 2017

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).



**Consolidated and company statement of comprehensive income**  
**For the year ended 31 March 2017**

	Notes	2017 £'000	2016 £'000
<b>Revenue</b>	4	8,011	5,679
Cost of sales		(1,423)	(925)
<b>Gross profit</b>		6,588	4,754
Administrative expenses		(9,000)	(5,783)
<b>Loss from operations</b>	5	(2,412)	(1,029)
Finance expense	6	(601)	(294)
<b>Loss before tax</b>		(3,013)	(1,323)
Tax credit	8	159	50
<b>Loss for the year</b>		(2,854)	(1,273)
<b>Other comprehensive income:</b>			
Items that will be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		-	1
<b>Total other comprehensive income</b>		-	1
<b>Total comprehensive loss for the year attributable to shareholders of the parent</b>		(2,854)	(1,272)

The notes on pages 14 to 34 form part of these financial statements.

**Consolidated and company statement of financial position**  
**As at 31 March 2017**

	Notes	2017 £'000	2016 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	9	1,079	710
Intangible assets	10	1,638	1,903
		<u>2,717</u>	<u>2,613</u>
<b>Current assets</b>			
Trade and other receivables	12	1,139	604
Corporation tax receivable		209	49
Cash and cash equivalents		4,263	1,819
		<u>5,611</u>	<u>2,472</u>
<b>Total assets</b>		<u><b>8,328</b></u>	<u><b>5,085</b></u>
<b>Liabilities</b>			
<b>Non current liabilities</b>			
Bank borrowings	14	-	2,059
Long term provisions	15	151	100
		<u>151</u>	<u>2,159</u>
<b>Current liabilities</b>			
Trade and other payables	13	9,854	2,079
Provisions	15	10	39
Bank borrowings	14	-	414
		<u>9,864</u>	<u>2,532</u>
<b>Total liabilities</b>		<u><b>10,015</b></u>	<u><b>4,691</b></u>
<b>NET (LIABILITIES) / ASSETS</b>		<u><b>(1,687)</b></u>	<u><b>394</b></u>
<b>Issued capital and reserves attributable to owners of the parent</b>			
Share capital	17	307	1
Share premium		5,904	6,189
Capital contribution reserve		360	-
Share based payment reserve	18	-	656
Foreign exchange reserve		(10)	(10)
Retained earnings		(8,248)	(6,442)
<b>TOTAL EQUITY</b>		<u><b>(1,687)</b></u>	<u><b>394</b></u>

The financial statements were authorised for issue by the Board of Directors on 20 December 2017 and were signed on its behalf by:

Guy Mitchell

Company Number SC316774

The notes on pages 14 to 34 form part of these financial statements.



**Consolidated and company statement of cash flows**  
**As at 31 March 2017**

	Notes	2017 £'000	2016 £'000
<b>Cash flows from operating activities</b>			
Loss for the year		(2,854)	(1,273)
Adjustments for:			
Depreciation of property, plant and equipment	9	271	189
Amortisation of intangible fixed assets	10	644	601
Gain on disposal of property, plant and equipment		(2)	1
Foreign exchange		324	-
Share based payment expense	18	802	-
Finance costs		601	294
Income tax credit		(159)	(50)
		<u>(373)</u>	<u>(238)</u>
(Increase) in trade and other receivables	12	(535)	(406)
Increase in trade and other payables	13	7,938	518
(Decrease) / increase in provisions	15	<u>(29)</u>	<u>139</u>
<b>Cash from operations</b>		<b>7,001</b>	<b>13</b>
Income tax received		<u>-</u>	<u>195</u>
<b>Net cash flows from operating activities</b>		<b>7,001</b>	<b>208</b>
<b>Investing activities</b>			
Purchase of property, plant and equipment		(806)	(559)
Proceeds from disposal of property, plant and equipment		5	11
Development of intangibles	10	<u>(379)</u>	<u>(969)</u>
<b>Net cash used in investing activities</b>		<b>(1,180)</b>	<b>(1,517)</b>
<b>Financing activities</b>			
Issue of ordinary shares, net of issue costs	17	21	962
Repayment of loan		(2,977)	-
Drawdown of debt		-	1,292
Finance costs		<u>(421)</u>	<u>(279)</u>
<b>Net cash from financing activities</b>		<b>(3,377)</b>	<b>1,975</b>
<b>Net increase in cash and cash equivalents</b>		<b>2,444</b>	<b>666</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>1,819</b>	<b>1,153</b>
<b>Cash and cash equivalents at end of year</b>	3	<u><b>4,263</b></u>	<u><b>1,819</b></u>

The notes on pages 14 to 34 form part of these financial statements.

**Consolidated and company statement of changes in equity**  
**For the year ended 31 March 2017**

	Share capital	Share premium	Share based payment reserve	Foreign exchange reserve	Capital contribution reserve	Retained earnings	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>1 April 2015</b>	-	<b>4,503</b>	<b>656</b>	<b>(11)</b>	-	<b>(5,169)</b>	<b>(21)</b>
Loss for the year	-	-	-	-	-	(1,273)	(1,273)
Translation of foreign subsidiary	-	-	-	1	-	-	1
<b>Total comprehensive income for the year</b>	-	-	-	<b>1</b>	-	<b>(1,273)</b>	<b>(1,272)</b>
Conversion of loan notes	-	725	-	-	-	-	725
Issue of share capital	1	1,014	-	-	-	-	1,015
Issue costs	-	(53)	-	-	-	-	(53)
<b>31 March 2016</b>	<b>1</b>	<b>6,189</b>	<b>656</b>	<b>(10)</b>	-	<b>(6,442)</b>	<b>394</b>
Loss for the year	-	-	-	-	-	(2,854)	(2,854)
Translation of foreign subsidiary	-	-	-	-	-	-	-
<b>Total comprehensive income for the year</b>	-	-	-	-	-	<b>(2,854)</b>	<b>(2,854)</b>
Transfer for fully vested options	-	-	(1,030)	-	-	1,030	-
Share based payment charge	-	-	516	-	-	-	516
Issue of share capital	306	(306)	-	-	-	-	-
Exercise of options	-	21	(17)	-	-	18	22
Exercise of warrants	-	-	(125)	-	-	-	(125)
Capital contribution	-	-	-	-	360	-	360
<b>31 March 2017</b>	<b>307</b>	<b>5,904</b>	-	<b>(10)</b>	<b>360</b>	<b>(8,248)</b>	<b>(1,687)</b>

The following describes the nature and purpose of each reserve within equity.

<b>Reserve</b>	<b>Description and purpose</b>
Share capital	Nominal value of issued shares
Share premium	Amount subscribed for share capital in excess of nominal value less associated costs. During the year, the Group completed a bonus issue of shares. £306,293 was capitalised from the share premium account to pay up in full 895,161,813 ordinary shares, 423,193,518 series A preference shares and 519,404,902 series B preference shares each of £0.0001666666. After completion of the bonus issue, the shares were consolidated into £0.01 shares.
Share based payment reserve	The share based payment reserve represents equity settled share based employee remuneration until such share options are exercised.
Foreign exchange reserve	The difference arising on the translation of the assets and liabilities of the overseas subsidiary company into the functional currency of the group.
Capital contribution reserve	Recognition of reserve in relation to those share options granted by FreeAgent Holdings plc after the share for share exchange had taken place.
Retained earnings	All other net gains and losses not recognised elsewhere.

The notes on pages 14 to 34 form part of these financial statements.

## Notes to the consolidated financial statements for the year ended 31 March 2017

### 1. Accounting policies

#### Basis of preparation

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out in this note. The policies have been consistently applied to all the years presented, unless otherwise stated.

These financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRSs) and IFRS Interpretations Committee (IFRIC) interpretations as adopted by the European Union as at 31 March 2017, and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention and are presented in Sterling rounded to the nearest thousand except where indicated otherwise.

#### Standards or interpretations issued but not yet effective and relevant to the Group

The International Accounting Standards Board has issued a number of standards, amendments and interpretations which are not yet effective and which may have an impact on the group's financial statements. These are detailed below. The group has not applied these in preparing these financial statements and will apply each standard in the period in which it becomes mandatory:

IFRS 9 – Financial Instruments – Classification and Measurement: This standard addresses the classification, measurement and de-recognition of financial assets, financial liabilities, impairment of financial assets and hedge accounting, and will be effective for the year ended 31 March 2019. The directors have considered the impact of this standard and do not believe there will be any significant effect.

IFRS 15 – Revenue from Contracts with Customers: This standard establishes the framework for revenue recognition, and will be effective for the year ended 31 March 2019. The directors have considered the impact of this standard and do not believe there will be any significant effect.

IFRS 16 – Leases: This standard will be effective for the year ended 31 March 2020 and is expected to have an impact on the amounts recognised in the group's consolidated financial statements. On adoption of IFRS 16 the group will recognise within the statement of financial position a right of use asset and lease liability for all applicable leases. Within the income statement, rent expense will be replaced by depreciation and interest expense. The full impact of IFRS 16 is currently under review, including understanding the practical application of the principles of the standard. It is therefore not practical to provide a reasonable estimate of the financial effect until this review is complete.

#### Basis of consolidation

Where the company has control over an investee, it is classified as a subsidiary. The company controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns from the investee, and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

De-facto control exists in situations where the company has the practical ability to direct the relevant activities of the investee without holding the majority of the voting rights. In determining whether de-facto control exists the company considers all relevant facts and circumstances, including:

- The size of the company's voting rights relative to both the size and dispersion of other parties who hold voting rights
- Substantive potential voting rights held by the company and by other parties
- Other contractual arrangements
- Historic patterns in voting attendance.

The consolidated financial statements present the results of the company and its subsidiaries ("the group") as if they formed a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full.

The consolidated financial statements incorporate the results of business combinations using the acquisition method. In the statement of financial position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained. They are deconsolidated from the date on which control ceases.

### **Going concern**

The financial statements have been prepared on a going concern basis.

On 16 November 2016, the parent company, FreeAgent Holding plc, completed a successful IPO on the AIM market of the London Stock Exchange. The group raised £8m gross new money for the Company and £2.6m for selling shareholders. £2.9m was used to repay the debt facility, leaving net cash of £4.3m included on the statement of financial position in FreeAgent Central Ltd after payment of the costs of admission to AIM. These funds were routed to FreeAgent Central Ltd via an inter-company transfer from the parent company.

FreeAgent Central Ltd is the main trading company and the directors are comfortable that committed revenue already booked and the continued growth of the diversified income streams will allow the business to meet all its obligations and objectives going forward.

### **Revenue**

Revenue in relation to online software subscriptions is recognised to the extent that it is probable that the economic benefits will flow to the group and the revenue can be reliably measured. Revenue is recorded net of VAT and discounts. Revenue is recognised in the accounting period in which the service is rendered. Annual subscriptions are recognised on a straight-line basis over the length of the subscription. Consideration received prior to the service being rendered is recognised in the statement of financial position as deferred income. Revenue in relation to development income is recognised when software engineer's time is incurred at a contracted daily rate.

### **Property, plant and equipment**

Property, plant and equipment is stated at cost, net of depreciation and any provision for impairment.

Depreciation is provided at the following annual rates in order to write off the cost of each asset to residual value over its estimated useful life:

Computer equipment	- 33.3% on a straight-line basis
Fixtures and fittings	- 20% on a straight-line basis

The directors assess the property, plant and equipment for impairment on an ongoing basis. The majority of the assets are located in the office in Edinburgh where the Executive Directors are based. Any asset that is impaired is identified by staff members and the Chief Technical Officer is informed. No assets were impaired during the financial year.

### **Taxation**

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the reporting date.

Research and development tax credits are claimed in relation to time incurred in researching and developing the software product. Only those costs meeting the qualifying criteria as set out in the HMRC guidance are included in the claim. A provision is recorded using the tax rates as set out under the HMRC R&D SME scheme.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the statement of financial position date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the reporting date. Timing differences are differences between the taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be sufficient taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the reporting date. Deferred tax is measured on a non-discounted basis.

#### **Foreign currencies**

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. All differences are taken to the profit or loss.

The results of overseas subsidiaries are translated at the rate ruling at the date of the transaction and their financial positions at the rates ruling at the reporting date.

#### **Leasing commitments**

Rentals paid under operating leases are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease. Lease incentives are recognised on a straight line basis over the term of the lease.

#### **Dilapidations provision**

On termination of all lease commitments, the group is required to reinstate leased property to its condition at the time the lease commenced. The cost of this is estimated, with assistance from our building surveyors, and a provision is recorded. The provision is discounted to present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The carrying value of the provision is increased in each period and the increase is recognised as an expense in the consolidated statement of comprehensive income.

#### **Pensions**

The company operates a defined contribution pension scheme. Contributions payable for the period are charged to the consolidated statement of comprehensive income.

#### **Financial assets**

The group classifies its financial assets as loans and receivables. The group has not classified any of its financial assets as fair value through profit or loss or as held to maturity.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the group will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the consolidated statement of comprehensive income. On confirmation that the trade receivable will not be



collectable, the gross carrying value of the asset is written off against the associated provision.

Loans and receivables comprise trade and other receivables and cash and cash equivalents in the consolidated statement of financial position.

Cash and cash equivalents includes cash in hand and deposits held at call with banks.

### **Financial liabilities and equity**

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

### **Share-based payments**

Where equity settled share options are awarded to employees, including awards made under long term incentive plans, the fair value of the options at the date of grant is charged to the consolidated statement of comprehensive income over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the consolidated statement of comprehensive income over the remaining vesting period.

Following the share-for-share exchange that occurred on 21 October 2016 the employees of the company who held share options now hold share options in the parent company, FreeAgent Holdings plc. In accordance with IFRS 2:

- the fair value of the options is recognised in the parent company over whose shares the employees hold options
- the share based payment expense in relation to these options is recognised as a charge to the statement of comprehensive income with the corresponding movement in equity recognised as a capital contribution by the parent company

### **Warrants**

Warrants are considered to be share based payments and are accounted for in accordance with IFRS 2. The fair value of issued warrants is credited to the share based payment reserve at the time of issue of the warrants. Upon the exercise of warrants, the fair value held in the share based payment reserve is transferred to the share premium reserve.

### **Internally generated intangible assets (development costs)**

Expenditure on internally developed software is capitalised only when it can be demonstrated that:

- it is technically feasible to develop the software for it or its use to be sold
- adequate resources are available to complete the development
- there is an intention to complete and sell the software or its use
- the group is able to sell the software or its use
- sale of the software or its use will generate future economic benefits, and
- expenditure on the project can be measured reliably.

Capitalised development costs are amortised over the periods the company expects to benefit from selling the software developed or its use. The amortization rate used is 20% per annum on a straight line basis. The amortisation expense is included within the administrative expenses in the consolidated statement of comprehensive income.

Development expenditure not satisfying the above criteria and expenditure on the research phase of internal projects are recognised in the consolidated statement of comprehensive income as incurred.

The directors review the development costs twice per annum for impairment (at the half year and at the year end). They do this by considering the product roadmap and reviewing the plans for improvement or replacement of existing features in the application.

#### **Intangible assets (domain name)**

The domain name is stated at cost, net of amortisation and any provision for impairment.

Amortisation is provided at the following annual rate in order to write off the asset to zero over its estimated useful life:

Domain name	- 5% on a straight line basis
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The directors assess the domain name for impairment annually by reviewing and reporting on the number of monthly visits to the website.

## **2. Significant accounting judgments and estimates**

The Group makes certain estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### **Share based payments**

Share options, including options issued under the LTIP, are recognised as an expense based on their fair value at date of grant. The fair value of the options is estimated through the use of a valuation model – which requires inputs such as the risk-free interest rate, expected dividends, expected volatility and expected option life – and is expensed over the vesting period. Some of the inputs used to calculate the fair value are market observable and are based on estimates derived from available data. Following the share for share exchange on 21 October 2016 (see note 17), share capital and the value of any options are now held in FreeAgent Holdings plc, therefore the value of the share options in FreeAgent Central Ltd at the year end was £Nil (2016: £260k).

#### **Warrants**

The fair value of warrants is estimated through the use of a valuation model – which requires inputs such as the risk-free interest rate, expected dividends, expected volatility and expected option life. Some of the inputs used to calculate the fair value are market observable and are based on estimates derived from available data. Following the share for share exchange on 21 October 2016 (see note 17), warrants are now accounted for in FreeAgent Holdings plc, therefore the value of the warrants in FreeAgent Central Ltd at the year end was £Nil (2016: £333k).

#### **Capitalisation of development costs**

It is a requirement under IFRS that development costs that meet the criteria prescribed in the standard are capitalised. The assessment of each project requires that a judgement is made as to the commercial viability and the ability of the group to bring the software to market. At 31 March 2017 the net book value of capitalised development costs was £1,617k (2016: £1,881k).

***Dilapidations provision***

A provision has been recognised for the reinstatement of our leasehold property to the condition the property was in at the time the lease commenced. This provision requires a judgement to be made as to the likely dilapidations over the life of the lease. This has been estimated with advice from our external surveyors. The cost of the dilapidations will not be known until the premises are vacated at the end of the lease. The lease is a ten year lease with a break at year five. The value of the provision at 31 March 2017 was £161k (2016: £139k).

**3. Financial instruments – risk management**

The group is exposed through its operations to the following financial risks:

- Credit risk
- Foreign exchange risk
- Liquidity risk

In common with all other businesses, the company is exposed to risks that arise from its use of financial instruments. This note describes the group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

During the period, the bank loan held with SaaS Capital was settled in full. This has significantly minimised the foreign exchange risk going forward. There have been no other substantive changes in the group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

The principal financial instruments used by the company and group, from which the financial instrument risk arises, are as follows:

- Trade receivables
- Cash and cash equivalents
- Trade and other payables
- Bank borrowings

A summary of the financial instruments held by category is provided below.

**Financial assets**

	2017 £'000	2016 £'000
Current		
Trade receivables	552	240
Other receivables	384	146
Loans and receivables	<u>936</u>	<u>386</u>
Cash and cash equivalents	4,263	1,819
Total financial assets	<u>5,199</u>	<u>2,205</u>

All financial assets held by the company and group at 31 March 2017 are classified as loans and receivables and there is no difference between the carrying amount and the fair value.

As at 31 March 2017 the largest customer owed £353k. This balance was settled by 26 April 2017.

**Financial liabilities**

	<b>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
Current		
Trade payables	598	337
Other payables	757	674
Payable to parent company	7,141	-
Bank borrowings	-	414
Current financial liabilities	<u>8,496</u>	<u>1,425</u>
Non-current		
Bank borrowings	-	2,059
	<u>-</u>	<u>2,059</u>
Total financial liabilities	<u>8,496</u>	<u>3,484</u>

All financial liabilities held by the Group at 31 March 2017 are classified as held at amortised cost.

<b>At 31 March 2017</b>	<b>Up to 3 months £'000</b>	<b>Between 3 and 12 months £'000</b>	<b>Between 1 and 2 years £'000</b>	<b>Between 2 and 5 years £'000</b>	<b>Over 5 years £'000</b>
Trade and other payables	8,496	-	-	-	-
<b>Total</b>	<u>8,496</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

<b>At 31 March 2016</b>	<b>Up to 3 months £'000</b>	<b>Between 3 and 12 months £'000</b>	<b>Between 1 and 2 years £'000</b>	<b>Between 2 and 5 years £'000</b>	<b>Over 5 years £'000</b>
Trade and other payables	1,011	-	-	-	-
Loans and borrowings	99	315	833	1,226	-
<b>Total</b>	<u>1,110</u>	<u>315</u>	<u>833</u>	<u>1,226</u>	<u>-</u>

**General objectives, policies and processes**

The Board has overall responsibility for the determination of the group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the group's Chief Executive Officer.

The overall objective of the Board is to set policies that seek to reduce the risk as far as possible without unduly affecting the group's competitiveness and flexibility. Further details regarding these policies are set out below:

#### *Credit risk*

Credit risk is the risk of financial loss to the group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The company is mainly exposed to credit risk from credit sales.

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. For banks and financial institutions, only independently rated parties with minimum "A" rating are accepted.

Further disclosures regarding trade and other receivables are provided in note 13.

#### *Cash at bank and borrowings*

All cash is held with Barclays Bank Plc. The group has an undrawn, committed overdraft facility of £10,000. The group has a US Bank account with Silicon Valley Bank which has a balance of less than \$1,000.

#### *Foreign exchange risk*

Foreign exchange risk arises when the group enters into transactions denominated in a currency other than the functional currency. The company repaid the foreign currency bank loan, denominated in USD in full in November 2016. This significantly reduced the exposure of the company to fluctuating exchange rates. The company receives less than 5% of sales income in USD.

#### *Liquidity risk*

Liquidity risk arises from the management of working capital. The group manages the risk that it will encounter difficulty in meeting its financial obligations as they fall due by forecasting its short term cash position on a regular basis. The group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. To achieve this aim, it seeks to maintain cash balances to meet all liabilities with a cash buffer sufficient to meet the monthly payroll.

The Board receives rolling 12-month cash flow projections on a monthly basis as well as information regarding cash balances. With cash reserves of £4.3m at the period end and an expectation that the group will be profitable by March 2018, the company will have sufficient liquid resources to meet its obligations under all reasonably expected circumstances.

In the management of liquidity risk, the group monitors and tries to maintain a level of cash and cash equivalents deemed adequate by management to finance its operations and mitigate the effects of fluctuations in cash flows.

#### *Capital management*

Capital includes share capital and equity attributable to the equity holders of the group. In order to manage capital, the company issues new shares.

#### **4. Segmental reporting**

All revenue is generated from the sale or use of our online accounting software. As such the group is not required to provide any detailed segmental analysis. The group received development income through its partnership with RBSG which will be utilised to progress our revenue stream from this source. During the year the group received revenue from RBS of £562k (2016 £nil).

The majority of our customers are based in the UK. In the year to 31 March 2017, revenue of £180k (2016: £167k) was generated from customers based out with the UK.

**5. Loss from operations**

Loss from operations is stated after taking account of the following items:

	2017 £'000	2016 £'000
Depreciation of property, plant and equipment	271	189
Amortisation of intangibles	644	601
Operating lease expense	165	182
Research and development costs expensed	157	529
Share based payment expense – employee options	648	-
Share based payment expense - LTIP	154	-
Foreign exchange loss	324	72
Fees payable to the group's auditor for the audit of the group financial statements	30	15
Fees payable to the group's auditor for tax services	9	-

During the year to 31 March 2017, fees were paid on behalf of the parent company, FreeAgent Holdings plc, to the group's auditor in respect of the shares issued at the IPO. This included corporate finance services (£85k) and tax services (£29k).

The fee for audit services of £30k includes £22k in relation to the audit of FreeAgent Central Ltd and £8k paid on behalf of the parent company, FreeAgent Holdings plc.

**6. Finance expense**

	2017 £'000	2016 £'000
Warrant expense	180	21
Bank charges	234	-
Interest payable on bank borrowings	187	273
	<u>601</u>	<u>294</u>

**7. Employee benefit expenses**

	2017 £'000	2016 £'000
<b>Staff costs (including directors) comprise:</b>		
Wages and salaries	4,824	3,744
Social security contributions and similar taxes	564	417
Defined contribution pension costs	113	73
Share based payment expense	802	-
Transfer to capitalised development	(329)	(937)
	<u>5,974</u>	<u>3,297</u>

The charge related to share based payments in 2017 was £802k (2016: £nil).

As at 31 March 2017, there was a pension creditor of £23k (2016: £14k).

**Key management compensation**

	<b>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
Salary, fees, benefit in kind	868	622
Social security contributions and similar taxes	111	79
Defined contribution pension cost	27	15
Share based payment expense	256	-
	<u>1,262</u>	<u>716</u>

Key management compensation comprises the 8 (2016: 6) members of the executive management team.

**Directors' compensation**

	<b>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
Salary, fees, benefit in kind	327	622
Social security contributions and similar taxes	42	79
Defined contribution pension cost	12	15
Share based payment expense	203	-
	<u>584</u>	<u>716</u>

**Staff numbers**

The average monthly number of persons employed, including directors and individuals employed by the group are as follows:

	<b>2017</b>	<b>2016</b>
	<b>No.</b>	<b>No.</b>
Sales and marketing	36	28
Product and engineering	44	31
Support	18	13
Administration	4	3
Management (including directors)	8	8
	<u>110</u>	<u>83</u>

8. Income tax credit

	2017 £'000	2016 £'000
<b>Current tax credit</b>		
Current tax on loss for the year	(35)	(49)
Adjustment to tax in respect of previous periods	(124)	(1)
<b>Total tax credit</b>	<b>(159)</b>	<b>(50)</b>

The reason for the difference between the actual tax charge for the year and the standard rate of corporation tax in the United Kingdom applied to profits for the year are as follows:

	2017 £'000	2016 £'000
Loss for the year	(3,013)	(1,308)
Expected tax charge based on the standard rate of United Kingdom corporation tax at the domestic rate of 20% (2016: 20%)	(603)	(262)
Expenses not deductible for tax purposes	951	261
Exercise of share options	(28)	-
Exercise of warrants	(111)	-
Adjustment to tax in respect of prior periods	(124)	(1)
Chargeable gain	-	66
R&D tax relief	(244)	(114)
<b>Total tax credit</b>	<b>(159)</b>	<b>(50)</b>



9. Property, plant and equipment

	Computer equipment £'000	Fixtures & fittings £'000	Total £'000
<b>Cost</b>			
Balance at 1 April 2016	378	891	1,269
Additions	243	400	643
Disposals	(20)	-	(20)
<b>Balance at 31 March 2017</b>	<b>601</b>	<b>1,291</b>	<b>1,892</b>
<b>Accumulated depreciation and impairments</b>			
Balance at 1 April 2016	241	318	559
Depreciation charge for the year	100	171	271
Disposals	(17)	-	(17)
<b>Balance at 31 March 2017</b>	<b>324</b>	<b>489</b>	<b>813</b>
<b>Net Book value</b>			
<b>At 31 March 2017</b>	<b>277</b>	<b>802</b>	<b>1,079</b>
At 31 March 2016	137	573	710

	Computer equipment £'000	Fixtures & fittings £'000	Total £'000
<b>Cost</b>			
Balance at 1 April 2015	226	224	450
Additions	163	668	831
Disposals	(11)	(1)	(12)
<b>Balance at 31 March 2016</b>	<b>378</b>	<b>891</b>	<b>1,269</b>
<b>Accumulated depreciation and impairments</b>			
Balance at 1 April 2015	190	182	372
Depreciation charge for the year	52	137	189
Disposals	(1)	(1)	(2)
<b>Balance at 31 March 2016</b>	<b>241</b>	<b>318</b>	<b>559</b>
<b>Net Book value</b>			
<b>At 31 March 2016</b>	<b>137</b>	<b>573</b>	<b>710</b>
At 31 March 2015	36	42	78

10. Intangible assets

	Domain name	Development costs	Total
Cost	£'000	£'000	£'000
Balance at 1 April 2016	32	3,695	3,727
Additions	-	379	379
Disposals	-	-	-
Balance at 31 March 2017	32	4,074	4,106
<b>Accumulated depreciation and impairments</b>			
Balance at 1 April 2016	10	1,814	1,824
Depreciation charge for the year	1	643	644
Disposals	-	-	-
Balance at 31 March 2017	11	2,457	2,468
<b>Net Book value</b>			
At 31 March 2017	21	1,617	1,638
At 31 March 2016	22	1,881	1,903

	Domain name	Development costs	Total
Cost	£'000	£'000	£'000
Balance at 1 April 2015	32	2,726	2,758
Additions	-	969	969
Disposals	-	-	-
Balance at 31 March 2016	32	3,695	3,727
<b>Accumulated depreciation and impairments</b>			
Balance at 1 April 2015	8	1,215	1,223
Depreciation charge for the year	2	599	601
Disposals	-	-	-
Balance at 31 March 2016	10	1,814	1,824
<b>Net Book value</b>			
At 31 March 2016	22	1,881	1,903
At 31 March 2015	24	1,511	1,535

**11. Investments in subsidiaries**

The subsidiaries of FreeAgent Central Ltd are as follows:

<b>Name of subsidiary</b>	<b>Shareholding</b>	<b>Registered Office and Country of incorporation</b>
FreeAgent Inc	100%	2922 Cleveland Road Wooster, OH 44691 United States of America
		<b>Principal place of business</b>
		1 Edinburgh Quay, 133 Fountainbridge, Edinburgh EH3 9QG

**12. Trade and other receivables**

	<b>2017 £'000</b>	<b>2016 £'000</b>
Trade receivables	552	240
Prepayments	203	218
Accrued income	93	-
Other receivables	291	146
	<u>1,139</u>	<u>604</u>

Invoices for services rendered are due immediately upon rendering of the invoice. The ageing analysis of the trade receivables is as follows:

	<b>2017 £'000</b>	<b>2016 £'000</b>
Up to 3 months	545	237
3 to 6 months	7	3
6 to 12 months	-	-
Over 12 months	-	-
	<u>552</u>	<u>240</u>

Invoices are payable on receipt and therefore all of the trade receivable balance is past due. As at 31 March 2017 trade receivables of £5k (2016: £8k) were considered bad or doubtful and are provided against. All of the receivables balance which is greater than 3 months old has either been provided against or has been received post year end.

**13. Trade and other payables**

	<b>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
Trade payables	598	337
Accrued expenses	706	638
Deferred income	913	657
Tax and social security payable	445	411
Other creditors	51	36
Payable to parent company	7,141	-
	<u>9,854</u>	<u>2,079</u>

**14. Loans and borrowings**

	<b>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
Non-current		
Bank loan – secured	-	2,059
	<u>-</u>	<u>2,059</u>
Current		
Bank loan – secured	-	414
	<u>-</u>	<u>414</u>
Total loans and borrowings	<u>-</u>	<u>2,473</u>

The currency profile of the group's loans and borrowings is as follows:

	<b>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
USD	<u>-</u>	<u>2,473</u>

**Bank borrowings**

	<b>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
Expiry in more than 2 years	<u>-</u>	<u>834</u>

The bank loan was secured by a floating charge over the assets of the company. This security was released in November 2016 when the loan facility was repaid in full.

**15. Provisions**

	<b>Leasehold dilapidations £'000</b>
<b>At 1 April 2016</b>	<b>139</b>
Decommissioning of fit out	51
Charged to profit or loss	-
Release of provision.	(29)
<b>At 31 March 2017</b>	<b>161</b>
Due within one year	10
Due after more than one year	151
	<b>161</b>

This provision relates to the estimated cost of returning leasehold properties to their original state at the end of the lease in accordance with the lease terms. The associated cost within fixed assets is being written off to the statement of comprehensive income over a 5-year period in line with the period to the lease break.

**16. Deferred tax**

The directors are confident that the company will be in a profitable position in the future, but there remains sufficient uncertainty over the timing of profits to justify recognition of a deferred tax asset which will be recoverable in the foreseeable future. Accordingly, no deferred tax asset is recognised.

The unrecognised deferred tax asset is made up of the following:

	<b>2017 £'000</b>	<b>2016 £'000</b>
Temporary timing differences	15	8
Unused taxed losses	467	675
Share based payments	243	119
Unamortised finance costs	-	24
	<b>725</b>	<b>826</b>

## 17. Share capital

### Authorised, allocated, called up and fully paid

	2017 Number	2017 £'000	2016 Number	2016 £'000
<i>Ordinary shares of £0.01</i>				
At 1 April	1,494,427	15	1,272,060	1
Shares issued for cash	-	-	101,535	-
Bonus issue of shares*	13,449,843	135	-	-
Exercise of options	60,000	-	-	-
Conversion of pref. shares	15,736,200	157	-	-
At 31 March	30,740,470	307	1,494,427	1
<i>Preference A shares of £0.01</i>				
At 1 April	706,500	7	706,500	-
Bonus issue of shares	6,358,500	64	-	-
Conversion to ord. shares	(7,065,000)	(71)	-	-
At 31 March	-	-	706,500	-
<i>Preference B shares of £0.01</i>				
At 1 April	867,120	9	867,120	-
Bonus issue of shares	7,804,080	78	-	-
Conversion to ord. shares	(8,671,200)	(87)	-	-
At 31 March	-	-	867,120	-

\* During the year, the Group completed a bonus issue of shares. £306,293 was capitalised from the share premium account to pay up in full 895,161,813 ordinary shares, 423,193,518 series A preference shares and 519,404,902 series B preference shares each of £0.0001666666. After completion of the bonus issue, the shares were consolidated into £0.01 shares. The table above has been presented following the consolidation of shares.

Immediately prior to the IPO by FreeAgent Holdings plc, the holders of preference shares converted their shares into ordinary shares on a 1:1 basis.

## 18. Share based payment

During the year, a share for share exchange occurred which resulted in all existing shareholders of FreeAgent Central Ltd being granted equivalent shares in the parent company of the newly formed group, FreeAgent Holdings plc. At the same time, all share options and warrants which existed at that time were surrendered and equivalent share options and warrants were granted in FreeAgent Holdings plc. In accordance with IFRS2 where there are share based payment arrangements involving equity instruments of the parent company, the share based payment expense is recognised within the subsidiary along with a corresponding balance in a capital contribution reserve.

The group operates an EMI scheme for employees and a LTIP for senior management. There are also some outstanding warrants which were issued in prior years as part of debt financing arrangements. The options and the warrants are over shares of the parent company.

### EMI Options

The group operates an EMI share option plan for employees. The options are valid for 10 years from the date of grant. Following the IPO in November 2016, all options currently outstanding are exercisable at any time up until the 10 year anniversary of the grant date.

Details of the number of share options and the weighted average exercise price (WAEP) outstanding during the year are as follows:

	2017 WAEP		2016 WAEP	
	Number	Price (pence)	Number	Price (pence)
Outstanding at the beginning of the year	1,003,800	34	1,125,600	36
Granted during the year	927,500	96	-	-
Exercised during the year	(60,000)	37	-	-
Expired during the year	(58,000)	80	121,800	36
Outstanding at the year end	1,813,300	64	1,003,800	34
Exercisable at the year end	1,813,300	64	1,003,800	34

The options outstanding at the year end are set out below:

			2017		2016	
Date of grant	Expiry date	Exercise price (p)	Share options	Remaining life	Share options	Remaining life
01/04/2011	31/03/2021	18.89	457,200	4 years	457,200	5 years
12/03/2012	11/03/2022	36.67	205,800	5 years	283,800	6 years
15/03/2013	14/03/2023	45.00	184,800	6 years	184,800	7 years
31/01/2014	30/01/2024	85.76	78,000	7 years	78,000	8 years
31/05/2016	30/05/2026	100.00	675,000	9 years	-	-
07/11/2016	06/11/2026	84.00	212,500	10 years	-	-
			<u>1,813,300</u>		<u>1,003,800</u>	

The group uses a Black Scholes model to estimate the cost of share options.

The following information is relevant in the determination of the fair value of options outstanding during the year. The assumptions inherent in the use of this model are as follows:

- The option life is the estimated average period over which the options will be exercised. The options may be exercised at any time up until the 10 year anniversary of the date of grant.
- There are no vesting conditions remaining which apply to the share options.
- No variables change during the life of the option (eg dividend yield remains zero).
- Volatility has been calculated over the 5 year period prior to the grant date by reference to the daily share price of comparable listed companies. The volatility rate used was 70%.
- Risk free interest rates of 3.7%, 2.3%, 1.9%, 2.9%, 1.6% and 1.4% have been used for each issue in chronological order from 2011 to 2016.

The total expense recognised during the year by the group was £648k (2016: £nil).

The weighted average remaining life of the options outstanding at the end of the year was 7 years (2016: 6 years).

## LTIP Options

The group operates a LTIP for senior management. The options are valid for 10 years from the date of grant. The awards will vest in 2019 upon achievement of certain performance targets.

Details of the number of share options and the weighted average exercise price (WAEP) outstanding during the year are as follows:

	2017 WAEP		2016 WAEP	
	Number	Price (pence)	Number	Price (pence)
Outstanding at the beginning of the year	-	-	-	-
Granted during the year	532,998	85	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the year end	532,998	85	-	-
Exercisable at the year end	-	-	-	-

The options outstanding at the year end are set out below:

Date of grant	Expiry date	Exercise price (p)	2017		2016	
			Share options	Remaining life	Share options	Remaining life
16/11/2016	15/11/2026	84.00	214,285^	10	-	-
21/12/2016	18/12/2026	85.50	318,713*	10	-	-
			532,998			

The group uses a Black Scholes model to estimate the cost of share options.

The following information is relevant in the determination of the fair value of options outstanding during the year. The assumptions inherent in the use of this model are as follows:

- The option life is the estimated average period over which the options will be exercised.
- The options are fully vested but subject to a one year lock-in.^
- The options will vest in FY 2020 following achievement of certain performance targets.\*
- No variables change during the life of the option (eg dividend yield remains zero).
- Volatility has been calculated over the 5 year period prior to the grant date by reference to the daily share price of comparable listed companies. The volatility rate used was 70%.
- Risk free interest rates of 1.4% and 1.4% have been used for each issue in chronological order.

The total expense recognised during the year by the Group in respect of the LTIP was £154k (2016: £nil).

The weighted average remaining life of the options outstanding at the end of the year was 10 years (2016: nil).

No LTIP options were exercised during the period (2016: none).



## Warrants

The group has issued warrants to debt providers as part of the finance cost of providing the loan facility. The warrants are exercisable at any time.

Details of the number of warrants and the weighted average exercise price (WAEP) outstanding during the year are as follows:

	2017 WAEP		2016 WAEP	
	Number	Price (pence)	Number	Price (pence)
Outstanding at beginning of the year	449,330	77	449,330	77
Granted during the year	-	-	-	-
Exercised during the year	(91,495)	60	-	-
Forfeited during the year	(87,835)	60	-	-
Outstanding at the year end	270,000	89	449,330	77
Exercisable at the year end	270,000	89	449,330	77

The warrants outstanding at the year end are set out below:

Date of grant	Expiry date	Exercise price (p)	2017		2016	
			Warrants	Remaining life	Warrants	Remaining life
30/12/2013	29/12/2023	60	-	-	179,330	7 years
27/02/2015	26/02/2025	89	270,000	8	270,000	9 years
			270,000		449,330	

The group uses a Black Scholes model to estimate the cost of the warrants.

The following information is relevant in the determination of the fair value of warrants outstanding during the year. The assumptions inherent in the use of this model are as follows:

- The warrant life is the estimated average period over which the warrants will be exercised.
- There are no vesting conditions remaining which apply to the warrants.
- No variables change during the life of the warrant (eg dividend yield remains zero).
- Volatility has been calculated over the 5 year period prior to the grant date by reference to the daily share price of comparable listed companies. The volatility rate used was 70%.
- Risk free interest rates of 3.16% and 1.86% have been used for each issue in chronological order.

There were no warrants granted during the current or prior year.

The total expense recognised during the year by the group was £180k (2016: £21k).

The weighted average remaining life of the warrants outstanding at the end of the year was 8 years (2016: 8 years).

During the year Kreos Capital IV (Expert Fund) Limited exercised warrants in exchange for 91,495 ordinary shares of 0.01 pence each. The warrant exercise was effected as a cashless exercise in accordance with the terms of the warrant instrument, as a result of which Kreos Capital IV (Expert Fund) Limited waived its rights to the balance of 87,835 warrant shares previously held.

## 19. Leases

### *Operating leases – lessee*

The total future value of minimum lease payments is due as follows:

	2017 £'000	2016 £'000
Not later than one year	376	180
Later than one year and not later than five years	1,929	980
Later than five years	-	-
	<u>2,305</u>	<u>1,160</u>

The group entered into a 10-year lease (with a break at year 5) in September 2015 for the premises on the 4<sup>th</sup> Floor at Edinburgh Quay. A further 10-year lease (with a break at year 5) was entered into in January 2017 for the 5<sup>th</sup> Floor at Edinburgh Quay. The break period for the 4<sup>th</sup> floor was aligned to the same date as the break period for the 5<sup>th</sup> Floor (23<sup>rd</sup> January 2022).

## 20. Related party transactions

At the year end, there is a balance of £7,141k owed to the parent company, FreeAgent Holdings plc. As detailed in note 18, a share for share exchange occurred during the year which resulted in all shareholders of the company being granted shares in the parent company. Following the successful IPO of FreeAgent Holdings plc on AIM, the parent company loaned £10,055k to FreeAgent Central Ltd. During the year FreeAgent Central Ltd made payments of £2,588k to the shareholders of FreeAgent Holdings plc for their share of the proceeds of the listing. Also during the year, fees in respect of the IPO and administrative expenses were made on behalf FreeAgent Holdings plc of £380k.

In addition, there is a share based payment expense of £360k (2016 - £nil) in respect of share options granted in FreeAgent Holdings plc to employees of FreeAgent Central Ltd.

## 21. Events after the statement of financial position date

There are no material events to report after the statement of financial position date.

## 22. Capital commitments

At 31 March 2017, the group had no capital commitments (2016: £nil).

## 23. Controlling Party

The company is a wholly owned subsidiary of FreeAgent Holdings plc. FreeAgent Holdings plc are considered to be the ultimate controlling party. FreeAgent Holdings plc prepare publicly available consolidated financial statements which include these results and can be obtained from the group's website [www.freeagent.com](http://www.freeagent.com) and Companies House.

## Company information

### Country of incorporation

United Kingdom

### Company number

SC316774

### Directors

Ed Molyneux

Katherine Tenner

Guy Mitchell

### Registered Office

One Edinburgh Quay

133 Fountainbridge

Edinburgh

EH3 9QG

### Auditor

BDO LLP

Citypoint

65 Haymarket Terrace

Edinburgh

EH12 5HD

### Bankers

Barclays Bank plc

1 St Andrews Square

Edinburgh

EH2 2BD

### Lawyers

Maclay Murray & Spens LLP

Quartermile One

15 Lauriston Place

Edinburgh

EH3 9EP